

Running Head: ANALYSIS OF THE GERMAN COSMETIC MARKET

**Analysis of the German cosmetics market as an entry opportunity for Colombian
companies: an approach to the hair care segment**

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Business School

Submitted by: Dennys Yurlen García Borray

ID 918432

Thesis Facilitator: Exp. Rubén Deolarte Falcó

Prof. Dr. Alejandro Useche

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Abstract

The cosmetics industry is characterized by a dynamic trend to increase and coverage of new markets. Colombian cosmetics companies signed up this trend. This positivist and descriptive research focused on the analysis of the perspective of Colombian supporting entities about the opportunity that Colombian cosmetics companies possess of entering the German market. Additional analysis was developed with the identification of a specific group of customers for the cosmetic industry in the hair care segment. The data was collected through questionnaires designed under PESTEL, Porter's Five Forces and the variables that most affect companies when they want to access a new market. The findings exposed two major opportunities for Colombians to enter the German market: Export modes or intermediate modes as contract manufacturing of natural ingredients for cosmetic products.

Key words: Macro-environment analysis, industry analysis, market analysis with the identification of a specific group of customers, entry modes.

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Chapter 1

Introduction

Background

Cosmetics Industry. The cosmetics industry is a lucrative, innovative, fast paced industry. Several cosmetic companies around the world are competing against one another to capture a share of the multi-billion-dollar cosmetic market (S. Kumar, Massie, & Dumonceaux, 2006). The cosmetics and personal care industry are divided in a wide range of products dedicated to health, beauty and well-being such as: hair care, skin care, oral and body care, perfumery and decorative cosmetics (Cosmetics Europe, 2017). The European cosmetics and personal care market is the largest in the world, valued at €77.6 billion at retail sales price in 2017 (Cosmetics Europe Association, 2017).

According to the Cosmetics Europe Association (2017) the largest European national markets for cosmetics and personal care products are namely Germany in the first place valued at €13.6 billion, second place France with €11.3 billion, third place is United Kingdom (€11.1 billion), fourth place is Italy (€10.1 billion) and Spain in the fifth place (€6.8 billion) respectively.

The hair care segment is one of the largest in the Cosmetics and Personal Care market (Statista, 2017b). The hair cosmetics industry has undergone a revolutionary change in the last

two decades, thanks to the development of new shorter procedures so that the hair looks naturally more lustrous, softer and more manageable ((Madnani & Khan, 2013).

As exposed by ‘Haircare Industry Profile’(2016):

“The German haircare market has been growing at a moderate rate. This trend is projected to continue over the forecast period with annual growth rates largely remaining below 2.5%. The German Haircare market had total revenues of \$2,386.7m in 2015, representing a compound annual growth rate (CAGR) of 2.2% between 2011 and 2015.

In comparison, the French and UK markets grew with CAGRs of 1.3% and .5% respectively, over the same period, to reach respective values of \$1,919.2m and \$2,530.6m in 2015” (p. 7).

A new trend towards nature is dominating the German cosmetics market. Kirst, (2017) exposed that herbs and plants as active ingredients were protagonists of the new cosmetic releases in Germany.

Calderón (2013) stated that organic and natural trends in cosmetics are a great opportunity in Germany for Colombian companies. The Colombian cosmetic industry since 2012 faces a process of internationalization thanks to the signing of the Free Trade Agreement with the European Union. According to European Delegation in Colombia (2012) the trade agreement between Colombia and the European Union will increase business opportunities and may lead to a considerable increase in Colombian exports to European countries. Before the trade agreement between Colombia and the European Union, Colombian cosmetics paid tariffs between 0% and 6.5%. From the entry into force of the agreement, these products will enter duty-free (Procolombia, 2014). As it is manifested by Procolombia (2014) the elimination of tariffs for cosmetic products generates an opportunity for expansion for Colombian companies.

Statement of the Problem

In 2011 mineral fuels, food products and live animals (coffee, bananas, flowers, fruits, shrimp, white corn, sugar, vegetables) constituted 87.2% of Colombian exports to the European Union (European Delegation in Colombia, 2012). Therefore, many opportunities for export diversification to the European Union emerged, such as manufactured products (soaps, cosmetics, footwear, apparel, paper) whose percentage of total exports was less than 5%, and raw materials and other products such as food and fuel (emeralds, tobacco) (European Delegation in Colombia, 2012).

In 2013, exports of cosmetics and toiletries from Colombia to the European Union totaled US \$ 3.1 million (Procolombia, 2014).

Colombia, being the second country with the greatest diversity of flora and having close to 10% of the natural areas and protected reserves of South America, presents ample possibilities for the development and consolidation of the cosmetic industry (Colombian Ministry of Commerce, Industry and Tourism, 2016).

Procolombia (2016) as an entity in charge of promoting tourism and foreign investment in Colombia mentioned that the country has potential in the elaboration of cosmetics with natural products.

“The market of cosmetics with natural ingredients is revolutionizing the traditional cosmetics industry. The sales of cosmetics based on natural ingredients in the world reached US \$ 29.2 billion in 2013, presenting a growth rate of 67% per annum in 2007 and 2013. The European Union is the main applicant for these products” (p. 4).

Through the partnership developed by the Colombian Government and the private sector with the Productive Transformation Program, it is expected that by 2032, Colombia will be

recognized as a world leader in the production and export of cosmetics, household cleaning products and absorbent products, high quality based on natural ingredients (FIDUCOLDEX, 2015).

To materialize the objectives of the productive transformation program, Colombian exporters must continue to adapt the quality standards of their products to the legal requirements of European demand. Consequently, in 2015 the Ministry of Commerce, Industry and Tourism with the United Nations Industrial Development Organization created the SAFE Program. A program of international cooperation in technical assistance, which seeks that Colombian cosmetic products can overcome the technical barriers of access to international markets (UNIDO, 2015).

According to the information provided by the Foreign Trade Data Bank of Colombia, the export of Colombian cosmetics since the signing of the free trade agreement have not had a considerable increase despite government efforts to increase exports (BACEX, 2018). Therefore, the free trade agreement of the European Union and Colombia; Germany as the main cosmetic market of the European Union, as well as, the low exports of cosmetics from Colombia and the incentives of the Colombian government to increase exports of cosmetic products to the European Union open a field to do research. A research which determines the external, competitive and specific factors of the German hair care market as a possible market entry for the Colombian enterprises.

Research Question, Aim and Objectives

For better understanding of the study the research question and objectives are formulated as follows:

How do the external, competitive and specific factors of the German cosmetic market impact the opportunity of Colombian companies entering the market? An approach to the hair care segment.

The aim of this research is to determine the external and competitive characteristics of the German cosmetic market with an approach to the hair care segment understanding the implications of Colombian companies when entering the market. The research seeks to achieve the following objectives:

To analyze the external factors of the German cosmetic industry through the Strategy tool called PESTEL

To examine within the German cosmetic industry the forces that influence the competitiveness of the industry, with an approach to the hair care segment.

To analyze the specific segment of hair care in Germany as an entry opportunity for Colombian companies

To determine the implications of market entry for a new Colombian competitor into the German cosmetics market.

Delimitations

The current research focuses on knowing the external factors, the competitive factors of the German cosmetic market in the hair care segment and a specific group of customers represented by the main players in the segment: beauty salons and final consumers.

The study of the German cosmetic market is based on the theory described by Johnson, Whittington, Scholes, Angwin, & Regner (2017). This theory indicates three main layers to analyze a market: first layer the macro-environment, second layer the industry and third layer the market in a selected segment with the identification of a specific group of customers.

On the one hand, the analysis of the first two layers is carried out under the perspective of Colombian supporting entities. These are specialized entities that support to Colombian companies in exports and foreign trade such as: The Export Promotion Agency of Colombia, The Representation of the Colombian Government in Germany and The Association of Colombian Exporters. This perspective is defined under the criteria of the PESTEL strategy tool and Porter's 5 forces aimed at the hair care segment. On the other hand, the analysis of the third layer is carried out for the beauty salons and the final consumers as the mayor players of the hair care segment, to know the opportunities that Colombian companies have in entering the German cosmetics market.

Limitations

For the present work are considered as limitations:

The economic and human resources.

This research starting point based on the validity and reliability of the secondary information.

For confidentiality, the primary information presented in this document does not contain the name of any institution, company, person or commercial establishment that collaborated to develop the research project.

Chapter 2

Theoretical Framework

In order to analyze the German cosmetic market as an entry opportunity for Colombian enterprises, it is important to consider some theoretical concepts. This chapter provides a detailed explanation of the theories and concepts applicable to the research.

Business Environment

The business environment of the firms involves all of the external effects that impact their decisions and performance (Grant, 2016). The term environment in a broader sense is used to describe everything and everyone outside the organization (Lynch, 2015). The environment is what gives organizations their means of survival (Johnson, Scholes, & Whittington, 2009). This includes customers, competitors, suppliers, distributors, government and social institutions (Lynch, 2015). The business environment can be considered in terms of three layers: macro-environment, industry and markets with specific customers (Johnson, Whittington, Scholes, Angwin, & Regner, 2017).

The macro-environment refers to the highest-level layer (Johnson et al., 2009). This consists in a set of environmental factors that affect to the organizations (Haberberg & Rieple, 2001). Under the perspective of Lynch (2015) the PESTEL tool can be used as a forecast of the

future trends. This PESTEL analysis tool provides the broad 'data' from which to identify key drivers of change. Additionally, Johnson et al. (2017) agree that these key drivers can be used to construct scenarios of possible futures.

In accordance with, Johnson et al. (2017) the next layer in the business environment is industry or sector forms. This is made up of organizations producing the same products or services (Johnson et al., 2017). This stage in analyzing the environment is to place all the main influences and their degree of relevance within a framework of analysis which provides a structure to measure the nature and intensity of competition (Dobson, Starkey, & Richards, 2004). In this context, the Porter's five forces framework is chiefly useful in understanding the attractiveness of particular industries or sectors and possible threats from outside that the competitors face. (Johnson et al., 2017). Likewise, The PESTEL analysis deals with factors outside an industry while the Porter's five forces examine inside the industry, the forces that influence the way in which companies compete and the profitability of the industry (Haberberg & Rieple, 2001).

Markets as the third layer conform the immediate surrounding of organizations (Johnson et al., 2017). In this state, customers assume different expectations and requirements whose importance can be understood throughout the concepts of market segments and critical success factors (Johnson et al., 2009). Lynch (2015) argues that "market segmentation is the identification of specific groups of customers who respond to competitive strategies from the other groups" (p.99).

Macro Environment Analysis. The macro environment consists in all the external factors that influences the performance of the organizations (Thompson & Martin, 2014).

PESTEL analysis is a model to examine the macro environment of the markets according to six

key factors: political, economic, sociocultural, technological, environmental and legal respectively (Johnson et al., 2017).

Political factors. The political element highlights the role of the state in the macro environment (Johnson et al., 2017). Governments stimulate national economies, inspiring new research projects, enforcing new taxes and introducing other initiatives that impact the organization (Lynch, 2015). Political factors can limit the decisions of firms to enter new markets (Cadle, Paul, & Turner, 2010). In the political analysis there are two main stages: first, recognizing the relevance of governance; secondly carrying out political risk analysis (Johnson et al., 2017).

Economic factors. The macro environment is also influenced by economic factors such exchange rates, currency, Gross Domestic Product, interest rates and fluctuation economic growth rates (Johnson et al., 2017). The economic condition affects how easy or how difficult it is to be successful and profitable (Thompson & Martin, 2014).

Sociocultural factors. Culture is a prevalent influence which causes all facets of social behavior and interaction (Hollensen, 2017). Sociocultural factors are relates with demography, distribution of the market, geography and culture (Johnson et al., 2017).

Technological factors. Technology factors distinguish areas of potential innovative activity and create competitive advantage (Thompson & Martin, 2014). There are some primary indicators of innovative activity: research and development budget, patenting activity and new products announcements (Johnson et al., 2017).

Environmental factors. The environmental protection has become increasingly important with globalization as the impact of an organization's actions may be felt outside of its native country and incur in financial penalties (Johnson et al., 2017). When doing research about

environmental factors, it was found three main aspects that must be considered: direct pollution obligations, product stewardship and sustainable development (Johnson et al., 2017).

Legal factors. These are related to the legal environment in which firms operate (Hollensen, 2017). This can cover a widespread variety of topics such as: labor, customer regulation, rules on ownership, competition and corporate governance (Johnson et al., 2017).

According to the afore-mentioned literature a check list for PESTEL analysis was done. As seen in the Figure 1 the main aspects for each factor of PESTEL was selected to accomplish the objectives of the research

Factor	Subfactor 1	Subfactor 2	Subfactor 3
Political	Governance	Taxation Business	Government ownership
Economic	GDP	Exchange rates	
Sociocultural	Geography	Demography	Shifts in values, lifestyle and culture
Technology	Research and development budget	Patenting activity	New products
Environmet	Sustainability	Product Stewardship	Sustainable Developments
Legal	Main Legislation	Product Safety	

Figure 1. Check list PESTEL analysis

Own elaboration according to the relevant criteria for the investigation based on the data provided by (Lynch, 2015)

Industry Analysis. The industrial level consists of all types of actors such as new entrants, suppliers, substitutes, buyers, and market competitors that address potential interest in the industry (Hollensen, 2017). Johnson et al. (2017) exposed that once the external environment is analyzed, it is necessary to develop an analysis of the industry since the impact of external factors tends to emerge in the immediate environment of the specific industry. The industry analysis lies on the deep understanding of the competitive environment. This understanding

allows companies to make sound strategies decisions (Grant, 2016). Lynch (2015) settled that the analysis is relevant for identifying attractive segments and the sources of competitive advantage within an industry.

All the authors mentioned agreed that one of the most useful frameworks for analyzing the industry and examining the competitive structure was developed by Porter. Porter's framework is fundamentally a structured means of exploratory study that analyzes the competitive environment of an organization (Dobson et al., 2004). Since 1979 Porter defined that every industry has an underlying structure, or a set of essential economic and technical features, that gives rise to these five competitive forces (Porter, 1979). Porter (2008) in his most recent article about *the five competitive forces that shape strategy* argued that “awareness of the five forces can help a company understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack” (p.25).

It is important to note that a high force can be considered as a threat because it is expected to reduce profits while a low force, in contrast, can be regarded as an opportunity because it allows the company to produce greater profits (Wheelen, Hunger, Hoffman, & Bamford, 2015). The Porter's scheme helps to analyze and industry and identify the attractiveness of it in terms of five competitive forces: rivalry among existing competitors, threat of entry, threat of substitutes, power of buyers and power of supplies (Johnson et al., 2017).

Threat of entry. New entrants come in for a market place when profit margins are attractive and the barriers to entry are low (Lynch, 2015). Johnson et al. (2017) shared the same position by saying that the greater the threat of entry, the worse it is for incumbents in an industry.

As Porter (2008) mentioned “new entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. Particularly when new entrants are diversifying from other markets, they can leverage existing capabilities and cash flows to shake up competition” (p26).

Porter argued that seven entry barriers exist. However, Hollenson (2017) in its latest version emphasizes on 5 of the 7 barriers mentioned by Porter:

Scale and experience. This is a barrier of entry related to the competitive advantages acquired by companies belonging to the industry named as incumbents. When the incumbents reach an increase in scale, it is expensive for new entrants to equalize them. Until the new entrants reach a volume of production as that of the incumbents, they will expect higher unit costs (Johnson et al., 2017). Additionally, entry barriers also come from the effects of the headline experience curve. Thompson & Martin (2014) stated that the knowledge of the market and knowing how to do things more efficiently stretches the incumbents an advantage over the new entrant. Johnson et al. (2017) complemented the position of Thomson & Martin expressing that incumbents count with advantages over technologies, raw material costs and geographical positions.

Access to supply or distributions channels. Products must be distributed to the customers through channels that may be controlled by companies in the market (Lynch, 2015). Many industries manufacturers have had control over distribution channels becoming in a barrier. Johnson et al. (2017) connoted that in some industries these barriers have been overawed by new entrants who have avoided retail distributors and sold directly to consumers.

Expected retaliation. Barriers to entry also depend on the expectations of the entrants as possible retaliation by established firms (Johnson et al., 2017). According to Grant (2016) “Retaliation against a new entrant may take the form of aggressive price-cutting, increased advertising, sales promotion or litigation” (p.72). To evade retaliation by incumbents, new entrants may initiate small-scale entry into marginal market segments (Grant, 2016).

Legislation or government action. Legal limits on new entry diverge from patent protection to regulation of markets, through to direct government action (for example, tariffs) (Johnson et al., 2017). Regulatory requirements and environmental and safety standards often place new entrants at a disadvantage because compliance costs tend to weigh more heavily on newcomers (Grant, 2016).

Bargaining power of suppliers. Suppliers are those who supply the organization with what it needs to produce (Johnson et al., 2017). The influence of a powerful supplier over the industry leads the effect to charge higher prices, limit the quality of the services or change the costs of the industry's participants (Porter, 2008). Johnson et al. (2017) mentioned three of the most important items to identify whether the power of the suppliers in an industry is high:

Concentrated suppliers. In an industry where few producers dominate supply, suppliers become more power over buyers (Johnson et al., 2017). A concentration of suppliers causes few opportunities for buyers in bargaining on prices and deliveries (Thompson & Martin, 2014).

Supplier competition threat. Suppliers have increased power where they are able to exclude buyers who are acting as intermediaries (Johnson et al., 2017).

Differentiated products. A greater differentiation of a product offered by the supplier higher the power of the supplier (Hollensen, 2017).

Bargaining power of buyers. Buyers can be represented by organization's immediate customers or for the final customers (Johnson et al., 2009). “Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to reduce price reductions” (Porter, 2008, p. 30). Johnson et al. (2017) mentioned three of the of the most important items to identify if the power of the buyers in an industry is high:

Concentrated buyers. Buyer power is increased where a few large customers account for the majority of sales (Johnson et al., 2017).

Low switching cost. The ease of changing suppliers by the buyer generates a strong purchasing negotiation position and the power to squeeze suppliers that are desperate for the business (Johnson et al., 2017).

Buyer competition threat. A buyer has power when it is in the position to integrate backward by producing the product itself (Wheelen et al., 2015).

Threat of substitute products or services. A substitute product is a product that seems to be different but can satisfy the same needs as another product (Wheelen et al., 2015). The profitability of the industry is affected when the threat of the substitutes is high. Substitute products or services spread and limit the profit potential of the industry (Porter, 2008).

The price/performance ratio. This characteristic defines the cost-benefit ratio of a substitute. The substitute product may be more expensive, but if it is more effective and offers advantage that customers value, the price ratio will be increased (Johnson et al., 2017).

Extra-industry effects. Substitute products are outside the industry to which the incumbent companies belong. Johnson et al. (2017) explained “If the buyer's switching costs for

the substitute are low the threat increases and the higher the threat, the less attractive the industry is likely to be” (p. 68).

Rivalry among existing competitors.

“Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. The degree to which rivalry drives down an industry's profit potential, first, on the intensity with which companies compete and, second, on the basis on which they compete” (Porter, 2008, p.32).

Johnson et al. (2017) emphasized five important points to bear in mind about this force:

Competitor concentration. This point refers to the number and size distribution of firms competing within the market (Grant, 2016). The higher number of competitor with equal size, the more intense competition in the industry. Less rivalrous industries tend to represent one or two dominant organizations, with smaller players (Johnson et al., 2017).

Industry growth rate. In conditions of industry growth an organization may follow the same tendency. On the contrary, in a declined industry the organization tends to fall or grow at the expense of competition. Low-growth markets are associated with price competition and low profitability (Johnson et al., 2017).

High fixed cost. Industries with high fixed costs tend to be highly rivalrous due to the high investment required. Companies will seek to reduce unit costs by increasing their volumes with price reduction, thereby triggering price wars in which everyone in the industry suffers (Johnson et al., 2017).

High exit barriers. The existence of high barriers to exit, closure or disinvestment, tends to increase rivalry. Excess capacity persists and subsequently incumbents fight to maintain market share (Johnson et al., 2017). There are exit barriers when resources are durable and specialized (Grant, 2016).

Low differentiation. In a market with little differentiated products, the rivalry increases, since there is little that prevents clients from changing their competition and the only way to compete is with the price (Johnson et al., 2017).

Owing to the literature review and as it is seen in figure 2 an explanatory diagram of the Porter strength points was designed to carry out the research:

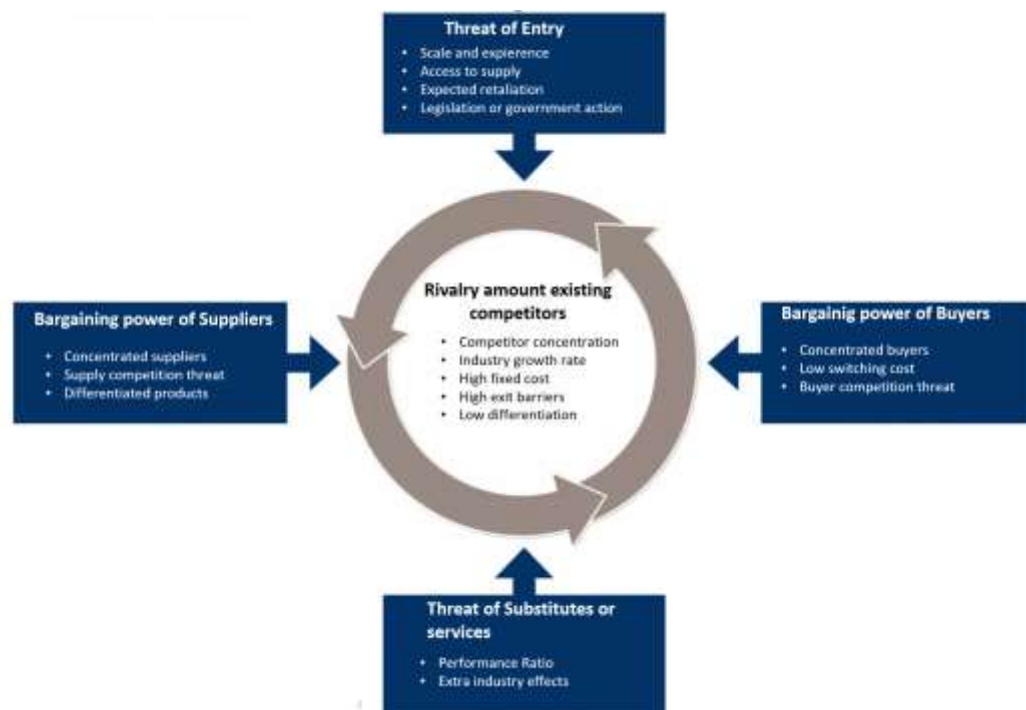


Figure 2. Porter's Five Forces for the research.

Source: Own elaboration according to the relevant criteria for the investigation based on the data provided by Johnson et al. (2017).

Market Analysis with a Selected Group of Customers. Markets contain a range of customers, each of which presents different needs (Johnson et al., 2009). Customers differences can be captured by distinguishing between strategic customers and ultimate consumers and between different market segments (Johnson et al., 2017). Market segment is a group of customers with similar needs that are different from customer needs in other parts of the market (Johnson et al., 2009). Johnson et al. (2017) exposed two issues in the market segment analysis variation in customer needs and specialization. According to González & Reverter (2006) a market analysis is a study that aims to study all market variables that may affect a company such as: product, distribution, payment, price and promotion.

Product. Referring to a product covers a very broad concept from the elaboration of a physical object or service so as to intangible to the definition of satisfaction, the reasons for use and return policies of products (Dvoskin, 2004).

Distribution. As stated by Rolnicki (1998) distribution is the “marketing channel or the path a product or service takes as it moves from manufacturer to its end user or consumer” (p.1).

Payment. The payment form is an important factor to consider when performing a market analysis, the new entrant to the market must know the way customers pay with the intention of not losing competitiveness (Dvoskin, 2004). As stated by Horne & Wachowicz (2002) in a business two discount policies are assumed: discount for purchase volumes and discount for prompt payment or cash payment. A discount policy prompt payment or payment in cash is typical in processes of instability. The former policy is usually made in sales from business to business to favor purchases in large volumes. It also applies in retailers for example the 2X1. The latter policy discourages the consumer to pay with credit cards or in installments (Dvoskin, 2004).

Price. The price is the amount of money that is set to acquire a product. Although in the long term the price is defined by the market, the product offeror is the one who takes the initiative by setting a price at the time of launching and modifying it throughout the life cycle of the product (Dvoskin, 2004).

Promotion. The promotion reflects a series of activities arranged to show the products and their brands. A new competitor must know the means by which the promotion of the products is carried out to generate a promotional strategy according to the needs (Gelder & Woodcock, 2003).

After the development of the literature on market analysis and to answer the research question on the entry implications of Colombian companies to the German cosmetic market it is necessary to know the different market entry modes that a company may use.

Market Entry Mode

A market entry mode is a necessary arrangement for the entry of company products, technology and human capital into a new country or market (Hollensen, 2017). Entry modes can be classified based on the equity or nonequity requirements of each mode. The amount of equity required by the company to use different modes affects the risk, return, and control in each mode (Cateora, Gilly, & Graham, 2012). Three broad groups emerge when one looks at the assortment of entry modes available to the firm, such as: export, intermediate and hierarchical modes (Hollensen, 2017).

Export Modes. Three major types of export may be defined: indirect, direct and cooperative export marketing (Hollensen, 2017)

Indirect Export. Within this type of export, the manufacturing firm does not take direct care of exporting activities. Instead other domestic company, such as an export house or trading company, performs these activities, often without the manufacturing firm's involvement in foreign sales of its products (Hollensen, 2017).

Direct Export. This usually occurs when the producing firm takes care of exporting activities and is in direct contact with the first intermediary in the foreign target market. The firm is involved in handling documentation, physical delivery and pricing policies, with the product being sold to agents and distributors (Hollensen, 2017).

Cooperative Export. This involves collaborative agreements with other firms (export marketing groups) concerning the performance of exporting functions (Hollensen, 2017).

Intermediate Entry Modes. As it is stated by Hollensen (2017) these market entry modes are primary vehicles for the transfer of skills and knowledge between partners.

Contract manufacturing. It enables the firm on the one hand, to count with foreign sourcing (production) without making a final commitment or capital investment and on the other hand, to develop and control research and design, marketing, distribution, sales and servicing of its products in international markets. These considerations are most important to the company with limited resources (Hollensen, 2017).

Franchising. As it is mentioned by Hollensen (2013) “It is a market entry mode that involves a relationship between the entrant (the franchisor) and a host country entity, in which the former transfer under contract, a business package (or format) that it has developed and owns, to the latter” (p. 361). Potentially, the franchise system offers an effective blending of skill centralization and operational decentralization (Cateora et al., 2012)

Hierarchical Modes. In these cases of market entry modes the firm owns and controls the foreign entry mode or organization. It is the mode of entry that requires large sums of capital for investment (Cateora et al., 2012).

Chapter 3

Research Design

An investigation of the German cosmetic market was developed to distinguish the implications of Colombian companies dedicated to the development of cosmetic products to enter the market.

According to Johnson et al. (2017) the business environment creates opportunities and threats to organizations. The business environment must be considered in three layers: the macro-environment, the industry and the market with a specialized group of customers. The research focused on the three aspects mentioned by Johnson (2017) as key factors to analyze the German cosmetics scenario and determine the implications of Colombian companies entering into the market.

The first aspect is an analysis of the external environment of the cosmetic sector. This analysis is carried out through the PESTEL tool as a coadjutant in the identification of possible factors that may affect the market entry of Colombian companies.

The second aspect is an analysis of the intermediate environment of the industry through the Porter's five forces.

And the third aspect is a specific market analysis. Due to the size of the cosmetic sector and the variety of products and services offered, the specific analysis of the market is aimed at the hair care segment to determine entry opportunities for Colombian companies to the market.

This section specifies the research methods, resources and information analysis that were used to obtain the answers to the research question.

Research Methodology

Under the concept of the methodological pyramid of Quinlan, Babin, Carr, Griffin, & Zikmund (2011) each research project is based on a philosophical framework that demonstrates the worldview within which research is located, and that can be seen in each step of the process. Quinlan (2011) exposed that research is undertaken as knowledge contribution; it is fundamentally concerned with the nature of knowledge and the means of knowledge creation. The philosophy of the research is positivist. “There is an objective reality; reality is singular and separate from consciousness” (Quinlan et al., 2011, p. 99). This research philosophy views reality as something that could be objectively ascertained and described through research (Hair, Celsi, Money, Samouel, & Page, 2016).

Type of the Study. The present work was a merely descriptive investigation of the external factors and immediate environment of the German cosmetic industry that the Colombian companies must consider when deciding to enter the market. The mayor objective of descriptive research is to describe characteristics or functions of the market (Malhotra, 2010). In words of Shao (2002) these kind of studies may establish the behavior and characteristics of targeted consumers, or the market potential for a specific product.

Descriptive studies are classified as either cross-sectional or longitudinal (Hair et al., 2016). On the one hand, Cross-sectional study is the most common form of study (Shao, 2002). It is a look at what is occurring at one moment in time (Hair et al., 2016). Cross-sectional designs involve the collection of information from any given sample of population elements only once (Malhotra, 2010). On the other hand, longitudinal studies describe events over time (Hair et al., 2016). The same people are studied over time and the same variables are measured (Shao, 2002). Cross-sectional and longitudinal studies both use a sample to describe the business elements (Hair et al., 2016). According to the analyzed literature, this research was oriented to a cross sectional design.

Population of the Study. The study used three different populations to analyze the three layers of the business environment proposed by Johnson et al. (2017).

First, to analyze the external and intermediate factors, the commercial divisions of the Colombian support entities that provide their services in Germany were interviewed: The Export Promotion Agency of Colombia, The Representation of the Colombian Government in Germany and The Association of Colombian Exporters. These entities are experts in the Colombian and German cosmetic industry. Their expertise is originated with the daily research they have led to know the German market and the advice they give to Colombian companies. The Colombian support entities have settled a clear picture of the possible implications of external and intermediate market factors on the entry of Colombian companies.

Secondly, to carry out the specific analysis of a group of customers, the city of Mainz (Germany) with two target populations was considered as a research site. These populations represent the main players of the market: final consumers and distributors. The former ones were

represented by the female population in Mainz, the latter ones represented by the beauty salons in the city as potential direct buyers or intermediaries of Colombian hair care products.

Sample and Sampling Method. The research used probability sampling methods. A probability or random sample is selected to preclude personal judgements from the selection process (Clark, 1998). Probability sampling guarantees that the sample is representative (Hair et al., 2016). For the development of the research, two probability sampling methods are used: stratified sampling and cluster sampling.

Stratified sampling. Stratified sampling is a process in which the population is partitioned into homogeneous subpopulations or strata that are distinct and non-overlapping (Hair et al., 2016). Likewise, “The strata should be mutually exclusive and collectively exhaustive in that every population element should be assigned to one and only one stratum and no population elements should be omitted” (Malhotra, 2010, p.384). A stratified sample is selected in one of two ways, proportionately or disproportionately. The former stratification selects the number of elements proportionate to the size of a relative stratum to the overall sample size. The latter stratification chooses the elements for the relative importance or the relative variability (Hair et al., 2016).

This method was selected to identify the sample of the female population of Mainz as final consumer of cosmetic products. According to the last census conducted in Germany in 2011 Mainz totals 200.334 habitants, 96.250 are women (Zensus, 2011). The female population was stratified by age to ensure that the strata was mutually exclusive and collectively exhaustive. Age ranges were selected with purchase decision and purchasing power to carry out the study as potential final consumers of Colombian hair care products. These ranges were women from 18 to

29 years old and from 30 to 49 years old. This exclusive and collective selection generated a target population of 52.372. According to Talaya (2008) when the number of the target population is known to select the sample, the finite population formula is used:

$$n = \frac{K^2 P Q N}{e^2 (N - 1) + K^2 P Q}$$

Figure 3. Formula when target population is known

Source: Own elaboration according to the relevant criteria for the research based on the data provided by Talaya (2008).

K: Confidence level. The level of confidence for the study was 90%

PQ: Variance. There are no previous studies so PQ takes the value of the ideal variance 0.25

N: Known Population

e: Error. An error of 10% is assumed

A sample of 67 women was given as a result of the above expressed formula in figure 3. This sample was stratified proportionally to the two selected age ranges. With a stratified proportional operation, 31 women from 18 to 29 years old and 36 women from 30 to 49 years old were surveyed (see appendix A).

Cluster sampling. The population is divided into heterogeneous groups (Clark, 1998). The most frequently used type of cluster sampling is geographical area sampling (Hair et al., 2016). Once the clusters are selected a random sample of cluster is made, based on probability sampling technique such as Simple Random Sampling (Malhotra, 2010).

This method was selected to identify the sample of the population of beauty salons in Mainz. Beauty salons in Mainz are geographically distributed by neighborhoods. The eight (8) neighborhoods of the city were subject to simple random mapping for two clusters resulting in the neighborhoods Altstadt and Neustadt. The two selected neighborhoods of the city of Mainz total 30 beauty salons. 100% of the beauty salons located in these neighborhoods were surveyed as a potential direct buyers or intermediaries of the Colombian hair care products. 19 of the beauty salons under study answered the questionnaire, 11 decided not to answer.

Finally, for the investigation of the external and intermediate factors of the German market, a sampling process was not carried out, since 100% of the population was interviewed. The population was represented by the support entities for Colombian companies opening to new markets located in Germany: The Export Promotion Agency of Colombia, The Representation of the Colombian Government in Germany, The Association of Colombian Exporters.

Data Collection Methods. According to Bryman & Bell (2015) research methods can be classified as quantitative research method and qualitative research method. Qualitative data is information collected from a small sample of the target population that is used to understand a group's feelings and insights (Shao, 2002). Quantitative data is information collected from many members of the target population that can be quantified and projected to represent the target population (Shao, 2002) also this means examining the data to identify and confirm relationships (Hair et al., 2016). According to the objective of the research and considering that the study was merely descriptive, the qualitative information was managed. Qualitative data is generally originated from two sources, field generated data and found data. The former data come from

interviews or focus groups and the latter data come from existing sources like social networks, newspapers, articles (Hair et al., 2016).

Having a vision from different angles on the German cosmetics market and its impact on the market entry for Colombian companies, the study was conducted under a triangulation. Triangulation is an excellent idea to look at the same topic from different angles to gain a fuller picture of what is happening in the study (Myers, 2013).

The triangulation was developed by combining an Internet research (as a secondary source of information or found data) and the application of questionnaires (as a primary source of information or filed data).

On the one hand, found data related to external and intermediate factors of the German cosmetic market was analyzed. Found data was obtained from government, academic, journalistic and beauty organizations sources.

On the other hand, being a positivist, deductive study with qualitative information, three instruments were created for the collection of field data. Firstly, a questionnaire was designed to analyze the influence of external factors and the intermediate environment of the German cosmetic market on the entry of Colombian companies. The questionnaire contained twenty-six (26) closed questions with five (5) response scales. This questionnaire was divided in three sections to provide information about: the macroenvironment, the competitive forces of the German market and the most accurate entry mode for Colombian companies (see appendix B).

Secondly, two questionnaires were designed to know the German cosmetic market in the specific segment of hair care. Questionnaires were made up of two types of questions: open response questions and closed respond questions (see appendix C and D). As well as the inclusion of González & Reverter (2006) theory. Ekinici (2015) remarked the convenience of

combining the type of questions to obtain specific data that contribute to the development of the research. The questionnaires used in the research were personally administrated and the responses were recorded by the researcher.

Criteria for Judging Research Quality. Validity and Reliability are the two mayor criteria for evaluating measurements of research (Quinlan et al., 2011).

Validity. “Validity relates to how logical, truthful, robust, sound, reasonable, meaningful and useful the research is” (Quinlan et al., 2011, p. 42). The understanding of the questions of the data collection instruments were validated with a pilot test in which the respondents were asked how they understood each question respectively.

In some cases, the implementation of the data collection methods was carried out by an interviewer. To ensure validity, the interviewers were trained in the subject of research.

Reliability. Reliability relates the consistency and repeatability of the research (Quinlan et al., 2011). For the research the questionnaires were done in the native language of the respondents. Then the collected data was translated into English. It is believed that the similar result (may not be the result) will be produced again if the same data collection procedure is followed. Additionally, the reliability of the questions to answer the research objective was validated with the theory used in chapter 2 of this document.

Triangulation. Through triangulation the phenomenon under investigation was studied by more than one perspective (Quinlan et al., 2011). The triangulation of the research was obtained by comparing secondary information (internet research) with primary information (results of the questionnaires developed by the target population).

Chapter 4

External Environment Analysis

The German market was studied according to the theory presented in Johnson et al 2017, which indicates that three layers are provided to analyze a market: first layer of the macro-environment, second layer of the industry and third layer of the market in a selected segment with the identification of a specific group of customers. This chapter presents the analysis of the external conditions of the German cosmetic market with the triangulation of primary and secondary information. The analysis of the second and third layer with an approach of hair care segment was carried out in chapter 5 and 6 of this document respectively.

PESTEL Analysis

The entities supporting Colombian companies to export or invest abroad ranked the PESTEL factor in order of importance as key drivers that could impact the Colombian cosmetics enterprises interested in entering the German market. In a scale from 1 to 5, being 1 very weak, 2 weak, 3 moderate, 4 strong, 5 very strong. As seen in the figure 4 they answered that the highest impact for most Colombian companies to enter in the German cosmetic market was the legal factor with a very strong impact, scoring 5. Followed by the technological factor (4 strong impact), in third place was the environmental factor (4 strong impact), the fourth place was

occupied by the economic factor (2.7 weak-moderate) and in the fifth place were the political and social factors (2 weak) (See appendix E).

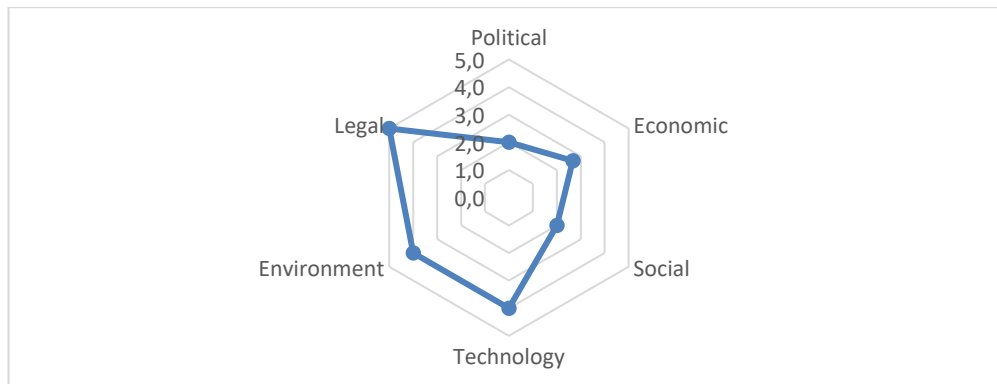


Figure 4. PESTEL Analysis.

Source: Own elaboration based on the results of the PESTEL questionnaire

The factors of the PESTEL tool according to the position of the support entities to the Colombian companies and secondary information are described below. The factors were analyzed with their most relevant sub-criteria according to Lynch, 2015.

Political Factors

The political factor is one of the factors that least impact the entry of Colombian cosmetics companies. According to the study, this factor possesses a weak impact. The Association of Colombian Exporters remarked: "The legal factor does not extant a significant impact when a Colombian company enters the market. Germany has a political stability, independent constitutional courts and is governed by European Union legislation generating a good business environment" (see appendix H). This position was confirmed with the Internet research over German government, taxation and ownership:

Governance. Governance is defined by the World Bank as:

“the traditions and institutions by which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kraay, Mastruzzi, & Kaufmann, 2010, p.3).

These three main areas are composed of six dimensions: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. According to World Bank Group (2017) statistics, Germany has had a stable governance for 10 years with ranges within the established limits of 2.5 and -2.5 points. Figure 5 illustrates the results of the six dimensions. The behavior of the "political stability" dimension is highlighted with a downward trend because of the political uncertainty that the country went through in the 2017 elections. This can be interpreted as a symptom of steady and stable governance.

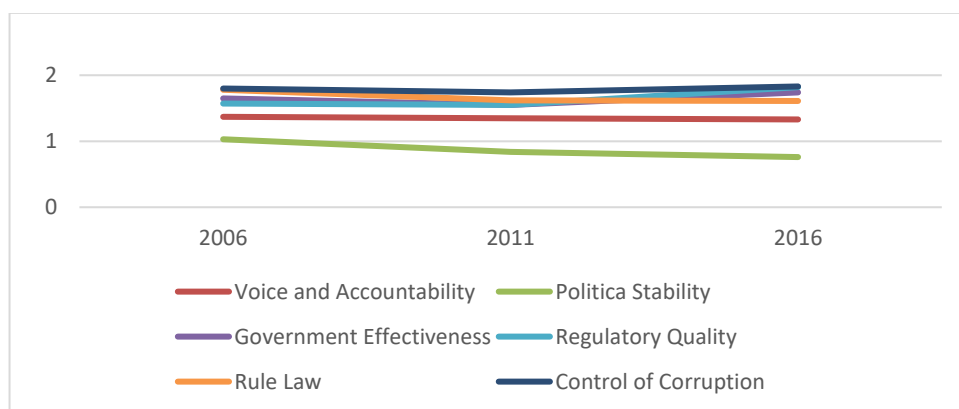


Figure 5. Worldwide Governance Indicators.

Own elaboration according to the results of the 2016 measurement of the Worldwide Governance Indicator data provided by World Bank Group (2017).

Germany's government is characterized for not making unpredictable decisions and guaranteeing the effectiveness of legal protection against illegal administrative acts (Rüb, Heinemann, Ulbricht, & Zohlhöfer, 2017). Germany's courts, in general, and the Federal Constitutional Court, in particular, enjoy a high reputation for independence both domestically and internationally (Rüb et al., 2017).

Additional Rüb et al. (2017) argued that EU regulations greatly impact on German legislation. The country's legal system is heavily influenced by EU law, but the federal government does not possess a central policy unit specifically coordinating and managing EU efforts.

Taxation and Business Environment. According to the Swiss investor advisory company VISTRA (2017):

“Companies are subject to corporate income tax and the solidarity surcharge on profits generated worldwide. Every company must register with the local tax authority to be issued with a tax number which is required for corporate income taxation” (p.14).

Nevertheless, Germany performs an incentive program and tax deductions. The German Federal Ministry of Education and Research through The New High-Tech Strategy Innovation for Germany offers support to investors in the form of subsidies (GTAI, n.d.). For the field of chemical and cosmetics industry, the German ministry has the "GO-Bio" program. "GO-Bio" encourages the creation of companies dedicated to the search and development of Bio materials to produce finished products (Federal Ministry of Education and Research, 2014).

Government Ownership of Industry. Germany counts on entities whose budget and administration are independent of the government, however, the government owns more than

50% of the shares of capital or voting rights (Export.gov, 2017). These companies are called State Own Enterprises (SOEs). In 2014 German state companies accounted for 0.4% of total companies. In the list of state companies there is no company belonging to the cosmetics industry (Export.gov, 2017).

It is evidenced that the political environment of Germany is stable and conducive to generate commercial relations, a Colombian company that wants to establish in Germany must register to fulfill with the duties of taxation. However, the Government offers subsidies and tax reduction for the chemical industry and of cosmetics that use Bio materials. The German Government ownership of the Industry is not a concern for companies that want to do business in the cosmetics industry.

Economic Factors

The economic factor was ranked 2.7 by the Colombian support entities. The three entities considered that the impact of the German economic factor tends to be weak with moderate tendency for the entry of Colombian companies, meaning that the German economic conditions favor the entry of Colombian companies to the cosmetics market.

Gross Domestic Product (GDP). The German economy is cataloged as the largest in Europe and the fourth-largest in the world. The chemical industry (cosmetology is included), is one of the most important in the country (Deloitte, 2017). The German GDP in 2017 amounted to 3,263.35 billion euros, of which the production industry generated 25.6% of the total ('Share of economic sectors in GDP', 2017).

Revenue in the German cosmetics market amounts to \$13.567 million euros in 2017. The hair segment is the second segment with the highest revenue as it is observed in figure 6.

(Statista, 2017a)

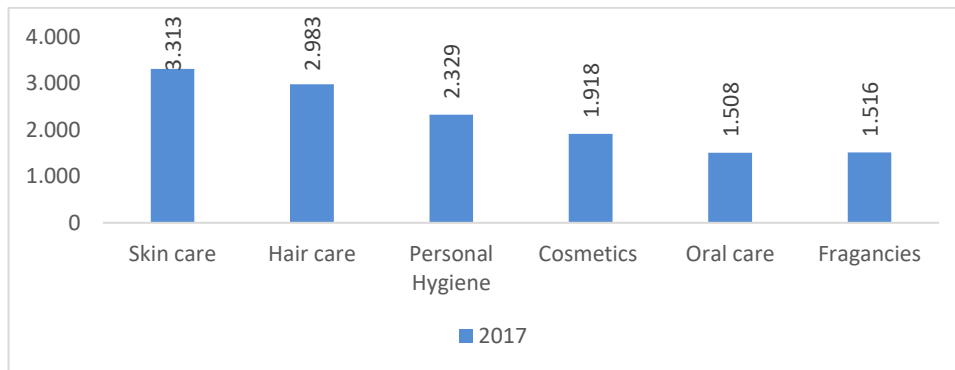


Figure 6. German Cosmetics Revenue in million €.

Source: Own elaboration according to Statista, 2018 Cosmetic market in Europe

Exchange Rates. To analyze the variations of the exchange rate between the different currencies used for the commercial transactions between Germany and Colombia, the currency was compared taking the Euro as the base currency. In 2018 a revaluation process was seen in figure 7. Colombian companies became slightly less competitive due to the variations in the exchange rates that made their exports more expensive.

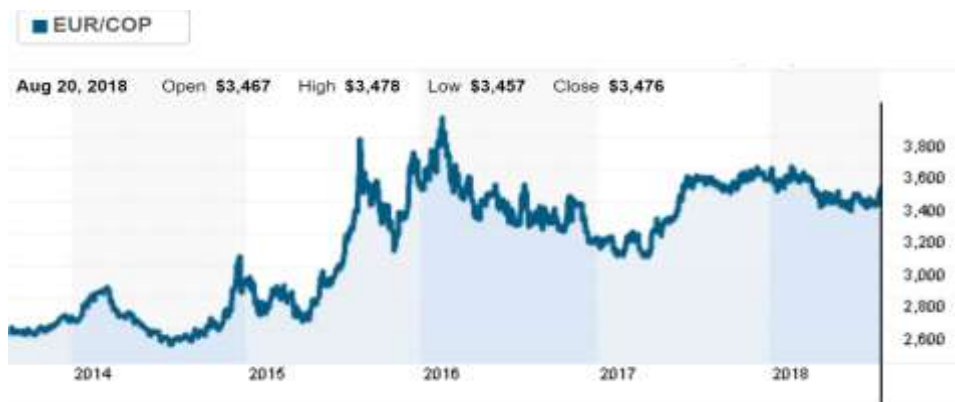


Figure 7. Exchange rate COP-EUR 2018.

Source: Retrieved from (Editorial Reuters, 2018)

Digital Economy. The cosmetic industry is being stimulated by new online retail formats, which means that the digital economy has an increasing impact on the way the industry negotiates with customers and distributes products (Cosmetics Europe, 2017). Germany leads the online sale of cosmetic products with 29% of online shoppers followed by the UK with 24% and France with 23% (Cosmetics Europe, 2017). In the electronic commerce of cosmetics, bloggers play an important role in promoting cosmetics brands through their blog or tutorials on YouTube (The Guardian, 2014). The growing digital economy may be a key factor for Colombian companies that want to increase their exports. The digital economy eliminates the barrier of access to distribution channels and avoids the costs of direct distribution.

Sociocultural Factor

As stated by the study, the sociocultural factor kept a weak impact when Colombian companies enter the market. The Representation of the Colombian Government in Germany affirmed: “This is not a factor with which Colombian companies must fight when entering the market. Colombian cosmetics companies are prepared for example to respond to the German trend for the natural products” (see appendix H).

Geography. Germany is in Central Europe bordering the Baltic Sea and the North Sea. It is located between the Netherlands and Poland, as well as being in the south of Denmark. Its capital is Berlin. It has a total area of 357,022 km², of which 348,672 km² correspond to solid ground and 8,350 km² to territorial waters and the coastline of the sea has a total length of 2,389 km (Procolombia, 2017).

Demography. The German population in 2017 reached 82.71 million inhabitants with a growth trend for 2022 at 82.8 million (Statista, 2017c).

Shifts in Values, Lifestyle and Culture. In addition to the position of The Representation of the Colombian Government in 2016 the trend of consumers of beauty products in Germany leaned towards products of youthful and healthy appearance with natural ingredients. Herbs and plants as active ingredients were protagonists of the new cosmetic releases (Kirst, 2017). The cosmetics market is driven by women and young consumers. Cosmetics consumers are hybrid consumers who make their decisions spontaneously and vary their purchases (Kirst, 2017).

Consumers use numerous sources to search for cosmetics brands such as: in-store product counseling, recommendations from friends or acquaintances (peer-to-peer marketing), television and magazine ads and online product reviews, avowed by Kirst (2017).

Technology Factors

The impact of technological factor ranked strong with 4 points when a Colombian cosmetics company enters the market. The Export Promotion Agency of Colombia highlighted that:

“in terms of finished products this factor will be ranked 5 due to the high technology value that the German companies possess. However, an opportunity is glimpsed to export natural ingredients. This reduces the impact of this factor resulting in 4” (see appendix H).

The technological strength of the German cosmetic industry is reflected in:

Research and Development Budget. The German Government is committed to the research and development of the country. The Federal Ministry of Education and Research in 2014 designed “The new high-tech strategy innovation”. This strategy aims to make Germany a

world leader in innovation through the promotion of good ideas that materialize in innovative products and services (Federal Ministry of Education and Research, 2014). Germany has 16 of the 33 scientific innovation facilities for cosmetics in Europe. These innovation centers focus on product development, market research and regulatory compliance (Cosmetics Europe, 2017).

Patent Activities. “A patent is a license of exclusive rights granted by a state to the holder to an invention, design or process for a period of time” (Alğın, 2017, p.420). In 2011 Germany ranked third in countries with the highest percentage of patents in the cosmetics industry, scoring 19%. The country takes position after France with 25% and the United States with 20% (ResearchGate, 2011).

New Products. Large companies in the cosmetics industry count with a product portfolio of around 10,000 different products and reformulate between 25% and 30% of their products every year. 10% of the reformulations are made with totally new ingredients as cited in Cosmetics Europe (Cosmetics Europe, 2017). On the one hand, large companies presented an average of 80 new ingredients in their product portfolio per year, on the other hand, Small Medium Enterprises (SME) presented 22. The portfolio of SMEs manages between 40 and 160 products (Cosmetics Europe, 2017).

The budgets for research and development, the number of patents and new products are increasing in Germany. Corporation in this country require new ingredients. What becomes an opportunity for Colombian companies to offer exclusive natural ingredients backed by Colombian biodiversity.

Environment Factors

From the perspective of the surveyed entities, the environmental factor generates a strong impact ranked 4 when a Colombian company enters the German cosmetic market. The Export Promotion Agency of Colombia emphasized: “The factor is a major barrier. Colombian companies must comply with high quality manufacturing standards and require certifications of responsibility with the environment. BIO, ECO, Fair Trade and good manufacturing practices are recommended” (See appendix H).

Sustainability. The cosmetic industry plays an important role improving environmental sustainability. In Europe this industry supports different voluntary and self-regulatory environmental initiatives. The commitments allow consumers to benefit from products profiled towards sustainability including the adoption of responsible and sustainable consumption habits (Cosmetics Europe, 2017).

Product Stewardship. The large European and German cosmetic companies handle a sustainable management of the product that completely compromises the life cycle, from the raw materials through the productive process, packaging, distribution to the final customer and the post consuming issues (Cosmetics Europe, 2017).

Sustainable Developments. In accordance with Cosmetics Europe, 2017 some of the sustainable environmental initiatives developed by cosmetic companies are: Environmental Life Cycle Assessment (LCA), reduce environmental footprint of cosmetics products, raw materials more sustainable, renewable and bio-based packaging materials, access to genetic resources and benefit-sharing, energy consumption and reduction of emissions, waste reduction, reducing water.

Based on the afore-mentioned analysis, the German cosmetics companies are positioned

with a high level of environmental development. It becomes a barrier to market access for Colombian companies. Since the transformation of the productive chain of cosmetic products into sustainable and environmentally friendly activities is a relatively new process for Colombian companies. Thus, meeting European environmental requirements may become a likely problematic situation for Colombian companies.

Legal Factors

According to the results of the questionnaire, the factor with highest impact in the Colombian company's entry is the legal. The three support entities agree on a rating of 5 for the legal factor. The Export Promotion Agency of Colombia stated:

"The fulfillment of the legal requirements in the cosmetic industry is the one that most generates difficulties to Colombian companies, some companies must change their production and packaging models to comply with the legal requirements of the European Union. By being a member of the European Union, Germany welcomes the policies on the marketing and use of cosmetic products of the Union" (see appendix H).

The European Union has specific legislation for the handling of cosmetic products. The European legislation of cosmetic products may differ from Colombian legislation, which represent to Colombian companies shifts in the productive chain, reformulation of the cosmetic ingredients and certifications in sustainable practices to comply with European requirements.

Main Legislation. Regulation (EC) No. 1223/2009 on cosmetic products is the main legal framework for finished cosmetic products that are sold in the European Union. This legislation promotes the safety of cosmetic products and standardizes the framework for

operators in the sector (European Commission, 2018).

Product Safety. The ingredients of cosmetic products are monitored by the Scientific Committee of Cosmetic Products (SCCP). This committee is composed of a group of scientific experts in toxicology, epidemiology, pharmacology and other related fields. The SCCP reviews the ingredient files and issues recommendations to the European Commission (EC) (Blaschke, 2005). The European Union prohibits the testing of cosmetic products on animals and the sale of cosmetic products tested on animals (European Commission, 2013).

Chapter 5

Industry Analysis

Under the sequence proposed in the theory of Johnson et al (2017), an analysis of the German cosmetic industry was carried out under the five forces described by Porter.

This chapter presents the analysis and findings of the results obtained from the data collection instruments as primary information for the industry analysis of the cosmetic sector and secondary information. In this section, more emphasis is placed on the hair care segment.

The analysis of the third layer with an approach of hair care segment was accomplished in chapter 6 of this document.

Porter's Five Forces Analysis

As seen in figure 8 the entities supporting Colombian companies to promote the exports and foreign trade ranked the Porter's Five Forces in order of importance as key drivers that could impact the Colombian cosmetics enterprises interested in entering the German market. In a scale from 1 to 5, being 1 very weak, 2 weak, 3 moderate, 4 strong, 5 very strong. The study specified that the Porter's Force with a mayor impact for Colombian companies entering to the German cosmetic market was rivalry among existing competitors scoring 4. It was followed by threat of entry with a moderate impact scoring 3.2. The third and fourth place were occupied by supplier

power and buyer power with moderate impact scoring 3. Threat of Substitutes placed fifth in the list with a weak impact scoring 1.5 (see appendix E).

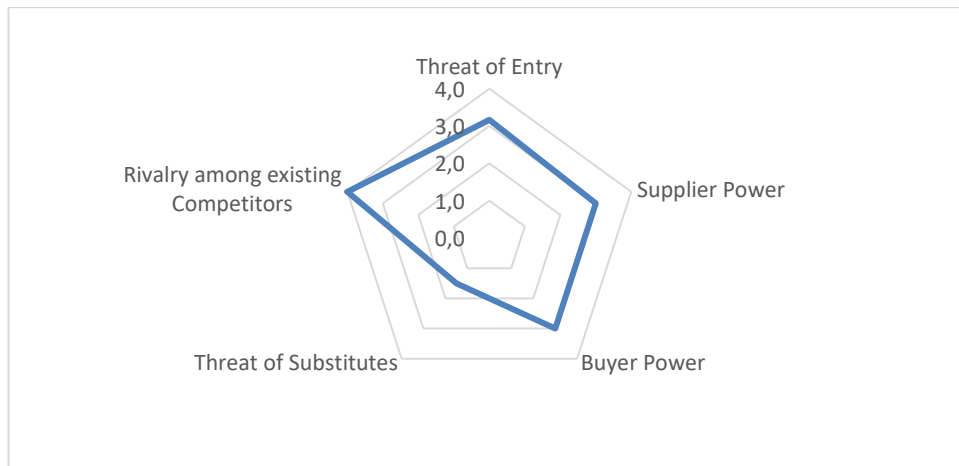


Figure 8. Porter's Five Forces Analysis

Source: Own elaboration based on the results of the Porter's Five Forces questionnaire

To facilitate the good understanding of the study when analyzing the competitive forces, the following denomination was made:

Suppliers were companies that supply raw material or finish products to laboratories or producers.

Buyers were represented by drugstores, supermarkets, cosmetics stores, hair dressers.

Competitors were listed as laboratories and cosmetics producers

Threat of Entry.

The study determined that the threat of entry into the cosmetic market for hair care products in Germany was moderate. As it was stated in chapter 4 one of the biggest impact valued by Colombian companies when entering the German market is the compliance with the legislation on cosmetics. On the one hand, companies must comply with the specifications of Regulation (EC) No. 1223/2009, guidelines -claims and amendments to the regulation on

cosmetics. Moreover, registration regulation, packaging, labeling and distribution. On the other hand, customs regulations must be completed.

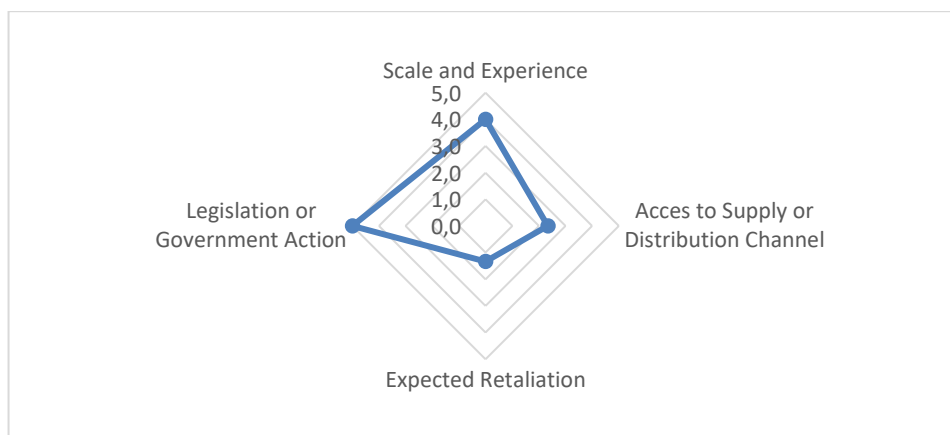


Figure 9. Threat of Entry.

Source: Own elaboration based on the results of the Porter's Five Forces questionnaire

Figure 9 presents the threat of entry results. Within the threat of entry force a strong impact valued at 4.0 was presented for scale and experience factor. German cosmetic companies possess a considerable advantage in terms of technologies, knowledge, raw materials cost and geographical position. The production costs of German companies are lower than the production costs of Colombian companies regarding finished cosmetic products. With a weak impact the access to supply or distribution channels factor scored 2.3, meaning that Colombian cosmetic companies find direct access or through wholesalers to the distribution chain and direct access to the suppliers.

Finally, the expected retaliation factor ranked 1.3 as a result of German fair competition policies. The fair competition policies favor the investment environment and prevent companies with market experience from reacting aggressively when a new competitor enters the market.

This factor was evaluated under four key features to recognize the threat of entry:

Scale and Experience. According to the questionnaire German cosmetics companies possess an advantage over experienced Colombian companies and lower production costs and the Colombian enterprises invest considerable sums of money to enter the German cosmetics market. In this context The Association of Colombian Exporters stated: “German cosmetics companies have advantages over Colombian cosmetics companies in production costs, experience and knowledge of the market” (see appendix H).

Germany has two of the 20 largest cosmetics companies with hair care lines in the world ranked by income: Henkel AG ranks 9 and Beiersdorf AG ranks 19. Furthermore, international cosmetic companies with hair care different from Germany such as: Johnson & Johnson, The Procter & Gamble Co, Unilever plc and L'Oréal SA are present in the country (Statista, 2018). As stated by Haircare Industry Profile, 2016:

“Newcomers may be able to start on a small scale, such as niche companies, e.g. selling only handmade products. Targeting the male part of haircare users may prove lucrative, as there is a growing interest in personal care products amongst male users” (p. 21).

The fields of development and new products of hair care manufacturers are focused first on the repair and rejuvenation of hair as: Dove Pro-age, L'Oréal Elvive, P & G Pantene Expert Collection. Secondly, the coverage of the demand for organic products such as P & G and its Pro-V Natural Fusion line, packed in a bottle based on sugarcane (‘Haircare Industry Profile’, 2016). Third, the strengthening of its lines of professional use aimed at professional stylists such as Henkel with its Schwarzkopf Professional brand, which in 2018 launched My Specialist Brand (Whitehouse, 2018).

Access to Supply or Distribution Channels. Colombian companies in Germany entry with moderate access to distribution channels and suppliers. Cosmetics for hair care in Germany total different distribution channels that meet the needs of the population. In 2015 the distribution channel with the highest percentage of share by value is Drugstores and pharmacies with 31.9%, followed by Health and Beauty Stores with 29.2%. Hypermarkets and Supermarkets 26, 2%, department stores 5,4 and others 7.3% ('Haircare Industry Profile', 2016).

Expected Retaliation. For the entrance of Colombian companies to the German market according to the results of the questionnaire made, retaliation is the factor that could least impact since Germany succeeds a solid competition policy. On 9th of June 2017 the policy underwent a reform. On the word of Heinrich (2017) the reform adapted German competition law to the digital era, introduced parental liability for competition law violations and implemented the EU cartel damages directive.

Bargaining Power of Supplies

The result of the questionnaires performed in the study sighted a concentration of suppliers of hair care products in the German market. In figure 10 is evidenced that bargaining power of supplies moderately impacts the entry of Colombian companies with a result of 3.0. This impact was analyzed under three aspects: First, the concentration of suppliers with a score of 3.3 means a moderate reduction in opportunities for buyers to negotiate prices and deliveries. The German cosmetics industry is not an industry dominated by few producers. Consequently, suppliers represent little power over buyers generating greater competition.

Second, the threat of competition among suppliers scored 3.0. The suppliers of raw materials do not expose a strong power over the buyers of cosmetic products that act as

intermediaries such as drugstores, supermarkets and cosmetics stores. This characteristic decreases the degree of competitiveness of the industry and generates a possible access to new competitors for raw material suppliers.

Third, the differentiated products count with a low impact with a moderate tendency, scoring 2.7. It is evidenced that the suppliers of raw materials do not offer differentiated products that increase the power of the supplier, producing an opportunity of entry for new suppliers that offer differentiated raw materials as natural ingredients with great benefits for the final consumer.

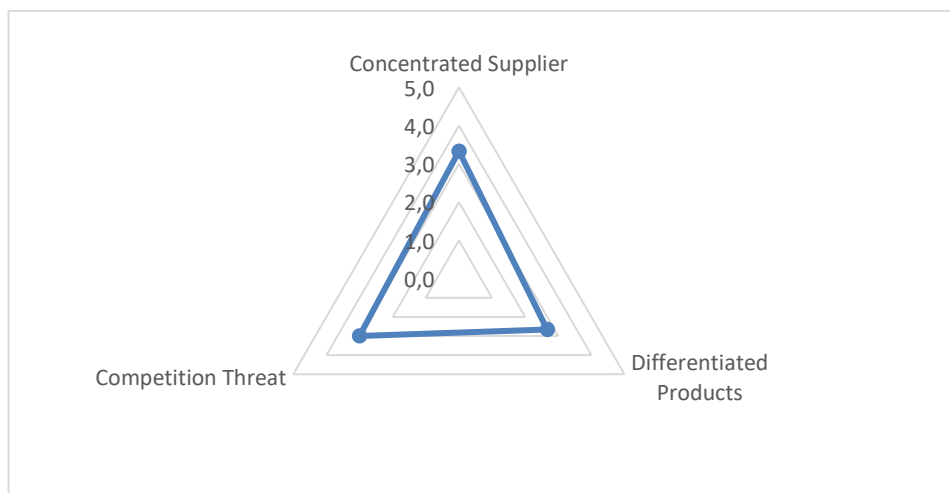


Figure 10. Bargaining Power of Supplies.

Source: Own elaboration based on the results of the Porter's Five Forces questionnaire

Concentrated Supplies. As stated by the results of the study, the suppliers of ingredients for hair care products in Germany hold a power to negotiate moderate prices. "Suppliers in the hair care market include manufacturers of chemical ingredients, such as foam enhancers, thickeners, conditioners, preservatives, modifiers, special additives, vegetable oils and other ingredients used in the production of cosmetics" ('Haircare Industry Profile', 2016, p.19).

Supplier Competition Threat. The suppliers of ingredients cannot act as intermediaries and negotiate directly with buyers. Additionally, on the word of 'Haircare Industry Profile'

(2016) “for some chemicals there are no substitutes, which increases supplier power. However, there are generally several alternative products within each ingredient category, which reduces players' dependence on any supplier. Haircare products constitute a strengthening supplier power” (p. 19). It generates a moderate impact for the entry of Colombian companies to the market.

Differentiated Product. Suppliers of chemical or organic products do not handle to a large degree differentiated raw materials that offer added value to the cosmetics producers. This situation generates a low impact with a moderate tendency for the entry of Colombian companies into the German cosmetic market. Germany has been experiencing a strong trend since 2013 for natural cosmetic products. “Germany's natural cosmetics market grew by 10% between 2013 and 2014, with turnover hitting € 1 billion for the first time” (‘Europe’s leading natural cosmetics market’, 2015). In 2016 and 2017 the turnover of natural cosmetics grew by around 1.2 billion euros (Heinze, 2018). The trend towards natural cosmetics creates an opportunity for Colombian cosmetics companies as suppliers of natural products to produce cosmetics.

Bargaining Power of Buyer

From the point of view of the entities that provide advice to Colombian companies that seek to invest in Germany, the bargaining power of German companies in the cosmetics sector moderately impacts the entry of new companies (scoring 3.0) as it is seen in figure 11. The buyers of cosmetic products in Germany held an average bargaining influence with respect to the industry participants. Therefore, they manage the power to negotiate prices and use their influence to reduce prices. The Export Promotion Agency of Colombia agreed that "it is very difficult to negotiate prices with German drugstores, supermarkets and cosmetics stores, these

buyers influence the definition of prices because they are the main distribution channels" (See appendix H). Moreover, they can provide private-label brands that can be considered a backward integration.



Figure 11. Bargaining Power of Buyer.

Source: Own elaboration based on the results of the Porter's Five Forces questionnaire

This Porter factor was analyzed under three key drivers to identify the bargaining power of buyers:

Concentrated Buyer. With the development of the study it is evidenced that German Buyers of cosmetic products like supermarket, drugstores, hairdressers are in a moderate the position to negotiate prices with a score of 3.3. The chains of pharmacies, pharmacies and health and beauty shops are considered as the main retailers in the German market. These retailers represent 61% of the total sales of the sector ('Haircare Industry Profile', 2016).

Low Switching Cost.

The questionnaire provided that German Buyers of cosmetic products (supermarket, drugstores, hairdressers) can easily change suppliers with a score of 2.7. 'Haircare Industry Profile' (2016) agreed that the costs of changing suppliers are not high so that the main retailers in the German hair care market may exercise considerable purchasing power. According to Johnson et al. (2017) the ease of changing suppliers by the buyer generates a strong purchasing

negotiation position. New competitors may decrease the power of the buyers whether they offer a differentiated product that exceeds the expectations of the final buyers.

Buyer Competition Threat. The concentration and threat of competition represents a moderate impact for Colombian companies with a score of 3.3. German Buyers of cosmetic products (supermarket, drugstores, hairdressers) can generate Backwards integration. The Backwards integrations is the ability that the buyers must supply themselves. As it is mentioned by 'Haircare Industry Profile' (2016): "It is often a practice of larger buyers to provide private-label brands which can be considered as a form of backward integration. Forward integration is not especially likely; however, some market players enter the retail market with specialized services. For example, Henkel and L'Oréal not only offer a wide range of specialized haircare products, but also run many of their own salons" (p. 18).

Threat of Substitute Product

As an evidence the threat of substitute products maintained a low impact with tendency to weak in the German market of cosmetic represented by the amount of 1.5. The profitability of the German cosmopolitan industry is not affected by the entry of substitute products, as these products do not offer the same benefits to final consumers. Substitute products do not represent a barrier neither for companies within the industry nor for new entrants. Figure 12 represents the results of threat of substitute product. According to 'Haircare Industry Profile' (2016) about the German cosmetics market, substitute products are represented by home-made cosmetics and counterfeit cosmetic products.



Figure 12. Threat of Substitute Product.

Source: Own elaboration based on the results of the Porter's Five Forces questionnaire

This Porter factor was examined under two principle features to recognize the threat of substitute products:

Price Performance Ratio. The benefit offered by home-made cosmetics and counterfeit cosmetics does not compare in quality with the cosmetic products made by the industry. Owing to this, the price-performance ratio in substitutes had a weak low impact with a score of 1.3.

Extra Industry Cost. The home-made cosmetic products and the sale of counterfeit cosmetics do not impact in a great way the German market. This factor was rated with 1.7. The result of this factor was supported by the results of the study, 'Haircare Industry Profile', 2016) stated that "such substitutes may not offer the same effect as the products provided by branded cosmetics and may only fulfill basic requirements" (p. 23).

Rivalry among Existing Competitors

The study showed that the German market in its hair care segment provide a strong rivalry between competitors with a score of 4. This Porter factor was evaluated under five key premises to identify rivalry behaviors among competitors as it is exposed in figure 13.

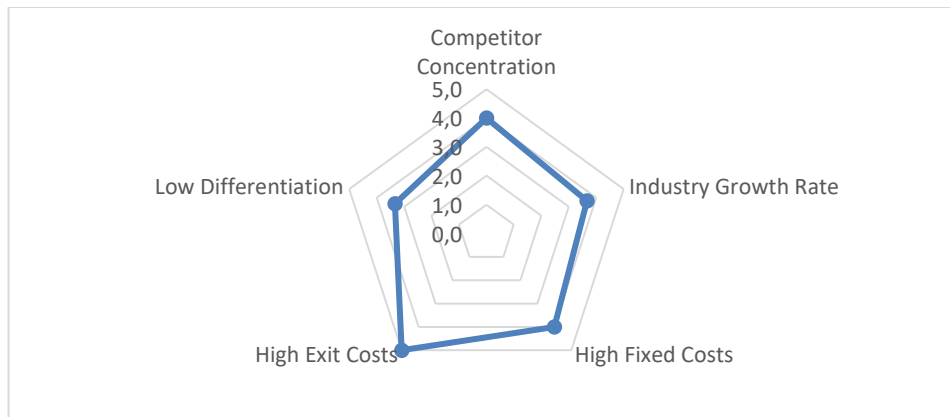


Figure 13. Rivalry Among Existing Competitors.

Source: Own elaboration based on the results of the Porter's Five Forces questionnaire

In the study, The Export Promotion Agency of Colombia highlighted that “the highest resistance for the entry of Colombian companies to the German cosmetic market is competition. The concentration of large competitors is high, and a Colombian company must invest a considerable amount of money to enter the market” (see appendix H).

Competitor Concentration. The research exposed that the German cosmetic industry possesses companies that represent more than 50% of total sales in the sector. The concentration of competitors in the industry was strong with a score of 4. This result was linked to the study (‘Haircare Industry Profile’, 2016) sector where the hair care market in this country is competed. Multinational cosmetics companies such as P & G, Henkel, Beiersdorf and L’Oréal represent 77.4% of the market share. The presence of both smaller manufacturers and large retailers that handle private brands is highlighted below in the figure 14.

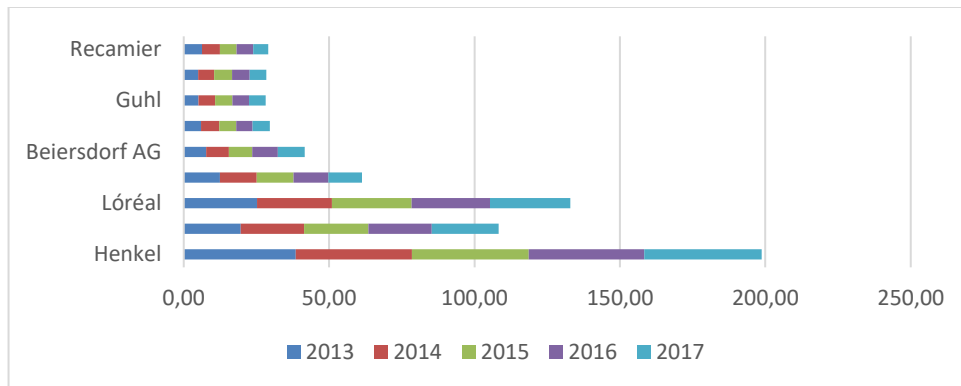


Figure 14. Ranking of the most popular hair care products brands 2013-2017

Source: Own elaboration based on data from (Statista, 2017e).

Industry Growth Rate.

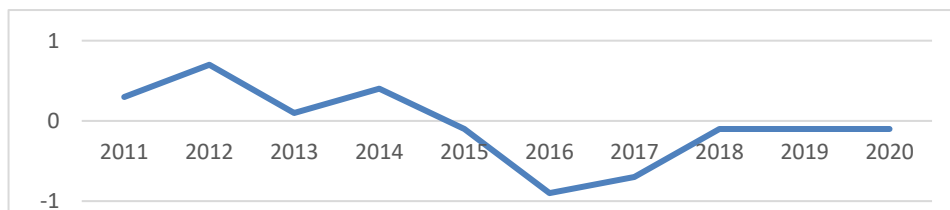


Figure 15. Revenue Growth Percent.

Source: Own elaboration based on data from (Statista, 2017d)

In figure 15 is evidenced that the German cosmetic market experienced favorable growth until 2015. From 2015 to 2017 the market growth was negative. According to a forecast developed by Statista, the cosmetic industry will once again experience growth starting in 2018 (Statista, 2017d). In a declined industry the organization tend to fall or grow at the expense of competition. Low-growth markets are associated with price competition and low profitability (Johnson et al., 2017). Under this perspective, the growth of the industry guarantees a strong impact on the rivalry between competitors. The study evidenced that the growth of the cosmetic market in its hair care segment is not favorable for the growth of companies, rating 3.7.

Likewise, the traditional distribution channels for hair care products have decreased. Traditional

brick stores are being replaced by the acceleration of online purchases ('Haircare Industry Profile', 2016).

High Fixed Cost. The study illustrated that German cosmetic industry is characterized by high fixed costs. The high fixed costs of the market generated that the rivalry between the existing competitors was strong with a score of 4. With this score can be deduced that the German companies tend to increase the volume of production to reduce the final prices.

High Exit Barriers. According to the study, the costs of leaving the German cosmetics industry are high. For example, the industry owns large production plants that other market players would not buy. The high costs for the industry imply a strong degree of rivalry among competitors. Companies without potential buyers or investment will try to stay in the market to avoid the highest possible rates. Excess capacity persists and subsequently incumbents fight to maintain market share (Johnson et al., 2017). The resources of cosmetic companies in Germany are durable and specialized. As stated by Grant (2016) exist barriers when resources are durable and specialized. Similarly, 'Haircare Industry Profile' (2016) explained that the presence in the German cosmetics market requires a high investment of money for which the level of rivalry is increased.

Low Differentiation. The cosmetics market is characterized by companies with a wide range of products dedicated to different segments such as personal care, products for the home and food, this portfolio reduces the reliance on the hair care market and at the same time relieves competition. Additional innovations in the market, such as ethnic hair care, natural products contribute in decreasing the degree of rivalry. Having said this, manufacturers strengthen their position ('Haircare Industry Profile', 2016). Therefore, the low differentiation factor is rated in the study as moderate with a score of 3.3.

It is highlighted by the study that the Colombian supporting entities considered that Colombian companies may contribute with ingredients for differentiated cosmetic products to compete in the German market.

Chapter 6

Market Analysis with the Identification of a Specific Group of Customers

In this chapter the results of the market analysis to the haircare segment with the identification of the main players: final consumers and distributors is presented. The city of Mainz, Germany with two target populations was considered as a research site. Final consumers were represented by the female population in Mainz and distributors were denoted by the beauty salons in the city as potential direct buyers or intermediaries of Colombian hair care products.

This chapter corresponds to the analysis of the third layer of the cosmetic market under the model of Johnson et al (2017).

As it was exposed in the research designed to analyze the two populations under study in the specific analysis of customer groups, two questionnaires were designed. The first questionnaire addressed to the group of final consumers discloses the preferences of the female population regarding the consumption of products for hair care offered in beauty salons (See appendix C). The second questionnaire defined for beauty salons had the objective of analyzing the interactions of beauty salons in the structure of the market for hair care products (See appendix D).

Position and Interests of the Final Consumers of Hair Care Products

The questionnaire was divided into two sections of questions, one of general interest and the other of specific information on: preferences in terms of products, frequency of purchase, acceptance of a new product based on natural ingredients and the amount they would be willing to pay for a new product. Appendix F illustrates the specific results.

Age Range of the People Surveyed. The questionnaire was answered by women who live in Mainz with an age range between 18 to 49 years old.

Hair Like. This question was aimed at knowing the type of hair that the female population of the city surveyed had. This information provided cosmetic companies with greater knowledge of the population for the development and launch of new products focused on the needs of the population.

According to the results of the survey 46% of the surveyed population exposed they have curly and wavy hair, while the remaining 54% have straight hair.

Interest in How to Wear the Hair. This question aimed to acquire information on the preference of the surveyed population on how to show off their hair. Consistent with the response, cosmetics companies could develop new products focused on the preferences of women in Germany.

The survey shows that 90% of the population with wavy and curly hair was interested in having straight hair.

Frequency of Purchase of Products to Improve Hair Damage in Beauty Salons. To find out about the frequency of purchase of products that improve hair damage, the following question was asked: For damaged hair maintenance, how often are you willing to go into a salon for a service in hair treatments?

This question was intended to identify the frequency of purchase of a type of product. Thanks to the results, cosmetic companies can determine the life cycle of a new product and make a projection of purchases of the new product.

It was evidenced that the 94% of the population attended the beauty salon every two, three, four or five months to perform treatments to revitalize the hair.

Use of Hair Treatments. To know whether an opportunity to offer products for the treatment and hair care may be materialized, the population surveyed was asked to use products and treatments for hair care. 73% of the population uses products and treatments for hair care.

Most Used Brands to Improve Hair Damage. It was asked which brand is the most used by the surveyed population to treat damaged hair. This question offered an overview of the brands most used and recognized by the population. This question was created to give to the Colombian cosmetics companies notions about the more recognized brands in Germany. The surveyed population mentioned they preferred products by the L'Oréal laboratories followed by the brands of DM, Procter & Gamble and Garnier. It is recognized that the own brands of the chain stores are taking a greater remembrance and preference in the German population (see appendix F question 6).

Acceptance of a New Colombian Product Based on Natural Ingredients. To know whether the surveyed population would be willing to buy a new Colombian natural product for hair care, the following question was asked. If there is a Colombian natural based hair treatment product to smooth, shine, control your hair and at the same time repair the hair damage such as: Hairpin, rough texture, susceptible to breakage, frizz and dullness. Would you be willing to buy it?

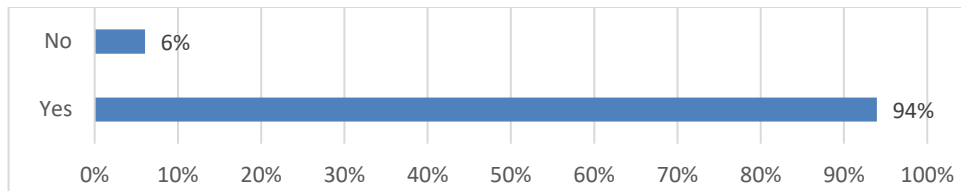


Figure 16. Are you willing to buy a new Colombian based natural ingredients?

Source: Own elaboration based on data from Final Consumer questionnaire

In figure 16 is notable that 94% of the surveyed population argued to be willing to buy a natural Colombian hair care product.

Investment in a New Product with Natural Ingredients. The surveyed population was asked how much are you willing to spend for a Colombian natural based hair treatment performed in the beauty salon? The intention was to pursue an approximation of the sale price for a Colombian product with natural ingredients that repairs hair damage. In this way cosmetic companies can generate their price list according to the interests and expectations of the population.

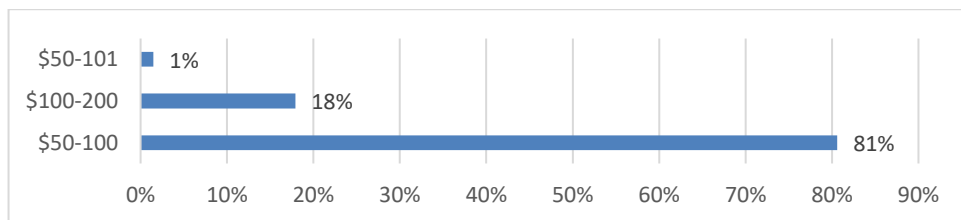


Figure 17. Investment in a new Colombian product

Source: Own elaboration based on data from Final Consumer questionnaire

As stated in the figure 17 it is identified that 81% of the surveyed population was willing to pay for the Colombian product from 50 to 100 euros while 18% of the population would pay from 100 to 200 euros.

Interests for Healthy Hair. With the help of photos of healthy hair and with the aim of knowing whether the German population was interested in having healthy hair and knowing if

there is a market opportunity for products dedicated to hair care, we asked: Would you like your hair looks as healthy as the one in the photos?

99% of respondents answered they were interested in having healthy hair.

Position and Interests of Beauty Salons

The questionnaire was divided into two sections of questions. First a section of general information about the products that beauty salons used. Second a section of specific market information such as: sponsors, product acquisitions, payment methods, promotion, price.

Appendix G illustrates the specific results.

Most Used Brands in Beauty Salons to Rehabilitate Hair. The results of the survey evidenced that the most used brand by hair professionals was Kerastasse by L'Oréal with 42%, followed by Glynt with 14% and Wella with 14%. The largest share of the market was carried by L'Oréal with a difference of 29 percentage points with the third and second place. The preference for L'Oréal products for hair care is evidenced (see appendix G Most used brands).

Motivation of the Use of Brands for Hair Care. 32% of the salons surveyed preferred to use hair care brands for their quality, and 31% for good results in the application to clients. While 17% use the brands for reasonable prices (see appendix G question 2).

Satisfaction with Hair Care Products. The study shows that 95% of beauty salons are satisfied with the products they use while 5% argue they are not satisfied (see appendix G question 5).

Acceptance of a New Colombian Product Based on Natural Ingredients. To know whether the German beauty salons were willing to acquire a natural product for hair care the following question was asked: If there is a Colombian natural based hair treatment product to

smooth, shine, control your hair and at the same time repair the hair damage such as: Hairpin, rough texture, susceptible to breakage, frizz and dullness. Would you be willing to buy it?

As it is evidenced in figure 18, 84% of the beauty salons surveyed are willing to buy a new Colombian product with natural ingredients for hair care.

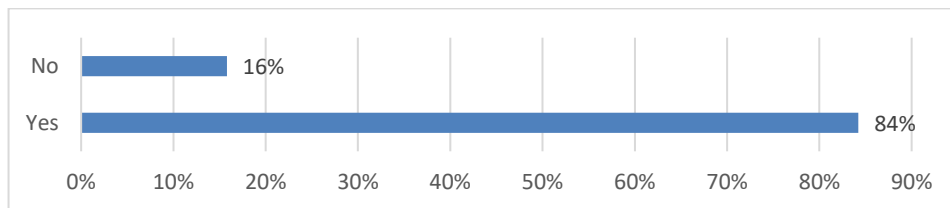


Figure 18. Acceptance of a new Colombian product based on natural ingredients.

Source: Own elaboration based on data from beauty salons questionnaire

Investment in a New Product with Natural Ingredients. Beauty salons were asked how much they were willing to pay for a Colombian natural product for the care and repair of damaged hair. It is possible to approximate the sale price of a Colombian hair care product based on the information provided by the survey. Thus, the cosmetics companies may generate their price list according to the interests and expectations of beauty salons. Figure 19 evidenced the price ranges that a product with specific characteristic of hair care could compete in the German market.

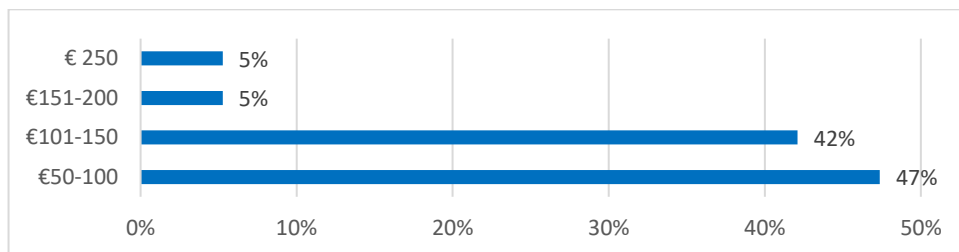


Figure 19. Investment in a new product with natural ingredients.

Source: Own elaboration based on data from beauty salons questionnaire

Consistent with the results, 47% of beauty salons surveyed are willing to pay 50 to 100 euros for a new Colombian hair care product, 42% are willing to pay from 101 to 150, while the remaining population would pay between 151 and 250 euros.

Training. Some of the products for the care and repair of damaged hair used in hairdressing require specific application procedures. Beauty salons were asked, on the one hand, if they had ever received training in the application of hair care products and if they would be willing to receiving training. 79% of beauty salons have received training for the application of hair care products and 74% are willing to receiving training for the application of hair care products (see appendix G question 8 and 9).

Sponsors. With the idea of knowing if beauty salons in Germany were sponsored a set of questions were inquired: Do you have a contract with a person or organization that pays or contributes to the costs involved in the beauty salon in exchange for advertising?

89% of the beauty salons surveyed answered that they do not possess any type of organization or person that contributes or pays the costs involved in exchange for advertising while 11% argued be sponsored, namely, Inhaber and Goldwell and Redken.

In this part of the questionnaire it was also asked: Are you free to buy and sell certified hair products, regardless of the brand?

79% of the beauty salons surveyed stated that they were free to buy and sell certified hair products while the 21% showed that they must buy and sell products offered by the sponsor. 68% of the beauty salons surveyed claim that they are free to promote certified hair products while the 32% express that they promote products offered by the sponsor (see appendix G question 10-14).

Distribution. Distribution is one of the variables that most affect companies and should be taken into account in the analysis of the market in accordance with González & Reverter (2006). To obtain relevant data on the distribution process involving beauty salons in the hair care segment, the following questions were asked: How do you acquire the hair treatment products that you use? and when acquiring from your local retailer what are the modes the order takes place?

As it is explained in figure 20 and 21, 54% of beauty salons claimed to contact the provider directly to purchase hair care products and 61% of orders are made by telephone.

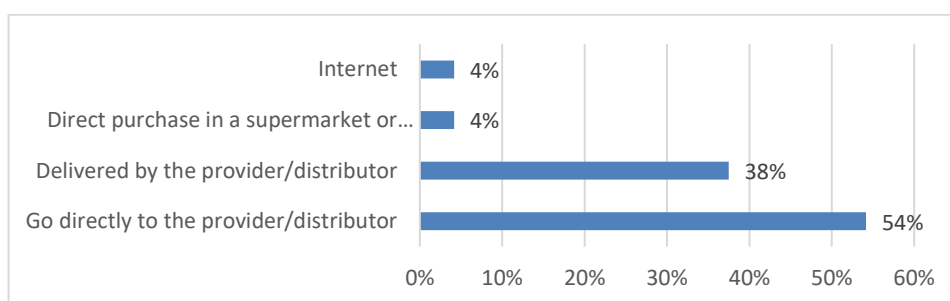


Figure 20. Mode of Acquiring Hair Care Products.

Source: Own elaboration based on data from beauty salons questionnaire

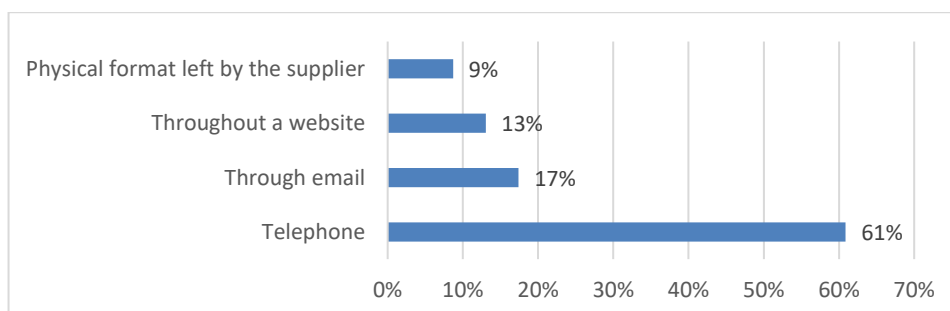


Figure 21. Mode in which Order takes place.

Source: Own elaboration based on data from the questionnaire

Payment. The variable payment was analyzed through the following questions: What type of payment do you have with your supplier? and if you select the credit option. Please select the credit policy that you handle with your suppliers.

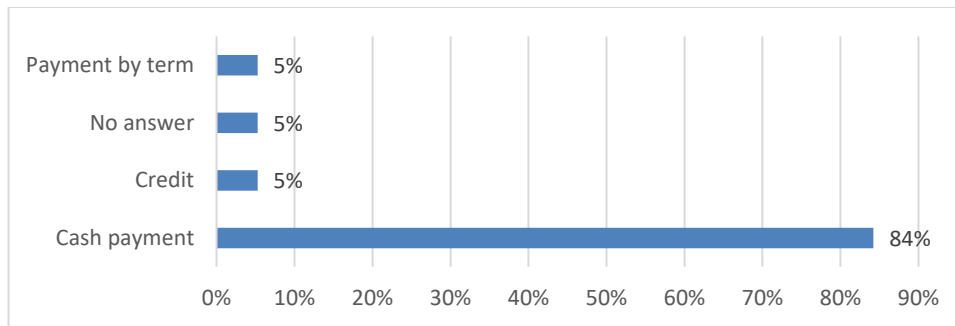


Figure 22. Payment Modes.

Source: Own elaboration based on data from beauty salons questionnaire

The figure 22 explained that most of the beauty salons represented by 84% prefer to make cash payments instead of opting for payment by installments and by credits. It is evidenced that when managing a credit payment policy beauty salon prefer a payment no longer than 30 days (see appendix G question18).

Discount Policies. According to Horne & Wachowicz (2002) in a business, two discount policies are assumed: discount for purchase volumes and discount for prompt payment. The survey showed that 53% of beauty salons manage a discount policy with their suppliers due to volume of purchases, while 42% handle discount policies for prompt payment and 5% handle both discount policies. 37% of beauty salons get discount for a purchase volume between 21 and 50 products while 32% for a purchase volume between 0 and 10 products. Considering this principle, the Colombian companies must offer discount policies to be competitive in the German market. The management of discount policies can favor the buyer-seller relationship (see appendix G question 19).

Return Policies. Product return policies agreed between seller and buyer are a guarantee of product quality and may increase the possibility of re-purchase by the buyer (V. Kumar & Shah, 2015). 41% of the beauty salons surveyed handled with their suppliers the return of the product when the product was defective. By having a defective product, the beauty salons obtain

a change of product and/or the return of the money (see appendix G question 20).

Price. Determining the prices managed by the beauty salons, the survey asked about the average price that beauty salons charge to rehabilitate hair. 79% of beauty salons charge between 50 and 100 euros for rehabilitating damaged hair while 21% charge from 101 to 200 euros.

On the word of the study, beauty salons were free to define their own price according to several variables including: the cost of primary products, the cost of wages, the beauty salon brand, among others (see appendix G question 22-24).

Promotion. The most used means to promote the products by beauty salons were spread of mouth, in store placement, Facebook and webpage. These means represented the 64% share. Means such as Instagram, free samples and poster are less used (see appendix G question 25).

Chapter 7

Implications of Market Entry for a New Colombian Competitor into the German Cosmetics Market

After the analysis of the market through the three layers proposed by Johnson et al (2017) the study asked Colombian supporting entities about the more convenient entry mode for Colombian companies into the German cosmetic market.

This chapter contains the results oriented towards the best market entry mode that a Colombian cosmetics company could adapt.

Market Entry Mode

Hollenson (2017) stated that a company has three strategies to enter the market: export mode, intermediate modes and hierarchical modes. In a scale from 1 to 5, being 1 least recommended and 5 the most recommended entry mode. According to the study it was identified that the best mode of entry for Colombian companies in the German cosmetic market is Export Modes with a score of 4.2 followed by Intermediate Modes with a rating of 3 and lastly the hierarchical mode as it is evidenced in figure 23.

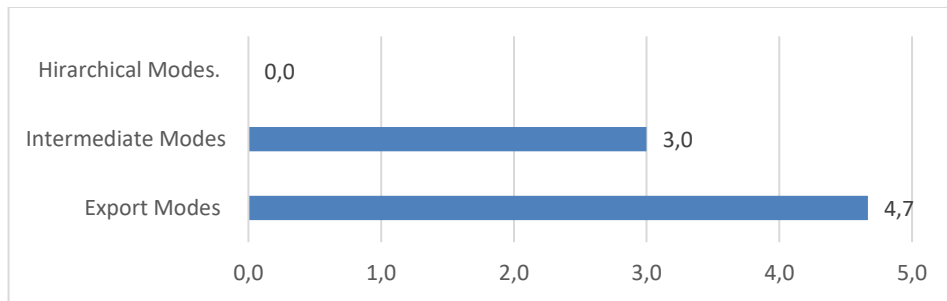


Figure 23. Entry Strategy for Colombian cosmetic companies

Source: Own elaboration based on data from Entry Strategy the questionnaire

The Association of Colombian Exporters highlighted: “the best strategy to enter the German cosmetic market is an export mode” (See appendix H). This statement is complemented with the position of The Export Promotion Agency of Colombia:

“export modes are the most used strategy by Colombian cosmetic companies, however the export opportunity increases if companies consider exporting natural ingredients instead of cosmetic products finished. In this sense, an intermediate way of entering the market can also be taken advantage for Colombian companies such as: contract manufacturing” (See appendix H).

This position is accompanied with the results of the analysis of the cosmetic market carried out in the present work. The 5 forces of Porter demonstrated a market in which competition prevails between finished products and a population that values the good name of the brands. However, the market developed business opportunities towards the rising preference for natural products.

The Representation of the Colombian Government in Germany stated: “Colombian cosmetics companies do not have a high capital investment amount to enter the German market through hierarchical modes such as transactional organizations, regional centers, domestic based sales representatives, among others”. The analysis of macroenvironment and competitiveness

forces showed the predominance of large cosmetics companies in Germany and large amounts of investment in plants. It is noteworthy in chapters 4 and 5 the German cosmetic industry has large companies that exceed 50% of the market, have a strong financial capital and invest constantly in research and development. Enter the market with a hierarchical mode implies having sufficient financial resources in facilities, marketing, research and development to compete in the industry.

Chapter 8

Conclusions

External Environment Analysis

The external environmental conditions of the German cosmetic market provide a moderate impact on the entry of Colombian companies. The greatest impact occurs in compliance with the legal factor. For a Colombian cosmetics company to enter the market or develop commercial relations with Germany must comply with the legislation on cosmetics protected under the framework of the European Union Regulation (EC) No. 1223/2009. To protect the population and the environment, the European legislation on cosmetics is quite demanding in discriminating the components that can be used in the manufacture of cosmetics and those that are prohibited due to their dangerous condition.

The technological factor represents a strong impact for Colombian companies. In the first place, companies that want to enter a new product must analyze the existing patents, not only of product but also of ingredients. Germany has been ranked as the third country with the largest number of patents in the cosmetics industry. Secondly, Colombian companies must be innovative. The large cosmetics companies possess a broad portfolio of around 10,000 products that are reformulated on average between 25% and 30% each year, 10% of the reformulations are made with 100% new products.

The environmental factor as well as the legal factor frames a strong impact. The environmental requirements are a barrier for the entry of Colombian companies to the German cosmetics market. Colombian companies must comply with high quality manufacturing standards and require certifications of responsibility with the environment. The certifications BIO, ECO, Fair Trade and good manufacturing practices are valued in the German trade. In Europe, the cosmetics industry is characterized by supporting different voluntary initiatives for the protection of the environment. The commitments allow consumers to benefit from products profiled towards sustainability including the adoption of responsible and sustainable consumption habits. The tendency leads renewable and bio-based packaging materials, Environmental Life Cycle Assessment (LCA), reduces environmental footprint of cosmetics products, more sustainable raw materials, renewable and bio-based materials. As well as the energy consumption, reduction of emissions, waste reduction and reduction of water.

The impact of the economic factor is weak, with a moderate tendency. Although the economic conditions in Germany favor the entry for Colombian companies, in 2018 Colombia became slightly less competitive due to the variations in the exchange rate that made their exports more expensive. Nevertheless, the digital economy is increasing. Germany leads the online sale of cosmetic products with 29% of online shoppers. This situation generates an opportunity to take advantage of the growing digital economy.

The political and social factor represents a weak impact for Colombian companies. On the one hand, Germany's government is characterized for not making unpredictable decisions and guaranteeing the effectiveness of legal protection against illegal administrative acts. All companies must register with the tax authority for taxation of corporate income. The German Federal Ministry of Education and Research through The New High-Tech Strategy for Germany

offers support to investors in the form of subsidies. Under this policy the government encourages companies to work on the development of Bio materials, which can generate a possibility of entry for Colombian cosmetic companies. On the other hand, according to the results of the study, it is evidenced that the Colombian cosmetics companies are prepared to respond to the German tendencies focused on the natural materials for cosmetics.

Industry Analysis

According to the results of the study, the German cosmetics industry represents a moderate impact on the entry of Colombian companies into the market. The competitiveness force that most impacts Colombian cosmetics companies upon entering the German market is rivalry among existing competitors. The German cosmetics industry is characterized by a concentration of competitors. Large companies such as Henkel, Procter and Gamble, L'Oréal and Beiersdorf represent more than 50% of the sector's total sales. However, it is worth noting that in recent years the private brands of chain stores have positioned themselves in the market. Fixed costs and market exit costs are high, which implies a strong degree of rivalry among competitors.

Threat of entry is the second force with the greatest impact for the entry of Colombian companies. Apart from compliance with the legislation on cosmetics, Colombian companies must face large rivals that possess low production costs, experience and knowledge of the operation in the market. Germany counts with 2 out of the 20 largest cosmetics companies namely, Henkel AG and Beiersdorf AG. The study evidenced that the access to distribution channels is moderate and the level of expected retaliation is not high thanks to the German solid competition policy.

Regarding to concentration of suppliers a moderate impact is presented. Due to the

suppliers of ingredients for hair care products in Germany manage the power to negotiate prices and act as intermediaries and negotiate directly with buyers and producers. However, a gap is identified with the differentiation of ingredients provided by the suppliers. In this sense, an opportunity to enter in the market arises, offering ingredients with natural origin. Colombia, being the second country with the greatest diversity of flora and having close to 10% of the natural reserves of South America, projects ample possibilities for the development and consolidation of the natural cosmetic industry.

From the point of view of the Colombian supporting entities the bargaining power of German buyers impacts moderately the entry of new companies. The study evidenced that German Buyers of cosmetic products as supermarket, drugstores, hairdressers are in the position to negotiate prices. For the major retailers in the German hair care market the costs of changing suppliers are not high. Therefore, they establish considerable purchasing power and are willing to generate Backwards integration. Having said this, Colombian cosmetics companies may enter into the market through strategic alliances with large German cosmetics companies.

Additionally, it is evidenced that the threat of substitute products represented by home-made and counterfeit cosmetics tends to a low impact. The benefit of these products does not compare in quality with the cosmetic made by the industry.

Market Analysis with the Identification of a Specific Group of Customers

The study carried out an analysis of two specific groups of clients in the cosmetic market: final customers represented by the female population and beauty salons in the city of Mainz.

Final consumers

According to the study, 46% of the female population of Mainz has wavy, semi-wavy

hair while 54% has straight hair. Colombian cosmetics companies with a hair care segment that want to enter the German market should direct their product lines towards the type of hair of the female population that is the largest consumer. 90% of the population with curly and wavy hair are interested in straight hair. This trend for straight hair opens a potential market for Colombian companies to offer permanent hair straightening treatments.

A wide possibility to enter the German market is highlighted by the study because 94% of the surveyed population affirms that they would buy a Colombian hair care product with natural ingredients that repairs the hair damages and leaves the hair manageable and silky. For this product the surveyed population is willing to pay between 50 and 100 euros. However, Colombian companies must compete in this segment of the market with brands such as L'Oréal, DM brands, Procter and Gamble with a 64% of the preferences.

Beauty Salons

The most used brands for beauty salons in Germany are: Kerastasse, Glynt and Wella with a preference of 71%. The best motivation to use these brands is quality and good results. The study illustrates that 95% of beauty salons are satisfied with the use of these brands. However, 84% of beauty salons are willing to try and buy new Colombian products for hair care and repair. It is evidenced the opportunity for Colombian cosmetics companies to enter the German market in beauty salons. 74% of beauty salons are willing to receive training in the application of a new product or treatment for hair care. In addition to this 89% of German salons do not contract with sponsors and are free to buy, sell and promote any hair care product.

It is highlighted that the largest distribution channel is direct sales through telephone requests. The payment policies are mostly related to cash payment and discount for purchase volumes. The most used purchase volumes for discounts are between 21-50 followed by 0-10.

41% of beauty salons handle product return policies with their suppliers. For a hair treatment 79% of beauty salons charge between 50 and 100 euros. Furthermore, the most used means of promotion for beauty salons are spread of mouth, in the store placement and Facebook.

Market entry modes

The study indicates that the best strategy to enter the German cosmetic market for Colombian companies is the export mode. However, Colombian companies find a great opportunity to enter the market if they export instead of finished products, natural ingredients. In this sense, Colombian companies can also contemplate other entry mode such as contract manufacturing.

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