

## Industry profile

# Mastertaste

A growing organization considers what it takes to be a top-tier F&F outfit

**T**hough its financials have not been made public, the conventional wisdom is that Mastertaste is a top 10 flavor and (fairly recently) fragrance company. Following a multiyear international spending spree, the company has taken a break from new acquisitions, focusing instead on its corporate structure and finding ways to exploit cross-divisional synergies and emerging business opportunities.

So what trends are shaping this industry leader's priorities? What opportunities has the organization identified? What forces are going to shape its — and the industry's — future? We spoke with several company insiders for the answers and came away with a dynamic portrait of an evolving F&F powerhouse.

It has been almost two years since Mastertaste made an acquisition. This is by far the longest period the company has gone without a purchase since it was acquired by the Kerry Group (Tralee, Ireland) in 1998. Following the acquisitions of Krauss, Fructamine and Flavurence, Mastertaste made its boldest move in 2004 with the purchase of fragrance house J. Manheimer.

But isn't the company called Mastertaste? How does this new fragrance component fit into the organization's goals and strategies? And, with its extended pause in new acquisitions, what is the company's main priority? Says chief executive Kevin Lane: "We're now focused on aggressive organic growth — especially within our flavors and natural products divisions."

### Tweaking the Structure

Last year, Mastertaste broke its organization into three components: Mastertaste Flavors, Mastertaste Natural Products and Manheimer Fragrance. At the same time, the company revamped its global management structure, naming a new European managing director, a natural products/fragrance vice president of finance, a new general manager for the company's Shanghai, China, operation (where the company has been sourcing new materials) and a CFO. But the most striking change was the placement of a single president to head both Mastertaste Natural Products

## Mastertaste at a glance

**Headquarters:** Teterboro, NJ

**Locations:** 11 in North America, one in Mexico, three each in Europe and Australia, and one in China

**Divisions:** Mastertaste Flavors, Mastertaste Natural Products and Manheimer Fragrance

**2004 sales:** NA

**Kerry Group turnover, 2004:** Kerry Group divisional results remain a closely held secret; the parent operation reported total group turnover of €4.13 billion in 2004

**Chief executive:** Kevin Lane



and Manheimer Fragrance. The latter move was aimed at capitalizing on synergies between the two businesses — a clear indication that Mastertaste is committed to being a flavor *and* fragrance house.

### Fragrance Foothold: a Natural Evolution

In talks with company representatives, we came away with one clear point: Mastertaste is serious about its fragrance business. Though the company always will be defined by its flavor side, management understands that an organization must compete in both flavor and fragrance to maintain a top 10 presence in the industry. (Lane stated the unit's goals last year: "Our objective is to grow our business in the home environment and expand further into the bath and hair care categories.")

No doubt, plenty of Manheimer Fragrance staff have been asked by outsiders how they feel about

working for a food/flavor company. But the recent establishment of a single natural products/fragrance head shows that Mastertaste is in fragrance for the long haul. In fact, company representatives made the point that Kerry never would have entered the category — *any* category — unless it intended to be a leader in the segment.

Part of Manheimer Fragrance's mission, then, is to provide a foothold in fragrance and to introduce Mastertaste to the idiosyncrasies of the industry's fragrance side. And the company has made clear that growth will occur both organically and via future acquisitions, not to mention synergies between the unit and Mastertaste Natural Products and new opportunities spawned by evolving customer needs. (Throughout the next three years, Manheimer hopes to expand its customer and product base domestically and internationally, specifically China/Far East/Asia and Europe — in that order.)

**New customer needs:** Among the services Manheimer's clients are bound to demand are obvious: new products, new fragrances, new chemicals and new ingredients (*especially* naturals/organics). The company is making investments in this arena to address that nagging eternal question: "Where will the next 'new' come from?" To address this, the company is spending money on formalizing and commercializing a research and development program. The move will aid in the development of new research products, fragrance-delivery systems and technologies for the marketplace.

From a services point of view, the Manheimer Fragrance marketing group has made its mark on the industry in its traditional role of predicting new product and fragrance trends. But now the unit is getting involved in licensing/branding opportunities, working with key customers to understand and fulfill their needs.

**Nontraditional services:** Indeed, going above and beyond traditional services seems to be part and parcel of Manheimer's game plan. In one example, the division had a customer that had sold a product line into a major big-box retailer. The line, which exclusively employed Manheimer Fragrance, was doing phenomenally well. However, the retailer's buyer had some questions about ingredients. The solution? Manheimer's marketing, evaluation and product-development staff met with the customer so that they could, in turn, go back to the buyer and explain all the nuances of the product. Problem solved, everyone's happy. Just another way in which servicing the customer has evolved.

**Time is of the essence:** In another scenario, Mastertaste sent evaluation and marketing staff to another customer who had a big presentation to make to a major retailer in a matter of days. The customer requested that Manheimer Fragrance do the gap analysis — essentially, "What are the marketing drivers and what are the fragrance misses within this line?" And so Mastertaste staff visited the customer, who turned around and brought the resulting concept

to its potential big-box customer. As one company representative told us, customers are pushing fragrance companies for more services, more flexibility, more speed — a trend that most expect to continue and even exacerbate on both the fragrance and flavor sides of the industry.

### **Faster and Faster and Faster: the Flavor Side of the Story**

Laying out Mastertaste's objectives, Lane has listed several goals, including: "increase our customer base; continue to grow our citrus and beverage business; and build on the number of food and beverage companies where we've achieved status as a core supplier."

To get a feel of the flavor side of Mastertaste's business and get a peek at the beverage biz, we spoke with Ton Mesters, vice president of business development, sweet and beverage categories. In his role, Mesters oversees activities that range from carbonated to dry to alcoholic beverages, in addition to confectionery, bakery and dairy sweet goods.

How would he describe the pace in his unit? Says Mesters, "What we do here at the labs is very reactive — perhaps 80 percent of all activity. The product needs to be out the door in 24-48 hours; customers need to have an answer fast. It's a trend in the industry in general — customers want turnaround faster and faster and faster.

"One way to respond fast is with an excellent standard product list — high-quality standard offerings. Obviously, you can't do that with all projects. More specialized projects may involve analytical, a flavorist and a staff member from the applications group. Additional assistance from our sensory department may come into play as well. Those projects are going to take a little longer, obviously, but you can't take months and months or even weeks and weeks. A full-blown project has a typical turnaround of two weeks. All the rest should be within 24 to 48 hours."

Mesters says that he and his staff do a lot of reading to keep on top of what's happening in the market. "Although we are obviously not a true market research company, our customers expect us to understand the environment they operate in," he says. "Customers expect us to interpret market trends. It is important to predict what could be next in this business. It also provides direction for our creative product developers. It is the medium and

smaller sized companies that have come to rely on us for flavor development expertise, initial finished product development and market research assistance. This is what a flavor company is all about these days, creating the opportunities of tomorrow. We are interested in doing all this work because it helps us grow our business, hopefully faster than others.”

“We have excellent beverage and sweet applications labs. It’s not just applying flavors — our staff is also very much involved in creating, developing, adjusting and/or optimizing the entire food or beverage formula. They do it quite a bit, and our customers rely on it — that’s exactly what they want to see from us. The industry is moving in that direction.”

Talking to Mesters, it becomes clear that some customers already are treating flavor companies as idea makers, specifically in requesting new concepts. (And, of course, these clients want a turnaround in a matter of weeks.) Increasingly, it seems, the beverage and sweet unit will be asked to pick up the product-development slack for its clients.

**Beverage trends:** Speaking of products, where does Mesters see the industry headed? In the beverage/sweet corner of

the flavor universe, he detects further consolidation, which he believes will create more niches for “interesting middle-sized companies.” What sorts of niches? “Look at functional beverages,” Mesters says. “There are all kinds of things — energy drinks, calcium, vitamins, minerals, and other even more advanced functional ingredients. Energy drinks have been a hot item, and have been copied more than anything else. Added functional ingredients in energy drinks is on the rise, as are sport drinks, juices and tea drinks — anything considered healthy and nutritious.” On top of that, he says, there are “certain water brands coming up containing novel ingredients that big companies wouldn’t risk. The bigger beverage companies are innovative, but they might not take the risks some of the smaller companies would. For smaller companies, sales of 1 million cases are of interest. Big companies need to move 10 million cases. It’s economies of scale.”

As health issues continue coming to the forefront of the public’s consciousness, Mesters anticipates functional expanding at a rapid pace, despite its relatively small base. He points out materials of specific functionality, such as lutein (for ocular and cardiovascular health) and sterol-ester emulsions (to reduce cholesterol). Increasingly, foods and beverages will contain ingredients that claim to prevent a particular disease, for instance. Even as energy drinks begin to level off, the overall health market likely will flourish. Yet, there are challenges in this category. Says Mesters, “We need to continue to develop technology to overcome off

notes associated with some of these functional ingredients. It’s not only characterizing flavor, but also maskers, modifiers, extenders — all kinds of things not having to do directly with flavor.”

**Au naturel:** Tied in with the functional/health/wellness/nutrition movement is the natural trend. Every month, hundreds of fully natural and/or organic products are released — from nutrition bars to sports beverages. Is this category here to stay? Mesters thinks so. “There’s a lot of paperwork and certification involved,” he says. “It’s a complicated area, but an area of opportunity. The growth, percentagewise, is phenomenal. The consumer is getting more critical about the use of certain non-natural ingredients in foods. The modern consumer is better informed and has become more selective when walking down the grocery aisle. The choice is increasingly a full natural or organic product. Not a lot of flavor companies have really good organic programs yet, so there’s an opportunity.” *pf*