

Jordan National
Competitiveness Team

MINISTRY OF PLANNING
THE HASHEMITE KINGDOM OF JORDAN

Dead Sea Cosmetics

C L U S T E R

	Industry Performance
	Diamond
	Cluster Map
	Key Issues
	Potential Markets Vs Reality

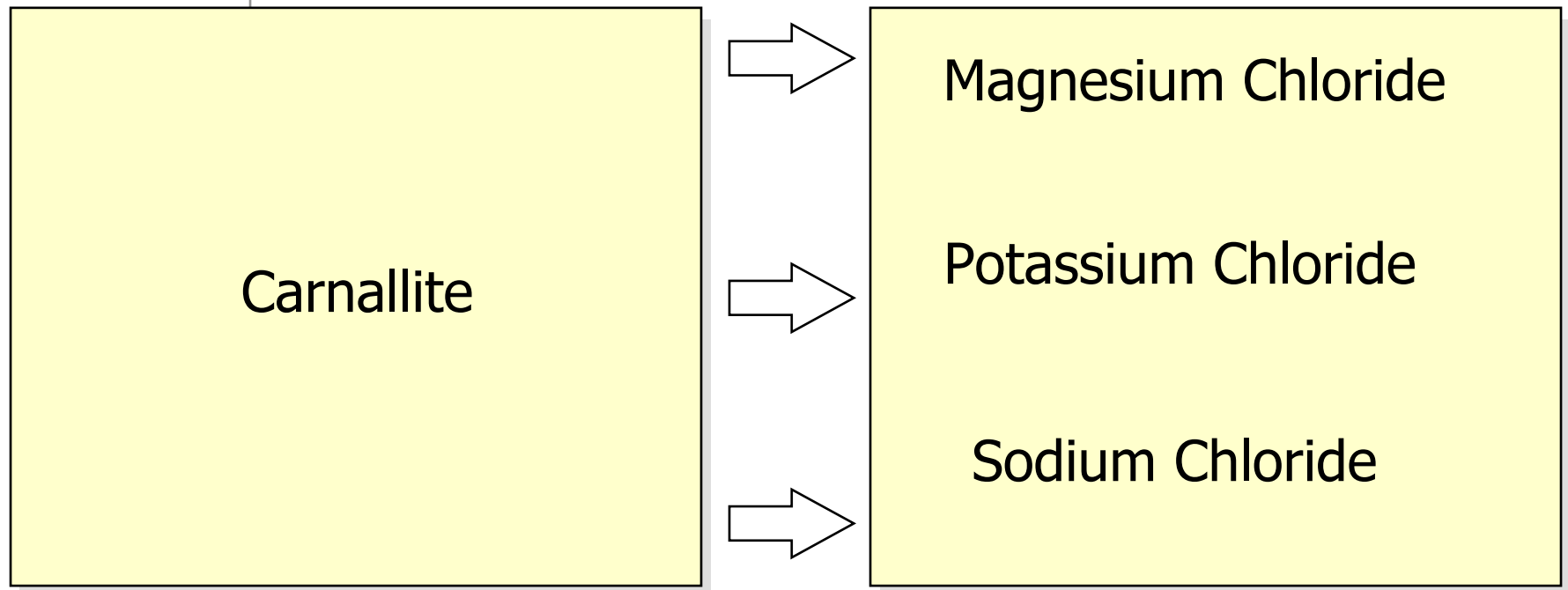
Dead Sea Cosmetics Industry

The Dead Sea is shared by Jordan and Israel

The industry started in Jordan in 1986, while it started in Israel in 1968

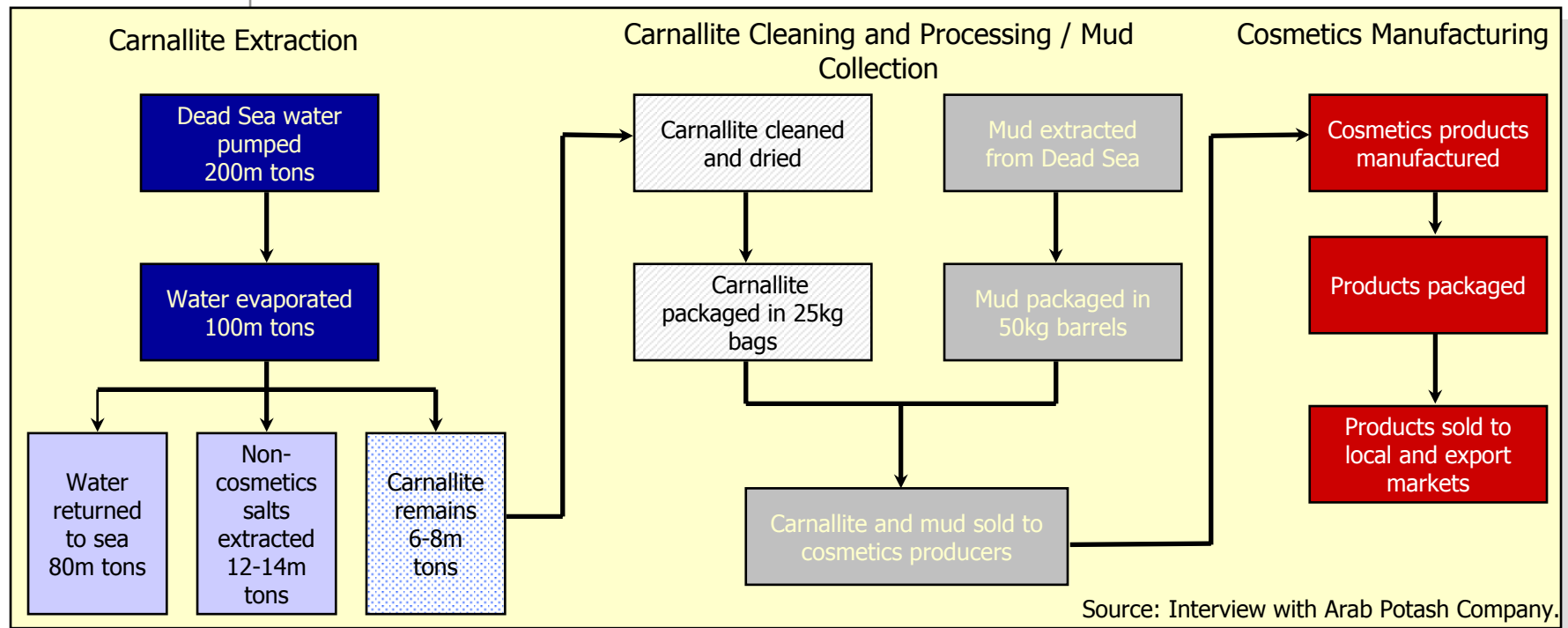
The industry is based upon the mineral-rich salts (Carnallite) and mud that are extracted from the Dead Sea

Components of Carnallite



"Magnesium, Calcium, Bromides and Potassium, necessary ingredients for glowing skin and overall good health, are present in unsurpassed concentrations -- over ten times those of ordinary sea water."

Overview of Production Process



Producing Dead Sea Cosmetics is a relatively simple process. In Jordan this process is dominated by Numeira, the sole supplier of Dead Sea raw material inputs. 5

Jordanian Dead Sea Cosmetics

Jordan

The first company was established in 1986

43 companies

Total sales for the whole sector was around US\$ 4.1m

Israel

The first company was established in 1968

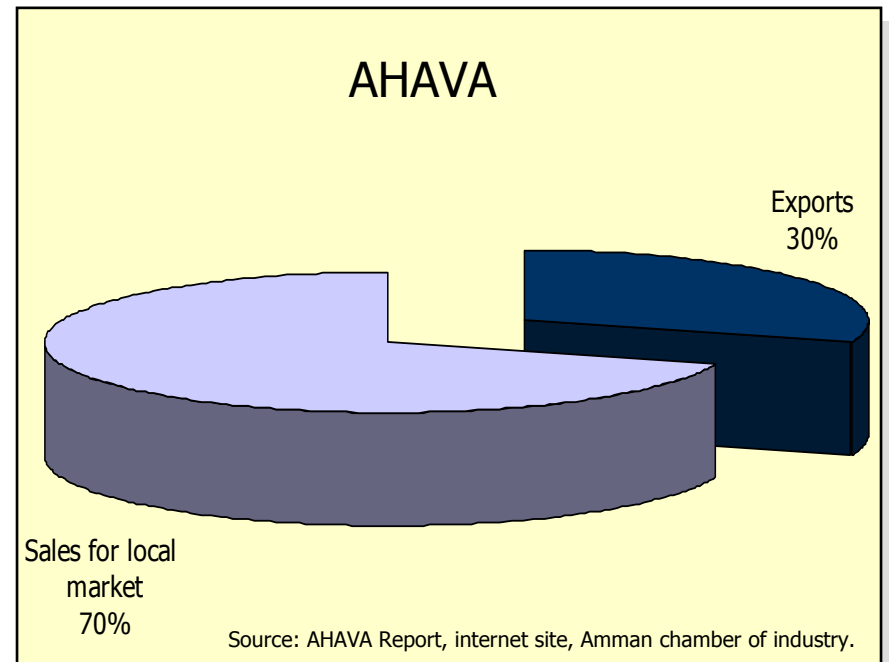
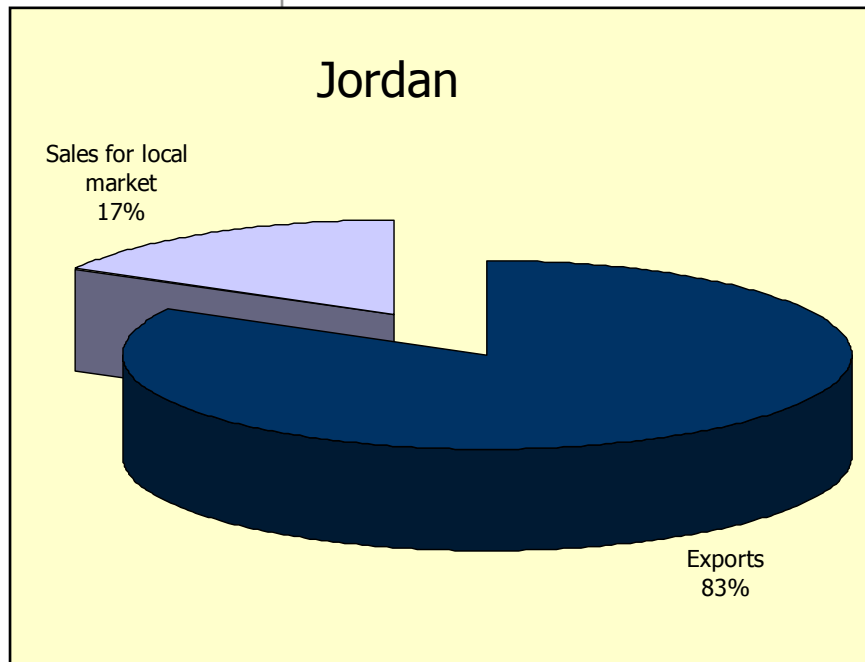
33 companies

AHAVA was established in 1988

Dead Sea cosmetic sales by AHAVA (the largest company in this field) reached US\$16.5m. in 1999

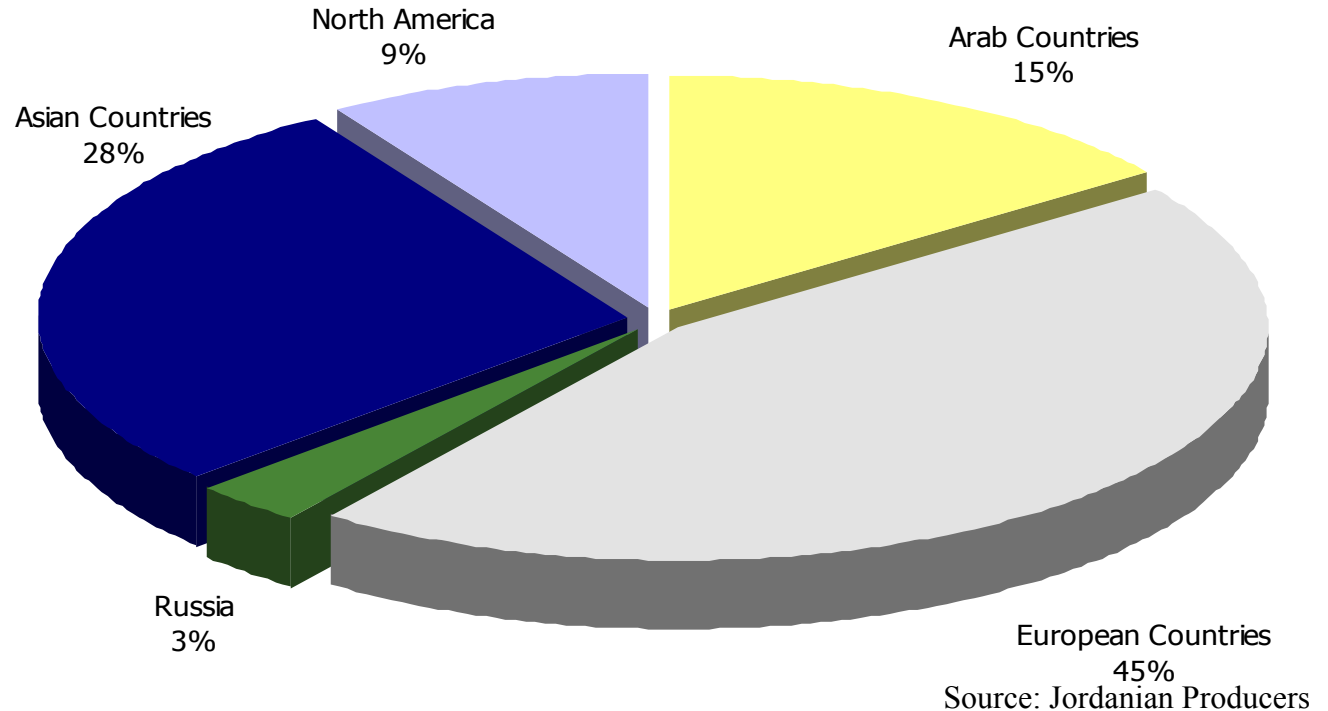
In Jordan, The majority of sales are concentrated in low-end bulk products

Exports vs. Domestic Sales, 1999

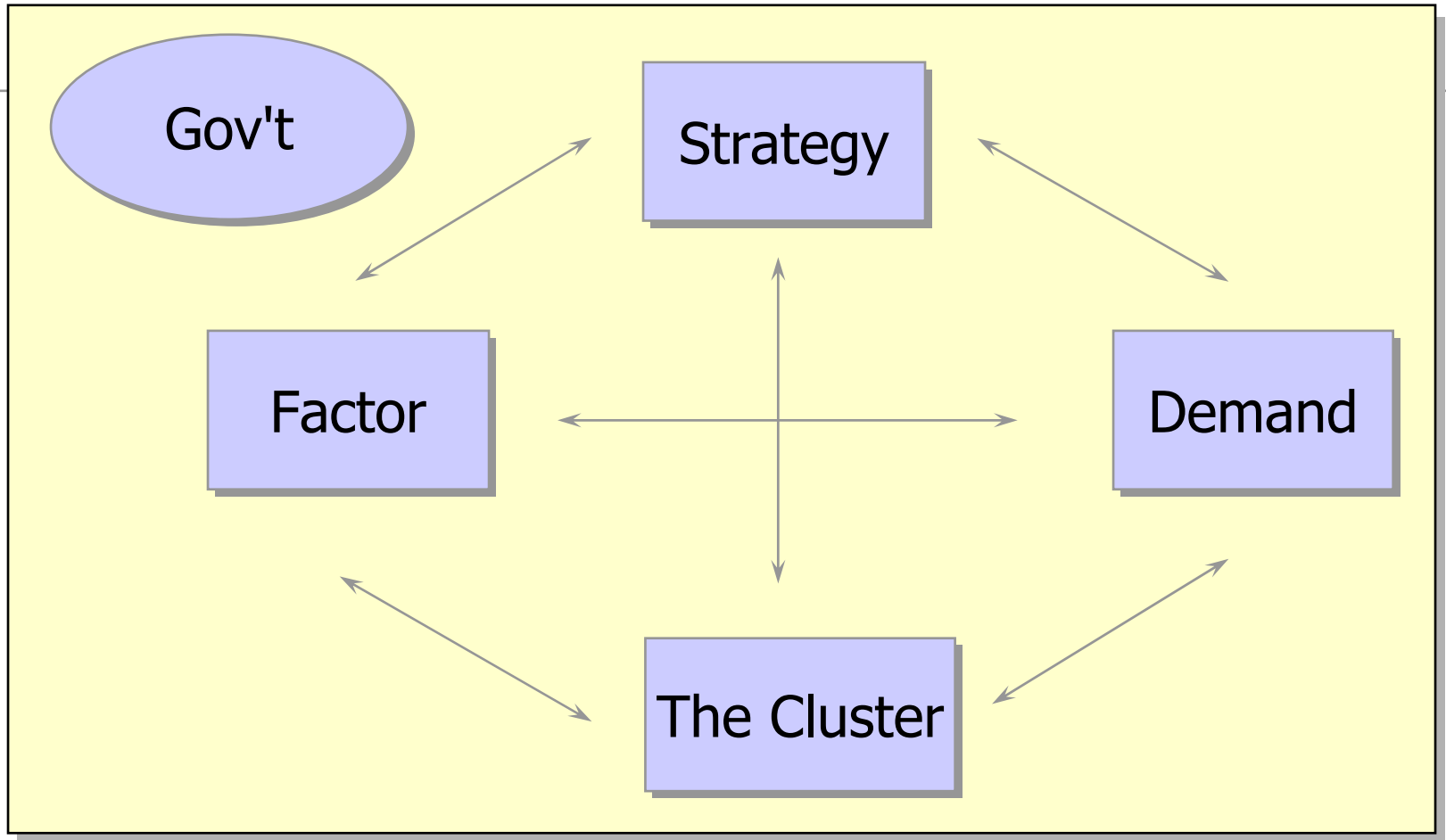


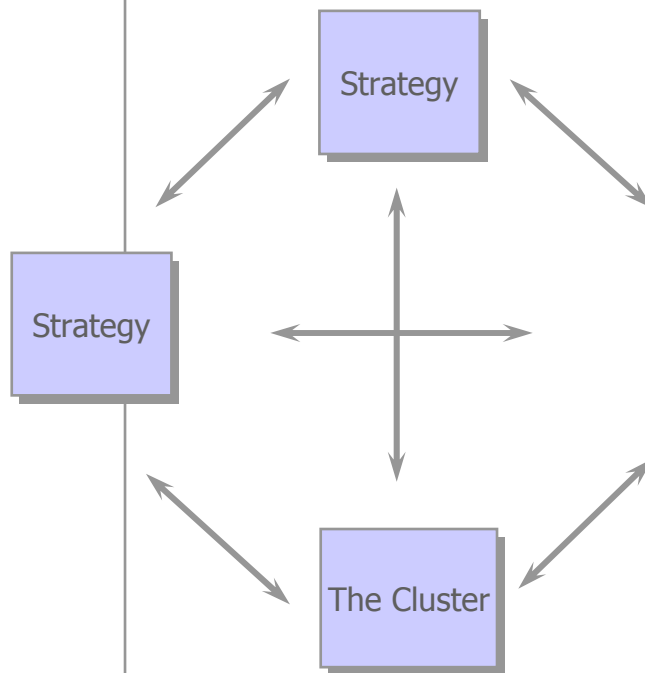
Total sales of the Jordanian producers amount to 24.5% of total AHAVA sales.

Geographical Distribution of Exports



Jordan exports Dead Sea cosmetics to 42 countries in the world, with Europe representing the largest recipient group.





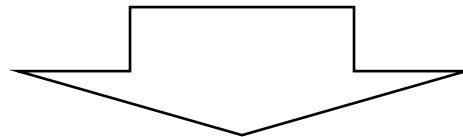
Demand Conditions

- + Potential customer segment consuming imported high-quality cosmetics
- Small local market
- Limited customer awareness of Dead Sea cosmetics
- Price-sensitive consumers prefer to obtain mud directly from the Dead Sea rather than buy the packaged product
- Lack of trust in locally produced cosmetics

World Market for Cosmetics

World market for cosmetics was valued in 1998 to be US\$177.6 billion at retail sales prices.

Per capita spending on cosmetics and toiletries is highest in Japan, followed by France, Germany and USA.



Huge world market for cosmetics and toiletries, particularly in world Eastern countries.

Japan: Case Study

Quality:

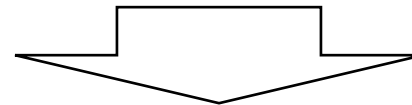
The Japanese are elite consumers; prefer sophisticated products, acknowledged brand names, and prioritize packaging and quality.

Packaging/Colors:

The image given to a cosmetic product strongly influences the customer. The Japanese usually prefer white colors for bath salts as a symbol of purity and hygiene.

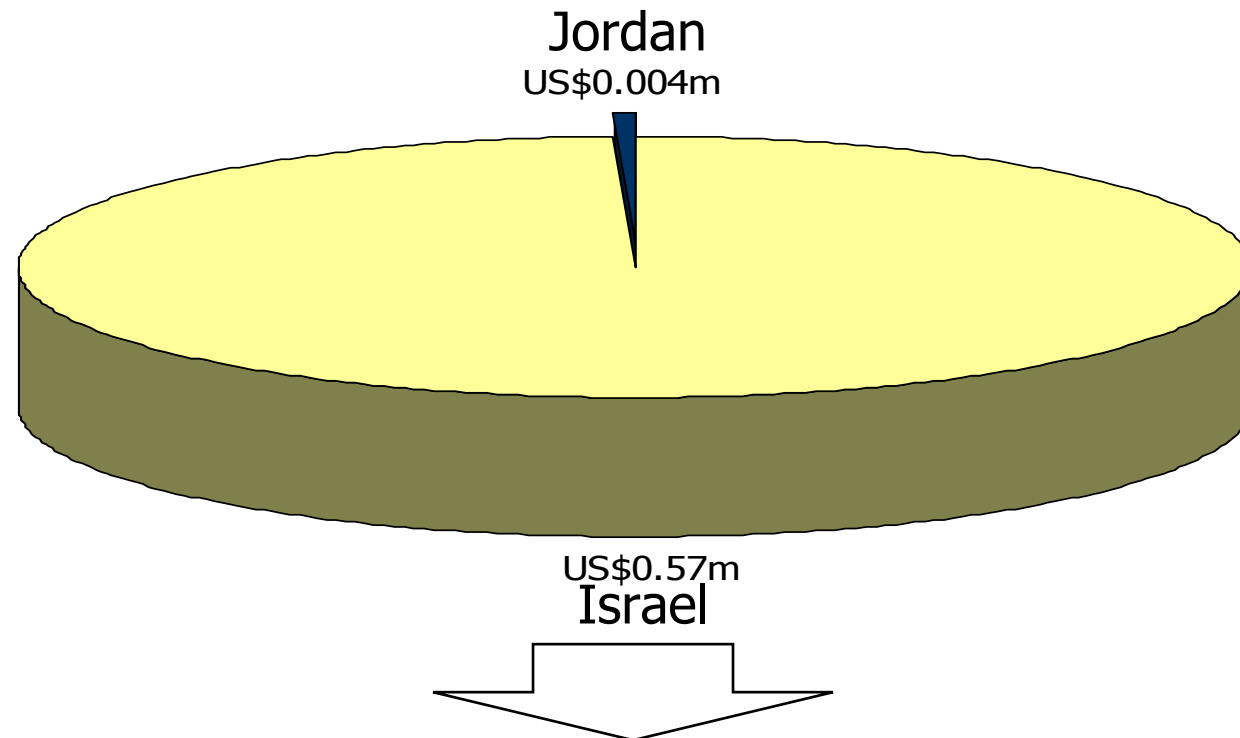
Time:

It is critical to be aware of seasons for marketing and advertisement. In Japan, for example, the demand increases between March and September.



Is the Jordanian dead sea cosmetics cluster capable of meeting the requirements and demand of such sophisticated markets? 12

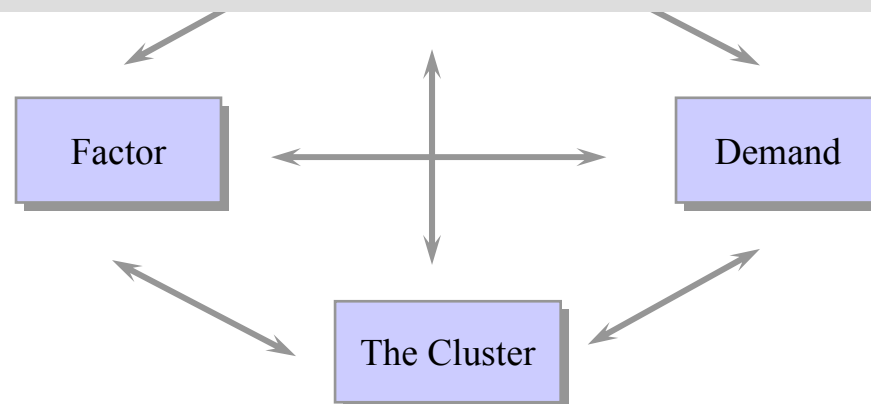
Where is Jordan's Position?

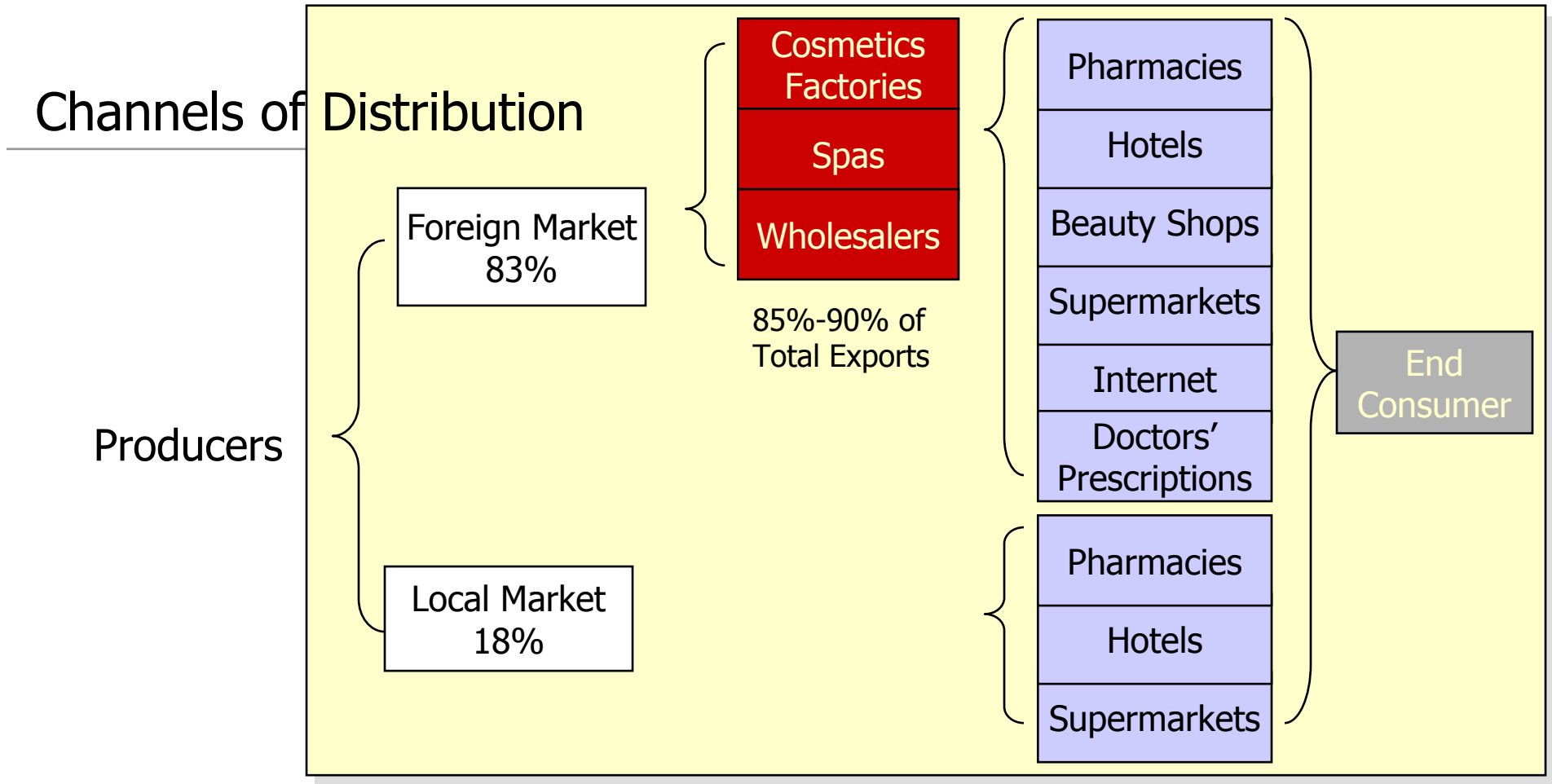


In addition, Jordan imports skin cream from France
worth US\$1.06m!

Strategy, Structure and Rivalry

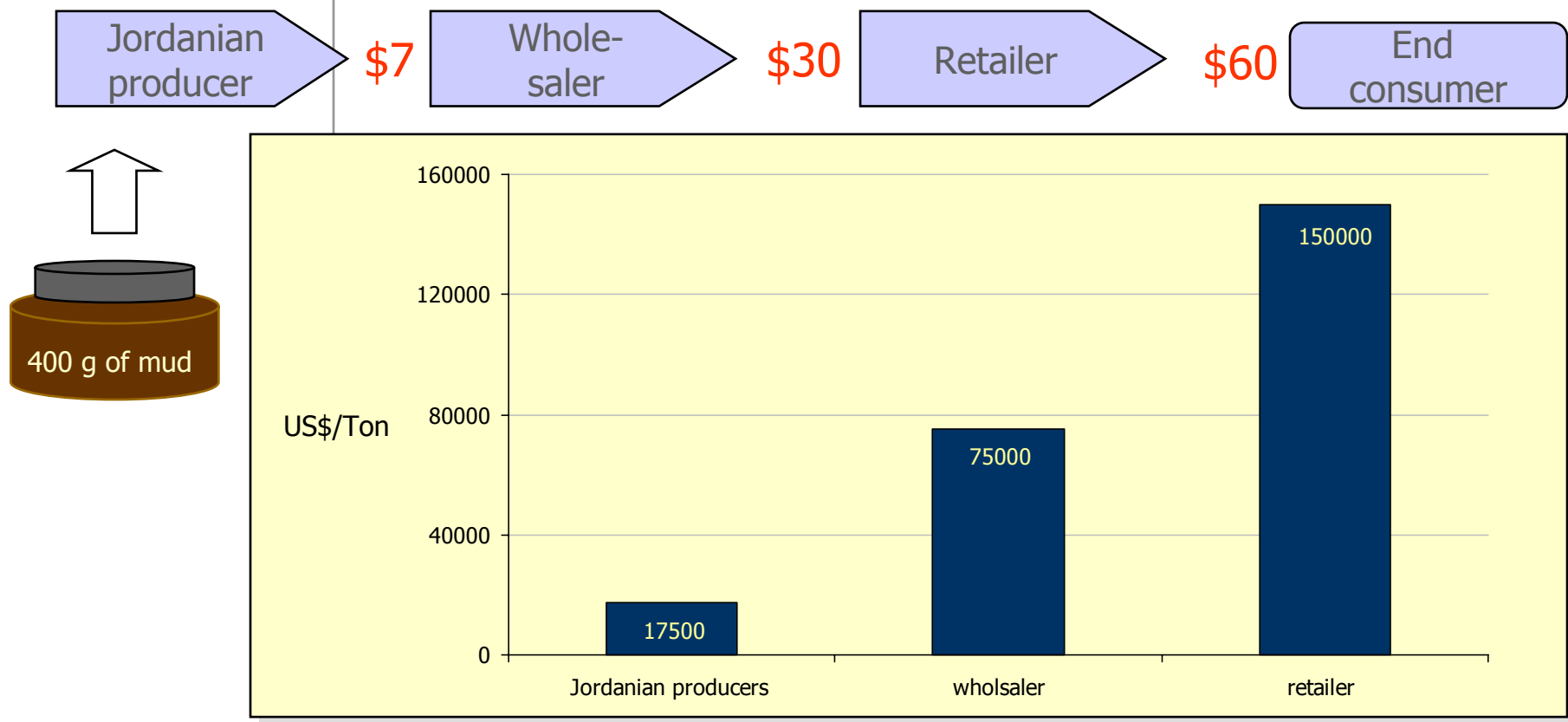
- +/- Few emerging entrepreneurs producing high-end Dead Sea cosmetics with export potential
- +/- New industry mostly focusing on sales of bulk (currently 70% of sales) to accumulate capital needed for upgrading into higher, value-added cosmetic products
 - Price-based competition in bulk is preventing the accumulation of wealth
 - Small family-owned businesses employing 15 or fewer workers
 - Low barriers to entry is attracting a large number of small, scattered bulk traders
 - Lack of cooperation among producers
 - Limited marketing efforts to increase customer awareness and expand the Dead Sea cosmetics market
 - Insufficient research and development for new high-quality product lines





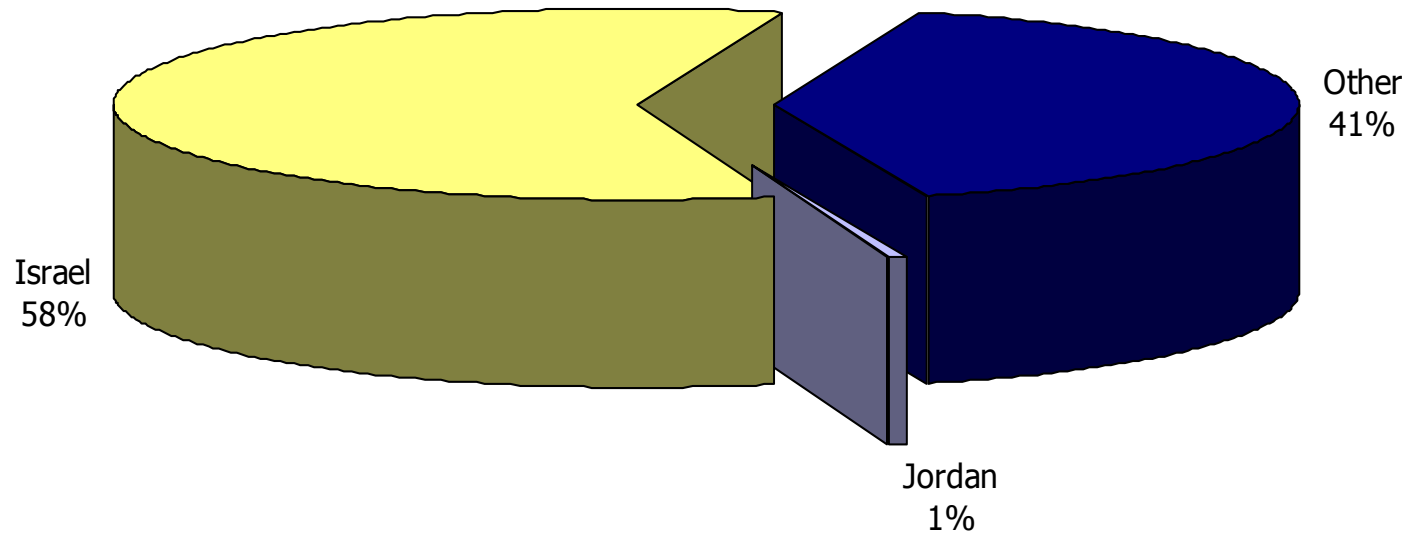
Sophisticated demand in European countries is catered by European cosmetic manufacturers using Jordanian Dead Sea bulk materials as input.

Jordanian producers Role in American Distribution Channels



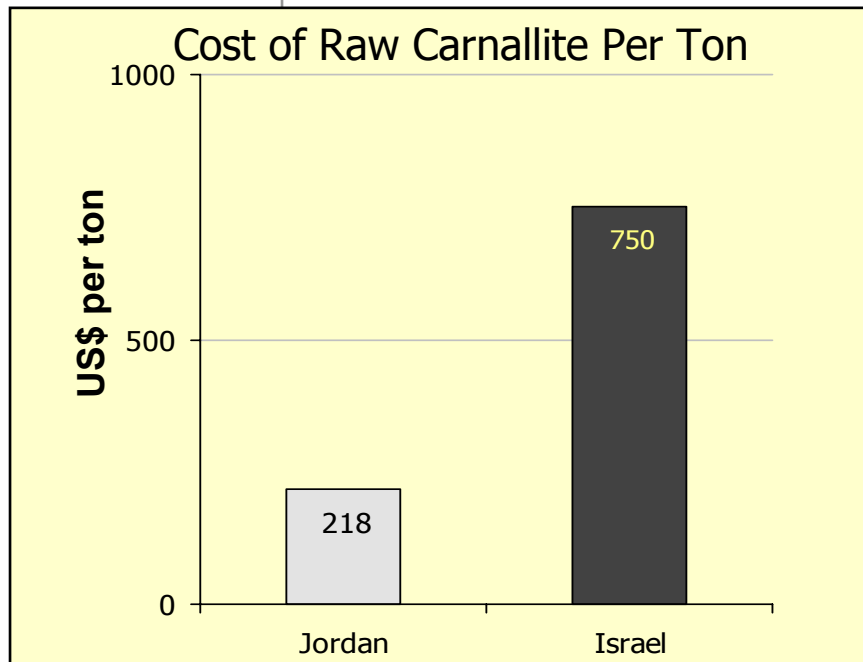
One Jordanian producer recently established his own marketing company after realizing the possible profit available at the other end of distribution channels.

Distribution of Dead Sea Cosmetics Production

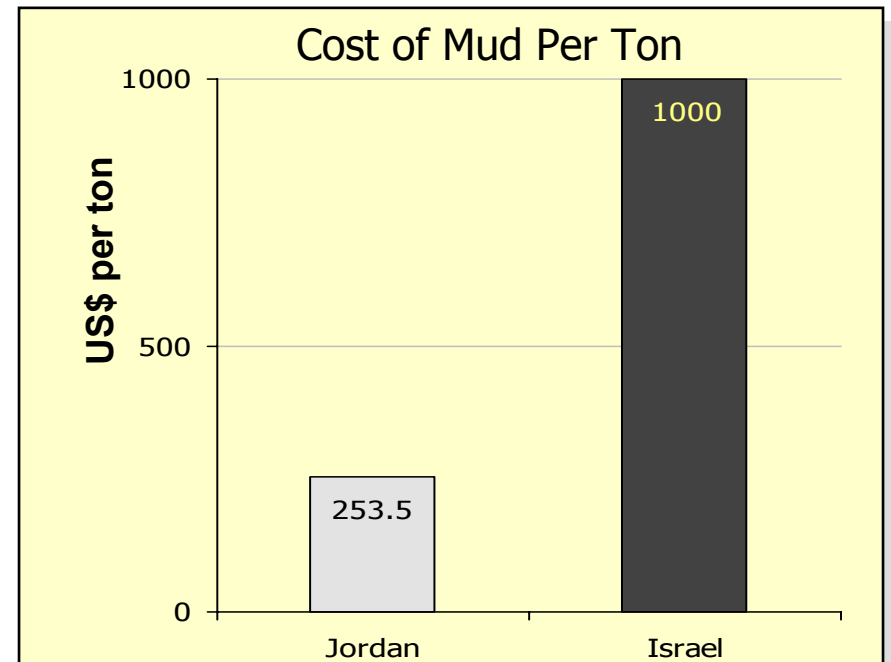


“The quality of Jordanian raw materials is superior to that of Israel’s due to the percentage of magnesium in Jordanian Carnallite being higher than that in Israeli Carnallite.”

Jordanian Vs. Israeli Raw Material Costs



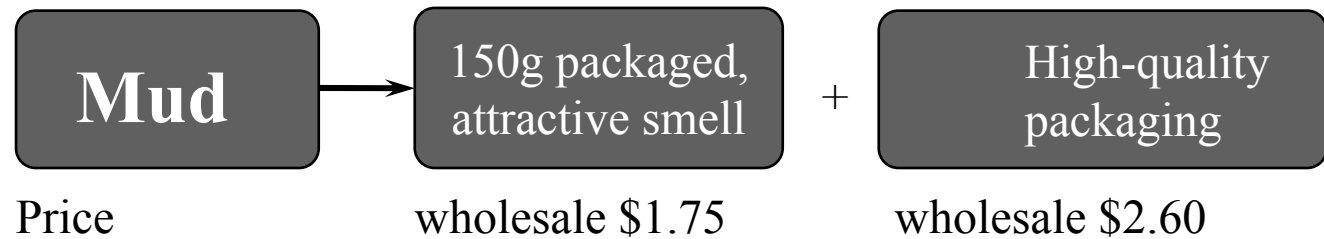
SOURCE: Numeira and Jordanian producers Interviews.



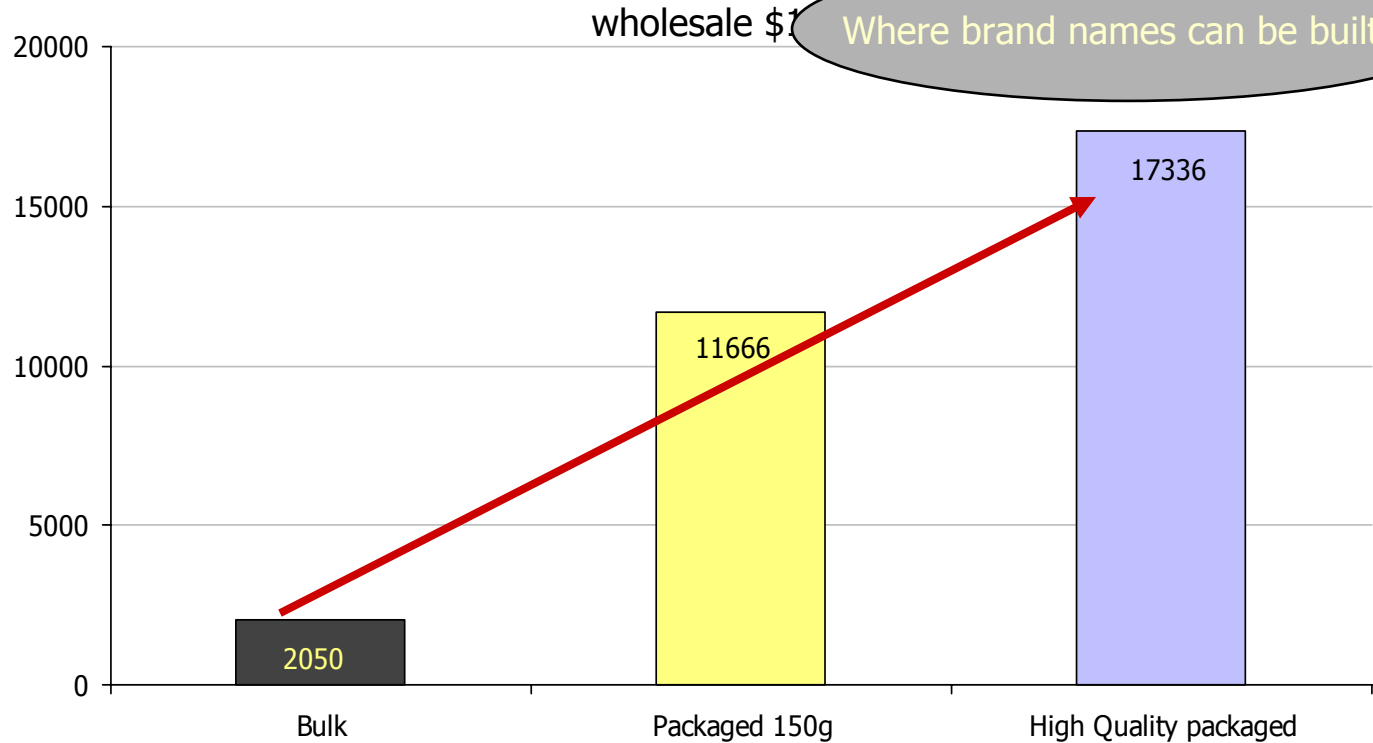
SOURCE: Estimates based on interviews with Jordanian producers and Numeira.

The cost of extracting raw materials is significantly lower in Jordan than in Israel.

Capturing the Value of Dead Sea Minerals (US\$)



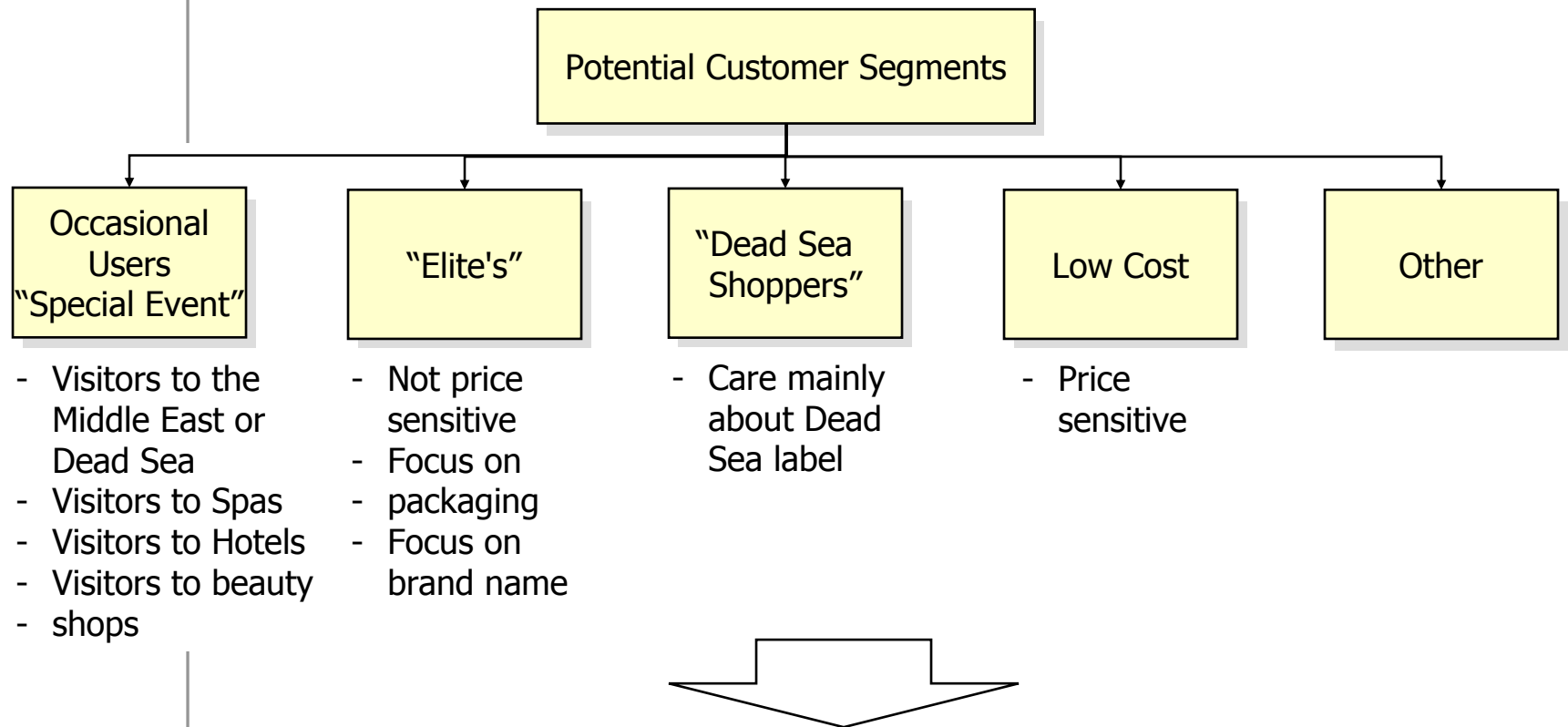
Mud Prices US\$/Ton (Bulk or Packaged)



“Jordanian producers are selling mostly in bulk. We are giving away one of our best resources.”

20
Jordanian producer

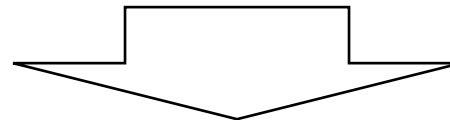
Hypothesis: Potential Cosmetics Customers Segments



Customer can be classified into various types and segments. Currently 80-85% of Jordan's sales are low-cost, bulk sales.

Joint Venture Project

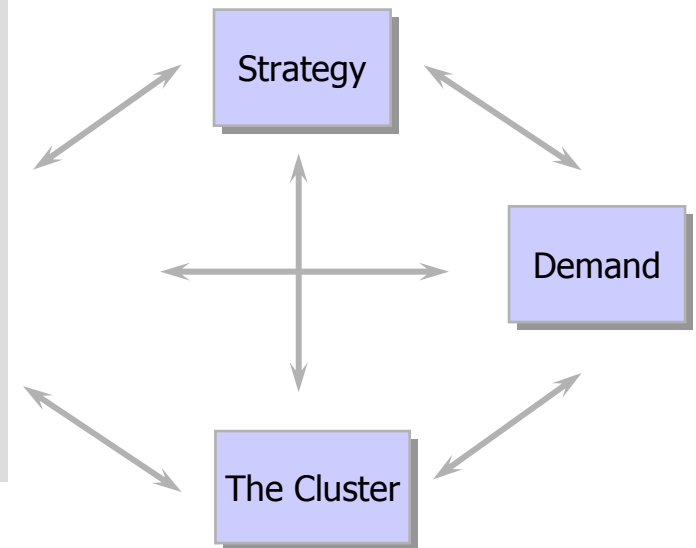
L'Oreal: An international company with a brand name known worldwide. It held the second highest sales value (US\$8.81billion) amongst 30 top international companies, in 1996.

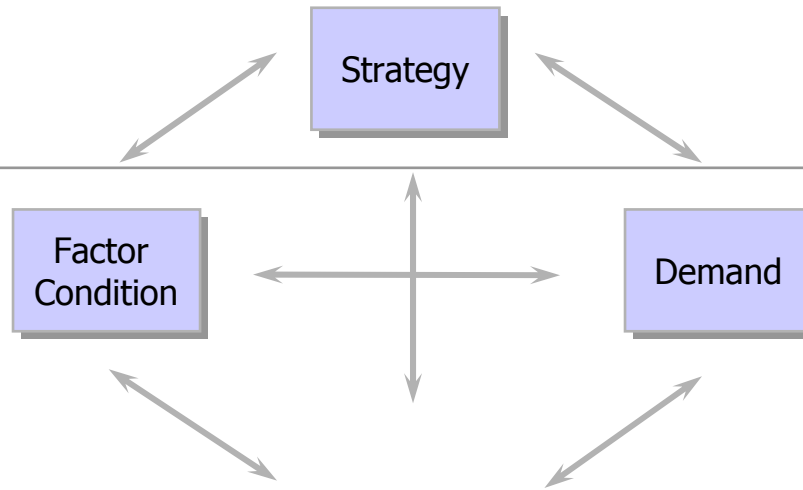


Recently, L'Oreal entered the industry through a joint venture with an Israeli company.

Factor conditions

- + Unique and abundant Dead Sea minerals
- + Adequate Transportation and communication infrastructure
- +/- Abundance of cheap, unskilled labor
- Relatively high shipping costs at Aqaba port compared to other regional ports
- Relatively high interest rate on loans





Supporting and Related Industries (The Cluster)

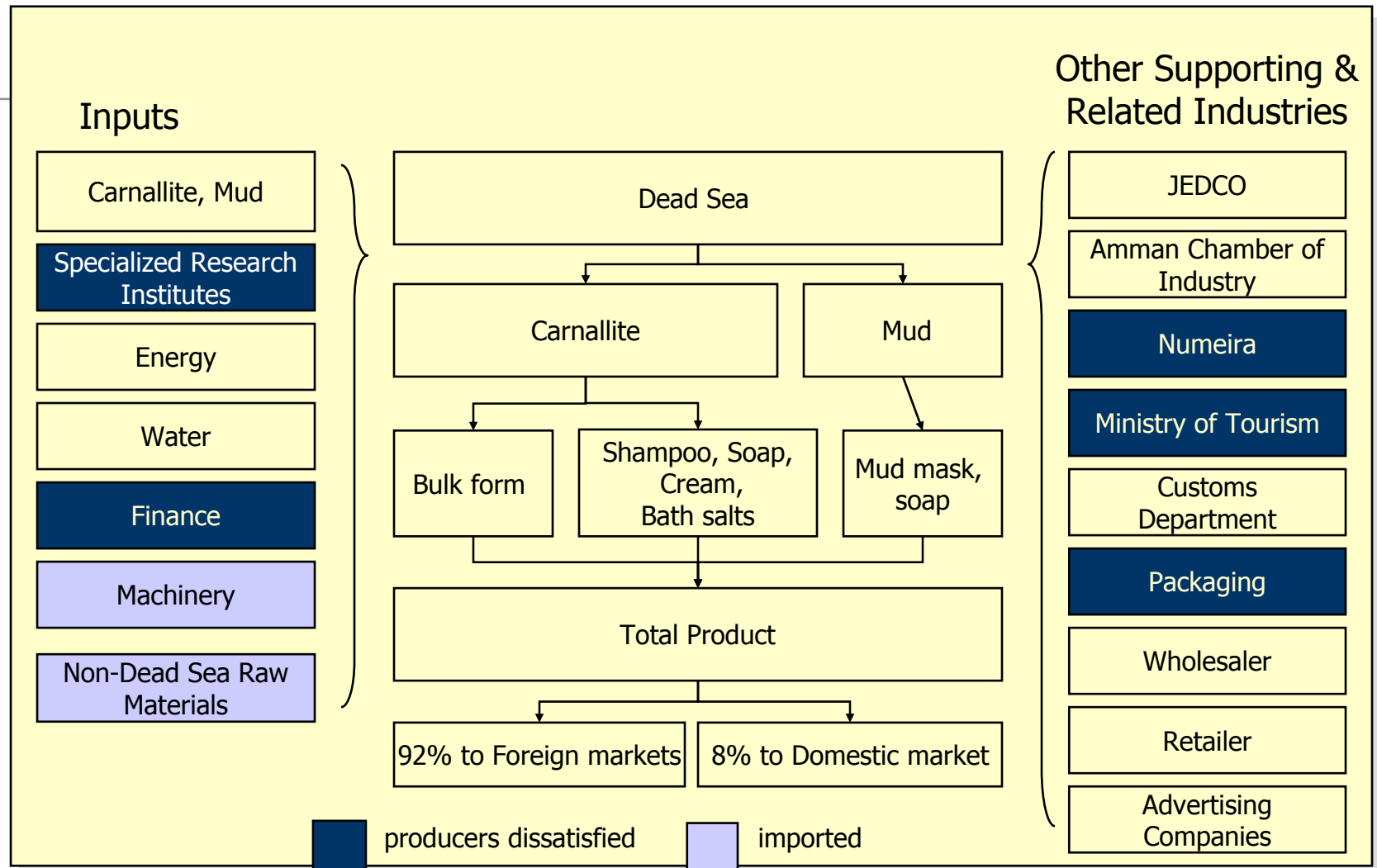
- + JEDCO plays a significant role in export promotion
- + Relatively inexpensive local advertising costs
- +/- Numeira intery to the market
- Majority of intermediate inputs imported
- Low quality domestic packaging

Dead Sea Cosmetics

Cluster

Cluster Map

Jordanian Dead Sea Cosmetics Cluster Map



Cluster: Suppliers of Dead Sea Raw Materials

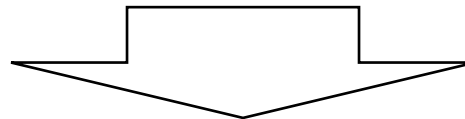
Established in June 1997, Numeira is currently the only supplier of carnallite and mud

Goals of Numeira:

- 1- organizing the process of selling Carnallite
- 2- minimizing the waste of Carnallite
- 3- lowering transportation costs
- 4- upgrading the process of cleaning and drying the Carnallite

Before Numeira was established the price of carnallite from APC was US\$126 per ton, while the mud was free.

Numeira sells mud for US\$253.5 per ton and Carnallite for US\$218 per ton



The entry of Numeira into the industry was sudden and unexpected

Impact of Numeira's Entry (1997)

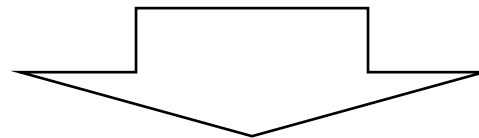
"APC established Numeira with the explicit objective of competing in Dead Sea products".

Jordanian private producers viewed Numeira as a threat and joined forces to change Numeira's objectives.

This was the first cooperative effort among Jordanian producers which resulted in:

Decreased individualism and increased cooperation in critical areas

"Until Numeira was created we had not sat together at the same table."



Cooperation in the Dead Sea cosmetics cluster is weak but increasing.

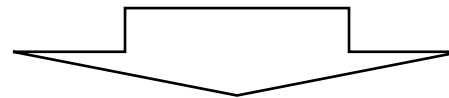
Cluster: Packaging Industry

Low quality of local packaging is a critical problem for producers negatively affecting their high quality products.

Local plastic manufacturers exist in Jordan, but suffer poor quality and delivery time.

Lack of high-end design capabilities

Jordanian producers

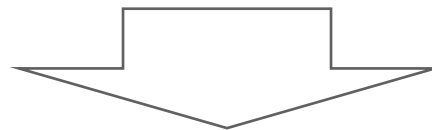


“It took a Jordanian company 10 months of work on a design only for me, to find out they could not offer me something of high quality and good taste I was looking for.”

Jordanian producer

Packaging Industry for Cosmetics & Toiletries in the World Market

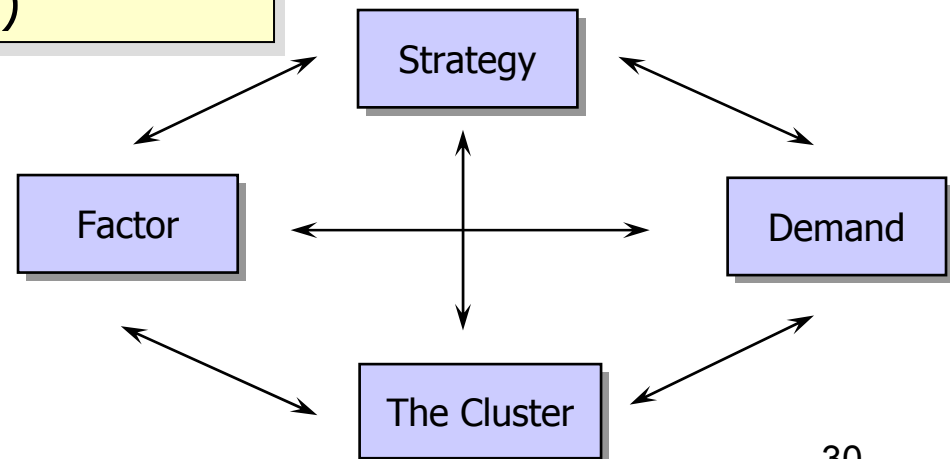
World cosmetics and toiletries packaging was valued at \$9bn in 1999 and estimated to rise to \$10.5bn by 2005. An estimated 31 billion plastic pack units were used by the cosmetics and toiletries industry in 1998. By the year 2005, it is estimated that the number of pack units will rise to 44.5 billion.



“As competition increases in the personal care market, manufacturers are relying more on packages to get their products off the shelves and into consumer hands.”

Government

- + Investment friendly environment for domestic and foreign investors
- +/- Regulated supply of Dead Sea minerals through the monopoly of a subsidiary of the Arab Potash Company (Numeira)
- Weak role of Ministry of Tourism in promoting Dead Sea cosmetics
- establishment of Isal(90% owned by Numeira, 10% private sector)



Isal's Entry (1998) Increased Tension in the Sector

Isal

- US\$1.4 million
- Numeira owns 90%
- Private sector owns 10%

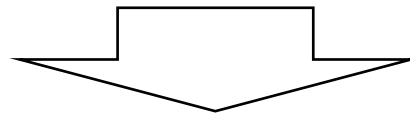
"We can't imagine that our main supplier will become our main competitor"

"Isal will receive preferential treatment in delivery and price of raw materials, how can we compete?"

Source: Jordanian Producers

"Isal will be treated the same as other manufacturers"

Source: CEO Numeira



How can good supplier-producer relations be established in such circumstances?

Dead Sea Cosmetics Cluster

Diamond

Government

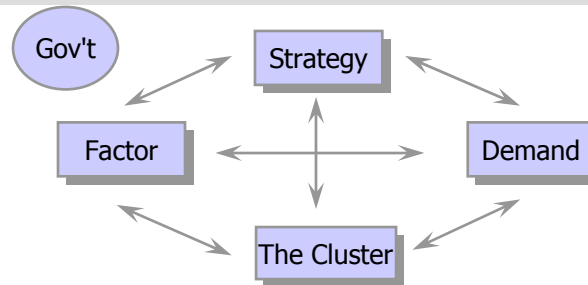
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- +/- Abundance of cheap, unskilled labor
- Relatively high shipping costs at Aqaba port compared to other regional ports
- Relatively high interest rate on loans
- Weak marketing programs at Jordanian college and universities

Strategy, Structure and Rivalry

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The Dead Sea Cosmetics industry platform is relatively weak in most areas except in factor conditions. Jordan is currently competing in basic factor advantages: cheap labor and cheap raw materials.

**Competitive
Environment**

Dominant government role within the industry creates tension in the private sector

Lack of trust between Numeira and private producers

**Firm
Strategies**

Over-reliance on basic factors of production and focus on bulk sales and low-end cosmetic products

Lack of knowledge about customers: needs, best distribution channels, marketing mix, etc.

Lack of Centers for Dead Sea Medical Research

Lack of high-quality packaging and package design services

We Have

Abundance of cheap raw materials

Abundance of unskilled labor

Lack of high quality packaging

Local market is not a priority

We Need

Investment in high end products and improvement in quality

Center for Training and Research

Improvement of package quality

Increased advertising in local market

This is not impossible to achieve

Success Stories: Jordanian Producers

In 1998 a Jordanian company received:

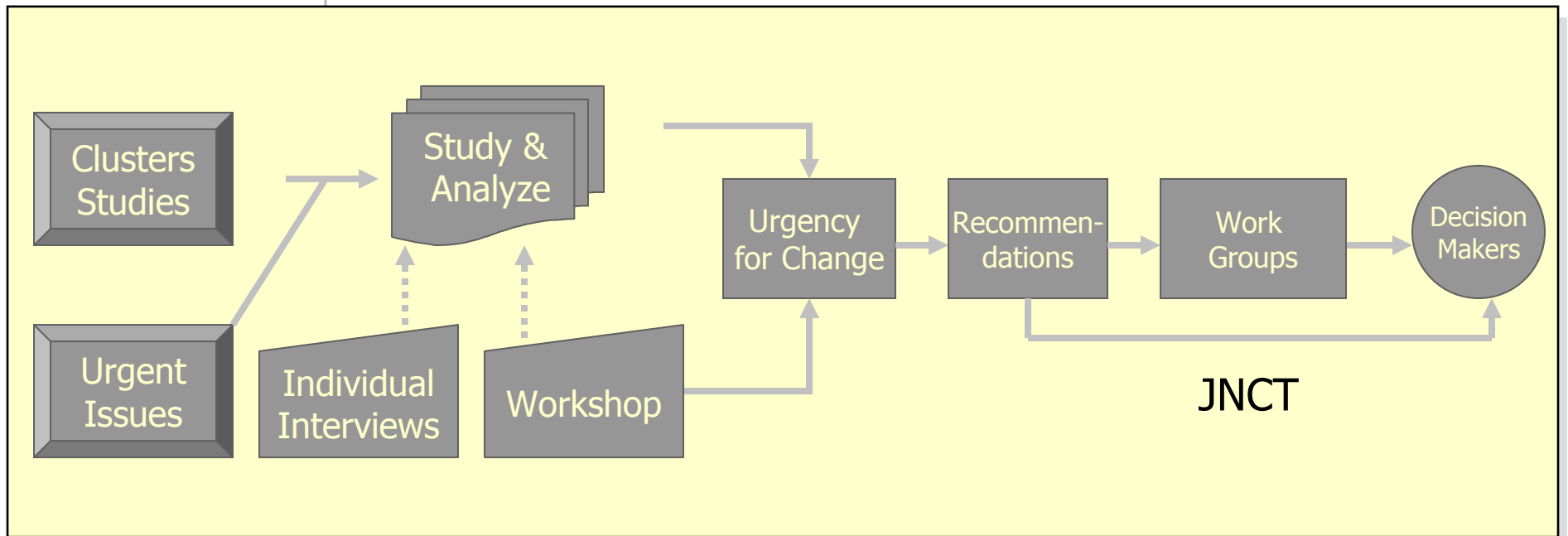
- the 10th Golden America Award for quality.
(New York/USA)
- 23rd International Award for best trade name.
(Geneva-Switzerland)

One Jordanian mud product was given full points for quality and certified as '**best buy**' by Style magazine after being tried, tested and compared to other non-Jordanian dead sea mud products.

Despite the significant problems facing this cluster some Jordanian producers succeeded in penetrating foreign markets and receiving recognition abroad.

Dead Sea Cosmetics Cluster

Develop a Mechanism for Change



Dead Sea Cosmetics Cluster

Dead Sea Cosmetics

- The amount of the re-export guarantee insurance check was reduced.
- A preliminary agreement was concluded between Numiera and producers of Dead Sea products in respect of qualities and quantities of raw material.
- A close cooperation with the IDD/ MoIT was conducted to create linkages between Dead Sea producers and possible sponsors to finance a specialized lab.

The
JNCT is
the first to
study the
sector and
highlight its
potential