

## Fragrance trends

# Global Fragrance: Not Making Scents

The fragrance industry faces declining sales, increasing competition and a shorter shelf life

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**V**alued at \$25 billion last year, the global market for fragrance continues to flounder, with sales increasing at a rate that is slower than the average growth for the industry as a whole (see T-1). Why is this market proving to be such a challenge?

Some of the biggest contributors to global production — including Italy and Germany — saw sales fall last year, while the United States and even France experienced only negligible growth. Average prices in these developed markets have fallen in tandem with widening distribution; fragrance no longer is the reserve of traditionally higher-priced channels, such as perfumeries and department stores. The all-important younger demographic is more likely to purchase prestige brands via more open-sell environments, such as drugstores and the Internet (see T-2). Furthermore, the demand for fragrances already is highly mature, with few opportunities to add value or increase usage. In France, for example, approximately 80 percent of female consumers wear fragrance at least once a week, compared to a European average of approximately 60 percent, according to *Cosmétique Magazine*. However, there is still potential to expand penetration among younger consumers, as evidenced by the high number of new launches targeted at this demographic segment in 2004. New celebrity-endorsed offerings also have helped to boost the demand for fragrances.

### Emerging Markets Lead Growth

Excluding the distorting influence of exchange rate fluctuations, global sales growth for fragrance in 2004 was

3.6 percent at fixed US dollar rates. This rise was underpinned in no small part by the strong performance of key emerging markets — notably, Brazil, Russia and South Africa, which were buoyed by improved economic conditions, resulting in an increase in consumer purchasing power (see T-3).

In Brazil, growth was stimulated by the marketing efforts of leading direct-sales players, such as Natura and O Boticário, which focused increasingly on higher-quality colognes made with local ingredients that match the quality standards of international products. Demand also was stimulated by a more refined segmentation strategy, with products targeted at specific age groups, such as teenagers and mature women. In Russia, the growing number of chained specialist outlets, as exemplified by Arbat Prestige, had a significant impact on growth, especially for premium brands.

### Direct Sellers Shape the Mass Market

Looking at the market in detail, mass fragrance, while accounting for the smaller share, enjoyed the stronger growth in 2004, with sales increasing by 6.1 percent in US dollar terms. This segment is particularly important in Latin America and Eastern Europe, where the direct sellers hold sway. Players such as Oriflame Cosmetics and Avon used their strength in color cosmetics and other toiletry products to drive fragrance sales.

Mass fragrances also witnessed healthy growth in several developed markets, such as Italy and the Netherlands, due to tough economic conditions that resulted in a decline in consumer purchasing power. In addition, the heightened sophistication of new product development by mass-market manufacturers

**World market sizes — US\$ million — fixed ex rate**
**T-1**

	2004	%97/04	%03/04
Fragrances	25,198.7	32.4	3.6
Premium fragrances	15,773.4	25.8	2.2
Premium men's fragrances	5,074.4	34.8	2.1
Premium women's fragrances	10,375.5	24.4	2.3
Premium unisex fragrances	323.5	-25.3	-1.3
Mass fragrances	9,425.3	45.1	6.1
Mass men's fragrances	3,481.7	45.4	5.3
Mass women's fragrances	5,731.5	45.8	7.0
Mass unisex fragrances	212.1	25.7	-2.4

**World fragrances distribution — retail value rsp — percent breakdown**
**T-2**

	1997	2004
Supermarkets/hypermarkets	5.7	7
Independent food stores	0.7	0.7
Convenience stores	0.3	0.4
Pharmacies/drugstores	13.4	13
Discounters	4	4.4
Department stores	32.4	28.1
Specialists	25.4	27.9
Direct sales	14.6	16
Outdoor markets	1.6	1.1
Others	1.7	1.3
Total	100	100

**Fragrance key market sizes — US\$ million — fixed ex rate**
**T-3**

	2004	%97/04	%03/04
France	2,159.5	18.4	1.2
Germany	1,618.9	3.1	-1.0
Italy	1,047.9	10.7	-2.1
Spain	1,425.7	68.8	1.8
United Kingdom	1,158.7	5.6	3.8
Russia	1,207.6	87.3	19.6
Brazil	1,571.8	234.5	13.0
Japan	583.5	2.8	-2.5

**25**

has blurred the line between mass and premium products in recent years.

### Mixed Fortunes for Premiums

Premium fragrances proved less dynamic, with sales increasing by just 2.2 percent in US dollar terms in 2004. Growth was driven primarily by advances made in developing markets such as Brazil, Russia and South Africa, underpinned by rising disposable incomes, wider product availability and high-profile advertising by major manufacturers, such as LVMH and L'Oréal.

In contrast, the two most valuable markets — France and the United States — saw sales of premium fragrances decline in real value terms, attributable to a combination of growing consumer price consciousness, saturation of usage and intensified competition between retailers.

Premium fragrances fared somewhat better in other developed markets, with Ireland, Norway and the Netherlands leading the way. In Ireland, the main contribution came from premium women's fragrances, which showed impressive growth of 8.8 percent in 2004, underpinned by a strong domestic economy that inspired consumers to purchase more expensive,

higher-quality products. In the Netherlands, growth was fueled by continuing new product development, along with keen pricing, which rendered the majority of premium fragrances within reach of almost everyone, regardless of age or social class.

**In an effort to drive sales in premium mature women's fragrances, in particular, manufacturers continue to introduce numerous offerings promoted by celebrities.**

### Celebrity-Endorsed Fragrances

In an effort to drive sales in premium mature women's fragrances, in particular, manufacturers continue to introduce numerous offerings promoted by

celebrities. The celebrity fragrance trend clearly has helped to reverse the fortunes of the beleaguered global fragrance market since 2002, with leading cosmetic and fragrance manufacturers teaming up with stars from the music and sports worlds to create celebrity brands.

In 2004, D'lish Fragrances worked with pop singer/actress Jessica Simpson to introduce the Dessert by Jessica Simpson line. Other celebrity-inspired fragrances included Estée Lauder's True Star, developed in association with singer Beyoncé Knowles, and Curious by Britney Spears, from Elizabeth Arden.

The trend toward celebrity-endorsed fragrances was not limited to the women's market, however. In May 2004, Estée Lauder and Sean John, the private company formed by Sean "P. Diddy" Combs, signed an agreement to create and market a line of fragrances under the Sean John name. The company also signed real estate mogul Donald Trump to develop Donald Trump the Fragrance, which was introduced in late 2004.

## Limited editions continue to play an important role as manufacturers seek to extend the increasingly short life cycles of their brands.

With several of the pop world's most successful celebrities, such as Shania Twain, Britney Spears, Jennifer Lopez and Usher, able to boast a scent in their portfolio, manufacturers now are turning to the sports world to extend the celebrity concept beyond the pop charts. Thus, in 2005, soccer star David Beckham and tennis players Maria Sharapova and Venus Williams launched their respective fragrances. Although most pop star perfumes appeal to females, using sports celebrities is expected to maintain momentum of the celebrity trend and appeal to males.

### Limited Editions Invigorate Existing Brands

Limited editions continue to play an important role as manufacturers seek to extend the increasingly short life cycles of

their brands. In recognition of reduced fragrance usage among consumers during the hot summer months, companies have been introducing summer editions with lighter, often alcohol-free formulations. Notable new launches in 2004 included Unilever's ck One Summer Perfume and Estée Lauder's Aramis Ice Summer Cologne.

In rare instances, a limited-edition product can turn into a permanent part of a fragrance collection. In January 2003, Calvin Klein Cosmetics launched Calvin Klein Eternity Purple Orchid to invigorate the Eternity brand. Due to its sales success, the company has not discontinued the fragrance.

In addition to limited-edition products, launching sheer and intense versions of a fragrance has been another popular way for manufacturers to increase sales of their products. In September 2003, Coty introduced Healing Garden Waters Intense, a more concentrated version of its light Healing Garden Waters fragrance, while, in 2005, Calvin Klein unveiled its Obsession Night duo, a modern take on the original versions.

### Customized Fragrances

In developed markets such as the United States, many new fragrances have featured customization. For consumers who are used to programming their own music via their iPods or creating their own tailor-made foundations through Prescriptives Custom Blend service, fragrances that can be mixed and matched offer a way for them to feel empowered and original. In October 2004, The Body Shop introduced Invent Your Scent, a collection of nine fragrances that can be worn alone or mixed together. In a similar vein, beauty specialist Sephora launched its Fleur de Sephora collection — seven floral fragrances that can be worn solo or layered. Customized fragrances pose a potential threat to the success of celebrity scents if consumers opt to turn their backs on celebrity brands in favor of creating something more individual and personal.

### Men's Fragrances Show Promise

Premium men's fragrances were the primary driver of growth in a number of major markets in 2004, including Ireland, the Netherlands, Japan and the United Kingdom. Unlike previous generations who considered such products "unmanly," a growing number of men are paying greater attention to their grooming regimens, influenced by both men's lifestyle magazines and manufacturers' promotional activity.

According to industry sources, more men also are making their own purchases, in contrast to the traditional approach of asking their partners to buy them a fragrance as a gift. In response, manufacturers have started to differentiate their male and female lines more clearly, leaving behind the unisex fragrances that have proven to be so popular in the past.

Women, however, remain the key decision makers in the purchasing process. Consequently, many

manufacturers use partner scents to market their brands. Davidoff (Echo Women/Echo Man) and Inter Parfums (Burberry Brit/Burberry Brit for Men) are typical examples of manufacturers that have launched partner fragrances in 2003-2004.

### Open Sell

In several major markets, including Spain and the United States, sales of premium fragrances have benefited from an explosion in the use of “open-sell” techniques, as practiced by Sephora (owned by LVMH Moët Hennessy Louis Vuitton) and the United Kingdom-based Space.NK. Unlike department stores or traditional perfumeries where premium fragrances are sold behind full-service counters, outlets such as Marionnaud and Sephora display fragrance by house on open shelves — a concept that has found favor particularly with younger consumers, who often may find traditional assisted-sale outlets intimidating. In response to this trend, many department stores are switching to a more “customer-friendly” merchandising environment, displaying mass and premium fragrances in alphabetical order on open shelves or in themed zones.

**Novelty is an important factor in this mature sector, resulting in a continual swath of new introductions that rarely generate the same returns as new fragrance launches did 20 years ago.**

Unisex fragrances now account for a dwindling 2 percent of the global fragrance market. With 10-year-old ck One scooping the lion's share of sales, it remains to be seen whether the new campaigns for the fragrance will shore up sales by a huge degree. In terms of olfactory trends, the past two years have been very gender-specific — floral, pink, sexy and glamorous for women (e.g., Sarah Jessica Parker's Lovely, Agent Provocateur, Carolina Herrera's 212 Sexy, Pure Poison, Eternity Moment and Still by Jennifer Lopez) and clean, fresh, urban and “bad boy” for men (Moschino Couture, Burberry Brit for Men).

### Sluggish Performance in Western Europe

Western Europe was the most valuable region of the world fragrances market in 2004, with a near 39 percent share of US dollar sales (see T-4). The

**Fragrances market sizes — US\$ million — fixed ex rate**

**T-4**

	2004	%97/04	%03/04
World	25,198.7	32.4	3.6
Western Europe	9,740.5	20.8	1.4
Eastern Europe	2,174.5	97.5	15.4
North America	6,280.0	4.1	0.7
Latin America	3,292.9	136.2	9.1
Asia Pacific	1,693.2	28.3	0.7
Australasia	359.9	24.6	2.7
Africa and Middle East	1,657.7	97.9	7.3

region's importance stems from the high proportion of sales accounted for by premium brands, with most consumers preferring to buy a prestigious product with a strong brand heritage. However, four of the five most valuable national markets in the region — France, Germany, Italy and Spain — all witnessed negative or, at best, static growth in local currency. A rare bright spot was the United Kingdom, which witnessed an increase of 2.2 percent, largely as the result of continued stable economic growth, rising prosperity and a boom in consumer credit, all of which served to encourage consumers to spend more on luxury items. As in previous years, growth also was fueled by new product development, with the larger fashion houses releasing an ever greater number of new products to grab consumers' imaginations. One notable launch was Prada, the first fragrance from the fashion house of the same name.

### Celebrity Launches Boost Sales in North America

Sales of fragrance in North America grew by 1.2 percent in 2004, having declined by 0.6 percent in the previous year. Growth was led by strong sales of premium women's fragrances, which increased by 2.7 percent in 2004, thanks to a high number of new product launches, many of which bore the names of female celebrities.

In contrast, sales of premium men's fragrances increased by a mere 0.3 percent in 2004, due to an absence of high-profile product launches. Premium unisex fragrances were the worst performers, however, experiencing a 2.1 percent decline in sales as the result of a return to gender-based marketing. Mass-market men's and women's fragrances also experienced

falling sales, owing to a lack of new product innovation.

As in previous years, one barrier to growth was the increased tendency of US consumers to purchase their premium fragrances through mass-market channels, instead of at traditional department stores. Discounters such as Wal-Mart and Target now sell premium fragrances, often just months after their introduction, and at lower prices.

### **Gaining Strength in Latin America**

Following a 4.5 percent decline in 2002, Latin America showed positive growth for the second consecutive year in 2004, with sales growing by 10.2 percent in US dollar terms. This was largely the result of improving economic conditions and increased disposable incomes. Mass fragrances drove the evolution of the sector, due to their affordable prices. Growth was stimulated further by the marketing efforts of leading direct-sales players, such as Natura and O Boticário, which focused on higher-quality colognes made with local ingredients that match the quality standards of international products.

### **Dynamic in Eastern Europe, Africa and the Middle East**

Africa and the Middle East saw sales rise by 7.3 percent in US dollar terms in 2004. The main impetus for growth came from the large South African market, which registered a near 19 percent increase in sales in 2004, supported by an improving

economic climate. Growth also was driven by the expanding trend among women to experiment with a "wardrobe" of fragrances, rather than one traditional favorite.

In countries such as Saudi Arabia and Morocco, however, sales remained hindered by competition posed by black market offerings, as well as Oriental essences and oils that are sold in souqs and outdoor markets.

Eastern Europe showed double-digit growth for the fifth consecutive year in 2004, with US dollar sales increasing by 15 percent. As in Africa and the Middle East, growth was driven by the rising trend among women to experiment with a wardrobe of fragrances, in line with increasing wealth and spending power. In Russia, the expansion of chained specialist outlets also had a significant impact on growth, especially for premium brands. Mass fragrances remained the larger and more dynamic category, however, due to the fact that premium fragrances are beyond the reach of most ordinary consumers. Mass fragrances also benefited from the prevalence of direct-selling companies, such as Avon and Oriflame Cosmetics, especially in urban areas.

### **Underdeveloped in Asia-Pacific**

Asia-Pacific is a relatively small market for fragrances, accounting for less than 7 percent of global US dollar value sales in 2004. With the exception of highly westernized societies, such as Hong Kong and Singapore, where a high proportion of sales are made to expatriates, per-capita usage remains limited, due to the perception of fragrances as extravagant luxury items. In countries such as India, sales are hindered further by the wide presence of black market and counterfeit goods, as well as the enduring popularity of traditional indigenous perfumes, such as attar.

Sales of fragrances in Asia-Pacific grew by less than a percentage point in US dollar terms in 2004. This represents a marked deterioration from 2002 and 2003, with growth restricted by a contraction of sales in the dominant Japanese market, due to continued price discounting by major retailers. Growth was driven primarily by advances made in developing markets, such as the Philippines, China and Thailand, underpinned by a rise in living standards, greater product availability and high-profile advertising by major manufacturers, such as LVMH and L'Oréal.

### Coty Buys Unilever's Perfume Business

The fragrance sector is highly fragmented, with the top five producers accounting for a relatively modest 37 percent share of total value sales in 2004. However, this situation is likely to change in the short term, following Coty's takeover of the global prestige fragrance business of Unilever in July 2005. As part

of the deal, Coty acquired the Calvin Klein, Cerruti, Vera Wang, Chloe and Lagerfeld brands. These brands will become part of Lancaster Group Worldwide, the prestige division of Coty. Overall, in 2004, Coty and Unilever had a combined market share of 11.6 percent — significantly higher than L'Oréal, which had a share of 8.9 percent.

### Loss Leaders

In 2004, L'Oréal Groupe retained its leading position in fragrances, with an 8.9 percent share of the global market, unchanged from 2003 (see T-5). This was due to the weak performance of the Trésor and Acqua di Giò brands, offset by strong growth for Ralph Lauren Blue and Romance for Men. In addition, the company was relatively inactive in terms of new product development, with Armani's Black Code being the only major launch.

Second-ranked LVMH saw its share of global value sales decline by 0.3 percentage points to 7.9 percent in 2004. This was due to the weak performance of several of the company's core markets, including the United States, Italy and Japan, owing to tough economic conditions that resulted in a decline in consumer purchasing power. LVMH's best-selling fragrance brand by market share is J'adore, which competes with the likes of Chanel's Allure, Calvin Klein's Eternity (Unilever), Hugo from Procter & Gamble and Estée Lauder's Pleasures (see T-6).

Estée Lauder was the third-leading player in fragrances, underpinned by its broad portfolio of premium brands,

#### World fragrances company data — percent breakdown

## T-5

	2004
L'Oréal Groupe	8.9
Estée Lauder Cos. Inc.	7.6
LVMH Moët Hennessy Louis Vuitton	7.1
Procter & Gamble Co., The	7
Avon Products Inc.	6
Unilever Group	6
Coty Inc.	5.7
Chanel SA	4.1
Gucci Group NV	3.4
Elizabeth Arden Inc.	3
Private label	0.3
Others	40.9
Total	100

#### World fragrances brand data — percent breakdown

## T-6

Brand	Company name	2004
Avon	Avon Products Inc.	6
Natura	Natura Cosméticos SA	2.4
O Boticário	O Boticário	1.4
Chanel N°5	Chanel SA	1.2
Jafrá	Jafrá Cosmetics International, SA de CV	0.9
adidas	Coty Inc.	0.8
J'adore	LVMH Moët Hennessy Louis Vuitton	0.8
Eternity	Unilever Group	0.7
Allure	Chanel SA	0.7
Pleasures	Estée Lauder Cos. Inc.	0.7
Private label	Private label	0.3
Others	Others	84.1
Total		100

including Pleasures, Beautiful, Clinique Happy and Tommy Girl. The company saw its share decline by 0.4 percentage points to 7.6 percent in 2004, due to intensified competition — particularly in its core US market. Nevertheless, company sales of fragrances grew by 4 percent in value, driven by an upturn in the travel retail market and new product launches, including Estée Lauder's Beyond Paradise and Clinique Simply.

### Direct Sellers Remain Prominent

The leading manufacturer of mass fragrances is Avon, which owes its success to a well-organized distribution system and a constantly evolving portfolio of competitively priced brands. Despite strong growth in Eastern Europe, as well as numerous new product launches, the company saw its share of sector value sales fall for the second consecutive year to 6 percent in 2004. This was due largely to the increased presence of other direct-sales companies, such as Natura and O Boticário, which have proven to be two of the most formidable players in the emerging Latin American market.

### Slowdown Predicted

Euromonitor anticipates value sales of fragrances to expand by 18 percent before 2009. This compares less favorably to historic performance and will be the result of the maturity of the sector, intensified price competition and a slight shift from premium fragrances toward upper mass-market products.

Novelty is an important factor in this mature sector, resulting in a continual swath of new introductions that rarely generate the same returns as new fragrance launches did 20 years ago. New brands now are replacing repeat sales, a trend that is not helping the market to grow. In addition, fragrances are often quick successes that typically have a much shorter lifespan. In fact, of the top 10 prestige scents, the youngest one is six years old. It really is survival of the fittest in this fragmented sector.

Times are clearly tough for this industry, but there still are some bright spots ahead for the global market. Latin America and Asia are promising regions, particularly because Estée Lauder and L'Oréal are expanding in these areas and distribution is developing. However, success is not going to be easy, and it essentially will boil down to creating a market in countries such as China and India.

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