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FACULTY OF BUSINESS MANAGEMENT

DEPARTMENT OF BUSINESS TECHNOLOGIES AND ENTREPRENEURSHIP

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**MODELING OF INTERNATIONAL RELATIONS FOR INCREASING  
THE INTERNATIONAL COMPETITIVENESS OF COSMETICS SECTOR**

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**Annotation**

The growing trend in healthy lifestyles and the rapidly growing demand for organic and natural cosmetic products are factors driving international relations and increasing the international competitiveness of cosmetics companies.

The aim of the final master's thesis is to develop a model for creating international relations that enhance the international competitiveness of companies operating in the cosmetics sector.

In order to achieve this aim, various theoretical aspects of international relations and business were analyzed and systematized. The empirical study identified key trends in the cosmetics industry, determined main factors driving the growth of natural and organic cosmetics consumption, identified factors that create add value to the product, and assessed key barriers to operating in the foreign market.

Based on analysis of scientific literature and conducted empirical research findings, a model has been developed that demonstrates how international relations can be create that enhance the international competitiveness of companies operating in the cosmetics sector.

**Keywords:** International relations; international business; international competitiveness; organic and natural cosmetics; cosmetics industry; multi-criteria method TOPSIS.

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Pavadinimas **Tarptautinių santykių modeliavimas didinant kosmetikos sektoriaus tarptautinį konkurencingumą**

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#### **Anotacija**

Populiarėjanti sveikos gyvensenos tendencija ir sparčiai augantis organiškos ir natūralios kosmetikos produktų poreikis yra veiksniai skatinantys užmegzti tarptautinius santykius ir didinti kosmetikos įmonių tarptautinį konkurencingumą.

Baigiamojo magistro darbo tikslas sukurti tarptautinių santykių kūrimo modelį, kuris didintų tarptautinį įmonių, vykdančių veiklą kosmetikos sektoriuje, konkurencingumą.

Tiksliui pasiekti, buvo išanalizuoti ir susisteminti įvairių autorių teoriniai tarptautinių santykių ir verslo aspektai. Empirinio tyrimo pagalba buvo nustatytos pagrindinės tendencijos kosmetikos industrijoje, identifikuoti svarbiausi veiksniai lemiantys natūralios ir organiškos kosmetikos suvartojimo didėjimą, nustatyti pagrindiniai faktoriai, kurie sukuria pridėtinę vertę produktui ir įvertintos pagrindinės kliūtys norint vykdyti veiklą užsienio rinkoje.

Atlikus mokslinės literatūros analizę ir empirinį tyrimą buvo sukurtas modelis, kuris parodo, kaip galima užmegzti tarptautinius santykius didinant tarptautinį, kosmetikos sektoriuje veikiančių įmonių, konkurencingumą.

**Prasminiai žodžiai:** Tarptautiniai santykiai; tarptautinis verslas; tarptautinis konkurencingumas; organiška ir natūrali kosmetika; kosmetikos industrija; daugiakriterinio vertinimo metodas TOPSIS.

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## INTRODUCTION

The rapid growth of the global cosmetics market has been intently linked to the globalization as it boosts beauty companies to internationalize and to increase availability of distribution channels and international competitiveness. In 2018, the global market value of cosmetics was valued at \$488,31 billion and it is estimated to reach around \$688.39 billion by the end of 2023, growing at a compound annual growth rate of 2,6% from year 2018 to 2023.

The cosmetic industry is guided by trends and the most noticeable one is the rising shift towards healthier lifestyle, which has reflected in consumer's beauty product preference and consumption. This trend influences the growth of demand for natural and organic cosmetics. As consumers become more health conscious, they tend to pay more attention to the chemical ingredients in cosmetic products and their effect on the body and the environment. However, the market share for natural cosmetics is still quite small comparing to conventional cosmetics, but the growth of natural and organic cosmetic sales is increasing faster than the sales for conventional cosmetics. In 2018 the global sales of natural and organic cosmetics were \$34.5 billion in 2018 and it expected to growth to \$54.5 billion in 2027.

The major players in global natural and organic cosmetics market are The Este Lauder Companies Inc., L'Oreal SA, Weleda AG, Burt's Bees and Arbonne International, LLC. In addition, many well-known beauty companies do not specialize only on natural and/or organic cosmetics, but due to the growing consumer's demand for green cosmetics, companies launch new product lines in order to meet their clients' need.

The growing trend in health awareness and the need for organic and natural cosmetics in a highly competitive global cosmetics industry can be seen as stimuli to establish international relations in order to enhance the competitiveness of companies that provide natural and organic cosmetic products. However, the **problem** is that there are no effective decision support models for creating international relations to enhance the international competitiveness of companies, which are operating in organic and natural cosmetics sector.

The **aim** of the thesis is to develop a model for creating international relations that enhances the international competitiveness of companies operating in organic and natural cosmetics sector.

The aim should be reached by the following tasks:

1. Identifying theories that are applicable to international relations;



2. Evaluating current development and trends in cosmetics industry;
3. Determining the macro-economic factors influencing organic and natural cosmetics expenditure growth;
4. Identifying the main factor that create added value for natural and organic cosmetic products;
5. Developing a model for creating international relations that enhance the international competitiveness of companies operating in organic and natural cosmetics industry.

The master thesis consists of three main parts. The first part confers the theoretical approaches, which are applicable to international relation in context of international business – it defines and analyses international relations, international business, as well as, international competitiveness and internationalization theories. After literature review, the framework of methodology used for conducting empirical research is presented. In the second part, the empirical research is conducted by using qualitative and quantitative **methods**. Statistical data analysis of cosmetics sector includes main trends, key players in the industry and international competitiveness. Based on statistical data analysis, the most attractive markets for creating international relations with will be identified using multi-criteria method TOPSIS. Furthermore, the key macroeconomic factors driving the growth of green cosmetics consumption will be determined. Thus, the main finding of survey and experts interviews will be presented. On the basis of relevant theories and implementation of empirical research, the model for creating international relations that increase the international competitiveness of companies operating in cosmetic sector will be developed and presented in the third chapter. The conclusions and recommendations will be provided in the end.

The material presented in this paper regarding international relations and its creations can be useful for students as well as managers of companies (especially for companies, which operates in cosmetic industry) and marketing specialists.

# 1. INTERNATIONAL RELATIONS IN CONTEXT OF INTERNATIONAL BUSINESS THEORIES

## 1.1. International relations and international business theories

International relations (IR) is wide and complex topic, which includes countries relationship with other nations and understanding of those interactions. IR can be defined as the study of interactions and relations between nations, which includes international organizations, activities and policies of national governments (Jackson & Sørensen, 2016). According to E.H. Carr (1975) international relations is a branch of political science, which deals with relations between non-states and states actors in the international system. T. Taylor (1978) defines international relations (IR) as the discipline that tries to explain political activities across state boundaries.

Furthermore, international relations are influenced by many variables and are shaped by the primary participants that includes: nongovernmental organizations, corporations, private citizens, national leaders, politicians. IR are also influenced by economics, geography and culture, but the focus of IR is on the interaction between nations (McGlinchey, Walters, & Scheinpflug, 2017).

In this part, the focus is on different theories that answer various kinds of questions and highlight different aspects of the world. As it is shown in Figure 1, there are three central approaches in international relations such as realism, liberalism, and constructivism, which have their exclusive core assumptions. Each of these theories may be used in order to explain state's behaviour and also to examine interaction between or among states.

*Realism.* Hans J. Morgenthau (1948) has formed a foundation for theory of realism in international relations, where he indicated state interest and competition for power as the main factor that motivates states in IR. As it is known, realism is the oldest theory in IR and it is still broadly accepted and used nowadays. Therefore, realism acts not only as an explanation but also as a guide for policy. K. Waltz (Waltz, 1979) defines realism as the success, which is ultimate test of policy, and that success is defined as preserving and strengthening the state. Another assumption of realism is that the national-state is the principle actor in international relations where other existing bodies (e.g. organizations and individuals) have a limited power. Realism urges that all leaders, even with different political persuasions, see this as they attempt to manage their state's affairs for surviving in a competitive environment (McGlinchey, Walters, & Scheinpflug, 2017). As the anarchy is the central feature of international system and states take actions for their survival

and security, it might appear actually threatening to other states, which in general take steps to protect their own states. As realists grip States to stay rational actors and the main goal is survival, States will do their best for continuing to be existent and the only way to ensure that is to increase their power. What is more, John J. Mearsheimer (1994) identifies the major threats that every state faces and it includes threats such as occupation and foreign invasion. According to that, states continuously have to make sure and ensure that they have enough power to not only defend themselves but also advance their material interests, which is crucial for survival (Weber, 2001). Even realists see states as selfish actors that are seeking only their own security, the cooperation among states is possible but it be strongly depended on calculations of benefits and self-interest.

According to realist the military power is the most important but they also indicate the other sources and resources of power that are essential for a state to be powerful such as geographic resources (e.g. size of territory; defensible borders), natural resources (e.g. raw materials), economic resources (e.g. wealth; technological leadership and development), human resources (e.g. population, education and skills) (Viotti & Kauppi, 2012).

*Liberalism.* Another international relations theory is liberalism and Michael W. Doyle is best known as theorist of liberal democratic peace theory, which is based on the moral argument to make sure that the core goal of government is to ensure the right of an individual person to life, property and liberty (Meiser, 2018). According to E. H. Carr liberalism is built on the mutual interest among states that may endure from misunderstanding, suspicious ineffective institution, but these conflicts can be overcome by communication, institutions, reason and law (Cox, 2001). Liberals are also certain that developed democracy in the home policy has a drastically effect on the foreign politics of the state and that the national characteristics/features of individual states matter for their international relations. Thus, liberal theorist noticed that more interdependent states are expected to collaborate in order to resolve problems and at the same time to behave as partners rather than to engage in violence conflicts (Daddow, 2017).

Furthermore, the key concepts that were found in liberal theory are: international institutions, absolute gains, democracy and free trade (Cristol, 2017). Institutions play very important part of international system as they provide cooperation, communication, coordination, norm building and problem solving. According to that, states are important actor, because non-state actors (e.g. the United Nations; World Trade Organization; Greenpeace) are also considered important as states interactions and behaviour are shaped them.

Same as realism, liberalism may be divided into four groups: political liberalism, economic liberalism, institutional liberalism and societal liberalism. Political liberalism focuses on the importance of democracy (a regime type) when it comes to relations between states. Economic liberalism explains the importance of economic exchange and trade relations between states. Institutional liberalism draws attention to position of international institutions and their relations between states. Last but not least. Societal liberalism explains the role of shared culture, norms on relation between societies (Drezner, 2015).

	REALISM	LIBERALISM	CONSTRUCTIVISM
<b>Main Theoretical Proposition</b>	Self-interested states compete constantly for power and security	Spread of democracy, global economic ties, and international organizations will strengthen peace	State behavior shaped by elite beliefs, collective norms, and social identities
<b>Key Actors in International Relations</b>	States, which behave similarly regardless of their type of government	States, international institutions and commercial interests	Individuals (especially elites)
<b>Main Instruments</b>	Economic and military power	Varies (international institutions, economic exchange, promotion of democracy)	Ideas and values
<b>Modern Theorists</b>	Hans Morgenthau, Kenneth Waltz	Michael Doyle, Robert Keohane	Alexander Wendt, John Ruggie
<b>Main Limitations</b>	Does not account for international change	Tends to ignore the role of power	Better at describing the past than anticipating the future

**Figure 1. International relations theories**

Source: compiled by the author

*Constructivism.* Constructivism is one of the newest theories of international relations, which is mainly focusing on the role of ideas in international politics. In order to be constructive in IR, it is important to understand how the states and people behave and think in the world. Majority of constructivists agree that states perceive interest and needs as they act in order to satisfy them (Baylis & Smith, 2005). As the states' interests come from the way they perceive themselves and others around them, it is important to understand states core values, which explain what the state considers important and how it is going to be perceived (Cox & Campanaro, 2016).

Constructivists see states as a major players, but at the same time, they see them as complicated and multifaceted entities rather than as rational actors or unitary. Thus, constructivists are very concern about cultural groups in world politics, which includes nations and ethnic groups and their ideas, values and experiences as the states are consist of them. What is more, constructivists as well focus on the idea of anarchy, but then they depart from previous position on the anarchical system. According to Wendt's (Guzzini & Leander, 2006) anarchy is what states make of it and that people act towards objects that includes meaning for various actors, which they attach to it. On the other hand, if anarchy is understand as what we make of it, and then anarchy can be perceived in a different way by the different states.

According to constructivists, the power is understood as not only material or tangible power but also as the ideas that people believe in and the way people think about themselves and others. Shared ideas, norms, and interpretations – shape the way people understand material world and their relations (Viotti & Kauppi, 2012).

After analysing all these three major approaches of international relations it can be said that, the main goal of realists is the survival of the state where a core goal of liberalists is to ensure that that concentration of unaccountable violent power that is the fundamental threat to individual liberty is restrained. To do so, organizations and institutions restrict the power of states by encouraging cooperation and providing means for imposing costs on states that infringe international agreements. Finally yet importantly, constructivism stresses that the state's behaviour can be explained by not only the wealth, distribution of material power or geographical conditions, but also through ideas, norms and identities.

One of the most visible effects that international relations have on businesses is how they can trade in foreign countries. As all countries depend on trading overseas in order to survive, trade is

a crucial factor in most international relations (Dean Group International, 2016). It is also very important to note that the business market is the most sensitive to changes because of international relations and national politics. Business market is where firms trade resources, raw materials, and etc. By changing a policy, it may have a direct cost on the price (e.g. increase or decrease in pricing of raw materials).

## **International Business**

International business is described as business activity that crosses national boundaries where the entities may be private, governmental, or even a combination of both. Thus, there are four types of international business such as:

- Foreign trade;
- Trade in service;
- Portfolio investment;
- Direct investments.

In foreign trade goods or commodities move between or among countries as imports or exports. Import consists of goods or commodities that are brought from across national borders into a country where exports consists of goods that leave a country (Hill & Hult, 2016). Countries also trade in service that includes hotels, insurance, banking, transportation, consulting. Fees or royalties are the forms of the earnings. For instance, fees may be earned through long-term or short-term contractual agreements and royalties accrue from the use one firm's name, patent or trademark. Another type of international business is portfolio investments that are financial investments, which are made in foreign markets. By purchasing debt or equity, the investor receive a financial return. In direct investments, investors have much bigger level of control when a company owns a foreign subsidiary or are in arrangements that includes joint ventures with other foreign companies (Ajami & Goddard, 2015).

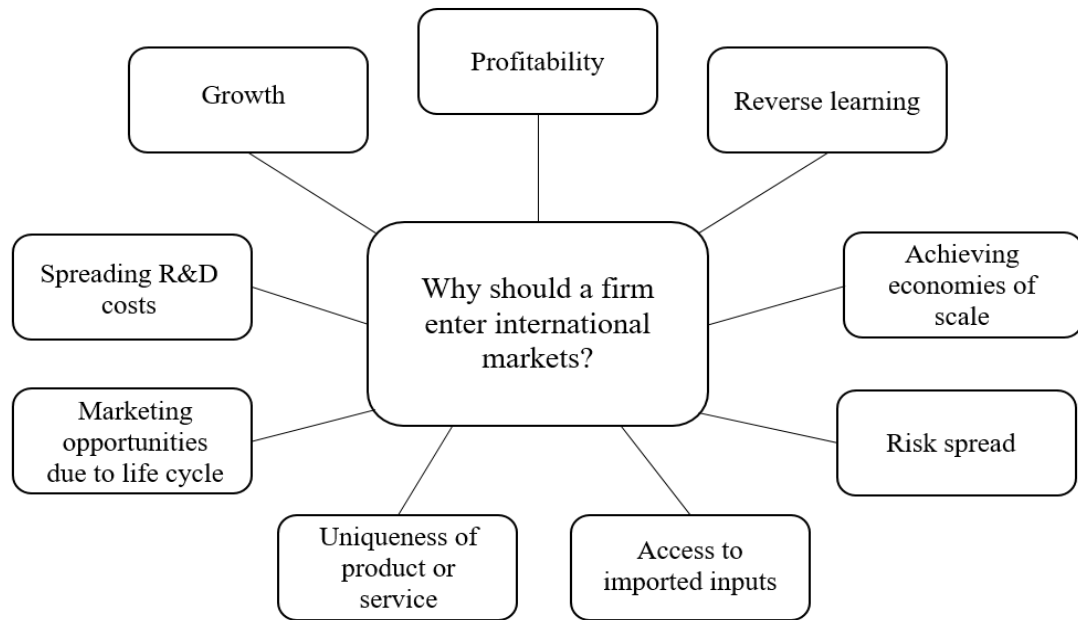
Furthermore, there are two main types of business in terms of geographical limit: domestic and international. Business that includes transactions between parties within the boundaries of one country belongs to domestic business. On another hand, business that includes transactions that are crossing national boundaries, it is called international business. What is more, as globalization is one of the main reasons why companies becoming international and increasingly looking for global rather than domestic markets. Due to this fact, managers have to become international in outlook

but also in strategies. It is necessary if the company wants to understand how it works and at the same time to beat the challenges that may rise in foreign countries. Even when company produces in its own country and tries to sell in another, it engages in the simplest level of international activity (Parboteeah & Cullen, 2018).

International business also includes the use of different currencies depending on the country and may also contain adopting the different legal and law systems of certain country. What is more, particular countries have a different culture, so businesses may be forced to adapt the other cultural specifics which may include norms, values, the way business has to be done and others (Griffin & Pustay, 2015).

Company sells its products to customers wherever in the world as long as they gain profit from it but there are more reasons, as it is shown in Figure 2, why companies enter international markets. Growth is one of the motives for companies to enter international markets. Competing in domestic country may also limit company's profitability in that market so that is why enhance profits in the foreign markets are some of the major motives for exporting. However, expanding into overseas markets is not only critical to growth of the company but it also gives opportunities for reverse learning. Companies also seek to gain cost advantages by competing in international markets. By entering a new market, company may rise their sales volume that can generate economies of scale that minor its productions expenses (Johnes & Johnes, 2016). When it comes to diversification of business risk, companies that depend only on one country it can create difficulties for firms if something is going not in a way as it was planned. It may include political, natural disasters or economic crisis. In this case, firms that diversify across various countries may reduce the risk of all those negative factors.

What is more, by spreading the potential market size, companies are able to recuperate easily the cost that incurred on research and development. Furthermore, the national trade policies offer for import of inputs that are used for export production and it helps the firms to increase their competitiveness and upgrade their operations. Another reason is marketing opportunities due to life cycles as the various products have a different stage of life cycle in different markets. For example, when a product is saturated in domestic market, a company may convert these products into marketing opportunities by simply operating into international markets. There are two ways either company launch new product in the domestic market or identify new market for existing product that may be adopted (Joshi R. M., 2014).



**Figure 2. Reasons for entering international markets**

Source: (Joshi R. M., 2014)

Companies can also have an access to purchase supplies in greater amount and at the cheaper prices from different suppliers among numerous countries. However, it may lead to reshoring when the quality of workers abroad do not meet the requirements or expectations. Political risk has to be taken into consideration as well as it may harm business operation within a foreign country. Unstable governments make it tough for companies to plan their future. A government can impose new taxes or regulations that will have a direct effect on foreign firms. Economic risk that includes currency exchange rates, property rights protection and others, also affect company's operation within a country (Edwards, 2019).

## **Business model**

Many managers and researches are seeking for more detailed information on how business can benefit from models with the purpose of surviving in our dynamic market. It is also noticed, that companies change their business model that help them to recover (Jablonski, 2017). Designing business model is a key step for a business people who create a new company or planning to develop a new business.

However, it is important to understand what a business model actually is and how it is defined. According to Amit and C. Zott (2001), a business model represents the structure, content,

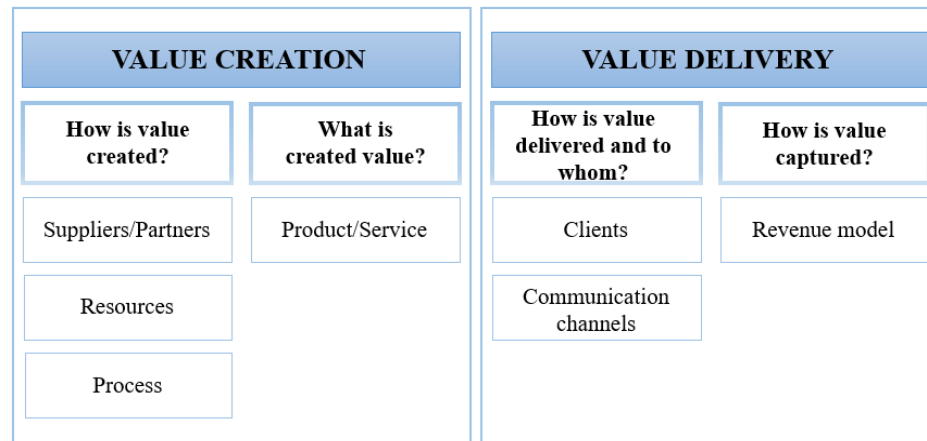


and governance of transactions that are designed to create value through the exploitation of business opportunities. B. Demil and X. Lecocq (2010) define business model as the concept which refers to the description of the articulation between different business models components or 'building blocks' to produce a proposition that can generate value for consumers and thus for the organization. R. Casadeus-Masanell and J. E. Ricart (2010) define a business model as the logic of the company, how it operates and creates value for its stakeholders. Business model also defines how a company's resources and its business environment are connected together in order to provide customers value and to generate a profit (Mansfield & Fourie, 2004). What is more, business model also may view as a description of the relationship and roles among a company's customers, consumers, suppliers and allies that identifies the main flows of information, product, benefits and money. According to different explanations of business model, it can be described as a system of different activities and resources that create a value for the stakeholders and company itself.

It is also important to understand the compositional elements that describes what a business model is made off. As it was stated by O. Gassmann, K. Frankenberger and M. Csik (2014) business model consist of four main dimensions:

- *The customer – who are your target customer?* Company has to understand who their target customers are and by segmenting them company will able to address them with its business model.
- *The value proposition – what do you offer to customers?* Company has to define its offerings and describe how they can meet its customers' needs.
- *The value chain – how do you produce your offerings?* Before a company puts its value proposition into effect, first company needs to carry through different activities and processes that are related with resources and capabilities and which are coordinated along the firm's value chain.
- *The profit mechanism – why does it generate profit?* This dimension explains what makes a business model financially viable and it includes aspects such as revenue-generating mechanisms and cost structure.

Another author, Margretta (2002) defines a business model that resembles value chain and is divided into part as it is shown in Figure 3. By segmenting a business model, it will provide an opportunity for organization to focus on particular set of parts, which may have main deficiencies or changes.



**Figure 3. Business model**

Source: made by the author

A business model outlines who company's customers are, what a company is selling (product, service), how they produce its offering and why its business is profitable. By answering questions who? what? how? why? company will be able to describe its business model. It can also be divided into internal (who and what) and external (why and how) dimensions.

Literature also provides two main concepts connecting to business models with the external business context such as business opportunities and competitive advantage. According to Teece (2010), a business model act as a pathway to competitive advantage which is built upon a business opportunities. However, it is not enough just to create a competitive advantage by implementing a business model, it also has to meet customer needs and to be non-inimitable. Thus, business model also has to be effective, differentiated and efficient if a firm wants to establish a competitive advantage based on an opportunity (Nielsen & Bukh, 2011).

As majority of companies are operating in multiple countries, it is important to identify the main strategies used across national borders. Figure 4 presents Bartlett and Ghoshal matrix where they clustered these business based on two criteria such as global integration and local responsiveness (Bartlett & Boston, 1989). What is more, four types of strategies including: global, multidomestic, transnational, and international strategies can be pursued by the businesses.

		LOCAL RESPONSIVENESS	
		LOW	HIGH
GLOBAL INTEGRATION	HIGH	GLOBAL STRATEGY	TRANSNATIONAL STRATEGY
	LOW	INTERNATIONAL STRATEGY	MULTIDOMESTIC STRATEGY

**Figure 4. Bartlett & Ghoshal model of international strategy**

Source: (Bartlett & Boston, 1989)

Companies that use a mutidomestic strategy (low integration and high responsiveness) are focused on differentiating its products to adjust to local markets. In order to respond quickly to changes in demand, the decisions tend to be decentralized. By doing it, companies are able to expand its market and offer different prices in different foreign markets. Firms that use multidomestic strategy have to be concentrated on culture, language, customer preference, taste and income (Smith, 2014).

Another strategy is global (high integration and low responsiveness), which focuses on the realization of synergies between operations at different locations and exploit economies of scale. What is more, products are always adapted in each markets, which allows companies to serve customers on their local terms even though they have different needs and purchasing power (Peng & Meyer, 2009).

The companies that have little need for global integration and local adaptation use international strategy (low integration and low responsiveness). This strategy is frequently used as synonym for export strategy, which companies use to send their products all over the world. To finish, the transnational strategy (high integration and high responsiveness) has global and multidomestic strategies' characteristics. The main purpose of this strategy is to maximize local competitiveness but at the same time to gain benefits from global integration.

Finally, companies that integrated transnational strategy attempt to generate economies of scale more upstream in the value chain and be locally adaptive and flexible in downstream activities (Sirkeci, 2013).

## 1.2. The concept of international competitiveness

International competitiveness is defined as a process in which higher levels of competitiveness are achieved at different levels, that is, national, firm or regional levels. Competitiveness becomes international when it includes two or more countries. Such procedure is captured by definitions of competitiveness which move from a general viewpoint to more specific understandings at the firm and country levels (Voinescu & Moisoiu, 2015).

According to K. Hoff, N. Fisher, S. Miller and A. Webb (1997), competitiveness is defined by the ability to produce goods or/and services that meet customer's quality expectations and deliver these goods or services at the right time, place, price and quantity to customer. Furthermore, competitiveness includes efficiency (reaching goals at the lowest possible cost) and effectiveness (having the right goals). It is the choice of industrial goals, which is crucial. Competitiveness includes both the ends and the means toward those ends (Buckley, Pass, & Prescott., 1988). International competitiveness, thus, can be understood as the balance between efficiency and effectiveness in the economic realm.

As it was mentioned above, the word "competitiveness" conveys a different meaning when it comes to nations, industries and firms (Balkytė & Tvaronavičienė, 2010). National competitiveness is the ability to achieve certain outcomes, such as economic growth, a high standard of living, exports, or FDI (Mauro & Forster, 2008). What is more, representatives of classical theory have identified capital, labor and natural resources as factors, which determine competitiveness. As free trade advocates, states viewed the regulation of direct economic activity negatively and saw such state intervention as a factor reducing competitiveness.

For industries, competitiveness is to sustain and increase its position in international market. It can be achieved by designing and selling goods at price, quality and additional features that are more attractive compared to goods offered by competitors. What is more, the competitiveness of an industry can be measured by comparing it with the same industry in another region or country with open trade.

From the firm perspective, the competitiveness is the ability to meet customers' needs by producing the right products or services. Companies gain a competitive advantage over other companies by simply finding sources for lower cost or benefit in any of its activities. It means that firms can make more money by offering cheaper price or by delivering better value to their customers. It shows that firms, which successfully compete with its rivals, it definitely increase a competitive advantage.

As the global competitive marketplace is increasing, companies are constantly seeking new methods to enhance their competitive advantages. Due to this fact, relationship management is becoming a key factor in competitive positioning as the good relationships among suppliers and customers are elusive. Firms, therefor, realize that international relations improve their ability to respond to the new business environment and at the same time reduce expenses of business process (Charles, Su, & Wu, 2007).

Companies adopt different strategies for various competitive advantages and the main ones are described as follow:

- *Cost leadership strategy*. This strategy is used by company that tries to build its competitive advantage on economies of scale. The greater the economies of scale the superior benefits to those companies that has a larger market share. Due to this fact, companies try to move for larger market shares than their rivals. By achieving a high level of economies of scale, companies are able to build stronger barriers against new entrants to the market.
- *Product differentiation strategy*. Firm uses this strategy in order meet and serve the particular needs of customers. Sometimes lower cost is not the main factor that attract customer because sometimes customers are willing to pay more for exclusive/unique features (e.g. comfort, aesthetics, performance) that they desire.
- *Niche strategy*. Firms and especially smaller ones uses a niche strategy that focuses more on exceedingly specialized segment of the market. In this way firms try to gain a dominant position in that segment (Kotabe & Helsen, 2011).

Furthermore, there are two main approaches to gain a competitive advantage such as: competitor focused approach and customer-focused approach. The competitor-focused approaches consist of comparison with the competitors on prices, technology, costs, market share and other

activities. Another one approach, which is customer-focused, concentrate on gaining competitive advantage arise from an analysis of customer benefits to delivered (Helsen & Kotabe, 2011).

### 1.3. The internationalization process theories – Uppsala Model

The term “internationalization” is defined as a process in which company or companies increased the involvement in the international operations/activities. Authors also approached the internationalization from macro and macro perspectives where they identified and consider variables as management know-how, labor, and profit that directly influence the oversea expansion in foreign countries (Welch & Luostarinen, 1988).

The growth of global trade has been noticed for the last decades and it has fueled the evolution of supply chain management. The main factors that have been facilitated the international trade are the reduction of trade barriers between countries and regions. For example, regional trade agreements such as European Union and Association of South East Asian Nations allows much more open trading within countries and regions (Mangan, Lalwani, Butcher, & Javadpour, 2012).

There two main factors that that push companies to internationalize their business activities at it includes:

- Organizational factors
- Environmental factors

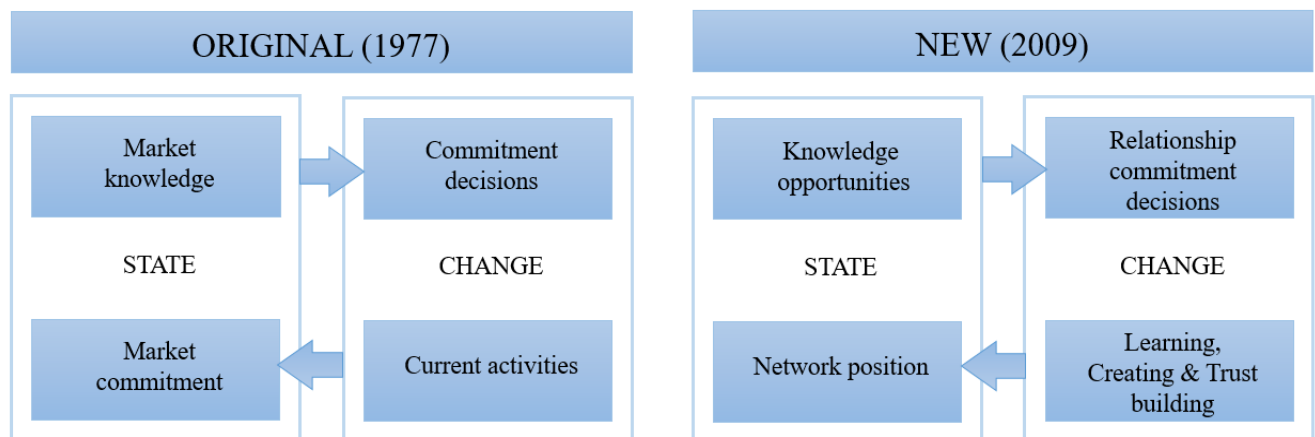
The organizational factors arising from the within the organization, for example, if the top manager of the company had high ambitious is tend to internationalize more than the one, who has low ambitions. Also, companies’ managers who speaks more languages are more willing to establish business contacts and to negotiate a good deal for the firm. Company’s size also matters, but as it is seen, bigger companies tend to internationalize more than the smaller companies, because of financial resources and greater production capacity.

The environmental factors include: unsolicited proposals, the ‘bandwagon’ effect and attractiveness of the host country. Firms may be stimulated to internationalize by some unsolicited proposals from distributors or by obtaining cheaper materials, new knowledges. What is more, greater market size is very attractive to foreign firms because they notice an opportunity to grow, gain profits and it will offer a stability of operations (Frynas & Mellahi, 2015).

## The Uppsala model

The Uppsala model was designed based on network research and the key idea is that a firm gains experience in its own domestic market and just after that goes abroad. In this way, company slowly intensifies international activities starting in markets with low geographical and physic distance and progressively increasing investments.

Uppsala model assumes that the more companies know about the foreign markets, the lower the market risk will be perceived, the higher level of investment in the market. Once a company gains foreign experience and at the same time improves their knowledge of foreign markets, firm tends to increase their foreign market commitment to countries that very different to its own. It will lead to even further commitment in more distance markets (Frynas & Mellahi, 2015). The importance of focusing on the Uppsala model is that it helps to understand and explain the internationalization process of businesses through experience and knowledge gained.



**Figure 5. Internationalization process models**

Source: (Johnson & Vahlne, 2009)

Figure 5. represents the original Uppsala model (on the left) and the new one (on the right) that was revisited due to the changes in business and theoretical advances since 1977. In the original model the main focus was on a particular company and its activities in the foreign market and the uncertainty level of that market. The updated model focus more on relationships and networks (Vahlne & Johanson, 2009). According to authors J. Johanson and J. E. Vahlne, nowadays the business environment has become a web of networks or relationships, instead of market of independent suppliers and customers. In fact, the interdependence and interaction between actors

(suppliers, clients, competitors) of a network is very important as information and experience flow through them.

The basic structure of the Uppsala Model of internationalization process is based on the distinction between state and change variables that interact and affect each other. According to Uppsala model, knowledge is the central issue in firm's internationalization process. Thus, knowledge is essential in order to recognize the opportunities. As the lack of knowledge about foreign market is the major obstacle, it can be overcome by learning. In order to gain knowledge about foreign markets, firm has to do business in specific country and in this way firm will learn how intermediaries, customer, competitors act and react in different situations (Silva, Pacheco, Meneses, & Brito, 2012).

The second state variable in the new model is network position. Network position is vital variable as the internationalization process takes place within the firm's network. It is crucial to be part of a strong network in order to be successful in foreign market. The uncertainty appears mostly from the weak position held of the firms in its network. If a strong position is held, the uncertainty is reduced because partners have more knowledge to access. In contrast with the original model, the notion "commitment decisions" was updated to "relationships commitment decisions" to highlight the idea that commitment is to relationship. With the intention of creating more connections and building trust, firm has to make decision about relationship commitment. The more firm gets commitment with the market, the more it gains knowledge for improvements (Silva, Pacheco, Meneses, & Brito, 2012).

In the updated version of Uppsala model, "current activities" were replaced by "Learning, creating and trust-building". Same as in the original model, learning plays an important part. Creating stresses that knowledge and opportunities are created by interfirm activities. Thus, trust-building among partners/actors may ease all the processes during internationalization process (Vahlne & Johanson, 2009).

Uppsala model explains the internationalization process of companies based on two dimensions state and change. In the international environment, firms try to gain knowledge about opportunities via their network position. By gaining more knowledge about foreign markets and building truthful relationships, also increase their commitments to relationships. Firms gain

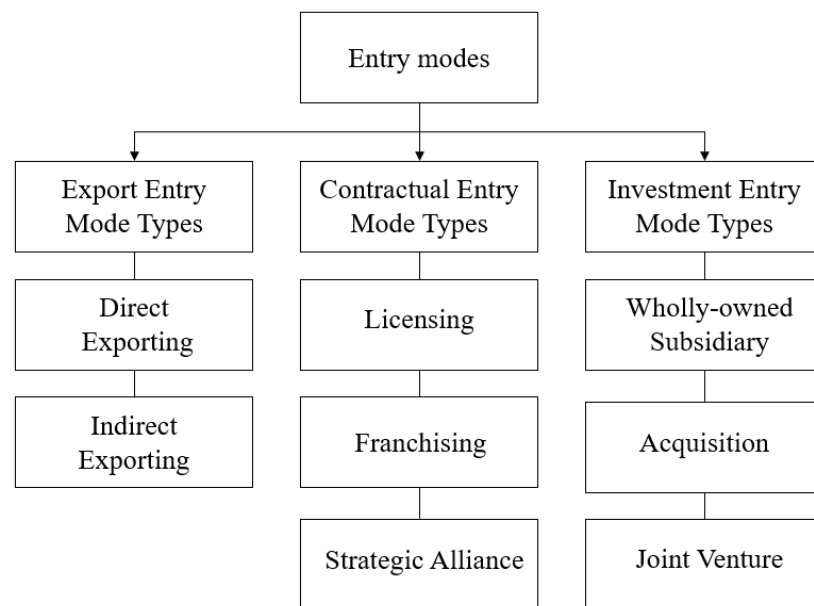


knowledge, reduce uncertainty and increase commitments in this internationalization process cycle.

#### 1.4. Foreign market entry modes

Once a company developed an internationalization strategy based on understanding of the competitive environment of different markets of interest then company needs to choose the most appropriate entry strategy. As it is shown in Figure 6, there are different entry modes and it can be chosen by various factors, for example, it may be influenced by the amount of the resources the company intends to commit to the expansion or other factors. Also, company has to be aware that there is no single-entry mode that is suitable for all markets.

Taking all that into account, there are some choices that company can adopt when expanding to foreign market and it includes: export, licensing, franchising, joint venture, acquisition, strategic alliance and others. A company may also use a combination of various entry modes, because for certain market some of entry modes are more suitable than the others (Ofili, 2016).



**Figure 6. Foreign market entry modes**

Source: made by the author

*Exporting* – it requires the smallest amount of involvement by a company in terms of resources that are required and allocated to serving a foreign market. Majority of companies uses current domestic capacity for production, distribution and designate only a certain portion of their

home production to foreign markets. Goods that are made at home country usually are sent by air, ship, trucks and rail to overseas markets. The beginning of international export starts basically with the placement of an order by a customer from the foreign country (Siba & Gebreeyesus, 2017). What is more, a company may be a direct exporter or indirect exporter. In direct exporting, the exporter is involved in all stages of the sale and transmittal of the merchandise, where an indirect exporter hires the expertise of somebody else who will ease the exchange. Few of the main advantages of exporting are low risk and low allocation of resources. Exporter is not only able to increase sales but also diminish inventories. It also provides an opportunity to establish recognition of the brand name easily and to identify market potential in an easy way. Nevertheless, there are some disadvantages of exporting as it can be more expensive than other methods of international business enrolments because of certain costs that may include: transportation, fees, export duties, taxes and etc. Goods that are exported could also be lacking features that are suitable to specific foreign market (Ajami & Goddard, 2015).

*Licensing* – it is a business agreement between two companies from different countries, where one company gives to the other one some type of intangible rights/permission to a process that may include patents, copyrights, trademarks or programs. The prime advantage of licensing is that it provides benefits to both parties. Furthermore, it gives the ability to expand with very little risk and also provide ability to reach new markets that might be closed by trade restrictions. However, there are several disadvantages of licensing, for example, by licensing rights to another, the company is no longer in control over the quality of its products and other processes.

*Franchising* – companies use franchising as a means for capturing opportunities in international markets. It is an arrangement between franchisor and franchisee where franchisor gives the rights to use trade names, trademarks and/or know-how to franchisor for the certain time of period. The main advantages of franchising is that political risks for the right-owner are very limited and companies are expanding in foreign markets with a minimum of investments. Nevertheless, there are some disadvantages as well as many countries hardly understand the concept of franchising as a business model (Kotler & Armstrong, 2017).

*Strategic Alliance* – it is a coalition of two or more companies in order to achieve strategically significant goals that are equally beneficial. Strategic alliance can be built on a simple licensing agreement between two companies. Alliance may vary and it depends on the different levels of partners skills. For example, cross-border alliances involves resources (e.g. distribution channels,

trademarks) and marketing-based assets. What is more, a successful alliance very much depends on strong manager who is the key to success. Also, a successful alliances have a tendency to start on narrow basis and expand over time (Kotabe & Helsen, 2011).

*Joint Ventures* – it is a form of cooperative strategy where two or more business entities create an alliance in order to combine their capabilities and resources. The objective of joint venture is to establish a stronger competitive position and reduce the negative effect of competitive rivals. The advantages of joint venture, it can verify an effective method of obtaining the essential resources in order to enter a new foreign market. It can be also used in attractive foreign markets, where, for instance, political requirements may make a joint venture legally required solution. It can also help to reduce political irritations or even local nationalism prejudice against foreign-owned corporation. Last but not least, it may provide access to supplies of raw materials, channels of distribution and also local production facilities. The first major disadvantages of joint venture is that it is very hard to integrate into an international strategy that includes cross-border trading. Another disadvantage includes the incompatibility of partners' objectives, management structure and conflicts in tax interests between or among partners (Cooper, 2014).

*Acquisition* – it is a corporate transaction where one firm purchase a portion of all of another firm's shares and gains control of that firm. It is a quick way for a company to establish access to a new market. Acquisitions are appealing because they help to increase the market share and overcome market entry barriers but at the same time, they are expensive and risky. What is more, there may be a conflict between the different cultures or employees might duplicate each other's duties (Ofili, 2016).

*Wholly Owned Subsidiary* – companies that want total control and strongly believe that managerial efficiency will be superior without external partners mostly pursue this option. By wholly owning a subsidiary, company can gain a higher profit and have more flawless communications and shared visions. Nevertheless, wholly owned subsidiaries face low international integration or multinational involvements due to a large investment in one area that costs a high risk (Luthans & Doh, 2012).

## **Factors influencing the choice of entry mode**

The choice of entry mode depends on different factors that may include such internal factors, external factors, desired mode characteristics and transaction-specific behaviour. All these factors are going to be explained more into detailed down below.

*Internal factors.* Size of a company is an indicator of the company's availability; increasing resource availability it will provide the base for increased international participation progressively. In case of small or medium size companies, they more likely to choose export modes to enter the foreign markets because of lacking the resources that are necessary to achieve high level of control or lower resource commitment. Another factor is international experience that refers to the degree to which a company has been involved in operating globally. Firms that already gained experiences from operating internationally may increase the probability of firms committing resources to international markets (i.e. form of wholly owned subsidiary). Last but not least, product and service include different characteristics such as value, perishability, composition that affects channel selection and location. For instance, product differentiation strategy allows firms to limit competition through the development of entry barriers. In this case, firms will use one of hierarchical modes of entry (Keegan & Green, 2005).

*External factors.* It includes sociocultural distance between home country and host country; country risk/demand uncertainty; market size and growth; direct and indirect trade barriers; intensity of competition; small number of relevant intermediaries available. Countries that have similar language, cultural characteristics and business or industrial practises are called sociocultural similar countries. Mode of entry may be influenced by internal uncertainty of sociocultural differences between home country and host country. Basically, when the perceived distance between the host country and home country is great, the choice of firms entry modes will involve high flexibility and low resource commitments. Country risk/demand uncertainty is also taking into consideration as risk in foreign market is higher than in domestic country. Firms that are planning to enter foreign market must do a risk analysis that will include the market and method to entry. When country risk is high, firms tend to choose entry modes that will involve quite low resource commitment, for example, export modes. Another factor includes market size and growth that are also important in deciding the entry mode of the firm. Companies are more likely to commit resources to its development to the larger countries and to the larger size of the market that may involve a wholly owned subsidiary or joint venture. Direct and indirect trade barriers, for instance,

trade or product regulations, certain standards have an effect on mode of entry as well as the intensity of competition or small number of relevant intermediaries available (Frynas & Mellahi, 2015).

*Desired mode characteristics.* It includes risk-averse, control, flexibility. If firm's manager is a risk-averse he or she will choose the entry mode, e.g. indirect exporting or licensing, that includes low level of resource commitment and minimal risk. Control is usually interconnected to the level of resource commitment. For instance, direct exporting do not involved fully control over international operations where wholly owned subsidiaries provide the greatest control. When it comes to flexibility, firms must also estimate the flexibility related with a mode of entry. Some modes of entry limit company's capability to adapt strategy according to the change of market conditions (Keegan & Green, 2005).

*Transaction-specific behaviour.* It includes tactic nature of know-how. It also always includes products or services that are complex and to express the functionality of them is very hard. The greater the tactic component of firm-specific know-how, the more a company will favour hierarchical modes (Hollensen, 2011).

## 1.5. Supply chain management and value chain

In general, the cosmetics industry is a good example of the move to a demand market that most supply chains are facing. In cosmetic industry, product development is totally driven by consumer demand and rapidly varying trends. According to this, it drives firms to force faster production and fulfillment.

A supply chain includes directly or indirectly all the parties such as suppliers, manufacturer, transporters, warehouses, retailers and customers. All functions (e.g. marketing operations, distribution, customer service, finance) in supply chain are involved to receive and fulfil customers' request/needs and at the same time to generate a profit for itself (Chopra & Meindl, 2016).

A supply chain consists of different stages such as:

- Customer;
- Retailer;
- Wholesaler;
- Manufacturers;

- Components/raw material suppliers.

Every stage in supply chain is connected through the flow of products, information and funds. All those flows occur in both directions and it may be managed by one of the stages or intermediary. The main objective of supply chain is to make the most of the overall value generated. What is more, firm's success or failure very much depends on supply chain design, planning and operation decisions. According to that, firms have to adapt their supply chain to changing customer expectation and technology.

In cosmetic industry, big changes were made in the manufacturing process of beauty products because companies now are more concern about environmental sustainability issues. The fundamental stage in the supply chain of beauty products is manufacturing process that includes sourcing of organic and natural raw materials and ingredients. The quality, cost, competitiveness of raw materials very much depends on supplier. The distribution of natural materials such as vegetable oils, waxes, facts and other ingredients that are needed for cosmetic product is also very important step in supply chain (Chopra & Meindl, 2016)..

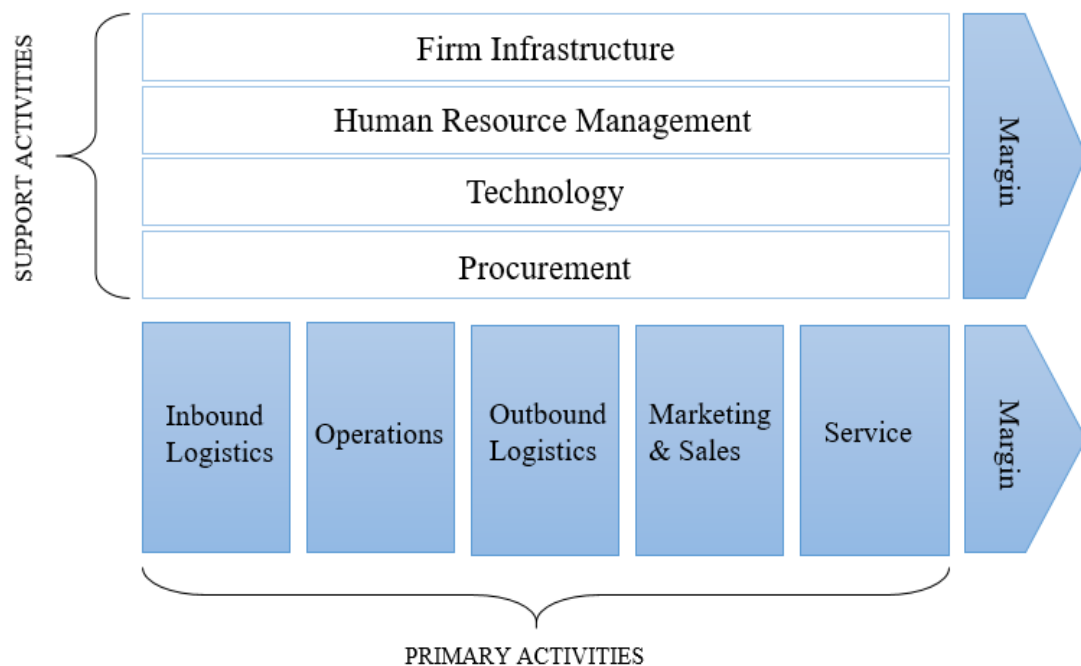
Furthermore, fair trade is also important to mention. It includes better prices, local sustainability, decent working conditions and fair terms of trade for workers. In other words, it is a trading partnership, which is based on respect, dialogue, transparency that seek greater equity in international trade (World Fair Trade Organization, 2019).

## **Value Chain**

According to Michael Porter (1985), value chain is the sequential set of value-added activities within and around the firm that are essential to create the final product or service. Value often depends on the context, and it usually occurs when the needs and wants of customers are met through the attitude of a certain product or service.

What is more, value chain analysis helps not only to understand firms' cost position but also to identify its competitive strengths. Managers need to understand, which activities are essential in creating value and which activities are not that important. By understanding it, managers will be able to model the value system of their organizations. In this way, organization will be able to gain a competitive advantage by performing tactically important activities cheaper or better than its rivals perform.

In Figure 7 value chain model is presented that includes primary activities and support activities. Primary activities and supportive activities can be seen as a system of interdepend activities, which are connected by linkage within value chain. Once the decision is made within one value chain activity, it may affect another value activity. Based on clear overview and understanding of organization's supply chain, managers will not only be able to assess where real value is created but also be able to determine where improvements have to be made. However, it is important to look at this a little bit deeper.



**Figure 7. Michael Porter's value chain**

Source: (Porter, 1985)

Primary activities such as inbound logistics, operations, outbound logistics, marketing and sales, sales are directly concerned with creation of delivery of a product/service. Inbound logistics includes activities such as receiving, storing and distributing inputs to the product. Once the necessary materials have been collected, operations transform these inputs into final product/service and it includes packaging, machining, testing and others. After that, the final products has to reach customers. Outbound logistics is the process of collecting, storing and distributing the product to customers. Marketing and sales are responsible for providing means by which consumers become aware of the product/service and are able to buy it. It includes advertising, sales administration and selling. Service activity as part of value chain is necessary to

enhance and maintain the value of a product or service. This includes repair, installation, training and spares (Johnson, Whittington, & Scholes, 2011).

Supportive activities such as procurement, technology development, human resource management, and infrastructure help to improve the efficiency of primary activities. Procurement includes all activities that are involved in obtaining goods or services and managing their inflow into an organization. For example, purchased inputs such as raw materials, supplies as well as assets that includes office equipment, buildings, machinery and others are needed to assist various value chain activities. Furthermore, every value chain activity incorporates technology, even if it is simply know-how. Technology development activities can be divided into groups, one of them may be concerned directly with a product (e.g. product design) and another ones with a process (e.g. process development) or with a certain resources (e.g. raw material improvement). Another supportive activity is human resource management, which consist of activities such as managing, recruiting, training, rewarding people. Lastly, a firm infrastructure generally supports the entire value chain and consists of various activities including information management, finance, quality control, and the structure of organization (Pheasey, 2016).

## 1.6. Complexity of organic and natural cosmetics

The organic and natural cosmetics industry is a niche market intent to meet customers with a high-quality demand for products without synthetic chemicals. However, a global definition of organic or natural cosmetic products has not been defined yet (FDA, 2018). Due to this fact, there is still a lot of confusion regarding what natural and/or organic products are and what are not. Overall, the natural and organic cosmetics can be described as follows (Amberg & Fogarassy, 2019):

- Natural cosmetic products are made from extracted plants and minerals found in nature. However, so-called "natural" cosmetics often contain synthetic ingredients, preservatives and fragrances.
- Organic cosmetic products also consist of natural ingredients, but the difference here is huge compared to natural cosmetics - plants from which organic cosmetic products are made of were grown without any pesticides or chemicals. Genuine organic products do not contain genetically modified organisms (GMOs), trans-fatty acids, synthetic or chemical substances.



Even the global definition regarding organic and natural cosmetics have not been made yet, there are different understanding of organic and natural cosmetics, because of varied certification agencies with distinct requirements around the world. Major certification organizations and their standards for organic and natural cosmetic products are illustrated in the Figure 8 below.

<b>USDA NATIONAL ORGANIC PROGRAM (NOP)</b> Labels: USDA 100% Organic, USDA Organic and USDA Made with Organic Country of Origin: USA Business Type: Government	<b>100% Organic</b> – must contain only organically produced ingredients (excluding water and salt). <b>Organic</b> – must contain at least 95 percent organically produced ingredients (excluding water and salt). Limited amounts of synthetics are allowed. <b>Made with Organic Ingredients</b> must contain at least 70 percent organic ingredients, but cannot display the USDA seal on packaging.
<b>NATRUE</b> Labels: NATRUE Natural, NATRUE Natural with Organic Portion and NATRUE Organic Country of Origin: Brussels, International Business Type: Non-Profit	<b>Organic Cosmetics (3 stars)</b> – guarantees at least 95 percent of the natural ingredients stem from controlled organic production. <b>Natural with organic portion (2 stars)</b> – guarantees at least 70 percent of the natural ingredients stem from organic production. <b>Natural Cosmetics (1 star)</b> – requires 100 percent certified pure natural and derived natural (natural origin) plus some limited nature-identical*
<b>COSMOS</b> Labels: COSMOS Organic and COSMOS Natural Country of Origin: Brussels/ Europe Business Type: Non-Profit	<b>COSMOS Organic</b> – must contain at least 95 percent physically processed agro-ingredients must be organically produced, while a minimum of 20 percent of total ingredients by weight must be organic with exception for wash off products which is 10%. <b>COSMOS Natural</b> – may contain natural/ organic ingredients, but does not allow active marketing of organic content.
<b>BDIH</b> Labels: BDIH Natural. No certification for Organic Country of Origin: Germany Business Type: Profit. Membership required.	<b>BDIH</b> requires 100 percent natural origin/nature identical* to gain the "natural" standard. No organic content is required for certification but BDIH requires manufacturers to use organic content wherever possible. Nature Identical preservatives such as benzyl alcohol and salicylic acid can be used along with natural preservatives.
<b>ECOCERT</b> Labels: ECOCERT Natural and ECOCERT Natural and Organic Country of Origin: France Business Type: Profit	<b>Natural standard</b> – a minimum of 50% of all plant-based ingredients in the formula and a minimum of 5% of all ingredients by weight must come from organic farming. <b>Natural / Organic standard</b> - a minimum of 95% of all plant-based ingredients in the formula and a minimum of 10% of all ingredients by weight must come from organic farming.

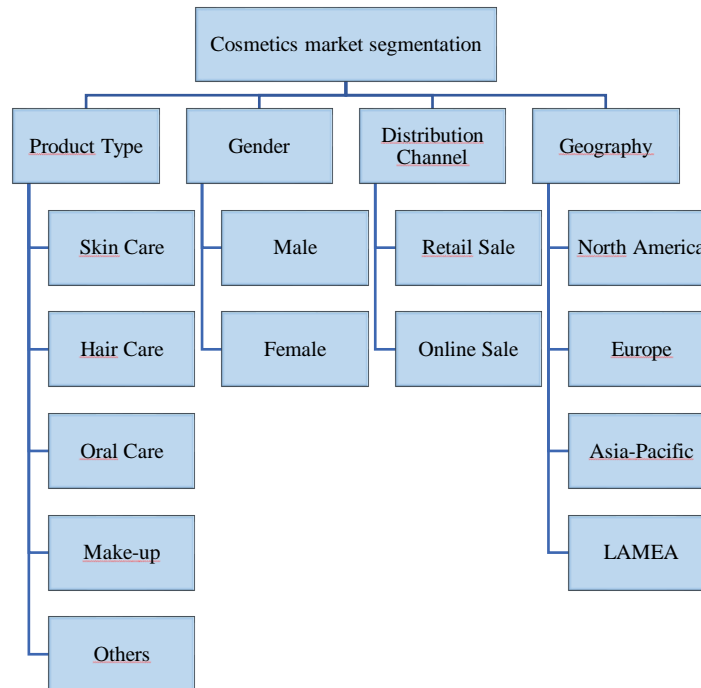
**Figure 8. Natural and organic cosmetics certification standards**

Source: Compiled by the author based on (COSMOS-Standart, 2019); (USDA, 2008); (ECOCERN, 2019); (NATRUE, 2019); (BDIH, 2019).

As it can be seen from the Figure above, the main differences among certifications is the percentage of organic or natural ingredients that are needed to meet the certification criteria. In order to receive a certification, cosmetic product does not have to be made 100 percent from natural or/and organic ingredients. For example, NATRUE requires that organic cosmetics contain 95 % of natural ingredients and 5% can include other ingredients but in the end the cosmetics products will be certified as organic. What is more, the organic products that are certified by USDA are even allowed to contain 5% of synthetic ingredients.

## Cosmetics market segmentation

Cosmetic products' market is segmented (see Figure 9.) on the basis of product type, gender, distribution channels, of sales and geography. It is shown in Figure 8 The product type segment includes skin care products, hair care products, oral care products, make-up and other products.



**Figure 9. Cosmetics market segmentation**

Source: compiled by the author based on (LLP, 2016)

Skin care as well as hair care products are used more often compared to other products and they hold a considerable share in the global cosmetics market. Gender includes men, women. Moreover, the distribution channels include retail and online sale, where retail mode is also classified into supermarkets, general departmental store, drugstores, pharmacies and others. The cosmetics market is also segmented by geography, for example, North America, Europe, Asia-Pacific, and Latin America Middle East and Africa (LAMEA) (LLP, 2016).

## 1.7. Research process and methodology

This part provides the explanation of methods and processes that are applied in empirical research. The empirical research was conducted by using two methods such as qualitative method and quantitative method. For quantitative research method, statistical data analysis and online survey were conducted. Another research method was qualitative where in-depth information was needed and the results are descriptive rather than predictive. Qualitative research methods included experts interviews. (Peffer, Tuunanen, Rothenberger, & Chatterjee, 2007).

For this research, the data collection included both primary and secondary sources such as documentations, statistical data analysis, survey and interviews with experts. Documentation data was collected from various sources such as literature in form of books, reports and scientific articles. In order to develop a model for creating international relations that enhance the international competitiveness of companies, which operate in organic and natural cosmetics industry, analyzed theories of international relations, international competitiveness and internationalization were combined with conducted empirical research main findings.

The first research part includes global cosmetics market insights, which will provide a better understanding of the overall situation regarding the consumption on cosmetics, international competitiveness in cosmetics industry, key players and main trends that are applicable for cosmetics industry.

In the second part, for modeling of market selection the technique for order of preference by similarity to ideal solution (TOPSIS) method is chosen to rank and identify the most attractive markets in cosmetics industry. In general, TOPSIS method is used to evaluate the performance of alternatives through the similarity with the ideal solution (Hwang & Yoon, 1981). The alternative that is the closest to the positive ideal solution and farthest from the negative ideal solution is the best one. It also shows that the positive ideal solution maximizes the cost criteria and at the same time minimizes the benefit criteria. The TOPSIS algorithm steps can be classified as follows:

**Step 1.** The decision matrix has to be constructed and weight of criteria are going to be determined by the experts.

**Step 2.** Calculating the normalized decision matrix.

$$n_{ij} = \frac{x_{ij}}{\sqrt{\sum_{i=1}^m x_{ij}^2}} \quad (1)$$

**Step 3.** Calculating the weighted normalized decision matrix.

$$v_{ij} = w_j n_{ij} \text{ for } i = 1, \dots, m; j = 1, \dots, n. \quad (2)$$

$w_j$  – the weight of the  $j$ -th criterion

**Step 4.** Determine the positive ideal and negative ideal solutions.

$$V^+ = (v_1^+, v_2^+, \dots, v_n^+) = \left( \left( \max_i v_{ij} \mid j \in I \right), \left( \min_i v_{ij} \mid j \in J \right) \right) \quad (3)$$

$$V^- = (v_1^-, v_2^-, \dots, v_n^-) = \left( \left( \min_i v_{ij} \mid j \in I \right), \left( \max_i v_{ij} \mid j \in J \right) \right) \quad (4)$$

where  $I$  is associated with benefit criteria and  $J$  with the cost criteria,  $i = 1, \dots, m; j = 1, \dots, n$ .

**Step 5.** Calculating the separation measures from the positive ideal solution and the negative ideal solution.

$$S_i^+ = \sqrt{\sum_{j=1}^n (v_{ij} - v_i^+)^2}, \quad i = 1, 2, \dots, m. \quad (5)$$

$$S_i^- = \sqrt{\sum_{j=1}^n (v_{ij} - v_i^-)^2}, \quad i = 1, 2, \dots, m. \quad (6)$$

**Step 6.** Calculating the relative closeness to the positive ideal solution.

$$P_i = \frac{S_i^-}{S_i^- + S_i^+} \quad (8)$$

**Step 7.** The final step is to rank the preference order.

Furthermore, the correlation coefficient measure is going to be applied for calculating the strength of the relationship between different factors that influence the growth of natural and organics cosmetics consumption within these countries that were determined as the most attractive using TOPSIS method. Accordingly, linear regression is used to model the relation between depended variables and independent variables (Schneider, Hommel, & Blettner, 2010).

Moreover, the qualitative analysis will be made based on five interviews with experts in the field of cosmetics. The aim of the interviews with specialist was to obtain authentic insights with regard to international market entry modes and main barriers that the companies should take into consideration before entering foreign market. The experts were selected based on their background and expertise that contribute to more valuable research outcome. The interview was conducted from October until November in 2019 by contacting experts via email. What is more, the interview consisted of 6 questions, which were designed as combination of structured Likert scale with multiple choice of questions, which are provided in the Appendix A. The provided survey questions were mainly focused on the main barriers (environment, economic, political, health) for entering foreign market in cosmetic industry, the most suitable foreign market entry modes, and macroeconomic indicators influence on selecting most attractive foreign market or markets.

The quantitative analysis were conducted by survey aiming to analyse what factors of natural cosmetics products can create added value for organic and natural cosmetic products. In order to reach a bigger portion of population, the online questionnaire survey was used. The target audience from which data was collected was quite broad as almost everybody buys cosmetics products once in a while. However, the respondents of the survey had to be from age 18 and live in Austria, Belgium or Netherlands. Once the target audience was determined, it was needed to calculate the required sample and to do so, the following measures were taken into account as follows (Stock & Biswas, 2017):

- Population size;
- Confidence level;
- Margin of error/confidence interval;
- Standard deviation.

The population size includes all people from age 18 and who live in Austria, Netherland or Belgium. The selected confidence level is 95% (Z score=1,96) and margin of error is 5%. The standard deviation is equal to 0,5. Based on this data, the sample size was calculated according to the formula below:

$$n = \frac{t^2 \cdot p(1 - p)}{m^2}$$

Where  $n$  stands for minimum required sample size,  $t$  – confidence level,  $m$  – margin of errors and  $p$  – standard deviation. After calculations, it was found that the required sample size was equal to 385. The questionnaire was distributed via various Internet channels such as Facebook, cosmetic forums and others, which let to reach more people. After collecting all the necessary information, the data was analysis and results were provided. All questions of the survey are provided in Appendix B.

Finally, after analysis of scientific literate and conducted empirical research the model for creating international relation for enhance international competitiveness of companies operating in natural and organic cosmetics industry will be presented. Accordingly, the main finding will be provided in conclusion part with suggested recommendations.

## 2. EMPIRICAL RESEARCH FOR CREATING INTERNATIONAL RELATIONS MODEL

### 2.1. Global cosmetics market insights

People have been using cosmetic products since back to 4000 B.C., when they started grooming themselves for funeral celebrations and ritual acts. At that time, they were using animal fat, clay and other colored-pigments, which they were able to find in nature. Later, the ancient Egyptians discovered the scented oils, which had been using for healing purposes. From that point, people become more interested in cosmetics and started using kohl, cooper and other products that helped to enhance their looks and it became essential part of their religion (History of Cosmetics, 2019). Today, cosmetics play an important role in people's everyday lives because it helps to build up the confidence and self-esteem for both men and women, who want to stay young and attractive (Bite, 2019).

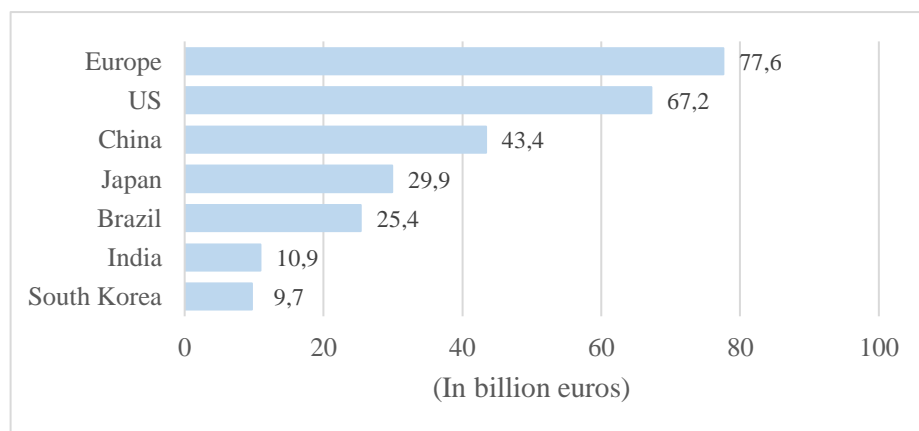
The annual growth rate of the global cosmetics market has been increasing for the past few years. Over recent years, consumers have been spending more money on cosmetics than they had before. In 2018, the global cosmetics market grew by an assessed 5.5 % compared to the prior sales year. The global market value of cosmetics was \$488,31 billion in 2018 and it is estimated to reach \$688.39 billion by 2023 with an annual growth rate of 2,3%. (Euromonitor International, 2019). Consumers, especially Gen Z generation and millennials, have become major drivers of the cosmetic market as they follow all the trends and want to experience more with cosmetics products. However, the global financial crisis had an impact on the reduction of cosmetic use in 2008-2009 as it can be seen in the Figure 10 below.



**Figure 10. Annual growth of the global cosmetics market from 2004 to 2018**

Source: (Statista, 2019)

The European cosmetics and personal care market was the largest in the world at retail sales price in 2017 (see Fig. 11). The cosmetics industry makes an important influence to the European economy. The cosmetics industry brings at least 29 billion euros in added value to the European economy every year, where 8 billion euros is contributed by the manufacture of cosmetic products.



**Figure 11. Global market for cosmetics products (in billion euros)**

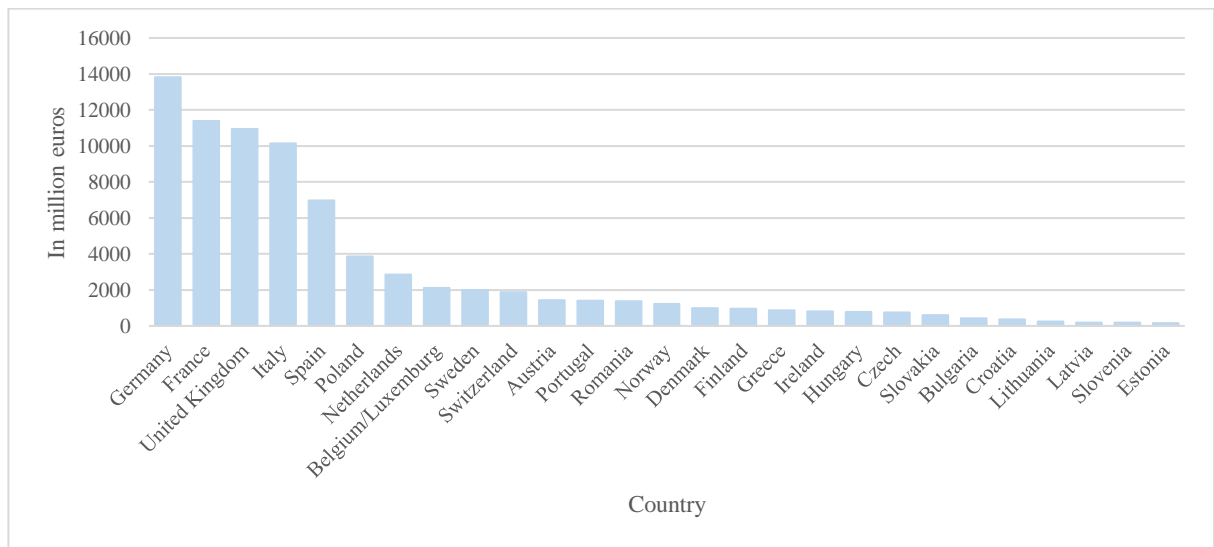
Source: (Europe, 2018)

The consumption value of cosmetics and personal care products in Europe during 2018 is presented in Figure 12. It can be noticed that in Germany the consumption of cosmetics was the highest, which is equal to 13804 million euros. France is the second place, which purchase also huge amount of cosmetics in 2018, valuing around 11.39 billion euros. The market value in Western Europe shows that the cosmetic industry increased and that market value reached 51.3 billion euros in 2018. Thus, it was forecasted that market value of beauty and personal care products would increase by an extra five billion by 2020.

In the Eastern Europe, the market value of beauty and personal care products is equal 23.1 billion euros, which is even more than twice as low compared to Western Europe. The main reason why the consumption value of cosmetics and personal care is more than twice bigger in Western Europe, is the higher population and the larger markets (Statista, 2019).

Overall, Europe is very attractive market for companies that operates in cosmetic industry, as the consumption of beauty products has been constantly growing for the last decades.





**Figure 12. The consumption value of cosmetics and personal care in Europe 2018**

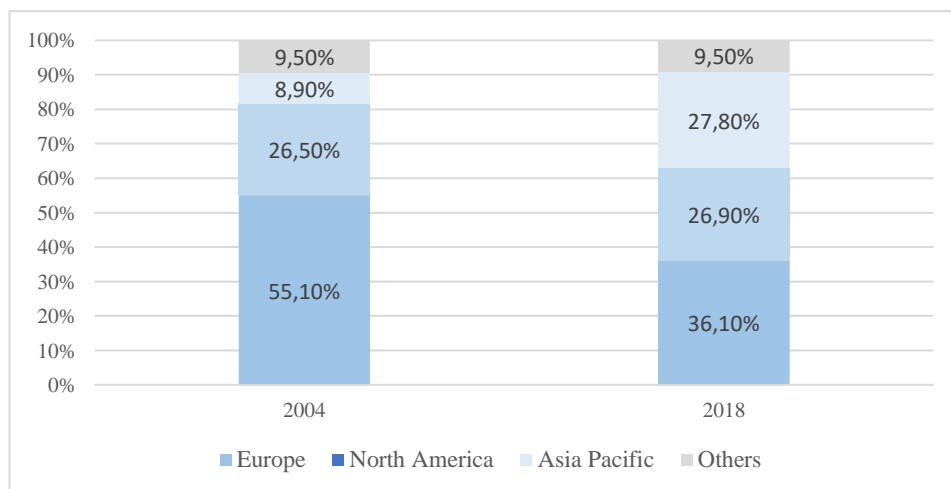
Source: (Statista, 2019)

Furthermore, the world cosmetics market is segmented on the basis of category, gender, mode of sale and geography. The product type segment is further classified as skin care, hair care, oral care, make-up and others that may include hand hygiene, deodorants and etc. Among all these product types, the skin care segment has been dominated for past few years and it is expected to continue to grow as the standard of living in emerging markets is rising and people's concern regarding the harmful effects of pollution and global warming is increasing. Second segment identifies gender that includes male and female. Moreover, the mode of sale includes retail and online sale, where retail mode is also classified into supermarkets, general departmental store, drug stores and others. The cosmetics market may be segmented by geography, for example, North America, Europe, Asia-Pacific, and Latin America Middle East and Africa (LAMEA) (LLP, 2016).

The demographic situation of beauty and personal care consumers shows that females from age 21 until 29 remain the main consumers. What is more, there exists diverse purchasing trends towards products' categories (e.g. niche, mass and prestige), which depend on the age of the consumer. Younger consumers (17-24 years old) are willing to try new beauty products, as they have not developed a strong brand loyalty. Consumers who are between 25-54 years old prefer more prestige cosmetics, because they not only can afford higher end brands but they also believe that these products have a higher quality and will protect their skin better from sun damage or wrinkles. In contract, the mass cosmetics category does not show a significant difference in the age distribution of clients (Social Standarts, 2019).

What is more, the production of cosmetics and personal care products is controlled by the few multi-national corporations, which are L'Oréal, Protect & Gamble, and Unilever, Estee Lauder, Colgate-Palmolive, Coty, Johnson & Johnson and others.

The rapid growth of the global beauty market has been intently linked to the globalization for the last decades. The globalization boosts beauty companies to internationalize and to increase availability of distribution channels that generate sales and increase profit. According to that, more and more companies in the cosmetics industry focus on selling their products not only to developed countries but also to fast economically growing markets (Jones, 2011). Figure 13 represents the globalization impact on L'Oréal sales distribution by geographical zones during 2004-2018. In 2004, the biggest part 55,1 percent of company's business was in Europe and 26,5 percent in North America with a small business in Asia Pacific, which composed just 8,9 percent.



**Figure 13. Sales distribution by geographical zones during 2004-2018**

Source: (Agon, 2018) (Mulliez & Owen-Jones, 2004)

However, in 2018 the situation had changes, the percentage of sales focussed in Europe decreased to 36,1 percent and Asia Pacific had risen to 27,8 percent.

### **Trends in the cosmetics industry**

The consumption of beauty and personal care products has been rapidly increasing in the past few years and it is expected to continue rising intensely. The cosmetic industry is guided by trends and the most obvious are presented down below.

The rising shift towards healthier lifestyle has been growing trend, which has reflected in consumer's beauty product preference and consumption. This trend influences the growth of natural and organic cosmetics. Consumers become more interested in beauty products that have clean formulations, skin protection features and etc. Due to the increase of health conscious, green technology trend is replacing synthetic materials of the products, which includes parabens, phthalates, petrochemical, aluminum salts, which are not only toxic but also hazardous to health (International, 2018).

Next trend is related to the evolution of digital world, which has increased the need of digital marketing. More and more cosmetics manufacturers are willing to invest in digital marketing as the customer buying habit are changing (IV, Weaven, Perkins, Sardana, & Palmatier, 2018). Digital technologies such as social media and e-commerce have enabled companies to build strong personal relationships with their customers. Thus, social media channels such as Instagram and YouTube popularity is massively increasing, the cosmetic industry has benefited from that, because these platforms not only build a demand for cosmetics products but also help to diminish the gap between consumers and beauty brands. For instance, in YouTube, beauty vloggers make beauty tutorials where they introduce beauty products and also teach how to use/apply a certain product (Shahbandeh, 2018).

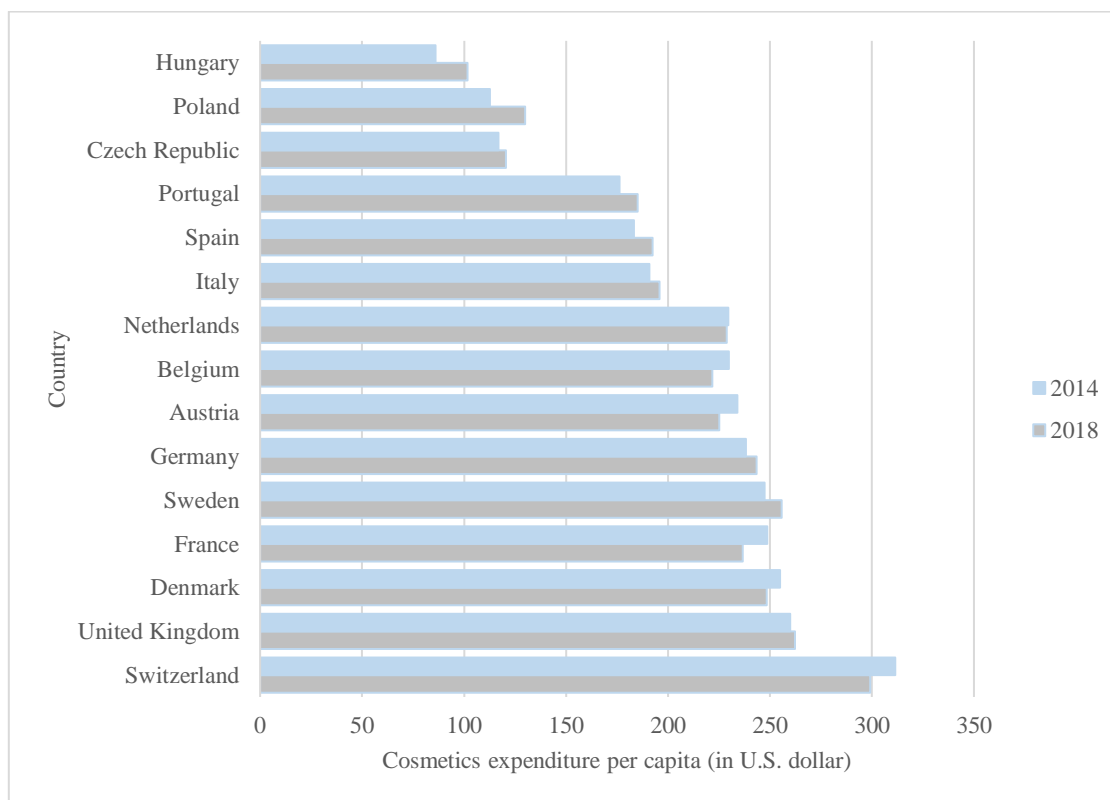
The usage of beauty and personal care products is increasing and one of the main factors that influence that growth is new beauty products, which contain more natural and organic ingredients. What is more, social media and other digital platforms enables brands to strengthen their connection with customers. By building strong relationship between brands and customers – sales of beauty products tend to increase.

### **International competitiveness in cosmetic industry**

The cosmetic industry has growth over the years and it is one of the industries, which holds quite high potential for further growth and development. Because of the rapid increase in demand for cosmetic products, the global competition also increased, which boosted the cosmetic industries to become more innovative, creative in order to gain a competitive advantage over the rivals.

Table 14. represents cosmetics expenditure per capita in 15 European countries during the year 2014-2018. As it can be seen, the expenditure on cosmetics per capita was the highest Switzerland, which was followed by United Kingdom and Denmark in 2014. However, the

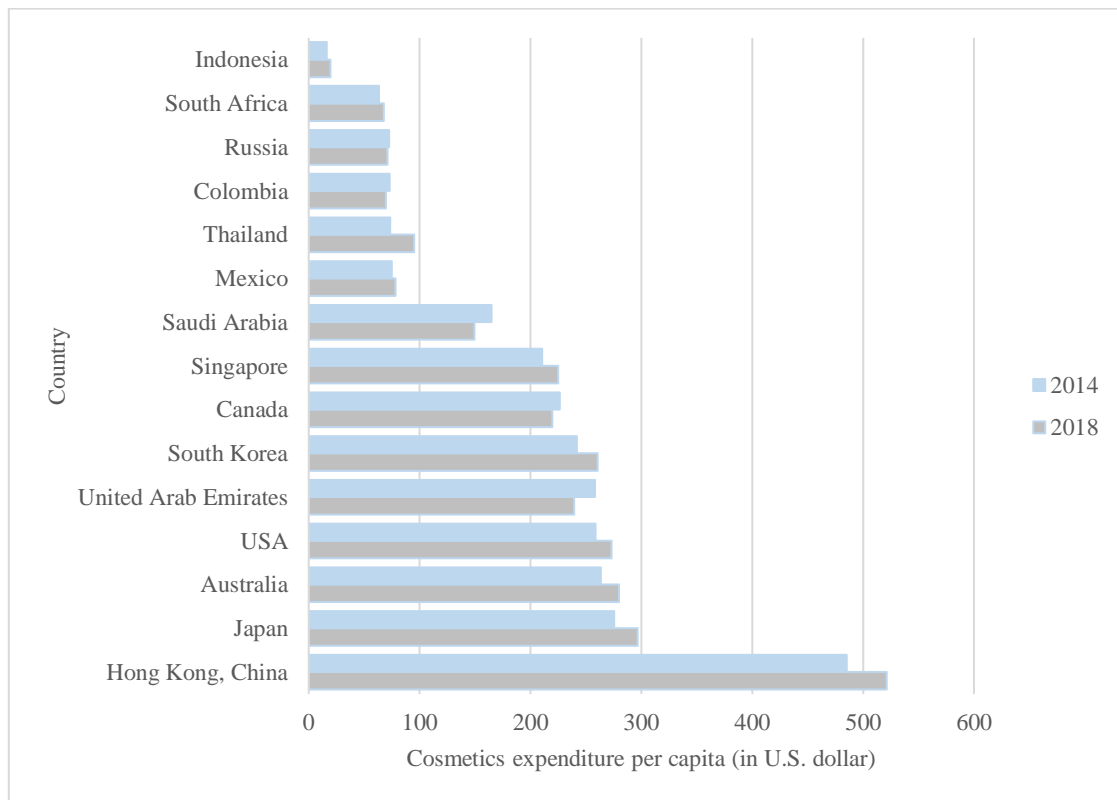
consumption during five years periods changed and the drop is visible in countries such as France, Switzerland, Denmark, Austria and Belgium. On another hands, a significant increase in cosmetic consumption is noticeable in countries like Hungary and Poland during the period 2014-2018.



**Figure 14. Cosmetics expenditure per capita in European countries during 2014-2018**

Source: (Euromonitor, 2019)

In Figure 15, the non-European countries' cosmetic expenditure on cosmetics was analysed, which showed that the biggest consumption of cosmetics products was in China, USA and Australia and the lowest in Indonesia, South Africa and Russia in 2014. During five years period, a huge leap in cosmetic consumption is seen in countries such as Thailand, Indonesia, China and Japan. However, the decline in cosmetics consumption is visible in Saudi Arabia, United Arab Emirates, Canada, Colombia and Russia during the period 2014-2018.



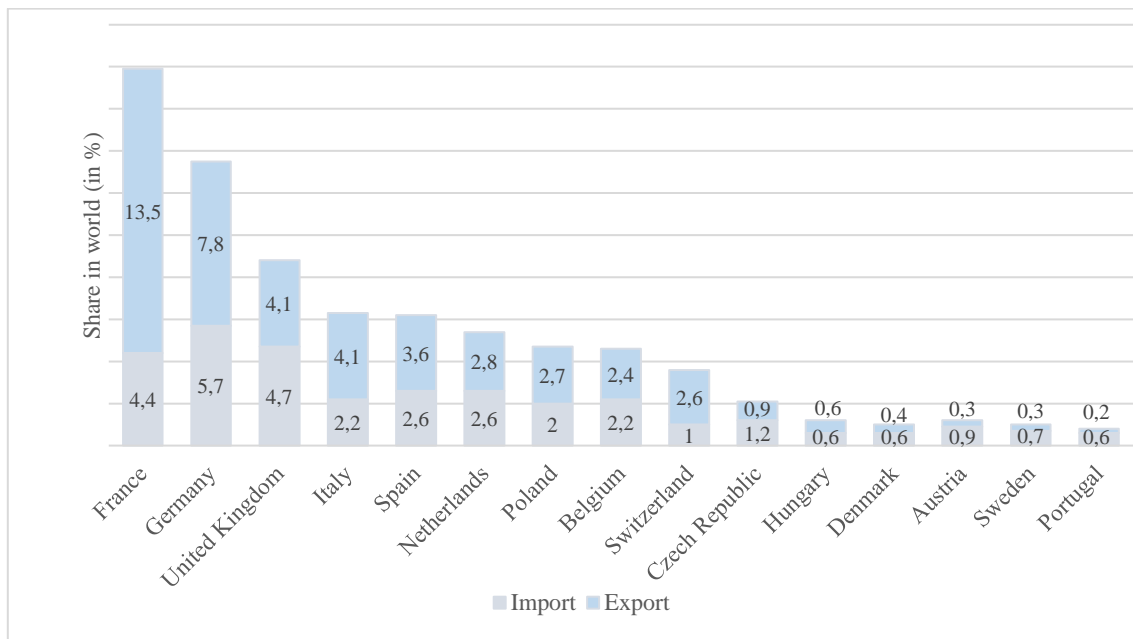
**Figure 15. Cosmetics expenditure per capita in non-European countries during 2014-2018**

Source: (Euromonitor, 2019)

Furthermore, the Figure 16 illustrates all the major importers and exporters of cosmetics in Europe. As it can be noticed, the main five countries, which have the biggest market shares of cosmetics imports in Europe are Germany (5,7%), United Kingdom (4,7%), France (4,4%), Spain (2,6%) and Netherlands (2,6%). All together, these countries represents 20% of share in world imports of cosmetics.

Furthermore, the biggest exporters of cosmetics in Europe are: France (13,5%), Germany (7,8%), United Kingdom (4,1%), Italy (4,1%) and Spain (3,6%). Overall, these countries represents nearly one-third (33,1%) of overall world exports of cosmetics in the world.

French beauty products are very well known in worldwide, which associate with luxury and quality to many customer. Due to this fact, it is not unexpected that France is the Europe's largest exporter of cosmetics. Thus, it was found that the biggest markets for French cosmetics includes USA, Germany, UK, Spain and Italy.



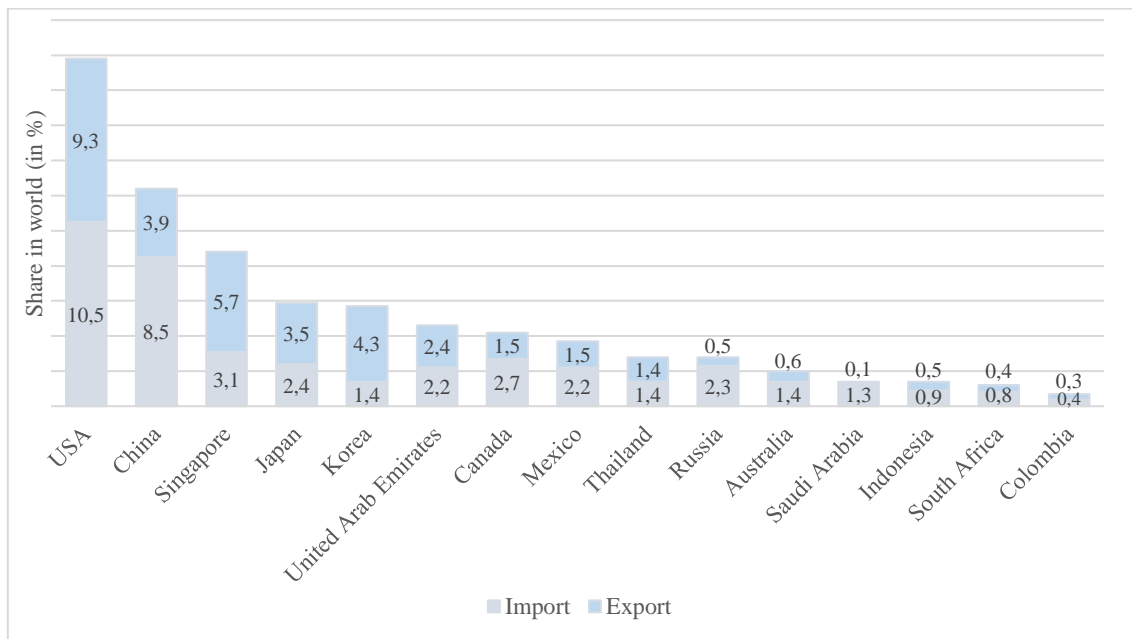
**Figure 16. European countries shares in world export and import of cosmetics in 2018**

Source: compiled by the author based on (ITC, 2019)

At the global scale of non-European countries, the main export and import countries of cosmetics are showed in the Figure 17 below. In 2018, the leading import country with 10,5% percent share in world import of cosmetics is USA. China is the second place with 8,5%. According to D. Workman (2019), the main countries from which China imports beauty cosmetics are: South Korea, Japan, France, USA and United Kingdom.

Furthermore, the top five importers of cosmetic products include countries such as USA, China, Singapore Canada and Japan, which together represent approximately 27,2 of total share in world cosmetics imports. In comparison with top 5 European cosmetic export countries, the non-European countries have bigger share part in world import during the year 2018.

By share percentage in world exports of cosmetics, the largest exporting countries are: USA (9,3%), Singapore (5,7%) and Korea (4,3%). Together these countries represents around 19% of total world export of beauty products, which is slightly less in comparison with European top 5 export countries of cosmetics. What is more, in countries such as Saudi Arabia, Colombia, South Africa, Indonesia and Russia, the export of cosmetic products was smaller comparing to other countries in non-European countries.



**Figure 17. Non-European countries shares in world export and import of cosmetics in 2018**

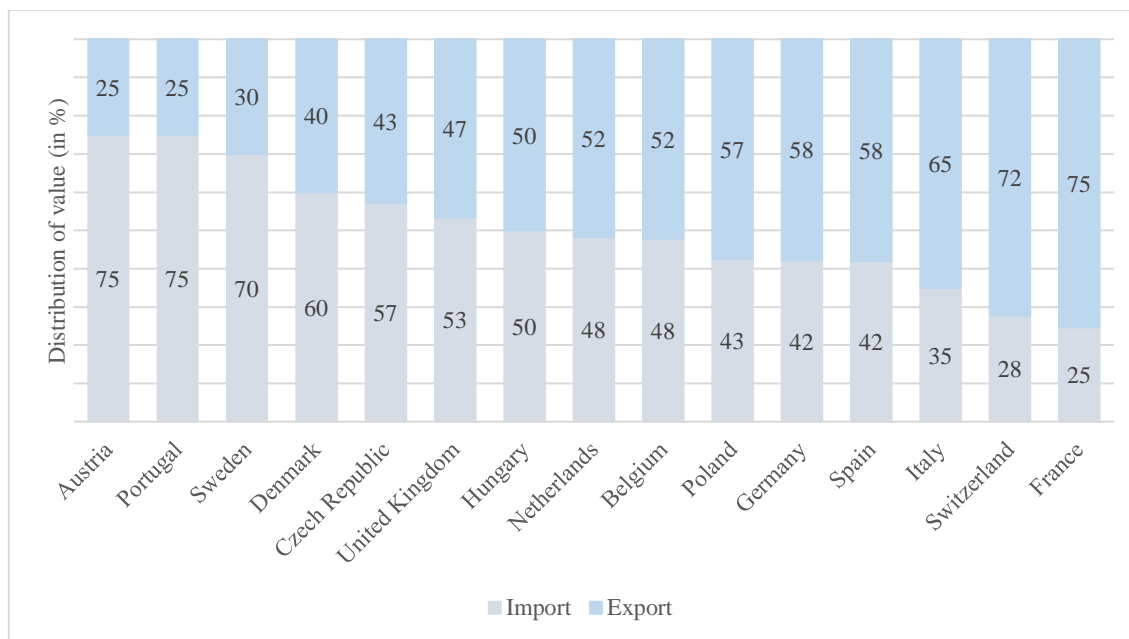
Source: compiled by the author based on (ITC, 2019)

In 2018, the international purchases of imported beauty cosmetics represent 144 billion U.S. dollars of worldwide demand. Since 2014, the value of beauty cosmetics imports for all countries increased by 6%. As it was presented in the figures above, the five biggest importers of cosmetics, who have the largest share in world export in 2018 are: USA, China, Germany, United Kingdom and France. These five main importers of cosmetics represented approximately 33,8 % of total imports in the world.

The main importers in Asia are China, Singapore, Japan and Korea, which represents the highest dollar worth of imported beauty cosmetics in 2018. This was followed by European importers and USA. What is more, among the twenty importers, the fastest-growing beauty cosmetics importers since 2014 were: China, Singapore, Thailand and Poland.

France is the largest exporter in the world with USA, Germany, Korea and Singapore nearby. These five main exporters of cosmetics represented approximately 42 % of total exports in the world. Meanwhile, total value exported of cosmetics during the period 2017-2018 went up by 13% valued at 145 billion of U.S. dollars. Among the all major exporters, the fastest-growing beauty cosmetics exporters since 2014 were: Korea, Japan, Hong Kong, Singapore and United Arab Emirates.

Furthermore, the import and export are distributed differently, which means that some countries import more cosmetics products from other countries where the rest do more export from their own country to others. Thus, the trade deficit appears when a country imports more than it exports, which means that country is not able to produce enough what it needs and due to this fact, country imports products from foreign countries (Suranovic, 2015).



**Figure 18. Distribution of cosmetics imports and exports value in European countries (in %)**

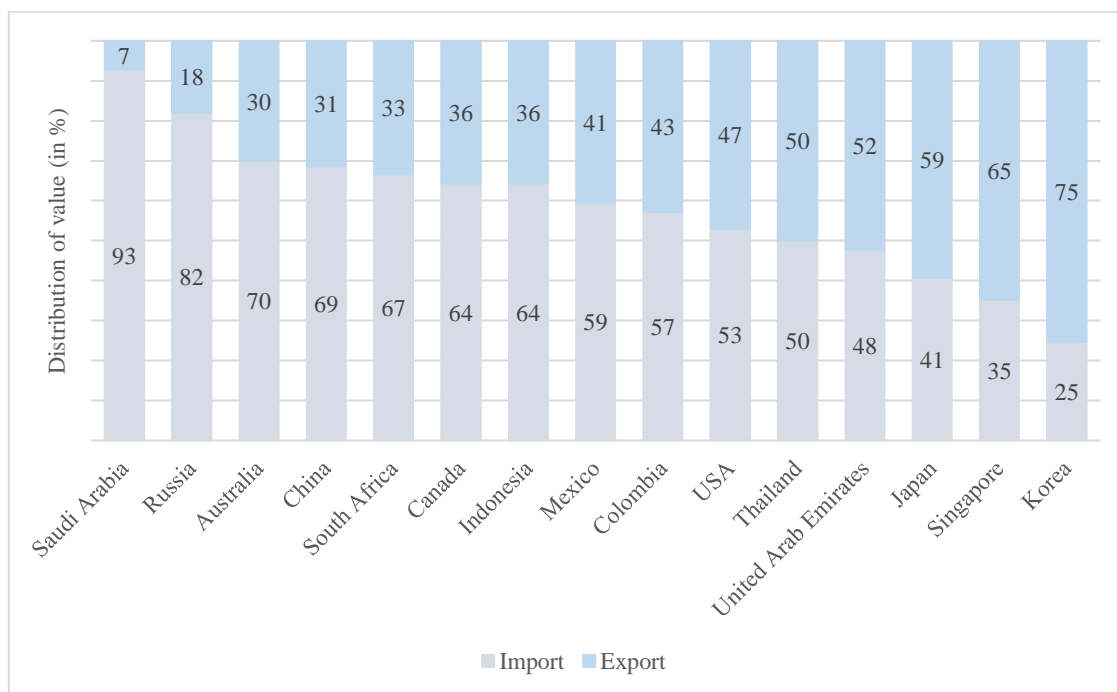
Source: compiled by the author based on (ITC, 2019)

As it depicted in the Figure 18 above, the trade deficit is clearly visible in countries such as: Austria, Portugal, Sweden and Denmark. It means, that these countries import majority of beauty products from other countries, because they do not produce enough of them within their own country. Even knowing the fact, that these countries import more cosmetics than they export, it can be seen as an advantage from the consumer perspective because they get access to a wider variety of beauty products and most of the time, they get them for a more competitive price.

On the other hand, when a country exports more than it imports, that creates a trade surplus. By increasing exports, countries are able to protect their companies from worldwide competition at least for a certain period of time, for example, by raising taxes on imports or so. The trade surplus is seen in countries such as France, Switzerland, Italy, Spain and Germany.



Looking at the Figure 19, which represents the non-European countries' breakdown of cosmetics imports and export in 2018, it is seen that more importer countries are Saudi Arabia, Russia, Australia and China.



**Figure 19. Distribution of cosmetics imports and exports value in non-European countries (in %)**

Source: compiled by the author based on (ITC, 2019)

However, countries that produce more cosmetic products within a country and after that export to other foreign countries are Korea, Singapore. Other countries such as Thailand, USA and Colombia import and export cosmetics more or less at the equal level.

What is more, the production of cosmetics and personal care products is controlled by the few multi-national corporations, which are listed in the Table 1. According to the provided sales statistics, it can be seen that the major players in cosmetic industry include corporations such as L'Oréal, Protect & Gamble, and Unilever where each of them generated more than 30 billion euros of beauty products sales in 2018.

Brands like Kiehl's (L'Oréal), Orgins (Estée Lauder) and Avenoo (Johnson&Johson) are very well known for majority of consumers who are interested in purchasing natural and organic cosmetic products.

**Table 1. Largest cosmetic companies by total sales in 2018**

Company	Headquarters	Total Sales ( bn. Eur)	Global company Share (%)	Major Brands
L'Oréal	Clichy, France	40,1	9,7	L'Oréal, Kiehl's,, Lancôme
The Procter & Gamble	Cincinnati, Ohio, United States	31,8	7,7	Aussie, Olay, Old Spice
Unilever	London, United Kingdom	30,9	7,5	Axe, DOVE, Simple
Estée Lauder Companies	New York, United States	14,9	3,6	Estée Lauder, MAC Cosmetics, Origins, Clinique
Colgate-Palmolive	New York, United States	14,1	3,4	Colgate, Palmolive, Sanex, Hill's, Protex
Coty	New York, United States	12,9	3,1	Rimmel, Max Factor, Wella
Johnson & Johnson	New Brunswick, New Jersey, United States	2,6	10,9	Johnson's, Neutrogena, Aveeno
Beiersdorf	Hamburg, Germany	2,6	10,6	Eucerin, Nivea, La Prairie
Shiseido	Tokyo, Japan	2,3	9,7	Shiseido, Bare Minerals, NARS

Source: compiled by the author based on (Euromonitor, 2019)

Furthermore, the major players in global natural and organic cosmetics market are The Este Lauder Companies Inc., L'Oréal SA, Weleda AG, Burt's Bees and Arbonne International, LLC. Thus, there are many beauty companies that do not specialize only on natural and/or organic cosmetics but due to the growing consumer's demand for green cosmetics they launch new product lines.

## 2.2. Modeling of market selection using TOPSIS method

Starting business operation in foreign markets is a complicated process because it is not only requires to make certain decisions about international market expansion but these decisions may have a significant consequences in influencing the success and performance of a company. Due to this act, it is very important to identify the right foreign market or markets in which the firm wants to operate. In order to identify the potential markets, the Technique for Order Preference by Similarity to an Ideal Solution (TOPSIS) methods was used. TOPIS developed by Hwang & Yoon (1981) is a technique, which is used to evaluate the performance of alternatives through the similarity with the ideal solution. What is more, the alternative that is the closest to the positive ideal solution and farthest from the negative ideal solution is the best one. It also shows that the positive ideal solution maximizes the cost criteria and at the same time minimizes the benefit criteria.

Among different multi-criteria decision making methods, TOPSIS was chosen as it usually used to solve decision-making problems and is the most accurate in comparison with other multi-criteria decision making methods (Christian, Zhang, & Salifou, 2016).

While analysing the current situation in cosmetic industry, it was noticed that the European cosmetics has a strong position in cosmetics market and the consumption of the cosmetics is increasing. Due to this fact, the following ten markets are selected from Europe and it includes: Germany, France, Italy, Spain, Poland, Netherlands, Belgium, Sweden, Switzerland and Austria.

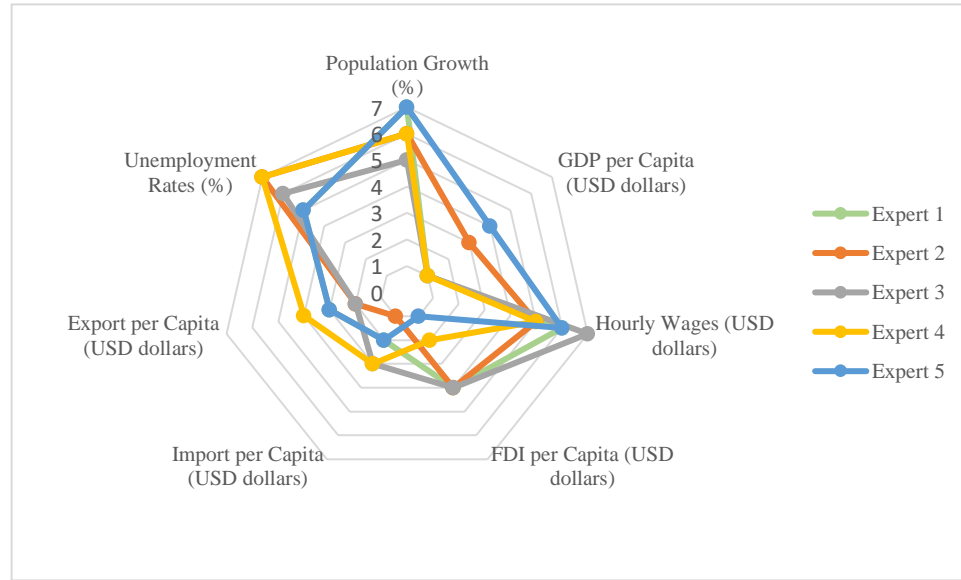
Based on the analysis of the market selection criteria proposed by the authors such as A. Miečinskiene, V. Stasytyte, J. Kazlauskaite (2014) and other authors Sh. Sheng and M. R. Mullen (2011) the main criteria for market selection were determined:

- C1 - Population growth rate (%);
- C2 - GDP per capita;
- C3 - Wages per hour;
- C4 - Foreign direct investment per capita;
- C5 - Import per capita;
- C6 - Export per capita;
- C7 – Unemployment rate (%).

Furthermore, it is important to determine the criteria weights as they have a great influence on evaluation results. For this reason, the criteria weights can be determined based on the subjective experts/specialists evaluation. Accordingly, experts were asked to determine the criteria weights. As the weights of criteria are very important while applying multi-criteria method, the experts were carefully selected for this purpose. The experts were selected from small and medium size companies, who had no less than 5 years' experience in the international business field (Libakova & Sertakova, 2015). After selecting five experts, the weights of different indicators were evaluated by them. What is more, the direct method of weight determination assessment was applied, which means that every expert evaluated the weight of separate criteria (in percent) by its importance.

Accordingly, the GDP growth rate per capita has the highest weight (19%) taken into consideration of the seven criteria. GDP growth rate per capita is followed by import per capita (18%), export per capita (18%), RDI per capita (17%), hourly wages (10%), population growth (9%) and unemployment rate (9%) respectively.

Experts evaluation of indicators was converted from 1 to 7, where 1 stood for the strongest indicator and 7 for least significant forces. From Figure 20 it can be seen that the most important indicators according to the experts in selection of foreign market process are GDP per capita, import per capita and export per capita.



**Figure 20 Experts evaluation of criteria**

Source: made by the author

Also, the Kendall's coefficient was calculated, which evaluated the agreement among experts. The value of coefficient of concordance that was calculated according to formula below.

$$W = \frac{12S}{m^2(n^3 - n) - mT} \quad (1)$$

The value of coefficient of concordance that was computed and it was equal  $W = 0,83$  that shows there was positive agreement between experts.

As the weights of each criteria is determined, Table 2 represents ten potential target markets and seven criteria, where multi-criteria evaluation will be applied for selecting three most attractive foreign markets. In the first step, dimensional decision matrix is constructed. The foreign countries' performance scores are calculated during the period of 2018.

**Table 2. The decision matrix and weight of criteria**

	Population Growth (%)	GDP per Capita (USD dollars)	Hourly Wages (USD dollars)	FDI per Capita (USD dollars)	Import per Capita (USD dollars)	Export per Capita (USD dollars)	Unemployment Rate (%)
Weight	0,09	0,19	0,10	0,17	0,18	0,18	0,09
Country							
Germany	0,33	48669,6	14,9	310,54	15277,21	18569,88	3
France	0,18	42930,8	14,5	557,48	9865,45	8505,01	9
Italy	0,17	34349,2	11,6	401,46	8280,42	9037,7	10
Spain	0,28	31059,5	11,4	934,2	8261,89	7314,62	14
Poland	0,01	14468,8	5,2	302,26	7080,04	6940,49	5
Netherlands	0,58	52931,2	14,1	4054,71	30355,06	34086,15	4
Belgium	0,41	46978,7	12,5	427,7	39851,01	41069,24	5
Sweden	1,24	53867,2	16,9	1105,73	16818,18	16393,28	7
Switzerland	0,83	83583,1	18,6	-10117,17	24118,33	26438,52	2
Austria	0,56	56698,1	15,2	863,26	20895,69	20102,04	7

Source: (The World Bank, 2019), (Economics, 2018), (Economics, 2018), (Euromonitor, 2019)

As the data of decision matrix come from different sources, it is necessary to normalize it in order to transform it into dimensionless matrix. It will allow the comparison of the various criteria. Normalized decision matrix is obtained and shown in Table 3.

**Table 3. The normalized decision matrix**

	Population Growth (%)	GDP per Capita (USD dollars)	Hourly Wages (USD dollars)	FDI per Capita (USD dollars)	Import per Capita (USD dollars)	Export per Capita (USD dollars)	Unemployment Rate (%)
Weight	0,09	0,19	0,10	0,17	0,18	0,18	0,09
Country							
Germany	0,182	0,310	0,338	0,028	0,232	0,267	0,127
France	0,099	0,273	0,329	0,050	0,150	0,122	0,382
Italy	0,094	0,219	0,263	0,036	0,126	0,130	0,425
Spain	0,154	0,198	0,259	0,084	0,126	0,105	0,595
Poland	0,006	0,092	0,118	0,027	0,108	0,100	0,212
Netherlands	0,320	0,337	0,320	0,366	0,461	0,491	0,170
Belgium	0,226	0,299	0,284	0,039	0,606	0,591	0,212
Sweden	0,683	0,343	0,384	0,100	0,256	0,236	0,297
Switzerland	0,457	0,532	0,422	-0,914	0,367	0,381	0,085
Austria	0,309	0,361	0,345	0,078	0,318	0,290	0,297

Source: compiled by the author

After normalization, the weighed normalized decision matrix is calculated. As the results are shown in the Table 4, it was calculated simply by multiplying the normalized decision matrix by its associated weights.

**Table 4. Calculation of the weighted normalized decision matrix**

Country \ Criteria	Population Growth (%)	GDP per Capita (USD dollars)	Hourly Wages (USD dollars)	FDI per Capita (USD dollars)	Import per Capita (USD dollars)	Export per Capita (USD dollars)	Unemployment Rate (%)
Germany	0,016	0,059	0,034	0,005	0,042	0,048	0,011
France	0,009	0,052	0,033	0,009	0,027	0,022	0,034
Italy	0,008	0,042	0,026	0,006	0,023	0,023	0,038
Spain	0,014	0,038	0,026	0,014	0,023	0,019	0,054
Poland	0,000	0,018	0,012	0,005	0,019	0,018	0,019
Netherlands	0,029	0,064	0,032	0,062	0,083	0,088	0,027
Belgium	0,020	0,057	0,028	0,007	0,109	0,106	0,008
Sweden	0,061	0,065	0,038	0,017	0,046	0,042	0,027
Switzerland	0,041	0,101	0,042	-0,155	0,066	0,069	0,008
Austria	0,028	0,069	0,034	0,013	0,057	0,052	0,027

Source: compiled by the author

Positive and the negative ideal solution is calculated and the results are provided in Table 5.

**Table 5. Determine the positive ideal and negative ideal solutions**

	Population Growth (%)	GDP per Capita (USD dollars)	Hourly Wages (USD dollars)	FDI per Capita (USD dollars)	Import per Capita (USD dollars)	Export per Capita (USD dollars)	Unemployment Rate (%)
V+	0,061	0,101	0,042	0,062	0,109	0,106	0,008
V-	0,000	0,018	0,012	-0,155	0,019	0,018	0,054

Source: compiled by the author

In the following step the relative closeness to the positive ideal solution is calculated. In order to calculate that, the positive ideal will be divided by the sum of the positive and negative ideals. What is more, for each country the separation measures from the ideal (Si+) and negative ideal solution (Si-) are calculated and after that the relative closeness to the positive ideal solution is calculated. Final results are shown in the Table 6 with a final ranking of countries.

**Table 6. Calculation of the relative closeness to positive ideal solution**

Country	Si+	Si-	Pi	Rank
Germany	0,1230	0,177	0,590	5
France	0,1508	0,171	0,531	6
Italy	0,1583	0,165	0,510	8
Spain	0,1616	0,172	0,516	7
Poland	0,1759	0,164	0,482	9
Netherlands	0,0601	0,247	0,805	1
Belgium	0,0842	0,213	0,717	2
Sweden	0,1086	0,196	0,644	4
Switzerland	0,2260	0,128	0,362	10
Austria	0,1033	0,189	0,646	3

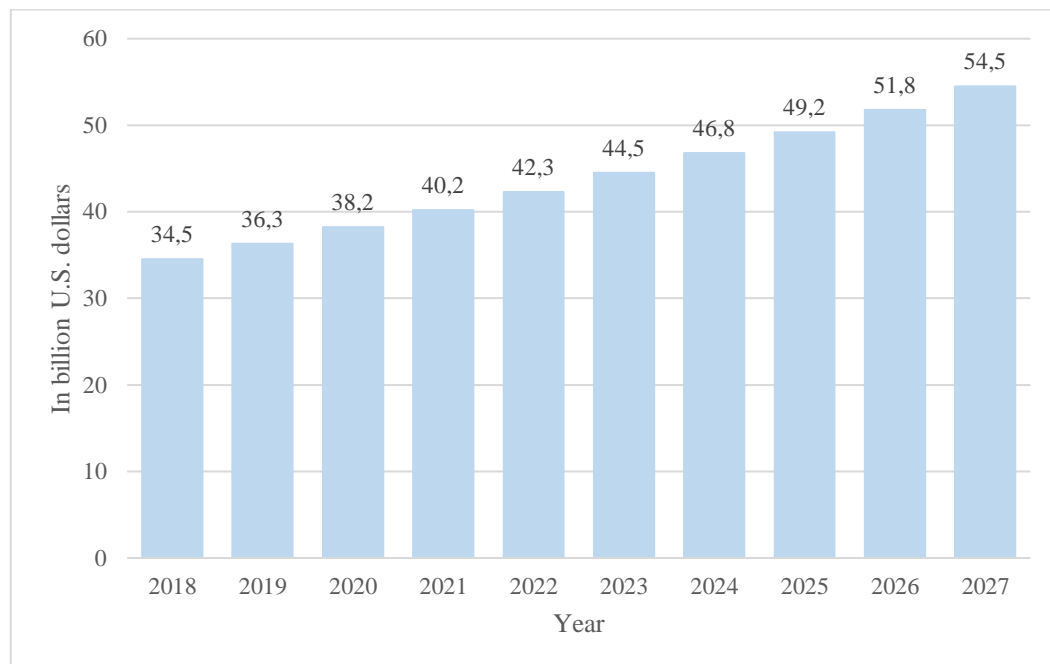
Source: compiled by the author

After using TOPSIS method it was found that the most attractive market for business expansion is Netherlands. In the second place is Belgium followed by Austria in the third place. On the other hand, Switzerland and Poland are seen as the least attractive for business development.

### 2.3. Statistical analysis of natural and organic cosmetics consumption

The consideration regarding to environment-friendly cosmetic products, which contain more natural ingredients is increasing and began to change traditional formulations of cosmetic products. As people become more concern about their health and environment, green technology trend is replacing synthetic products.

As the Figure 21 shows, the global market value for natural cosmetics industry from 2018, with a forecast to 2027.



**Figure 21. Forecasted market value of the natural cosmetics from 2018 till 2027 (in bil. U.S. dollars)**

Source: compiled by the author based on (Statista, 2019)

This timeline represents the worldwide market value for natural cosmetics products from 2018 till 2027 years. The positive increase for the worldwide market value of natural cosmetics products is estimated from 34.5 billion dollars in 2018 to approximately 54.5 billion dollars till the year 2027. As the awareness of consumers of the natural and/or organic products purchased is increasing over a period of time, the presented data just confirms the growing importance of the natural and organic cosmetics market.

Despite increasing tough competition between cosmetic companies that results in pressure on prices, natural and organic beauty and personal care value sales are set to stay dynamic over the forecast period. There are two main factors such as an ongoing focus of consumers and manufacturers on more natural and higher quality products, which will bring value to the industry. In contrast, the increasing disposable income expected to increase natural and organic beauty and personal care sales over the next following years (Euromonitor International, 2019).

Furthermore, the consumers usually report buying organic and natural products because they believe that it is not only healthier for their body but also, they feel better about purchasing natural and organic products because of these products' perceived benefit for environmental preservation (Herich, 2018).

As the consumption of overall cosmetics tends to increase, it is important to examine the relationship between cosmetic products consumption and the main factors (disposable income, health awareness and environmental awareness) that most likely influence the growth of cosmetics consumption. The value of correlation coefficient can vary from -1 to +1, where value of + means positive relationship and – represents a negative relationship (Cohen, et al., 2013). In this analysis cosmetic products are divided into categories such as natural, mass, premium and total, which provide different relationships with selected factors. The chosen countries are Netherlands, Austria and Belgium.

First, correlation coefficient is calculated by the following formula, where  $r$  stands for correlation coefficient (Giroladini, et al., 2016):

$$r = \frac{s_{xy}}{\sqrt{s_{xx}s_{yy}}} \quad (1)$$

The dependent variable for this calculation is: Y1 – consumption of natural cosmetic products' per capita, Y2 - consumption of mass cosmetic products' per capita, Y3 - consumption of premium cosmetic products' per capita, Y4 - consumption of total cosmetic products' per capita. What is more, the independent variables X1 represents disposable income per capita, X2 stands for health awareness per capita and the environmental awareness per capita represents X3. The calculated results are presented in the Table 7 below.



**Table 7. The correlation coefficients between tested variables**

<b>Disposable income (X1)</b>			
	Correlation coefficient, <i>r</i> Netherlands	Correlation coefficient, <i>r</i> Austria	Correlation coefficient, <i>r</i> Belgium
Consumption of natural cosmetic products per capita	0,950097163	0,965012299	0,982632432
Consumption of mass cosmetic products per capita	0,991777161	0,910834539	0,634109947
Consumption of premium cosmetic products per capita	0,993535873	0,978003689	0,949424439
Consumption of total cosmetic products per capita	0,99785323	0,983818924	0,935036524
<b>Health awareness (X2)</b>			
	Correlation coefficient, <i>r</i> Netherlands	Correlation coefficient, <i>r</i> Austria	Correlation coefficient, <i>r</i> Belgium
Consumption of natural cosmetic products per capita	0,991670184	0,998447967	0,979202577
Consumption of mass cosmetic products per capita	0,955136545	0,785577649	0,593777292
Consumption of premium cosmetic products per capita	0,94808174	0,982538893	0,979411023
Consumption of total cosmetic products per capita	0,964901893	0,947088693	0,950022448
<b>Environmental awareness (X3)</b>			
	Correlation coefficient, <i>r</i> Netherlands	Correlation coefficient, <i>r</i> Austria	Correlation coefficient, <i>r</i> Belgium
Consumption of natural cosmetic products per capita	0,989648887	0,976559370	0,992344016
Consumption of mass cosmetic products per capita	0,961200305	0,812413229	0,603552875
Consumption of premium cosmetic products per capita	0,947036471	0,9818837968	0,973361951
Consumption of total cosmetic products per capita	0,966573503	0,952246263	0,948629981

Source: compiled by the author based on (Eurostat, 2019) (Statista, 2019) (Statista, 2019) (Cosmetics: Netherlands, 2019) (Euromonitor International, 2019) (Euromonitor International, 2019) (Euromonitor International, 2019)

According to calculated correlation coefficients, the consumption of natural, mass, and premium beauty and personal care products strongly depends on disposable income. By comparing results of all three countries, it was found that consumers in Austria and Belgium tend to consume more natural cosmetics and slightly less mass production cosmetics when the disposable income is increasing.

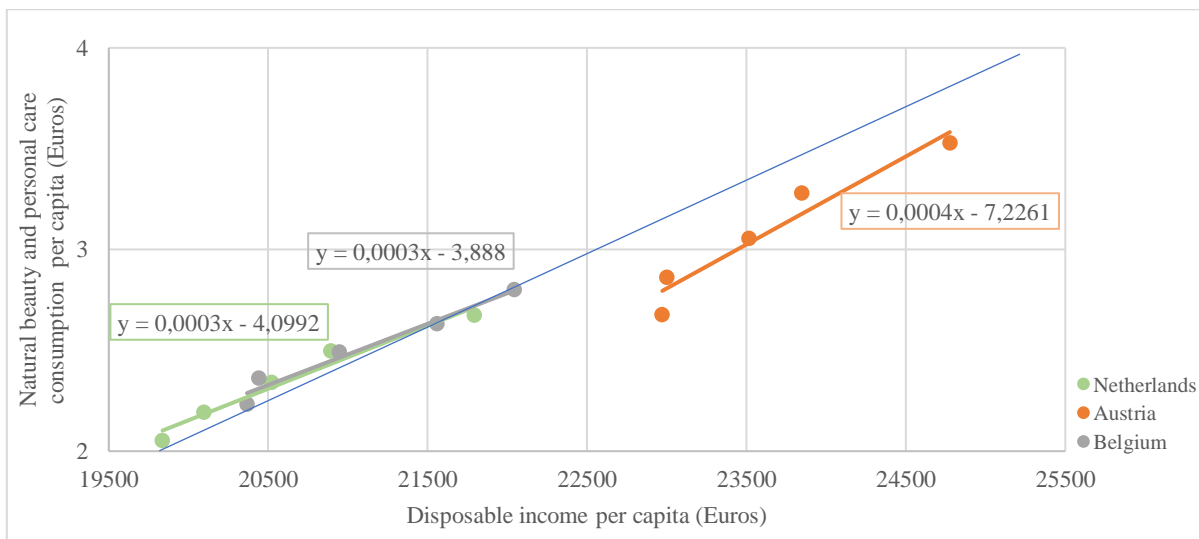
By analysing cosmetics consumption dependence from health awareness, it was determined that people, who spend more on health care, have a tendency to purchase more natural cosmetics.

When it comes to environmental awareness and cosmetics consumption, it can be stated that among all three countries, the consumption of natural cosmetic products in Austria has slightly weaker relationship with environmental awareness. However, the mass production of cosmetics is least effected by the rising environmental concern compared to other categories.

Overall, it can be said that the growth of natural, mass and premium cosmetics consumption strongly depends on disposable income, health awareness and environmental awareness.

Furthermore, the relationship between independent variables (disposable income per capita, health awareness per capita and environmental awareness per capita) and dependent variable (natural beauty and personal care consumption per capita) of all three countries is shown in regression where the line of regression helps to conclude independent variable concerns of dependent variable (Yan & Su, 2009).

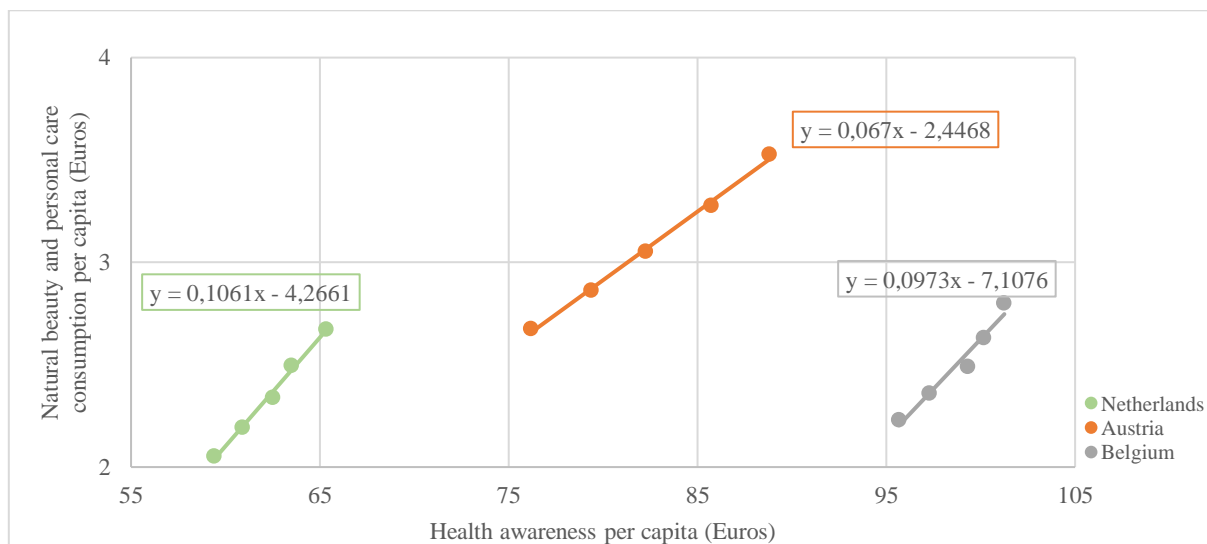
As it depicted in Figure 22, all three countries were taken into account and results show that the expenditure of natural beauty and personal care products in Austria is the most depended from disposable income in comparison with Netherlands and Belgium. As natural beauty and personal care consumption has the strongest relationship with disposable income in Austria, it provides the opportunity for marketers to introduce more natural beauty products there if the disposable income is increasing.



**Figure 22. Natural beauty and personal care relationship with disposable income**

Source: compiled by the author

Figure 23 shows that the relationship between health awareness and natural beauty and personal care products is the strongest in Netherlands. According to Euromonitor International (2019), about thirty percent of the Dutch population have problems with skin allergies, so they tend to purchase natural cosmetic products in order to prevent skin irritation. The ageing of the population plays an important role as well because the rising costs of health insurance influence older people to be more responsible of their health and beauty by using more natural beauty and personal care products that improve how they feel and look.



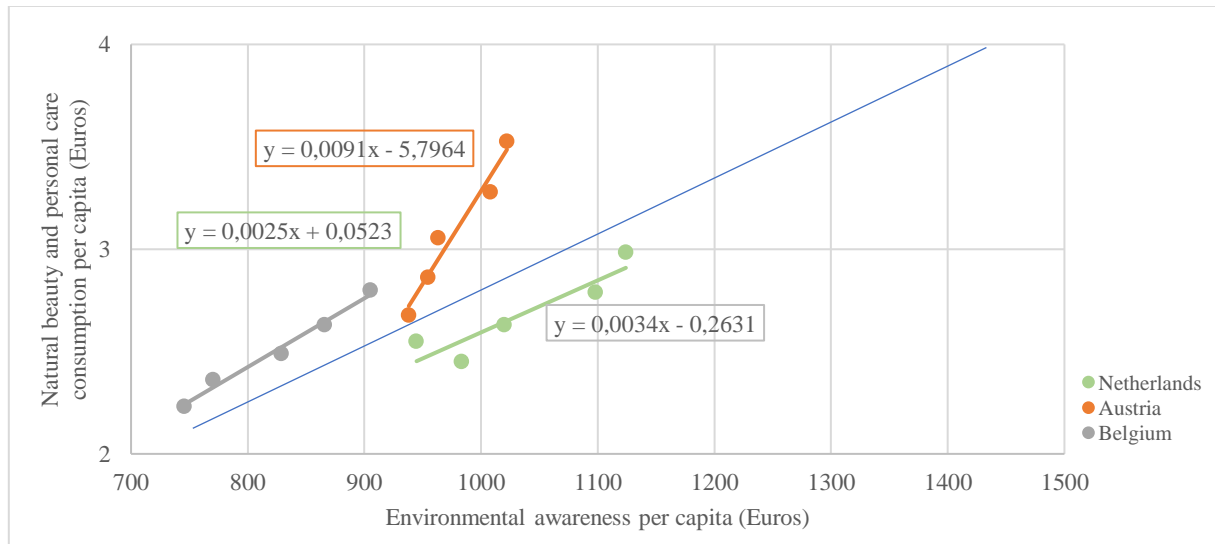
**Figure 23. Natural beauty and personal care relationship with health awareness**

Source: compiled by the author

The rising stress level among Austrians consumers has a negative effect on hair, skin and in general on their immune systems. Due to this fact, they tend to spend more on health care and choose beauty products more accurate. Accordingly, the need for free from and natural cosmetic products is increasing (Euromonitor, 2019). In Belgium expenditure on the healthcare is quite high and it is increasing every year. In comparison with other two countries, Belgians spend lots of money on their healthcare, so they have a tendency to spend less on natural or/and organic cosmetic products.

The relationship between environment awareness and natural beauty products' consumption in Netherlands, Austria and Belgium is calculated and presented in the Figure 24 below. It can be noticed, that the Netherlands the most on environment protection, but the expenditure for natural cosmetic products is the highest in Austria. In contrast, Belgium spent less on environment, but it

can be said, that people are still environmental conscious as they tend to purchase more natural and/or organic cosmetic products, which contain natural ingredients produced from renewable raw materials. Overall, consumers become more aware of the harmful impact that their purchasing behaviours can have on the environment. Due to this fact, people become more interested in cosmetic products with recyclable packaging and natural ingredients and products.



**Figure 24. Natural beauty and personal care relationship with environmental awareness**

Source: compiled by the author

However, as it shown in Figure 24 above, the growing concern for the environment and the rising costs of country's environment protection are having an impact on the less rapid consumption of natural cosmetics.

## 2.4. Survey findings and analysis

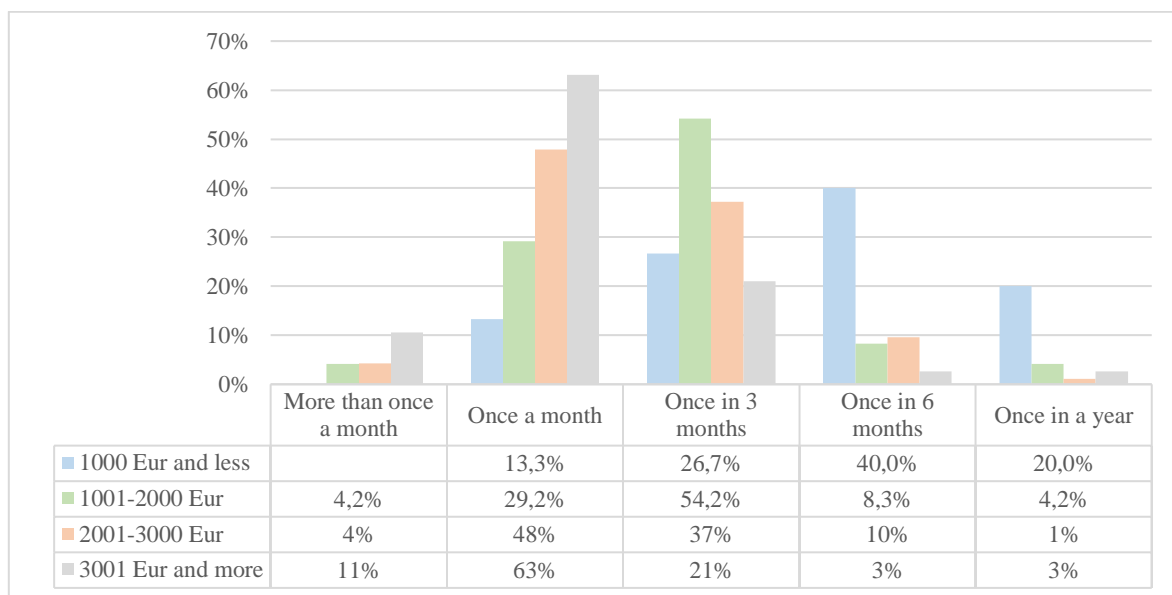
In this part, the results of the survey are presented and discussed. The total number of respondents, who filled out the questionnaire was 174, and there were three respondents, who did not fit to the target audience, because they were under the age of eighteen. Due to this fact, the final sample size was 171.

The general results of customers demographics showed that majority of respondents were females – 94,7% and the rest – 5,3% were males. The main reason why majority answers were collected from females - they tend to be generally more interested in cosmetics than males. Furthermore, the average age of respondents was 26 years and the maximum was 58 years.

However, the majority of people were from age 18-27 (57,3%). Thus, the distribution of respondents among countries included the biggest part of Dutch people (43,3%), followed by Austrians (29,8%) and Belgians (26,9%).

The distribution of the average monthly income of respondents revealed that the majority (55%) of respondents of the survey earn between 2001 to 3000 Euros per month. Other 22,2% of respondents stated that they earn more than 3001 Euros per month, 14% earn between 1001 to 2000 Euros per month and the rest 8,8% - earn 1000 Euros and less.

As it was found from statistical analysis, the consumers' expenditure on cosmetics products strongly depends on disposable income – the more they earn, the more they spend on cosmetics. Due to this fact, respondents were asked to specify how often they purchase cosmetic products and the results are illustrated in the Figure 25 below.



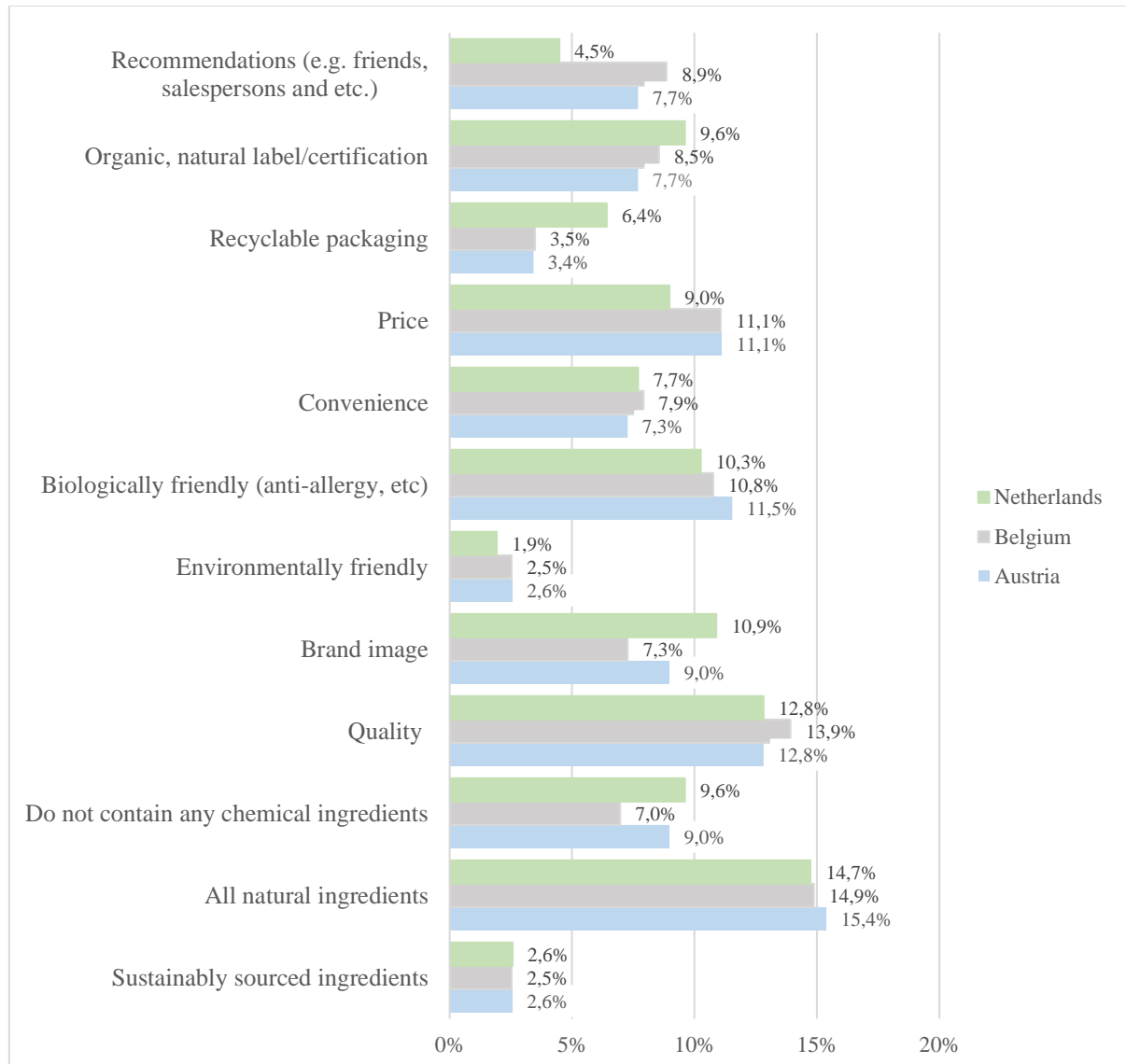
**Figure 25. Frequency of expenditure on cosmetics based on the average monthly income (in %)**

Source: made by the author

The frequency of expenditure on cosmetics products showed that majority of the respondents, whose monthly average incomes are higher than 2000 Euros tend to purchase organic cosmetic products more often. Where the rest, purchase cosmetics less frequently.

By analysing various factors that are important for customer when it comes to natural and/or organic cosmetic products, it provided a better understanding of different customer's needs.

Accordingly, companies will be able improve the value added activities in order to meet customers' needs and wants. Accordingly, participants of survey were asked to rank various factors by importance from 1 to 12 (1-totally unimportant, 12-very important). Figure 26 illustrates how respondents from different countries ranked various factors that were important for them while choosing organic and/or natural cosmetic products.



**Figure 26. Importance of attributes in green cosmetics**

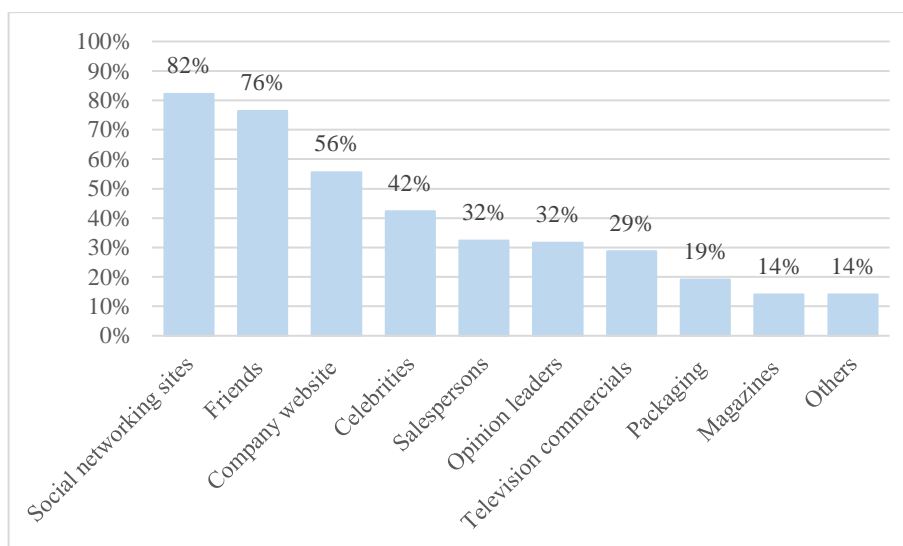
Source: made by the author

As depicted in the Figure 26, factors such natural ingredients, quality, biologically friendly and price of the cosmetic products are very important for biggest part of respondents among all three countries. These results shows that when respondents purchase green cosmetic products, they

first consider quality and how natural the products, so if these factors are perceived as negative, customers will possibly not be willing to purchase the product. Thus, price is also very important factor as there is still a gap between willingness to pay on natural/organic products and the dependability of really doing so. Due to this fact, the importance of cosmetics pricing should be taken into consideration as it is one of the main motivators and at the same time could be one of the main barriers for purchasing natural beauty products.

However, when it comes to biologically friendly products, more and more people are dealing with allergies that arise from certain ingredients. In order to prevent specific allergies, consumers choose products that are allergen free and even ready to pay more for them. Furthermore, the least important factors seem to be the sustainably sourced ingredients, packaging and environmental friendliness.

The major channels from which the majority of respondents get information about natural and/or organic cosmetic are presented in Figure 27.



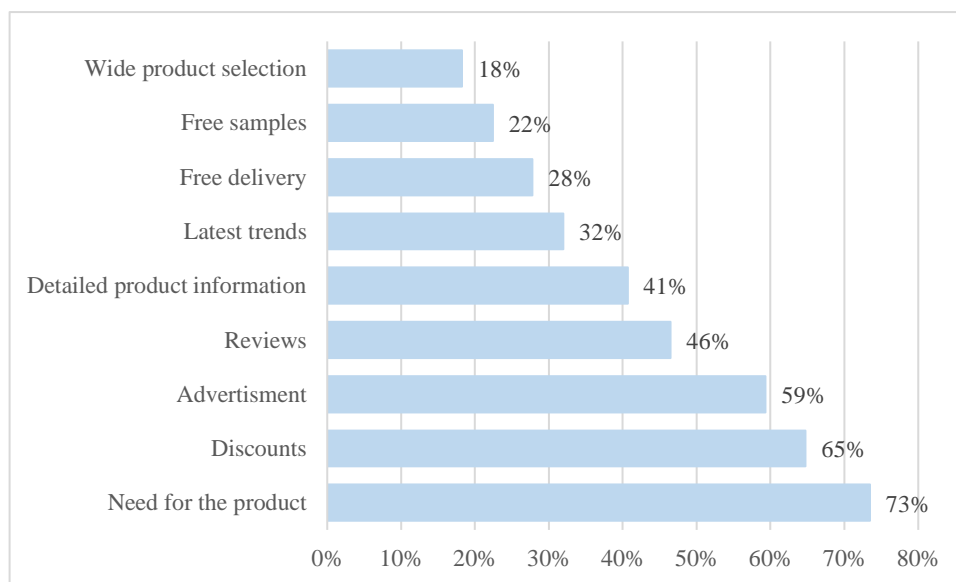
**Figure 27. Channels from where consumers get information about green cosmetic products**

Source: made by the author

Furthermore, participants of the survey were asked to indicate the most preferred format for making purchase of cosmetic products. According to results, the most preferred place was a department stores (60,2%). The second place, which respondents selected as their preferred place to purchase cosmetic products was pharmacies/drugstores (51,9%). What is more, it was found that

quit big part 45,2% of survey participants like to buy cosmetics online and the rest 40,7% stated that they are buying their beauty products in supermarkets.

Questionnaire survey participants were also asked to indicate the main additional motives, which influence their purchasing process in terms of cosmetic.



**Figure 28. Motives that influence consumer's purchasing process in terms of cosmetics**

Source: made by the author

As depicted in the Figure 28, the main motives are: need for the product, discounts and advertisement. However, reviews and detailed information about the product has also strong influence on consumer's purchasing process.

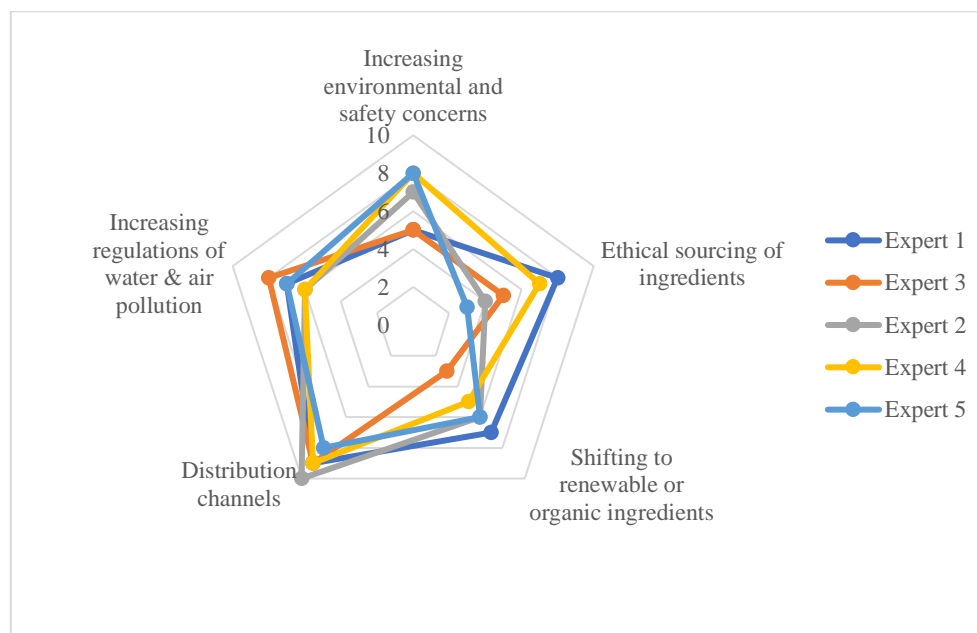
## 2.5. Analysis of foreign market entry modes for companies operating in cosmetics industry

The choice of foreign market entry mode has a strong effect on international operations, so company, which is looking to enter foreign market should carefully consider what are the main barriers to enter a certain market and accordingly to select the most suitable entry mode. Due to this fact, it is important to identify key factors and to determine how much each factor affecting the decision to enter foreign market. In order to find out the main barriers and the most suitable market entry mode the interviews with experts were conducted.

First of all, the experts has to evaluate the main barriers related to environment for entering foreign market of cosmetic company. By obtaining this information, it can be found, which



environmental barriers are relevant to the decision to enter foreign markets and which are not. The Figure 29 illustrates how experts evaluated the various environmental barriers.



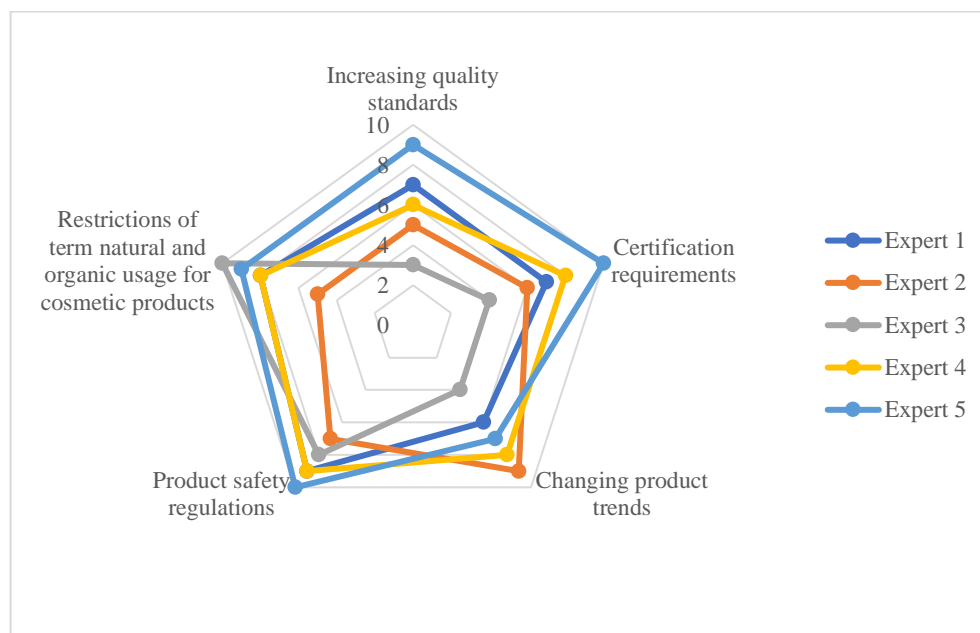
**Figure 29. Environmental barriers for entering foreign market**

Source: Made by the author

All environmental barriers were evaluated from 1 to 10, where 1 stood for insignificant influence and 10 for significant influence. Due to environment awareness increase, company, which is planning to enter foreign market has to identify the main environmental barriers that can influence its processes international market in future. As it is depicted in the Figure 29 above, the most affecting barrier for choosing to enter foreign market barrier according to experts is increasing distribution channels environmental and safety concerns. The least significant barrier for entering foreign market is ethical sourcing of ingredients. However, the experts' opinions differ the most regarding this barrier in comparison with others environmental barriers, but the total results showed that this environmental barrier is the least significant.

Another barriers group was related with health as it was found that health awareness has a strong influence regarding to cosmetic product consumption. The evaluations of experts regarding health barriers for entering international market is shown in Figure 30 below. The major challenge for companies operating in natural and organic industry is product safety regulations. As more and more people are dealing with different allergies, skin and hair problems that the cosmetic products cause, the new regulations regarding safety regulations are implementing. However, in different

markets these regulations may differ, so it is important to take it into consideration in order to make sure that the cosmetic products, which the company want to introduce to the foreign markets meets safety standards.



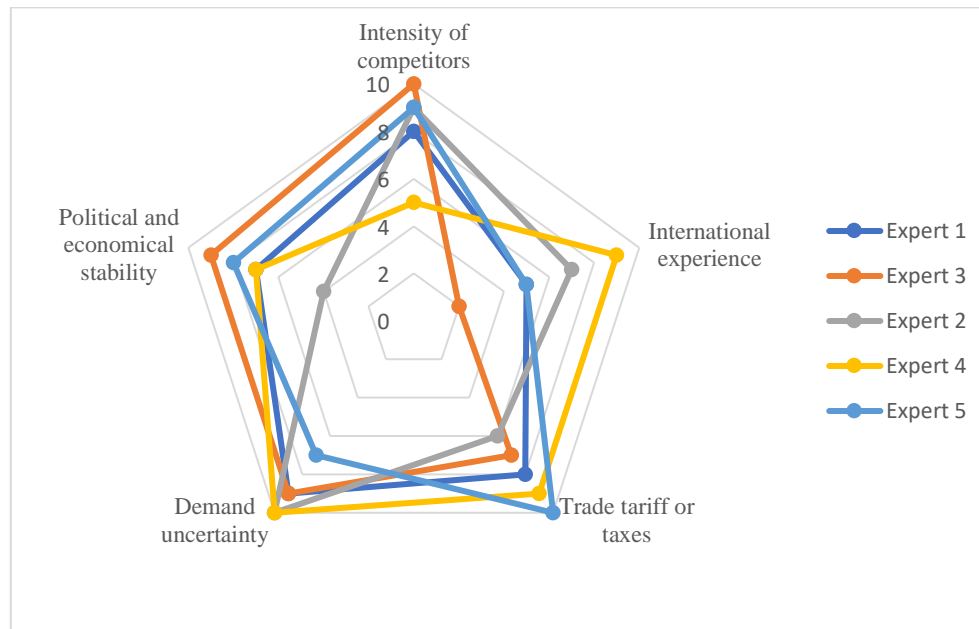
**Figure 30. Health related barriers for entering foreign market**

Source: compiled by the author

What is more, majority beauty companies using term of natural or/and organic for their products even they contain chemical and non-organic ingredients. Results of experts' interviews showed, that if the use of term natural or organic for products is going to be more restricted in foreign market or markets, it can be a huge barrier for cosmetic companies to enter that market as they their products do not always contain only organic or/and natural ingredients. In contract, the least significant barrier for entering foreign market according to experts is increasing quality standards.

Furthermore, experts were also asked if the decrease of disposable income of potential customers' may be indicated as significant barrier for entering international market. Regarding this barrier, experts more than ever agree on it alike, because if the disposable income is decreasing, people tend to purchase cosmetic products that are less expensive, which includes mass production cosmetic products. The decreasing expenditure on natural and/or organic cosmetics is also designated as barrier that strongly influence the decision to enter certain foreign market.

Another group of barriers were related to economic factors. The evaluation of these barriers based on experts' opinion are illustrated in the Figure 31.



**Figure 31. Economic barriers for entering foreign market**

Source: compiled by the author

According to experts the most important economic barriers that have to be taken into consideration are: intensity of competition, demand uncertainty and trade tariffs or taxes. To evaluate the intensity of competition among competitors in a foreign market is very important as it can limit company's profit potential. The demand uncertainty of international market may be risky and may incur losses. What is more, trade tariffs and taxes are also important because it also depends, which entry is going to be chosen. Among all economic barriers, the international experience was evaluated as less significant in comparison with other barriers.

Finally, experts were asked to select the most suitable foreign market entry mode or modes for cosmetic company. The results are presented in the Figure 32. Majority of experts stated that the best entry modes for international expansion could be direct exporting, indirect export. It shows, that the less risky and the cheapest way to engage with new market would be through these two entry modes.



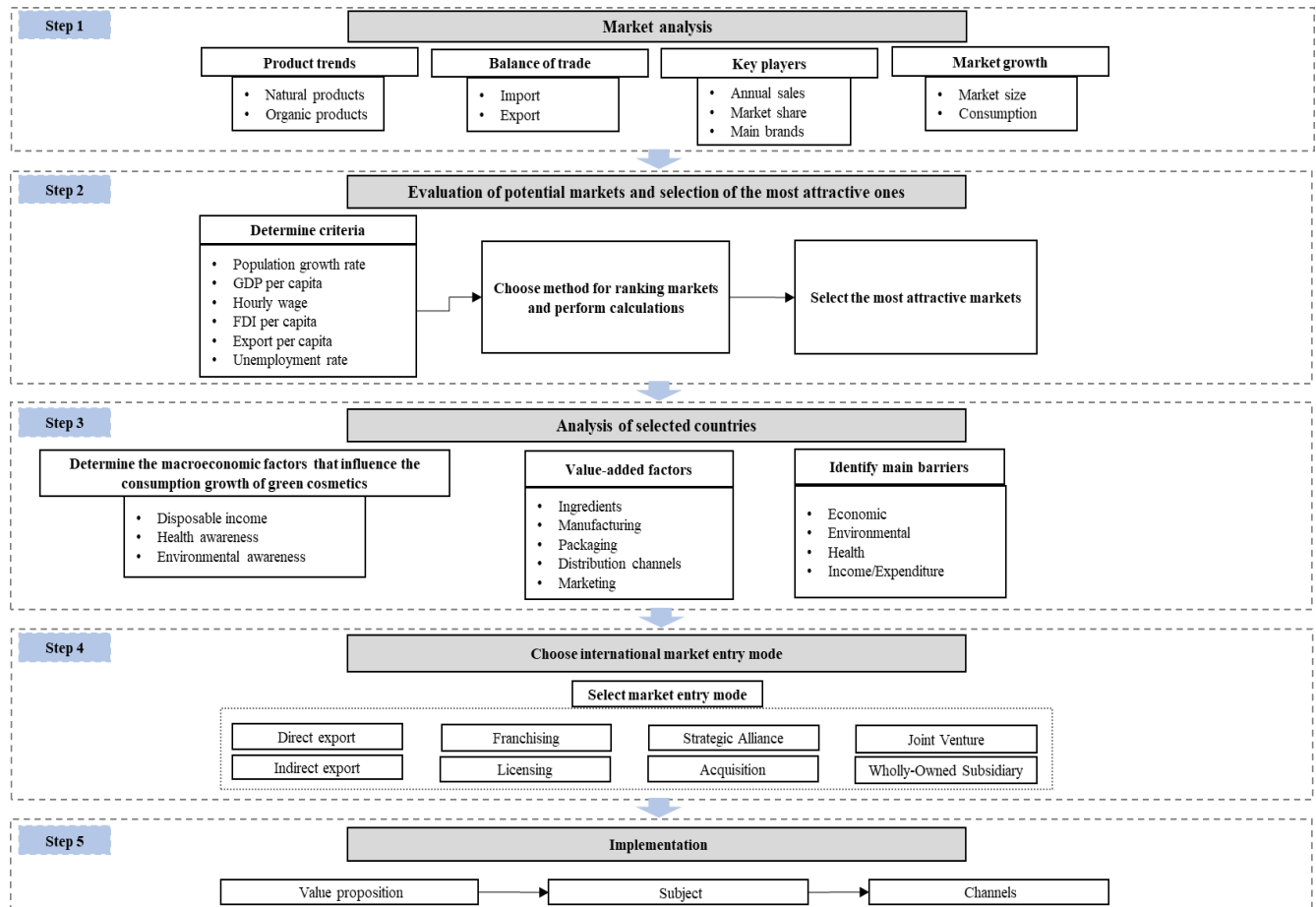
**Figure 32. Suggested the most suitable foreign market entry modes for cosmetics enterprise**

Source: compiled by the author

As it was noticed, the wholly owned subsidiary as the market entry mode was indicated as the least suitable. Most likely, this entry mode was not suggested because it requires a lot of investment and is quite risky.

### 3. MODEL FOR CREATING INTERNATIONAL RELATIONS OF COMPANIES OPERATING IN ORGANIC AND NATURAL COSMETICS INDUSTRY

After analysis of scientific literature and conducting the empirical research, the model for creating international relation that enhance the international competitiveness of companies operating in natural and organic cosmetics sector was developed and presented in Figure 33. As it is illustrated, the model includes 5 steps that are explained more into detailed below.



**Figure 33. Model for creating international relations that enhance the international competitiveness of companies operating in cosmetics sector**

Source: made by the author

#### Step 1 - Market analysis

Market analysis is essential as it helps to get valuable insights into ongoing product trends, balance of trade, key players and market growth. Due to this fact, for companies to be competitive

in cosmetics industry, it crucial to make market analysis because it will help to identify and to select potential foreign market or markets for creating international relations.

Market analysis can be divided into four main part: market growth, key players, balance of trade and product trends. All four parts are going to be explained more into detailed down below.

- *Market growth.* It shows the increase or decrease in the demand for green cosmetic products over certain period. Before entering foreign market, it is essential to identify the development of natural and/or organic product in particular markets. By conducting market analysis, companies will be able to determine in which countries natural and organic cosmetics sales are increasing or decreasing and how fast. What is more, a market growth percentage is calculated by using market sales of organic and/or natural cosmetic products over different periods. The growth of the natural cosmetics market shows that consumption of green cosmetics is increasing, which provides opportunities for companies to expand their businesses internationally.
- *Key players.* It is crucial to identify the current main player and their main characteristics within specific market. The main characteristics of competitors may include annual sales revenue, market share, and main brands. These analyses will provide a better understanding who the major players are, how strong they are and what possibilities to compete in a foreign market are.
- *Balance of trade.* It shows, which countries has a trade deficit (the value of import exceeds the value of exports) or trade surplus (the value of exports exceeds the value of imports). The balance of trade is calculated by subtracting the country's import from country's export. By calculating the trade balance, it easy to determine which countries are able to produce enough cosmetic products themselves and which one are not. As the conducted research showed, countries, which are facing a trade deficit regarding the organic and natural cosmetic products, tend to import more cosmetics from foreign countries. Accordingly, these countries are very attractive to foreign cosmetics businesses as they see opportunities to sell their organic/natural cosmetic products there because the local competition for green cosmetics is low. In contract, countries with a surplus in green cosmetics trade tend to be less attractive to foreign companies as they are completely able to supply their countries' with organic/natural cosmetics. Thus, it would be difficult for

foreign companies to compete within these markets because customers have a huge selection of local cosmetics that are well known.

- *Product trends.* New trends regarding cosmetic products constantly coming up, so it is very important to identify these trends because it shows what matters to consumers now. In order to meet customers' needs and wants, company have to keep up with trends as majority product related trends are mostly influenced by consumer behaviour and habits. What is more, product trends includes natural and organic cosmetics as more people are shifting from conventional cosmetics to green cosmetics.

## **Step 2 – Evaluation of potential markets and selection of the most attractive ones**

In order to choose the most attractive foreign market or markets to enter, company has to identify the potential markets and choose at least up to ten to research. Based on company's strategy, ten or more potential markets can be chosen regarding the market analysis, for example, balance of trade, market growth, and market size. On the other hand, company may choose potential countries based on the geographical distance: near or far markets.

After making a list of potential foreign markets, each market has to be assessed on the strength of developed criteria list. Based on scientific literature analysis of different authors and scholars, as well as, conducted empirical research, the main macroeconomic criteria for evaluating potential market were determined and it includes:

- Population growth rate;
- Hourly wage;
- GDP per capita;
- FDI per capita;
- Export per capita;
- Import per capita;
- Unemployment rate.

These are the main criteria that are suggested for evaluation of the foreign markets, but companies can add other criteria as well. Furthermore, it is important to determine the criteria weights as they have a great influence on evaluation results. For this reason, the criteria weights can be determined based on the subjective experts/specialists evaluation. Once the main criteria

and their weights are determined, the data for each country must be collected regarding to seven criteria so that countries can be evaluated.

In order to evaluate and compare the selected potential countries so that they can be ranked according to the most attractive to least attractive ones, it is important to choose the right method by which the countries will be ranked. Accordingly, technique for order of preference by similarity to ideal solution (TOPSIS) method is suggested as it usually used to solve decision-making problems and is the most accurate in comparison with other multi-criteria decision support. After performing the calculations, the most attractive markets can be chosen.

### **Step 3 – Analysis of selected markets**

Once in the second step the most attractive market or markets were selected, it is important to make deeper analysis of those selected markets regarding factors that influence the growth of natural/organic cosmetics consumption, value-added factors and main barriers for doing business in foreign market.

- 1) Determine the macroeconomic factors that influence the consumption growth of green cosmetics

According to statistical analysis the main factors that influence the consumption of the organic and natural cosmetics growth are the rise of customers disposable income, increase of health and environmental awareness. Thus, the conducted research, which questionnaire survey, also confirmed that the growth of green cosmetics consumptions strongly depends on those three factors. These factors are going to be explained more into detailed down below.

- *Disposable income.* The rise of consumers' disposable income has a strong influence of organic and/or natural cosmetics consumption growth. In other words, the more people earn money the more they are willing to spend on green cosmetics.
- *Health awareness.* As conducted research showed, the amount of money people spend on their health care is increasing every year. Due to this fact, the number of consumers seeking to lead healthier lives is growing. Buyers become more interested in the quality of ingredients in the cosmetic products they buy. As a result, cosmetics industry is seeing the rising demand for natural and/or organic cosmetic products.
- *Environmental awareness.* Countries invest a lot of money in environmental protection, as it is one of the biggest concern these days. Accordingly, consumers' awareness of



environmental protections is also increasing, which shows the growth in demand regarding natural and organic cosmetics. The higher consumers' environmental awareness the more they are willing to purchase natural and/or organic cosmetics products.

## 2) Value-added factors

The concept of value added is vital for business because by adding more value to natural/organic cosmetic products, business are able charge more and at the same time receives higher revenues. Thus, businesses that add more value to its products are able to stand out among its rivals as they provide higher quality. However, it is important to keep in mind, that in order to create value added for a product, a good understanding of customers' needs and wants are necessary. Accordingly, questionnaire survey is an appropriate research technique, which can be used for quickly gathering data from existing and potential customers. By conducting a survey, the main finding regarding customers' needs, want, important attributes of natural/organic cosmetics products could be gathered. What is more, factors on the subject of value added to natural/organics cosmetic products can be divided into four groups as follows:

- *Raw material/ingredients.* As people tend to pay more attention to ingredients of the cosmetic products they purchase, it is important to identify, which ingredients in the green cosmetic product are important to them and which one they are trying to avoid.
- *Manufacturing.* When it comes to manufacturing process, green cosmetics that are produced in sustainable and environmentally friendly way can create a value added, as people are concern about the environment and the damage the production process does to the environment.
- *Packaging.* Even knowing the fact that packaging is just a cover that has to protect the product from external factors but at the same time, it deeply influences consumer's purchase decisions. As consumers' environmental awareness is increasing, they become more concern about the environmental damage caused by packages that is why eco-friendly packaging or packaging made from recyclable material can be one the factors, which can create a value added.
- *Distribution channels.* It is very important to find out where people usually purchase organic and/or natural cosmetic products as it may vary from country to country. Thus, the usage of different distribution channels may play an important role for increasing the value of the products, as customers will be able to find a product more easily.

- *Marketing.* Marketing plays important role in the added value of organic and natural cosmetics. As an empirical study showed factors as discounts, advertisements (especially in social media) and positive reviews encourage people purchase organic and natural cosmetics. By educating people about organic and natural cosmetics and their benefits for body and environment compared to conventional cosmetics, will create a value added for products.

Once companies identify the main attributes of natural/organic cosmetics that are important for customers, the value added can be created for cosmetic products.

### 3) Main barriers for doing business in foreign market.

Companies should identify the potential barriers to foreign market entry that may include different factors such as economic, environmental and health related.

- *Economic factors.* It may include political and economic instability, demand uncertainty, intensity of competition, trade tariffs or taxes.
- *Environmental factors.* Companies should evaluate the environmental factors such as increasing environmental and safety concerns, distribution channels, increasing regulations regarding organic/natural cosmetics and others.
- *Health factors.* It is important to evaluate factors such as quality standards, certification requirements, product safety regulations and other restrictions related to organic or natural cosmetic products.
- *Income/expenditure.* Increasing disposable income have a positive influence on the natural and organic cosmetics consumption growth. As people earn more money they tend to purchase more products that are made from natural and organic ingredients and vice versa.

### **Step 4 – Choose international market entry mode**

By identifying main barriers that may influence the performance in a foreign market, companies are able to choose the most suitable entry mode. There are different modes to enter the foreign market including direct export, indirect export, licensing, franchising, merger, acquisition, joint venture, wholly own subsidiary and etc. The choice of foreign market entry mode is very important strategic decision for business because it includes committing resources in different foreign markets with different levels of control, risk and profit return.

## Step 5 – Implementation

The last step for creating international relations of increasing competitiveness for companies that are operating in cosmetic sectors is implementation, which includes:

- *Value proposition (What?).* Company should emphasize what they are offering and why this product is better and more valuable compared to the ones that the competitors offers. It is also very important to underline why it worth doing business with them.
- *Subject (To whom?).* Furthermore, the company has to decide to whom the value proposition will be addressed, it may involve retailers, distributors, wholesalers, pharmacies and others.
- *Channels (Through what?).* It is vital to select appropriate channels through what the value proposition will be delivered. It may include exhibitions, conferences, cosmetics associations or national distributors' networks.

## CONCLUSIONS

The demand for organic and natural cosmetics products is growing due to the increase of disposable income, health awareness and environmental conscious of consumers. The rising need for organic and natural cosmetics can be seen as stimuli for companies to operate not only locally but also to create international relations with foreign countries. By modeling international relations, companies, which operating in cosmetics industry are able to enhance their international competitiveness among rivals.

The aim of this thesis was to develop a model for creating international relations that enhance the international competitiveness of companies operating in natural and organic cosmetics industry. The aim was achieved by reviewing and analyzing scientific literature, conducting the empirical research, which included qualitative and quantitative methods and in the end, the model was developed. Accordingly, the final conclusions can be drawn from the presented work.

1. International relations plays an important role in today's world as it promotes successful trade policies between states that enable parties to cooperate with each other and share information. The international relations involves three theoretical approaches, which explain how international system works. The three major approaches are: realism, liberalism and constructivism.
2. One of the main reason for company to engage in international business is growth/expansion. By expanding to foreign markets, company is able to increase its revenue, access more customer and gain a competitive advantage over its competitors.
3. International competitiveness can be measured at different levels such as national, industry or firm level. From the firm perspective, competitiveness is defined by the ability to produce goods or/and services that meet customer's quality expectations and needs.
4. Companies pursue different entry strategies in their international operations, which includes exporting, importing, licensing, franchising, strategic alliance, joint venture, acquisitions and wholly owned subsidiaries. The main differences among those entry modes includes different levels of risk, control, investment and time.
5. FDA has not defined global definition of term "natural" or "organic" for cosmetic products and neither regulatory description for these terms in cosmetic labelling. Due to this fact,

there is still a lot of confusion regarding what natural and/or organic products are and what are not.

6. In comparison with conventional cosmetics, the market share of natural and organic cosmetics is small, but the growth of natural and organic cosmetic sales is increasing faster than the sales for conventional cosmetics. In 2018 the global sales of natural and organic cosmetics were \$34.5 billion in 2018 and it expected to growth to \$54.5 billion in 2027.
7. The main product trend within beauty industry includes consumers' growing interest for products that contain more natural and/or organic ingredients. The second trend is the evolution of digital world, which has increased the need of digital marketing.
8. The major cosmetic players were determine and it included corporations such as L'Oréal, Protect & Gamble, and Unilever, which individually generated more than 30 billion euros beauty products sales in 2018.
9. The trade balance showed that among European countries, the trade deficit was visible in countries such as Austria, Portugal, Sweden and Denmark, where in non-European it was noticeable in Russia, Australia and China. Thus, the trade surplus was seen in countries such as France, Switzerland, Italy, and Spain. Among non-European countries, the trade surplus was the most noticeable in Korea and Singapore.
10. The most attractive markets were selected based on seven macro-economic criteria, which included GDP per capita, wages per hour, FDI per capita, export per capita, import per capita and unemployment rate. Using TOPSIS method, countries were ranked and it was found that Austria, Belgium and Netherlands are the most attractive markets to enter in Europe.
11. By using correlation coefficient measure and linear regression analysis main factors, which influence the growth of natural and organic cosmetic products consumptions, were determined and it includes disposable income, health awareness and environmental awareness.
12. The conducted questionnaire survey let to identify the main factors that create added value for organic and natural cosmetic products. Accordingly, it was found that the factors such natural ingredients, quality, biologically friendly and price of the cosmetic products are very important for biggest part of respondents among all three countries.
13. The qualitative analysis were based on interviews with experts that provided the authentic insights with regard to international market entry modes and main barriers that the company

may consider before entering foreign market. The main barrier were identified and it included distribution channels, decreasing disposable income, restriction regarding the use of term organic and natural for cosmetic products, product safety regulations, intensity of competition, demand uncertainty and trade tariffs or taxes. The experts offered the most suitable entry modes in cosmetic industry and it included direct export, indirect export.

14. After conducting literature analysis and empirical researched the model for creating international relation to enhance competitiveness of cosmetic companies was developed. The developed model allows modeling and shaping international relations while increasing the competitiveness of cosmetics companies in international markets

Based on this work, several recommendations have been proposed as follows:

1. It is recommended to apply this model for companies that want to create international relations in cosmetic industry.
2. It would be advisable for the cosmetics business sector associations to collect and analyze data on cosmetic trends and to provide such data to companies, which operates in beauty industry.

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## APPENDICES

## **Appendix A.** Expert interview questions

1. Please evaluate the significance of environment barriers for entering foreign market from 1 to 10 (1-insignificant, 10 - very significant)
  - Increasing environmental and safety concerns
  - Ethical sourcing of ingredients
  - Shifting to renewable or organic ingredients
  - Distribution channels
  - Increasing regulations of water pollution
2. Please evaluate the significance of health related barriers for entering foreign market from 1 to 10 (1-insignificant, 10 - very significant)
  - Increasing quality standards
  - Certification requirements
  - Changing product trends
  - Product safety regulations
  - Restriction of term natural and organic use for cosmetic products
3. Please evaluate the significance of economic related barriers for entering foreign market from 1 to 10 (1-insignificant, 10 - very significant)
  - Intensity of competition
  - Trade tariffs or taxes
  - International experience
  - Demand uncertainty
  - Political and economic stability
  -
4. Please evaluate the importance of the barriers listed below for entering foreign market from 1 to 10 (1-totally unimportant, 10 - very important)
  - Decreasing disposable income of potential customer
  - Decreasing expenditure on natural and organic cosmetic products
5. Please evaluate the most suitable foreign market entry mode for cosmetic company from 1 to 10 (1-not suitable at all, 10 - very suitable)
  - Direct exporting
  - Indirect export
  - Importing
  - Licensing
  - Franchising
  - Strategic alliance
  - Joint venture

- Acquisition
  - Wholly owned subsidiaries
6. Please evaluate the significance of macro-economic factors selecting the foreign market to enter in percentage % (when total equal to 100%)
- Population growth
  - GDP per capita
  - Wages per hour
  - Foreign direct investment per capita
  - Import per capita
  - Export per capita
  - Unemployment rate

## **Appendix B. Customer analysis questionnaire**

1. Where are you from?
  - Austria
  - Belgium
  - Netherlands
2. Please enter your information
  - Gender
  - Age
3. What is your average monthly income?
  - 1000 Euros or less
  - 1001-2000 Euros
  - 2001-300 Euros
  - 3001 Euros and more
4. How often do you purchase organic and/or natural cosmetics?
  - More than once a month
  - Once a month
  - Once in 3 months
  - Once in 6 months
  - Once in a year
5. When choosing organic and/or natural cosmetic products, how important the following factors are to you? (Please rank them from 1 to 12, where 1-totally unimportant, 12-very important)
  - Sustainably sourced ingredients
  - All natural ingredients
  - Do not contain any chemical ingredients
  - Quality
  - Brand image
  - Environmentally friendly
  - Biologically friendly (anti-allergy, etc)
  - Convenience
  - Price
  - Recyclable packaging
  - Organic, natural label/certification

- Recommendations (e.g. friends, salespersons and etc.)
6. Via which channels do you get information about natural/organic cosmetic brands?  
(Please select all that apply)
- Social networking sites
  - Friends
  - Company website
  - Celebrities
  - Salespersons
  - Opinion leaders
  - Television commercials
  - Packaging
  - Magazines
  - Others
7. What are additional motives for purchasing cosmetic products? (Please select all that apply)
- Need for the product
  - Discounts
  - Advertisement
  - Reviews
  - Detailed product information
  - Latest trends
  - Free delivery
  - Free samples
  - Wide product selection
8. Where do you usually purchase cosmetic products? (Please select all that apply)
- Online
  - Supermarkets
  - Pharmacies/drugstores
  - Department store
  - Others
9. Have you experienced any inconvenience by using particular natural and/or organic cosmetic product? If so, what were those inconvenience you had faced?
- Inadequate information provided
  - Missing information from which region/countries the raw material are sourced
  - The product was not effective
  - The availability of the products is too small
  - It caused skin reaction and/or allergy

## Appendix C. The article presented by the author in 2018



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## MODELING THE MARKET FOR EXPORT OF COSMETIC PRODUCTS

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**Abstract.** Selection of export market is a key step for a company which is seeking to expand its business globally. Engaging in international exporting presents a thoughtful challenge to many companies because it is not only expensive to enter but it is also very competitive. Due to this fact, company should carefully select the market in which export activity will be made. Different criteria and methods are used in order to choose the most attractive and valuable market. After determination of the most important criteria in the selection process of export market and applying different methods, the most attractive market can be identified. The aim of this article is to test modeling of the export market for cosmetic products based on performed analysis and selection method. Analysis of scientific literature, statistical analysis and TOPSIS method are used.

**Keywords:** international business; international competitiveness; export market selection; export; cosmetic market; TOPSIS method; cosmetic products.

### Introduction

The global integration within cosmetic industry has definitely increased. During the last decade many cosmetic companies were driven by globalization and has growth their market shares all over the world. Regarding to rapid growth of international business, exporting plays a key role in many cosmetic firms' growth.

Europe is the global leading producer of cosmetic products. In 2017, approximately 77,7 billion euros worth of cosmetics and personal care products were consumed, which made Europe the largest market for cosmetic products in the world (Statista, 2018). The cosmetics industry include a wide range of products such as skin care, hair care, body and oral care to decorative cosmetics and perfumery. Cosmetic products play an important part of people's everyday life and bring the emotional benefit to human beings. Strong desire among males and females to retain youthful appearance has boosted the cosmetic industry growth worldwide.

The globalization of the world economy has provided companies with great opportunities to expand abroad whether through exporting, Foreign Direct Investment (FDI) or franchising. Majority of cosmetic companies are engaged in exporting their products to foreign countries as the level of productivity for exporting companies are much higher than non-exporters. However, engaging in international exporting presents a thoughtful challenge to many companies because it is not only expensive to enter but it is also very competitive. Due to this fact, identification and selection of the right market to enter is very important for many reasons:

- It can be a key determinant of success or failure in foreign markets;
- It impacts further actions in the selected counties;
- The nature of geographic location of chosen market has an impact of the firm's ability to coordinate foreign operations.

Many companies fail to internationalization due to poor market selection which is often caused by inadequate evaluation of markets. The importance for selecting the right foreign markets has been stressed by many researches and even several models were developed that help to evaluate and select foreign markets but there is still a gap between these models and practice (Rahman, 2003). What is more, several researchers also conclude that there is still a shortage of empirical research on which criteria firms use to select the foreign market for export (Ozturk,

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Joiner, & Cavusgil, 2015). Accordingly, this leads to question: how to determine the destination to which company export their cosmetic products?

The aim of this article is to test modeling of export market for cosmetic products based on performed analysis and selection method.

The methods applied in this article are: analysis of scientific literature, statistical analysis of cosmetic industry, TOPSIS method.

## 1. Theoretical aspects of international business and export market selection

There are two main types of business in terms of geographical limit: domestic and international. Business that includes transactions between parties within the boundaries of one country belongs to domestic business. On another hand, business that includes transactions that are crossing national boundaries, it is called international business. International business includes main activities such as export and import, as well as, other forms of international business activities such as: franchising, licensing, management contracts (Hill & Hult, 2016).

Globalization is one of the main reasons why companies becoming international and increasingly looking for global rather than domestic markets (Parboteeah & Cullen, 2018). Even knowing the fact that particular countries have a different culture, businesses are prepared to adapt the other cultural specifics which may include different norms, values, the way business has to be done and others (Griffin & Pustay, 2015).

International competitiveness is also very important part of international business. It is defined as a process in which higher levels of competitiveness are achieved at different levels, that is, at national, firm, regional levels. There are numerous definitions of competitiveness that must be taken into consideration before one can build a particular understanding of international competitiveness. Furthermore, competitiveness includes "efficiency (reaching goals at the lowest possible cost) and effectiveness (having the right goals). It is this choice of industrial goals which is crucial. Competitiveness includes both the ends and the means toward those ends" (Buckley, Pass, & Prescott., 1988).

Companies, which are planning to enter foreign market mostly begin with exporting that involves least risk and amount of resources, before establishing wholly owned overseas subsidiaries. Usually, the local companies use existing domestic capacity of production, administration, distribution and just a certain part of its home production is designated to a market abroad. As the goods are made locally, they are usually sent by ship, air, rail truck into another country's market. There are two types of export:

- Direct export;
- Indirect export.

In direct export company has a direct contact with parties from the target countries, it may or may not include intermediaries. If the intermediary does not participate, the direct export is conducted by a salesperson of the firm. An intermediary is known as an agent or distributor in the target market, who is responsible for selling the products or services in the target market. The biggest advantage of direct exporting is the ability of the company to control all the international operations and to build a business network with potential partners. However, there are some disadvantages of direct exporting, for example, company may not have enough resources to pursue international opportunities that may be turned into higher profit and sales volume or it may also include a large distance from consumers.

In indirect export company uses an intermediary (broker, export management company or etc.) in the home country, that arranges the export agreements between or among parties. In this way, company does not manage the contract of the export itself but uses another party to do it for them. The main advantage of indirect export is the access to international market, while using a smallest amount of company's resources, which means that not so much risk is involved. On another hand, there are some disadvantages such as not so much control involved over the way the products are handled in the foreign market. Also, company is not able to gain international experience due to the fact that intermediary controls the majority of the export processes.

By choosing the direct exporting, the exporter participates in all the sale and transmittal of merchandise processes, where the indirect exporter basically just hires the expertise of someone else to facilitate the exchange (Ajami & Goddard, 2015).

In order to enter into an export market, it is very important to choose the right the target market, where the enterprise may see the market opportunities for its products or services. As there are many advantages of exporting such as little risk, low allocation of resources for the exporter or it is easy to establish the recognition of a name brand, companies have to take into consideration that exporting may also be expensive (mistakes, the cost of fees, export duties), competitive and sometimes firms may even face restrictions against its goods from the host country.

As selection of export market is a key step for a company that is planning to expand its business, it is very important to identify external factors that will affect the performance of a product or service in a foreign market.

Companies have to determine economic trend of the market, which includes chosen country's economic growth rate, unemployment, foreign direct investment, exchange rates, financial crisis (Reyes, 2013).

Furthermore, income level and population of the country are also very important for determining business expand in the foreign market because most of the income is concentrated in high-population and high-income countries.

The international marketing literature also contributes two main approaches, which help to identify the target market or markets for export, one of them is clustering and the another one is ranking. Both methods are suggested for selecting potential markets during the selection process. Using cluster methods, countries are grouped on the basis of similarities along economic, political, cultural dimensions and commercial. What is more, the identification of similarities helps managers compare countries and identify potential synergies among those markets. The ranking method includes evaluation of markets according criteria by assigning weights.

Other authors also propose that companies should use a screening method for the selection of foreign markets. The indicators that are used for this method are easily obtained and they should be equal and comparable. As an example, it may include macroeconomic indicators, derivative indicators and other ratios that are related to company business (Casas, 2008).

## 2. Analysis of cosmetics market

Cosmetic products which include skin care, makeup, sun care, hair care deodorants and fragrances are mixtures of different chemical compounds that are used to enhance the appearance of the human body. All these beauty products are offered mainly through retail stores and online.

People have been using cosmetic products for many years, and today, the majority of consumers use cosmetics and personal care products daily to protect their health, improve their well-being and increase their self-esteem. Regarding the frequency of cosmetic products use, differences can be seen across countries, between genders and ages. Figure 1. represents a sample of data of most frequently used cosmetic products on the daily basis. Toothpaste and deodorants (roll on and aerosol) are the most often used products during the day. It can be noticed that the biggest difference between genders was in the use of sunscreen because men use it more often than women.

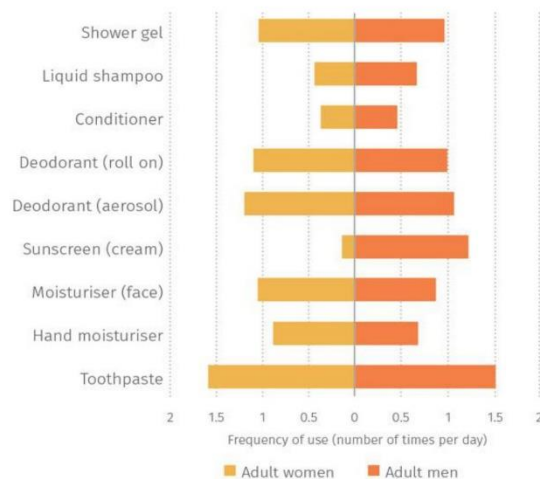


Figure 1. Frequency of use (number of times per day) (Europe, 2015)

Main factors that have the impact on the growth of cosmetic market include:

- Rise in disposable income;
- Change in lifestyle;
- Climatic conditions;
- Awareness;
- Change in packaging style;
- Attractive marketing strategies.



What is more, the demand for organic or natural beauty products is increasing and it creates potential opportunities to develop and innovate new products for manufactures, which will meet the consumers' needs.

The world cosmetics market is segmented on the basis of category, gender, mode of sale and geography. The category segment includes makeup and color cosmetics, sun care and skin care products, hair care products, deodorants and fragrances. Skin and sun care as well as hair care products are used more often than others and it holds a considerable share in global cosmetics market. Gender basically includes men, women. Moreover, the mode of sale includes retail and online sale, where retail mode is also classified into supermarkets, general departmental store, drug stores and others. The cosmetics market may be segmented by geography, for example, North America, Europe, Asia-Pacific, and Latin America Middle East and Africa (LAMEA) (LLP, 2016).

The production of cosmetics and beauty products is controlled by a few of multi-national corporations, which includes L'Oréal, Unilever, Procter & Gamble Co., The Estee Lauder Companies, Shiseido Company and others. According to Statista (2018) the L'Oréal was the leading beauty manufacturer in the world, generating about 28.6 billion U.S. dollars in revenue in 2016. The market leader was also one of the leading companies in cosmetic innovation, which registered a total of 314 patents in 2015.

Figure 2. represents consumer goods by industry size and growth from 2013 till 2017. Among twelve industries, beauty and personal care took 6th place with nearly 500000 USD dollars.

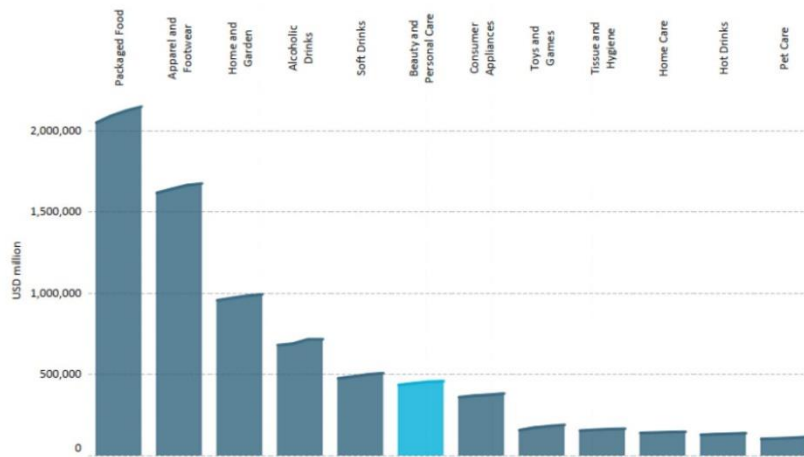


Figure 2. Consumer Goods by Industry Size and Growth 2013-2017 (Euromonitor, 2018)

As the Figure 3, shows, the European cosmetics and personal care market is the largest in the world at retail sales price in 2017. The consumption value of the cosmetics in Europe from 2012 to 2017 has been increasing for the past few years and around 77.7 billion euros worth of cosmetics products were consumed in 2017 (Statista, 2018). These numbers show that cosmetic industry is increasing in the European markets and it is forecasted to increase even further. The cosmetics industry makes an important influence to the European economy. The cosmetics industry brings at least 29 billion euros in added value to the European economy every year, where 8 billion euros is contributed by the manufacture of cosmetic products.



Figure 3. Global market for cosmetics products (Billion Euros) (Europe, 2018)

According to Statista (2018) the consumption value of cosmetics and personal care in Europe in 2016, Germany consumed the largest number of cosmetics, which is equal to 13563 million euros. What is more, it is expected that market value for German beauty and personal care products will reach around 17 billion euros. In 2016, Sweden consumed about 1986 million euros where Lithuania consumed the smallest number of cosmetics, valuing at approximately 235 million euros.

As the analysis shows, the consumption of cosmetic products has been increasing due to the changing environment, innovation and people perception of healthy lifestyle. What is more, Europe is very attractive market for companies that operates in cosmetic industry, as it has been constantly growing for the last decades.

### 3. Practical application of multi-criteria method and statistical analysis to solve the problem of export market selection for cosmetic products

According to the aim of this work, TOPSIS method is chosen for the research part. TOPSIS method is going to be used in order to determine which Germany, Sweden or Lithuania is the most attractive for exporting cosmetics. This chosen method is going to be explained more into detailed below.

The Technique for Order Preference by Similarity to Ideal Solution (TOPSIS) developed by Hwang & Yoon (1981) is a technique, which is used to evaluate the performance of alternatives through the similarity with the ideal solution. What is more, the alternative that is the closest to the positive ideal solution and farthest from the negative ideal solution is the best one. It also shows that the positive ideal solution maximizes the cost criteria and at the same time minimizes the benefit criteria. The TOPSIS algorithm steps can be classified as follows:

Step 1. Construct the decision matrix and determine the weight of criteria.

Step 2. Calculate the normalized decision matrix.

$$n_{ij} = \frac{x_{ij}}{\sqrt{\sum_{i=1}^m x_{ij}^2}} \quad (1)$$

Step 3. Calculate the weighted normalized decision matrix.

$$v_{ij} = w_j n_{ij} \text{ for } i = 1, \dots, m; j = 1, \dots, n. \quad (2)$$

$w_j$  – the weight of the  $j$ -th criterion

Step 4. Determine the positive ideal and negative ideal solutions.

$$V^+ = (v_1^+, v_2^+, \dots, v_n^+) = \left( \left( \max_i v_{ij} \mid j \in I \right), \left( \min_i v_{ij} \mid j \in J \right) \right) \quad (3)$$

$$V^- = (v_1^-, v_2^-, \dots, v_n^-) = \left( \left( \min_i v_{ij} \mid j \in I \right), \left( \max_i v_{ij} \mid j \in J \right) \right) \quad (4)$$

where  $I$  is associated with benefit criteria and  $J$  with the cost criteria,  $i = 1, \dots, m; j = 1, \dots, n$ .

Step 5. Calculate the separation measures from the positive ideal solution and the negative ideal solution.

$$S_i^+ = \sqrt{\sum_{j=1}^n (v_{ij} - v_i^+)^2}, \quad i = 1, 2, \dots, m. \quad (5)$$

$$S_i^- = \sqrt{\sum_{j=1}^n (v_{ij} - v_i^-)^2}, \quad i = 1, 2, \dots, m. \quad (6)$$

Step 6. Calculate the relative closeness to the positive ideal solution.

$$P_i = \frac{S_i^-}{S_i^- + S_i^+} \quad (8)$$

Step 7. Rank the preference order.

As the first step includes construction of the decision matrix and determination of criteria weight. The alternatives are: A1 - Germany; A2 - Sweden; A3 - Lithuania. In this case, Germany represents Western European countries, Sweden represents Scandinavian countries and from Baltic countries was chosen Lithuania. The population of chosen countries in 2017 were:

- Germany – 82,52 million;
- Sweden – 9,99 million;
- Lithuania – 2,85 million.

Table 1. The decision matrix and weight of criteria (Economics, Germany GDP per capita, 2018), (Economics, 2018), (Economics, 2018), (Euromonitor, 2018)

	GDP per capita (USD dollars)	Wages (USD dollars/ Hour)	FDI per Capita (USD dollars)	Import per Capita (USD dollars)	Export per Capita (USD dollars)
Weight	0,25	0,15	0,20	0,20	0,20
Germany	46747,19	26,45	373,40	2711,25	4331,04
Sweden	56935,19	18,48	1280,84	3859,85	3827,53
Lithuania	16793,25	5,69	185,37	2829,66	2096,54
Total	120475,63	50,62	1839,60	9400,76	10255,11

The criteria by which alternatives will be rated includes:

- C1 –GDP per capita;
- C2 – Wages per hour;
- C3 – Foreign direct investment per capita;
- C4 – Import per capita;
- C5 – Export per capita.

In the scientific literature the chosen criteria are identified as the most used for selecting export markets. However, there are no data, which may be applied to cosmetic products that are specific. According to this, these criteria can also be used to model the export markets for cosmetic products, if the appropriate combination (weights) is chosen. As the weights are very important while applying multi-criteria method, the experts were carefully chosen for this purpose. The experts were selected from small and medium size companies, who had no less than 10 years experience in the international marketing field. After selecting five experts, the weights of different indicators were determined by them. What is more, the direct method of weight determination assessment was applied, which means that every expert evaluated the weight of separate indicator (in percent). The most important indicators/criteria got the higher percentage than other but the sum of all the weights of all indicators is equal to 100 percent. The evaluations of 5 indicators by the experts are as follows: C1 = 0,25 C2= 0,15 C3=0,20 C4=0,20 C5=0,20.

As the data of decision matrix come from different sources, it is necessary to normalize it in order to transform it into dimensionless matrix see Table 2. By doing it, it will allow the comparison of the various criteria.

Table 2. The normalized decision matrix (Made by Author)

	GDP per capita (USD dollars)	Wages (USD dollar/ Hour)	FDI per capita (USD dollars)	Import per capita (USD dollars)	Export per capita (USD dollars)
Weight	0,25	0,15	0,20	0,20	0,20
Germany	0,619	0,807	0,277	0,493	0,704
Sweden	0,754	0,564	0,951	0,702	0,623
Lithuania	0,222	0,174	0,138	0,514	0,341

After normalization, the weighed normalized decision matrix is calculated. As the results are shown in the Table 3., it was calculated simply by multiplying the normalized decision matrix by its associated weights.

Table 3. Calculation of the weighted normalized decision matrix (Made by Author)

	GDP per capita (USD dollars)	Wages (USD dollars/ Hour)	FDI per capita (USD dollars)	Import per capita (USD dollars)	Export per capita (USD dollars)
Germany	0,155	0,121	0,055	0,099	0,141
Sweden	0,188	0,085	0,190	0,140	0,125
Lithuania	0,056	0,026	0,028	0,103	0,068

Positive ideal solution and the negative ideal solution is calculated according to the formula. In the following step the relative closeness to the positive ideal solution is calculated. In order to calculate that, the positive ideal will be divided by the sum of the positive and negative ideals and the results, which were got are shown in the Table 4. below.

Table 4. Calculation of the Relative Closeness to Positive Ideal Solution (Made by Author)

	Si+	Si-	Pi	Rank
Germany	0,1450	0,158	0,521	2
Sweden	0,0400	0,229	0,851	1
Lithuania	0,2446	0,004	0,017	3

After using TOPSIS method it was found that the most attractive market for export of cosmetic products is Sweden. In the second place is Germany and in the last one is Lithuania.

Knowing the fact that the proposed method also has some limitations, for instance, if weights of indicators change, it will change values of the criteria of the applied TOPSIS method and the ranking may change as well. Regarding to this, statistical analysis were also made in order to see if the results will be the same. Using statistical data from 2012 till 2017, the numbers of market sizes per capita of three chosen countries are provided in the Figure 4. below.



Figure 4. Market size per capita of cosmetic products 2012-2017 (International, 2018)

As it shows, the market size per capita of cosmetic products has been increasing since 2012. In 2016, the market size value beauty products in Germany and Sweden were almost the same. However, the market size per capita of cosmetic products increased more in Sweden than in Germany or Lithuania in 2017. The major factors driving the growth might be:

- Increase of awareness about importance of maintaining a good appearance;
- Weather challenges in form of harsh winters and humid summers in Sweden;
- Growing population that supplement the growth of cosmetic products consumption (Worldometers, 2018);
- Increasing concerns about hygiene.

It is also known that the interest in cosmetic surgery and minimally invasive surgery is increasing, which makes people buy more pre and after treatment products. What is more, oral hygiene and teeth whitening are becoming more and more popular among people, which shows great growth potential as well.

Taking everything into consideration, it could be said that increasing awareness about skin rituals and desire to look young and beautiful is driving the cosmetic product sales, which allows further expansion into newer markets. As multicriteria method TOPSIS and statistical data analysis showed, the most attractive export market for cosmetic products is Sweden.

## Conclusion

1. By analysis scientific literature it can be noticed that globalization is one of the main reasons why companies becoming international and increasingly looking for global rather than domestic markets. A company, which operates in global cosmetic industry may gain a competitive advantage over domestic companies because they not only can find cheaper sources but also add value to their activities and increase sales.
2. Consumers have been spending higher levels of disposable income on cosmetics than they had in the past due to this fact the cosmetic market significantly grows every year.
3. Various authors indicate different criteria, according to which the target market for export is selected but were no information related to cosmetic products that are specific.
4. Modeling the market for export of cosmetic products, the most important criteria (by weight) were used: GDP per capita, wages per hour, foreign direct investment per capita, export per capita and import per capita.
5. For target market selection TOPSIS method and the statistical data analysis were used, which helped to eliminate the less attractive markets and to select the most attractive one.
6. On the basis of the performed research, it was found that the market share value for cosmetic products is increasing in Europe. Sweden was selected as the most attractive market for exporting cosmetic products among other introduced countries.
7. The results of this study can be used in further research to develop effective market modeling techniques for specific products.

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