APPROACHING THE GREEN MARKET

– SWEDISH NATURAL AND ORGANIC COSMETICS INDUSTRY ANALYSIS

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Abstract

The research in natural & organic cosmetics field is particularly scant, and especially in Sweden, no research has been done on the industry of natural & organic cosmetics. In consideration of the global eco-trend and also in order to overcome this research gap, this current thesis is focused on studying Swedish natural & organic cosmetics industry, which nowadays appears to be competitive and challenging as never before. Sweden is one of the most environmentally conscious countries where the consumption of cosmetics reached 15 billion SEK in 2011. There are number of companies and brands which categorize them as natural, and continuously look for ways to attract new and keep existing customers. The increased consumer demand for natural & organic products can be observed, consumer awareness coupled with willingness to purchase products that fit their principles and values, as well as consumer price-sensitivity as a result of global recession and their pursuit of making the best value of money. The requirement of natural beauty products are increasing and are available on environmentally-conscious Swedish market. The motivation behind this study is to enhance understanding about the natural & organic cosmetics industry in Sweden, and take a deeper look by over viewing some companies which are presented on this market. Understanding the industry structure is particularly important. Modified Porter’s five forces model has been used in this thesis in order to make the industry analysis.

Keywords: Industry analysis, industry attractiveness, Porter’s five forces, natural and organic cosmetics
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1 Introduction

This thesis is focused on studying the attractiveness of Swedish natural & organic cosmetic industry. It is important to mention that natural and organic cosmetics in fact are not the same. Due to the lack of one set of standards and certification, there is a certain portion of misunderstanding of which cosmetics are natural and which are organic. A variety of different certification labels can be seen as a source of confusion (Organic Monitor, 2011). There is no common definition accepted by all the certifying organizations and used by companies (p.50). In the context of this thesis, in order to avoid any confusion related to product definitions it was decided to combine both natural and organic cosmetics in one group: “Natural & Organic”. This led to the categorization of all cosmetics into two different subgroups: artificial and natural & organic. Artificial subgroup refers to cosmetics which contain chemical ingredients, while natural & organic subgroup includes cosmetics which are made up of only, or at least almost only, natural and organic ingredients. Cosmetics industry, according to the European Cosmetics Directive of 27 July 1976 (76/768), includes colour cosmetics and makeup products as well as skin care (facial care products, body lotions, etc.); hair care (shampoos, scalp care, etc.); mouth care (toothpaste, etc.); other (deodorants, feminine hygiene, etc.) (BTC Trade For Development, 2011). This introduction chapter consists of three parts: background, problematization, goals and research questions.

1.1 Background

“Green”, “environmental”, “eco-friendly”, “natural” and “organic” food and products have stormed the market, which is often referred to the “green movement”. Today there is a wide variety of environmental friendly consumer goods across industries, e.g. food, building materials, beauty etc. available on the market (Cervellon and Carey, 2010). As never before consumer demand for the green category products is high. According to Organic Monitor (2011), the demand for natural and organic products has spread all over the world, especially in Europe and North America. Increased consumer demand is driven by increased awareness of how chemical ingredients and artificial products impact the planet. Another reason for customers to choose “green” comes from personal needs and concerns regarding product safety and potential risks to the health. Some turn to green just to be on-trend, since being a part of the current environmental movement is good (Join Beauty Packaging, 2009).

Cosmetic products were also affected by the “green” wave, since nowadays cosmetics play an important role in people’s daily life. According to Stiens (2008) the popularity of natural & organic cosmetics can be seen in the company acquisitions, appearance of new natural & organic cosmetic products and brands, as well as specialised supply chains. Even though the market share of natural cosmetics is small compared to artificial cosmetics, the growth of natural & organic cosmetic sales is increasing twice faster than the sales of artificial cosmetics (Stiens, 2008). The sales of natural & organic cosmetics have been affected by the financial crisis, however, steady growth is continuing because of increasing distribution and high consumer demand for cosmetics with no chemicals. The sales expand rapidly especially in European countries (Dayan and Kromidas, 2011). By the end of the 2011 the global sales of natural & organic cosmetics were predicted to reach 9 billion $US and the level of 14 billion $US by 2015 (Organic Monitor, 2011). According to Kiuttu (2010) the use of natural & organic raw-materials has increased since cosmetic companies have started to prefer natural/organic ingredients to synthetic chemicals. Some big cosmetic companies have even
started to produce natural and organic products on their own. Some like L’Oreal and Colgate-Palmolive have taken the acquisition route, whilst others have developed natural/organic lines. Recent newcomers, such as Garnier, Henkel and Amore Pacific, are launching certified organic products (Euromonitor, 2011).

According to Kiuttu (2010), Colipa’s (The European Cosmetic Association) research has shown that the products which promise natural/organic effect are selling 20% of all the European cosmetic brands. The same research proves that 72% of 30-55 year old women believe that natural/organic ingredients in cosmetics are important. 70% of women think that natural/organic ingredients are better for the skin than other ingredients. Findings from another report show that 80% of women perceive natural/organic cosmetic products healthier and 64% prefer to use them in order to avoid chemicals on the skin (Brown, 2010).

Increased consumer interest in natural & organic cosmetics results in the expectation of the global growth rate to grow ten per cent through 2016 (Kline group, 2012). Strong current and predicted increase in demand for natural & organic cosmetic products creates new profit possibilities for businesses, therefore by determining industry attractiveness companies may assess industry profitability and improve their competitive positions (Porter, 2008). The idea to conduct a research on Swedish natural & organic cosmetics industry attractiveness has roots in authors participation in a project related to exploring natural & organic cosmetics market in Sweden. Due to authors interest in natural & organic cosmetics business it was decided to focus on studying attractiveness of Swedish natural & organic cosmetics industry in this thesis. The interest was also motivated by an assumption that highly developed countries may exhibit greater demand for natural & organic cosmetics. Indeed, Sweden is one of the most developed countries according to the human development index (UNDP, 2011), which potentially creates good business opportunities for natural & organic cosmetics companies. In addition, pre-research findings of this study showed that Sweden takes one of the top positions of the green shoppers list in Europe. The results of the study by the European Commission showed that 40 percent of Swedes had bought an eco-labelled product in the past month, which is more frequent than the average in Europe (Swedish Institute, 2012). According to Colipa (2010), per capita consumption of cosmetics and toiletries in Sweden was equal 170 EUR in 2010, while average in Europe was 117 EUR. In 2011 the consumption of cosmetics reached 15 billion SEK (Scancomark, 2012). Summarizing the facts, - Swedish interest in “green-shopping”, per-capita spending on cosmetics which is higher than average in Europe, high human development index, a number of companies which offer natural & organic cosmetic products - make Swedish industry of natural & organic cosmetics potentially advantageous for businesses and, thus, interesting to research and conduct analysis on industry attractiveness.

1.2 Problematization

The cosmetics industry has the history that spans centuries back. In recent years there has been a large body of research done in the cosmetics industry. It was previously shown in this thesis, that natural & organic cosmetics is seen as a special subgroup of cosmetics in general, therefore, the problematization part starts with a review of previous research papers on cosmetics industry in general and then leads to review of scientific papers focused on natural & organic cosmetics.
A significant research efforts were made in the field of chemical engineering (e.g. McCoy, 2006; Reisch, 2001; Mihranyan, Ferraz, and Strømme, 2012; etc). The issue of cosmetics safety was researched by a range of researchers (e.g. Nohynek, Antignac, Re and Toutain, 2010; Tomankova, Kejlova, Binder, Daskova, Zapletalova and Bendo, 2011; Washam, 2006; etc.). Recent years have seen an increased debate in the society regarding cosmetics testing on animals and that found reflection in the papers of several researchers who suggested alternative methods to animal testing for the safety assessment of cosmetics (e.g. Macfarlane, Jones, Goebel, Dufour, Rowland and Araki, 2009; Weltzien, Corsini, Gibbs, Lindstedt, Borrebaeck and Budde, 2009; Rogiers, 2011). It is emphasized in the research mentioned above, that safety of cosmetics is very important since cosmetics are products for use by humans. It is also important to mention, that animal testing is not humane, and for this reason was banned in the EU from 2002 (Rogiers, 2011). In the marketing literature a special attention was addressed to consumer behavior and consumption of cosmetics by particular consumer groups. For example, Xuanxiaoqing, Yang and Huang (2012) studied factors that affect the impulsive cosmetics buying of female consumers. Skaredoff (2003) addressed the issue of dynamism of consumers needs over the time. Souiden and Diagne (2009) researched the consumption of cosmetics by French and Canadian men in terms of their attitudes and motivations, while Scelzo and Lerman (2009) studied consumer experiences of young professional women in China. Guthrie, Kim and Jung (2008) studied the effects of facial image and cosmetic usage on perceptions of brand personality. Barnes and Yamamoto (2008) and Barnes, Siu, Yu, and Chan (2009) explored cosmetics advertising in Japan and Southern China. The research of Prothero (2006) and Prothero and McDonagh (1992) studied the influence of environmentalism on the cosmetics industry. Kumar (2005) performed an analysis of global cosmetics industry in terms of main market players, technology and market trends. The strategy of the market leaders in the cosmetics industry was researched by Kumar, Massie and Dumonceaux (2006). The findings from their research showed that every company has a unique market strategy. The role of innovation in cosmetics industry was studied by (Kumar, 2005; Borchardt, Wendt, Peirera and Sellitto, 2010; Kumar, Massie and Dumonceaux, 2006; etc.) Innovation in the cosmetics industry plays a crucial role in the competition race (Kumar, 2005). As was found by Borchardt, Wendt, Peirera and Sellitto (2010) expansion of goods and services made companies around the world to adopt creative innovation strategies to assure their growth. Kumar, Massie and Dumonceaux (2006) in turn emphasize the high profitability of the cosmetic industry as well as innovative and a fast paced industry.

In the area of natural & organic cosmetics existing marketing literature emphases globally increased consumer interest in natural and eco-friendly products. Recent research has made significant academic contributions and enhanced understanding especially in the area of green purchasing behaviour (Balderjahn, 1988; Bohlen, Schlegelmich and Diamantopoulos, 1993; Synodinos, 1990; Kim and Chung, 2011; Kim and Seock, 2009; Harrison, 2006; ), customer knowledge (Dimitrova, Kanerva and Gallucci, 2009), and green marketing (Lalit and Sahasakmontri, 1998; Todd, 2004). The Body Shop as one of the pioneering companies on the natural & organic cosmetics market became a classical case for researches from different fields. The case of The Body Shop is used in the study of Enquist, Edvardsson and Sebhatu (2008) related to corporate social responsibility, greening of supply chains (Wyckerley, 1999), and marketing strategies (Hartman and Beck-Dudley, 1999).

As it is seen from previous research, cosmetics industry was explored in scientific papers from perspectives of different disciplines. However, in relation to this study, previous research has a limited use but provides a powerful ground for general understanding of
cosmetics products as such, their relation to buyers behavior (which depends heavily on demographic factors), regulations such as animal testing ban in EU and environmental movements in the society, which motivated manufacturers use recyclable packages and create more eco-friendly image of their products as well as the idea of introducing innovation to the market may be seen as a key to success in attracting more customers. Previous research on the subgroup sets a good ground for understanding consumers of natural & organic cosmetics as well provides insight to the “green” business in general. Despite all mentioned and not research efforts, the research in natural & organic cosmetics field is particularly scant, e.g. Cervellon and Carey (2010) pointed out that there is still only little research done regarding consumer behavior related to green beauty as well as consumers' awareness of green labeling and certifications. The performed literature review revealed that there is no research done on natural & organic cosmetics industry in Sweden either. Therefore, in the light of global eco-trend, growing consumer demand for natural & organic cosmetics, as well as in order to feel the research gap, this thesis is focused on studying attractiveness of Swedish natural & organic cosmetics industry, which nowadays appears to be competitive and challenging as never before.

1.3 Goals and research questions

The purpose of this thesis is to study attractiveness of Swedish natural & organic cosmetics industry.

RQ1: What are the characteristics of Swedish natural & organic cosmetic industry?
RQ2: Who are the main players in the natural & organic cosmetic industry of Sweden?
RQ3: How the consumers of natural & organic cosmetics may be characterized in Sweden?

In order to answer these questions and fulfill the purpose of this research the current offering of natural & organic cosmetics, which are sold in the retail distribution channel, needed to be analyzed. To support this research process the following set of objectives were constructed in order to cover research questions entirely: define the industry, identify the competition, understand the consumer and identify the trends, explore suppliers in the industry, find out about product-substitutes.
2 Theoretical frame of references

The aim of this section is to build up a theoretical frame of references regarding the industry attractiveness. It is a crucial step in any research to choose an appropriate tool for a study. The main question for this thesis was - How the industry attractiveness can be studied? From the first glance, it seemed that the five forces model developed by Michael Porter in 1980 could be seen as a useful tool for analyzing the industry attractiveness, since it is exactly the purpose of it. In the stage of pre-screening of research papers related to Porter’s five forces model, it was discovered that although this model is a well-known tool in the field of management and business strategy, it has also received a great amount of criticism which was mainly related to its historical background. Therefore, for this research it was crucial to find the answer to the question - is a 30-year-old model still valid nowadays? The assumption was that if the model became a subject of criticism then there should be some research done on development of the original model with a purpose to adapt it to new business environment requirements. This chapter is organized as follows: 2.1 Introduction to the Five Forces Model, 2.2 Advantages, 2.3 Criticism and limitations, 2.4 Previous research on the model, 2.5 Conclusion and 2.6. Adjusting the model.

2.1 Introduction to the Five Forces Model

Michael Porter is one of the most referenced management scholars, which has had the enormous influence on the field of strategy (Davenport and Prusak, 2003). According to Snowdon and Stonehouse (2007), Michael Porter’s work shapes the centerpiece in competitive positioning school, which was representing the 1980s dominant strategy paradigm. Porter published his first book of the subject in 1980 named “Competitive strategy” and significantly increased the awareness of the subject in a business community and academics. This book was followed by another influential work in 1985, “Competitive advantage”. These two books presented three conceptual frameworks: generic strategy, five forces and value chain.

Porter (1980) developed the industry analysis framework widely known as Porter’s five forces (Figure 1). This framework was developed in order to access industry profitability and the competitive forces (industry attractiveness), because he argued that competitive forces play a primary role in determining competitive strategy (Porter, 2008). Porter (2008) claims that managers must craft strategy with a good understanding of industry within which they are competing. Since the model has been invented, it has been considered as a standard tool for analyzing industry attractiveness, building upon the assumption that the state of competition in an industry is determined by the five competitive forces (Lee, Kim and Park, 2012). Those forces are: the bargaining power of suppliers, the bargaining power of buyers, the threat of substitutes, the threat of new entrants and competitive rivalry among the existing competitors (Porter, 1980). The basic premises of the model is that the strengths of each force can be measured, and that the collective strength of all five forces determine the attractiveness of the industry as well as influence the strategy choice that could be used by companies in order to improve their competitive position. Whatever the company’s collective strength is, the goal is to find the best position in the industry, where the company can defend itself against these forces (Porter, 1980). According to Porter (2008) the strongest competitive force will define industry’s profitability and will play the most important part in strategy formulation. However, the most remarkable force is not always obvious. Porter supposes that suppliers,
customers, substitute products and new entrants are all competitors, which could be more or less active or significant depending on industry. An unattractive industry will have intense competitive rivalries, substantial threats in the form of possible entrants and substitute products, powerful suppliers and buyers who dominate any bargaining of the firm. A very attractive industry may be characterized by little existing competition, few threats from new entrants and substitutes, and low bargaining power among suppliers and buyers (Porter, 2008). Traditional Porter’s model is presented below (Figure 1).

**Figure 1.** Porter’s Five Forces Model (Grundy, 2006, p.215)

Despite popularity the five forces model has received a lot of critique as well. Before going deeper to the literature review of this concept, basic underlying premises of it are examined in the next chapter.

### 2.1.1 Bargaining power of suppliers

The first force is called bargaining power of suppliers. According to Porter (1980) power of suppliers means that suppliers have the ability to influence availability, quality and cost of input materials to companies within the industry. According to Georgopoulos, Karagiannopoulos and Nikolopoulos (2005) the supplier power analysis normally focuses first to the concentration and size of relative suppliers of the industry and secondly to the degree of differentiation in the supplied inputs. Organization’s profitability depends on price negotiation skills with suppliers and customers. If the negotiation position is qualified the company can sell their products with a higher profit margin compared to the competitors. Georgopoulos, Karagiannopoulos and Nikolopoulos (2005) continue that the capacity to charge different prices from customers and to create different value for every buyer usually means that the market has high supplier power and low buyer power. According to Porter (1980; 2008) the supplier group is powerful if:

- If supplier group is more concentrated than the industry, so that suppliers are not so depended on industry’s revenues. Even though supplier can be serving many different industries it does not hesitate to pick maximum profit from each.
- It has built switching costs or its product is unique or differentiated. Pharmaceutical companies offering patented drugs with special benefits tend to have more power over health maintenance organizations, hospitals and other buyers compared to the companies offering
generic or copied products. When industry participants change suppliers they will face switching costs. Shifting supplier can be difficult for company who has for example learned how to operate equipment of supplier or the company has invested a lot specialized equipment.

- It is not obligated to compete with other products for sale to the industry in other words there is no substitute product available by suppliers. The industry needs certain suppliers more than suppliers need industry. For example pilots’ union practice has significant supplier power over airlines, because there is no better alternative to well-trained pilot in cabin.

- It causes a realistic threat to integrating forward into the business of industry. If industry participants make too much profit compared to suppliers, it will provoke suppliers to enter the market.

- In supplier group the industry is not an important customer.

2.1.2 Bargaining power of buyers

The second force is called the bargaining power of buyers. According to Porter (1980) the power of buyers means their ability to force and influence the prices down by rising quality expectations or by comparison shopping. Georgopoulos, Karagiannopoulos and Nikolopoulos (2005) wrote that the most important factors of buyer power are the concentration and size of the customers. Inside one industry there can be different segments of buyers with bigger or smaller price sensitivity or more or less power in negotiation. If buyers are price sensitive, they are more likely to use their negotiating influence (Porter, 2012 cited in Magretta, 2012). According to Porter (1980; 2008) both buyer groups, industrial customers and consumers, are powerful if:

- Buyers are concentrated and purchasing large volumes. In industries with high fixed costs, such as bulk chemicals, offshore drilling and telecommunication equipment, large-volume buyers are powerful. Low marginal costs and high fixed costs intensify the pressure on rivals to hold capacity filled through discounting.

- Buyers purchase standard or undifferentiated products so it is easy to change supplier. Buyers tend to play vendors against each other if they think that it is always possible to find equivalent product.

- Profits from purchasing are low so buyers will change to cheaper suppliers.

- Industry’s products have little effect to the quality of buyers’ services or products. Buyers are less price-sensitive when the industry’s products are affecting the quality a lot. For example when major movie makers purchase or rent production cameras they will choose equipment with high reliable and latest features, and the price is not so important, and they do not pay much attention to the price.

- If vendors are too profitable buyers can start to produce the product by themselves. Packaging manufacturers have been threatened by beer and soft drink producers when producers threaten to start to make the packaging materials by themselves, and sometimes they even put it into practice.

2.1.3 Threat of substitutes

The third force is called the threat of substitutes. According to Porter (1980) substitution will decrease the demand for certain products and if customers think that an alternative product is more attractive they can change to that. Substitution means when other industry’s product or service satisfies the same needs as focal industry but in different way. Substitutes always exist, even though it is easy to overlook them if they appear to be very different and are not
directly rivals. It is substitute to buy used product instead of new one, to do it yourself or manage without (Porter, 2008). According to Porter (1980) industry can suffer in growth or in earnings unless the new substitute product does not increase the quality or differentiate the product somehow. Normally, the number of substitutes increases rapidly, if some industry development increases the competition which causes performance improvement or reduction in price. Substitution process can be seen as S-shape curve; it starts slowly by trendsetters experimenting risky the substitute, if other customers follow suit it will speed up and finally getting steady when almost all the economical substitution options have been exhausted (Georgopoulos, Karagiannopoulos and Nikolopoulos, 2005). The substitutes can have different forms:
- Product-for-product substitution: situation when a product can be easily replaced by similar product, for example car replaces the bus, plastic replaces aluminum, video conference replaces travelling. (Porter, 1980).
- Substitution for need: new product will create a new need which can displace the old product, for example the use of do-it-yourself books instead of hiring professionals. (Porter, 1980).
- Generic substitution: services and products compete for disposable income, for example restaurants and cinemas compete from the same household expenses. (Porter, 1980).

The threat of the substitute is high if:
- Substitute products have an attractive price compared to the existing one. As an example, ordinary providers in telephone service have suffered from the entry of cheap Internet-phone services such as Skype. Video rental stores have also suffered, because of the development of satellite and cable video services, Internet video sites (Youtube, Google) and video rental services like Netflix. (Porter, 2008).
- The cost of switching to the substitute is low. Switching to generic drug instead of buying branded, proprietary drug normally involves minimal costs. This is one of the reasons why shift to generics is rapid and substantial. (Porter, 2008).

### 2.1.4 Threat of new entrants

The fourth force is called the threat of new entrants and it is referring to the degree to which industry can be joined by new competitors. Both existing and potential competitors are influencing the average industry profitability (Georgopoulos, Karagiannopoulos and Nikolopoulos, 2005). Market with a high profitability and low entry barrier is constantly threatened by new entrants. Companies in this kind of market can choose “limit pricing” strategy to keep their profits low and thereby avoid competitors (Carter et al., 2008; Clegg et al., 2005). According to Porter (1980) new entrants brings the urge to gain market share, new capacity and often substantial resources. Companies can also boost investment when trying to avoid new entrants, for example relatively low entry barriers in coffee retailing means that Starbucks needs to invest aggressively for menus and stores to make them more modern and attractive (Porter, 2008). Starbucks failure will immediately open a door for new rival (Porter, 2012 cited in Magretta, 2012). When new entrants are diversifying from other markets they can influence existing cash flows and capabilities; for example when Microsoft entered Internet browser industry, when Apple started in music distribution industry or when Pepsi started to offer bottled water. This force has been divided into several different entry barriers, which means conditions which make it difficult to enter and compete in an industry (Porter, 1980; 2008):
- Supply-side economies of scale (previously: economies of scale): is relating to, once the production increases, how much cheaper company can produce per unit. These economies increase when firms, producing at larger costs volumes, are enjoying lower costs per unit.
because they can get better terms from suppliers, apply more efficient technology or spread fixed costs over more units. Scale economies can be found from every value chain’s activity and the order of importance varies by industry; for example company delivering small packages economies of scale will increase in information technology and national logistical systems. (Porter, 1980; 2008).

- Product differentiation: is about brand identification, which is forcing new entrants to spend heavily to gain customer loyalty. The factors to promote the brand identification are for example customer service, being the first on the industry and advertising. Especially in cosmetic industry the competition is high because every competitor’s products are so similar that it makes the differentiation low. (Porter, 1980). Product differentiation will be presented deeper in later parts of theory.

- Demand-side benefits of scale: Benefits (also named as network effects) will arise when a buyer is more eager to pay for the products and the number of other patronizing buyers will increase as well. Buyers can also value to be a part of the “network” with many fellow customers. For example participants in online auctions are attracted to eBay, because the most potential trading partners can be found from there. (Porter, 2008).

- Capital requirements: entry barrier can be created if there is a need for large financial investments. Capital is needed for example to product launching or for setting up the operations. Major companies may have financial resources to break in to almost every industry, but certain fields have huge capital requirements which will limit the pool of possible entrants. On the contrary, in fields, such as tax preparation services, capital requirements are small so there is a plenty of potential entrants. It is important not to overestimate the power of capital requirements. If the profits of the industry are and will remain attractive with efficient capital markets there will always be investors to provide funding for entrants. For example in almost every region there has been a numerous new airlines, because it is easy to get finance for aircraft since they have high resale value. (Porter, 1980; 2008). According to Dumonceaux, Kumar and Massie (2006) cosmetic companies requires major amount of capital investments within marketing expenditures and R&D.

- Incumbency advantages independent of size (previously: Cost disadvantages independent of size): Incumbents, regardless of size, may not have quality or cost advantages available to possible rivals. Advantages can result from sources such as privileged access to the best raw material sources, proprietary technology or cumulative experience to produce more efficiently. Entrants try to pass such advantages. Department stores, such as Wal-Mart and Target, did not locate their stores in regional shopping centers where other department stores were already barricaded. (Porter, 1980; 2008).

- Unequal access to supply or distribution channels: is concerned about the availability of distribution channels in order to get the product to the customer. Obviously the new entrant has to secure the distribution for its service or product. Entry will be tougher the more limited the retail or wholesale channels are or the more existing companies have already tied them up. Sometimes the access to distribution channels is so high that new entrants have to create their own channels. Some low-cost airlines have encouraged passengers to book the tickets straight from Internet, by doing so, companies have avoided distribution through travel agents. (Porter, 1980; 2008).

- Expected retaliation: is about industry’s response to the new market entry. How possible entrants believe settled companies may react will influence their decision whether to stay out or enter the industry. If the reaction is vicious and long-term enough the possible profit after entering the industry can fall below the cost of capital. (Porter, 1980; 2008).

- Government and legislation: legal constraints inside government policies or industry. Government can close or limit entry to industries with controls such as license requirements
or limited access to raw materials. Visible examples could be regulated industries such as taxi services, airlines and liquor retailing. Government policies can also make it easier to entry; indirectly by funding a research and make it available to every company (new and old ones) or directly through subsidies, reducing scale of economies. (Porter, 1980; 2008). According to Dumonceaux, Kumar and Massie (2006) when the product is in contact to the skin, whether it is cosmetic product or drug, the regulations are almost the same.

2.1.5 Competitive rivalry

The fifth and last force is called competitive rivalry among the existing competitors. It refers to an industry’s intensity in competition and jockeying for position. Competitive rivalry is the most obvious one of the forces and even though it is important it is only one of many forces determining the attractiveness of the industry (Georgopoulos, Karagiannopoulos and Nikolopoulos, 2005). When the rivalry between current competitors is strong profitability will be low. There can be a many different forms of rivalry: raised customer service, new product introductions, advertising or price competition (Magretta, 2012). It can be determined by:

- Industry growth rate: when the growth rate is low there is a harsh competition for market share between industry members. (Porter, 1980; 2008).
- Competitors balance: big amount of competitors of equal size will increase the level of competition, because everyone is trying to obtain dominance. In this kind of situations it is not easy to avoid poaching business. (Porter, 1980; 2008).
- Fixed costs: if these costs are high and marginal costs are low industry will be highly competitive. The members will seek to cut prices as much as possible below average costs to steal potential customers while still trying to cover fixed costs. Many raw-material companies, like aluminum and paper, suffer if the demand is not growing. (Porter, 1980; 2008).
- Exit barriers: cost of going out of the business is high when exit barriers are high and this will increase the rivalry. Even though a company is earning negative or low returns, exit barriers will keep the company in market. This will affect the profitability of productive companies because excess capacity remains in use as the unproductive companies hang on. (Porter, 1980; 2008).
- Low differentiation: when products are too similar it is easy for customers to change the supplier and switching costs are low. Services and products offered by rivals are almost identical. Therefore, price will be the only way to compete within the industry and it will encourage companies to cut prices to attract customers. For example in airline industry the service of the companies is pretty much the same, so this has created industry “price war”. (Porter, 1980; 2008).
- High commitment: Companies are highly committed to their business and they have desires for leadership. High commitment to business can arise for many reasons; for example state-owned companies can have goals including prestige or employment. (Porter, 1980; 2008).

2.2 Advantages of the model

For the last three decades (since 1979) Porter’s five forces model has been a dominant pattern in strategy and theories, which are focusing on nations’ comparative advantages as well as on companies as industrial organizations (Mann, Mann, Kumar and Kumar, 2009). The popularity of five forces relates to the fact that it works both in theory and practice (Magretta, 2012). According to Magretta (2012 cited in Allio and Fahey, 2012) analysis with the help of
five forces model is very powerful and allows seeing through the competition’s complexity, and finally finds the way to pull of possible actions to improve performance. According to Magretta (2012) Porter’s framework can be used for all industries, because it covers relationships which are basic in every industry; relationship between seller and buyer, supply and demand, suppliers and sellers. Five forces are fundamental and universal.

According to Henry (2011) the eligibility of Porter’s five forces in every organization inside industry makes Porter’s contribution pervasive. Even though five forces framework is made from the perspective of incumbent company, it can be also used by companies outside the industry in order to assist them in making decision whether to enter the market or not (Henry, 2011). The reason why the framework covers only specific five forces: bargaining power of suppliers, bargaining power of buyers, threat of new entry, threat of substitutes and competitive rivalry, is because: “there is a limited number of structural forces at work in every industry that systematically impact profitability in a predictable direction” (Porter, 2012 cited in Magretta, 2012, p. 52). Porter’s framework handles competition fundamentals by highlighting the way how external forces limit or create strategic opportunities for companies. However, there is an insistent misconception that Porter’s idea about the industry structure is static, unchanging and fixed, which according to Magretta is not true (2012 cited in Allio and Fahy, 2012). In spite of potential limitations, these days Porter’s five forces is the most powerful tool to analyze business environment (Snowdon and Stonehouse, 2007). Some authors such as Stern (2008, p. 54) claim that there is no need to change the model: “gratifying for Prof Porter, there has been no need to revise the model that describes the five forces that shape the markets in which businesses compete.” Grundy (2006) highlights the following advantages of the model:
- Micro-economic theory is simplified into five significant influences only.
- It directs managers to focus more on the external environment unlike traditional SWOT analysis.
- In order to determine market attractiveness it highlights the importance of bargaining arrangements and negotiation power.
- It highlights the importance of searching imperfect markets, which could offer more opportunities for excellent profits.
- The model shows how the central part of the model, competitive rivalry, is function of other four surrounding forces.
- It will help to forecast the long-run rate of returns in a specific industry.
- The model helps to combine specific industry’s input-output analysis with market boundaries via substitutes and entry barriers.
- By determining industry attractiveness it went beyond more simple focus on market growth.

2.3 Criticism and limitations of the model

Right after the model was developed it became the focus in many strategic management and business texts as well as essential examination material in MBA and similar courses around the world. Despite the general notoriety and popularity, Porter’s framework has been criticized by many researchers (for example, Evans and Schulman, 1992; Van den Bosch and Van Prooijen, 1992; Dunning, 1993; Rugman and Verbeke, 1993; Brandenburger and Nalebuff, 1996; Coyne and Subramanian, 1996; Kevin and Somu, 1996; Downes, 1997; Downes and Mui, 1998; Recklies, 2001; Stanley and Olson, 2002; Aktouf, 2005; Sheehan, 2005; Karagiannopoulos, Georgopoulos and Nikolopoulos, 2005; Narayanan and Fahey, 2005; Grundy, 2006; Stonehouse and Snowdon, 2007; Bernoff, 2011; Henry, 2011). The main
criticism of the model comes from the historical context in which it was developed. For this reason the model is often questioned for its’ applicability in “new” economy which greatly differs from the “old” one. The world of Porter (1980s) is described by Recklies (2001). In 1980s the economy was characterized by strong competition, cyclical developments and relative stability of markets. Therefore, for a company the main aim was to achieve profitability and survival. For this reason, Porter’s five forces model cannot adequately reflect today’s dynamic changes (Recklies, 2001). A “new” world was described by Langley et al. (2008). According to Langley et al. (2008), since 1990s the dynamics of the global environment has changed dramatically and organizations needed to adapt to changes or vanish. Langley et al. (2008) highlighted five major drivers for changing and shaping economic and political landscape, viz. globalization, technology, organizational consolidation, the empowered consumer and government policy and regulations. Generally, globalization has changed the geopolitical and economic environment making it competitively more intensive. Some important challenges for global supply chains were that product life cycles became shorter, supply and demand became more volatile (risk of terrorism, natural catastrophes, delay in food supply) and organizational boundaries became blurry (transformed business model to fit global demands, outsourcing). Technology has had a great impact in changing marketplace dynamics as well as supply chain processes. These days the information can be pulled out when needed, instead of waiting when the information is pushed out via media. Organizations as well as individuals have access to the information and data 24/7 via Internet which creates unbelievable set of collaboration opportunities in supply chains. The world has become flat and thanks to the technology, outsourcing to developing countries has increased. Nowadays, the influence of consumers on supply chains is more direct, since consumer demands in retail level has increased, which may be seen in appearance of 24/7 opening hours and many variations of same product. Because of the access to the Internet and other sources, consumers have a possibility to compare quality, prices and service and this makes them more empowered, educated and enlightened than ever. Consumers demand best quality, best price and best service which will increase the pressure on companies. Government policy and regulations affect companies and supply chains as well. A good example is 1980s and 1990s deregulation of many important sectors of economy. The sectors include communications, financial and transportation institutions, which are cornerstones in many organizations’ infrastructure (Langley et al., 2008). Another criticism of the model comes from its’ incorporated features and underlying assumptions, which may make it complicated to use in appropriate way. In this section we take a deeper look to the critique of Porter’s five forces model.

Brandenburger and Nalebuff (1996) criticized Porter’s five forces model for its’ underlying assumption of zero-sum game. According to Brandenburger and Nalebuff (1996), in the industry analysis it is necessary to consider not only competition, but also cooperation. Henry (2011) claims that in reality collaboration between rivals or even strategic alliances can be mutually profitable. Author argues that since the market is in a condition of continuous variation, it is essential to monitor and estimate how these forces change in course of time. The idea behind Porter’s five forces framework should no longer be seen in building barriers, but in using this analysis for increasing opportunities and developing competences (Henry, 2011).

Downes (1997) as well as Downes and Mui (1998) criticized Porter’s five forces framework for its’ inability to reflect changes in the environment. Consequently, they claim that the model invented by Porter is no longer valid. Recklies (2001) referred to Downes (1997), but claimed that the model is still an appropriate tool for managers.
According to Aktouf (2005) the model aims to foster estimation about an industry as a certain entity with distinct boarders that does not suit to modern industry, where boarders turn out to be much vaguer. It seems to be independent, thereby not being particularly cohered, e.g. in the context of increased dynamics in specific market. The same vision is shared by Slater and Olson (2002). Aktouf (2005) claims, that some forces may be more important than others depending on the industry (e.g. the power of government in the military industry or in the pharmaceutical industry etc.). This factor indicates a frailty of the universality of Porter's model. The more there is changes and developments in the business environment, the more forces should be taken into consideration in industry analysis. The quantity and character of competitive forces will depend on the type of the industry, where the company operates (Aktouf, 2005).

Grundy (2006) criticized the model for its relative level of abstractness and lack of functionality. Grundy (2006) mentions several disadvantages of the model:
- Instead of to be more concrete in the analysis of segments of product-market at a micro level, it is apt to over-stress in macro analysis, viz. at the industry level.
- It simplifies too much value chain of the industry, for instance, buyers can be both divided per mediate customers and end buyers, that is to be differentiated among channels as well as they need to be segmented.
- There is no possibility to link directly to eventual action of management, e.g. if companies do not have enough power to influence over any of the five forces, how will they be able to deal with these forces?
- It can be difficult to determine the industry.
- The model seems to be distinct and not so easily related to other models, for example PEST.
- It is based on economic terminology, which may make the model be perceived as less practical in real life application.

Karagiannopoulos, Georgopoulos and Nikolopoulos (2005) also criticize the model for its inability to adequately reflect changes in the environment. They claim that most notably the influence of new forces will appear in the motion of business activities to the virtual world from the physical world, which will require newer strategic framework and a variety of various analytical design instruments (Karagiannopoulos, Georgopoulos and Nikolopoulos, 2005).

Coyne and Subramaniam (1996) criticized the model for its underlying assumptions. Those assumptions are: an industry is assumed to be built of a distinct group of buyers, suppliers, substitutes and competing companies that have a tight interaction with each other. Another assumption is that companies can accumulate wealth that protects them from existing competition as well as new entrants, which results in achieving structural advantage. Finally, the behavior of participants and their strategies assumed to be predictable, since uncertainty is given a low level (Coyne and Subramaniam, 1996).

According to Sheenan (2005), the fact that Porter’s five forces model was developed more than 30 years ago may make it seem obsolete and not applicable for new types of companies such as knowledge-intensive firms.

Another criticism, which also comes from the difference between old and new, is a low level of uncertainty incorporated in the model, so that one can predict a behavior of a competitor. Perhaps, in some traditional industries this is still valid. Kevin and Somu (1996) defined four
levels of uncertainty. According to them, Porter's traditional model is useful in the industry with low uncertainty.

Evans and Schulman (1992) pointed out that Porter created his model, when the economy was comparatively static, distinguished by durable products and steady customer needs, clearly determined regional and national markets as well as distinctly defined rivals, while nowadays the rivalry is “war of movement”, where a prosperity depends on a foresight of market trends and an instantaneous response to the alteration of buyers’ needs. Evans and Schulman (1992) explore “how” the company competes rather than “where”. According to them, competitive advantage has to be found within the company’s skills and resources in comparison with the common environment of the market beyond the company (Evans and Schulman, 1992).

2.3.1 Reflections on the criticism of the Five Forces model

The main criticism of the model comes from the historical context in which it was developed. It is rather obvious that criticism of different researchers is interrelated and represents the reflection of particular issues caused by the changes in business environment. Some researchers such as Brandenburger and Nalebuff (1996); Henry (2011); Karagiannopoulos, Georgopoulos and Nikolopoulos (2005) share the same vision and claim that there is a need to include cooperation in the original model, since it plays a significant role in finding new mutually beneficial profit opportunities for businesses. Some researchers such as Aktouf (2005) and Slater and Olson (2002) criticize the model for its inability to be applied in certain industries, e.g. where some of the forces may dominate others. Sheenan (2005) highlighted, that the model of five forces cannot be applied in knowledge intensive firms. Finally, the original model is criticized for underlying assumptions and some other aspects which may make it difficult to use in practice (Coyne and Subramaniam, 1996; Grundy, 2006). Sometimes the earlier research is contradicted by the later one, e.g. Kevin and Somu (1996) claim that Porter's traditional model is useful in the industry with low uncertainty, while Bernoff (2011) argues that organizations in new economy deal with a high level of uncertainty.

In order to explicitly address the criticism of the model and make the best use of it in this research, the following chapter takes a deeper insight to the main critical points and improvement suggestions. To be more specific, a review of disadvantages of the original model has motivated authors to consider the following moments: Firstly, the power of globalization, deregulation and digitalization as in Downes (1997) and Downes and Mui (1998). Their research seems interesting, since they are the only ones, who claim that original Porter’s five forces model is no longer valid. Secondly, the lack of cooperation, which was mentioned by Brandenburger and Nalebuff (1996), and Karagiannopoulos, Georgopoulos and Nikolopoulos (2005). Cooperation is seen by authors as an important factor, since nowadays it plays a crucial role for companies. Thirdly, underlying assumptions, a complexity and a difficulty to use the model in practice as mentioned by Grundy (2006) and Slater and Olson (2002). Fourthly, it would be useful to get a fresh look on the model as in the research of Bernoff (2011).

2.4 Previous research on Porter's five forces model

Taking into consideration the main critical points of the original model, it is necessary to explore how they were addressed in previous research and figure out to what extent the model
was developed (if at all). This will help to find an answer to the question whether a 30-year-old model remains an appropriate tool today and how it can be applied in this research.

Since Porter’s five forces model was invented, a substantial body of research that either supports or complements the original model has been done (Slater and Olson, 2002). However, Grundy (2006) claims that while there is a lot of research done with references to Porter’s five forces model and academia seem to be interested in exploring and reinventing it, there are still very few papers, where actual development attempts of the model have been made.

The first paper in this review is written by Downes (1997), which addressed the issue of Porter’s five forces model obsolescence. According to Downes (1997), due to change of global economic and political landscape there is a need for a new strategic framework. The three new forces, viz. digitalization, globalization, and deregulation have overwhelmed traditional five forces introduced by Porter (Figure 2). Digitalization refers to the growth of information technology power which leads to easier and faster access to the information by all market players. The wider availability of information increases the possibilities for both collaboration and competition. The power of information promotes appearance of new business models which are able to change the competition ground on the market. Downes (1997) gives an example of the shopping mall which with development of digitalization of e-commerce faced the competition from electronic malls, where a broader range of products were available 24/7. Globalization, according to Downes (1997), was a powerful force which turned the whole world to one large network. Developments in distribution, logistics and communication areas enabled companies to sell, buy and cooperate on global level. Consumers enjoy shopping worldwide and comparing prices. Global and networked markets bring a disruption on a scale that the traditional approach to strategy cannot handle. The third force mentioned by Downes (1997) is deregulation which refers to power of governments to regulate some industries. Lately a dramatic shrinking of government regulation has been seen in the airline, communications and banking industries in Europe and the USA. Using new opportunities which came from the development of information technologies, companies in these industries were able to re-engineer their businesses and look for new opportunities. Downes (1997) concludes that the new forces are highly interrelated, and highlights that information technology became a differentiator between “old” world of Porter and the world of today. The work of Downes (1997) was further developed by him together with Chunka Mui in 1998. Downes and Mui (1998) stated that five forces model is no longer valid and suggest a new strategic planning method called Digital Strategy, which differs a lot from traditional strategy. The method is based upon continuously revisited planning system focused on three new forces which shape the strategy.
A significant addition to Porter’s five forces framework was found in the book “Co-opetition” by Adam Brandenburger and Barry Nalebuff (1996). Brandenburger and Nalebuff (1996) extended the model by introducing the concept of Value Net which is based on game theory (Figure 3). The value net is focused on analyzing competitive environment from a perspective of a company and includes suppliers, competitors, and customers as well as a new force “complementors”. The great difference between original five forces framework and value net framework is that while Porter sees players within the industry as rivals and describes how the forces can cause destruction of company’s profits, key idea of Brandenburger and Nalebuff (1996) is that competitors, suppliers and customers can actually enhance company profits. Thus, while Porter’s framework represents a zero-sum game where business is seen in terms of winners and losers, Brandenburger and Nalebuff (1996) claim that strategic analysis should include not only competition, but also cooperation. Therefore, by adding the sixth force “complementors” which refer to companies that produce products and services and complement (or support) those of another company (this way adding value within the industry), Brandenburger and Nalebuff (1996) made a contribution to Porter’s five forces model. Brandenburger and Nalebuff (1996) introduced a game-theory based framework which emphasizes the need of cooperation between organizations (shown as eight relationships in the model), which unlike traditional games which include only winners and losers, suggests that business game can be non-zero sum. An example of complementors is "Intel inside" and "Microsoft Office", the two companies which are complementing each other products (Office and the PC). Value net provides a ground for a mindset that not only focuses on understanding the competition, but also on new ways to expand and change the business.
Karagiannopoulos, Georgopoulos and Nikolopoulos (2005) also made an attempt to address the issue of new information technology development and application of Porter’s five forces framework in new environment. As it was shown in previous chapter, they criticized Porter’s thoughts regarding Internet and industry structure, and in the work “Fathoming Porter’s five forces model in the Internet era” enriched the Porter’s five forces model with the “power of innovation” (Figure 4). The same as Downes (1997) they made a distinction between “old” economy which is described as “non-Internet” and “new” economy which widely uses Internet. The idea behind their work is that Internet opens new innovative opportunities for cooperation between industry players which may result in industry expansion. Karagiannopoulos, Georgopoulos and Nikolopoulos (2005) highlight the need of collaboration which is contrary to Porter’s five forces analysis. It is claimed that cooperation between organizations may result in innovative business opportunities. Innovation should be an open process that must become a part of business activities among companies. A company should be able to utilize opportunities outside its existing business or beyond its current technical or operational capabilities and therefore needs to cooperate and be innovative. The cooperation of industry participants or the use of intermediaries such as consultancy companies can promote an innovation, and consequently an industry expansion. Karagiannopoulos, Georgopoulos and Nikolopoulos (2005) conclude that new factors such as innovation seem to dominate the new economy; however a company must be careful in its evaluation of innovation since doing it in a wrong way may destroy a company or make it non-competitive.
Slater and Olson (2002) also address the issue of industry dynamics, which can be seen in moving closer to a global market place in many industries. Technology, deregulation and Internet are seen as drivers of the shift in global economic and political landscape. In the research made by Slater and Olson (2002) an augmented model was made, which reconfigures the Porter’s framework without removing any of the original forces, but instead combining some of the forces (Figure 5). According to the researchers Porter’s model is as valid as it was 20 years ago; however they are concentrating more to the forces which do not exist in the original model as well as looking at “old” forces from another perspective. At the center of the model risk, profitability and strategy are located, which are surrounded by six forces, viz. suppliers, complementors, market growth, customers, market turbulence, and composite competition. By “risk” Slater and Olson (2002) mean a variability of returns in a market. In their new model Slater and Olson (2002) create a force called “composite competitive rivalry” which combines together threat of new entry, substitutes and competitors, since they are highly related to each other. Inside this force they pay special attention to the innovation since it is a key element to achieve and sustain competitive advantage. For the second force, Slater and Olson (2002) use the term “complementors” which was developed before by Branderburger and Nalebuff (1996). Industry participant is a complementor if buyers value firm’s product more after having an admission to complementor’s product. The third and fourth forces in their model are called “customer power” and “supplier power” which are referring to the Porter’s original forces bargaining power of buyers and suppliers. The fifth and sixth forces are called “market growth” and “market turbulence” which are related to market change, but have not been in the original model. Market growth is the result of increased number of market players, players’ increased amount of purchases or the solution to latent market need. Turbulence can be divided into two different categories; competitive turbulence (the rate of change in companies’ competitive
methods) and market turbulence (the rate of change in consumer preferences and needs) (Slater and Olson, 2002).

Figure 5. Market influences on profitability, risk and strategy (Slater and Olson, 2002, p.17)

Research made by Grundy (2006) invested in expanding Porter’s framework of five forces into more richer way of analysis and to intensify the analytical power, since the original model does not fill its full potential (Figure 6). Grundy’s (2006) suggestions for further analysis are that the framework could be prioritized within an analysis format of force field, the five forces could be split to micro levels, the model could be modified more into dynamic framework at both transactional and industry level and the analysis of five forces should be applied across the business segments. The literature of the conventional strategy emphasizes the urge to pay attention to factors outside industry. Grundy (2006) suggested an onion shaped model named “competitive climate” which layers are highly interdependent and captures the key domains of competitive climate: PEST factors, growth drivers, Porter’s five forces and competitive position. It can be argued, that Porter’s five forces are highly interdependent in external environment with other subsystems as well as between each other inside the model itself. In Grundy’s (2006) second model, “key internal interdependencies” he displays the internal interdependencies in five competitive forces. Dependence can be seen for example between forces “entry barriers” and “bargaining power of buyers”: buyers could encourage new entrants and as follows, deducting entry barriers. As another example, between forces “bargaining power of suppliers” and “substitutes”: suppliers could seek to jump over existing market competitors by selling and advertising substitutes. The idea of this model is to illustrate in which extent each of the five forces should be understood as an interacting system instead of an independent unit. According to Grundy (2006) the order of the forces inside the framework could be reorganized. One example is when the force “bargaining power of buyers” is in the middle of the model and is surrounded by other forces: availability of substitutes, supplier power, entry barriers and competitive rivalry. The advantages of this model type are that managers will understand easily how sub-forces are interacting with each other and it also encourages managers to go deeper in to the model instead of looking at it from superficial level.
It is also worth to mention a recent research by Bernoff (2011) “Competitive strategy in the age of the customer”. This paper also addresses the changes in the world in the last three decades and particularly emphasizes the power of customers. According to Bernoff (2011), businesses are about to enter a new period called “The age of the customer” (Figure 7). It is claimed in the paper that in this age of the customer, the only sustainable competitive advantage is knowledge about and interaction with them. Bernoff (2011) also sees globalization, deregulation, and especially technology as sources that caused disruption in every industry. In the age of the customer the competition appears to be different. Examination of Michael Porter’s five forces model showed that obsession with customer knowledge and relationships is the only source for reaching competitive advantage. Revisited model proposed by Bernoff (2011) includes the same forces as in traditional Porter by interprets it from the perspective of new age (Figure 8). Bernoff (2011) claims that entry barriers are lower in the age of the customer, brand investments, networked consumers and entrepreneurs undermine copyrights and patents.

Figure 6. The competitive climate (Grundy, 2006, p.217)
In summary, Porter’s framework focused on building barriers is no longer successful strategy, because customers with a help of information technology have become too powerful nowadays. Sustainable organic growth comes only from customer loyalty, therefore, being customer–obsessed is the only way for achieving competitive advantage. A customer-obsessed company is defined as one that “…focuses its strategy, its energy, and its budget on processes that enhance knowledge of and engagement with customers and prioritizes these over maintaining traditional competitive barriers” (Bernoff, 2011).
2.5 Conclusion of the theoretical part

The review of the literature on Porter’s five forces model showed that the model has both advantages and disadvantages. Since the model was developed more than thirty years ago, it was considered necessary to find an answer to the question whether the model remains an appropriate tool today and how it can be applied in this research. A special attention in this paper was given to the criticism of the original model. Four critical points from previous research on model’s disadvantages were highlighted (the lack of dynamics - the power of
globalization, deregulation and digitalization; the lack of cooperation; underlying assumptions, a complexity and difficulty to use the model in practice; modern interpretations of the model). According to the critical points mentioned above, a deep insight to disadvantages of the model as well as development suggestions was achieved by reviewing previous research done.

Brandenburger and Nalebuff (1996) developed a value net model which was clearly inspired by Porter’s five forces model. They support premises of Porter’s model by developing the model further by introducing a new concept - cooperation between companies, as well as added a new force - complementors. It is important to take complementors into consideration since they may be seen as rivals, who compete for customers’ attention (Brandenburger and Nalebuff, 1996). Slater and Olson (2002) addressed the issue of the five forces framework application in the light of the world’s global economical and political changes. Their conclusion is that although the original model has its limitations, the basic premises of it are still valid today as they were valid twenty years ago. However, the model should include more forces (including “complementors” as suggested by Brandenburger and Nalebuff (1996)), which influence the industry (Slater and Olson, 2002). Downes (1997) brought up the question of validity of Porter’s model in a new world, which is characterized by three powerful forces digitalization, globalization, and deregulation. Downes (1997) claims that development of new technologies brought a new competition era, where old rules are no longer valid. Consequently, he argues that premises of Porter’s model are no longer valid and traditional five forces were overwhelmed by those three mentioned above. Reckiles (2001) does not agree with the conclusion made by Downes (1997), although he agrees that arguments of Downes are convincing. He adds that nowadays markets are heavily influenced by technological progress; therefore it is impossible for a company to develop a strategy based only on Porter’s model. At the same time he warns that irrespective of period in time, a good strategy should never be based on one or few models. He argues, that “every strategy should base on a careful analysis of all internal and external factors and on their potential future development. This is no new insight” (Reckiles. 2001, p.2). In addition, Reckiles claims, that the main source of sustainability of Porter’s model comes from its scientific background - economics. Underlying economic insights of the framework make viable Porter’s premises today. Reckiles (2001) sees Porter’s ideas as just one more tool from managers’ toolbox. The tool which is no longer the only one, or the most important one, but the one, which is not obsolete either. Reckiles (2001) suggests that a combination of old techniques such as Porter’s model should be combined with other tools in order to gain the most comprehensive picture. Grundy (2006) support the same idea of combination of Porter’s model with other techniques. Grundy (2006) believes that Porter’s five forces model is workable and valuable, but in order to fill its full potential the framework should be developed a lot further. Porter’s five forces model is the most used and influential concept in business schools, however there is a need to develop the model further in order to make it more convenient for practical use. Karagiannopoulos, Georgopoulos and Nikolopoulos (2005) also acknowledge that Porter’s model is valid nowadays, and emphasized the need of the cooperation between industry players. According to Coles (2009) with reference to Mark Jenkins professor of business strategy at Cranfield School of Management, it is possible to overcome all weaknesses in the Porter’s five forces model by applying a multi-pronged approach to industry analysis. Professor Jenkins claims that:”It is one of those frameworks that is simple and useful if used in the right way. It’s a simple tool in the toolkit. You have fancier tools for more complex things like looking at trends and dynamics and how change is going to occur.”
Back to the question, is Porter’s Five Forces model still valid today? The only researchers who claimed that it is not valid were Downes and Mui (1998). Their arguments sound convincing as it was noted by Reckiles (2001), however, their idea seems to have a rather limited currency, since their work is seldom referred to by other researchers. Other researchers, whose scientific papers were reviewed in this study, have criticized the model; however, have never claimed that it cannot be used nowadays. Authors of this thesis conclude that Porter’s five forces model has a limited use today. As it was mentioned in the beginning of the theoretical chapter, the aim of the model is to assess industry profitability and the competitive forces (industry attractiveness). By using the model, a company can get knowledge of industry structure and attractiveness, and consequently determine its own competitive position and shape its strategy. This may result in a new positioning, differentiation in products and prices, approaching new distribution channels, advertising strategies, etc. One can highlight the primary and the final purpose of the model: (1) get knowledge about an industry - determine attractiveness, (2) use the knowledge in order to improve competitive position. It is obvious that in order to fulfil its final purpose, viz. to help a company define its competitive position and shape strategy, the industry attractiveness should be determined first. Industry attractiveness gives an insight and provides companies with the knowledge about the industry. The literature review revealed that Porter’s Five forces model is criticized for inability to fulfill its final purpose, but not the primary one. Therefore, nowadays, only determining industry attractiveness is not enough for making decisions regarding strategy and competitive position. As it was presented earlier in this thesis, in order to fulfill its final purpose the model needs to be combined with other tools, which would provide companies with the knowledge about customers and environment. As Bernoff (2011) emphasizes the importance of cooperation and claims, that the only source of sustainable competitive advantage comes from the knowledge about customers and interaction with them. Reckiles (2001) adds that it is not any longer enough to position the company as a price-leader or quality-leader, since competitive advantage nowadays may come from the ability to build long-lasting relationships with customers and networks of partners for achieving mutual advantage. Referring to the findings from literature review and by comparing them with the purpose of this thesis which is “to study the attractiveness of Swedish natural & organic cosmetics market”, authors claim that Porter’s five forces model cannot be seen as an obsolete tool and can be applied in the context of this research, since the model remains a basic tool for deriving knowledge about the industry by assessing its attractiveness. As it was mentioned earlier, there are still very few papers, where actual attempts for development of the original model have been made. Perhaps, the reason is that there is no need to change the model but it has to be combined with other techniques. So, the model can be used in this research, since it is a good tool for determining attractiveness of the industry. However, there was some other criticism, which was addressed in this paper.

As was stated by Aktouf (2005), original Porter’s five forces model lacks universality and needs to be adjusted to changes and developments in the business environment of different industries. In the context of this research this criticism has no value since the purpose is to study industry attractiveness without going further to strategic issues. Sheehan (2005) claims, that Porter’s model cannot be used for e.g. knowledge-intensive companies. Reflecting his idea on an industry, authors of this paper conclude that Porter’s five forces framework can be used in the natural & organic cosmetics industry, since it is not a knowledge-intensive industry.

Taking into account criticism by Aktouf (2005), Slater and Olson (2002) and Grundy (2006), there is a need to define the industry. The industry under analysis is natural & organic
cosmetics. Cosmetics industry, according to the European Cosmetics Directive of 27 July 1976 (76/768), includes color cosmetics and makeup products as well as skin care (facial care products, body lotions, etc.); hair care (shampoos, scalp care, etc.); mouth care (toothpaste, etc.); other (deodorants, feminine hygiene, etc.) (BTC Trade for Development, 2011). As it was shown earlier in this thesis, natural & organic cosmetics is seen as a subgroup of cosmetics. Therefore, natural & organic cosmetics industry combines the definition provided above, however relates to cosmetics which are made up of only, or at least almost only, natural and organic ingredients.

2.6 Adjusting the model for this research

Since the five forces framework’s premises are valid for conducting this research, the next step is to decide whether the original model should be applied in this research or, perhaps, a modified version of it will suit better.

First of all, cooperation was given a great attention from researchers, e.g. Brandenburger and Nalebuff (1996), Karagiannopoulos, Georgopoulos and Nikolopoulos (2005), Slater and Olson (2002), and Bernoff (2011), it is necessary to address it in this research. All above mentioned researchers claim that there is a need of cooperation between all industry players (not only competition as Porter states (1980)). Therefore, in this research the idea of “complementors” was adapted, as was first proposed by Brandenburger and Nalebuff (1996). However, it is necessary to mention that network effect in cosmetics industry may not be that important as in the high-tech industry. For example, the demand for shaving cream is tightly related to the demand for safety razors, and the demand for razors has relation to improvements of quality of the cream (Slater and Olson, 2002). Bernoff (2011) adds that there is a need of cooperation with customers, since nowadays it is one of the sources for achieving competitive advantage. To sum up, the importance of cooperation is acknowledged by the authors of this research and is considered as an important element of the model. Complementors are shown as a separate force in the model; the need of cooperation between all industry players is shown with double-side arrows. Another key element, which must be reflected in the model, is innovation. The need for including the “Innovation” factor is determined by the fact that the competitive environment is continuously changing. Innovation is tightly related to cooperation between industry players as well as to new product development, which in the cosmetics industry is a key to achieving and sustaining competitive advantage. It is important to take into consideration that innovation promotes industry expansion. By incorporating innovation, we highlight the need of keeping in mind macro-factors such as globalization, deregulation, and technology development, since Porter (1980) himself has already referred to innovation, government, and interaction between industry players as factors, which may affect the five forces. In addition, we use the approach proposed by Slater and Olson (2002), which put together substitutes and new entrants to one force “composite competition”. As it was shown earlier in this thesis, these two forces are interrelated and separation would hide the relation between them.

With these considerations based upon insights derived from the literature review, the approach suggested by Brandenburger and Nalebuff (1996), who added a new force “complementors”, was used in this research. Slater and Olson’s (2002) suggestion to combine new entrants and substitutes also found the reflection in this research; however, it does not affect the idea of framework suggested by Brandenburger and Nalebuff (1996). Adding composite competition highlights the relation between those two forces. To fulfill the
purpose of this thesis, it was considered necessary to show in the model, that in order to
determine industry attractiveness of one specific industry (natural & organic cosmetic
industry in Sweden) it is important to study this industry in the context of the whole cosmetics
industry. Since natural & organic cosmetics are a subgroup of cosmetics, accordingly, natural
& organic cosmetics industry may be heavily affected by the situation of the whole industry
(e.g. per capita consumption, growing demand for premium category products, etc).
Consequently, the situation in the industry is impacted a lot by environmental factors, e.g.
political, economic, social and technological factors. Therefore, for this research a four-
layered model for industry attractiveness was designed (Figure 9). The layers were added in
order to show the relation between a company, an industry it operates in, the whole industry
and the environment. This thesis is focused only on the second layer - the industry a company
operates in. However, it was considered important to show all others, since the information
derived from upper layers (third and fourth) helps to conduct the analysis on the second one.
Finally, innovation was added as a factor presented on all four layers in order to highlight
interrelation between them and to attract attention to the fact that innovation may affect the
forces inside the industry and consequently affect its attractiveness. The model used in this
research is presented below (Figure 9).

Figure 9. Modified Porter’s Five Forces Model
3 Methodology

How the industry attractiveness can be studied? This chapter explains research approach and the collection of information used in this thesis. The aim of the methodology chapter is to provide a profound picture of the way this thesis was made. It describes the relationship between the theoretical and empirical chapter and the analysis part as well as presents the key moments related to the quality of the study. The methodology chapter is based upon four parts, viz. Market intelligence, Interview with retail representatives, Interview with consumers and Case companies.

3.1 In search of research direction

To study the industry attractiveness was not exactly the topic, which authors planned to choose for the research in the context of their master thesis. This story started when authors of this thesis decided to take a part in L’Oreal Brandstorm Competition 2012. The assignment was to create a new innovative product or product line for The Body Shop company, which offers natural and organic cosmetics. In order to do this, students were asked to perform market analysis of the country of their host university. That implied examining competition on the market, consumers, distribution channels etc. Cosmetics market of natural & organic products seemed to be very interesting to study, since pre-research findings showed that there is a global eco-trend and growing demand for natural & organic cosmetic products. A great amount of information related to the main global and local market players, their products and marketing strategies, as well as distribution networks was collected and for this reason it was decided to continue with the natural & organic cosmetics research in this master thesis.

Although, the area for the master thesis was clear - to study natural & organics cosmetics - authors faced the first issue, from which perspective to do the research: from a market or an industry? Furthermore, should the focus be on studying competition, competitiveness, attractiveness or something else? It was decided to choose industry perspective, since it allows having a holistic view on profit opportunities for businesses and sets a ground for further research, while market perspective would be mainly focused on issues related to customer targeting. In order to specify a more detailed direction for the study, authors started to make a review of previous research on natural & organic cosmetics industry in Sweden with the purpose to define a research gap. Identification of the research gap did not take much time, since there was no previous scientific research done. The decision to focus the research on industry attractiveness was motivated by the revealed fact that industry attractiveness includes competition (Porter, 2008). In addition to this, it was found out that there is a growing demand for natural & organic cosmetics in Sweden (Euromonitor, 2011), which potentially may create new profit opportunities for companies which already are in the market or consider entering the market. Therefore, the purpose of this thesis was identified: “to study the attractiveness of Swedish natural & organic cosmetics industry”.

3.2 Research strategy

Research strategy is an activity that should be undertaken to ensure that there are sufficient resources available in order to perform the research in the certain time-frame and to make sure
that methodology and approach to the design of the study are suitable for achieving objectives of the study (Bryman and Bell, 2011). Since there is a variety of methods in business research, one should start the research process from defining a strategy in order to achieve sound understanding of the relationship between the natures of the study, theory and research itself. The choice of data collection method is a crucial step in doing a research.

This thesis started with building the theoretical frame of references, which played a crucial role for choosing the method for this research as well as gaining understanding of which kind of information is needed to answer the research questions. When the theoretical chapter was finished and it was acknowledged that Porter’s five forces model premises are valid for this study, the approach suggested by Brandenburger and Nalebuff (1996) was chosen to guide the analytical part of the work. Therefore, a deductive reasoning is the argument of this research. Deductive is a strategy which approaches the relation between theory and observation and/or findings, as in the latter takes place with reference to the hypothesis and ideas derived from the former (Bryman and Bell, 2011).

Guided by the theoretical frame of references, authors had a clear understanding of what kind of information is needed in order to analyze the industry attractiveness. The question at that stage was “how and where this information can be found?” After considering possible options such as to make a literature study, interviews, case studies, observations etc., it was decided that due to the complexity of the industry attractiveness phenomena, there is a need to combine several data collection methods. Therefore, the methodology part of this research is built upon four pillars: 1. Industry intelligence, 2. Interview with retail representatives, 3. Interview with consumers and 4. Case companies (Figure 10).

![Figure 10. Data collection plan](image)

After the purpose and research questions of this thesis were formulated as well as data collection areas were identified, the next important step was to decide on a research approach method. According to Bryman and Bell (2011), there are three research approach methods: quantitative, qualitative and mixed-methods. In this thesis a mixed-methods research approach was used. “Mixed methods research is the type of research in which a researcher or
A team of researchers combines elements of qualitative and quantitative research approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purpose of breadth and depth of understanding and corroboration” (Johnson et al., 2007, p. 123). The motivation for choosing this method was predetermined by the nature of the established research questions, answers to which imply gathering and analysis of both qualitative and quantitative data. Therefore, the most appropriate approach, which would offer the best opportunities for answering them, was seen in a mixed-methods research solution.

The main purpose of the use of this method was to achieve a comprehensive view on the thesis topic by: (1) building the empirical part of the work from large amount of quantitative data regarding global and natural & organic cosmetics industry intelligence, and chosen natural & organic cosmetic companies, which are presented in Sweden; (2) capturing rich qualitative insights from a number of interviews with retail representatives, as well as quantitative insights from consumer interviews; (3) Validating and complementing quantitative findings by qualitative findings and vice versa. As it was shown earlier in this chapter, this study is based upon four data collection phases. The mixed-method research approach was seen as a beneficial to this study for a number of reasons. Firstly, it increased the comprehensiveness of overall findings, by showing how qualitative data (Phase Two - Interview with retail representatives) enriched statistical data by complementing the findings from the industry intelligence part (Phase One). Phase Four in which five companies were chosen in order to understand the competition on the Swedish market, had the same analogy with the Phase One, viz. its role was to achieve a deeper view on the competitive environment within the industry and to complement the Phase One (to contribute to a new knowledge). Secondly, the chosen research method increased the validity of the research findings, as Phase Two and Three enabled authors to validate the findings from Phase One and Two accordingly. By analogy with this, findings from the Phase One and Phase Two were supported by interviews with consumers (Phase Three). The goal of Phase Three was to check and confirm the findings that were derived from previous two phases. Thirdly, the mixed-methods approach increased the methodological rigour as findings in all three phases promoted the consistency in the study, e.g., Phase Three resulted in gaining knowledge regarding natural & organic cosmetic brands offered in retail distribution channels. The knowledge about brands gained from the second phase, helped to analyze the information from the Phase Three. The third phase also confirmed that it was a right choice to choose retail representatives as respondents for the interviews. The second phase, which resulted in the list of natural & organic cosmetic brands, set a ground for the Phase Four. The interrelations between all four phases are presented in Figure 11.
3.3 Data collection and Analysis

As it was explained earlier, in order to fulfill the purpose of this thesis, four different data collection areas were identified. Those areas were market intelligence, interview with retail representatives, interview with consumers and case companies. In this thesis quantitative data was prioritized over qualitative data (only Phase Two has a qualitative element), and this is coherent with the findings of Harrison and Reilly (2011), who made a study on mixed-methods use in marketing research. In mixed-methods marketing research priority is given more toward quantitative data, and this is not surprising since mixed methods in marketing literature have a positivist orientation (Harrison and Reilly, 2011). In this chapter four data collection phases are presented.

3.3.1 Phase one: market intelligence

The purpose of the Phase One was to build a foundation for the empirical part of the thesis by gathering data in accordance with the framework established in the theoretical frame of references. According to the framework, there was a need to gather information which would provide insights to the natural & organic cosmetics industry in Sweden in the context of global cosmetics industry. It was also decided to find the information on cosmetics industry in general, because there was an assumption, that some data related to global cosmetics industry may have indirect relation to the cosmetics subgroup which was chosen for this research. In addition to this, since natural & organic cosmetics are seen as a subgroup, previous research
on cosmetics industry may provide a valuable insight to the industry as a whole, initiate reflections of issues raised for the whole industry to the subgroup, enhance understanding of relations between subgroups, which would result in setting up a ground for conducting a research on Swedish natural & organic cosmetics industry attractiveness. Therefore, the following topics had to be covered: industry structure, global industry data, economic effects on the industry, main competitors, industry trends, global natural & organic cosmetics industry as well as existing issues. The next step was seen in a collection of the information regarding Swedish natural & organic cosmetics industry in particular. Since the research had a pre-stage, in the very beginning of writing this master thesis authors were aware that there is a little information available on Swedish natural & organic cosmetics market and industry. This resulted that data regarding companies in the industry, their products, suppliers, etc. for the Phase One was pulled from all possible, but reliable sources.

For the Phase One the following data sources were used:

- **Scientific papers** (academic papers from scientific journals) - e.g. Kumar (2005), Dimitrova, Kaneva and Gallucci (2009), Jain and Chaudhri (2009), Boduka and Pierret (2011), Duber-Smith (2004), etc.

It was considered necessary to use scientific papers in the Phase One, since previous research on the chosen topic could provide authors with essential data for this research as well as with a possibility to reach a valuable insight to the overall situation within the cosmetic industry. For instance, the information regarding the cosmetic industry as well as the industry products classification and global market size was found in the scientific article written by Kumar (2005) and used in this research. Scientific article written by Dimitrova, Kaneva and Gallucci (2009) was also found useful as an empirical material for this study. Other scientific papers added pieces to the market intelligence part. In order to find proper information the following internet sources were used: Google Scholar, Libris and Summon. In the world of academia scientific papers are considered as a trustable and reliable data source, therefore the main criteria for choosing articles was based upon one main criteria - articles had to be relatively “fresh” and therefore, published not earlier than 2002. Following keywords were mainly used: natural cosmetics, organic, ecological, Swedish natural cosmetic market, cosmetic brands in Sweden and cosmetic industry in Sweden.

- The same motivation and choice criteria were applied to **Virtual outputs (web published articles)** – such as The cosmetics cosmos (2007), Skaredoff (2003), etc.


Public documents from organizational sources played a crucial role in building the body of market intelligence, since scientific papers could not provide the necessary information on the topic of this thesis. It is important to emphasize that the purpose of this thesis “to study industry attractiveness in Sweden” has a strong relation to real business practice and is less the matter of theoretical (academical) considerations. Therefore, studies made by research companies were considered as an import source of data and information for this study. The main criteria applied for the choice of this sources was to be fresh, which meant to be published not earlier than 2008. That criteria was applied on purpose, since authors were aware of the economic situation in the world and intentionally wanted to understand how a recession affected the situation in the cosmetics industry. The use of the public documents published earlier would cast doubt on the validity of the findings and affect the quality of the
whole work, since industry attractiveness is a dynamic phenomena which changes over the time. In order to find the necessary data sources, Google search engine was mainly used. The same keywords as in the search for scientific papers were applied. The search resulted that there are not so many organizations which focus their research on cosmetics and especially, natural & organic cosmetics industry. The most used sources in this paper are studies made by Euromonitor International. Euromonitor International’s homepage (2012) claims, that “Euromonitor is the world leader in strategy research for consumer markets. Comprehensive international coverage and leading edge innovation make our products an essential resource for companies locally and worldwide”. The company has a long history since it was established in 1972 and its studies are widely referred to in cosmetics industry. Reputation and experience in the industry was the main criteria applied in choosing studies made by companies of the same profile, e.g. Colipa, BTC, NPD. Information sources from authorities such as EU commission and official organizations such as Na True, Eco Cert, Läkemedelsverket, Nordic Ecolabelling were used without no doubts of credibility and with the only requirement - to be fresh (2010-2012).

3.3.2 Phase two: interview with retail representatives

The purpose of the Phase Two was to achieve a deeper look on the current situation in Swedish natural & organic cosmetics industry, by complementing as well as validating findings from the Phase One. In addition to this, that was also necessary to gain understanding about natural & organic cosmetic brands offered in Sweden. It was decided that the most suitable target group for this research will be retail representatives of natural & organic cosmetics, since they have daily interaction with both producers/importers and consumers of natural & organic cosmetics and have knowledge about trends and situation within the industry. As it was known from the pre-research stage, natural & organic cosmetics are sold in different sales points, e.g. in pharmacies, drugstores, specialized stores, supermarkets, beauty salons etc. Therefore, it was necessary to define the scope of sales points which should be interviewed.

First of all, it was decided to conduct interviews with retail representatives who are located in the city of Borås. The reason behind this choice was to make a better use of available time resources for this research. In addition, at the pre-research stage distribution channels for natural & organic cosmetics were examined and it was found out that the sales points of natural & organic cosmetics usually belong to a network, which may be located in different parts of Sweden. How that was found out? First of all, authors of this research are cosmetic consumers themselves and temporary live in Sweden. Therefore, authors had general knowledge regarding places, where cosmetics can be purchased. Life experience in Sweden also showed that bigger cities, such as Gothenburg or Stockholm, naturally have more places where cosmetics are being sold. Kicks and Åhlens are the most popular places for buying cosmetics in Sweden (authors’ personal experience). The information regarding main distribution channels (e.g. Åhlens and Kicks) was also found in Euromonitor’s report (2011). At the stage when authors wanted to get the information regarding the number of natural & organic cosmetic companies which operate in Sweden (produce, import or sell), they found a report of Läkemedelsverket (2012). According to that report more than 600 companies manufacture, import or sell cosmetics in Sweden and by checking web pages of those companies, it was revealed that there are many different health-stores, where natural & organic cosmetics are being sold. Pharmacies and drugstores were also mentioned in the report of Euromonitor (2011) as sales points for natural & organic cosmetics. Therefore, it
was decided to interview the most known beauty product retailers: Kicks and Åhlens. Läkemedelsverket (2012) showed that there are a large number of health-stores, pharmacies, drugstores and specialized shops, which offer natural & organic cosmetics. Therefore, it was considered necessary to interview at least one retail representative from every type of those three sales points. It was found out that there are health-stores, drugstores, pharmacies and specialized shops in Borås, which potentially could be seen as a source of information for this study. In order to increase validity of the gathered information, authors decided not to be limited by conducting interview with only one unit of the mentioned sales points whenever possible. Therefore, the interviews were conducted with two health-stores: life - Naturligt Hälsa and Nature - Livets apotek; one drugstore: Kronans Droghandel; two pharmacies: Apoteket and Medstop Apoteket; one specialized shop - The Body Shop. The next step was to determine the criteria for the respondents from the sales points. In order to gain confidence that respondents would be able to provide reliable answers to the interview questions, it was decided to choose only those retail representatives, who had no less than two years of work experience in cosmetics distribution. In addition to this, in the stage of arranging interviews, potential respondents had to be informed regarding the scope of planned interview questions. In case if a respondent thought that she/he is not able to answer the questions, the respondent was asked to recommend another person from the same sales point who could answer the questions.

It was decided to conduct interviews with retail representatives on April 28, 2012. Interview date and times were arranged one week in advance by contacting retail representatives in person and asking about making an interview. Retail representatives were informed about the topics of the interview: new customer trends in cosmetics, consumer preferences in natural & organic cosmetics, the demand for natural & organic cosmetics and a number of natural & organic cosmetic brands, which are presented in the sales point. When contacting Kicks, Åhlens and The Body Shop, the recommendation to talk to the manager was received. Interviews were conducted inside every store, so that stores representatives had possibility to present their selection of natural & organic cosmetics during the interview.

It was decided to conduct a semi-structured interview, which according to Bryman and Bell (2011), is one of the two qualitative interview types: unstructured interview and semi-structured interview. Semi-structured interview instances can vary greatly. Typically, during the semi-structured interview there is a list of questions, which are used by researcher on concrete themes that have to be covered. Questions may be asked in the random order, but at the same time they have to be formulated in a similar wording exploited to every interviewee. If it is necessary, interviewer can also ask some further questions regarding the topic. This type of interview suited well to this research, since authors knew beforehand what their questions scope is, however, were also interested in opportunity to ask extra questions, which would help to get a deeper insight to the questions’ topics. Therefore, retail representatives were asked a standard set of questions, which may be seen as a foundation of the interview and is presented in Appendix 1. This standard set of questions was mixed with other questions which appeared in the process of interview, so that the authors let the retail representatives talk. The semi-structured interview technique helped to have a free and open discussion and enabled authors to expand the scope of information relevant to the research. The use of this technique also made the process of interview interactive and cognitive.

As in concern of the structure of the questionnaire, both open-ended and closed questions were presented in the foundation for the interview. According to Isosvita and Lahtinen (1998) in open questions answers can be given freely without ready answer options. In open
questions the knowledge, memory and opinions of people can be clarified. Open questions will give the fundamental opinion of respondents as well as new ideas and thoughts. The goal of open-ended questions was to validate findings from and to complement the information from the Phase One (to contribute to a new knowledge). According to Schaeffer and Dykema (2011), closed questions are such questions, where the respondent may answer with a short phrase or just a single word. In other cases, closed questions may be aimed to a concrete answer or a piece of information. The goal of closed questions was to set a base for the Phase Four, viz. create a list of brands and create understanding for the Phase Three. It is important to notice that some of the closed question, e.g. “How many natural & organic cosmetics brands do you offer?” let the respondents speak freely as well, and that was achieved by the use of semi-structured interview technique, which motivated respondents to develop their answers. For example, the answer to the question could be: “we have fifteen natural & organic cosmetics brands”, however being asked the extra question (or without being asked at all) respondents could provide more information regarding how the number of natural & organic cosmetic brands changed over the time and why, which in turn would satisfy the goal set for the open-ended questions as well. According to Cresswell (2003) this way of collecting data may be referred to as a concurrent technique, which involve data collection using both quantitative and qualitative approaches simultaneously, for example, administering a questionnaire which contains both closed-ended and open-ended questions. Additional questions which are in accordance with the chosen semi-structured interview technique also were mixed in their character (both open-ended and closed).

Interviews were conducted on the arranged date and time. Every interview was conducted by three interviewers; one person asking questions and two people writing down the answers. Authors used the opportunity to leverage advantages of multiple interviewers’ technique presented by Bechhofer, Elliot, and McCrone (1984), according to them, an involvement of more than one interviewer can bring benefits to the interview process and its outcome. Following their direction, interviewers were assigned to different roles. Therefore, one of the interviewers took up the interview and made some brief notes. Another one had a mission of making extensive notes and supporting the interview process by observing the interviewee and demonstrating interest in the ongoing discussion. The third one took a passive role and followed that all the aspects were covered, as well as followed the process and asked extra questions whenever it was necessary and appropriate. All interviews were rather informal. There was a risk for interviews to be disturbed since they were conducted during opening hours of stores. Some interviews were actually disturbed by customers; however, it had no effect on the quality of the interview. All interviews were conducted in English and lasted approximately 20-30 minutes each.

**3.3.3 Phase three: interview with cosmetic consumers**

The purpose of the Phase Three was to validate findings from the Phase Two and One and confirm correctness of the chosen distribution channels for the Phase Two. Therefore, the interview with cosmetic consumers complements the whole research. This interview enabled authors to check consumer preferences for the type of cosmetics (natural & organic or not) as well as their natural & organic cosmetics' brand awareness and knowledge about this type of cosmetics. Since the choice of sales points for the Phase Two was mainly determined by authors’ personal experience and knowledge about Swedish cosmetics market, consumers were asked about the places where they buy their cosmetics. This was done in order to check
the correctness of the chosen sales points. If consumers would mention some other sales points authors would need to get back to the Phase Two and conduct more interviews.

The interview for consumers were structured and consisted of closed questions. According to Bryman and Bell (2011, p. 202), “A structured interview entails the administration of an interview schedule by an interviewer. The aim is for all interviewees to be given exactly the same interview stimulus as any other. The goal of this style of interviewing is to ensure that interviewees’ replies can be aggregated, and this can be achieved reliably only if those replies are in response to identical cues. Interviewers are supposed to read out questions exactly and in the same order as they are printed on the schedule”. The interview with consumers was personal and was conducted with randomly selected women, who use cosmetics. Women were interviewed in the streets and everyone had the same possibility to end up as a respondent, since it was supposed that all the women are cosmetic consumers. The easiest way to get people to answer to questions is when interviewer makes it by him/herself, by personal interviewing. In personal interviews the response rate is significant (95-100 %). Interview can be conducted fast and the role of respondent is easy since he/she does not have to write the answers by him/herself. The disadvantage of the method is that answers can be affected by the interviewer, the time and place as well as other people around (Isoviita and Lahtinen, 1998). In consumer interviews 15 respondents were interviewed. This amount of respondents was considered to be satisfactory, since the purpose of the Phase Three was to complement the whole research by checking the knowledge acquired from previous phases and correctness of the decision made by authors. The interviews for cosmetic consumers were conducted on 29 April 2012. Every interview did not take more than five minutes. The structure of the interview for consumers can be seen in Appendix 2.

3.3.4 Phase four: presentation of companies

The purpose of the Phase Four was to achieve a deeper understanding of the competitive environment within Swedish natural & organic cosmetics industry, thus, complementing findings (contribute to a new knowledge) from the Phase One. The Phase Four was done in the form of presentations of five companies selling natural & organic cosmetics, which compete in this industry. This resulted in getting a deeper insight to product differentiation, distribution channels, methods of interaction and cooperation with customers and comprehend how companies come to the industry and how global cosmetics industry and environment affect their business. This phase was crucial for collecting data in accordance with the theoretical framework.

After visiting the sales points of natural & organic cosmetics and conducting interviews with retail representatives (Phase Two), authors made a list of some natural and organic cosmetics brands presented on Swedish market (Table 1, p.55). However, it was also known that a number of brands available in Sweden are not limited to those brands mentioned in the list. According to Läkemedelsverket report (2012), there are around 600 companies, which have registered their cosmetics with the agency. In addition to this, it was found out that since the registration is not mandatory, the report does not include all the companies, which operate in the industry. Phase Three also proved that not all natural & organic brands are shown in the list. For example, cosmetics of such companies as Lush and Yves Rocher was very well-known among customers, some of the respondents mentioned it during the interview. The fact that not all of the companies were presented in the list did not affect the quality of the work, since only five companies could be chosen for the research. Five was considered as optimal
number since the main point was to present different natural & organic companies, so any of the companies irrespective of its presence in the list could be chosen. The emphasis was on choosing different companies in order to use more opportunities for achieving a sound understanding of the competition (holistic view), since different companies may have different strategies when it comes to pricing, promotion, target customers etc. Therefore, five companies selling natural & organic cosmetics, which are different in size, existing time, country of origin and brand awareness, were selected. The Body Shop (est. 1976) - since it is one of the pioneering companies selling natural cosmetics worldwide; Lush (est. 1995) - since it produces handmade natural & organic cosmetics products; Yves Rocher (est. 1959) - since it offers botanical beauty products (natural) and is one of the biggest companies in the industry; Estelle & Thild (est. 2007) - since it is a recently-established Swedish company offering 100 percent organic cosmetics; Weleda (est. 1921) - since it is a long-standing company offering natural & organic cosmetics and pharmaceuticals. The Body Shop, Weleda and Yves Rocher were chosen since they are the oldest players in the industry as well as have a global presence. Estelle & Thild and Lush appeared in the industry relatively recently. While all companies are foreign players in the industry, Estelle & Thild originates from Sweden. Although all five companies offer natural & organic cosmetics, their product range appears to be differentiated to some extent, and this makes it interesting and useful to present them in this research. The presentation of the companies was done with the help of information available on companies’ websites (e.g. market, products, and values) and information about companies’ financial data (Allabolag.se). Authors’ own observations from current offering of beauty products that are sold in the retail distribution channels were also used. Companies’ presentations were made according to marketing mix concept of 4P's (price, place, promotion and product). The use of the concept supports the analysis part since it reflects some components included in the five forces model, e.g. competition, differentiation of products, new entrants and substitutes.

3.3.5 Analysis of the four phases

Since the research process was based on four phases, a large amount of data needed to be collected. This data collection for the empirical part of the study had a defined structure: Phase One was followed by the Phase Two, Phase Two by the Phase Three and the Phase Three by the Phase Four. The data gathering procedure was really extensive, since each following part was a complement to a preceding one. In order not to get lost in the ocean of information, avoid any possible mistakes and keep consistency in the whole work, it was decided to conduct an intermediate analysis for Phase Two and Phase Three. Therefore, after conducting all the interviews both with retail representatives and consumers, the information derived from these phases were summarized and the most important moments were highlighted. In order to avoid any misunderstandings it was important to come to a general conclusion regarding the gathered information. This step was performed in the form of discussion between authors of this thesis. Later on, finding from Phases Two and Three were compared with data from the Phase One (market intelligence) in order to validate findings. Information which complemented Phase One/contributed to a new knowledge was reflected in the empirical part. As for the next step, industry attractiveness analysis guided by the framework used in this research was conducted in the chapter five. Although dimensions according to which market attractiveness can be studied were clear, the question how to measure the strength of each force remained. There exists no psychometrically validated measurement scale that is consistent with the theory of Porter (Pecotich, Hattie and Low, 1999). Therefore, the analysis of the Swedish natural & organic cosmetics industry was
performed by following the framework and determining the strength of each force in criteria range from low to high by using mixed interpretations of both quantitative and qualitative data. All in all, the relation between the four phases and the whole has been a very important aspect of the analysis and authors tried to maintain openness to test own interpretations by actively discussing findings and using critical approach to any conclusion made in the study.

### 3.4 Reliability, validity and replication

Nowadays three the most well-known criteria for business valuation and management research are reliability, validity and replication (Bryman and Bell, 2011). Yin (2008) suggests that for ensuring the quality of the study one might use the same constructs for both quantitative and qualitative research, i.e. reliability and validity. According to Bryman and Bell (2011, p.41) "...Reliability is concerned with the question of whether the results of study are repeatable. The term is commonly used in relation to the question of whether or not the measures that are devised for concepts in business and management (such as team-working, employee, motivation, organizational effectiveness) are consistent..." According to Bryman and Bell (2011, p.42) "... The most important criterion of research is validity. Validity is concerned with the integrity of the conclusions that are generated from a piece of research.” Finally, Replication assumes that if another researcher decides to complete the same study with the help of the same methodology the same results will be obtained (Bryman and Bell, 2011).

The reliability and validity of the Phase One of the research - market intelligence - is determined by the reliability and validity of the sources used for building that part. Those sources were: Scientific papers, Public documents from organizational sources and Virtual outputs. Validity of this research was attained throughout extensive use of those sources and therefore provides sufficient information breadth. Only trustable information sources were used for this research, since that was the main criteria for choosing sources for this part (explained in detail in the chapter 3.3.1).

Phase Two - interview with retail representatives was done with the help of both open-ended and closed-questions. The critical moment there was to assure that the questions are asked to the right people in the right way. Ensuring quality in qualitative data is always an issue under debate. Therefore, reliability and validity depended on the correctness of the choice of points of sales and respective retail representatives, as well as the accuracy of the way in which interviews were conducted, since it could affect greatly the quality of the information provided by the respondents. The motivation for chosen sales points and respondents, as well the interview procedure are described in detail in the chapter 3.3.2. In addition to the information provided in 3.3.2 it is necessary to add that in order to increase quality of the interviews (which were conducted in shops and could be easily disturb by customers), authors of the thesis informed responds in advance that if the customer comes the respondent should feel free to stop the interview and prioritize serving the customer. That helped to assure that there was no stress from both sides and interviews could go smoothly. The entire process of how the interviews were organized and their results analyzed insures reliability and validity of this part.

In the Phase Three - interview with cosmetic consumers, reliability and validity was achieved through clear and short structure of the questions, as well as the choice of interview method - personal. Random women were approached on the street and kindly ask if they have a bit of free time to answer the questions about cosmetics. Potential respondents met smiling and
friendly interviewers, and that promoted a better rate of willingness to answer the questions. In experimental way it was found out, that presentation of interviewers which sounded like “Hi! I am an international student from University of Borås, making a study on cosmetics in Sweden...” also raised interest for respondents to give a little bit of their time to the questions. There was no stress during the interviews since only those people were chosen for interviews that had time and wanted to participate. The main purpose of the interviews with cosmetic consumers was to validate findings from the Phase Two and One, viz. check if there is a trend of natural & organic cosmetics, if people really think that natural & organic cosmetics is better than artificial. Asking the question regarding places where people buy their cosmetics helped to confirm the correctness of the sales points for the Phase Two, e.g. almost all of the respondents mentioned Kicks and Åhlens, which were chosen for the phase two mainly because of the personal experience and knowledge of Swedish cosmetics market. Authors realized that a relatively small number of respondents (15) could raise concerns regarding the validity and reliability of the conclusions from those interviews, however, due to the purpose of these interviews (to check the information found in the earlier stage of data collection process) it was decided that a higher number of respondents will not significantly affect the findings.

For both of the interviews performed in this study there was a concern regarding the possibility of misunderstandings or misinterpretations of the respondents. All the interviews were made in English, since authors of thesis are international students. That brought some extra difficulties, such as decreased the efficiency of time resources available, e.g. some of the respondents (cosmetic consumers) were willing to answer the questions, however, were unsure that their English is good enough to understand and answer the questions. Both in the Phase Two and Three, the situation when a respondent forgot the right English word or was not sure if he/she understands the question correct, authors used their Swedish language skills, to help the process of interview run smoothly and feel responded comfortable in such a situation. All interviews with retail representatives were transcribed by two out of three interviewers in order to avoid any misunderstanding and misinterpretations later. In addition to this, the third interviewer could ask the respond some extra questions like “do we understand you right, you mean that....?” so that decrease the possibility of misunderstandings of the answer. The intermediate analysis of every interview was performed at the same day while the knowledge is still fresh.

As for the Phase Four - case companies, the main concern was “How to make sure that companies that are chosen for the research are representative for the purpose of the thesis?” As described in the chapter 3.3.4, companies were chosen randomly but according to the criteria - they should be different in terms of their time in the industry, products, etc. Choosing different companies was essential for this study since choosing the same would have affected the quality of the work, by disabling authors to achieve a full picture on the competition within the industry. Reliability and validity of the data and information about those companies is high, since it was the information provided by companies on their websites.

As for the whole research, the concern of possible subjectivity of the researchers in the data collection and analysis was overcome by the fact that there were three researchers involved in this study, which means that the work was built on the integration of three different perspectives and points of view. This decreases the issue of the subjectivity, since in this study it is less obvious that when the work is done by one or two authors. The structure of the
work, which implied validating the findings from each part by the coming one, promotes higher reliability and validity of the whole work.

The research is supposed to have a high replication level as the study results seem to be easily achievable by repeating the method that was chosen for this research. However, the results of the study may change over the time which is determined by the study phenomena “attractiveness of Swedish natural & organic cosmetics industry” which has a dynamic character.

3.5 Limitations

As it happens with any other studies, there are some limitations in this research. On the stage of collecting empirical material authors faced a number of issues that have brought some limitations to this research. First of all, the research in natural & organic cosmetics field is particularly scant, especially in the context of Sweden. Because of this, authors had a partial inability to present a comprehensive industry overview. Previous research regarding organic and natural cosmetic companies does not provide enough data in order to make a deep analysis of the competition in the given industry. Therefore, gathered data do not demonstrate the whole picture of the situation, since a lot of data about oldest players in this industry did not compensate the lack of data about new entrants. Authors made an attempt to make this limitation as neglectable as possible by deliberate collecting of possible information from trustable sources. This thesis is built upon the Five forces framework, which was developed by Michael Porter (1980) and modified by authors following the Brandenburger’s and Nalebuff’s (1996) approach, but improved model, just like the original one, does not fully include macro-environmental forces. Thus, this may be seen as a limitation, or a suggestion for future research.
4 Empirical part of the study

The aim of this section is to present empirical findings from global cosmetics and natural & organic cosmetics industry, with particular focus on Swedish industry.

4.1 Industry background

This section provides an insight to the global cosmetics and natural cosmetics industry, and covers the following topics: global market data, cosmetics per capita spending by countries, recession and post-recession projections, main competitors, industry trends, global natural & organic cosmetics industry, issues of greenwashing, certification, animal testing, current situation in Swedish cosmetics (including natural & organic) industry, main players, natural & organic brands available on the market.

4.1.1 Cosmetics industry

The cosmetics industry plays a significant role in the global economy and remarkably influence social life of people worldwide (Kumar, 2005). Cosmetics, fragrances and personal care products have their roots in the ancient Egypt, were they were an essential part of Egyptian health and hygiene. The evidence of the use of cosmetics was found in Greek and Roman era as well in the ancient China and Persia. Nowadays, cosmetics have become a vital part of daily routine for many people all over the world (Jain and Chaudhi, 2009).

Traditionally, the cosmetics industry refers to color cosmetics and make-up products (Dimitrova, Kaneva and Gallucci, 2009), but according to the European Cosmetics Directive of 27 July 1976 (76/768) the term also includes: skin care (facial care products, body lotions, etc.); Hair care (shampoos, scalp care, etc.); Mouth care (toothpaste, etc.); other (deodorants, feminine hygiene, etc.) (BTC Trade for Development, 2011). Kumar (2005) suggested the following structure of the industry in terms of product classification and sales level for different product families as for year 2001 (Figure 10).

Figure 10. Classification of industry products and global market size for 2001 (Kumar, 2005, p.1264).
4.1.2 Industry data

In the last three decades the cosmetics industry has been in the period of extensive growth and is about to reach the maturity stage (Kumar, 2005). The world cosmetics and toiletries market demonstrated a strong growth from 170 billion EUR in 2001 to more than 220 billion EUR in 2007. Despite economic downturn of 2008-2009 the market was expected to recover and reach 250 billion EUR by 2011 (Dimitrova, Kaneva and Gallucci, 2009). Situation on the market improved since 2008-2009, and mature markets of industrialized countries still have a big share of the global market (Xerfi Global, 2011). The European cosmetics industry represent one third of the global cosmetics market and has sales level close to the sales of USA and Japan together (European Comission, 2012). Figure 11 demonstrates that European market (EU 27) of perfumery and cosmetics is the largest in the world 67 000 million €/year, followed by USA with 38 000 million €/year, and Japan with 29 000 million €/year.

![Figure 11. Global cosmetics and toiletries market (European commission, 2012, p.7)](image)

According to Colipa (2010), among the European countries, the largest cosmetics market belong to Germany (12 791 billion €), followed by France (10 724 billion €), UK (9 653 billion €), Italy (9261 billion €), Spain (7 134 billion €), Netherlands (2 783 billion €), Poland (2 754 billion €), Switzerland (1 982 billion €), Belgium/Luxemburg (1 881 billion €), and Sweden (1 594 billion €). Figure 12 illustrates European cosmetics and toiletries market situation as for year 2010.

4.1.3 Per capita spending

The data on per capita cosmetics spending shows that the average among European countries is 127 € per year (excluding Malta/Cyprus, including Norway and Switzerland). Denmark, Finland and Sweden have the highest consumption level per capita with accordingly 179 €, 173 € and 170 €. The lowest consumption rate belongs to Bulgaria 36 €, Latvia 39 € and Romania 41 €. Spending per capita from 2008 to 2010 had the most negative tendency in Greece where the per capita level dropped from 112 € in 2008 to 92 € in 2010, followed by Spain – from 171 € to 155 €, and Latvia 49 € to 39 €. The most positive tendency was shown
by Switzerland were the level of consumption increased from 219 € to 253 €, followed by Sweden – 138 € to 170 €, and Portugal – from 115 € to 145 €. Figure 12 illustrates per capita consumption in Europe from 2008 – 2010.

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<th>Country</th>
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<td><strong>Europe</strong></td>
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Figure 12. Per capita consumption by country Euros/RSP basis, 2010 (Colipa, 2010, p.2).

### 4.1.4 Recession

During the periods of recessions of 1930s, 60s and 80s the perfume, cosmetic, and personal care industry has established a “recession proof” image because sales of cosmetics were higher than mid-priced food and clothes (Kumar, 2005). However, since the recession of the early 1990s, the cosmetics industry is no longer recession proof and is affected by economic declinations or depressions. The global financial crisis of 2008 – 2009 caused slower sales growth and shift in consumer demand from high range products to mass market. Since cosmetics are perceived not as necessity goods but more as a luxury product, the sales in the industry would be seriously affected by changes in consumer spending (The cosmetics cosmos, 2007). That would be interesting to note that according to the report of NPD (2003), 23 percent of the surveyed people said that bad economy is less likely to change their shopping habits of cosmetics and personal care products. Generally, the economic downturn affects the behaviour of customers (Kumar, Massie and Dumonceaux, 2006; Kumar, 2005; Skaredoff, 2003; Euromonitor, 2011). The research finding on luxury personal care products showed that the economic slowdown promotes consumers to be much more selective about
their expenditures Skaredoff (2003). Euromonitor (2011) also claims that consumers, due to the downturn, are price-sensitive and want to make the best value of money. In the time when people are more careful with their money, cosmetic companies should rely on advertising and brand name recognition activities (Drucker, 1995). Recession is one of the reasons which change consumer behaviour which in its nature is not static and changes over the time (Skaredoff, 2003). As the consumer needs change due to lower budgets, companies need to adapt their marketing strategies in order to attract new customers and keep already existing (Premium Beauty News, 2012). According to Kumar (2005), consumers increasingly demand value and resist high prices. Unfavorable economic conditions also may cause shift in distribution channels and turning to more expensive marketing strategies. (e.g. providing customers with free samples).

### 4.1.5 Post-recession projections

According to Euromonitor International (2012), the global cosmetics industry has recently showed five percent growth mainly due to the strong performance of premium category cosmetics. The global GDP growth was equal to 5.1 percent in emerging and developed countries in 2012, and 0.2 percent in developed countries. As it is shown on the Figure 13, a positive growth is predicted from the second half of 2012. The research of Euromonitor shows the positive growth in emerging markets, while western markets were challenged a lot by the recession, which made companies to reconsider their approach to retail, innovation, product positioning and distribution.

![Global Real GDP Growth by Region: 2008-16](image)

**Figure 13.** Real GDP growth (Euromonitor International, 2012, p.3)

Premium has outperformed mass cosmetics in Western Europe, North America, and Asia Pacific (Figure 14). The rise of premium cosmetics over the mass cosmetics (Figure 15) can be seen as one of the global shifts in the industry which has started in 2011 (Euromonitor International, 2012).
Global premium beauty sales are predicted to grow and reach US$105 bn in 2016. The same report by Euromonitor International (2012) shows the global absolute value growth by premium group product categories (Figure 16).
4.2 Swedish cosmetics industry

As it was mentioned above, Sweden holds the 10th position of Europe’s largest cosmetics markets with sales of 1,594 billion € in 2010 (Colipa, 2010). The data on per capita consumption for Sweden is one of the highest in Europe – 170 € (Colipa, 2010). According to Euromonitor (2011), the cosmetics market of Sweden experienced a recording decrease in total sales in 2009 and returned back to positive value growth in 2010, and since then keeps improving. In 2010 cosmetic sales returned to value growth with 1% increase and reached 15,4 billion SEK. Nevertheless, customers remain rather price-sensitive and continuously looking for best value for money. As it is highlighted in the report, price-sensitiveness of consumers caused shift in distribution, thus mass market channels experienced a positive growth of their sales in 2010. The growth of online distribution channels in Sweden as well as increased cosmetics sales in pharmacies/drugstores (due to the break-up of the state monopoly) are mentioned by Euromonitor’s report (2011). As predicted by Euromonitor (2011), consumers will remain price-sensitive and will continue to search for making the best value of money. That would be interesting to mention, that the report predicts a closer connection in the future between cosmetics and fashion trends, which means that product-life cycles could become shorter and new product developments would be expected on a faster rate.

The cosmetics market of Sweden is dominated by the following companies (figure 17): L’Oreal AB (14,4 %), Procter & Gamble Sweden AB (9,6%), Beiersdorf (9,3%), Unilever Sverige (7,3%), Henkel Norden (5,2%), Cederroth AB (4,4%), Colgate-Palmolive AB (3,5%), Wella AB (3,3%), Invima AB (2,3%), and Johnson & Johnson Consumer Nordic (2,1%).
4.3 Natural & Organic Cosmetics industry

The history of cosmetics proves that the nature was the source of cosmetics for centuries until it was replaced by chemical substances (Boduka and Pierret, 2011). According to Kumar (2005), during 19th century chemical ingredients were used in cosmetics in order to make the cosmetics widely affordable. Nevertheless, in 20th century a rapid growth of cosmetics industry was accompanied by rising public concerns regarding safety of cosmetics, its impact on health, related environmental issues and animal testing issues. This resulted in some companies eliminating external packaging of their products, using recyclable materials and developing products which were not tested on animals. Along with increased concerns regarding an environment came health concerns. Products which were environmentally friendly were perceived as more healthy. That was a beginning of a trend of using natural ingredients in cosmetics such as aloe, cucumber, etc. Accordingly, animal testing was perceived as an act of cruelty and become widely rejected in society.

4.3.1 The lack of one set of standards and certification

Although consumer awareness regarding chemical components in the cosmetics is rising, there is still a lot of confusion when it comes to defining what natural product is and what is not. As was noted earlier in the thesis, green, environmental, eco-friendly, natural and organic products have stormed the market. A variety of different certification labels can be seen as an additional source of confusion (Organic Monitor, 2011). There is no common definition accepted by all the certifying organizations and used by companies. For example, Natural Product Association which provides Natural Seal certification and is the first and only natural certification in the United States, claims the following: “The NPA natural standard is based
on natural ingredients, safety, responsibility and sustainability. Natural Ingredients: A product labeled "natural" should be made up of only, or at least almost only, natural ingredients and be manufactured with appropriate processes to maintain ingredient purity. Safety: A product labeled "natural" should avoid any ingredient with a suspected human health risk. Responsibility: A product labeled "natural" should use no animal testing in its development. Sustainability: A product labeled "natural" should use biodegradable ingredients and the most environmentally sensitive packaging” (NPA, 2011). In Europe, a non-profit organization formed by natural cosmetic manufacturers, suggest the following definitions: “1. Natural cosmetics: The first grade contains a clear delineation of the natural, nearly natural and nature-identical materials that may be used in natural cosmetics. So-called traces of other undefined substances are not allowed. 2. Natural cosmetics with organic components: The second grade covers natural cosmetics where a proportion of at least 70% of the natural substances contained in the product stem from certified organic production. 3. Organic cosmetics: The third and highest grade defines natural cosmetics in the form of truly organic cosmetics with a proportion of at least 95% of the natural substances contained in a product stemming from certified organic production.” (Na True, 2011). French certification organization EcoCert gives the following definitions: “For the natural and organic cosmetic label: A minimum of 95% of all plant-based ingredients in the formula and a minimum of 10% of all ingredients by weight must come from organic farming. For the natural cosmetic label: A minimum of 50% of all plant-based ingredients in the formula and a minimum of 5% of all ingredients by weight must come from organic farming.” (Ecocert, 2012).

The industry becomes divided due to the absence of one set of standards and certification: depending on the country or region there is a variety of organizations and certification agencies. The lack of one set of standards and certification (which is not a mandatory for cosmetics products) sometimes results in the situation that if the product says “green” it does not really mean this. Recently, with a plenty of “green” products available on store shelves, it has been complicated to differentiate between the truly natural companies and those that position themselves as natural by “greenwashing” (Duber-Smith, 2004). Marder and Dodd (2012, p.49) defines greenwashing as “the practice of making false or unverifiable claims that a product or service is environmentally friendly”. Although, increased consumer awareness and availability of natural products has helped to mitigate some of these fake “natural” industry practices, they are still exist due to the lack of regulations regarding the term “natural” (Duber-Smith, 2004). The recent research by Organic Monitor (2011) showed that only few brands of those which are marketed as natural or organic correspond to their claims. Over 50 cosmetic brands were assessed according to the level of their naturalness based on their ingredient composition. The major finding from the study was that only few brands living up to their claims. As a result, the study suggests that the only way to clear up consumer confusion is certification.

In the context of this thesis, in order to avoid any confusion related to product definitions, we use the term “natural & organic” cosmetics for all the companies/brands, which claim to be natural/ organic without going deeper into details of the content of their products.

4.4 Natural & Organic cosmetics market of Sweden

High demand for natural & organic cosmetic as well as Fair Trade/Ethical products is the main trend of Swedish cosmetics market. High demand for natural & organic products was
obvious even in the time of recession. In the post-recession time, natural & organic market recovered faster than other segments. Products with no synthetic ingredients and preferably not tested on animals are required by Swedes, who traditionally care about their looks and love nature. Nowadays, the Swedish customers are well educated in product ingredients and aware of possible negative impacts of synthetics components in cosmetics and personal care products, and know the benefits associated with natural & organic products. Environmental friendly products of different categories have become a part of a lifestyle of many Swedes. Nowadays there is an increasing tendency, which indicates the strong interest of Swedish consumers to natural cosmetics with organic ingredients as well as it is expected that demand for natural & organic and personal care products will increase in the future period. Therefore, increasing numbers of natural and eco-friendly products' new launches became a response for consumer demands. However, natural & organic cosmetics have a rather low adoption rates with below 2% market share (Organic Monitor, 2010).

The natural & organic cosmetics industry in Sweden is represented by cosmetic companies, which in respond to consumer demand, have launched natural & organic product lines as a complementary to their main product assortment, as well as by companies which focus only on natural & organic cosmetics. The “green” cosmetic brands are offered by both international (global) and local companies. As was pointed out in the report of Organic Monitor (2010), imported brands are sold on a positive rate in Scandinavia due to high market growth rates caused by high consumer demand for cosmetics without chemical ingredients and the lack of Nordic brands. The study explains low availability of domestic brand by the statement that Scandinavian cosmetic companies are focused more on Nordic Swan eco-label, which addresses the issue of climate and sets, among other requirements, stringent energy criteria (Nordic Ecolabelling, 2012). Therefore, the market share for natural & organic cosmetics is rather low, especially when comparing with other European countries. Nevertheless, high consumer demand and increased distribution as well as new product introductions are the main drivers for the market growth. Healthy growth is expected to expand as demand for natural & organic cosmetics strengthens (Organic Monitor, 2010). Innovation is the key driver to the market growth. People want not only “green” products but also those which work. Currently, the demand on Swedish beauty and natural products market is high for anti-aging products, sun protection products, self-tanning products and products for men (Euromonitor, 2011).

4.4.1 Summary of the interviews with retail representatives and consumers

In this study eight retail representatives from natural & organic cosmetics sales points in Sweden were interviewed. Those representatives were beauty product retailers: Kicks and Åhens; health-stores: life - Naturligt Hälsa and Nature - Livets apotek; one drugstore: Kronans Droghandel; two pharmacies: Apoteket and Medstop Apoteket and one specialized shop - The Body Shop. The main findings are summarized and presented below.

All of the interviewed retail representatives emphasized that lately customers have been asking for natural & organic cosmetics more often than they did two-three years ago. In regard to the reason of customers’ interest for natural & organic cosmetics, one of the retail representatives made a suggestion that this interest was caused by the lifestyle of Swedish people, since Swedes prefer to use environmentally friendly products and pay serious attention to ingredients and how products (e.g. food and non-food) are produced. Other retail representative claimed that customers prefer to use natural & organic cosmetics since they are
less damaging to long-term health and have a lower risk of causing allergic reactions. As it was found out during the interview process with another retail representative, customers are more loyal to those products, which are produced in a cruelty-free way. For instance, it was pointed out that it is quite important for buyers to buy products which were not tested on animals. Therefore, natural & organic cosmetics, which are tested by experts in laboratories with a help of modern equipment with no animals involved, looks more attractive for the customers. The Body Shop representative also mentioned the importance of the fair trade policy which is pursued by the company. According to the representative, promotion of such kind of policy appeals to customers. In spite of the difference in respondents’ opinions regarding the cause of customers’ interest in buying natural & organic cosmetic products, all of the interviewed retail representatives pointed out that the demand for natural & organic cosmetics is growing day-by-day.

The observation showed that sales points, e.g. Kicks and Åhlens offer up to ten natural & organic cosmetic brands. There were five natural & organic cosmetic brands seen in pharmacies, ten in the drugstore and around 25 brands were available in each of the healthshops. As for Kicks and Åhlens the number of natural & organic cosmetic brands seems to be relatively small in comparison to all the cosmetic brands they offer. However, according to the respondents’ answers, they are willing to take more natural & organic brands to their assortment in order to address growing consumer demand. For example, in the time when interview was conducted with the representative from Åhlens, the shelf-place for a new organic cosmetics brand was being prepared by the staff of the store. The willingness to address consumer demand for natural & organic products was also demonstrated by Kronans drugstore, which just recently expanded its natural & organic brands portfolio by introducing a new brand Estelle & Thild. When the interview was being conducted, this new coming brand was on promotion in the drugstore - offered on special price, displayed on the windows and located in the centre of the store, so that customers can see the products of Estelle & Thild as soon as they enter.

Interview results from Kicks, Kronans Droghandel and Medstop showed that not all natural & organic cosmetic brands have the same popularity among customers. Therefore, although these sales points are interested in adding more natural & organic cosmetic brands to their assortment, but they also will easily get rid of those which are not selling in the rate they wanted them to be. For example, Greek brand Korres was on sale at half-price (at Kicks and Medstop) at the time when the interviews were made, which was explained by the retail representatives that the brand will be out of the assortment as soon as all the “leftovers” are sold. “Why some brands strike their roots on Swedish market and some not?” -according to retail representatives, it depends heavily on companies’ marketing strategy and its brand awareness among consumers. In Swedish natural & organic cosmetics industry there is nothing special that would disable any of the brands to be successful in Sweden. However, majority of retail representatives pointed out customers’ price sensitivity. In case of Korres, both Kicks and Medstop retail representatives said that brand was a bit too expensive for customers. Indeed, five of the respondents in this study pointed to Swedish brand Oliva by CCS as one of their bestsellers. According to the respondents, that brand achieved it popularity among customers thanks to its democratic price policy. Health-stores did not have that brand in their assortment; however, they mentioned Weleda’s products as one of their bestsellers. The brand Weleda is known for its relatively low price policy as well as wide availability for purchase in Sweden. In order to address a demand of price-sensitive customers who are interested in natural & organic cosmetics, Kicks has recently introduced a French low-price brand Marilou Bio to its customers. Although the price matters, as it was
emphasized by all the respondents, when customers see that products are effective/good they are willing to pay more.

It was found out that Swedish natural & organic cosmetics market is dominated by imported brands, even health-stores had only one-fourth of their assortment made of local brands. Kronans had three, pharmacies had two each, Åhlens had two and Kicks had four. According to the drugstore representative as well as one of the health-stores representatives, customers are interested in local brands. Representative from Kronans said that mostly elderly people exhibit interest in buying cosmetics which are produced by Swedish companies, while younger people prefer more globally known brands, e.g. Burt’s Bees. Another representative from the health-shop claimed, that customers are interested in Swedish natural & organic cosmetic brands, but unfortunately they have not that many to offer to their customers. The rest of the respondents have not emphasized any special interest of customers toward cosmetic products made in Sweden.

The issue of certification awareness among natural & organic cosmetics consumers was brought up in the interviews. According to the respondents, currently customers have a rather limited knowledge regarding certification of natural & organic cosmetics. However, the representative from Kicks claims that more and more customers pay attention to the certification on cosmetic products and predict that in the future consumers will be more aware about the importance of certification. It is also important to mention that half of natural and organic cosmetic brand offered in Kicks were Ecocert certificated, health stores also offer mostly certificated cosmetics.

Consumers of natural & organic cosmetics are also interested in organic complementary products to the, e.g. organic cotton. According to Kronans drugstore retail representative, since organic cotton recently has been widely used by apparel and hygiene products manufacturers, consumers become more aware of the production methods used for products which they are putting close to their skin.

When it comes to interviews with consumers, almost all the respondents mentioned Kicks, Åhlens, The Body Shop and pharmacies, as places for purchasing cosmetics and places where they expect to find natural & organic cosmetics. Interviewed women exhibited potential interest in using natural & organic cosmetics, since they know that they are healthier or just would not mind trying new products. Despite respondents’ apparent interest in natural & organic cosmetics, a lot of confusion appeared when respondents needed to answer the question which natural & organic brands do they use. Their answers were diverse and not all the mentioned brands were natural or organic for real. Consequently, no one of the respondents knew the difference between natural and organic cosmetics. Regarding certification, it was found out that only 3 people from 15 answered positively to the question “Have you ever paid attention to certification labels on cosmetics?”

4.4.2 Market players

According to Läkemedelsverket’s report (2012), there are around 600 companies in the cosmetics industry in Sweden (manufacturers, importers and vendors), which have registered their products. However, it was found out that since the registration is not mandatory, the report does not include all the companies, which operate in the industry. In order to provide examples of companies, whose products were seen in distribution channels, authors made a
list of them (Table 1). Findings from this research show that in chosen sales points there are about 40 natural & organic cosmetic brands available. The natural & organic cosmetics market is not fragmented and is dominated by pioneering companies in the industry such as The Body shop and Weleda. The rest of the market is divided by small companies or product lines developed by cosmetic companies in order to satisfy growing demand for natural & organic cosmetic products. The left column of Table 1 presents the list of companies, which specialize only on natural & organic cosmetics (e.g. The Body Shop, Weleda, etc.), while the right one lists brand lines developed by companies which specialize on all type of cosmetics (e.g. Natuvive skin care brand launched in 2009 by ACO Hud AB company as well as ‘Oliva by CCS Eco’ organic brand by Clean Chemical Sweden AB, which was also launched in 2009).

**Table 1.** Natural and/or organic cosmetic companies and brands

<table>
<thead>
<tr>
<th>Natural and/or organic cosmetic companies and their brands</th>
<th>Natural and/or organic cosmetic brands launched by cosmetic companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weleda (CH)*</td>
<td>Natutive by ACO Hud AB</td>
</tr>
<tr>
<td>The Body Shop (UK)</td>
<td>Oliva by CCS AB</td>
</tr>
<tr>
<td>Bulldog (SE)</td>
<td>Wackra by CCS AB</td>
</tr>
<tr>
<td>Estelle &amp; Thild (SE)</td>
<td>TRESemme Naturals by CCS AB</td>
</tr>
<tr>
<td>Burt’s Bees (US)</td>
<td>Q for Skin by HT Scandinavia AB</td>
</tr>
<tr>
<td>Decubal (NL)</td>
<td>Origins by Estee Lauder (US)</td>
</tr>
<tr>
<td>Korres (GR)</td>
<td>Une by Bourjois (FR)</td>
</tr>
<tr>
<td>Dr Hauschka (DE)*</td>
<td>Olive Naturell by A-Brand AB</td>
</tr>
<tr>
<td>Rosenserien (SE)</td>
<td></td>
</tr>
<tr>
<td>Marja Entrich AB (SE)</td>
<td></td>
</tr>
<tr>
<td>Annemarie Borlind (DE)</td>
<td></td>
</tr>
<tr>
<td>Rapsodine AB (SE)</td>
<td></td>
</tr>
<tr>
<td>JÅSÖN (US)</td>
<td></td>
</tr>
<tr>
<td>Kneipp (DE)</td>
<td></td>
</tr>
<tr>
<td>Madara (LV)</td>
<td></td>
</tr>
<tr>
<td>Myhavtan (SW)</td>
<td></td>
</tr>
<tr>
<td>NUXE (FR)</td>
<td></td>
</tr>
<tr>
<td>Phenomé (PL)</td>
<td></td>
</tr>
</tbody>
</table>
4.3 Five companies presented

In this chapter five companies selling natural & organic cosmetics in Swedish market were chosen in order to develop deeper understanding of the competition in Swedish natural & organic cosmetics industry. This section of case companies’ presentations continues with a comparative table of marketing mix for these companies (Table 1).

4.4.3.1 Lush

Natural cosmetic company, Lush, was developed in UK in 1995. These days company has over 700 stores and few factories in over 40 different countries. In Sweden Lush has 11 different stores. In company’s homepage they are said to believe in the words organic and fresh. Lush’s products are handmade and they use 100 % vegetarian ingredients and some of the products are even suitable for vegans. Products contain only little amount of preservatives or not at all and products are not tested on animals. Naturally, they are using as less package materials as possible and their goal is to use 100 % biodegradable, composted or recyclable materials. (Lush, 2012).

**Financial data**

Financial data of Lush Sweden AB shows that the turnover is increasing slowly but steadily. However, their net incomes have been on the minus side in years 2009 and 2010. It can be said that Lush still has big growing opportunities in Swedish market. (Table 2).

---

<table>
<thead>
<tr>
<th>Björk &amp; Berries (SE)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Marilou Bio (FR)</td>
<td></td>
</tr>
<tr>
<td>Utreklam AS (DK)</td>
<td></td>
</tr>
<tr>
<td>Tree Mendus (ZA)</td>
<td></td>
</tr>
<tr>
<td>Salviderm Naturligtvis (SW)</td>
<td></td>
</tr>
<tr>
<td>Föllinge (SE)</td>
<td></td>
</tr>
<tr>
<td>Faithinnature (UK)</td>
<td></td>
</tr>
<tr>
<td>Sasco (US)*</td>
<td></td>
</tr>
</tbody>
</table>

*Companies which offer not only cosmetics but also health & nutrition products

---

**Table 2.** Lush’s financial data (Source: allabolag.se, 2012)
Product
Lush is mainly concentrating and specialized to sell different types of soaps. Lush is offering products for bath, body care (shaving creams, body butters, body lotions, dusting powders, massage bars, deodorants, body tints, feet products, scrubs), face care (face masks, moisturizers, cleansers, toners and steamers), hair (styling gels, shampoos, conditioners, henna, hair treatments) and spa. The make-up line is limited only to lip balms and foundations. Some of the products are also suitable for men, but they do not have any specific line for men. Consumers can find Lush’s products from their own stores or they can buy them via Internet. Lush has their own magazine called “Lush Times” which emerges few times a year including information of new products, campaigns and events. (Lush, 2012).

Place
The products of Lush are sold only in their own stores. Customers can also order products via Internet. (Lush, 2012).

Price
The price of the products can be said to be low to average. The prices of the products are between 50-200 SEK. (Lush, 2012).

Promotion
Lush has started many different campaigns, for example Lush is campaigning against animal testing, human rights, environment, animal protection and use of palm oil. In their webpage Lush has several videos, pictures and articles explaining their campaigns, which gives the impression that they are serious about these issues. Lush is also performing charity work such as product donations. In their webpage they give instructions to consumers how to be more environment friendly by recycling and they also explain company’s own ways to deal with recycling, energy, water, transport etc. (Lush, 2012).

4.4.3.2 Yves Rocher

Yves Rocher was developed in France in 1959 offering botanical beauty products. The company has over 1500 stores all over the world and six of them situated in Sweden. In everyday actions Yves Rocher is respecting the nature by limiting the negative impact to environment and protecting biodiversity. The company has their own foundation called “Yves Rocher Foundation”, since 1991, whose work is to make the world greener. What makes Yves Rocher special is that it takes part in their every operation process; agriculture, plant research, ingredient development, formulas, raw material supply, manufacturing, packaging and distribution. That is the reason behind how Yves Rocher can implement its idea of providing botanical, top-quality products with a low price. (Yves Rocher, 2012).

Financial data
The financial results of Yves Rocher Suede AB showed that there has been a decrease in sales from 2008 to 2010. In 2008 the turnover was 594 027 000 sek but in 2010 only 527 907 000 sek. However if we compare to previous year, 2009, a small rise can be seen in turnover. (Table 3). This could mean that maybe Yves Rocher has lost its popularity in Sweden after new companies have entered the market.
Table 3. Yves Rocher’s financial data (Source: allabolag.se, 2012)

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover (TSEK)</th>
<th>Net income (TSEK)</th>
<th>Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>594 027</td>
<td>-26 736</td>
<td>302</td>
</tr>
<tr>
<td>2009</td>
<td>519 750</td>
<td>28 716</td>
<td>251</td>
</tr>
<tr>
<td>2010</td>
<td>527 907</td>
<td>4 992</td>
<td>200</td>
</tr>
</tbody>
</table>

**Product**
Yves Rocher’s product range is very wide and it offers almost everything customer can wish for from day care products to dietary supplements. They offer face care (skin care for every skin type, anti-age products, cleaners, face masks and scrubs), body and sun care (deodorants, moisturizers, slimming products, relaxing body care, hand & foot care), makeup (Complexion: blush, powders, concealers, foundations. Eyes: mascaras, pencils, eyeliners, eye shadows, eye makeup removers. Lips: lipsticks, lipliners, lipgloss. Nails: nail polish, manicure care), fragrances (Eau de Toilettes, fresh fragrances, natural scents, precious scents, great classic scents, children fragrances), hair care (hair products for every type of hair: dry, dull, normal, flat, oily, colored, anti-age, anti-hair-loss), bath and shower products and food supplements. Yves Rocher has also a wide range of products to men (deodorants, shower gels, shaving & after shave products, fragrances, face cleansers and moisturizers) as well as organic face care line for women. All the paper and cardboard needed comes from controlled plantation forests. (Yves Rocher, 2012).

**Place**
Yves Rocher is taking care of distribution channels by itself. So, their products are sold only in their own stores or via Internet. Company also sends leaflet to customers few times a year, and they can make their order by mail. (Yves Rocher, 2012).

**Price**
Prices of products are average (100-200 SEK), but because of various discounts and offers customer can get products easily with a low price. However, some of the products could be expensive as well (300-500 SEK), so these products could fit to consumers who want to buy more valuable products. (Yves Rocher, 2012).

**Promotion**
Yves Rocher offers all the time good discounts, such as “take 2 pay 1”, -50 % etc. and offers subscriber gifts every time you order. In their webpage company offers beauty tips such as how to take care of your skin. Yves Rocher is part of the campaign “Plan for the planet” whose goal is to plant 5 million trees in three years. (Yves Rocher, 2012).

4.4.3.3  The Body Shop

Well-known international company The Body Shop was founded on 26th March, 1976 in Brighton (England) by Anita Roddick. The company is a world producer and retailer of "naturally inspired, ethically produced beauty and cosmetics products". The establishment of
the Body Shop coincided with the moment, when Europe was going "green". The second shop was opened within six months after the first one. After realizing the idea of more new shops ‘self-financing’, which pushed the increase in franchise network, The Body Shop was expanded around the world. The first foreign franchise was opened in Brussels (Belgium) in 1978. After some time, in 1984, the company became public. Successfully operating in the market over 30 years, nowadays, The Body Shop has 2,605 stores in 65 countries with more than 1200 units of goods (The Body Shop, 2012).

After purchasing it by L’Oreal in 2006, The Body Shop kept its unique individuality and values and continues to be based in the United Kingdom. It operates independently within the L’Oreal Group and is led by the current management team of The Body Shop reporting directly to the CEO of L’Oreal, Jean-Paul Agon. With a support of L’Oreal, The Body Shop principles have remained protected. Nowadays, The Body Shop continues to pioneer new initiatives as well as the brand continues to be cited internationally as an ‘ethical green brand’ (The Body Shop, 2012).

The Body Shop International plc. has a subsidiary in Sweden that is called The Body Shop Sweden AB. The company is located in Stockholm and develops and sells hair and skin care products and similar items (The Body Shop, 2012).

Financial data
According to the financial data, the turnover of The Body Shop Sweden AB constantly increase year by year that demonstrates the company’s strong brand awareness as well as the effectiveness of its ethical campaigns aimed to promotion of The Body Shop products.

Table 4. The Body Shop’s financial data (Source: allabolag.se, 2012)

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover (TSEK)</th>
<th>Net income (TSEK)</th>
<th>Personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>167,235</td>
<td>26,018</td>
<td>89</td>
</tr>
<tr>
<td>2009</td>
<td>184,843</td>
<td>26,680</td>
<td>91</td>
</tr>
<tr>
<td>2010</td>
<td>202,919</td>
<td>33,489</td>
<td>95</td>
</tr>
</tbody>
</table>

Product
The Body Shop offers a diverse range of products for its clients, majority of which are for women, but there are several men's product lines and range of baby products approved by pediatricians. According to company's statement, it uses only natural ingredients for goods production. The wide range of The Body Shop goods includes products for the body, face, hair as well as products for home. Personal care products include: body butters, make up, full skin care ranges such as Vitamin E, Aloe Vera, Tea Tree, Vitamin C and Seaweed as well as men's skin care (The Body Shop, 2012).

Place
The company's first shop in Sweden was opened in 1979. Nowadays, there are 66 The Body Shop outlets around the whole country. The range of company's products can be found both in independent The Body Shop brand stores and in cosmetic departments of large shopping centers. (The Body Shop, 2012).
Price
The prices of the company's vary from the type of products. According to interview results, consumers have estimated company's prices as a range from average to slightly expensive. (The Body Shop, 2012).

Promotion
The company's values: against animal testing, support community fair trade, activate self-esteem, defend human rights and protect our planet, contributes to people awareness about The Body Shop and make the company one of the leader in the sphere of ethical cosmetics production. The company's goal: "To be the original, natural and ethical brand" as well as its world-wide ethical campaigns that aimed to help people from different parts of the globe made The Body Shop the world-famous company with high brand awareness among cosmetic products consumers. (The Body Shop, 2012).

4.4.3.4 Estelle & Thild
The company was established in 2007 by Pernilla Rönnberg, her daughters in whose honor the company was named Estelle & Thild became her inspiration for initial launch of children’s product line. Buoyant demand for products for children shortly led to the launch of other lines such as a complete skin and body care line for adults (Estelle & Thild, 2012). The philosophy of the company is in that Estelle & Thild believes that time for changes came. Its vision is to make a distinction, offering environmentally friendly and healthful for the body organic products (Estelle & Thild, 2012). According to Pernilla Rönnberg, CEO of Estelle & Thild, company's wide range of products was developed in cooperation with dermatologists and toxicologists. Products are grounded on plant extracts and vitamin-rich oils that are efficient for the vitality of the skin. Gentle products of Estelle & Thild can be used even by people, who have highly sensitive skin. The Ecocert (the biggest independent certification body for companies) approval of company's products demonstrates Estelle & Thild as eco-friendly, organic company, which uses only ecological ingredients and materials for its production. According to Ecocert, the company's products belong to Organic Cosmetic certification. Such high-quality products suits for pregnancy period and for nourishing both young and old skin (Estelle & Thild, 2012).

Financial data
Financial data for 2010 demonstrated the increasing growth in company’s turnover as compared with 2009 from 2 306 SEK to 58 SEK which could mean that company has a big potential in Swedish in particular and in perspective in foreign markets.

Table 5. Estelle & Thild’s financial data (Source: allabolag.se, 2012)
Product
According to Pernilla Rönnberg (2012), the first company’s product line was aimed to children as a response to the lack of quality organic cosmetics for children in a Swedish market. After the quick success it was decided to continue with launching new product line such as a complete skin and body care line for adults. Estelle & Thild’s products can be divided to the following main categories: Eco organic baby & child, eco organic skin care, eco organic body care, eco organic pregnancy and lip care. These days the company's lines include: Neroli for normal / combination skin (face cream, night cream, facial toner, cleansing gel, cleansing milk, eye balm), fragrance free for sensitive skin (face cream, night cream, facial toner, cleansing gel, cleansing milk, eye balm, facial oil), Neroli Bergamot for all types of skin (shampoo, conditioner, body wash, body oil, body lotion, hand cream) and Rose Otto for ageing skin (face cream, night cream, facial toner, cleansing milk, facial serum, facial oil, eye cream) as well as children's line (caring body cream, softening lotion, gentle shampoo, mild conditioner, smoothing body oil, delicate body wash). In order to avoid skin irritation the company try not to combine too many plant extracts in one product (Estelle & Thild, 2012).

Place
Estelle & Thild - Swedish eco-organic skin care brand is considered to be one of the most effective brands in Scandinavian region and is presented in more than 400 outlets nationwide such as leading beauty and pharmacy chains, department stores as well as online shops. Nowadays, the company opens its doors to the rest of the world. Products of Estelle & Thild are sold today in many different distribution channels including KICKS, which is the leading Nordic cosmetic chain with 160 stores in Sweden, Finland and Norway, Åhléns, Apotek Hjärtat as well as in selected stores for children and interior design stores. The mission of the company is to grow in answer to consumer demand in order to make a difference. Today’s company's resellers are in Sweden, Denmark, Norway, Finland, England, Holland, Hong Kong and Web shop (Estelle & Thild, 2012).

Price
The price for Estelle & Thild products varies depending on concrete product type. According to the one of the biggest company's distribution channel Kicks online shop's data (Kicks, 2012), presently the lowest product's price is 125 sek (shampoo, conditioner, body wash - Baby&Child line), while the highest one is 425 sek (Serum - Rose Otto). In general, company's prices can be characterized as a range from average to slightly expensive that in turn may be explained the fact that company use only organic and ecological ingredients, producing its products.

Promotion
The fact that company's products belong to Organic Cosmetic certification (Ecocert) makes consumers to be aware regarding the high quality of Estelle & Thild products as well as recyclable packaging, beautiful design and using only organic ingredients emphasize the company among others. According to Pernilla Rönnberg (2012), the main challenge for the company is to create brand awareness. Nowadays, the company has already recommended itself in Swedish market and gradually gains the increasing popularity. Estelle & Thild (2012) guarantees: “Organic certification by Ecocert, natural and organic contents, environmentally certified Nordic production and recyclable packaging.”
4.4.3.5 Weleda

Weleda was founded in 1921 in Switzerland by Ita Wegman and Rudolf Steiner. Weleda is a producer of natural organic cosmetics and pharmaceuticals. The brand that is based on principles of anthroposophy – all components of a human being is a combination of the physical body, mind and soul which should coexist in harmony. The philosophy of the company is reflected in its mission “We stimulate and inspire your body, soul and spirit. In doing so, we encourage you to draw from your own vitality and discover inner balance. This enables your individual health and authentic beauty to unfold”. The company emphasizes the importance of the harmony between man and nature plays a crucial role. Weleda is a pioneer in sustainable development with a strong corporate ethos. The brand Weleda is represented in 51 countries worldwide. The company is involved in Fair trade partnerships and is passionate about education for their farmers and their communities. High quality standards for its products and do not use animal testing. Weleda’s products have NATRUE certification. Weleda AB was established in 1958 in Sweden (Weleda, 2012).

Financial data

According to the Euromonitor Swedish report (July 2011), Weleda represents a marginal share of total beauty and personal care sales. Financial data for 2010 showed that Weleda AB had a turnover of 69,085,000 Sek, and the growth of sales keep improve which may be seen as an indicator of growing consumer demand for natural products (Table 6).

Table 6. Weleda’s financial data (Source: allabolag.se, 2012)

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover (TSEK)</th>
<th>Net income (TSEK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>65,663</td>
<td>1,749</td>
</tr>
<tr>
<td>2009</td>
<td>67,349</td>
<td>-1,976</td>
</tr>
<tr>
<td>2010</td>
<td>69,273</td>
<td>-2,816</td>
</tr>
</tbody>
</table>

Product

The range of products offered by Weleda is broad: body care (soaps, gels, washes, lotions, moisturizers, scrubs), facial care (milks, toners, lotions, moisturizers, creams, oils, masques, deodorants, balms) hair care (shampoos, conditioners, lotions, oils) and oral care (toothpastes, tooth gels, mouthwashes). Weleda’s products are aimed at people of different ages and sexes – the product range spans from products for babies to skin care products for old skin both for men and women. As it is stated on the website (weleda.se) – “Here you can buy products for the whole family”. Natural and organic cosmetic products are “tailored to the specific needs of every person in order to promote good health and well-being”. The brand uses the concept of salutogenesis – positive and healthy attitude to life, and stands for well-being and health, safety, quality, integrity, high ethics, and advanced level of expertise in the industry. Pure, organic oils from flowers, berries and fruits are used in the products of this brand. Weleda emphasizes the importance of the origin of raw materials and certification since the company is focused on producing high quality products. It also pays particular attention to the relationship with suppliers and supports Fair Trade partnerships. Weleda’s products have a standardized
product packaging for its major product lines. The package does not look prestigious or glossy, but it attracts attention with a variety of bright colors (Weleda, 2012).

**Place**
Brand Weleda is distributed through a wide range of distribution channels – mainly pharmacies and drugstores (e.g. Medstop Apotek, Apoteket, Kronans Droghandel), supermarkets (e.g. Ica), health retailers (e.g. Life Naturligt Hälso, “Nature” Livets Apotek), beauty retailers (Åhlens, Kicks), internet stores (kicks.se, allbynature.se, jollyroom.se, doftoteket.se, ecodea.se, etc.).

**Price**
Weleda uses affordable price policy, which means that target a specific consumer group which are not willing to pay “extra” for natural and organic cosmetics. The price range differs for different product group, but in average the price is below ~200 sek for any product.

**Promotion**
Offers two product catalogues one of which is focused on products for babies. Weleda proudly inform the customers about the awards its products received as well as company news by the means of web-site (blog), catalogues, e-mails, and Facebook pages with two distinctive groups – Weleda products and Weleda for Babies and Children. Support the event called “Stockholm fashion week” and use this as a way to present the products (Weleda, 2012).

### 4.4.3.6 Comparative table of presented companies

In the following table (table 7) the information of companies’ 4P; product, price, place and promotion, are collected together in order to allow the reader to perceive the differences better. This table will close the discussion about these companies.

**Table 7. Comparative 4P Table**

<table>
<thead>
<tr>
<th>The name of the company</th>
<th>Product</th>
<th>Price</th>
<th>Place</th>
<th>Promotion</th>
</tr>
</thead>
</table>
| **The Body Shop**       | - For women, men and babies<br>- Makeup<br>- Skin care<br>- Hair care<br>- Fragrances<br>- Body care<br>- Shower | Average/slightly expensive price policy | - The Body Shop brand outlets<br>- Cosmetics departments in big shopping centers<br>- Online shops | - The company's values "against animal testing, support community fair trade, activate self-esteem, defend human rights, protect our planet"
- The company’s goal: "To be the original, natural and ethical brand" as well as its world-wide ethical campaigns |
| **Lush** | - Mainly for women  
- Hair care  
- Body care  
- Skin care  
- Bath & shower: different types of soaps | Low/average price policy | - Products are sold in their Lush stores  
- Products can be ordered via Internet | - Catalogue is colorful and effective  
- Website powerful and interesting  
- Effective campaigns  
- Charity |
| **Yves Rocher** | - For women, men and children  
- Makeup  
- Skin care  
- Hair care  
- Body care  
- Fragrances  
- Shower | Average price policy | - Products are sold in Yves Rocher stores  
- Products can be ordered via Internet  
- Products can be ordered from catalogue by mail | - Catalogue is elegant with attractive offers and gifts  
- Money back-guarantee  
- Plan for the planet-campaign |
| **Weleda** | - For women, men and children  
- Body care  
- Facial care  
- Hair care  
- Oral care | Low price policy | - Pharmacies  
- Drugstores  
- Super/hypermarkets  
- Beauty retailers  
- Internet stores | - Catalogues (all products and products for babies)  
- Web-site (incl. blog)  
- E-mail news  
- Facebook  
- Support some events |
| **Estelle&Thild** | - Ecoorganic baby&child line  
- Ecoorganic skin care  
- Ecoorganic body care | Slightly expensive price policy | - KICKS  
- Åhléns  
- Apotek Hjärtat  
- Selected stores for children, interior design stores, online shops | Certified by Ecocert (Organic Cosmetic certification) |
4.4.4 Ingredient suppliers for natural and organic cosmetic companies

For achieving competitive advantages in our day companies use every opportunity to stand out among their rivals and the choice of qualitative raw materials suppliers for company's business is one of the main factors to succeed in the market. Since the competition in the cosmetic industry is very high and the range of suppliers is broad it is not enough anymore to have usual raw materials of good quality. Each company is searching for reliable, preferably certified suppliers to be able to prove the quality of ingredients that are used in their products manufacturing as well as creating brand its brand awareness by promoting different campaigns regarding sustaining suppliers from developing countries. For instance, The Body Shop company has elaborated long-dated stabilized trading relations with its main suppliers and created a particular program of purchasing - Community Trade. This program has comprises relationship with impecunious communities around the globe and obtains ingredients and other accessories straight from the developing countries. TBS largely gains from this trade, because bigger amount of raw materials may be disclosed for including them in the best-selling goods (The Body Shop, 2012). As well as the supply of raw materials would be less costly and more constant. Therefore, in TBS the management of supply chain is made in a more effective way than its rivals. Besides, TBS establishes principles for insure its suppliers to be in accord with ethical policies by purchasing solutions. Such unique ethical campaigns make TBS brand awareness and public image stronger. Comparably to its rivals, steady relationship in trade with suppliers is TBS's significantly essential competence and is a competitive advantage source (The Body Shop, 2012).

According to Lush (2012), the company is searching for ethical raw materials suppliers, which do not contain animal products and are not tested on animals. This shows that buyer-supplier relations are not only a part of creating new product, but also the way of its promotion. Demonstrating company's ethical position regarding its suppliers and their products makes consumers to know the quality and the value of goods. Modern cosmetic companies, which are dealing with natural and organic cosmetic production, have high requirements to its suppliers in order to have the best quality products in the market.

Certification is becoming necessity, if company wants to be competitive in the market. Therefore, companies' requirements to suppliers are increasing. For instance, Weleda (2012) requires from its suppliers to pass the process of the approval, asking them to document all essential procedures and processes by filling in questionnaires, descriptions of all processes as well as analysis of quality in certification agencies, at Weleda laboratory or at external one. This system of attestation comprises the visit of supplier. Weleda constantly estimates the extension of the relationship with supplier and offered materials according its established standards.

As was mentioned before, the certification is now an important factor. The young company Estelle & Thild (2012) demands from its suppliers only qualitative and certified raw materials in order to be able to satisfy exacting consumer requirements that makes this company more attractive for customers, who is looking for really organic cosmetics. Involving in a process of creating a value for the end customers, suppliers are forced to improve their products in order to be chosen by companies competing in this market. Nowadays, using the power of the right supplier is one more way for the company for creating competitive advantages by making its products unique and qualitative.
5 Analysis and Discussion

The purpose of this thesis was to study the attractiveness of Swedish natural & organic cosmetics industry by answering posted research questions: RQ1 - What are the characteristics of Swedish natural & organic cosmetic industry? RQ2 - Who are the main players in the natural & organic cosmetic industry of Sweden? RQ3 - How the consumers of natural & organic cosmetics may be characterized in Sweden? In this thesis global cosmetics industry as well as the global and Swedish natural & organic cosmetics industry were overviewed. The industry analysis was supported by findings from company level analysis, where five companies were analyzed in terms of 4Ps. The research provides business analysis of natural & organic cosmetics industry of Sweden using modified Porter’s five forces model provided by Brandenburger and Nalebuff (1996). This chapter presents the results of the empirical research and analysis of these results.

The first force reviewed in this study was “Competitors”. According to the theory of Porter (1980) intensity of rivalry in industry affects the competitive environment and influences the ability of existing firms to achieve profitability. Porter (2008) mentions six factors which refer to the degree of competitive rivalry (competition for market share) within an industry. The first factor is industry growth rate. The theory (Porter, 1980) says that if the industry growth is slow the intensity of rivalry will be high. Our findings are that the recession affected cosmetics industry; however in 2009 the market has showed positive value growth. The market share of natural & organic cosmetics in Sweden is less than 2 per cent of total cosmetics market share. The positive growth is predicted in this area due to increased consumer demand for natural & organic products. As it was pointed out by all retail representatives the demand for natural & organic cosmetics is growing and customers are asking about natural & organic brands every day. The industry has not reached a maturity stage yet. Taking into consideration all above mentioned the industry growth currently can be determined as slow/moderate.

The second factor according to Porter (2008) is competitors’ balance. If there are numerous competitors in the industry the rivalry will be more intense. If the competitors have equal market share the intensity of rivalry will increase. There are around 40 natural & organic cosmetics brands of different companies represented in chosen retail distribution channels. The industry is not fragmented. The leading companies are Lumene Oy with 1.9 percent share by National Brand Owner (NBO), The Body Shop with 1.1 percent, Oriflame with 0.9 percent and Yves Rocher with 0.7 percent (Euromonitor, 2011). These companies are competing against each other, but at the same time stand apart from the competition with the smaller players. The Body shop, Yves Rocher and Oriflame have rather equal market share. Therefore the rivalry between those companies can be intense. At the same time there are many small companies on a Swedish market which compete against each other. As a conclusion the competitors’ balance is moderate.

Another factor is exit barriers. The theory suggests that high exit barriers will cause intensity of rivalry among industry companies. Our empirical finding is that global cosmetic industry exists in a monopolistic competition market structure. This is characterized by large number of companies which differentiate their products and hold a certain degree of control over their pricing, for example L’oreal Group. L’oreal Group have different groups of brands such as consumer products (L’oreal Paris, Garnier, Maybelline New York), professional products (L’oreal Professionals, Matrix, Redken), luxury products (Lancome, Biotherm, Diesel, YSL Beaute) and active cosmetics (Vichy, La Roche Posay) as well as L’oreal bought The Body...
Shop in 2006. However, it was found out that Swedish natural & organic cosmetic industry’s structure differs from monopolistic structure. Although there are clearly visible market leaders, there are a lot of small companies which offer rather similar products. While the perfect competition is characterized by low entry and exit barriers, in the case of Swedish natural & organic cosmetics industry, exit barriers are moderate since the industry requires investments in facilities, R&D, distribution networks and all these may make exit pricey.

Low differentiation and switching costs – is one more factor mentioned by Porter (2008). The theories (Porter, 1980; 2008) suggest that if products are similar then it is easy for a customer to buy one product instead of another. If products are similar, competing companies use price as a tool for attracting customers. The findings from this research showed that companies attempt to differentiate their marketing mix. After studying the price policy of chosen five companies as well as conducting interviews with the retail representatives, it can be claimed that prices charged for products of these companies vary considerably. For example, Weleda uses a democratic price policy where the price range spans in average from 80 SEK to 160 SEK. Another company Estelle & Thild is the most “expensive” from the examples, their prices vary from 125 SEK to 425 SEK. As the findings from interview representative part showed, democratic-price natural & organic cosmetics are preferred by consumers in Sweden. Here is a need to mention, that difference in prices may be seen as a result of what ingredients are used in the product, for example, Estelle & Thild has ECOCERT certification which means that the product is for 95% made out of organic components. The Body Shop, Lush and Yves Rocher offer natural products (which contain some portion of natural ingredients). Weleda has a different type of certification called NATRUE, which also reflects to the contain of ingredients in the products, but Weleda’s prices are quite cheap. Another example from our observation is that a French brand called Marrilou Bio, which also has Ecocert certificate, came to the Swedish market with democratic price policy (their product range is from 70 SEK to 150 SEK). At the same time, the interview results with cosmetic consumers showed that only 20 per cent of respondents pay attention to the certification. According to one of the retail representatives pointed out increased consumer awareness in certification and predicted that in the future consumers will be more aware about the importance of certification. Due to currently low customer awareness of certification importance, it may be seen as a feature which does not affects the level of differentiation in this case. The conclusion is that while there are consumers, who prefer certain brands, there are also those, who easily switch from one brand to another which they think will make the best value for them. In Swedish natural & organic cosmetic industry product differentiation and switching costs are relatively low so companies may need to use price policy as well as other tools for attracting new customers and stay attractive for those who already exist. As it was found out in this research and presented with the help of five companies’ cases, despite perceived differences of those companies and cosmetic products which they offer, the overall differentiation level in natural & organic cosmetics is rather low.

The second topic of consideration was “Composite competition”, which consists of Threat of new Entrants and Substitutes as suggested in Porter’s theory (1980). Porter (1980) has made a list of several entry barriers, which make it more difficult to enter to the market. The first factor Porter (1980) brings up is product differentiation. According to the findings from the theoretical part (Smith, 1956; Porter, 1979; 1985; 1987; 1996), differentiation can be found in positioning, product features, quality, price, and distribution (distinguishing marketing mix of companies (Oxenfeldt, 1958)). Porter (1980) claims that differentiation in cosmetics is low. Our observation from the research is that differentiation in the natural & organic cosmetics industry exactly as in whole cosmetics industry, is quite low. Generally,
cosmetic products are all similar and it is quite easy for consumer to change from one brand to another (except the situation when consumers prefer only some specific brands). Based on this finding, when a company aims to enter Swedish natural & organic cosmetics market it needs to use a niche approach, since the differentiation level is low there is a need to find a market gap when entering the market. This can be seen from the case of the company, Estelle & Thild, which initially came to the market in 2007 with unique organic product line for children. Another example can be found from The Body Shop company which revolutionized not only Swedish, but also global market, with offering products reflecting high ethical standards: naturally inspired and ethically produced beauty and cosmetics products, which were not tested on animals and supported environmentalism and Fair Trade. When Lush entered the market it offered handmade cosmetic products which supported principles of sustainability. Weleda, one of the pioneering companies of natural & organic cosmetics, entered the market with democratic price policy for high quality products and accessing different distribution channels like pharmacies and drug stores. Although some differentiation of presented five companies on Swedish natural & organic cosmetics market is visible (since that was the intention of authors to choose different companies), those are more of perceived differences type. The conclusion is that the overall level of differentiation in natural & organic cosmetics industry in Sweden is low.

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The third factor Porter (1980) mentions is unequal access to supply or distribution channels. The theory suggests (Porter, 1980; 2008) that a limited number of distribution channels and a number of companies, who already use those channels, affects the difficulty of entry for new
companies (in some cases they need to create their own distribution channels). Cosmetics are products which can be sold through many different distribution channels. According to our empirical findings natural & organic cosmetics are sold in the following retail distribution channels: pharmacies and drugstores (Medstop Apotek, Kronans Droghandel and Apoteket etc.), eco-shops (Life - Naturligt Hälsa etc.), beauty retailers (Kicks etc.), department stores (Åhlens etc.), supermarkets (ICA, Coop etc.), online stores (Kicks, Eleven etc.). The number of distribution channels in Sweden is not limited. According to the consumer interview, Åhlens and Kicks are one of the most popular places to buy cosmetics. Our observation of these two retail channels showed that there is a limited number of natural & organic cosmetics brands presented (Åhlens and Kicks had around ten brands). These stores as well as other distribution channels have limited number of shelves which means that access to distribution channels for new market entrants can be hampered. However, Estelle & Thild which appeared on Swedish market in 2008 seems not to experience these problems since they succeed in getting best distribution channels and shelf spaces. In addition to these, findings from interview representatives showed that sales points are willingly accept new brands to their assortment; however, they also easily take them out of their product range if the products do not meet their sales rate expectations. Specialized eco-shops chains such as Life – Naturligt Hälsa, Bio-Naturligt, Erikssbergs hälsobutik, Gröna Boden AB, Hälsokost, Hålsokraft, Må bra hälsobutik and many others are a good opportunity for natural & organic cosmetic companies to enter the market, since they specialize on natural & organic products. However, the observation showed, that cosmetics which are sold in this kind of distribution channel are mostly organic certificated or contain a high level of natural ingredients.

The fourth factor Porter (1980) puts forward is government and legislation. According to Dumonceaux, Kumar and Massie (2006) it does not matter whether the company is selling drugs or cosmetics, the regulations are almost the same since cosmetics are in a contact to the skin. So, many governmental requirements and regulations exist while launching a product. According to this it can be stated that government and legislation sets relatively high entry barriers in cosmetic industry. The breakup of state monopoly on pharmacies and drugstores has positively impacted the share of these channels’ sales.

Substitutes are one more group included in Composite competition. According to the theory (Jarne and Tunbjer, 2006) substitute products can decrease the demand of certain product if customers think that an alternative product is more attractive. According to Porter (1980) there are three different types of substitute products. The first one is called product-for-product substitution, which means that the product can be easily replaced by similar product. According to our findings there are many cosmetic products available on the market (both natural & organic and cosmetics which contains chemical ingredients). The level of product-to-product substitution is high, since natural & organic cosmetics can easily be replaced by ordinary cosmetics.

Porter (1980) suggests that the second type in the “threat of substitutes” category is called the substitution for need. Speaking generally, nothing can replace the cosmetics as a product - natural or not. On the other hand, from a holistic perspective, make-up could be replaced by permanent makeup (pigment tattoo for eyebrows, eyes, lips), facial care products like creams could be replaced by botox injections or other surgery operations could replace the need of using cosmetics.

The theory of Porter (1980) suggests that if the consumer switching costs are low the threat of substitute products is high. Our findings showed that due to the low level of differentiation in
the cosmetics industry, consumer can easily change their preferences in cosmetic labels (brand loyal consumers as an exception). If we think non-natural cosmetics as the main substitute product for natural & organic cosmetics, the threat of substitutes is high due to the fact that natural & organic cosmetics are priced as premium cosmetics, which is above non-natural cosmetic prices, but often below prestige cosmetics products.

The theory behind composite competition (Slater and Olson, 2002) is that substitutes and new market players are interrelated and may cause disruptive innovation, which will affect all existing market players. We agree on this, since our findings from the empirical part showed that cosmetics industry thrives on companies’ ability to innovate.

The next force under review was “Customers”. Turning to traditional theory of Porter’s (1980), there are several factors that determine bargaining power of buyers which make or do not make buyers group powerful. The first factor is called concentration of buyers and purchasing volume. The theory of Porter (1980) claims, that if buyers are more concentrated than sellers, the buyer power is high and buyers may influence sellers’ ability to achieve profitability by pressuring them to use low prices, offer better service, improve quality of their products etc. The finding from the empirical part showed that since many products in the industry of natural & organic cosmetics are essential to health and hygiene, and are aimed to consumption by women and men of different ages, as well as children. The concentration of buyers on Swedish cosmetics market is high, since Swedish cosmetics market holds the 10th largest position among European countries and has the third biggest per capita consumption of cosmetics which increased for 32 EUR from 2008 and reached the level of 170 EUR in 2010 despite weak global economic climate. As for Swedish natural & organic cosmetics market, the concentration of buyers is relatively low, since the market share of natural & organic cosmetics in comparison to non-natural cosmetics is still lower. However, interviews with retail representatives and empirical findings from the part of market intelligence showed that natural & organic cosmetics are a growing trend and buyers share in the industry will continue to expand as consumers’ interest in “safe” and natural cosmetics increases. Findings from consumer interviews showed that 70 percent of respondents claimed that they use natural & organic cosmetics. However, in some respondents’ answers, misperception between non-natural and natural & organic cosmetics brands became obvious as well as the lack of knowledge in the certification area, which makes people an easy target for unscrupulous companies. It was found out that some companies have utilized this gap of consumers’ knowledge by marketing their products with false titles and making them believe their products are, for example, natural or green. Since customers are not so advanced in the question of certifications yet and do not fully understand the difference between natural & organic products, it is easy for unscrupulous companies to deceive them. Both interview results showed that currently consumers have very limited knowledge regarding differences between natural and organic cosmetic, as well as a lack of knowledge regarding the importance of certifications. Nevertheless, some of retail representatives emphasized that consumer awareness of certifications, which can be seen as a guarantee that the product is truly organic and/or natural, is growing and in the future consumers will be more aware about it.

The overall conclusion is that buyer concentration in natural & organic cosmetics industry will grow with increased consumer awareness of advantages of natural & organic cosmetics compared to non-natural ones. In addition, increased availability of this type of cosmetics promotes buyer concentration. The observation from this study showed that there are around 40 natural and/or organic cosmetic brands available in chosen retail channels. Buyers in this
industry may be seen as end-consumers which buy in small volumes, or as distributors (e.g. Ahlens, Kicks, ICA, Pharmacy and drugstore chains) which buy in large volumes in order to satisfy the demand of own retail chains. Irrespective of which type of buyer is taken, the overall concentration of buyers in the industry is defined as relatively low.

The second factor Porter (1980) puts forward is when buyers are purchasing undifferentiated or standard products, so it is easy to change supplier. According to theory (Porter, 1980; 2008) if buyers think that it is always possible to find equivalent product, vendors will start to compete against each other. The differentiation issue was discussed previously under forces of competitors and composite competition. Therefore the conclusion in this part is a straightforward one - the differentiation in cosmetics is low and it is easy for consumers to change the seller/supplier, therefore for companies on this market it is important to focus on achieving consumer loyalty.

According to the third factor by Porter (1980), if vendors are too profitable buyers can start to produce the product by themselves, and the bargaining power of customers/buyers will be high. According to findings from the empirical part the retail channels like pharmacies and drugstores, do not offer natural & organic cosmetics produced under own private labels, but if the demand for natural & organic cosmetics will increase dramatically there is a possibility that retailers such as pharmacies will start to produce natural & organic cosmetics by themselves since they already produce cosmetics under own labels. At the moment the risk for this is relatively low since product development is expensive and time consuming process, natural & organic products are rather expensive, and the current demand is not high enough for giving high return on investment.

However, this is important to note that bargaining power of buyers must be considered in the context of “new” economy. By default, consumers have a very strong power in the era of new economy. They have an instant access to information, which was made possible by having Internet and mobile web access. Consumers may write reviews on cosmetic products, recommend it to friends, share their opinions in social networks, compare prices all over the world etc. They can easily get information regarding any company, its products and services. As findings from the empirical part showed, Internet retailing in Sweden continues to grow in its share. One of the leading beauty retailers, Kicks, addressed the need of easy and convenient shopping and launched its own online store in 2010. Retail networks such as Kicks, Ahlens, pharmacies as well as other companies which produce natural & organic cosmetics use the power of social networks such as Facebook and Twitter, in order to keep contact with their customers. Porter (1980, p.26) claims that when “The buyer has full information about demand, actual market prices and even supplier costs, this usually yields the buyer greater bargaining leverage.“ This statement is absolutely valid nowadays.

The fourth force that determines industry competitiveness is “Suppliers”. According to Porter (2008), if the bargaining power of suppliers is high, they can make a pressure for industry's players when concluding a contract by increasing prices or reducing the quality of products. Therefore, if suppliers’ impact is strong it squeezes money from the industry, which is unable to manage with growth of charges. According to Porter (1980; 2008), several criteria exist for determining the bargaining power of suppliers in the selected industry. In the first case suppliers are concentrated. The results of our research showed that these days’ supply and demand of natural & organic cosmetic products grows, which result in increasing demand for natural & organic ingredients. The large numbers of suppliers, which provide raw materials to the cosmetic industry, are responding to the situation. Considering the proportion of natural
and organic products in the market, it can be argued that natural ingredients are being used more often than organic ones and the offer of natural ingredients by suppliers is higher, as well as the availability of natural-based ingredients is considerably broadened, especially for emollients, fragrances and natural surfactants. According to CBI (2009), developing countries are taking the leading position in growing of global production of organic ingredients, since EU is unable to cover the growing demand in organic and natural materials. However, the rivalry in organic materials production area is high. The bright example here is The Body Shop company: despite its products are not organic, but just natural, nowadays it is the most famous company in the world thanks to its principles and values. But even if companies have organic products and certified suppliers, it does not guarantee that they will be successful. The existence of big quantity of global and local suppliers of both natural and organic ingredients makes the level of suppliers’ concentration low.

The second factor Porter (1980) brings up is when the product of supplier is unique or differentiated. Differentiation in suppliers’ products is low, since raw materials, such as different organic ingredients, can be offered by very extensive range of suppliers for the cosmetic industry. Therefore it is not an easy task for suppliers to offer a unique product, which has not been offered by their rivals yet. Nowadays, for suppliers in the sphere of organic materials cultivation the only way to make their products unique is to demonstrate its perfect quality by certifying, for instance via Ecocert (Organic farming) or by any other certifications that will guarantee the quality of the products.

The third factor Porter (1980) considers is when suppliers do not offer any substitute product. Since there is a high density of suppliers in the cosmetics industry, who offer various types of raw materials for organic & natural cosmetic production, the probability of components substitutes’ existence is high. From this point of view, the bargaining power of suppliers is low.

Finally, the industry is analyzed by force “Complementors” as proposed in Brandenburger and Nalebuff (1996). Brandenburger and Nalebuff (1996) claim that complementary products add value to consumers of different firms (e.g. shaving razor complements shaving cream and vice versa). Natural & organic cosmetics industry includes a wide range of products which may be complemented by other products. This relation can be described as “many-to-many”. Therefore the power of complementors is rather low. Some companies, for example The Body Shop even offers complementary products to its own products.

By summarizing the results of analysis of Swedish natural & organic cosmetics industry, the industry is recovering from the economic recession. For this reason the industry growth can be characterized as moderate. There are numerous companies on the market which offer rather similar products; therefore consumer-switching costs are low. Exit barriers are moderate mainly due to the need of investments in R&D. Authors of this research observe that market is stabilized to some extent with a few large market leaders such as Yves Rocher and Oriflame. However, the competition becomes fiercer due to the environmental factors such as development of new technologies. Competitors may have access to real-time information about company’s pricing and practices, which enables competing companies to quickly match moves of one another. Based on the analysis, the conclusion is that competitor power within natural & organic cosmetics companies is moderate to high. Although there is a growing demand for natural & organic cosmetics in Sweden, there are not so many companies on the market which offer natural & organic cosmetic brands. Differentiation level is low and the capital investments for establishing brand awareness is required. Accessing distribution
channels may pose a problem, although currently there are not so many brands of natural & organic cosmetics available on the market. However, global environmental drivers of new economy lower the barriers to entry. As the history showed, global outsourcing replaced economies of scale, online distribution channels made the strength of real distribution chains weaker as well as networked companies and customers undermined the strength of copyright and patents. While one company may not cause a serious threat to competitors, numerous appearing companies on the industry can pose a serious threat to existing market players. As a conclusion, taking into consideration all above mentioned factors, the barriers for new entrants are low to moderate. The main threat in the industry comes from non-natural cosmetics since it can be considered as a close substitute product. Non-natural cosmetics make the industry more competitive and decrease profit potential for the companies in natural & organic cosmetics industry. In the industry of natural & organic cosmetics the threat of substitutes is high. Innovation which may come as a result from new entrants and substitute products pose a serious threat for market players. Therefore, the overall strength of Composite competition is moderate to high. From a perspective of end-consumer, natural & organic cosmetics companies deal with weak buyer power, because consumers are fragmented and have an insignificant influence on prices or products. If we consider retailers as buyers of natural & organic cosmetic products, then the buyer power is rather high. Retailers like Kicks, Åhlens etc. are able to negotiate pricing with natural & organic cosmetic companies. Because the differentiation in cosmetics is low it is easy for both end-consumers and retailers to change the supplier/seller and buy products from somewhere else. The conclusion is, that there is high buyer power of end-consumers which nowadays are empowered as never before. On the other hand there is a rather strong buyer power in retailers as well. Therefore, the power of customers in the industry is high. The presence of huge amount of global and local suppliers of organic & natural materials and other factors make the bargaining power of suppliers limited, therefore according to our research, the bargaining power of suppliers in cosmetic industry is low. At the same time, companies use their suppliers and the criteria of their quality to improve their position in the market, since the availability of any certifications of suppliers will guarantee the quality of ingredients as well as the development of ethical campaigns aimed to support the suppliers in developing countries, will improve company's image. Therefore, the big amount of suppliers and substitute products leads to the limited power of suppliers in the cosmetic industry.
6 Conclusion

According to Barney (2002), in order to understand the overall situation in the industry and determine opportunities for gaining profits, it is essential to analyze the industry and to determine if it is attractive enough for doing business. Therefore, the goal of this research was to study the attractiveness of Swedish natural & organic cosmetics industry. Porter’s five forces model was seen as the most appropriate tool for this research in order to analyze the current situation in the chosen industry and determine its attractiveness. As it was found out during the research process, Porter’s original model needed to be modified in order to take a full advantage of it, that is why the approach suggested by Brandenburger and Nalebuff (1996) was followed in this research. By following this approach the relevant data for the empirical part was gathered and analyzed. The most important findings are summarized below and reflected back upon to the established purpose.

6.1 Characteristics of Swedish natural & organic cosmetics industry

The industry which was chosen for the analysis is the cosmetics industry, more specifically natural & organic cosmetics industry of Sweden. According to the European Cosmetics Directive of 27 July 1976 (76/768), cosmetics industry includes colour cosmetics and makeup products as well as skin care (facial care products, body lotions, etc.); hair care (shampoos, scalp care, etc.); mouth care (toothpaste, etc.); other (deodorants, feminine hygiene, etc.) (BTC Trade For Development, 2011). Therefore, natural & organic cosmetics industry combines the definition provided above, however relates to cosmetics which are made up of only, or at least almost only, natural and organic ingredients.

It is claimed in this thesis that there is a necessity to consider Swedish natural & organic cosmetics industry in the context of global cosmetics industry, since they are highly interrelated. The analysis from market intelligence part suggests that Swedish cosmetics industry as a part of global cosmetics industry was in the period of extensive growth from 2001 to 2007, and kept growing despite weak economic situation from 2008 to 2010. In that period per capita consumption of cosmetics in Sweden increased by 32 EUR from 2008, and reached the level of 170 EUR in 2010. The analysis of market intelligence part showed that natural & organic cosmetics industry has a small share from the whole cosmetics industry - in 2011 the sales of natural & organic cosmetics reached the level of 7 billion EUR and are predicted to increase by 5 billion EUR by 2015. Swedish industry of natural & organic cosmetics takes only 2 per cent from the total cosmetics industry. The research findings from market intelligence part which were confirmed and complemented by conducted interviews with retail representatives showed that consumer trend towards eco-products is the main driver for the market growth and sales of cosmetics do not decrease dramatically even in the period of recession. This was confirmed by the interview results with Swedish retail representatives as well as from the financial data of the presented companies offering premium natural & organic cosmetics in Sweden, since their sales were slightly affected during the period of 2008 - 2009. Therefore, natural & organic cosmetics industry growth can be characterized as slow/moderate.

Due to increased consumer interest in “green” beauty products, the global as well as Swedish natural & organic cosmetics industry has constantly evolved and today is represented by increasing number of companies offering natural beauty products. According to
Läkemedelsverket report (2012), 600 companies (manufacturers, importers, vendors) have registered their cosmetic products with the agency in Sweden, though not all of these companies offer natural or organic cosmetics. Although, there are not so many companies offering natural & organic cosmetics, the demand for this product category in Sweden is growing. As for this research, it was found out that there are around 40 natural & organic cosmetic brands represented in eight different retail channels (Åhlens, Kicks, Kronans Droghandel, Medstop Apotek, Life - Naturligt Hälsa, Apoteket and Nature - Livets apotek, The Body Shop).

Findings from this research showed that nowadays the situation in Swedish natural & organic cosmetic industry is greatly influenced by environmental factors. One of these factors is innovation, which heavily affects the industry and consequently influences the forces inside it. Since the innovation may be the result of new entrants and substitute products this may pose a serious threat for existing market players, but at the same time the global environmental drivers of new economy will lower the industry entry barriers for newcomers, as it was revealed from the analysis part.

### 6.2 Identifying competition

Global cosmetic market as well as Swedish cosmetic market are characterized by intense competition in the industry, and are dominated by top four global market players: L’Oreal, Procter & Gamble, Beiersdorf, and Unilever. The study results showed that the leading companies in the natural & organic cosmetics industry are global companies like Lumene Oy, The Body Shop and Yves Rocher, and the rest of the market is divided between small companies, both Swedish and foreign. The observation from this study showed that while there are companies, which specialize only on natural & organic cosmetics, there are also those companies, which launched product lines in response to increasing consumer demand for natural & organic cosmetics (for example, Natutive by ACO Hud AB, Oliva by CCS AB, Wackra by CCS AB, TRESemmè Naturals by CCS AB, etc.). Five companies (The Body Shop, Weleda, Yves Rocher, Lush and Estelle & Thild) were presented in this thesis in terms of their 4P. Our findings are that product differentiation by categories is low between these companies. However, fragrances are offered only by The Body Shop and Yves Rocher. Oral care can be found only in Weleda’s assortment.

Differentiation by price is medium: while Weleda employs a low price policy, Estelle & Thild’s pricing is quite average in comparison with the rest three companies. Products of all five companies are aimed to men, women and children. Nevertheless, Weleda and Estelle & Thild particularly emphasize the use of their products by babies and women. It is also worth to mention a successful brand named Bulldog, which cosmetics products are focused only on men. French brand Marilou Bio came to the market with certificated organic cosmetics on a democratic price.

The overall competition in the natural & organic cosmetics industry in Sweden was found to be moderate, due to the fact that there are numerous competitors on the market with two leading companies (Yves Rocher and The Body Shop), while the rest of competitors are relatively the same size. The industry growth is moderate; fixed costs in the industry are moderate; products are rather undifferentiated; brand loyalty is moderate, therefore consumer switching costs are low; competitors in their majority are strategically diverse - their position themselves differently from each other; exit and entry barriers are moderate mainly due to
investment in R&D. Rather low industry growth caused by economic recessions combined with growth of online distribution channels makes competition fiercer, thus, competition in the industry is defined as moderate-high.

6.3 Understanding consumers and trends

Buyers in Swedish natural & organic cosmetics industry may be seen as end-consumers which buy in small volumes or as distributors which buy in large volumes in order to satisfy the demand of own retail chains. No matter which type of buyer is taken, the overall concentration of buyers in the industry is defined as relatively low. According to the conducted analysis, there is high buyer power of end-consumers which nowadays are empowered as never before. The power of retailers is rather high as well. This means that the comprehensive bargaining power of buyers in the industry is high. Therefore, customer power may be seen as one of the driving forces in this industry.

The research showed that consumers of Swedish natural & organic cosmetics are women, men, and children. Consumers may be characterized as people, who are ready to pay extra for a perceived value, which they get by purchasing cosmetic products without chemical ingredients as well as prefer healthy lifestyle and care about environment. Natural & organic cosmetics are a trend in Sweden, since consumers are getting more aware of the importance of certifications on cosmetic products. However, it may be concluded that this trend is only started to get its power in Sweden. Although, Swedish consumers are particularly conscious about environment and sustainability issues, as well as show interest in eco-friendly products, they currently do not have enough understanding of difference between cosmetics with chemical ingredients and those without them. Nevertheless, some of retail representatives emphasized that consumer awareness of certifications, which can be seen as a guarantee that the product is truly organic and/or natural, is growing and in the future consumers will be more aware about it.

Leading distribution channels, such as Kicks and Åhlens, address current trends and demand for natural & organic cosmetics and offer a number of different organic certificated brands as well as natural products. The leading supermarket chain, ICA, also address this need to some extent by offering some natural & organic cosmetic brands such as Weleda and Salviderm Naturligtvis, which position themselves as ecological cosmetics for democratic price. Specialized eco-shops chains such as Life – Naturligt Hälsa, Bio-Naturligt, Eriksbergs Hälsobutik, Gröna Boden AB, Hälsokost, Hälsokraft, Må bra hälsobutik etc. are promoting natural & organic cosmetics products. Consumer trend in eco-cosmetics was also promoted by government break-up on chemist/pharmacies. Some of these distribution channels offer a variety of natural & organic cosmetic brands. Availability of natural & organic cosmetics in drugstores or pharmacies strengthens the image of brands as healthy and good for skin. Therefore, the consumer recognition of them increases and stimulates further purchasing of natural & organic cosmetics in other distribution channels. Since people are still price sensitive due to the downturn and want to have the best value for money, increased knowledge, as well as availability of natural & organic brands with reasonable price, will promote the consumer trend for purchasing natural & organic cosmetics. Empirical findings also showed that natural & organic cosmetics is a growing trend and the share of buyers in the industry will continue to expand as consumers’ interest in safe and natural cosmetics increases.
6.4 Defining product-substitutes and suppliers

In natural & organic cosmetic market the main substitute products are cosmetics with chemical ingredients. If consumers do not mind using normal cosmetics which include chemicals, those are very relevant substitute products for natural cosmetics, since the functionality of the products are exactly the same whether the cosmetics contains chemicals or not. Because of that, companies selling natural & organic cosmetics need to be very effective with creating brand loyalty and educating consumers about advantages of natural & organic cosmetic products. Suppliers of raw materials for cosmetic companies do not have a significant power, since there are many of them. However, authors of this research suppose that suppliers, which offer certificated ingredients, may have a certain power over companies and the need of collaboration and building long lasting relationships with them may be seen beneficial for any cosmetic company.

The final conclusion of this research is that the analysis of the industry attractiveness with the use of modified Porter’s five forces model reveals that natural & organic industry in Sweden is relatively attractive for market players. However, developments in technology have made customers to be more empowered. Customer power may be seen as a driving force in this industry. Therefore, authors of this research assume that building barriers is no longer appropriate strategy as suggested in Porter (1980). Instead, competitive advantage for companies is to be found in cooperation with customers and proactively responding to their needs. Innovation is particularly important in the industry; therefore any market player should take actions for developing new innovative products, as well as searching new ways for satisfying needs of consumers and, thus, achieving customer loyalty.
Implications and future research

The intention of this thesis was to contribute to the knowledge and improve understanding of natural & organic cosmetics industry in Sweden as well as to find out whether this industry is attractive or not for potential entrants. It was found out that the research in this field, especially in the context of Sweden, is particularly scant and needs to be improved. Therefore, to cover this gap was one of the purposes for authors of this research. Although, initially the aim of this thesis was not to build a theory, the theoretical part required an extensive research to be done on Porter’s five forces model. As a result, a deep insight into criticism as well as suggested improvements of the original Porter’s model (1980) was achieved. Disadvantages of the model were extensively researched, and its potential for application in the cosmetics industry was evaluated. The existing literature review process has brought a conclusion that a lot of research has been done with references to Porter’s five forces model and researchers seem to be interested in exploring and reinventing it. However, there are still very few papers where actual attempts for development of the model have been made. Taking this into consideration, Porter’s five forces model was modified by following Brandenburger and Nalebuff’s (1996) improvement suggestions in order to achieve more effective use of the model in the context of industry analysis.

This research has proved that Porter’s five forces model is valid, however, should be applied with consideration of some new forces and interactions between them on different levels. Further, the model could be more developed by studying the impact of the environment to an industry, since it affects and modifies industry forces over the time. An overview of external factors may be achieved by combining the model with some other strategic tools for example PEST (political, economic, social and technological) analysis. Innovation as a factor, which presents in all three levels (company, industry and environment), should be explored more in order to achieve deeper understanding of its influence to market players and industry in a whole. Other research directions come from examining other interdependence of the model as well as developing a sound understanding of industry dynamics. Other areas for future research exist primary in collecting more empirical data on this industry in order to achieve a better insight of Swedish natural & organic cosmetics market evolution. One more future research direction is to perform a case study on existing market players in order to get a deeper look from company level on the industry, as well as to give suggestions regarding appropriate strategies, which companies can apply. This can be accomplished successfully by conducting interviews with companies as well as their customers. An analysis from a company level would provide insight into the market positioning, brand value, and pricing strategies as well as activities which create customer loyalty. Perhaps, it would also be interesting to compare Swedish natural & organic cosmetics industry with some other country in Europe.

The research performed in this thesis could find practical implications for managers since it provides generic overview of the situation on a industry. It was found out that the power of customers is particularly high in natural & organic cosmetics industry and environmental factors play a significant role, because of that it is very important for any company to create an organization which is consumer-obsessed. Consumer-obsessed organization explores and follows current and potential needs of its customers in order to create superior value for them. Development of strong relationships with customers and achieving their loyalty is one of the ways to achieve competitive advantage in this industry. A company should continuously search for new opportunities to create value for its customers. Contribution to this research is
that global and local trends were defined for this industry, market evolution and statistical data were provided, distribution characteristics were identified, overview of companies were performed as well as current offering of beauty products that are sold in the retail distribution channels were analyzed. This thesis gives an insight to the industry and may serve as an assisting tool for practicing managers in order to make a right strategy choice and improve company’s competitive position.
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Appendix 1: Questionnaire for retail representatives

1. What are the current trends in cosmetics?
(Something what customers are particularly interested in?)
______________________________________________________________________________________________________

2. How often customers ask for the natural and organic cosmetic products?
______________________________________________________________________________________________________

3. How do you think, what motivates customers to prefer natural and organic cosmetics over the artificial?
______________________________________________________________________________________________________

4. How economic situation affects consumers of natural & organic cosmetics?
______________________________________________________________________________________________________

5. How many natural and organic cosmetics brands do you offer?
______________________________________________________________________________________________________

5.1 How many of them are Swedish brands?
______________________________________________________________________________________________________

5.2 Is it important for customer whether the product is made in Sweden or imported from other countries?
______________________________________________________________________________________________________

6. What is the best sold brand from natural and organic line?
______________________________________________________________________________________________________
Appendix 2: Questionnaire for consumers

1. Age: _______

2. Do you use natural & organic cosmetics?
   ____________________________________________________

If the answer is positive:

3. Which cosmetic brands do you use?
   ____________________________________________________

4. Where do you buy your natural & organic cosmetics?
   ____________________________________________________

5. Do you know the difference between organic and natural cosmetics?
   ____________________________________________________

6. Have you ever paid attention to certification labels on cosmetics?
   ____________________________________________________

If the answer is negative:

7. Are you interested in natural & organic cosmetics?
   ____________________________________________________

8. If you should buy natural cosmetics where would you expect to find them?
   ____________________________________________________

9. From where do you normally buy the cosmetics which you use?
   ____________________________________________________
University of Borås is a modern university in the city center. We give courses in business administration and informatics, library and information science, fashion and textiles, behavioral sciences and teacher education, engineering and health sciences.

In the School of Business and IT (HIT), we have focused on the students' future needs. Therefore we have created programs in which employability is a key word. Subject integration and contextualization are other important concepts. The department has a closeness, both between students and teachers as well as between industry and education.

Our courses in business administration give students the opportunity to learn more about different businesses and governments and how governance and organization of these activities take place. They may also learn about society development and organizations' adaptation to the outside world. They have the opportunity to improve their ability to analyze, develop and control activities, whether they want to engage in auditing, management or marketing.

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The research in the school is well recognized and oriented towards professionalism as well as design and development. The overall research profile is Business-IT-Services which combine knowledge and skills in informatics as well as in business administration. The research is profession-oriented, which is reflected in the research, in many cases conducted on action research-based grounds, with businesses and government organizations at local, national and international arenas. The research design and professional orientation is manifested also in InnovationLab, which is the department's and university's unit for research-supporting system development.