



RAFFLES INSTITUTION
2023 YEAR 5 PROMOTION EXAMINATION
Higher 2

ECONOMICS

9570/01

Paper 1 Case Study

September 2023

1 hour 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name, index number and civics class on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for diagrams, graphs or rough working.
Do not use paper clips, highlighters, glue or correction fluid.

Answer **all questions**.

The number of marks is given in brackets [] at the end of each question or part question.

Attach this cover sheet to answers for Paper 1.

Name: _____

Civics Class: _____

Economics Tutor: _____

Question	Marks
1	/30

This document consists of **4** printed pages and **1** blank page.



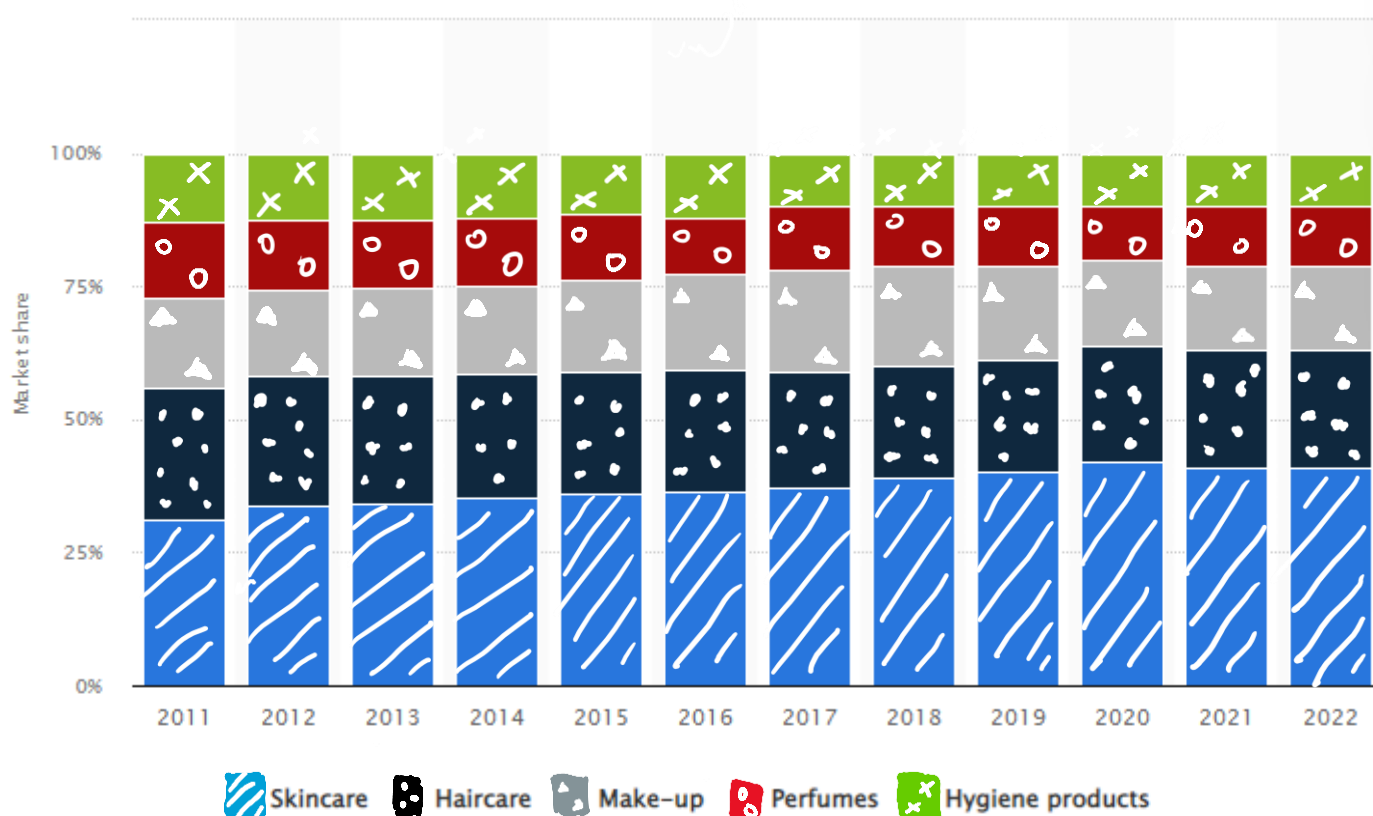
Raffles Institution

BLANK PAGE

Question 1: The rise of the cosmetics industry and its impact

Skincare, haircare, make-up, perfumes, toiletries and deodorants, and oral cosmetics are the main product categories of the cosmetics market. The cosmetics market has gained huge popularity among the young generation, owing to the rise in beauty consciousness among people to build up self-confidence and one's esteem.

Table 1: Breakdown of the cosmetics market worldwide from 2011 to 2022, by product category



Extract 1: Impact of COVID-19 on the cosmetics market

During the COVID-19 pandemic, lockdowns and the work from home culture have significantly reduced social interactions and thus significantly decreased the use of cosmetics compared with pre-pandemic levels. At the same time, due to supply chain disruptions, the increase in raw materials and shipping prices have led to some cosmetic brands needing to pass along those cost increases to consumers in order to maintain their profit margins. Yet, India's makeup brand, Aether Beauty and Vapour Beauty were among some firms that shut down operations during the pandemic citing reasons such as lack of accumulated profits and stiff competition.

As a result of the pandemic, consumers care more about sustainability, and the use of safe and nontoxic ingredients in cosmetics, which are deemed to cause less side-effects. Cosmetics made from natural ingredients have thus seen a rapid rise in popularity.

With the rise in urbanization and growth of the middle-class consumers in developed and developing countries, coupled with the complete relaxation of COVID-19 restrictions in many

countries, cosmetic manufacturers have begun offering alternative cosmetic products such as personalised products, and 'Maskne' treatments to manage acne resulting from mask wearing.

In 2021, the women's segment accounted for the highest market share whereas the men's segment is estimated to show the fastest growth during that period. This growth is majorly attributed to emerging demand for men beauty products as the shift to white-collar jobs have increased the consciousness among men to look well-groomed and presentable. This has led to the increased adoption of facial scrubs, face wash, sunscreen, moisturizers, and cleansers and anti-aging products by men.

Adapted from: Various sources

Extract 2: Technological disruptions and its impact

The cosmetics market is no longer limited to global giants like Loreal, Estee Lauder and Maybelline. Anyone can start producing and selling natural cosmetics on Etsy, an American e-commerce company, or any other social media platforms. Often, the unique and smart marketing strategy, through the use of AI-powered solutions can help generate personalised offers and off-the-shelf solutions allow brands to stand out among competitors and fight for their customers.

According to the U.S. Cosmetics Study (2015), loyalty rates in the beauty industry are as low as 42%. The shake-up in the way consumers are shopping for cosmetic products has led to the rise of niche beauty product makers, which have become stiff competition for large established companies such as L'Oréal, Estée Lauder, and Maybelline. Consumers tend to buy across brands rather than stick to one brand for their beauty product needs, which has helped boost sales online and at speciality stores, analysts say. Many consumers give speciality stores "curatorial power" to introduce new brands.

Cosmetics firms today have even more chances to contact and engage their target audience online because of the increased usage of social media, apps, and technology. As a result, some brands resort to more engaging marketing methods to reach out to new, younger audience, especially Gen Z, in a more meaningful way through storytelling and innovative content forms.

Adapted from: Various sources

Extract 3: Patent protection

With the entry of new firms in the cosmetic market, intellectual property protection is more important than ever in the market for cosmetics as it becomes more crowded and competitive.

Counterfeiting — copycat or dupe products that replicate popular or cult beauty products for a fraction of the price — is a major concern in the cosmetic industry and has skyrocketed in recent years. Social media has further increased the market for copycat products and the ability for copycat brands to reach consumers. Influencers' accounts devoted solely to promoting beauty copycats have amassed millions of followers to the detriment of brand-name products.

Adapted from: Goodwin, 2022

Extract 4: Acquisition and misinformation

Estée Lauder's purchase of fashion retailer Tom Ford in 2023 for US\$2.3 billion last month is by far the biggest deal the cosmetic industry has seen for some time. Its acquisition of Tom Ford will enable Estée Lauder to compete with L'Oréal as it is an addition to another in-demand, luxury and high-performing brand to its portfolio, expanding the range of products, which is important to ensure it remains relevant to consumers. According to Statista, both Estée Lauder and L'Oréal are two of the largest cosmetic companies by revenue in 2022.

The Advertising Standards Authority (ASA) has been on a watch for false and misleading claims by cosmetic companies. In 2022, ASA in the UK ordered Wild Cosmetics, Ltd to take down a misleading YouTube advertisement and commit the firm not to feature false claims of the benefits of their products. The advertising watchdog is banning growing numbers of advertisements that exaggerate the benefits of their cosmetic products and treatment. The ASA's action comes amid fears that too many operators in the booming but poorly regulated cosmetic treatments sector is endangering clients' self-esteem and mental health by overselling how effective they will prove, leaving those who pay for them disappointed.

Adapted from: Cosmetics Business, 2021, Cosmetic Design, 2022 and the Guardian, 2023

Questions

- a) Compare the trend in market share between *skin care* and that of *make-up* between 2012 and 2018. [2]
- b) Using Extract 1, explain why Aether Beauty decided to shut down its operations in the short run during the COVID-19 pandemic. [4]
- c) i) Explain two examples of barriers to entry that exist in the cosmetic industry. [4]
- ii) To what extent is the coexistence of small cosmetic firms with large cosmetic firms a result of the rise of social media? [8]
- d) Suggest how a cosmetic firm can make use of a cognitive bias in its marketing strategy. [2]
- e) With reference to Extract 4, discuss the need for government intervention in the cosmetic market. [10]

Total: 30 marks

Copyright Acknowledgements:

Table 1	© https://www.statista.com/statistics/243967/breakdown-of-the-cosmetic-market-worldwide-by-product-category/
Extract 1	©Various sources
Extract 2	© https://luxiders.com/how-the-pandemic-affected-the-beauty-industry/
Extract 3	©Various sources
Extract 4	© https://www.banuba.com/blog/cosmetics-marketing-new-approaches-to-overcome-challenges © https://www.economist.com/business/2021/05/15/are-drug-patents-worth-it © https://www.goodwinlaw.com/en/insights/publications/2022/09/09_20-3-reasons-beauty-cos
	© https://www.cosmeticsdesign.com/Article/2022/12/06/estee-lauder-companies-tom-ford-acquisition-for-2.3bn-to-increase-competition-in-beauty-says-globaldata