

## The Strategy of Indonesian Local Skin Care to Compete Global Firm in Pandemic Situation

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### ABSTRACT

**Purpose-** This research aims at crafting a firm's international strategy for Indonesia's local skincare firm to enter and compete with the worldwide firm using the three main strategic approaches for competing internationally from Thompson et al. (2018). This study contributes to skincare firms in Indonesia to survive globalization and win the global market.

**Design/methodology/approach-** This research uses a literature study: adjusts the theoretical framework with the currently existing market condition and considering the firm's competitive advantage. **Findings-** Local skincare companies can compete with the global market with their unique products, differentiation, and innovation. According to the internal and external analysis and strategic vision, this research recommends The Aubree use the best cost provider strategy. For the local strategy, this research uses the approach of Diamond of National Competitive Advantage. For the international strategy, this study proposes that Aubree use an export strategy to enter the global market and use a multidomestic strategy to compete globally. **Originality/value-** COVID-19 pandemic is currently happening and impacts many industries, including the beauty industry. Authors discuss the best strategy to implement during pandemic situations; therefore, the beauty industry, especially skincare local firms, will optimize the opportunities and win the market share.

**Keywords:** *Local Firm, Global Firm, Skincare Industry, International Strategy*



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**INTRODUCTION**

Many education experts and business practitioners have considered globalization a very interesting phenomenon because global transformation is visible nowadays. A primary source of competitive advantage is creating and performing competitive actions such as offering new products and services (Chen, Lin, & Michel, 2010; Ferrier, 2001; Nadkarni, Chen, & Chen, 2016). This ability is grounded in firm resources (Sirmon, Gove, & Hitt, 2008). There is a special resource asymmetry between global and local firms competing in the same market (Nachum, 2010; Wu & Salomon, 2017). Because of their vastly diverse resources, they pursue competitive advantage using fundamentally distinct techniques (Chang & Park, 2012; Dau, Ayyagari, & Spencer, 2015). Local firms/businesses typically have stronger capabilities in sensing and evaluating local market trends, which allows them to create and implement competitive measures more quickly. Local products can offer less price since there is less transportation cost and tax. With the large import of skincare products in Indonesia, local skincare firms should find the best strategy to win over the global beauty products and have opportunities to expand their markets globally.

In Indonesia, the beauty care industry is increasingly in demand by the firm. Pandemic is one of the main influences. It is in line with the flood of imported beauty products, which threatens domestic companies because imported skincare products continue to flood the country. This condition is evidenced by the high data on e-commerce sales at the beginning of 2021 at 46.8%, with the transaction value in the skincare category reaching Rp 40 billion (Tokopedia, 2021). Also, the data from the Ministry of Industry, the cosmetics sector grew significantly by 9.39%. There was an increase in the total import value of 31.7% compared to the previous year (Central Bureau of Statistics, 2018). Seeing this phenomenon, although the prospect of the local skincare business in Indonesia is considered quite large, it can be seen as a threat to domestic business actors.

The skincare industry has now become a lifestyle as they are becoming more concerned about their looks and well-being. In current trends, beauty products are not only segmented for women but also men. Men already have awareness about maintaining their looks and skin health. Their main consideration is the ingredients, while men prefer trusted brands (Elfreda, 2020). In Indonesia, McKinsey's projection (2019) predicts healthy growth for the skincare market. The market is worth US\$ 1.98 billion at that moment and is projected to grow by more than 20% by 2023.

Nowadays, consumers are becoming more aware of skincare ingredients. They utilize the media to research whether the particular products are suitable for their skin types and conditions. They also got exposed to the information which chemical ingredients should be avoided because it harms health. This behavior more or less shows millennials' preferences in selecting the beauty products for them. They look for natural, organic, and eco-friendly products (Elfreda, 2020).

Many business sectors are struggling in the pandemic era, but not with skincare products (Compas, 2021). The McKinsey report (2020) showed that skincare, hair-care, and bath-and-body products, especially the do-it-yourself beauty care, increase sales. Many consumers have more time at home and are afraid to go to beauty salons, making them prefer to pamper themselves at home. The local firm should take this chance to grow its business (Gerstell et al., 2020). Covid-19 pandemic influences the skincare industry, both from consumer and producer point of view. What products are bought, how consumers access the information, how customers buy the products, and the innovation pace more or less are different after Covid-19 strikes compared to before (Elfreda, 2020). Thus, we need to learn more about the trends to develop the best strategies to optimize the opportunities and win the market share.

The Aubree is one of the local beauty products from Indonesia. Established in 2016, The Aubree starts with low capital and it keeps growing bigger and stronger. The Aubree takes its position in

the market with its value of being vegan, environmentally friendly and cruelty-free. The Aubree educates its customers by mentioning the ingredients used and the benefits for the users.

This product's brand imitates Korean products. The design is simple yet elegant. The brand highlights the product's benefit to create glowing and radiant complexion skin. It is the only local product that also uses ginseng as one of the main product's ingredients at a very affordable price.

This paper uses The Aubree as the local skincare product representative. This study does the competitor analysis and proposes the best strategy for The Aubree. It can be implied for other local skincare products to compete in the global skincare market with the expectation. Furthermore, this research hopes it can help the local skincare to use this moment to boost sales and grow the business in this pandemic era.

In Indonesia, skincare sales are increasing in demand by the firm. Pandemic is one of the main influences. The data from the Ministry of Industry, the skincare sector grew significantly by 9.39%. There was an increase in the total import value of 31.7% compared to the previous year (Central Bureau of Statistics, 2018). Seeing this phenomenon, although the prospect of the local skincare business in Indonesia is considered quite large, it can be seen as a threat to domestic business actors. Therefore, this study will identify how the local company (The Aubree) strategy to win the market in Indonesia and enter the global market during a pandemic situation. Indonesia has been a targeted market for other global skincare firms. Therefore, the firms have to conquer the local market and expand globally. Indonesia's local skincare firms have many potentials to support export activity and expand the business to the global market, such as reliable resources, low-cost production, etc. For sure, this can improve the Indonesian economy and help Indonesia get out of the middle-income trap. This study aims to analyze the strategy of local skincare companies to compete with global firms, both in national and global scope, in pandemic situations.

## **RESEARCH METHODS**

This research method is using a literature review. Literature review used to collect and synthesize previous research. This process builds a foundation for enhancing knowledge and supporting theory development. The literature review can help find out the state-of-the-art method in which this research can contribute in terms of knowledge. As every research has limitations, a literature review can show evidence on a meta-level and synthesize information, creating new knowledge (Snyder, 2019). Thus, this research does a literature review on several similar previous researches and books, then synthesizes the information to implement it in the context of how to create a strategy for Indonesia's local skincare firms to compete in the global market. This study uses the systematic approach by synthesizing and comparing evidence and proposes the synthesized result of which strategy for local skincare firms to compete against the multinational firm.

### **2.1 Literature Review**

#### **2.1.1 Local Firm vs. Global Firm**

When there are many companies in a field, it is more likely that one of many competitors will attack to achieve first-mover advantages in new market segments (Ketchen, Snow, & Hoover, 2004; Lieberman & Montgomery, 1988). On the management and operational levels, a local firm and a global firm are significantly different. An organization with a global emphasis develops a long-term strategy for the corporation before coordinating its local subsidiaries' strategies. The concept of foreign liability is commonly used in the literature to examine competition between global and local firms. When doing presence in a global area, which refers to the competitive disadvantages that global firms have compared to local firms (Hymer, 1976; Zaheer, 1995).

On the other hand, global firms usually bring their technology and marketing assets, which they may transfer across borders. These assets are called ownership benefits (Dikova, Panibratov, & Veselova, 2019; Dunning, 1977). Local firms' technological capabilities are relatively inadequate compared to their global competitors from established economies, particularly in emerging economies (Awate et al., 2015; Thakur-Wernz, Cantwell, & Samant, 2019).

Another study by M N. Jovanovi, 2003 examines local and global firms from a location perspective. It was concluding that "global" competitiveness is frequently dependent on highly concentrated "local" knowledge, capabilities, and common tacit codes of behavior found in a geographical concentration (cluster) of firms. Regardless of its nationality, the global company attempts to maintain control over leverage points ranging from cross-national manufacturing scale economies to global competitors' cash flow sources. The company makes the competitor's response more expensive and difficult by adopting unusual action, such as lowering pricing on a key product or in key markets. (Porter, 1982, Harvard Business Review).

### **2.1.2 Competitor Analysis**

Business competition is caused by strategic mistakes where these mistakes can be studied and used by other business people as opportunities that can steal consumers' attention. However, beyond that, all competition becomes a natural thing in the business world and business people too. A competitor analysis should include the competitors' features, market share, pricing, marketing, differentiators, strengths, weaknesses, geography, culture, and customer reviews. It is needed to establish a small business and analyze its competition to improve its products or services. Zahra and Chaples (1993) define competitive analysis as "the process by which a company attempts to define and understand its industry, identify its competitors, determine the strengths and weaknesses of its rivals, and anticipate their moves."

Porter's Five forces are one of the most well-known theoretical frameworks discussed competitor analysis. First, a low-cost provider strategy strives to achieve lower overall costs than rivals on comparable products that attract a broad spectrum of buyers, usually by underpricing rivals. Second, a broad differentiation strategy—seeking to differentiate the company's product offering from rivals' with attributes that will appeal to a broad spectrum of buyers. Third, a focused low-cost strategy—concentrating on a narrow buyer segment (or market niche) and striving to meet these needs at lower costs than rivals (thereby serving niche members at a lower price). Fourth, a focused differentiation strategy—concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals' products. Last, a best-cost provider strategy strives to incorporate upscale product attributes at a lower cost than rivals. Becoming the "best-cost" producer allows a company to give customers more value for their money by underpricing rivals whose products have similar upscale. This competitive approach is a hybrid strategy that blends elements of the previous four options in a unique and often effective way.

### **2.1.4 International Strategy**

The international market is becoming a more important idea in marketing as the business sector gets more globalized. Globalization dynamics push many organizations to expand or rearrange their marketing strategies across borders and target consumers' international sectors. International market segmentation has become an important issue in developing, positioning, and selling products across national borders. (J Benedict, et al, 2002).

There are some theories about how to compete in the international market. Fiegenbaum & Lavie (2000) develop the framework to succeed in an international market. It was developed from

Strategic Reference Point (SRP) Theory. First, identifying their superior strategic capabilities. Second, the company starts to form a basis for competitive advantage. Third, identifying relative marketing positioning. Fourth, it describes the mechanism of how to gain a competitive advantage through a marketing mix. Last, the framework suggests a continuous reassessment of multinational's competitive positioning in the international market.

Dawar & Frost (1999) developed a theoretical framework about the response of local firms toward globalization. This matrix has two dimensions: the pressures to globalize at the industry level (high and low) and the transferability of competitive advantage at the firm level (home market-specific and transferable abroad). From these two dimensions, it comprises four firm responses. The company can protect its local position by becoming a defender. Second, local firms which lack a transferable competitive asset can act as Dodgers, defend themselves from the globalization pressures by entering a joint venture or selling out to global rivals. Third, local firms whose competitive assets can be transferable to similar markets may expand the business by acting as Extenders, developing their business to similar markets. Finally, high pressures to globalize may also open the opportunity for firms whose competitive assets can be transferred abroad. This firm can be a Contender that can grow, becoming a global giant by moving aggressively into international markets and taking the benefits of internationalization for themselves. This global giant firm is what people call multinational companies (MNCs), which have a high degree of consistency with the demands of the environment and attain high-performance levels.

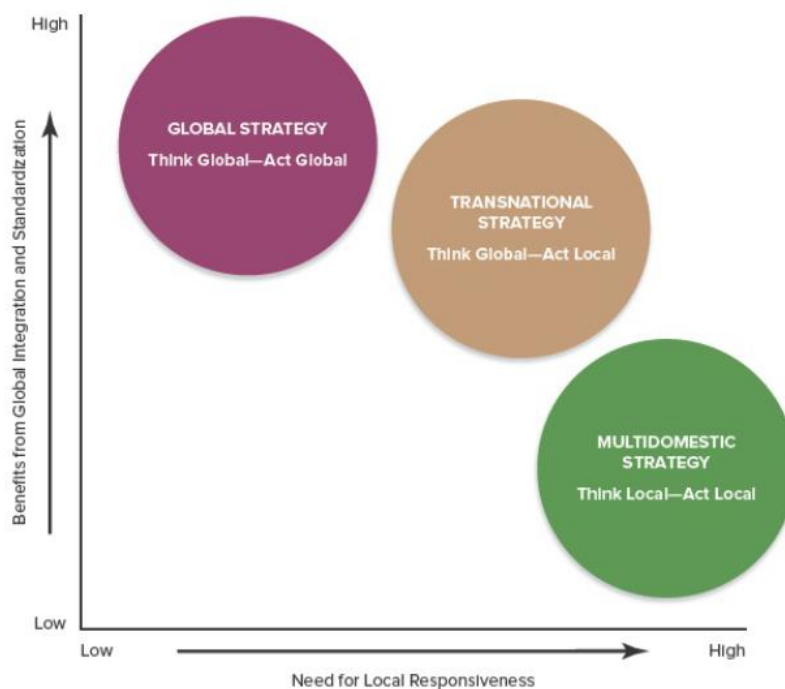


Figure 1 Three approaches for competing internationally (Thompson, 2018)

Last but not least, Thompson (2018) proposes three approaches to competing internationally. It has two dimensions, including the need for local responsiveness versus benefits from global integration and standardization. A multidomestic strategy (think local - act local) is when a company varies its product and competitive advantage from country to country to meet diverse local market needs and conditions. Transnational strategy (think global - act local) is when the company can have standards but still customize their product and competitive advantage to each country. Lastly, global strategy (think global - act global) is when the firm has already achieved the worldwide competitive advantage, built global brands, and coordinated its control with headquarters control.

## RESULT AND DISCUSSION

There are some reasons why the local company should enter foreign markets. First, to get new access to the new customer. Second, to achieve lower costs from economists. Third, to gain access to low-cost input production, for example, the company wants to minimize costs, the company decides to choose a country with a low cost of production and labor. Other reasons further explore core competencies. The company can first analyze from their own country (home country industry) to reach the international market. In terms of differentiation, The Aubree Company is one of the unique and unrivaled products. Oriented to Korean skincare and natural ingredients can continue to be developed towards the international market. This research believes The Aubree can be a good example to represent Indonesia's skincare firms that can succeed in foreign markets.

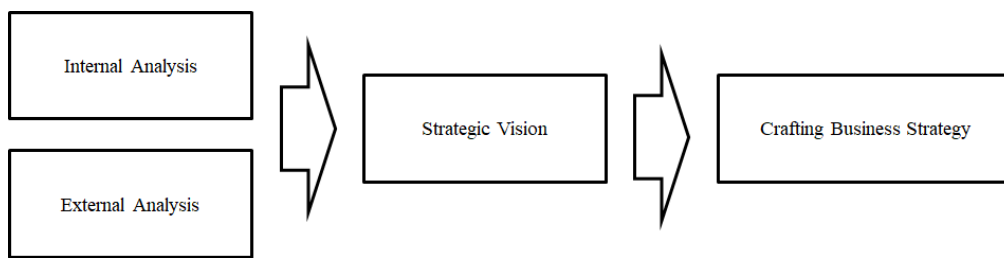


Figure 1 Thinking strategically in crafting international strategy  
(Adopting from Thompson et al. 2018)

### 3.1 Internal Analysis

The Aubree uses natural ingredients for the products. Indonesia's richness of natural resources supports it. The Aubree also claims that the product is environmentally friendly and cruelty-free. It can be a competitive advantage for The Aubree that the competitors from foreign markets do not have. In terms of production, the labor wage in Indonesia is relatively low compared to other developing countries. The free land for production is relatively large, and the production fee is also cheap. With the strong innovation, The Aubree provides products whose price is worth the product specifications.

### 3.2 External Analysis

As already explained, Porter's Five Forces are the threat of new market players, the threat of substitute products, the power of customers, the power of suppliers, and the industry rivalry, which determines the competitive intensity and attractiveness of a market. From the analysis results, it can be said that The Aubree skincare can compete globally by implementing several strategies, including a differentiation strategy in increasing satisfaction with design innovation and making it easier for people to get products.

Focus on increasing customer satisfaction with products, such as product specifications, functions, and styling from the packaging or the formula, which is currently being liked by the public. It can be accomplished by including attributes that add functionality, enhance the design, save time for the user; are more reliable; or make the product cleaner, safer, quieter, simpler to use, portable, more convenient, or longer-lasting rival brands. They make potential buyers aware of the seller's employees' professionalism, appearance, and personalities and make potential buyers realize that a company has prestigious customers. By using competitive analysis in strategic management by Porter, it is possible to analyze Aubree's business.

### **3.3 Strategic Vision**

The strategic vision is that Aubree can become the number one local company in Indonesia and enter the global market. The strategy is tailored specifically for pandemic situations.

### **3.4 Crafting Business Strategy**

According to the Five Generic Competitive Strategies (Porter, 1985) and considering the internal and external analysis and strategic vision, we propose the Aubree to use the best cost provider strategy. Considering their competitive advantage; natural ingredients, environmentally friendly, cruelty-free, and affordable product price, the best cost provider is the best strategy for the company to attract the customer and support the product innovation. Best cost strategy applied to give customers more value for the money and increase customer satisfaction. The strategy of increasing quality products while reducing costs.

#### **3.4.1 Crafting Local Strategy**

This research uses a framework of Diamond of National Competitive Advantage developed by Michael Porter (1990) in crafting local strategy. There are four major factors considered.

- Demand conditions: the market size in Indonesia is large because the population is large and the people is consumptive. During this pandemic, the skincare's trend is even increasing. Regarding skincare, Indonesian people's taste is mostly looking for skincare that brightens the face. Although mainly people use skincare so that their skin is healthy. In addition, more and more people are educated, coupled with healthy lifestyle trends, people prefer to choose products made from natural and environmentally friendly ingredients. The trend of people using natural skin care products has increased.
- Factor conditions: In Indonesia, labor costs are cheap. The natural resources are complete for the manufacture of products made from natural ingredients. The land owned by Indonesia is still relatively large for building factories. Indonesia is one of the largest cosmetic markets, so the skincare industry has a fairly large and promising prospect for manufacturers who want to develop it domestically.
- Related and supporting industries: As is well known, the cosmetic industry, especially skincare, has grown significantly despite the Covid 19 pandemic. Its related industries are related to cosmetics and also health products for the skin that are consumed. The industry can be invited to cooperate in the future, or it may be a strategy for product line expansion owned by The Aubree Company. Another industry is the skincare clinic. The Aubree company products can become mainstay products and recommendations for the skincare clinic business, which is growing rapidly in Indonesia, or building its own The Aubree company clinic for treatment and collaboration with beauty doctors in Indonesia.
- Firm Strategy, structure, and rivalry: Skincare competition in Indonesia is very tight, be it local or global products. As a developing country, the main key is how worth it is the price and quality of the products. Likewise, differentiation and innovation are needed to improve the quality of their products to be ready to compete with local and global products. Characteristics of the Indonesian people themselves, a mix of East and West, will continue to follow trends and developments. One strategy is marketing through digital media, collaborating with influencers to help the product marketing process because of the parasocial interaction between influencers and followers.

### **3.4.2 International Strategy**

There is a process to enter and win the international market. For local skincare products, the best entrance strategy is using export strategies. Home-country production and export strategy are the right moves for local skincare firms since production in Indonesia is relatively low-cost and help them to achieve the economy of scale. With this strategy, local firms need foreign wholesalers to handle distribution and marketing functions in foreign countries (Thompson, 2018). The local company has to consider the regulations in different countries.

As time goes by, to expand wider, local firms need to develop their product innovation to answer the foreign needs and preferences, thus achieving global competitiveness. The international strategy creation for local skincare firms following the framework from Thompson et al. (2018). Researchers propose the local firm expand to several countries using the multidomestic strategy. Multidomestic strategy is the best strategy for newcomers, especially skincare firms. Skincare competitive advantage should be adjusted to local needs and preferences, and climates.

Adjustments are needed when multidomestic strategy is applied. These strategies vary depending on two pressures; emphasizing low cost and efficiency and responding to the local culture and needs. With multidomestic strategy, the skincare products need to be adjusted according to the diverse local market conditions. In the skincare context, some countries prefer white skin, some others prefer glowing skin, some others prefer tanned skin. Climates also play an important role in choosing skincare. More or less it influences the skin type and how it responds to it.

### **3.5 Adjusting Business Strategy to Pandemic Era**

The covid-19 pandemic has impacts in many industries, including the skincare industry. It opens new opportunities for expanding the market since customer behavior changed. Customers spend more time at home creating a new behavior, like shopping through online channels and pampering themselves at home. From a business perspective, it's a new opportunity and also a challenge. In terms of product competitiveness, The Aubree can provide more products that substitute salon treatment. For example, provide a product with exfoliation ingredients to no longer need to go to the salon. For advertising and selling functions, the company needs to strengthen online advertising and no offline stores. The challenge is how to build the brand in foreign countries with this limitation, while on the other hand, it improves the effectiveness. Moreover, Covid 19 pandemic has encouraged companies to innovate faster. It becomes an opportunity for The Aubree to innovate their products rapidly, increase the learning curve, and slowly achieve a global competitive advantage.

### **3.6 Limitation and Future Research**

There are several limitations to this study. First, because this method uses a literature review. We have limitations to synthesize from all papers related to this study. Second, there are many perceptions from the authors that may affect the robustness of this study. Future studies may be able to use more references and validate the robustness of this study by using empirical investigation. Future research may use other international strategies, considering the scope of business and local capabilities.

### **CONCLUSION**

From the results of the analysis that has been conducted using a local strategy and an international strategy, it can be said that The Aubree company, as a local skincare company, can compete with



the global market with its unique products and differentiation and innovation, as well as other local companies in Indonesia.

According to the internal and external analysis and strategic vision, this research recommends The Aubree use the best cost provider strategy. For the local strategy, this research uses the approach of Diamond of National Competitive Advantage (Porter, 1990). For the international strategy, this research proposes that the Aubree use an export strategy to enter the global market and use a multidomestic strategy to compete globally. As time goes by, the Aubree needs to keep up with the innovation process, always to meet customer needs and wants. Furthermore, to achieve the worldwide competitive advantage so they can expand the business globally.

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