

Increasing Profitability of the Halal Cosmetics Industry using Configuration Modelling based on Indonesian and Malaysian Markets*

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Abstract

Purpose – Based on complexity theory, this study develops a configurational model to predict the profitability of Halal cosmetics firms in the Indonesian and Malaysian markets. The proposed research model involves two level configurations—industry context and selling strategies—to predict high and low scores of a firm's profitability. The industry context configuration model comprises industry stability, product homogeneity, price sensitivity, and switching cost. Selling strategies include customer-focused, competitor-focused, and margin-focused approaches.

Design/methodology – This is the first empirical study that calculates causal models using a combination of industry context and selling strategy factors to predict profitability. Data obtained from the marketing managers of cosmetics firms are used to test the proposed configurational model using fuzzy-set qualitative comparative analysis (fsQCA). It contributes to the current knowledge of business marketing by identifying the factors necessary to achieve profitability using analysis of condition (ANC).

Findings – The results revealed that unique and distinct models explain the conditions for high and low profitability in the Indonesian and Malaysian halal cosmetic markets. While customer-focused selling strategy is necessary to attain a higher profit in both the markets, margin-focused selling strategy appears to be an essential factor only in Malaysia. Complexity of the interactions of selling strategies with industry factors and differences between across two study markets confirmed that complexity theory can support the research configurational model. The theoretical and practical implications are also illustrated.

Originality/value – Despite the rapid growth of the global halal industry, there is little knowledge about the halal cosmetic market. This study contributes to the current literature of the halal market by performing a set of asymmetric analytical approaches using a complex theoretical model. It also deepens our understating of how the Korean firms can approach the Muslim consumer's needs to generate more beneficial turnover/revenue.

Keywords: Industry Stability, Product Homogeneity, Price Sensitivity, Switching Cost, Selling Strategy, Profitability

JEL Classifications: D12, F14, O53

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1. Introduction

In recent years, consumers have been spending a high proportion of their disposable income on cosmetics, mainly because of growing online sales, easy access to the internet and the undeniable impact of beauty bloggers via social media channels. The growth rate of the cosmetics industry was estimated to touch 13.67% in 2019 compared with the 2014 performance (Ray, 2017). In the last few years, global cosmetic firms have continued to focus their efforts on product innovation in order to attract potential consumers with an appetite for new, unique, superior, and premium products, as well as to keep existing consumers loyal to specific brands (L'Oréal, 2018).

The quality and authenticity of cosmetic products as important drivers of sustainable profitability required to be considered in decision making and manufacturing stages by firms (Kaul and Luo, 2018). This might vary in different target groups of customers. For instance, using animal ingredients (e.g., pork and lard) is a serious issue in the markets where religion (e.g., Islam and Judaism) is emphasized. Muslim consumers are only permitted to use halal products and services. "Halal" is an Arabic word which means "permissible" or "lawful" and "Haram," the opposite of halal, means forbidden under Islamic law (Shah Alam and Sayuti, 2011; Wilson and Liu, 2010). Halal and haram have been applied to all aspects of the Islamic way of life, ranging from food products, cosmetics and pharmaceuticals, leather products to even entertainment (Abd Rahman, Asrarhaghighi and Ab Rahman, 2015). In addition to the above-mentioned products and services, it is advised that accompanying cosmetic accessories such as brushes, bottles, containers, packaging, and mirrors must also be produced and delivered according to the Islamic law, called Sharia.

The number of studies on modelling a firm's profitability has increased in recent years (e.g., Hirsch and Schiefer, 2016; Lee and Alnahedh, 2016; Hongwei et al., 2017; Islam and Khan, 2019). Some of them focused on cultural/religion-oriented markets from consumer perspective (Aisyah, 2017; Mustafar et al., 2018; Nawawi, Roslin and Hamid, 2018; Shahid, Ahmed and Hasan, 2018; Sriminarti and Nora, 2018; Putri, Daryanti and Ningtias, 2019). However, there is a paucity of research attempts modelling the profitability of halal markets from firm and industry perspectives. Drawing on the existing firm-industry interaction effect, this study aims to fill the research gap by modelling the profitability of halal cosmetics firms in the two key halal markets of Malaysia and Indonesia. This study responds to Leischnig and Kasper-Brauer's (2016) study that called for modelling firms profitability in a specific industry. A two-level configurations of industry factors (i.e., industry stability, product homogeneity, price sensitivity, and switching cost) and firm factors (i.e., customer-focused selling, competitor-focused selling, and margin-focused selling) is used to predict the firms' profitability in halal cosmetics industry.

This empirical study attempts to address the following research questions. First, how to increase the profitability of halal cosmetics firms based on industry conditions? Second, what patterns of pricing strategies contribute to the profitability of halal cosmetics firms? Third, what firm and industry conditions are necessary to increase profitability? Fourth, how do the causal models for stimulating the high profitability of Malaysian halal cosmetics firms differ from models for the profitability of Indonesian firms? Using the data obtained from the sales managers of halal cosmetics firms in Malaysia and Indonesia, the proposed configurational model is tested by fuzzy set Qualitative Comparative Analysis (fsQCA) and Analysis of Necessary Condition (ANC).

To the best of the authors' knowledge, this is the first empirical study that investigates the necessity for predictors of profitability. These case-oriented analytical approaches are considered as relatively new and pragmatic techniques in management studies, which help to

generate new knowledge through exploring causal algorithms leading to an expected outcome (e.g., profitability) (Woodside, 2014; Huang and Huarng, 2015; Leischnig and Kasper-Brauer, 2016; Stroe, Parida and Wincent, 2018; Tho, 2018; Franklin and Marshall, 2019).

2. Theoretical Background

2.1. Halal Cosmetics

Generally, there are rigorous regulations that oblige cosmetics firms to produce safe cosmetics for consumers and service providers such as hairdressers and beauticians, prior to marketing as the products may contain various chemical ingredients (The EU Cosmetics Regulation, 2009; US Food and Drug Administration, 2018). Halal cosmetics products are not exempt from these worldwide regulations, and a cosmetic product is considered halal if it is deemed safe (DSM, 2008). Detecting halal and non-halal ingredients is essential to verify cosmetics and personal care products as halal. Maintaining halal is crucial for some consumers as they may perceive psychological and health risks while consuming non-halal products and services (Olya and Al-Ansi, 2018). Halal cosmetics must be free from any of the following ingredients:

- Ingredients derived from any part of non-halal animals, such as dog and pig including lard, gelatin, collagen, glycerin, and allantoin. It is permitted to use the gelatin and collagen of halal animals, such as cows or sheep.
- Any harmful ingredients to consumers, such as mercury, lead, and hydroquinone.
- Any ingredients from the human body, such as human stem cells, urine, placenta, blood, amniotic fluid, vomit, and pus.

2.2. Religion-oriented Markets

A huge upturn in Islamic business marketing has been observed in the last few years (GIER, 2018). This has encouraged scholars to study halal markets of different industries, including food, fashion and art, cosmetics and pharmaceuticals, finance, supply chain management, logistics services, marketing, and hospitality and tourism (Abd Rahman et al., 2015; Ahmed, 2008; GIER, 2018; Han et al., 2019; Hassim, 2014; Jamal and Sharifuddin, 2015; Musa, 2014; Olya and Al-Ansi, 2018; Wilson, 2012). Halal as a cultural element, presents an opportunity to gain a competitive advantage in emerging source markets (Olya and Al-Ansi, 2018). Halal cosmetics branding is identified as an opportunity for international industry players to compete on a wider scale (Aoun and Tournois, 2015).

Customer awareness of non-food halal products such as cosmetics has been increasing, especially among Muslim customers who are living in multi-religious societies. Considerable population of Muslims worldwide is willing to pay premium prices for halal certified beauty products. According to the State of the Global Islamic Economy (SGIE) report 2019/20, Muslims' global spending on cosmetics was estimated at USD 64 billion in 2018, which constituted 8% of the global spend on cosmetics, and is forecasted to reach USD 95 billion by 2024. Briliana and Mursito (2017) found that attitude and religiosity affect the intention of the Indonesian Muslim youth to purchase halal cosmetics products. Halal cosmetics have all the attributes to fulfil a broader social role by addressing the growing global consumer demand for ethical, vegan, and eco-friendly products. Hence, halal cosmetics is evidently a potentially lucrative market with numerous opportunities for growth.

India, Indonesia, Malaysia, and Bangladesh are among the top 10 spenders of halal beauty products. The total value of cosmetics exported from China to the Organization of Islamic Cooperation (OIC) countries amounted to USD 0.8 billion in 2018 (SGIE, 2020). According to the Mintel Global New Product Database, 73% of halal cosmetics products sold around the world between 2014 and 2016 were from the Asia-Pacific region (Spencer, 2017). The investment of manufacturers in halal-certified products has been increasing due to the perceived high profitability of halal cosmetics market. Many cosmetics firms from around the world strive to obtain halal certification for their products which is a prerequisite to penetrate the OIC cosmetics markets. There are collaborations between different countries in the Asia-Pacific region that apply innovative strategies for production and marketing of halal cosmetics. Within this region, Southeast Asia as an emerging in the halal cosmetics industry accounted for 61.2% of the total halal cosmetics market in Asia (USD 1.4 billion) in 2015 (Future Market Insight, 2015).

The expansion of halal industry is critical for economic growth and development of Malaysia and Indonesia. Malaysia is listed by Global Islamic Economy Report (GIER) (2018) as the leading country with highest economic growth in terms of halal industry, that is mainly triggered by strong global trends and policies implemented by the Malaysian authorities over the past decade. From different segments of halal industry, cosmetics manufacturing has flourished rapidly due increase in demand and it is estimated that the total halal cosmetics expenditure reaches to USD 3.1 billion annually (GIER, 2018). The Halal Industry Development Corporation (HDC) and the Department of Islamic Advancement of Malaysia were major contributors in enhancing the performance quality and stability of the halal industry, locally and globally. The Malaysia International Halal Showcase (MIHAS), which is an annual four-day trade exhibition held in Kuala Lumpur, hosted by the Ministry of International Trade and Industry created a bridge between local and international businesses to identify further opportunities in different sectors of the halal industry including cosmetics. It creates a valuable platform for new ventures by cosmetic companies from developed countries such as South Korea to target this market. For instance, about 30,000 traders and visitors from 88 countries gathered in the MIHAS in 2019 that resulted in a total trade value of over USD 380 million (MIHAS, 2020).

Similar to the Malaysian market, the Indonesian halal cosmetics market records a high performance in the halal industry due to its large Muslim population of 229 million, which accounts for about 13% of the world's Muslim population (World Population Review, 2020). The Indonesian cosmetics market was ranked the second among Muslim countries with highest halal cosmetics expenditure of USD 4 billion per year (GIER, 2018). Both public and private sectors in Indonesia aim to accelerate the market growth to achieve a high level of business value. The market can benefit significantly from the economic standing position of being among the global top 20 largest economies, according to the Indonesia halal lifestyle center (IHESR, 2018). In this regard, Indonesian government also tried to improve the reachability of the current halal standards to more enterprises worldwide by establishing the Halal Product Assurance Agency (Jefriando and Suroyo, 2019).

There are numerous international beauty brands and foreign cosmetics companies that have been trying to penetrate the Malaysian and Indonesian halal markets from France, the United States, China, Taiwan, Japan, South Korea, Singapore, and Thailand. The representatives of the brands usually attend trade shows, business events, workshops, and exhibitions to evaluate the market demand and understand the assessment process of halal standards (IHESR, 2018). Specifically, South Korea as a leading global player in the cosmetics industry with USD 6.26 billion value, has been consulting with local cosmetics distributors in Malaysia and Indonesia to understand the needs of the halal market (Korea Times, 2016).

The number of halal certified manufacturers in South Korea is constantly increasing. For instance, recently 11 manufacturers including Kolmar Korea and Cos Nine have allocated several production lines to halal certified cosmetics for both local and international markets. Moreover, the South Korean government has signed an agreement with the HDC to produce halal cosmetics in Malaysia. To support halal cosmetics exports, the South Korean Ministry of Food and Drug Safety is also providing free training sessions on halal cosmetics certification (SGIE, 2020). Compliance with halal standards, understanding the target market, particularly certain selling strategies are vital steps in ensuring sustainable profitability of halal cosmetic firms.

2.3. Industry Configuration

An accurate assessment of an industry conditions in terms of stability, product homogeneity, price sensitivity and switching cost guides a company to model its market entry decision. Drawing on Leischnig and Kasper-Brauer's (2016) study, industry stability, price sensitivity, product homogeneity, and switching cost are four key determinant factors of an industry's position. Industry stability denotes the level of changes in a market's products, customer preferences and features as well as the market's responses to the changes (Reimann, Schilke and Thomas, 2010a). Usually, an unstable industry is associated with high product-innovation rates (Reimann et al., 2010b), that provides an opportunity to sell premium products with higher price (Leischnig and Kasper-Brauer, 2016). Product homogeneity also indicates customer perception towards the substitutability level of products from different firms within an industry (Homburg, Klarmann and Schmitt, 2010). Since similar technology has been typically used in the production of homogenous products in a market (Li, Lu and Guo, 2017; Weiss and Heide, 1993), customer intimacy (Crittenden & Crittenden, 2014; Mulia et al., 2020) and customer relationship management (Foltean et al., 2019; Reimann et al., 2010a) are vital strategies to achieve profitability in a market with highly homogenous product.

Normally, low switching cost and lack of clear differentiation of a product from other competitor's products result in high price sensitivity (McGahan and Porter, 1997; Vastani and Monroe, 2019). Price sensitivity refers to the degree of variation in customer demand for a product with respect to price changes (Chiu et al., 2019; Tellis, 1988), and switching cost is defined as customers' cost of switching from one producer to another (Burnham, et al., 2003; Cheng and Lee, 2020). Low switching cost may lead to less profit in the long run where firms need to strengthen their relationship with customers and highlight the distinct features of their products in comparison to similar products available in the market (Christino et al., 2020; Reimann et al., 2010a).

2.4. Selling Strategies

As an important component of business strategies, undertaking a suitable selling strategy is essential to penetrate the potential markets. An effective selling strategy may lead to higher efficiency, and then generating value and profit. The adopted three types of selling strategy factors at firm level include customer-focused selling, competitor-focused selling, and margin-focused selling (Leischnig and Kasper-Brauer, 2016; Terho et al., 2015). These strategies focus on customer needs, rivals in a market and their strengths and weaknesses, as well as profit margins in sales activities, respectively. Customer-focused selling strategy offers mutual interaction between a firm and a customer. A firm's salesforce can extend business relationships by targeting a segmented market and retaining customers through validating their preferences and priorities (Hartmann et al., 2020; Pekovic and Rolland, 2016).

Customer-focused selling approach and segmentation are also identified as critical components of strategic sales planning in business-to-business trade (Mangus and Ruvio, 2019).

Competitor-focused selling strategy refers to understanding the present condition of market players in terms of market size, customer profile, and business marketing philosophy (Slater, Olson and Eibe Sørensen, 2012). A firm's decision on whether to enter a new market could be affected by competitors practice, customer orientation and market value. Identifying competitors' goals, strategies, resources, and capabilities enables firms to assess their own potential to explore a new market (Goh et al., 2019; Kim, Min and Chaib, 2015). Margin-focused selling strategy refers to net margin profits obtained from sales practices and business activities. Firms sales margin is considered as an effective approach to boost firm's profitability and increase perceived value by customers (Benoit et al., 2020). This strategy would be particularly useful when a firm is targeting new markets, such as halal market (Jamal and Sharifuddin, 2015). To this end, we applied the selling strategies as predictors of profitability of halal cosmetics firms in Malaysia and Indonesia.

2.5. Profitability

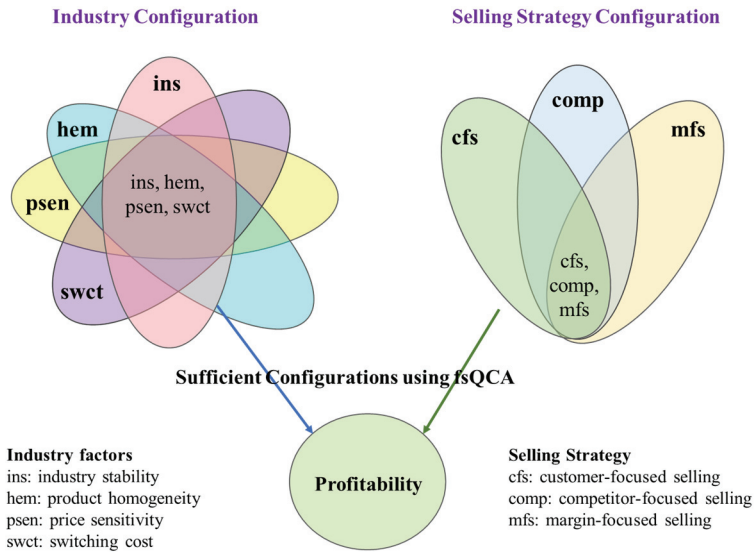
Profitability is a crucial element that measures the firm's current performance and competitive edge, which contributes in market expansion and productivity. Ball et al. (2015) defined profitability as "earnings," and Novy-Marx (2013) stated that profitability is a significant measurement indicator of returns to a firm and leads the business value strategy. The selling strategy approaches are developed to guide a firm in achieving the most beneficial outcome in terms of profitability. In this study, profitability is interpreted as the gross profit, returns, and earnings of the halal cosmetics industry in Malaysia and Indonesia.

A review of literature shows that predicting profitability of firms is complex considering the influence of internal (e.g. internal marketing strategies) and external (e.g. industry characteristics) factors (Čirjevskis, 2020; Erimia, 2018). Furthermore, the concept of halal is complex as there are diverse religiosity laws in Islamic countries (Olya and Al-Ansi, 2018). Complexity theory is frequently used to explain complex combinations of independent variables in predicting the desired outcome within dynamic and uncertain environments (Han et al., 2019; Olya, Altinay and De Vita, 2018; Wu et al., 2014). With this realization, this study applies complexity theory that describes complex interactions of the independent factors in predicting the profitability of halal cosmetic firms. Specifically, this study combines three selling strategies of firms with four industry factors to predict profitability of halal cosmetics in complex and dynamic markets of Malaysia and Indonesia.

2.6. Configurational Model

The proposed research model involves two configurations of industry factors and selling strategies within the halal cosmetics industry context (Fig. 1). Industry configuration comprises industry stability, product homogeneity, price sensitivity, and switching cost. Selling strategies include customer-focused, competitor-focused, and margin-focused selling approaches. These two configurations are used as predictors of conditions leading to high and low scores of profitability. Using fsQCA, causal models leading to a low scored outcome (profitability) are predicted, which are not necessarily a mirror of those for a high scored outcome. Necessity of industry conditions and selling strategies are also identified using ANC.

Fig. 1. Proposed Configurational Model



3. Method

3.1. Measurement and Data

This study used questionnaire to measure variables of industry configuration, selling strategy and profitability. The questionnaire consisted of two sections: the first part was dedicated to the background and purpose of the survey, and the second part included scales related to industry factors and selling strategies. The scale items were extracted from validated variables used by Leischnig and Kasper-Brauer (2016), which are represented in Table 1. The responses to questions were measured using 7-point Likert scales, ranging from 1 (extremely disagree) to 7 (extremely agree). At the end of questionnaire, four open-ended questions were asked to capture views of the marketing managers on most popular halal cosmetic brands, influential marketing communication tactics, distribution channels, and key contemporary challenges of the cosmetic market. The questionnaire was initially developed in English, and thereafter back translated to Bahasa Melayu and Bahasa Indonesia. The translated survey questionnaire was reviewed and verified by three academic professionals who are native speakers and actively work in the field of marketing and in the halal industry. A pilot study was also conducted with 11 members of sales and marketing teams of Malaysian companies to ensure the clarity and comprehensibility of the survey questions. Based on the pilot study results, no revisions were required, as all questionnaire items were clear.

Data were obtained from the managers of sales and marketing departments of halal cosmetics firms in Malaysia and Indonesia. Of these, 13% were at age between 20 and 30, 37% were 31–40, 41% were 41–50, and 9% were over 50 years old. In terms of gender of respondents, 66% were male and 34% female. Regarding education, 28% held a college degree, 59% held a postgraduate degree, and 13% had basic education. The majority of them had 5–10 years of work experience (44.6%), 37.4% had over 10-year, and 18.7% and less than 5 years'

work experience. As the survey was conducted face-to-face, the response rate was relatively high (73%). From 93 invited managers, 68 of them (39 respondents from Malaysia and 29 respondents from Indonesia) responded to all questionnaire items. Two filter questions were asked prior to inviting the directors' participation in the survey to ensure that participants met the required criteria for the subsequent questions in the survey: "Do you produce halal cosmetics?" and "Is your company certified by a Halal Authority?"

3.2. Analytical Approaches

Initially, a screening and scanning process was applied to select valid cases for data analyses. Two principal steps were utilized to investigate the data analyses. First, the reliability and validity of the measures were assessed using a set of measurement modelling metrics (Hair et al., 2016). Second, configurational modelling using fsQCA 2.5 software was used to test the proposed configurational model for both the Indonesian and Malaysian datasets. The sufficient causal combination of the antecedents (i.e., industry configuration and selling strategy configuration) were explored to measure the desired outcomes (i.e., profitability). The fsQCA is a powerful analytical approach for small to medium-sized datasets that can model complex phenomena for marketing (Olya and Altinay, 2016; Zaefarian et al., 2017) in general and halal marketing in specific (Han et al., 2019; Olya and Al-Ansi, 2018).

The fsQCA uses Boolean algebra to explore sufficient and consistent conditions leading to the expected outcome and includes three steps of calibration, truth table algorithms, and counterfactual analysis. In calibration, crisp data are transformed to fuzzy data, and all possible models describing the conditions for stimulating the outcome appear as truth tables, which are refined based on two probabilistic metrics. Sufficient and consistent models are selected in the counterfactual section. The sufficiency and consistency of models are measured using coverage (Formula 1) and consistency (Formula 2), which are analogous to R2 and correlation in symmetrical analysis, respectively (Ragin, 2009; Wu et al., 2014).

$$\text{Coverage: } (X_i \leq Y_i) = \sum\{\min(X_i, Y_i)\} / \sum(Y_i) \quad (1)$$

$$\text{Consistency: } (X_i \leq Y_i) = \sum\{\min(X_i, Y_i)\} / \sum(X_i) \quad (2)$$

where X_i is case i 's membership score in the predictor set (X) and Y_i is case i 's membership score in the expected outcome (Y: profitability) (Ragin, 2009). In addition, ANC was used to identify the necessary factors for high profitability.

4. Results

4.1. Measurement Model Testing

A confirmatory factor analysis (CFA) using SmartPLS was conducted to check the psychometric properties of the measures. Table 1 depicts the standardized factor loadings and descriptive statistics of the scale items. According to the CFA results, all items were sufficiently and significantly loaded under the assigned construct (loading value $>.5$, $p < .001$). The magnitude of kurtosis and skewness values falls within the recommended range (± 3), which indicates normality of the data. Harman's single-factor test was performed to check for common method variance (CMV). According to the results, no major factor accounted for the largest variance among all components below 20%, which means CMV was not a serious threat in this study (Podsakoff et al., 2003).

Table 1. Results of Descriptive Statistics and Factor Analysis

Scale items	SLV	Mean	SD	Kurtosis	Skewness
<i>Industry stability</i>					
There are no frequent changes of targeted segments in halal cosmetics market.	.837***	4.250	1.612	-.261	-.117
There are no frequent changes in halal cosmetics products.	.786***	3.716	1.543	-.186	.242
Change in the halal cosmetics industry is slow.	.694***	3.207	1.730	-.348	.632
Fluctuations in the halal cosmetics industry are predictable.	.692***	4.118	1.334	.308	-.183
Obsolescence of halal products marketing is slow.	.664***	3.912	1.502	-.299	-.325
<i>Product homogeneity</i>					
Most halal products have no difference from competing halal cosmetics companies.	.783***	4.090	1.484	-.178	-.242
Halal products are highly standardised.	.757***	5.212	1.430	-.229	-.575
Homogeneity of halal products is high.	.611***	5.000	1.467	.710	-.737
Many halal products are identical in quality.	.723***	4.397	1.903	-.880	-.329
<i>Price sensitivity</i>					
Customers check prices for value for money for halal cosmetics products.	.788***	5.265	1.511	-.427	-.517
Customers buy the lowest price halal cosmetics products that suit their needs.	.683***	4.897	1.601	.168	-.686
Customers rely heavily on price when they need to choose halal cosmetics products.	.668***	4.765	1.775	-.556	-.425
<i>Switching cost</i>					
Customer costs in switching to another cosmetic product (switching cost: cost of purchasing product from another brand) are high.	.857***	4.147	1.364	.616	-.131
Selling halal products would not be easy to middle and low-income class customers.	.828***	3.956	1.528	-.210	.278
The process of switching to new halal cosmetics products is not quick and easy for the customers.	.751***	4.388	1.445	-.203	.138
Switching to another cosmetic product does bear general risks for the customers.	.585***	4.791	1.635	-.391	-.430
<i>Profitability</i>					
Return on sales in the firm in which I work is high.	.928***	5.176	1.271	.284	-.297
My firm reaches planned financial goals.	.569***	5.426	1.240	-1.195	-.064
Our business is profitable.	.682***	5.382	1.295	-.924	-.212

Notes: 1. SLV: standardized loading value; SD: Standard Deviation.

2. *** $p < .001$.

The results from reliability and validity tests are presented in table 2. The three measures of Cronbach's Alpha (α), rho_A, and composite reliability were used to check internal consistency among the scale items. The values of the three measures were above the recommended level of .7, indicating the five constructs were reliable. The average variance extracted for all factors was above .5, proving the convergent validity of study measures. In terms of discriminant validity, the heterotrait-monotrait ratio of correlation values were smaller than the commonly accepted level of .85 (Hair et al., 2016; Henseler, Hubona and Ray, 2016).

Table 2. Results of Reliability and Validity Tests

Constructs	Reliability			Convergent validity	Discriminant validity (HTMT)			
	α	rho_A	CR	AVE	1	2	3	4
1 Industry stability	.713	.773	.721	.544				
2 Price sensitivity	.767	.763	.758	.512	.325			
3 Product homogeneity	.757	.769	.744	.521	.630	.462		
4 Profitability	.789	.823	.779	.550	.465	.201	.347	
5 Switching cost	.734	.744	.739	.583	.788	.545	.530	.533

Note: α : Cronbach's Alpha, CR: composite reliability, AVE: average variance extracted, HTMT: heterotrait-monotrait ratio of correlation, Fit statistics: Standardized Root Mean Square Residual (SRMR) = .013 (below .08: recommended level).

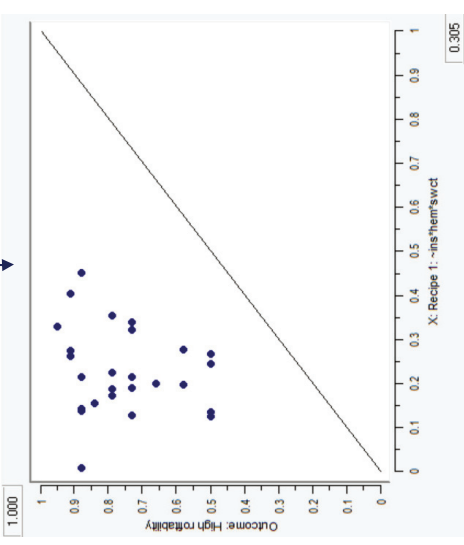
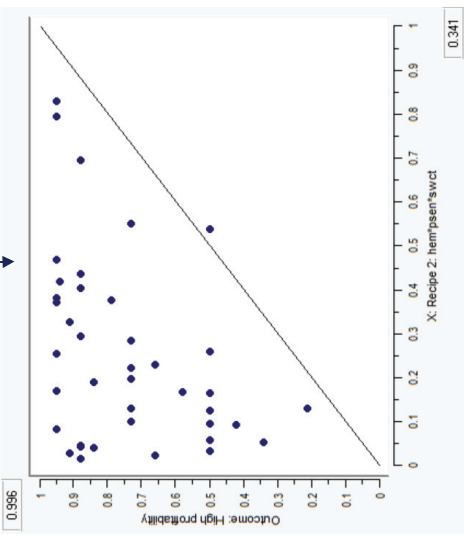
4.2. Configurational Model Testing

Table 3 illustrates the fsQCA results for industry factors predicting high and low scores of the halal cosmetics firms' profitability in Indonesian and Malaysian markets. Two causal models emerged for each country (i.e., Indonesia coverage: .685, consistency: .990, and Malaysia coverage: .660, consistency: .981). Ragin (2008) recommended .2 and .8 as thresholds for coverage and consistency, respectively. In Indonesia, recipe 1 indicates that the combination of low industry stability, high product homogeneity, and high switching cost leads to high profitability of halal cosmetics companies. While in Malaysia, low industry stability, high product homogeneity, and high price sensitivity result in high profitability. According to the recipe 2, high product homogeneity, high price sensitivity, and high switching cost lead to high profitability of the firms in both countries.

As shown in Table 3, one recipe emerged that predicts a low score of firm profitability (i.e., Indonesia coverage: .593, consistency: .776, and Malaysia coverage: .683, consistency: .751). The recipe shows that the combination of low industry stability, low product homogeneity, low price sensitivity, and high switching cost leads to low profitability of the halal firms in Indonesia. Whereas, low scores of industry stability, price sensitivity, and switching cost result in low profitability of the Malaysian firms. The XY plots of recipe 1 and recipe 2 for high profitability in Indonesia and Malaysia are also depicted in Table 3, which indicates the asymmetric relationship between the models and outcome of profitability.

The fsQCA results of testing selling strategies to predict the high and low scores of firms' profitability are shown in Table 4. The table presents causal models, which emerged for achieving high profit in the both countries. In Indonesia, a combination of customer-focused, competitor-focused, and margin-focused selling strategies leads to a high profitability of halal cosmetics firms (Indonesia coverage: .723, consistency: .972). In Malaysia, two models lead to high profitability (coverage: .514, consistency: .927). The first recipe indicates that the firms

Table 3. Results from Industry Context Configuration for High and Low Profitability of Halal Cosmetics Companies in Indonesia (left) and Malaysia (right)

	Indonesia	Malaysia	
	prf = f(ins, hem, psen, swct)	prf = f(ins, hem, psen, swct)	
	R1: ~ins*hem*swct	R1: ~ins*hem*psen	
	R2: hem*psen*swct	R2: hem*psen*swct	
	solution coverage: .685	solution coverage: .660	
	solution consistency: .990	solution consistency: .981	
			
	RC: .619	RC: .467	
	UC: .048	UC: .070	
	Con: .995	Con: .988	
	~prf = f(ins, hem, psen, swct)	~prf = f(ins, hem, psen, swct)	
	R1: ~ins*~hem*~psen*swct	R1: ~ins*~psen*~swct	
	solution coverage: .593	solution coverage: .683	
	solution consistency: .776	solution consistency: .751	

Note: RC: raw coverage, Con: unique coverage, Consistency: ~: negation, prf: profitability, ins: industry stability, hem: product homogeneity, psen: price sensitivity, swct: switching cost.

that stress more on a margin-focused selling strategy than a competitor-focused strategy, may generate higher profit margins. In the second recipe, more emphasis was placed on a margin-focused selling strategy than customer needs to attain more profit. According to the causal models shown in Table 4 for low profit in Indonesia (coverage: .705, consistency: .701) and Malaysia (coverage: .625, consistency: .864), Indonesian firms that focus less on competitors and margin-focused selling strategies and more on customer-focused selling strategy gain low profit scores. Furthermore, low profit in Malaysian firms result from less focus on customer-focused and competitor-focused selling strategies and more on a margin-focused selling approach.

Table 4. Results from Selling Strategy Sonfigurations for High and Low Profitability of Halal Cosmetics Companies in Indonesia (left) and Malaysia (right)

Indonesia	RC	UC	Con	Malaysia	RC	UC	Con
Recipes for high profitability: $prf = f(cfs, comp, mfs)$				$prf = f(cfs, comp, mfs)$			
R1: $cfs*comp*mfs$	.723	.723	.972	R1: $\sim comp*mfs$	.448	.207	.938
solution coverage: .723				R2: $\sim cfs*mfs$	.307	.066	.928
solution consistency: .972				solution coverage: .514			
				solution consistency: .927			
Recipes for low profitability: $\sim prf = f(cfs, comp, mfs)$				$\sim prf = f(cfs, comp, mfs)$			
R1: $cfs*\sim comp*\sim mfs$	.705	.705	.701	R1: $\sim cfs*\sim comp*mfs$	.625	.625	.864
solution coverage: .705				solution coverage: .625			
solution consistency: .701				solution consistency: .864			

Note: RC: raw coverage, UC: unique coverage, Con: consistency, \sim : negation prf : profitability, cfs : customer-focused selling approach, $comp$: competitor-focused selling approach, mfs : margin-focused selling approach.

Table 5 illustrates how a combination of industry context and selling strategy configurations could lead to high profitability of halal cosmetics firms in Indonesia (coverage: .566, consistency: .994) and Malaysia (coverage: .477, consistency: .995). A combination of low industry stability, high product homogeneity, high switching cost, and applying the three selling strategies by the Indonesian firms (i.e., customer-focused, competitor-focused, and margin-focused strategies) result in high profitability. The firms that are experiencing high industry stability, product homogeneity, and switching cost in Malaysia are most likely to secure higher profit if they apply the all selling strategies (Table 5).

Table 5. Results from a Combination of Industry Context and Selling Strategy Configurations for High Profitability of Halal Cosmetics Companies in Indonesia (left) and Malaysia (right)

Indonesia	Raw coverage	Unique coverage	Consistency
$prf = f(ins, hem, psen, swct, cfs, comp, mfs)$			
R1: $\sim ins*hem*swct*cfs*comp*mfs$	.566	.566	.994
solution coverage: .566			
solution consistency: .994			
Malaysia	Raw coverage	Unique coverage	Consistency
$prf = f(ins, hem, psen, swct, cfs, comp, mfs)$			
R1: $ins*hem*psen*swct*cfs*comp*mfs$	.477	.477	.995
solution coverage: .477			
solution consistency: .995			

Note: \sim : negation, prf : profitability, ins : industry stability, hem : product homogeneity, $psen$: price sensitivity, $swct$: switching cost, cfs : customer-focused selling approach, $comp$: competitor-focused selling approach, mfs : margin-focused selling approach.

The recipes resulting in low profitability, based on a combination of industry and selling strategy configurations, are presented in Table 6. According to the fsQCA results, the Indonesian firms that work in an industry with low stability, low price sensitivity, high product homogeneity, and high switching cost will benefit less if they apply all three selling strategies. Whilst, low industry stability, product homogeneity, price sensitivity, and switching cost, with lesser emphasis on a customer-focused selling approach than competitor-focused and margin-focused selling strategies, lead to low profit in Malaysia (Table 6).

Table 6. Results from Combination of Industry Context and Selling Strategy Configurations for Low Profitability of Halal Cosmetics Companies in Indonesia (left) and Malaysia (right)

Indonesia	Raw coverage	Unique coverage	Consistency
$\sim \text{prf} = f(\text{ins}, \text{hem}, \text{psen}, \text{swct}, \text{cfs}, \text{comp}, \text{mfs})$			
R1: $\sim \text{ins}^* \text{hem}^* \sim \text{psen}^* \text{swct}^* \text{cfs}^* \text{comp}^* \text{mfs}$	.654	.654	.661
solution coverage: .651			
solution consistency: .661			
Malaysia	Raw coverage	Unique coverage	Consistency
$\sim \text{prf} = f(\text{ins}, \text{hem}, \text{psen}, \text{swct}, \text{cfs}, \text{comp}, \text{mfs})$			
R1: $\sim \text{ins}^* \sim \text{hem}^* \sim \text{psen}^* \sim \text{swct}^* \sim \text{cfs}^* \text{comp}^* \text{mfs}$	.495	.495	.870
solution coverage: .495			
solution consistency: .870			

Note: RC: raw coverage, UC: unique coverage, Con: consistency, \sim : negation, prf: profitability, ins: industry stability, hem: product homogeneity, psen: price sensitivity, swct: switching cost, cfs: customer-focused selling approach, comp: competitor-focused selling approach, mfs: margin-focused selling approach.

Finally, the results of the ANC are shown in Table 7. A consistency value above .9 represents the condition necessary to attain the expected outcome (Feng et al., 2019). A customer-focused selling strategy appears as a necessary predictor of the profitability of halal cosmetics firms in both Indonesia and Malaysia. Employing a margin-focused selling strategy in Malaysia’s halal cosmetics industry is necessary to gain high profit whereas it is not necessary in the Indonesian market.

Table 7. Results of the Necessary Condition Analysis

Necessary predictor	Outcome: Profitability			
	Indonesia		Malaysia	
	<i>Consistency</i>	<i>Coverage</i>	<i>Consistency</i>	<i>Coverage</i>
Industry stability	.538	.982	.685	.951
\sim Industry stability	.735	.961	.575	.913
Product homogeneity	.826	.930	.780	.947
\sim Product homogeneity	.420	.992	.485	.923
Price sensitivity	.766	.891	.824	.899
\sim Price sensitivity	.445	.983	.410	.948
Switching cost	.760	.954	.704	.963
\sim Switching cost	.515	1.000	.576	.933
Customer-focused selling approach	.910	.894	.903	.891
\sim Customer-focused selling approach	.294	1.000	.307	.914

Table 7. Results of the Necessary Condition Analysis

Necessary predictor	Outcome: Profitability			
	Indonesia		Malaysia	
	<i>Consistency</i>	<i>Coverage</i>	<i>Consistency</i>	<i>Coverage</i>
Competitor-focused selling approach	.815	.934	.816	.960
~Competitor-focused selling approach	.428	.972	.462	.926
Margin-focused selling approach	.854	.935	.913	.913
~Margin-focused selling approach	.398	1.000	.344	.987

Note: bold value represents necessary factor (consistency > .9).

5. Discussions and Conclusion

5.1. Theoretical Implications

This study contributes to the current knowledge of industrial marketing, by developing and testing configurational models to predict the halal cosmetic firms' profitability in Indonesia and Malaysia. The halal cosmetics industry is a flourishing and lucrative market that attracts a wide range of brands with different sizes of operation and equity. This study helps Indonesian and Malaysian halal cosmetics firms to understand how to adapt with the industry conditions and develop effective selling strategies to secure profitability. The fsQCA calculated sufficient and consistent algorithms (i.e., recipes) for low profitability, which is different from the opposite mirror of algorithms for high profitability. This empirical study is also among the first research to identify the necessary conditions for firms' profitability.

The different strategies to achieve high profitability are explored in the context of Malaysian and Indonesian markets by adopting two configurations. The first configuration encompassed industry factors (i.e., industry stability, product homogeneity, price sensitivity, and switching cost), which revealed slightly different conditions in Malaysia and Indonesia. Attaining high profitability in the Malaysian market entails low industry stability, high product homogeneity, and high price sensitivity while the Indonesian market involves low industry stability, high product homogeneity, and high switching cost. This indicates that in the both markets high product homogeneity, high price sensitivity, and high switching cost lead to high profit for firms. This recipe directs national and international firms (e.g., South Korean companies) that can increase their profits by following the recommended recipes. On the other hand, low industry stability, low product homogeneity, and low price sensitivity, along with high switching cost, lead to low profitability in the Indonesian market. In Malaysia, low industry stability, low price sensitivity, and low switching cost result in low profitability. This shows that low product homogeneity would not lead to low profitability in the Malaysian market.

The results of the second configuration models indicated that the recipes of selling strategies leading to both high and low scores of firms' profitability are different in Malaysia and Indonesia. Therefore, halal cosmetics firms ought to adjust their selling strategies to avoid conditions for low profitability. In Indonesia, high profits of halal cosmetics firms result from applying customer-focused selling, competitor-focused selling, and margin-focused selling strategies. However, the Malaysian market offers two different recipes in terms of selling strategies, to earn high profits. To achieve this, firms can either apply margin-focused selling strategy with less emphasis on competitor-focused selling strategy or use margin-focused

selling strategy with less emphasis on customer-focused selling strategy. In contrast, more emphasis on customer-focused selling strategy than competitor-focused and margin-focused selling strategies result in low profitability in the Indonesian market. In the Malaysian market, the conditions are different, as less emphasis on customer-focused and competitor-focused selling strategies with high focus on margin-focused selling strategy cause low profitability.

The findings obtained from a combination of industry and selling strategy configurations confirm the complexity of the industry as different recipes explain the conditions to attain high and low profit. In Malaysia, the combination of high industry stability, product homogeneity, price sensitivity, and switching cost along with the application of the three selling strategies (customer-focused selling, competitor-focused selling, and margin-focused selling) lead to high profitability. On the contrary, low industry stability, product homogeneity, and switching cost together with the application of three selling strategies describe a condition leading to a high level of profitability in Indonesia. Industry instability in Indonesia, unlike Malaysia, can contribute to higher profitability. Therefore, this is an opportunity for South Korean start-ups and SMEs to generate more profit by penetrating the Indonesian market.

This empirical study also extends the current knowledge of firm profitability by identifying the necessary conditions for two different markets. According to the ANC results, a customer-focused selling strategy is a necessary predictor of profitability in both Malaysia and Indonesia. Thus, firms need to conduct an in-depth contextual analysis to understand the preferences of customers and develop an effective customer-focused selling strategy. As Mangus and Ruvio (2019) recommended Koran firms can apply compatibility-based assimilation and value-added differentiation as two strategies to improve their relationship with buyers of halal cosmetics in Malaysia and Indonesia. Findings indicated that margin-focused selling strategy appeared as a necessary predictor of profitability in Malaysia. Hence, the firms should emphasize on margin-focused selling strategy along with customer-focused selling strategy to attain high profitability in Malaysia. In accordance with Benoit et al. (2020), margin-focused selling strategy can increase the firm profit when customers have willingness to pay more for halal cosmetics which is most likely among customers with a strong religious background.

5.2. Practical Implications

Many countries have regulations concerning halal product assurance. For instance, the Indonesian parliament issued the Halal Product Assurance Law in October 2014, to reassure Indonesian Muslim citizens that the products they consume are halal. As noted in Article 1 of the law, “halal products are goods and/or services that are related to food, beverage, medicine, cosmetics, chemical products, biological products, genetically engineered products, as well as consumer goods that are worn, used, or utilized by the public.” The government regulation No. 31/2019 stresses on the requirement for all the products defined in Article 1 to be halal certified, except for those products which originate from haram (forbidden) material (McDonald, 2019).

In Southeast Asia, Indonesia and Malaysia are key markets for halal beauty products because of the growing number of middle class and affluent Muslim consumers who are halal conscious. Since 2010, Malaysia’s economy has been experiencing annual growth of about 5.4%, and is expected to transition from an upper middle-income to a high-income economy by 2024 (World Bank, 2020a). Similarly, Indonesia has had an average annual growth rate of 5.6% in GDP over the last 50 years, which made the country a middle-income economy. The consumption of the middle-class population, as a major driver of economic growth, has increased by 12% annually since 2002 and now constitutes almost 50% of all household consumption in Indonesia (World Bank, 2020b). It was estimated that the Indonesian and

Malaysian cosmetics and beauty market is worth USD 6.03 billion and USD 5 billion in 2019, respectively (Lim, 2019).

We develop practical implications based on findings from marketing managers' views on popular halal cosmetic brands, influential marketing communication tactics, distribution channels, and key contemporary challenges of the cosmetic market. Warda Cosmetics and Sariayu are two most popular brands in the Indonesia market. Indonesian customers are interested in more functional products such as body care and hair care. According to the marketing managers view, distribution channels of halal cosmetics are complex and involve several intermediaries (e.g. drug stores, department stores, retailers, and supermarkets). There is an opportunity for Korean firms to simplify this distribution channel by developing an integrated digital marketing mix. To penetrate the Indonesia market and compete with local competitors, Korean firms can use digital marketing and TV advertising as two influential communication channels. Korean firms can also follow these channels to understand industry conditions and selling strategies of competitors and use them along with celebrity branding to communicate sale promotion campaigns. The reason we suggest celebrity branding and sale promotion as supplementary marketing communication tactic is that price and quality are two key criteria that Indonesian customers are considering to make the decision to purchase halal cosmetics. Nonetheless, TV commercials are among effective channels to increase awareness of the customers about Korean brands as it has very large convergence considering the pollution of Indonesia.

Sugarbelle, Pretty Suci, Sorfina Hal and Forest Colour are among the most popular halal cosmetics brands in Malaysia. In Malaysia there are demands for both general and functional cosmetics. Distribution channel in Malaysia, which is more direct compared to the Indonesia channel, mainly involves online shopping, events and expo where customers can directly purchase halal cosmetics from the brands. TV and radio advertising and digital marketing using social media are main marketing communication channels to promote cosmetics in Malaysia. Diversity of religions in Malaysia is more than Indonesia. Lack of awareness of halal cosmetics, needs for innovation in halal cosmetics, the competitive environment and demand for low prices are key challenges that firms might face in Malaysia. Korean firms should take the challenges into account for making decisions about the type of products and targeted group of customers. They can target young female customers from middle class income as they are among top spenders on halal cosmetics.

This study modelled the profitability of firms in the halal cosmetics industry; it may not be possible for the outcome to be generalized to another industry or country. As findings indicated that the results for the Malaysian and Indonesian markets are not similar, the models must be adjusted according to the conditions of targeted industry and internal marketing strategies. Although, a larger sample size might help with generalizability of the study outcomes. Another limitation is that cross-sectional data are used to test the proposed configurational models. Therefore, a longitudinal study is recommended to understand whether the explored models would change over time. This study focuses on the supply side of halal cosmetics products, an empirical study will be required to examine the demand side (customers) and identify whether models for achieving desired behavioral responses (e.g., loyalty, willing to pay more for halal cosmetics) vary across different countries.

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