



TRADE & INDUSTRIAL POLICY STRATEGIES

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DEVELOPMENT OF THE COSMETIC SECTOR STRATEGY IN SOUTH AFRICA

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ABBREVIATIONS

CAGR	Compounded Annual Growth Rate
CECOSA	Cosmetic Export Council of South Africa
CPC	Cosmetics and Personal Care
CTFA	Cosmetics Toiletry and Fragrance Association
dtic (the)	Department of Trade, Industry and Competition
EU	European Union
IDC	Industrial Development Corporation
MNC	Multinational Corporation
NEF	National Empowerment Fund
R&D	Research and Development
SABS	South African Bureau of Standards
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARS	South African Revenue Service
sefa	Small Enterprise Finance Agency
SMMEs	Small, Micro and Medium Enterprises
UK	United Kingdom
US	United States

EXECUTIVE SUMMARY

This report presents research and field work undertaken the TIPS (Trade & Industrial Policy Strategies) team. It comprises a brief literature review, analysis of the data provided by international and local agencies, findings from the survey of cosmetic and retail firms in South Africa, and recommendations for the way forward.

The South African cosmetics market has displayed consistent growth, with an expected compounded annual growth rate (CAGR) of 4.97% between 2023 and 2028. In 2023, revenue in the cosmetics market amounted to nearly US\$507 million, a substantial increase from US\$409.65 million in 2018. This robust growth is expected to continue in the coming years, driven by a rising urban population, a growing middle class and evolving beauty trends.

The market size of South Africa's cosmetic industry has been growing steadily. According to Statista, the industry will reach more than US\$646 million by 2028.

The cosmetic market is multi-faceted comprising segments such as skincare, makeup, haircare, fragrances and toiletries.

The Cosmetics and Personal Care (CPC) industry in South Africa is complex, but has the potential to make a useful contribution to the economy. As the country grapples with persistent unemployment and poverty levels, the conversation around reigniting productive industrial development is echoing in all policy conversations. The CPC industry could be important in absorbing some of the unemployed, albeit a small proportion.

This industry also displays a potential for forward and backward linkages, as its value chain stretches between the farms (for inputs) to the retail shelves (for the final product). However, the industry comprises Multinational Corporations (MNCs) and large local retailers who dominate the market. The industry also comprises a large number of small and medium-sized manufacturers caught between the MNCs on the one hand, and the dominant South African retailers on the other. Therefore, any attempts to industrialise locally should commence with a clearly defined plan for enabling small and medium-sized businesses in this sector to develop and prosper. Crucial to such a strategy would be enabling small and medium-sized companies to overcome numerous challenges in an intimidating environment.

As per the terms of reference provided by the Department of Trade, Industry and Competition (the dtic), the team was required to: (a) undertake an assessment of the cosmetics sector; and (b) develop appropriate interventions for addressing the "multiplicity" of challenges, including (i) localisation of inputs and outputs in the cosmetics sector value chain; (ii) developing a disaggregated HS-codes system that separates products from inputs; and (iii) undertaking a feasibility analysis and proposing a system that regulates access to the local market in terms of standards and accreditation of imported products.

In essence, the aims of the study were to review and establish a gap in current policies and initiatives including funding support; develop a cosmetic sector strategy over the short- and long-terms; and define funding and technical models to support the implementation of the above strategy.

Given difficulties experienced with accessing relevant personnel at the South African Revenue Service (SARS) and the South African Bureau of Standards (SABS) no progress was made with developing a disaggregated HS-codes system.

A multi-faceted approach was adopted comprising a review of the relevant literature, analysis of the pertinent sectoral data, and interviews with important sectoral stakeholders.

Important research undertaken by TIPS flagged a number of sector issues, critical for future policy making. These issues included the following:

- An absence of cooperation between private sector innovators and publicly-funded science research;
- Manufacturing capabilities and technologies were outdated and did not support production required to access more industrialised countries;
- The industry's testing capacities, capabilities, and export country regulations were a serious constraint on the growth of the export market;
- The relationship between MNCs and Small, Micro and Medium Enterprises (SMMEs) was at best non-cooperative, and at worst hostile and not supportive of the growth of domestic enterprises; and
- Unfair competition was seen as widespread particularly from countries in the Far East whose products retail at a lower cost in South Africa, apparently because their products are underweight and underfilled.

The review of the literature also raised an important policy question, namely whether policy should focus on expanding those exports which currently constitute the vast majority (namely, beauty, skincare and manicure preparations; and shaving preparations, deodorants, bath and shower preparations (more than 75% of all exports in 2019), or should there be an increased focus on increasing exports of those products which have been historically on the lower side, such as perfumes and toilet waters, hair preparations and oral or dental hygiene preparations.

Historically, the dtic has supported the industry through various incentive and skills development programmes. An important issue is whether some or all of these programmes are still in place, and whether any evaluation of their effectiveness has been undertaken.

A significant part of the paper is concerned with analysing the cosmetic trade data nationally and internationally. Analysis of this data shows first that South Africa is a net importer of cosmetics and personal care products. Second, the CPC industry makes a small but important contribution to the country's trade pattern, averaging a 0.1% share of national trade for the past 23 years, increasing to around 1% since 2012.

Internationally, the paper shows that the United States (US) is the largest importer of cosmetics products (around 11%) followed by China (10%), Germany and France (both at 5%), and the United Kingdom (UK) (4%). South Africa's share has averaged 1% for the past two decades.

With respect to exports, France is the largest (15%), followed by the US and Germany (8%). South Africa's average share has been less than 1% for some time.

An important trend that has emerged since 2010 is Africa's ascendancy to being the second largest import partner of South Africa; in 2023, the continent's share of imports was 31%, of which the Southern African Customs Union countries made up 98%.

Africa is South Africa's largest export market, averaging 69% over the last 13 years (approximately 40% goes to SACU member states).

In summary, the South African cosmetic and personal care industry thus far has played a limited role in the overall economy. This is to be expected and is actually part of a common trend internationally. In the leading CPC countries (e.g., US, China, and the European Union (EU)), the industry as a whole comprises only a small segment of the economy. Even though the dollar value of the sector is high and extremely significant, the sector as a whole is relatively small everywhere in terms of its contribution to economic growth and employment.

There is an important lesson for the CPC industry in South Africa from the trends analysed above, namely that the sector's contribution to the economy is less important than the country making a serious effort to ensure that it can achieve the following:

- a) Entrench its position as the leading cosmetics manufacturer in Sub-Saharan Africa; and
- b) Increase its share of the world's output in the CPC industry.

To achieve these goals, the country needs to make a greater effort to exploit its natural plants to produce organic skin and hair products using locally produced ingredients such as marula, baobab, honey bush, rooibos, aloe ferox and buchu, among others.

The primary market for this would be the growing middle class in Africa but also in other developing countries in Asia, and Latin America and the Caribbean.

Recommendations

The most important question that can be asked about the CPC sector is the following: how can the sector develop to contribute meaningfully to economic growth, employment, and a positive balance of payments?

Important policy issues relate to (a) developing replacements for imports through enhancing research and development capacity using South Africa's natural ingredients; and providing incentives to change the structure of the industry to achieve economies of scale. Incentives could include the following:

- a) Import duties to protect local production. However, this may not have a significant impact given that MNCs cater to the richest segments of society and higher prices as a consequence of the duties may not have a major impact on product demand.
- b) Incentives to encourage exports to the rest of Africa, Latin America and Asia may be more effective.

In the light of the above analysis this study makes the following recommendations:

1. The Cosmetics Desk should review the effectiveness of current and past monetary incentives and other support provided by the dtic and other government departments. Data is crucial to the development of appropriate policies in the future.
2. The Cosmetic Desk should allocate resources to encourage a core of institutions (e.g. universities, CSIR, and others) to provide technical assistance to small and medium- sized companies in the sector.
3. The Cosmetics Desk could use the institutions already mentioned or new/additional ones to help develop and expand the market for organic skin and hair products using the indigenous products described above. In other words, government through the dtic should help develop the expertise that can enable South African companies to increase their share of this market worldwide but especially in Africa, Asia and Latin America.

1. INTRODUCTION

This report presents the research and field work undertaken by the TIPS team. The report comprises a brief literature review, analysis of the data provided by international and local agencies, findings from the survey of cosmetic firms, and recommendations for the way forward.

The CPC industry in South Africa is exceptionally complex, but one that has the potential to make a useful contribution to the economy, but more importantly to the stature of the country as an international producer.

As the country grapples with persistent unemployment and poverty levels, the conversation around reigniting productive industrial development is echoing in all policy conversations. For instance, there is an argument that light-manufacturing could be a panacea to the unemployment crisis facing the country (Bosiu et al, 2016). This is because South Africa's unemployment is structural as most jobless people are either low-skilled or semi-skilled. Therefore, an industry such as cosmetics and personal care, could be crucial for absorbing some of the unemployed, albeit a small proportion.

The CPC industry also displays potential for forward and backward linkages, as its value chain stretches between the farms (for inputs) to the retail shelves (for the final product). However, the industry comprises powerful MNCs and large local retailers who dominate the market. The industry also features a large number of small and medium-sized manufacturers caught between the MNCs on the one hand, and the dominant South African retailers on the other.

Therefore, any attempts to industrialise locally have to start with a clearly defined plan for enabling small and medium-sized businesses in this sector to develop and prosper. Crucial to such a strategy would be enabling small and medium-sized companies to overcome numerous challenges in an intimidating environment.

As per the terms of reference provided by the dtic, the team was required to: (a) undertake an assessment of the cosmetics sector; and (b) develop appropriate interventions for addressing the "multiplicity" of challenges, including (i) localisation of inputs and outputs in the cosmetics sector value chain; (ii) develop a disaggregated HS-codes system that separates products from inputs; and (iii) undertake a feasibility analysis and propose a system that regulates access to the local market in terms of standards and accreditation of imported products.

In essence, the aims of the study were to review and establish a gap in current policies and initiatives including funding support; develop a cosmetic sector strategy over the short- and long-terms; and define funding and technical models to support the implementation of the above strategy.

A multi-faceted approach was adopted comprising a review of the relevant literature, analysis of the pertinent sectoral data, and interviews with important sectoral stakeholders. The team was unable to obtain interviews with SARS and SABS; hence, the research on the disaggregation of the HS-codes remains unfinished. The authors acknowledge assistance received from SA Statistics with respect to the provision of various types of data.

2. LITERATURE REVIEW

Two significant studies were undertaken.

The TIPS (2014) research flagged a number of sector issues that appear to be still relevant. These can be summarised as follows:

- (1) There was an absence of cooperation between private sector innovators and publicly-funded science research. In the few instances where a private sector small business enterprise had worked successfully with two South African universities, locally produced cosmetics were exported to 15 EU countries.
- (2) Manufacturing capabilities and technologies were outdated and did not support production required to access more industrialised countries.
- (3) The industry's testing capacities, capabilities, and export country regulations were a serious constraint on the growth of the export market.
- (4) Changing labelling requirements, especially from some Southern African Development Community (SADC) countries created additional costs for South African exporters.
- (5) The relationship between MNCs and SMMEs was at best non-cooperative, and at worst hostile and not supportive of the growth of domestic enterprises.
- (6) Unfair competition was seen as widespread particularly from countries in the Far East whose products sell at lower cost in South Africa, apparently because their products are under-weight and under-filled.

The study by Bosiu et al. (2017) comparing the cosmetics regional value chains in South Africa and Zambia, showed that the size and maturity of the sector varied widely with South Africa having a much more sophisticated and developed industry. The South African market was dominated by a few large multinationals and many small firms while the Zambian sector was dominated by one large firm. However, the authors identified potential in both countries, given their relative abundance of natural ingredients to exploit opportunities beyond their respective borders, to "harness" regional industrialisation and improve intra-regional trade.

A 2021 Who Owns Whom study of the Cosmetics Industry in South Africa (Conradie, 2021) revealed that there were 90 companies with varying degrees of involvement including 11 MNCs, and nine South African retailers. This report indicated that South Africa exported cosmetics to the value of US\$448.9 million in 2019 (p.1). Moreover, citing Statistics South Africa figures, they indicate that the soap and detergents, cleaning and polishing preparations, perfumes and toiletry preparations manufacturing sectors had an estimated turnover of R52.1 billion in 2019, while the retail trade in pharmaceutical and medical goods and cosmetic and toilet articles had an estimated turnover of R95.8 billion.

The Who Owns Whom report shows that the industry is structured as follows:

- MNCs that manufacture as well as outsource, and account for 85%-90% of sales in the market. MNCs have the advantages of economies of scale in production, significant marketing power, internationally-recognised brands and easy access to funding for research and development;
- Many small, medium and large local companies that manufacture their own brands, or manufacture international brands under licence;
- Incubator or cottage industry production, which is relatively informal and low-volume; and

- Contract or third manufacturers that are contracted by brand owners. Some small companies that do not have manufacturing capabilities also use third party manufacturers (p.1).

Many companies of different sizes are involved in the wholesale and retail of cosmetics. Types of companies involved include manufacturers, pharmacies, salons, spas, supermarket chains, department stores and direct-selling companies.

A distinction has to be made between premium and mass market products. The market for premium products is relatively small, while the mass market is characterised by large sales volumes. An increasing number of cosmetic products cater specifically for local black skin and hair types and this market accounts for 75% to 80% of all sales in the cosmetics sector (p.2).

The inputs to cosmetics include a variety of raw materials such as chemicals, fragrances, essential oils, thickeners, preservatives, colourants and active ingredients. Many of these ingredients are imported, which puts South African manufacturers at a competitive disadvantage.

Figures obtained from Stats SA (2024) indicate that 63 205 people were employed in the manufacture of agro-chemical products, paints, pharmaceuticals, soap, cosmetics, explosives and adhesives in the third quarter of 2020. In the same period, 592 367 people were employed in the wholesale trade and 896 814 people in the retail trade (p.3).

Major manufacturers of cosmetics include the multinationals Unilever, Johnson & Johnson, Procter & Gamble, Colgate-Palmolive, Reckitt Benckiser, L’Oreal and Beiersdorf.

Large retailers of cosmetics include Clicks, Dischem Pharmacies, Pick n Pay Stores, Shoprite Holdings, Spar and Woolworths.

Major importers of cosmetics from South Africa in 2019 were Namibia (US\$72.9 million); Botswana (US\$59.3 billion); Zambia (US\$25.0 billion); Mozambique (US&24.3 billion); and the UK (R=US\$20.7 billion.) (p.4).

Table 1 drawn from data in the Who Owns Whom report (2021) shows that in the case of beauty preparations, skincare preparations and manicure preparations, and shaving and other preparations, the value of exports exceeded the value of imports in 2019. However, in the case of preparations for use on hair; preparations for oral or dental hygiene; and perfumes and toilet waters, the value of imports exceeded the value of exports, in the last instance, significantly so.

An important policy question that arises is in relation to South Africa’s comparative advantage. Should policy focus on continuing to expand the exports of items (1) and (2) in Table 1 or should there be an important policy shift towards self-sufficiency and developing greater export potential with items (3), (4), and (5).

Table 1: South African cosmetics exports and imports by category, 2019 (US\$ million)

PRODUCT	EXPORTS	IMPORTS
1. Beauty or makeup preparations, skincare preparations and manicure or pedicure preparations	257.3	218.4
2. Shaving preparations, deodorants, bath and shower preparations and depilatories	82.0	68.9
3. Preparations for use on hair	57.9	62.2
4. Preparations for oral or dental hygiene	34.1	50.7
5. Perfumes and toilet waters	17.5	78.6

The Who Owns Whom report also shows that South Africa exported cosmetics to the value of US\$285.8 million to the rest of Africa, which was 63.7% of the country's global exports (p.16).

In a useful analysis on incentives and support, the Who Owns Whom report (p.25) shows that the government provides financial support to qualifying companies in various sectors of the economy, with the dtic offering investment, export and innovation support that could be used by cosmetics manufacturers:

- Investment support is available under the Section 121 Tax Allowance Incentive, Manufacturing Competitiveness Enhancement Programme, and special economic zones.
- Export support is provided through the Export Marketing and Investment Assistance programme.
- Innovation support incentives include the Support Programme for Industrial Innovation and the Technology and Human Resources for Industry Programme.
- The objective of the Black Industrialists Scheme is to promote transformation, industrialisation and sustainable economic growth by supporting Black-owned entities.

Finance is also provided by the Industrial Development Corporation (IDC), National Empowerment Fund (NEF), and the Small Finance Agency (sefa).

The dtic's cosmetics desk supports the local manufacture of cosmetics through government funding programmes, identifying investment opportunities and attracting foreign direct investment. It also aims to promote locally-produced cosmetics by forming strategic partnerships with the tourism industry and private sector.

The report also provides a useful SWOT Analysis showing the following key features with relation to the South African cosmetics sector:

Strengths: many well-established manufacturers, wholesalers, and retailers; the industry serves a broad spectrum of different target markets; availability of a range of natural ingredients; strong contract manufacturing base and research and development (R&D) capacity; government support for the manufacturing sector.

Weaknesses: manufacturing dominated by large MNCs; reliance on imported inputs; lack of people with industry-specific technical and managerial qualifications.

Opportunities: Manufacture of men's personal care products; manufacture of natural products; manufacture of vegan products; independent retailers allowed to trade in shopping centres.

Threats: depressed domestic demand due to coronavirus and weak economic conditions; increasing cost of electricity, water, transport and labour; competition from imports

A brochure by the then Department of Trade and Industry (the dti, 2020) provides the following facts on the CPC sector:

- South Africa is Africa's largest market for cosmetics and personal care products.
- Household spending on personal care products is expected to grow by 25% over the next five years.
- The manufacturing of cosmetics contributed about 1% to South Africa's manufacturing output in 2018.
- Haircare is the largest sub-category within the cosmetics and personal care sector.
- Large MNCs dominate the personal care market, accounting for 90% of sales.

The document goes on to suggest the following reasons for investing in the sector:

- Rising import demand;
- Demand for organic products;
- Strong R&D capabilities; and a
- Well-established retail network; and access to natural ingredients, including aloe ferox, buchu, marula, baobab, honey bush and rooibos. Given the current high dependency on imported materials, indigenous ingredients present an opportunity to reduce this import dependency (80% of raw materials are currently imported).

The dti document also shows how the South African government and industry players offer support through various incentive programmes and skills development support for the industry:

- a) Innovation support is available through programmes such as the Support Programme for Industrial Innovation), the Technology and Human Resource for Industry Programme and the seda Technology Programme. The Technology Innovation Agency, CSIR and various universities support research and development efforts in cosmetics-related fields.
- b) Financial Support: The 121 Tax Allowance Incentive is designed to support Greenfield investments (i.e., new industrial projects that utilise only new and unused manufacturing assets) as well as Brownfield investments (i.e. expansions or upgrades of existing industrial projects). The incentive offers support for both capital investment and training. Other sources of finance include the IDC, NEF, and sefa.
- c) Skills Development Support: A number of institutions offer skills development programmes and training courses for the sector. The institutions include: Chemical and Allied Industries Association; University of Cape Town's Hair and Skin Research Laboratory; Society of Cosmetic Chemists; Cosmetics Toiletry and Fragrance Association (CTFA); and the South Africa Association of the Flavour and Fragrance Industry.
- d) Export Support: the dtic's Export and Marketing Investment Assistance and the Sector Specific Assistance Scheme as well as the Cosmetics Export Council of South Africa provide support for exporters to develop and succeed in export markets.

Finally, investment opportunities identified by the dti included the following:

- Fragrance-free and high-quality fragrance products for distinct niche segments;
- Personal care products for the male market;
- Development and production of ethnic skin and hair products;
- Manufacturing of cosmetic products, packaging and distribution across retail stores;
- Production of ingredients that comply with international market requirements in the production of organic or natural cosmetics products;
- Production of multifunctional products with a focus upon wellness;
- Safety testing of cosmetic products produced locally; and
- Supply of quality affordable beauty products.

McKinsey (2023) estimated that the beauty industry worldwide was valued at US\$427 billion in 2023 and it estimated that by 2027 the industry will record over US\$580 billion of retail sales, growing at 6% per year.

While the US and China are the biggest markets, the industry in the Middle East and Africa has a projected annual growth rate of 12% to reach US\$47 billion by 2027. Because the data is aggregated for both regions, it is not clear how much of this growth will be in Sub-Saharan Africa.

3. TRADE DATA NATIONALLY AND INTERNATIONALLY

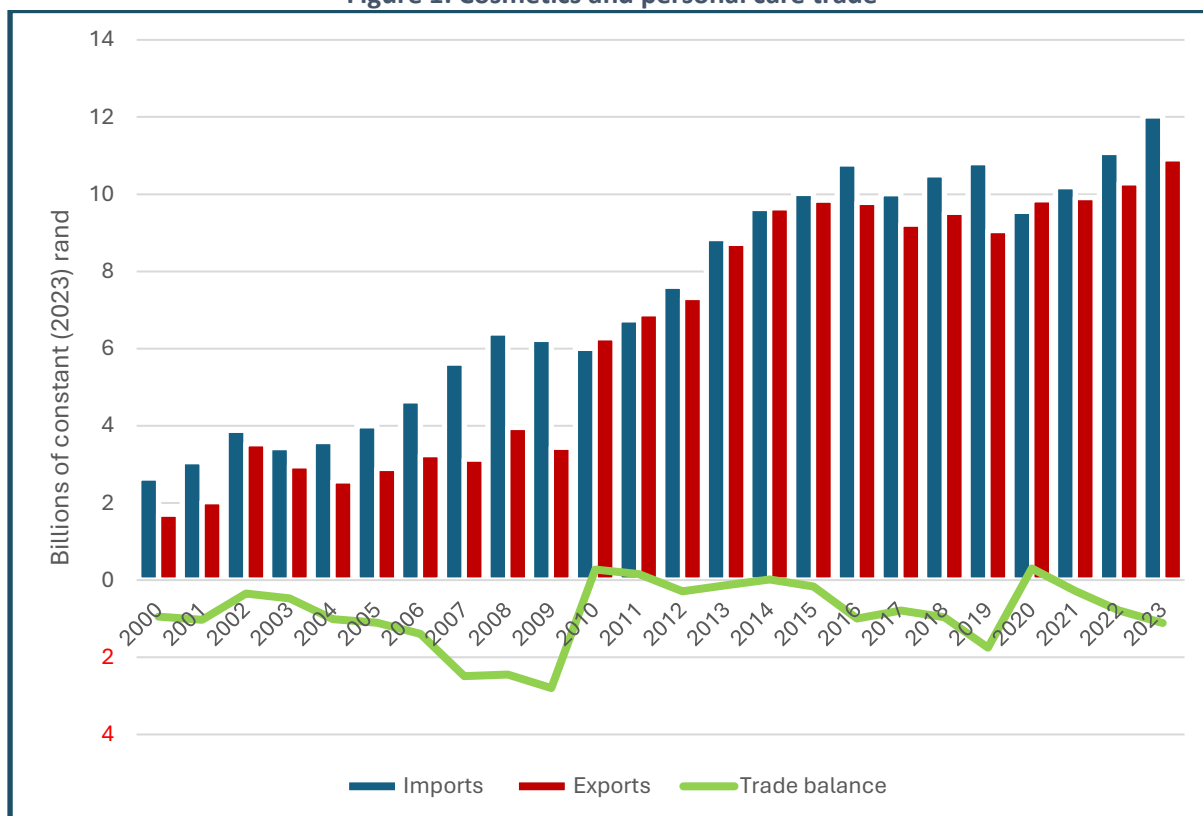
3.1. The cosmetics and personal care industry

This section provides an analysis of the trade data in the CPC industry. It includes an analysis of the biggest importers and exporters and South Africa's position in the global context. The first part of this section presents the industry in the context of South Africa's national trade, an important element for understanding the influence or lack thereof of this industry.

Figure 1 shows that the country is a net importer of cosmetics and personal care products. Over the last 23 years, the industry has recorded a trade surplus only on four occasions, in 2010, 2011, 2014 and 2020. The 2020 surplus is attributed to increased consumer demand for skin care products and cosmetics such as hand sanitiser and cream as protection against the coronavirus. However, the trade gap has narrowed considerably in the past 10 years.

The upward trend has been maintained since 2020. When taking growth rates into consideration, imports have grown by close to 7% while exports have grown by 8.4% over the past 23 years. Unfortunately, the growth of exports has happened in conjunction with a surge in imports. Exports have moved from a low base in real rand terms, moving from R1.7 billion in 2000 to R10.9 billion in 2023 compared to imports that moved from just under R2.7 billion in 2000 to R12 billion in 2023. For additional context, imports have averaged just under R7.4 billion while exports have averaged R6.5 billion over the 23-year period.

Figure 1: Cosmetics and personal care trade



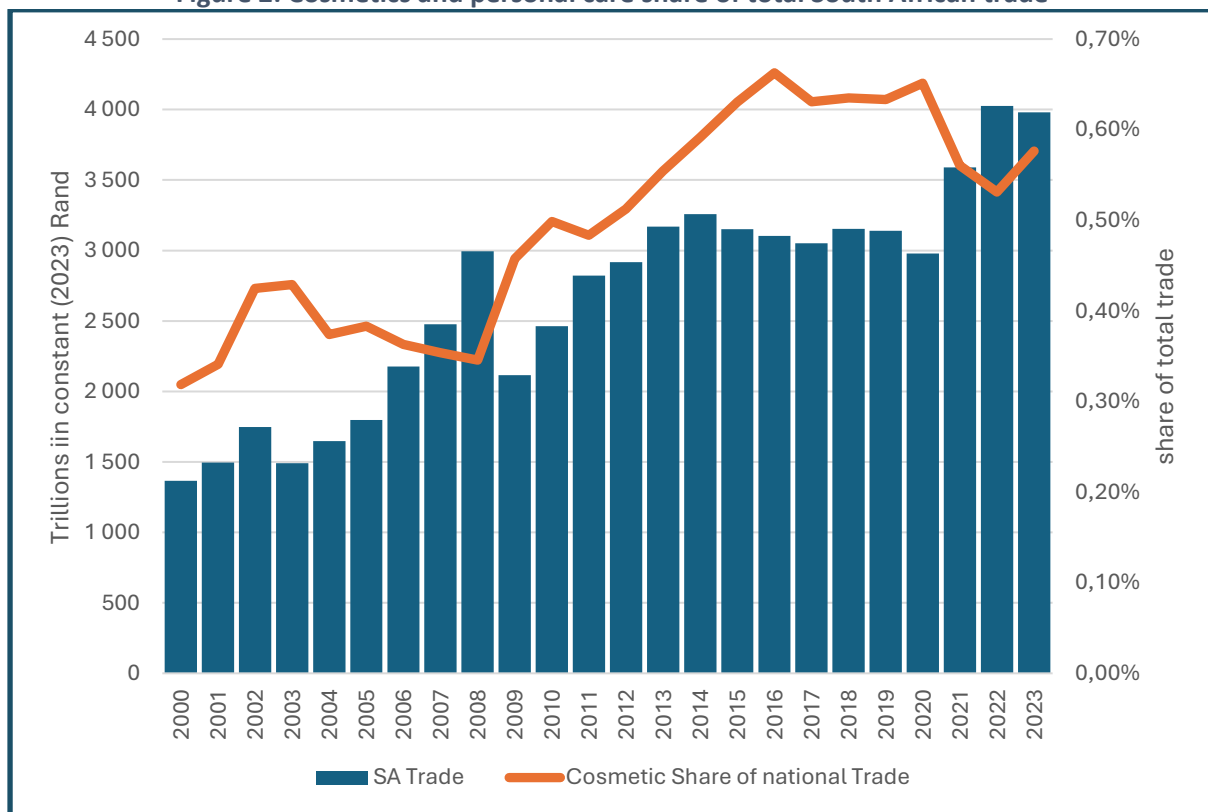
Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in June 2024. Deflated using CPI.

The official economic databases quantify and classify the cosmetics and personal care industry as part of the Harmonised System (HS henceforth) Code 33, usually quantified at the two-digit level (hence the code 33). When further broken down to disaggregate the business segments that fall under this industry, the HS Code ranges between H3301 to HS3307 of CPC products. The “inputs” of the industry are quantified under the HS 3301 to H3302 codes while the H3303 to H3307 codes quantify what can be termed the final goods of the industry. In addition, the HS 3301 code quantifies the *Mixture of odoriferous substances (part of industry inputs)* business segment.

This segment usually includes mixtures or solutions (quantified under HS 33021) that are used in the food and drink industries. This report has excluded these alcoholic solutions so that the data is not skewed or misrepresented. (Note: The solutions are used in the food and drink industries, particularly in the manufacture of beverages. South Africa imports a significant share of its beverage syrups from Eswatini.) More analysis is shown below to disaggregate the data and contextualise the numbers.

Section 3.2 presents the trends in global trade including global importers, global exporters and the relevant types of products that are exported and imported. This section is pivotal to understanding the global industry overview as well as emerging trends. In 2023, the global beauty and personal care industry was estimated to have generated revenue valued at over US\$600 billion in current dollar prices (Statista website). The trade value of this industry was estimated at US\$350 billion in current prices (Trade Map website).

Figure 2: Cosmetics and personal care share of total South African trade

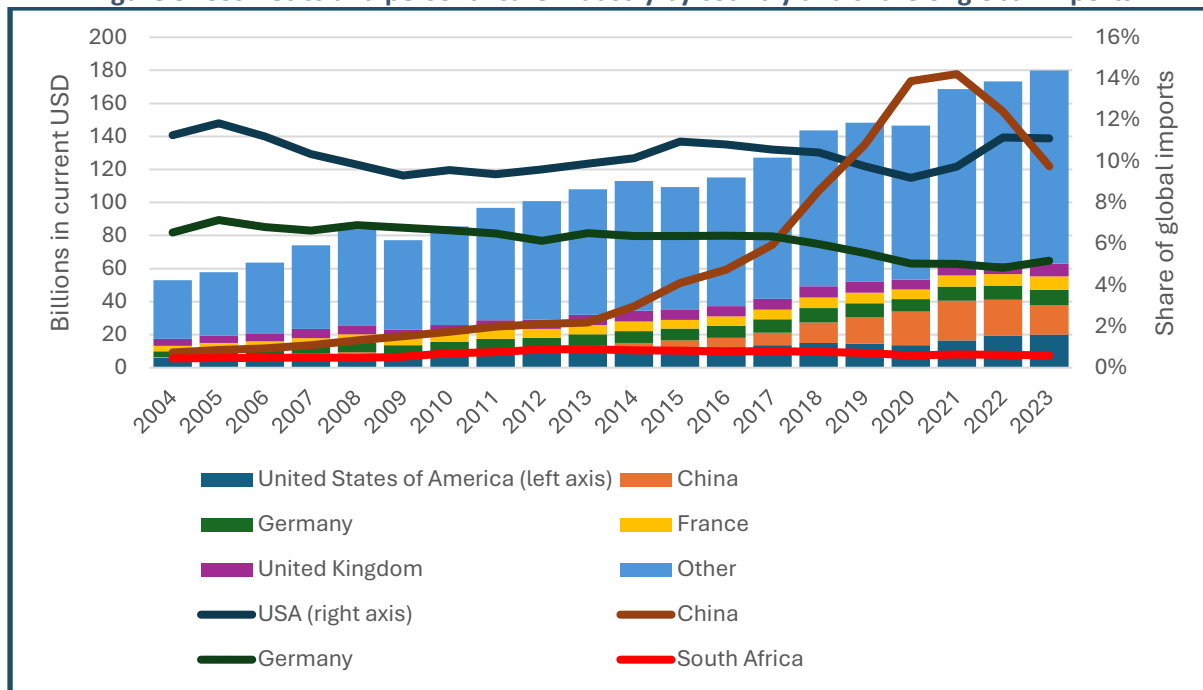


Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in June 2024. Deflated using CPI.

3.2. Trends in global imports

Figure 3 shows the top five global importers of cosmetics and personal care products. As mentioned earlier, this trade data is quantified at the HS 33 code that combines both the inputs and final goods.

Figure 3: Cosmetics and personal care industry by country and share of global imports



Source: Calculated from ITC Trade Map. Accessed at www.trademap.org in July 2024.

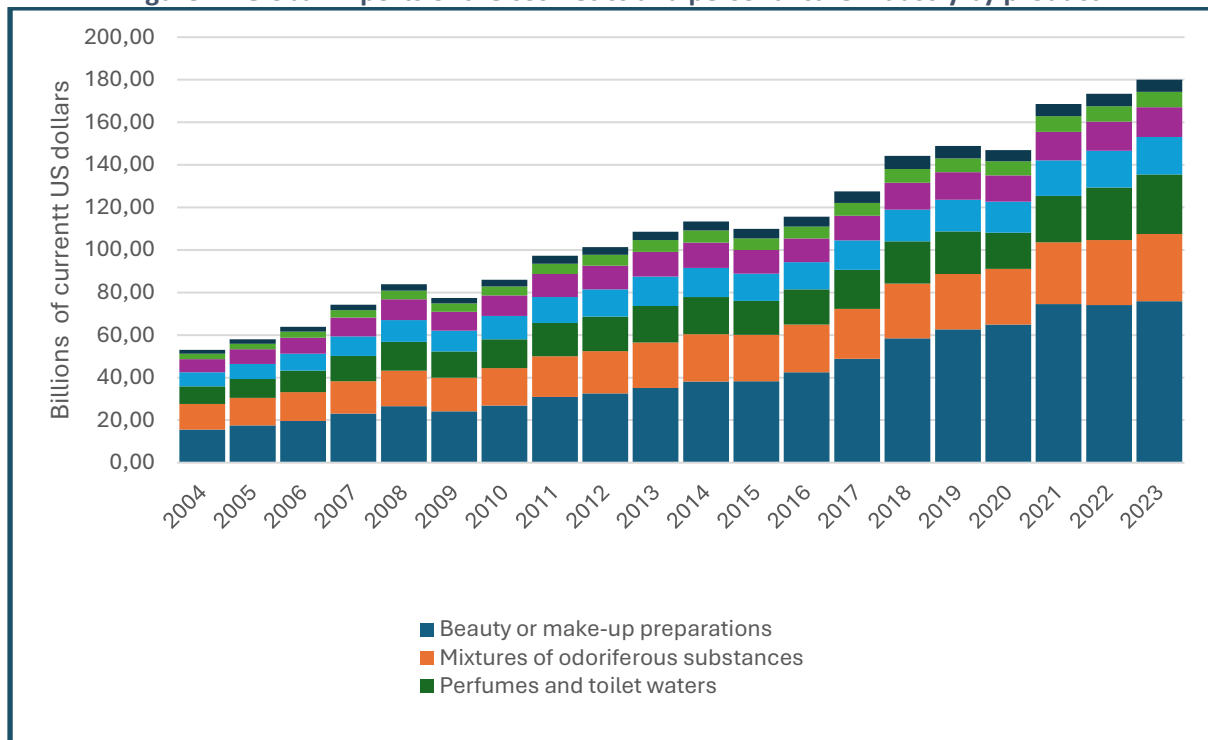
In 2023, the US was the largest importer of cosmetic products; the US accounted for a 11% share of global cosmetic and personal care imports valued at US\$20 billion. The US share of global imports has averaged 10% in the last 20 years. China is the second biggest importer and accounted for 10% of imports valued at just under US\$18 billion over the same period, both Germany and France were tied at 5% with US\$9 billion and US\$8 billion import values respectively, and the UK accounted for a 4% share with a US\$7.6 billion import value. “Other” is a representation of the rest of the global traders which are outside the top five. Interestingly, the top five importers made up the first seven countries in the list for the 10 world’s biggest economies for 2023 (IMF, 2023). South Africa’s share of global imports has averaged 1% for the past 20 years; in 2023 the country’s share of total imports was 1% valued at US\$1 billion. Between 2004 and 2008 South Africa’s share of total imports remained at less than 1%.

Figure 4 provides an illustration of the global imports of the cosmetics and personal care industry by product. Importantly, this part of the paper has attempted to disaggregate the data per the products that are clustered under the HS33 code.

The global cosmetics industry is usually divided into seven core business segments. First there are inputs or raw materials, the essential oils and mixtures of odoriferous substances. The second component of the segment are the final goods, which comprise beauty or makeup products and include four elements: colour cosmetic (face makeup), lip-makeup, eye-makeup, and nail (manicure and pedicure) preparation. Then there are the perfumes and toilet water (often considered personal care products), followed by hair preparations, which comprise items like shampoos, straightening, and weaving products. In addition, the other segment includes dental preparations, which comprise items such as dentifrices and dental floss. Lastly, are the shaving and pre-shaving products that fall under the shaving preparations segment.

As per Figure 4, the beauty and makeup preparation segment are the most important component of the CPC industry. In 2023, this segment made up 42% share of total imports, valued at US\$76 billion. The second segment is the mixture of odoriferous substances, which made up 17% share of total imports in the same period. This segment has averaged a 19% share of total imports in the past 20 years. The third segment is perfume and toiletries, which was valued at US\$28 billion. Hair preparations accounted for 10%; shaving preparations accounted for 8%; oral/dental preparations accounted for 4%; and essential oils accounted for 3%. The last four business segments made up a 25% share of total imports.

Figure 4: Global imports of the cosmetics and personal care industry by product



Source: Calculated from ITC Trade Map. Accessed at www.trademap.org in July 2024.

In summary, this section identified the top five global cosmetic and personal care importers including the most imported segments of the industry. What is clear is that the two biggest economies (US and China) are responsible for 21% of the imports. It is no coincidence that these two countries, which command the fastest-growing and richest middle classes respectively, are importing products classified as “luxury” goods (Kharas and Dooley, 2020). As middle-class populations expand and accumulate wealth, demand for premium products is growing, including luxury goods, which are often seen as status symbols and markers of success. This trend reflects the increasing purchasing power and shifting consumer preferences in these regions.

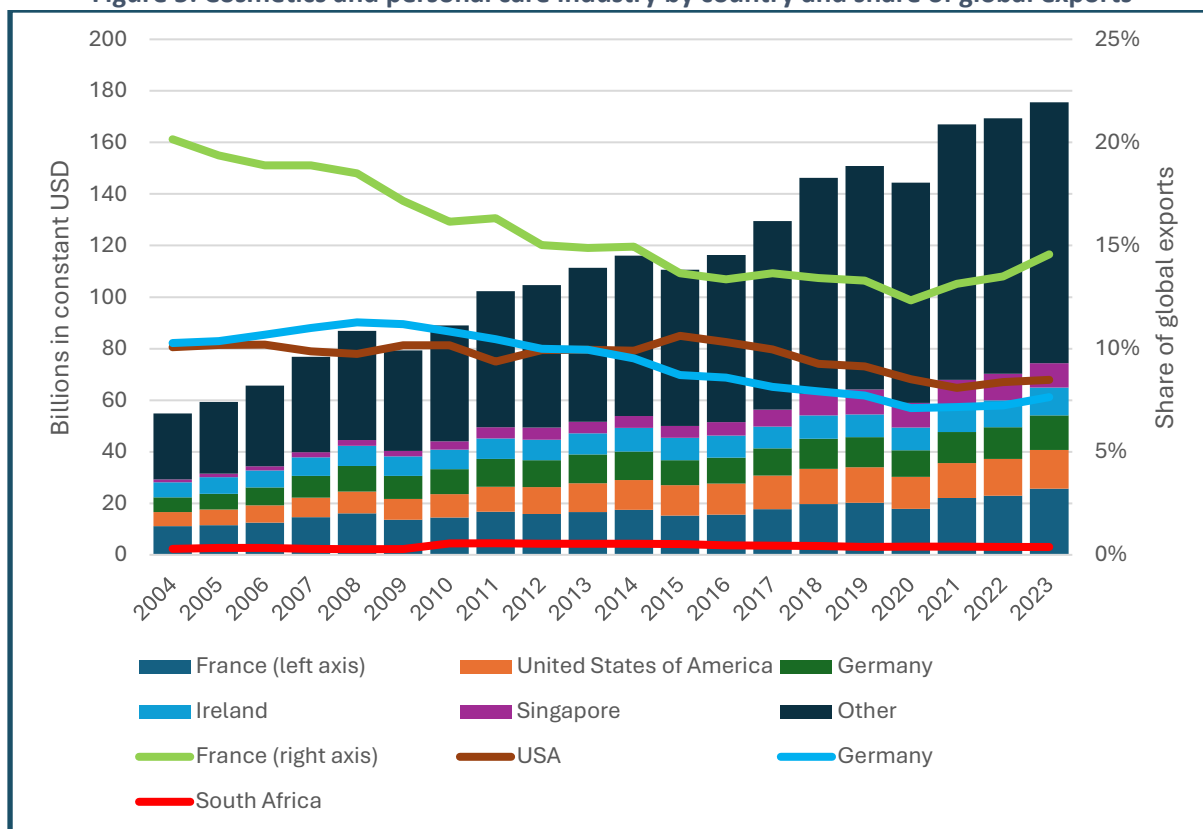
Additionally, as already mentioned, the top five importers of these goods constitute the world’s biggest economies. Furthermore, the most imported segment, beauty and makeup preparations, made up 42% share of global imports: this segment is wide-ranging as it includes face makeup, lip-makeup, eye-makeup, and nail preparations. There is a global appeal towards aesthetically pleasing and enhancing products like colour makeup, and these products are now considered tools for self-expression, empowerment, and creativity. They transcend cultural differences; the global appeal is now even across genders with the rise of metrosexuals globally even as far as culturally-conservative countries like China which have seen a trend of young men buying facial products with a particular bias for grooming products that fall under the shaving preparations segment (Chiu et al, 2019).

3.3. Trends in global exports

Figure 5 shows the major exporters in the cosmetics and personal care industry. As per 2023 data, France is the largest exporter with a 15% share of total exports; this EU country has averaged a 16% share of exports over the past 20 years. France’s export value was US\$25 billion in 2023, its highest recorded export value. The second biggest export country is the US with an export value of just under US\$15 billion. The North American giant accounted for 8% of the total export share in 2023, which is half of France’s share. Germany accounted for 8% of the share, and Ireland and Singapore accounted for 6% and 5%, respectively. As with the import data, these top five exporters are part of the top 10 biggest economies in the world except for Ireland.

South Africa has fared dismally with global exports, with its average share of total exports less than 1% in 2023, valued at US\$679 million, confirming once again that South Africa is a net importer in the cosmetic and personal care industry. The country has only managed to register a 1% share of total exports in six periods over the last 20 years, in 2010, 2011, 2012, 2013, 2014, and 2015.

Figure 5: Cosmetics and personal care industry by country and share of global exports

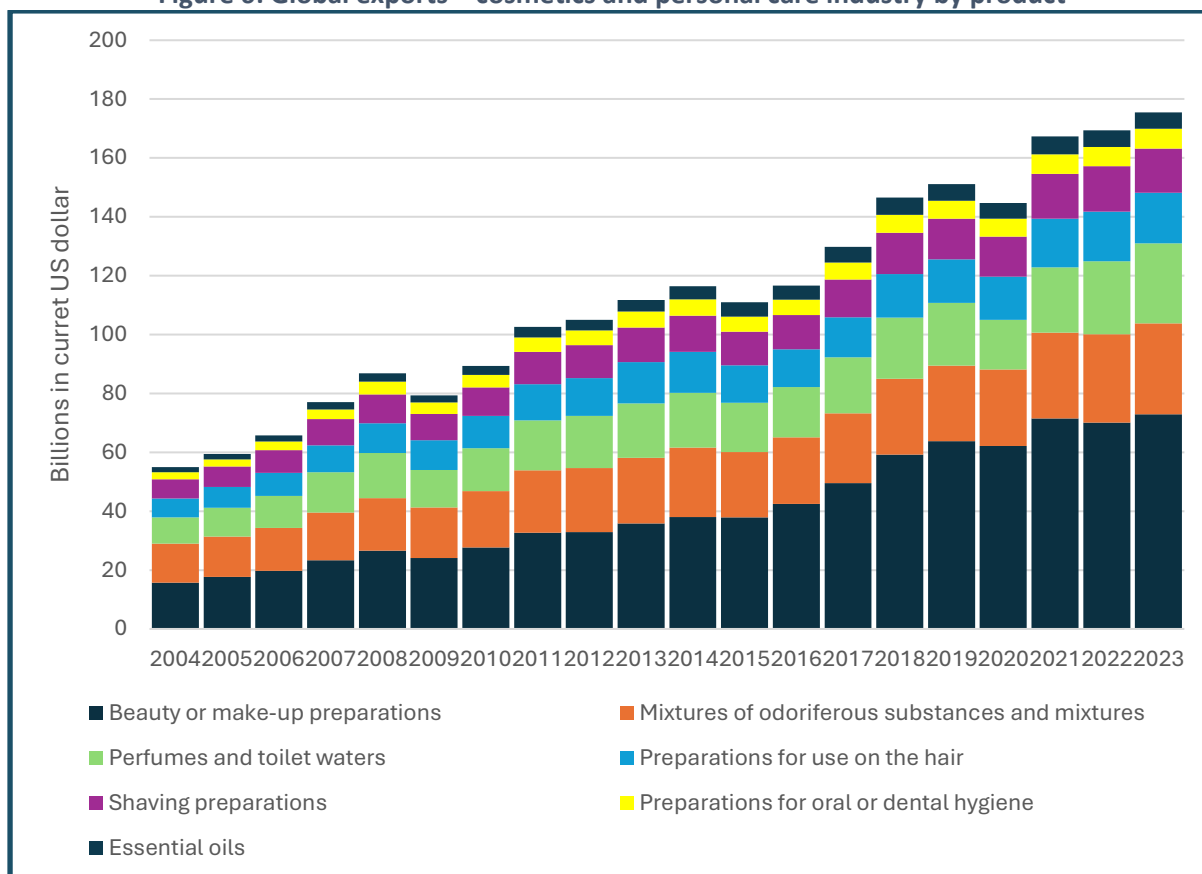


Source: Calculated from ITC Trade Map. Accessed at www.trademap.org in July 2024.

Figure 6 details the global exports in the cosmetics and personal care industry by product. What stands out is that, as with the import data, in 2023 the beauty/makeup preparation’s share of total exports was also 42%, valued at just under US\$73 billion. This segment’s share of exports has averaged 35% over the past 20 years.

The mixture of odoriferous substances is the second highest exported segment accounting for 18% of the share of total exports in the same year valued at US\$30 billion; perfume and toiletries accounted for 15% valued at US\$27 billion; hair preparations accounted for 10% valued at US\$17 billion; and shaving preparations were 8%, valued at US\$14 billion. Lastly, oral/dental preparations accounted for 4% and essential oils 3%, valued at US\$6.7 billion and US\$5.6 billion respectively.

Figure 6: Global exports – cosmetics and personal care industry by product



Source: Calculated from ITC Trade Map. Accessed at www.trademap.org in July 2024.

This section presented the top five global exporters of cosmetics and personal care goods as well as the most exported segments of the industry. Some of the countries that make up the top five exporters come as no surprise as they are home to the most prestigious global cosmetic and personal care companies: Beiersdorf that produces famous products like Nivea is headquartered in Germany; Procter and Gamble alongside Johnson and Johnson are located in the US; and L’Oreal is headquartered in France. These companies (countries) produce and distribute to different markets.

According to Hirschman (2023), Singapore caters to a multi-cultural consumer base with both Asian (from Japan and Korea) and Western brands having an appeal. However, while this information suffices to explain the inbound products, there is no clarity on this country’s influence as a top exporter of these products. As with imports, beauty and makeup products represent the largest export, comprising 42% of the export market share followed by odoriferous substances, which are important inputs for the industry.

3.4. Trends in South African trade

As per Figure 1, South Africa is a net importer of cosmetics and personal care products. As stated earlier, Figure 2 presents a more worrying picture of the state of this industry, namely that it did not breach the 1% mark for the first 12 years of this century and has averaged 1% in the 11 years since 2012, signalling the limited role that it has so far played in the economy.

To attempt an investigation of the inputs/raw materials and finished products that can be localised, in this section the study provides a detailed descriptive analysis of where South Africa’s products are demanded as well as the products that South Africa demands, including the markets that are its

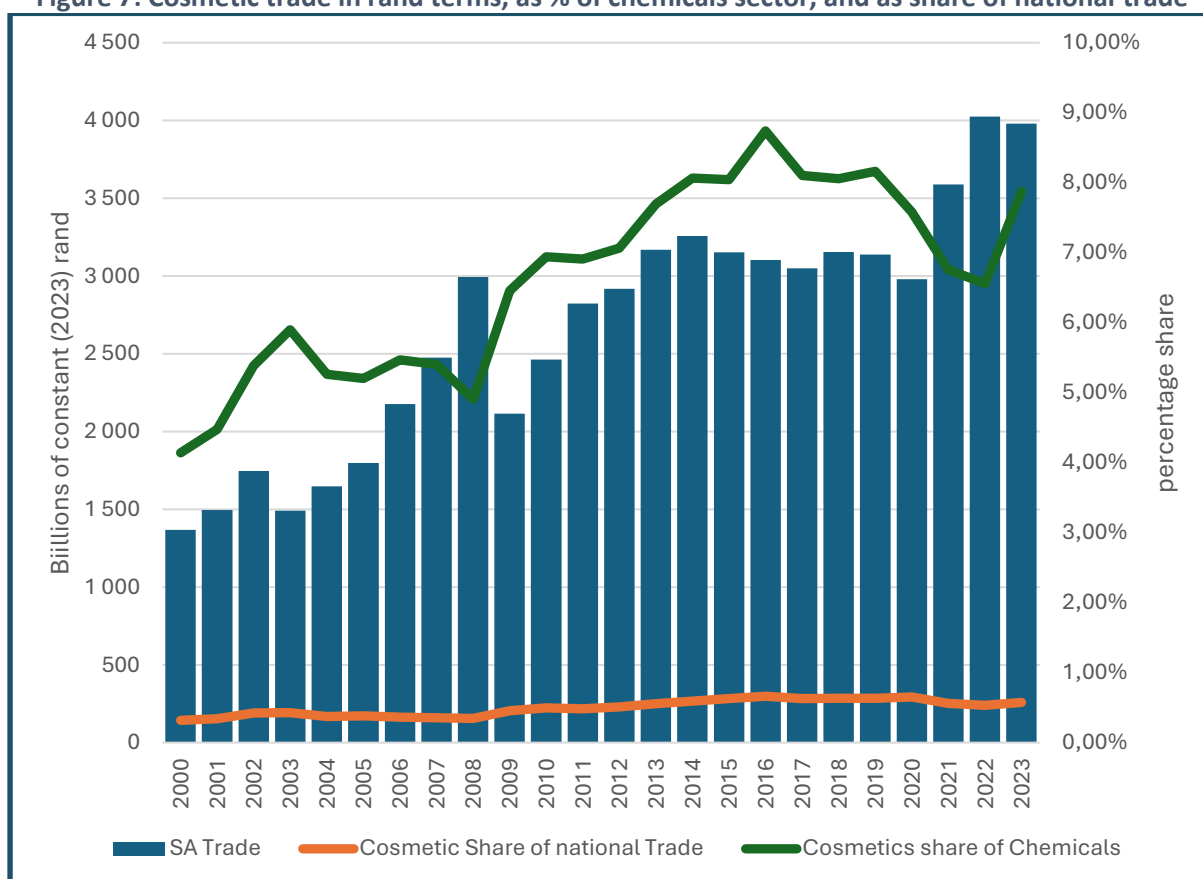
biggest trading partners. As per the Quantec database, cosmetics is quantified under the C06 Chemicals code which is inclusive of other products (HS codes) such as those shown in Table 2.

Table 2: HS Codes – Various chemical products

HS28: Inorganic chemical pounds	HS32: Tanning or dyeing extracts
HS29: Organic chemical pounds	HS33: Cosmetics
HS30: Pharmaceutical products	HS34: Soap, organic surface-active agents
HS31: Fertilisers	HS35: Albuminoidal substances

Figure 7 shows the cosmetic trade in rand terms, as a percentage of chemicals sector, and as a share of national trade. The industry’s share of the chemicals trade has averaged 6% over the past 23 years. The industry’s share increased from 4% in 2000 to 7% in 2023. The industry’s share has been increasing since 2008, reaching its highest share of 8% in 2016, then declining but not to pre-2008 records. Between 2000 and 2008, the industry share averaged 5%, and between 2009 and 2023 the industry’s share increased to 7%. In real trade values, both the chemicals sector and cosmetics and personal care products recorded their highest trade values at R314 billion and R22 billion, respectively. The industry’s share of national trade has already been presented in Figure 2 and as already mentioned, depicts an industry with a relatively small contribution to the country’s overall trade pattern.

Figure 7: Cosmetic trade in rand terms, as % of chemicals sector, and as share of national trade



Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service Accessed at www.easydata.co.za in July 2024.

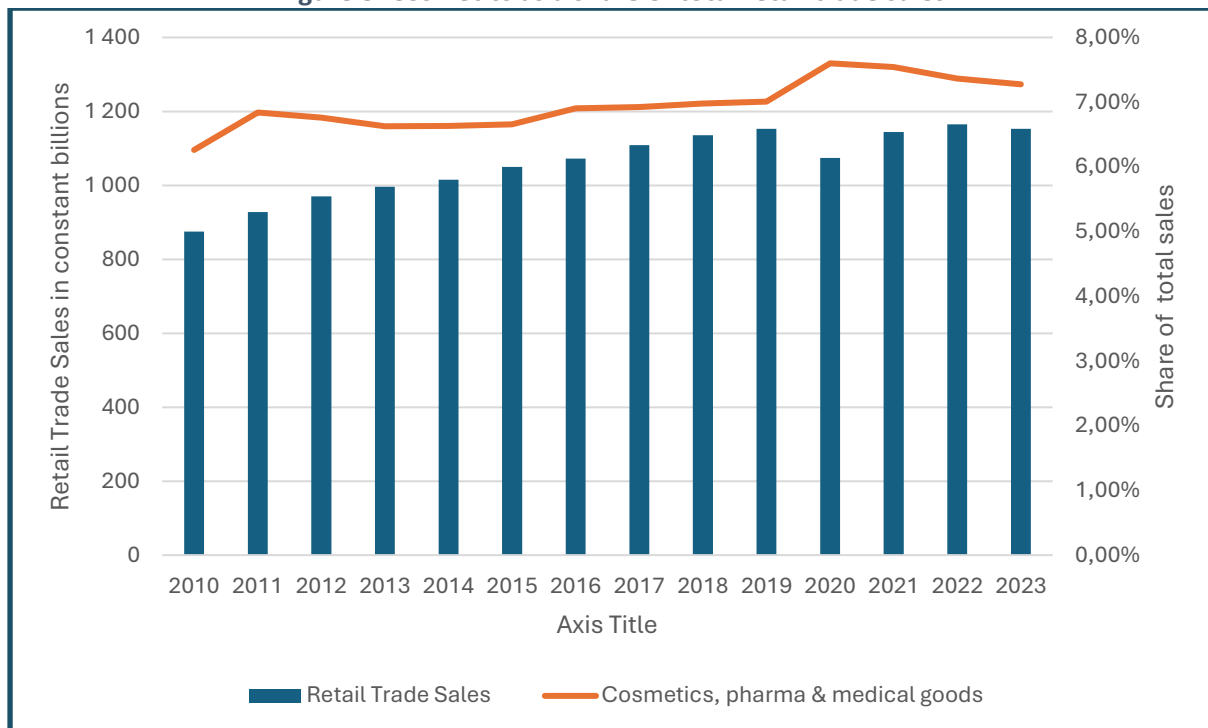
If the cosmetics and personal care industry seeks to play an influential role in the overall South African economy, it ought to first increase its share of the chemicals subsector and rise above single digit levels in the short- to medium terms. This may mean that South Africa must also move beyond being a net importer of these goods, develop internal productive capabilities, and increase its export share.

This approach would include capacitating small businesses by providing finance, access to the world market, and ownership of some of these products which could entail beneficiation of the available raw materials and co-operation with the established MNCs. Such a strategy might also augur well for employment creation, albeit on a small scale.

Moreover, as per the Stats SA SIC code, the cosmetics and personal care industry is clustered under the SIC 6231 code which comprises retail trade in pharmaceutical and medical goods, cosmetic and toilet articles. Essentially, Stats SA considered the cosmetics and personal care industry as a subcategory of Retail Trade. Retail trade consists of seven sub-groups, namely general dealers: retailers of food, beverages and tobacco in specialised stores: retailers in textiles, clothing, footwear and leather goods: retailers in household furniture, appliances and equipment: retailers in hardware, paints and glass: all other retailers: and lastly, retailers in pharmaceutical and medical goods, cosmetics, and toiletries.

Figure 8 presents cosmetics with pharmaceuticals and medical goods as a percentage of total retail trade sales. Since cosmetics is clustered together with pharmaceuticals and medical goods, the analysis of this group will likely be skewed with respect to cosmetics total contribution.

Figure 8: Cosmetics as a share of total retail trade sales



Source: Constructed from Retail trade Excel data format downloaded from Stats SA, from https://www.statssa.gov.za/?page_id=1847 in September 2024 using Time Series data facility.

Nonetheless, retail trade sales have grown by 2.14% in the past 13 years, moving from over R875 billion in 2010 to just under R1 153 trillion in 2023. In that period, cosmetics (pharmaceutical and medical goods) has averaged just under 7% of the share of total retail trade sales. Moreover, the share contribution has decreased by 0.32 percentage points between 2020 and 2023 moving from 7.6% to 7.23% in this three-year period.

Section 3.5 analyses South Africa’s export and import markets as well as the particular segments that South Africa trades the most. The purpose is to understand South Africa’s role as an importer or exporter in certain markets, as well as to determine whether there is a niche market or business

segment on which South Africa could potentially focus. The information that emerges from this analysis is particularly important as it can initiate discussion over practical solutions that can be crafted to induce more exports.

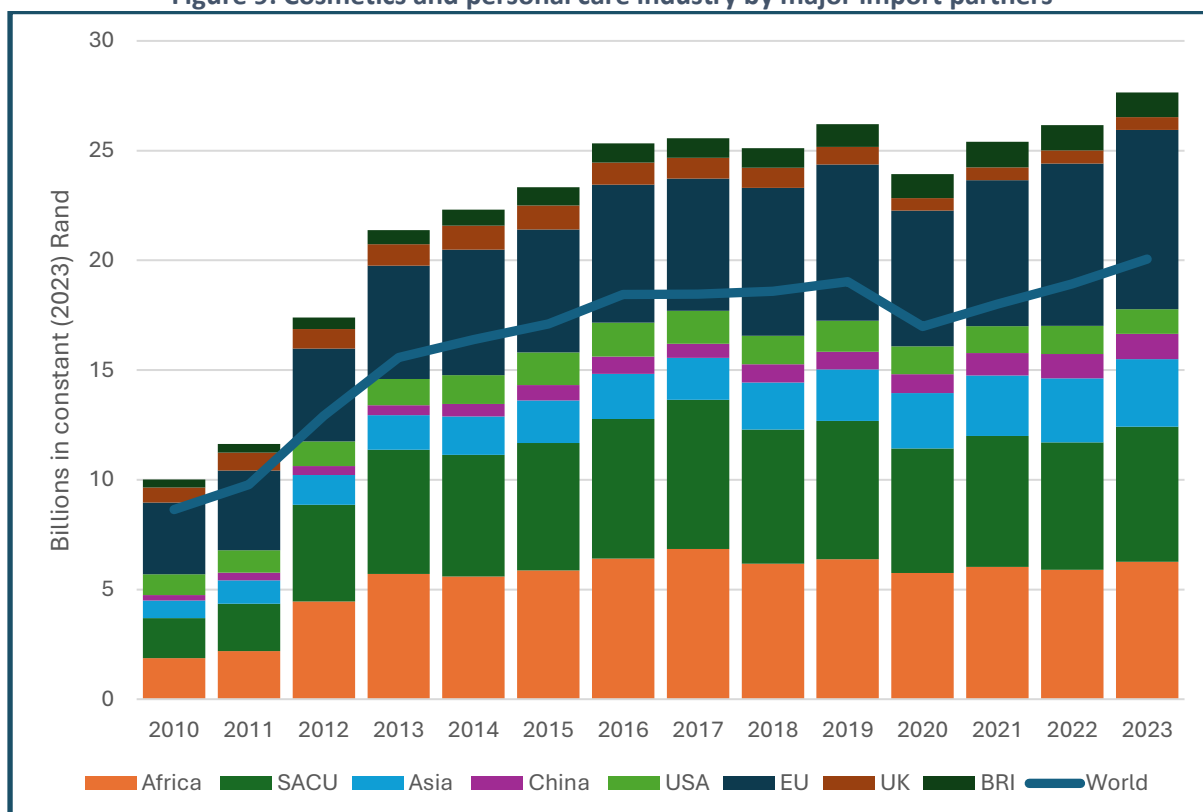
Figure 9 presents South Africa’s import partners for cosmetics and personal care goods. In the Quantec database where this trade data is sourced, Botswana, Namibia, Lesotho, and Swaziland are excluded from SADC as they are also members of SACU.

3.5. Trends in South African imports

In recent years, the dominant importing regions were the EU, US and Asia before the emergence of Africa. Then from 2010, Africa emerged as the biggest import partner for South Africa; between the 2010 and 2023 period, Africa’s average share of imports by South Africa has averaged just under 33%. In 2023, the continent’s total share of imports was 31%.

SACU countries constituted 98% of total African imports by South Africa. However, the EU is South Africa’s largest import partner; from 2010 the EU’s share of imports has averaged just under 36% of the imports by South Africa. In 2023, the EU accounted for just under 41% of total imports. The US share of imports averaged 8% over the last 13 years; in 2023 the US accounted for just under 6% of total imports. Since 2012 all three regions – the EU, US and Africa – have accounted for over 75% of cosmetic imports. The BRICS partner countries, specifically, Brazil, Russia, and India accounted for 5.62% of total imports in 2023 valued at just over R1 billion. The BRICS partners share of total imports has averaged just under 5% over the past 23 years.

Figure 9: Cosmetics and personal care industry by major import partners

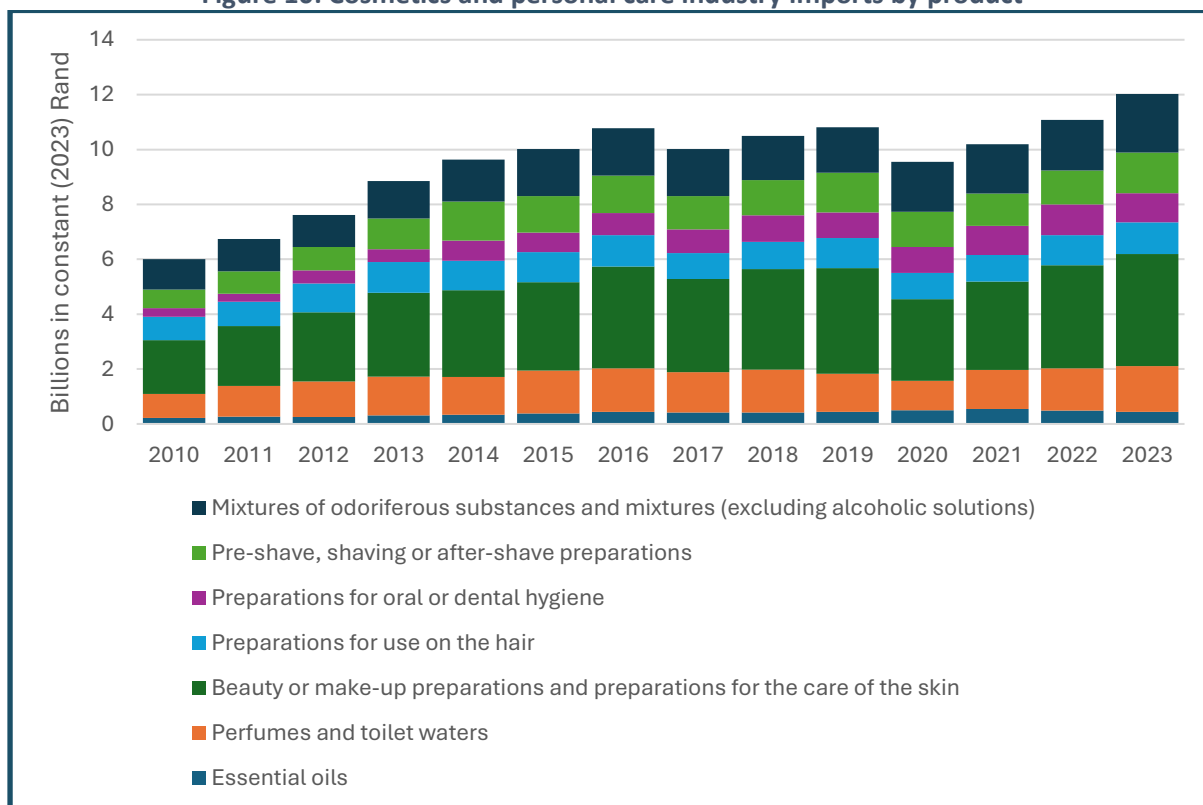


Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in July 2024. Deflated using CPI.

Figure 10 presents South Africa’s imports by product. In Figures 10 and 11, an attempt has been made to disaggregate the data per business segment (at the four-digit level). Moreover, as with Figure 2, the paper subtracted the alcoholic solutions that are used in the food and drink industries, from the *Mixture of odoriferous substances*. As per Figure 9, South Africa is a big importer of beauty/makeup preparations, and in 2023 imported goods were valued at over R4 billion, the highest among all cosmetic and personal care goods. The beauty/makeup preparation segment made up about 34% of the total import trade; this segment has averaged just under 33.36% of the total import trade over the past 13 years.

The second largest imported segment is the mixture of odoriferous substances with imported goods valued at over R2 billion; this segment has averaged just under 17% of the total import trade over the past 13 years. Perfume and toiletries are the third largest imported goods and have averaged just under 15% of total import trade; pre-shave preparations and hair preparations are the fourth and fifth largest imported goods respectively, averaging 12% and 11% of total import trade respectively over the same period. Dental preparations have accounted for just under 8% of import trade, and in last place are the essential oils that have accounted for 4.04% of trade. This last segment is the only one that has remained below the billion mark of trade value.

Figure 10: Cosmetics and personal care industry imports by product



Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in July 2024. Deflated using CPI.

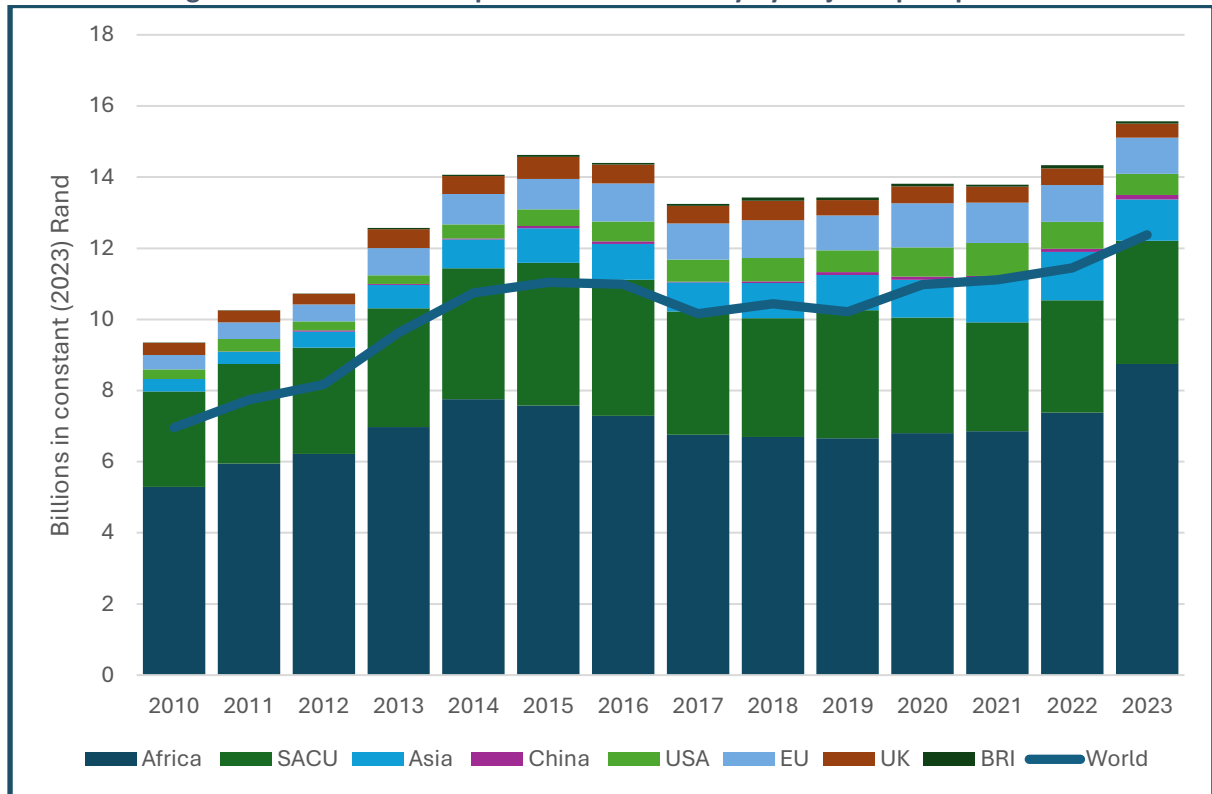
3.6. Trends in South African exports

This section analyses the export trade data. It presents South Africa’s export markets and export trade by product.

As per Figure 11, Africa is South Africa’s largest export market. In 2023, Africa’s share of total export trade was 71%, valued at just under R9 billion and has averaged under 69% over the last 13 years. Of

the 71% exports meant for Africa, about 40% of them went to SACU countries, valued at R3.5 billion in 2023. Namibia and Botswana account for a combined 22% share of total exports. Moreover, South Africa's top five largest export regions are Africa (especially SACU), Asia, EU, and the US, albeit the last three regions accounted for only 22.38% share of total exports, which is tied with the combined Namibia and Botswana share (importance of SACU market). The BRI (Brazil, Russia and India) partners accounted for only 0.53% of total exports over the same year and these three countries have averaged just 0.45% of total exports over the last 13 years.

Figure 11: Cosmetics and personal care industry by major export partners



Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in July 2024. Deflated using CPI.

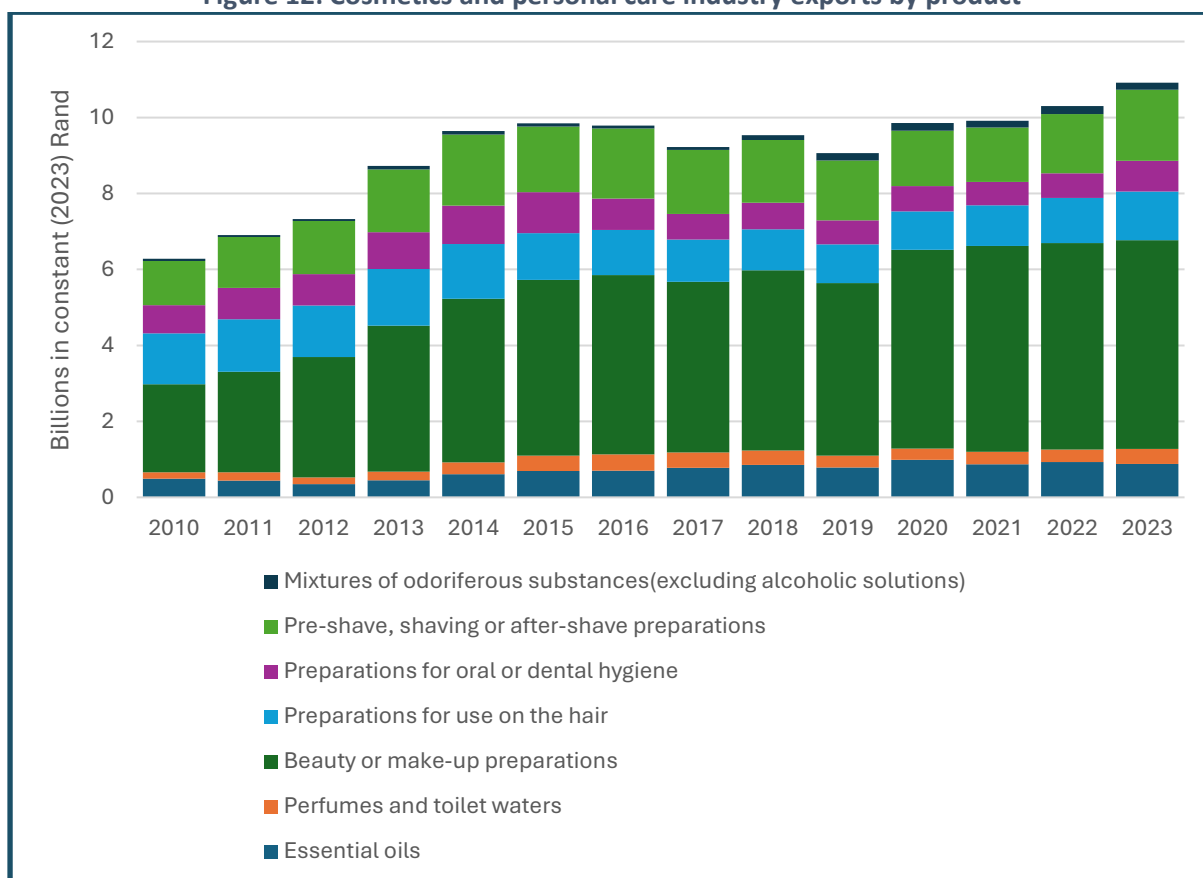
Figure 12 presents the cosmetics and personal care industry exports by product. Like with the import data, South Africa mostly exports beauty/makeup preparations. In 2023, the beauty/makeup preparations segment accounted for 50% of the export share valued at R5,5 billion; this segment has averaged 47% of the export share in the last 13 years.

The second largest exported segment was the pre-shaving-shaving preparations segment that accounted for 17.09% valued at R1.8 billion, followed by hair preparations that accounted for 12% valued at R1.2 billion.

The next biggest exported cosmetic segment is essential oils that accounted for 8.06% valued at R880 million. The last three segments are: dental preparations that accounted for 7.45% valued at R813 million, followed by perfumes and toiletries that accounted for 3.6% valued at just under R400 million, and lastly the mixture of odoriferous substances that accounted for 1.72% that was valued at R188 million.

Interestingly, the top four exported segments include essential oils which is part of the cosmetic inputs. This is a positive development as this could potentially be a comparative advantage for South Africa given that the country is one of the most biodiverse countries in the world.

Figure 12: Cosmetics and personal care industry exports by product



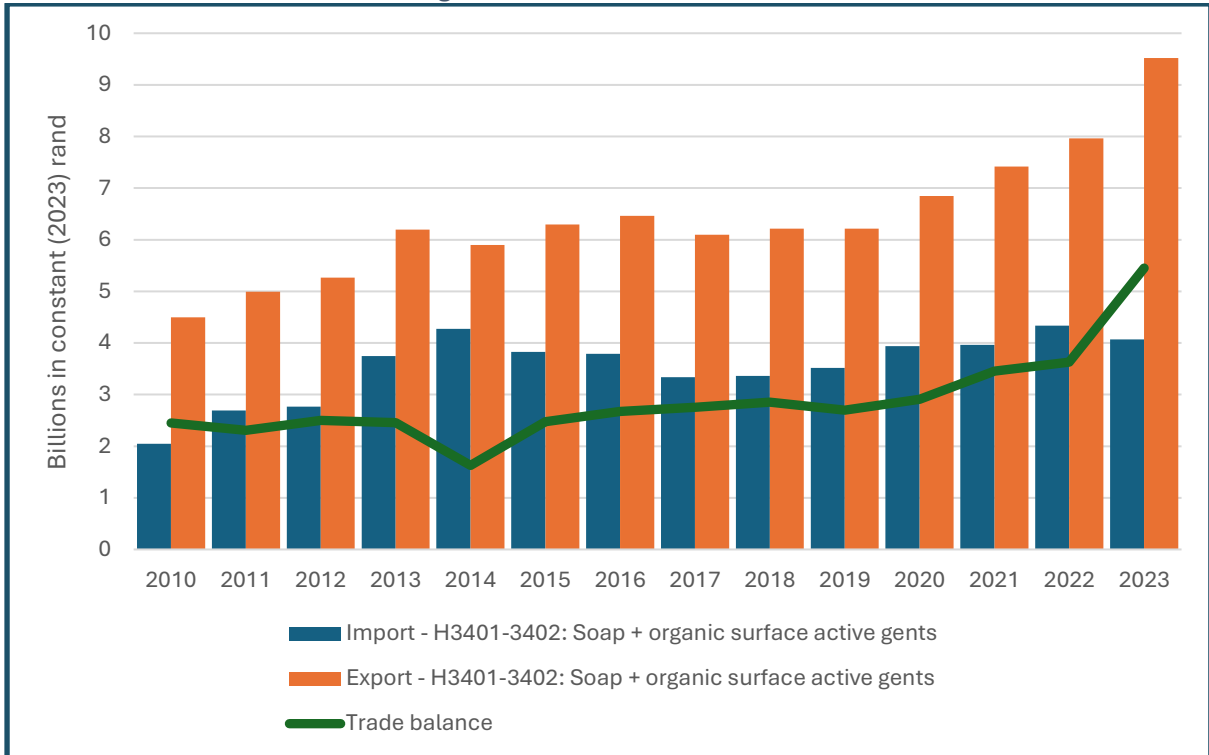
Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in July 2024. Deflated using CPI.

3.7. Soaps and detergents

Soaps and detergents are quantified under the H34 code, and this is further disaggregated between the H3401 and H3407 codes. For the purposes of this section, the codes focused on are **H3401** and **H3402** that represent specific categories of surface-active products. Code **H3401** covers organic surface-active products, primarily soaps, and preparations for washing the skin. Code **H3402** encompasses organic surface-active agents excluding soaps, typically used in detergents and other cleaning products. According to the Quantec database, these codes fall under the broader **H34** category, clustered under the **C06 Chemicals**, which includes cosmetics.

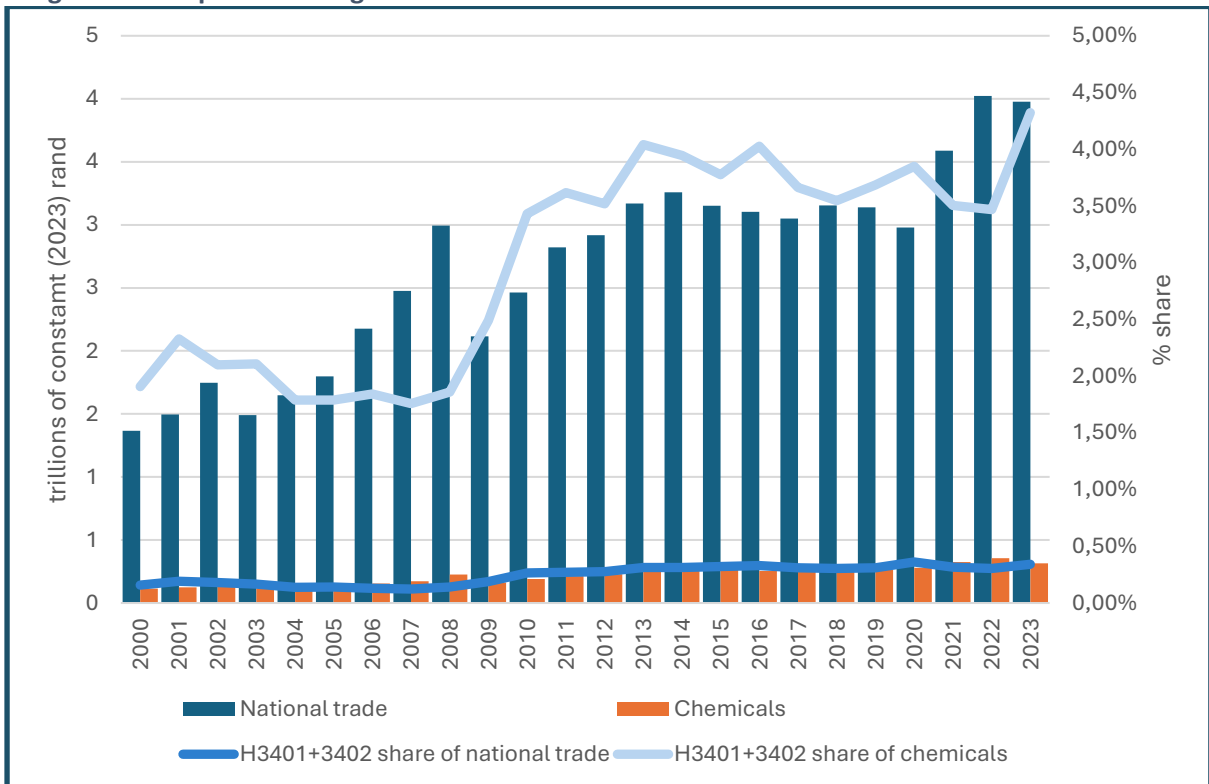
For analysis, H3401 and H3402 (referred to as “soaps and detergents” from henceforth – Figure 13) are combined to provide a comprehensive view of trade in these products. South Africa is a net exporter in this category, consistently experiencing a trade surplus averaging over R2.8 billion over the past 13 years. Exports have grown by nearly 6%, rising from R4.5 billion in 2010 to R9.5 billion in 2023. In comparison, imports have grown by 5.4%, increasing from R2 billion in 2010 to R4 billion in 2023.

Figure 13: H3401 + H3402 trade



Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in October 2024. Deflated using CPI.

Figure 14: Soaps and detergents a share of national trade and as a share of the chemicals sector

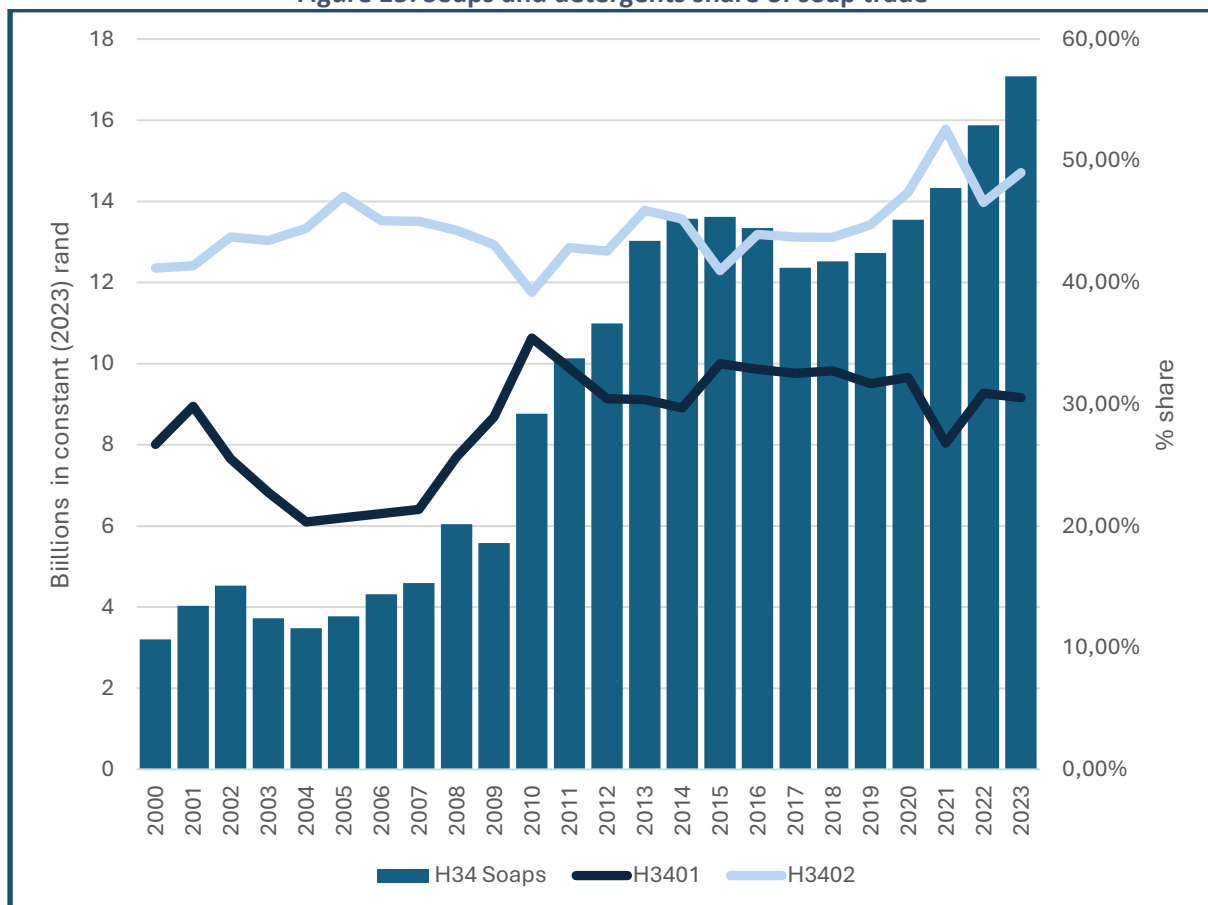


Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in October 2024. Deflated using CPI.

Figure 14 represents soaps and detergents as a share of both national trade and of the chemicals sector. While national trade has hovered above the R1 trillion mark for the past 23 years, averaging just under R2.6 trillion, soaps and detergents have averaged 0.25% of national share in the same period. Furthermore, soaps and detergents share of chemicals sector has averaged 3.02% over the 23 years. By contrast, the cosmetic industry averages 0.5% of national trade and about 6% of the chemicals sector. Thus, while the soaps and detergents might be considered a net exporting industry, it still contributes marginally to the overall economy when compared to the equally modest industry in cosmetics.

However, when examining the H34 soaps category in isolation, soaps and detergents (H3401 and H3402) together contributed a combined 80% of the share of H34 Soaps trade in 2023. Soaps and detergents have averaged 73% of the total trade of H34 Soaps over the last 23 years. However, when disaggregated within this H34 category, H3402 covering organic surface-active agents and various washing and cleaning preparations accounts for a substantial share, averaging just under 45% over the 23-year period. This product category has dropped below 40% only once during this time, underscoring its consistent dominance. By contrast, H3401 (focused on soap-based washing products) has averaged a more modest 32% share. Thus, what can be inferred is that H3402 is the primary driver within the H34 soaps category, marking it as the most significant product in terms of trade volume.

Figure 15: Soaps and detergents share of soap trade



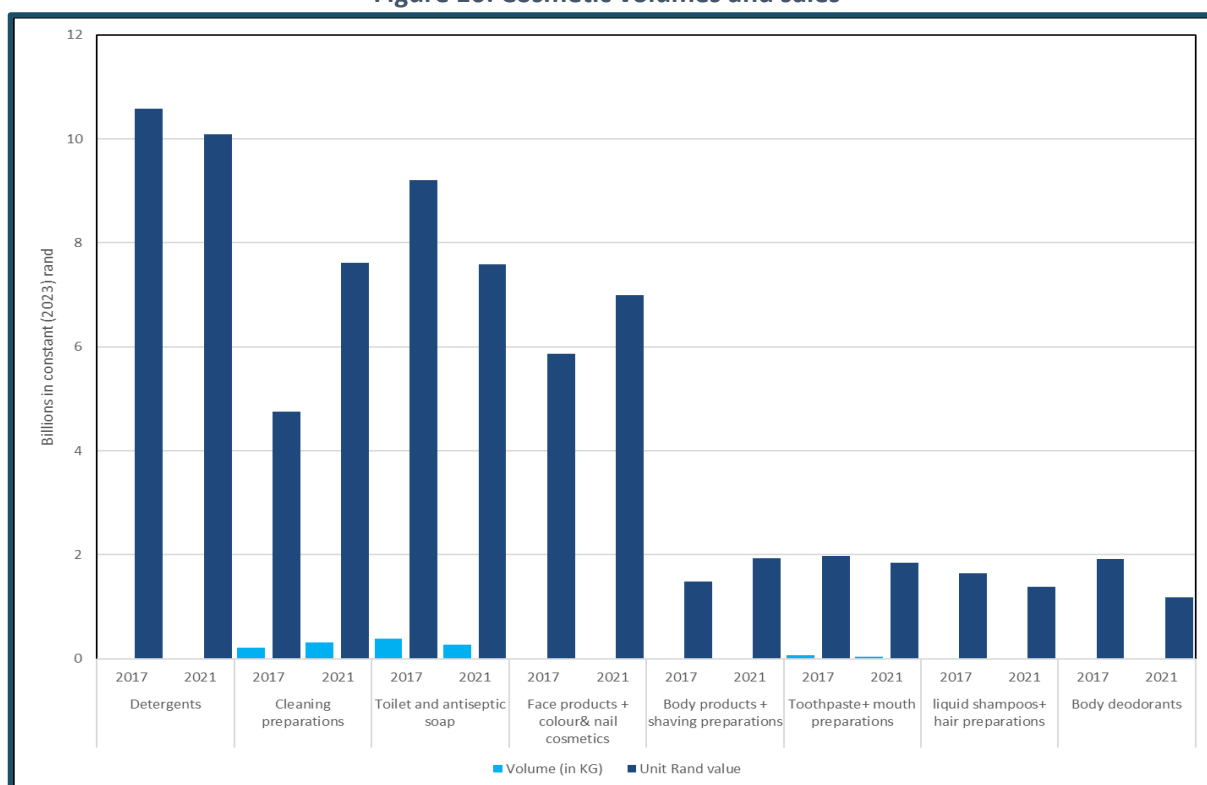
Source: Calculated from Quantec, EasyData. Series on RSA National Trade in International Trade Service. Accessed at www.easydata.co.za in October 2024. Deflated using CPI.

3.8. Cosmetic production volumes

Figure 16 illustrates production volumes and sales (in South African rand) of cosmetic products that were produced (data sourced from the Manufacturing Industry Report for 2017 and 2021 (Stats SA, 2017; 2019). Unfortunately, quantity (volume) data is only available for the cleaning preparations, toilet and antiseptic soaps, and toothpaste preparations product categories. The 2017 and 2021 time periods are interesting because they illustrate the pre- and post-COVID. As can be seen, detergents (including liquid, powder, fabric softeners and other washing preparations) led sales in both periods, surpassing R10 billion. However, sales declined by about 1.19% between 2017 and 2021. Toilet and antiseptic soap (including liquid soap) followed with sales decreasing from R9.3 billion in 2017 to below R7.6 billion by 2021.

Production volumes dropped from 382 million units in 2017 to 266 million in 2021. Cleaning products saw a notable increase of nearly 12.5% in sales, rising from just under R4.8 billion to R7.6 billion. Production volume also rose, from 211 million units in 2017 to 312 million in 2021. Face products increased by 4.47%, growing from R5.8 billion sales in 2017 to just under R7 billion in 2021. The remaining products all hovered around the R1 billion mark across the two periods covered. These data points illustrate the shifts in production and sales of the various cosmetic and soap products, highlighting how specific categories like cleaning products and face products have seen growth even after the post-COVID era, while others, such as toilet and antiseptic soaps, have declined. This is supported from what has been extrapolated from the interviews, with the interviewees observing the increase in skin and face products in the post-COVID times.

Figure 16: Cosmetic volumes and sales



Note: Prices deflated with average CPI for the year, rebased to 2023. Source: Calculated from Stats SA. Manufacturing industry: Production, 2021. Accessed at <https://www.statssa.gov.za/> in October 2024.

3.9. Summary

South Africa's cosmetic and personal care industry thus far has played a limited role in the overall economy. While it is recognised that the growth and employment potential of the CPC sector is relatively small in South Africa (and elsewhere in the world), the sector has the potential to make the country a leading producer of essential oil products because it has a significant comparative advantage. Moreover, the industry is complex, straddling companies of various sizes, with linkages between the farms for inputs and retail shelves (for final goods). Moreover, there are about seven business segments which speak to the diversity of the value chain and potential growth potential.

If South African companies are to compete with the established MNCs, they ought to be given a degree of protection so that they are able to develop productive capabilities. Protection could range from incubator/infant programmes, financing, and protection from imports.

From the import data, South Africa appears to import many finished goods, namely beauty/makeup preparations, perfume, and toiletries. Interestingly, the mixture of odoriferous substances (including resinoids) is the second largest imported segment; this qualifies as an input to the cosmetics industry and is used in the food preparation industry. By contrast, the second largest exported business segment is essential oils which also qualify as inputs. This is a positive feature as it augurs well for the agricultural biodiversity of South Africa, as this product could be South Africa's comparative advantage if properly cultivated. However, that strategy should be considered in the short to medium term while the long-term goal should be to capacitate South African-owned cosmetic companies so they can compete on the global stage. As already demonstrated, the most prominent exporters and importers are the G7 countries which have large economies as well as growing middle classes, demonstrating that there is a global market to be tapped. Moreover, the growing middle-class populations in Africa, Asia and Latin America may also find the products based on South Africa's essential oils (developed from the country's natural ingredients) to be exceptionally attractive; if this is indeed the case, these populations would constitute a large and growing market.

4. FIRM SURVEYS

Attempts were made to interview a sample of firms in the sector with a view to assessing ongoing challenges and expectations of government. In the first round, 17 cosmetic firms were approached. Of these, six institutions responded including the CTFA. In a second-round approach, 17 companies were approached but only one responded.

Eight MNCs were also approached. Only one (Unilever) responded but declined to be interviewed. Four major retailers (Dischem, Clicks, Pick n Pay, and Woolworths) were also invited but did not respond to the invitation.

A summary of the issues raised by interviewed companies is provided below:

1. Information is not sufficiently shared by the dtic with cosmetic sector firms.
2. A clearly defined localisation strategy with appropriate incentives is needed especially as South Africa is being "exploited" by the MNCs
3. Local R&D is inadequate given that 80%-90% of products are imported. The grant from the Department of Science and Technology fell through because it was too restrictive.
4. Not enough government support for local manufacturing.
5. Sector-wide challenges include load shedding; water shortages; government infrastructure; cost of international shipping; delays in receiving critical supplies of raw materials; and international politics, e.g. Ukraine, Middle East.

4.1. Emerging themes

This section summarises some of the themes that emerged from the interviews. The first part summarises what can be perceived as “negative” factors facing the industry and the second part will summarise what are the standout “positives” of the industry.

4.1.1. Multinational corporation dominance

A key theme from interviews with contract manufacturers is the perceived reluctance of MNCs to commit to local partnerships. Interviewees expressed concerns about MNC dominance and unwillingness to collaborate with local companies. One manufacturer described the dominance of MNCs as a significant threat to their industry to the extent that this prompted them to organise a meeting with Beiersdorf’s German office to advocate for local partnerships (Interview, 2024). Another interviewee shared an experience with Unilever, where the company visited their plant under the guise of exploring a partnership but ultimately raised concerns about the firm’s size and missing equipment, indicating a lack of genuine interest in collaborating (Interview, 2024). The same interviewee lamented the ease at which MNC imports penetrate the local market without any deterrence, and two more interviewees shared this.

4.1.2. Industry fragmentation

The industry is defined by a lack of coordination: contract manufacturers operate in isolated clusters, unaware of each other’s existence except for the most prominent player. This lack of communication and collaboration hinders the synchronisation of efforts across the value chain (Interview, 2024). In the same interview, the interviewee argued that this disjointed nature of the industry has prompted them to establish a contract manufacturing association that is still relatively new. Furthermore, the CTFA has faced criticism for being more focused on the needs of large multinational corporations rather than smaller firms (Bosiu et al., 2016), an issue they have acknowledged. In contrast, one of the contract manufacturers contended that the Cosmetic Export Council of South Africa (CECOSA) is seen as more focused on small businesses (Interview, 2024).

This divided focus between CTFA (perceived as catering to big companies) and CECOSA (more concerned with small businesses) highlights an unwelcome fragmentation within the industry, potentially leading to differing approaches for large and small firms. One interviewee lamented that CECOSA’s approach is quite incoherent especially due to its mixed groups approach of mixing micro players with established players. Another interviewee shared this sentiment but also argued that CECOSA is a very important institution that at least gives these small players access to these diverse markets.

4.1.3. Access to markets and domestic issues

Besides load shedding, which has subsided in recent months, interviewees lamented the sluggish ports that have increased the waiting time for goods they are importing. One interviewee argued that while load shedding has subsided, they are now subjected to water cuts. Interviewees mentioned that China is leading with packaging and moulding products designed for it, so local players cannot compete. One interviewee commented that it is difficult to compete in real dollar terms (Interview, 2024).

4.1.4. Access to shelves

Access to retailer shelves is a dilemma as retailers are profit-driven and more inclined to prioritise established and well-known products. One interviewee lamented that no one compels these retailers to at least prioritise local products by designating a portion of their shelf space to these goods.

4.1.5. Cumbersome certification process

Small businesses face extensive red tape in obtaining certification to place products on retail shelves. One interviewee complained that the certification process involves multiple regulatory bodies, such as the South African Health Products Regulatory Authority, SABS, and the National Regulator for Compulsory Specifications, each with its own testing requirements (e.g., anti-bacterial and toxin standards) which confuses the whole certification process as there is no clear policy direction about where and what must be tested and who must do that testing (Interview, 2024).

4.1.6. Positive factors

4.1.6.1. Established infrastructure

The conversation with the interviewees (contract manufacturers) and available data reveals that the industry is characterised by a strong network of well-established contract manufacturers, wholesalers, and retailers. It serves diverse target markets due to its robust contract manufacturing base and R&D capabilities. Contract manufacturers offer a variety of R&D capabilities; sun protection factor (SPF) testing and dermatological testing, as well as the appropriate infrastructure for testing the compliance, and stability testing which is sometimes an outsourced business operation.

4.1.6.2. Available human capital

South Africa produces a significant number of pharmacists, chemical engineers, and other skilled professionals, which benefits contract manufacturers specialising in R&D and product formulation. One interviewee highlighted their focus on students from the University of Cape Town (UCT), which offers a diploma in product formulation (Interview, 2014). In addition, TIPS (2014) found that South African universities provide relevant courses to equip the workforce with necessary skills. This readily available human capital is a key element of the existing infrastructure that supports the industry.

4.1.6.3. Biodiversity in South Africa and the rest of Africa

African countries like South Africa offer a rich variety of natural cosmetic ingredients like macadamia nut oil, essential oils, and devil's claw. With the global trend towards cosmetics tailored to specific cultural and demographic needs, infused with indigenous products, there is a growing niche for South African businesses to commercialise the upstream side of the value chain. This approach could also support gender empowerment, as women predominantly work on farms producing these raw materials, as confirmed by one contract manufacturer (Interview, 2024).

4.1.6.4. Room for support and mentorship

One interviewee passionately pleaded for a mentorship programme of sorts that can support emerging businesses. With training in the cosmetics field, a selection of emerging players could shadow the "established actors". Another interviewee shared these same sentiments arguing that some of these emerging players struggle with managing their books and finances and could thus benefit from these types of programmes (Interviews, 2024).

In summary, although the number of firm interviews was regrettably small, several key lessons emerged as summarise in this section.

5. CONCLUDING SUMMARY AND RECOMMENDATIONS

This report presents the research and field work undertaken. The report comprises a brief literature review, analysis of the data provided by international and local agencies, findings from the survey of cosmetic and retail firms in South Africa, and recommendations for the way forward.

The South African cosmetics market has displayed consistent growth, with an expected CAGR of 4.97% between 2023 and 2028. In 2023, revenue in the cosmetics market amounted to nearly US\$507 million, a substantial increase from US\$409.65 million in 2018. This robust growth is expected to continue in the coming years, driven by a rising urban population, a growing middle class and evolving beauty trends. (InterGest, 2024).

The market size of South Africa's cosmetic industry has been growing steadily. According to Statista, the industry will reach more than US\$646 million by 2028.

The cosmetic market is multi-faceted comprising segments such as skincare, makeup, haircare, fragrances and toiletries.

The cosmetics and personal care industry in South Africa is complex, but one that has the potential to make a useful contribution to the economy. As the country grapples with persistent unemployment and poverty levels, the conversation around re-igniting productive industrial development is echoing in all policy conversations. The CPC industry could be important in absorbing some of the unemployed, albeit a small proportion.

This industry also displays a potential for forward and backward linkages, as its value chain stretches between the farms (for inputs) to the retail shelves (for the final product). However, the industry comprises MNCs and large local retailers who dominate the market. The industry also comprises a large number of small and medium-sized manufacturers caught between the MNCs on the one hand, and the dominant South African retailers on the other. Therefore, any attempts to industrialise locally should commence with a clearly defined plan for enabling small and medium-sized businesses in this sector to develop and prosper. Crucial to such a strategy would be enabling small and medium-sized companies to overcome numerous challenges in an intimidating environment.

As per the terms of reference provided by the dtic, the team was required to: (a) undertake an assessment of the cosmetics sector; and (b) develop appropriate interventions for addressing the "multiplicity" of challenges, including (i) localisation of inputs and outputs in the cosmetics sector value chain; developing a disaggregated HS-codes system that separates products from inputs; and (iii) undertake a feasibility analysis and propose a system that regulates access to the local market in terms of standards and accreditation of imported products.

In essence, the aims of the study were to review and establish a gap in current policies and initiatives including funding support; develop a cosmetic sector strategy over the short- and long-terms; and define funding and technical models to support the implementation of the above strategy.

Given difficulties experienced with accessing relevant personnel SARS and SABS no progress was made with developing a disaggregated HS-codes system.

A multi-faceted approach was adopted comprising a review of the relevant literature, analysis of the pertinent sectoral data, and interviews with important sectoral stakeholders.

Important research undertaken by TIPS (2014) and Bosiu et al. (2017) flagged a number of sector issues, critical for future policy making. These issues included the following:

- An absence of cooperation between private sector innovators and publicly-funded science research;
- Manufacturing capabilities and technologies were outdated and did not support production required to access more industrialised countries;
- The industry's testing capacities, capabilities, and export country regulations were a serious constraint on the growth of the export market;
- The relationship between MNCs and SMMEs was at best non-cooperative, and at worst hostile and not supportive of the growth of domestic enterprises; and
- Unfair competition was seen as widespread particularly from countries in the Far East whose products retail at lower cost in South Africa, apparently because their products are under-weight and under-filled.

The review of the literature also raised an important policy question, namely whether policy should focus on expanding those exports which currently constitute the vast majority, that is beauty, skincare and manicure preparations; and shaving preparations, deodorants, bath and shower preparations (more than 75% of all exports in 2019), or should there be an increased focus on increasing exports of those products which have been historically on the lower side, such as perfumes and toilet waters, hair preparations and oral or dental hygiene preparations.

Historically, the dtic has supported the industry through various incentive and skills development programmes. An important issue here is whether some or all of these programmes are still in place, and whether any evaluation of their effectiveness has been undertaken.

A significant part of the paper is concerned with analysing the cosmetic trade data nationally and internationally. Analysis of this data shows first that South Africa is a net importer of cosmetics and personal care products. Second, the CPC industry makes a small but important contribution to the country's trade pattern, averaging a 0.1% share of national trade for the past 23 years, increasing to around 1% since 2012.

Internationally, the paper shows that the US is the largest importer of cosmetics products (around 11%) followed by China (10%), Germany and France (both at 5%), and the UK (4%). South Africa's share has averaged 1% for the past two decades.

With exports, France is the largest (15%), followed by the US and Germany (8%). South Africa's average share has been less than 1% for some time.

An important trend that has emerged since 2010 is Africa's ascendancy to being the second largest import partner of South Africa; in 2023, the continent's share of imports was 31%, of which the SACU countries made up 98%.

Africa is South Africa's largest export market, averaging 69% over the last 13 years (approximately 40% goes to SACU member states).

In summary, the South African cosmetic and personal care industry thus far has played a limited role in the overall economy. This is to be expected and is actually part of a common trend internationally. In the leading CPC countries (e.g., US, China, EU), the industry as a whole comprises only a small segment of the economy. Even though the dollar value of the sector is high and extremely significant, the sector as a whole is relatively small everywhere in terms of its contribution to economic growth and employment.

There is an important lesson for the CPC industry in South Africa from the trends analysed above, namely that the sector's contribution to the economy is less important than the country making a serious effort to ensure that it can achieve the following:

- c) Entrench its position as the leading cosmetics manufacturer in Sub-Saharan Africa; and
- d) Increase its share of the world's output in the CPC industry.

To achieve these goals, the country needs to make a greater effort to exploit its natural plants to produce organic skin and hair products using locally produced ingredients such as marula, baobab, honey bush, rooibos, aloe ferox, and buchu, among others.

The primary market for this would be the growing middle class in Africa but also in other developing countries in Asia, and Latin America and the Caribbean.

5.1. Recommendations

The most important question that can be asked about the CPC sector is the following: how can the sector develop to contribute meaningfully to economic growth, employment, and a positive balance of payments?

Important policy issues relate to (a) developing replacements for imports through enhancing research and development capacity using South Africa's natural ingredients; and providing incentives to change the structure of the industry to achieve economies of scale. Incentives could include the following:

- Import duties to protect local production. However, this may not have a significant impact given that MNCs cater to the richest segments of society and higher process as a consequence of the duties may not have a major impact on product demand.
- Incentives to encourage exports to the rest of Africa, Latin America and Asia may be more effective.

In the light of the above analysis this study makes the following recommendations:

- i. The Cosmetics Desk should review the effectiveness of current and past monetary incentives and other support provided by the dtic and other government departments. Data is crucial to the development of appropriate policies in the future.
- ii. The Cosmetic Desk should allocate resources to encourage a core of institutions (e.g. universities, CSIR, and others) to provide technical assistance to small and medium- sized companies in the sector.
- iii. The Cosmetics Desk could use the institutions referred to above or new/additional ones to help develop and expand the market for organic skin and hair products using the indigenous products described above. In other words, government through the dtic should help develop the expertise that can enable South African companies to increase their share of this market world-wide but especially in Africa, Asia and Latin America.

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APPENDIX

COMPANIES INTERVIEWED:

- 1) Interview with DC Laboratories representative – 1 July 2024
- 2) Interview with Cosmetic, Toiletry and Fragrance Association (CTFA) representatives – 1 July 2024
- 3) Interview with Antiseptol representative – 31 July 2024
- 4) Interview with DRA Pharmaceuticals representative – 8 August 2024
- 5) Interview with Prime Product representative – 13 August 2024
- 6) Interview with SDK Agencies representative – 28 August 2024
- 7) Interview with Ellim Spa representative – 28 October 2024
- 8) Interview with Amka Products representative – 31 October 2024