



Investing in South Africa's Cosmetics and Personal Care Sector



the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

investSA

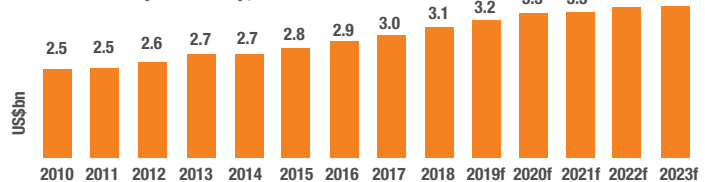
South Africa's Cosmetics and Personal Care sector

- > South Africa is Africa's largest market for cosmetics and personal care products. In 2018, the sector recorded close to US\$3.2bn in revenue.
- > Household spending on personal care products is expected to grow by 25% over the next five years.
- > The manufacturing of cosmetics contributes about 1% to South Africa's manufacturing output in 2018.
- > Hair care is the largest sub-category within the cosmetics and personal care sector.
- > Large multinational companies dominate the personal care market in the country, accounting for 90% of sales.

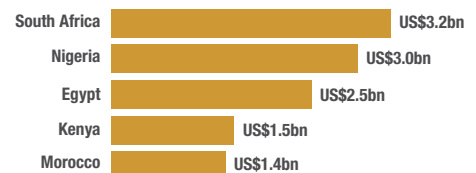
US\$3.2bn annual revenues

250 companies in the formal sector

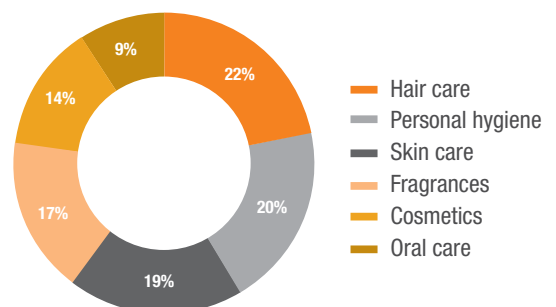
Cosmetics & personal care revenues (US\$bn), 2010-23f



Cosmetics & personal care revenues in Africa, 2018



Revenue by category, 2018



Why invest?

Rising import demand

Imports of cosmetics have almost doubled in the last 10 years, presenting opportunities for localising production.

US\$ 639m
cosmetics imports in 2018

Demand for organic natural products

South Africans have become more inclined to consuming organic skin and hair products, with close to one-quarter claiming that natural, organic or environmentally-friendly considerations influence their purchasing decision.



+US\$ 13bn
global organic personal care market

Strong R&D capabilities

South Africa has strong research and development (R&D) capabilities in the cosmetics industry. Companies have in particular invested in R&D capabilities related to African hair and skin care products. Local expertise present opportunities for manufacturers to supply the global multi-billion dollar African hair and skin care market.



Multi-billion dollar African skin and hair care market

Access to natural ingredients

South Africa is rich in natural plants generally required to produce organic skin/hair products. Locally produced ingredients include: Aloe ferox, buchu, marula, baobab, honey bush, rooibos etc. Given the current high dependency on imported raw materials, indigenous ingredients present an opportunity to reduce this import dependency.



80%
of raw materials are imported

Well-established retail network

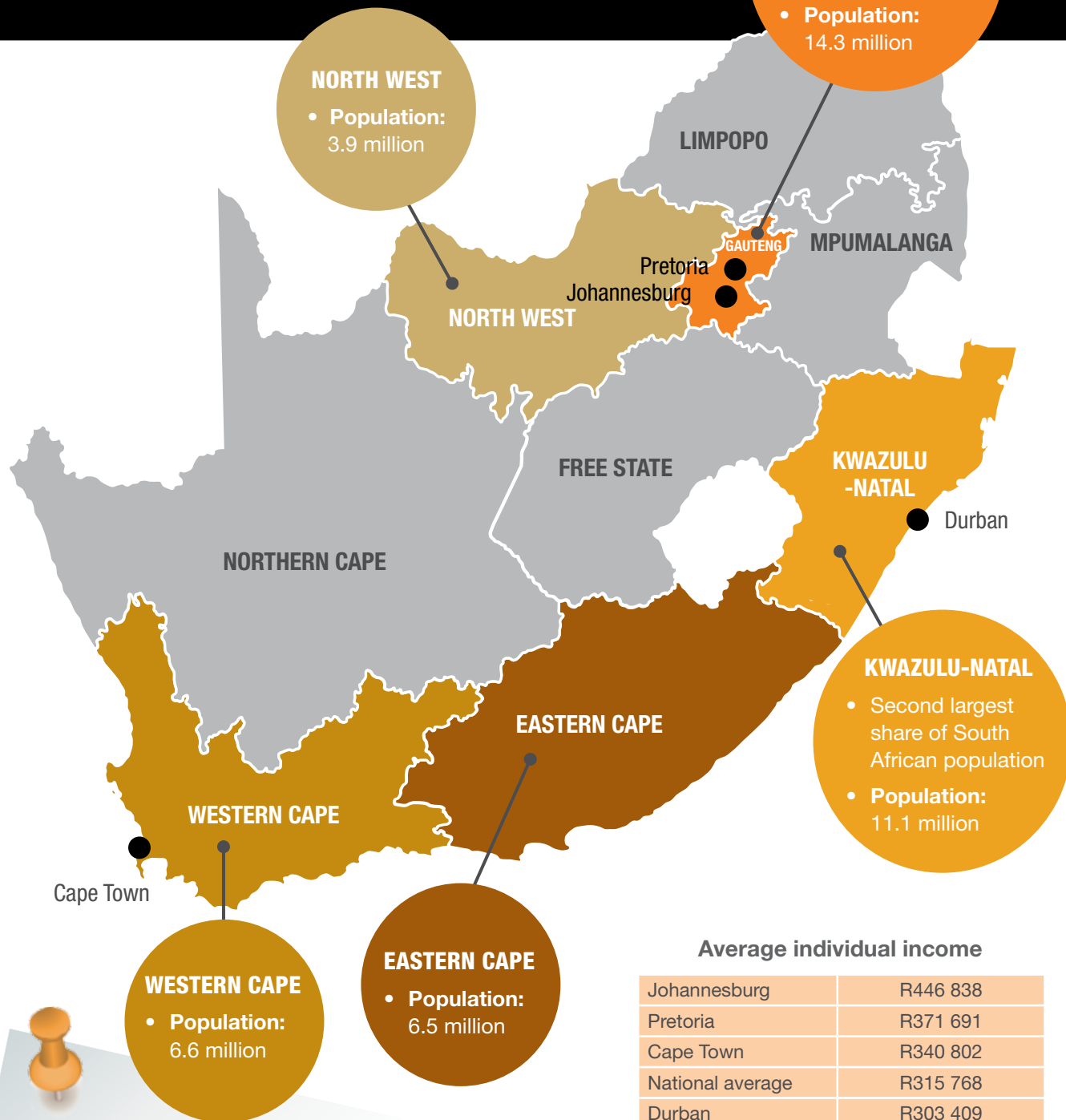
South Africa has the most established retail network in Africa. The three dominant retailers in the sector operate more than 1 000 drugstores and pharmacies. This provides ready access to consumers and simplifies distribution across the country.



1 000+
drugstores and pharmacies

Where to invest?

- > Key manufacturing and distribution hubs are mainly located in Gauteng, Western Cape, KwaZulu-Natal, Eastern Cape and North West provinces, where major areas of economic activity and consumer markets are located.
- > Urbanised Johannesburg, Pretoria, Cape Town and Durban have relatively high purchasing power and population concentration, making them attractive markets for cosmetics.



1st in 2016:
L'Oréal opened its
Research & Innovation
Center in South Africa,
the first in Africa and
the 6th globally.

Key investors in South Africa's cosmetics industry:



AVON
the company for women



ENVIRON.

L'ORÉAL

What support exists?

- > South Africa offers a forward integrated value chain, including distribution, packaging and supplying finished products to retailers.
- > South Africa provides a favourable enabling environment for the cosmetics and personal care industry. The South African government and industry players offer support through various incentive programmes and skills development support for the industry:



Innovation Support

Innovation support is available through programmes such as the Support Programme for Industrial Innovation (SPII), the Technology and Human Resource for Industry Programme (THRIP) and the SEDA Technology Programme (STP). The Technology Innovation Agency (TIA), CSIR and various universities support research and development efforts in cosmetics-related fields.



Financial Support

The 12i Tax Incentive is designed to support Greenfield investments (i.e. new industrial projects that utilise only new and unused manufacturing assets), as well as Brownfield investments (i.e. expansions or upgrades of existing industrial projects). The incentive offers support for both capital investment and training.

Other sources of finance include the Industrial Development Corporation (IDC), National Empowerment Fund (NEF) and the Small Enterprise Finance Agency (SEFA).



Skills Development Support

A number of institutions offer skills development programmes and training courses for the sector. The institutions include:

- Chemical and Allied Industries Association
- UCT's Hair and Skin Research Laboratory in the Division of Dermatology
- Society of Cosmetic Chemists (COSCHEM)
- Cosmetics Toiletry Fragrance Association (CTFA)
- South African Association of the Flavour & Fragrance Industry (SAAFFI).



Export Support

the dti's Export Marketing and Investment Assistance (EMIA) and the Sector Specific Assistance Scheme (SSAS) as well as the Cosmetics Export Council of South Africa (CECOSA) provide support for exporters to develop and succeed in export markets.

What are the opportunities?

- > South Africa's cosmetics and personal care industry has a strong focus on R&D, with recent innovations including reducing the environmental footprint of packaging and introducing natural organic products and eco-friendly/biodegradable packaging. Existing opportunities in the industry make South Africa an attractive investment hub.

Investment opportunities include:

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

How to invest?

Opportunity identification

- 1 Conduct feasibility study for your products and services
- 2 Evaluate outcome of feasibility study
- 3 Take investment decision
- 4 Decide on investment strategy in order to best align to the market opportunity

Go ahead



Location identification



Resourcing requirements (HR, capital, finance, IT)



Compliance and legal affairs

Investment preparation

- ✓ • Decide on geographic location most suitable for investment
- ✓ • Consult property specialists, real estate agents to identify suitable offices for operations
- ✓ • Conduct site visits of suitable locations
- Consult with HR/recruitment agencies about staff requirements
- Determine immigration requirements
- Determine funding model (e.g. self-funding, debt, equity)
- Consult with IT systems providers
- Determine corporate structure
- ✓ • Determine licensing and permit requirements
- Consult with labour lawyers
- ✓ • Consult with InvestSA to identify eligibility for incentives, skills and other support initiatives

Investment execution

- Acquire/lease site, rent office space
- Apply for municipal services (e.g. water, electricity)
- Conduct interviews, hire staff
- ✓ • Apply for work permits for expatriate staff
- Open a bank account
- Apply for finance
- Set-up IT infrastructure/systems
- ✓ • Register company
- ✓ • Apply for licenses and permits
- ✓ • Apply for National Level Incentives Schemes, Skills and Other Support Programmes

✓ InvestSA ready to assist

1st in 2015:
Groote Schuur and the University of Cape Town launched the world's first safety lab of hair and skin cosmetics.

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Information sources

BMI, various years; **the dti**, various years; EIU, 2019; GlobalData, 2019; Grand View Research, 2018; Insights Survey, 2018; MarketLine, various years; Statista, various years; Technology Innovation Agency, various years; Unilever, 2017; Who Owns Whom, 2017

Research partner | **Deloitte.**



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