

# the *asian* market

A glance at the latest news in flavors and fragrances will reveal what most of the top industry companies already know — Asia is the place to be. According to a recent report from The Freedonia Group Inc., global demand for flavors and fragrances will reach \$18.6 billion in 2008, with developing areas outpacing industrialized regions. In fact, China leads the way in spurring growth in Asia Pacific, a region slated to advance at about 7.3 percent, year on year, until 2008. This compares to Western Europe and the United States with 3.7 and 3.3 percent growth, respectively. It's no wonder why, just in the past five years, most — if not all — of the

top 10 F&F companies have scrambled to get a piece of the action. Just this month, Treatt plc announced the opening of Treatt China in Shanghai. This is the same location where Givaudan's flavors plant — said to be the largest in the world — will be opening later this year. This is a significant investment for the industry's No. 1 company, which first entered China in 1997. Also expected to open later this year in China is IFF's \$29-million specialty ingredient (aroma chemical) plant.

China might be receiving a majority of the attention, but it certainly is not the only Asian country that is being developed by the F&F industry. Singapore is another hot spot within the Asia Pacific region. In the past couple of years, Takasago expanded its Singapore facilities, Danisco opened an innovation center in the area, Givaudan opened a technology center focusing on Asian flavors and IFF expanded its fragrance plant. Other countries in the region are not to be ignored as flavor and fragrance companies race to stake "claim" to new, relatively unexplored areas. Two years ago, when Dansico Flavors announced the construction of its production facility in Malaysia, the division's vice president, Mac Mardi, said, "With the rapid growth we've had in the Asia Pacific region and increasing sourcing of local raw materials, there's a need for a strong manufacturing presence to service our customers and to strengthen and expand our market position." It is obvious that this region, whether it be Malaysia, China, Singapore, Japan, Sri Lanka, etc., is certainly on the forefront of all major F&F suppliers' goals and plans.

However, as with any new venture, risk is involved. Differences in political operations, regulations and raw material prices are challenges often faced when entering a new market. Understanding a new consumer group is another obstacle for Western F&F suppliers. In *P&F* magazine's interview with IFF's Carina Chia ("Market insight: Succeeding in Asia,"

## *Opening in China*

Although many F&F companies have already opened a branch in Asia, there are those who still are pondering the risks and benefits involved in doing so. In this month's Web-exclusive article ("Setting Up an F&F Business in China"), Henry Gill (commercial manager, De Monchy Aromatics Ltd. Shanghai) shares an introduction to the main issues facing companies first entering China. Gill warns that although China is poised to become an economic colossus, it is still a developing country with many weaknesses. In this insightful article, Gill provides steps to overcome these challenges. To view the article, please visit [www.perfumerflavorist.com](http://www.perfumerflavorist.com), and click on "Summer Web Exclusives."

# Six Questions With Givaudan Asia Pacific

*We recently spoke with Givaudan's Asia Pacific branch about this industry leader's strategy in Asia.*

**P&F:** What are the main flavor materials that Givaudan produces/sources in Asia?

**Brunnschweiler (head of operations, APAC):** We source Indian spices, garlic oil, menthol/ mint oil and synthetic chemicals, such as vanillin and pyrazines, from Asia.

**P&F:** Of the material that Givaudan produces in Asia, what percentage gets exported, and what percentage stays and is used within Asia?

**Brunnschweiler:** Most — 99 percent — of the flavors produced by our company in Asia are used in Asia, and approximately 1 percent is exported outside of the country.

**P&F:** What materials (essential oils, aroma chemicals, etc.) are in high demand?

**Ning (materials manager):** Generally, humectants and solvents, such as PG, ethyl alcohol, triacetin and vegetable oil, are in constant high demand. Synthetics, such as vanillin and cysteine, have seen some strong growth in demand, followed by naturals, such as orange and lime oil, yeast and menthol.

**P&F:** In your opinion, what is the current and near-future state of flavor raw material prices in Asia?

**Ning:** Asia has been hit by escalating fuel increases and rising feedstock prices. We envisage an increase in prices of close to 20 percent for some key ingredients due to high crude oil prices and poor harvest detriment. On the whole, we will see an upward trending for flavor raw material cost amid strong demand in Asia in the near future.

**P&F:** How are regulatory issues affecting the industry in Asia? How do they impact international trade from Asia?

**Lian (director, regulatory affairs):** Many countries in Asia are updating their flavor legislation. Industry has to follow the development very closely and sometimes work with the government agency as an industry to address changes. Development, if it happens positively, will assist in bridging the gap between international legislation and local Asian country legislation, and will be beneficial for international trade.

**P&F:** In your opinion, what are the current market trends? What are Asian consumers looking for?

**Yue (sales executive, confectionery):** There are four main areas that Givaudan has targeted as major trends:

1. **Health and wellness:** This includes “better-for-me” products; items with functional ingredients; and concepts that promote/ support consumer lifestyles in the direction of fitness, relaxation and beauty.
2. **Indulgence:** richer, authentic tastes
3. **Sensory:** local preferences based on local lifestyle, sensorial experiences or influences
4. **Convenience:** single-serve; smaller packaging; and snack sizes for modern, on-the-go consumers



Tan Kim Lian



Markus  
Brunnschweiler



Pang Chong Ning



Nicole Yue

page 36), Chia explains that, “The biggest challenge for us here is the sheer geographic diversity of the region. This requires us to have diversified and, in most cases, tailored solutions in partnering with our customers to meet the different needs of consumers.”

With risk comes reward, and many of the companies in the region are seeing the benefits of their investment. According to Chia, in 2005 Asia

(excluding India) contributed 17 percent of the total IFF turnover. With the region's growth expected to continue in the next few years, it will be interesting to see how the market develops. Here, *P&F* magazine presents an initial look inside Asia with interviews and Web-exclusive content including our Asia Industry Directory.

## Market insight

# Succeeding in Asia

Carina Chia discusses International Flavors & Fragrances' presence, strategy and challenges in China

**A**s one of the top companies in the flavor and fragrance industry, International Flavors & Fragrances' (IFF) strength in the market depends a great deal upon its ability to discover new areas for growth. Lately, this expansion has been focused on Asia. In 2004, the company broke ground on a new specialty ingredients (aroma chemicals) manufacturing plant in China, and just this past year IFF expanded its fragrance plant in Singapore. Of the latter, IFF former chairman and CEO Richard Goldstein said, "This is a critical strategic development, as a significant percentage of our company's ongoing growth will come from Asia Pacific." So what is the current state of IFF's growth in Asia? Recently, P&F magazine spoke with IFF Asia Pacific's regional marketing director, Carina Chia, to talk about the company's history in the region, the current trends in the Asian F&F market, and the challenges faced.

**P&F:** What is your title and role within the company? What's your background in the industry?

**Chia:** I am the regional marketing director of IFF Asia Pacific for flavors and fragrances. I have spent more than 12 years in the industry, with the past six years at IFF in the capacity of regional category manager, regional business development for fragrances and, since last year, in my current position. Prior to IFF, I was with another German fragrance and flavor house as their regional business unit manager for personal care.

**P&F:** Please provide a brief background on IFF's presence in Asia. When and where did IFF first enter Asia Pacific? How many sites does the company have in the region today?

**Chia:** IFF has had a presence in Asia for more than 50 years — initially in Hong Kong and Indonesia, and then expanding rapidly to the other countries. The most recent milestones were the



Carina Chia

opening of the Regional Creative Center in Singapore in November 2000, followed by the Shanghai Creative Center in October 2001. Currently, IFF has nine manufacturing sites throughout different countries in Asia (excluding India). Also, IFF has sales offices in all Asian countries, as well as creative centers in Shanghai, Singapore and Jakarta. Our application labs are in China, Japan, Thailand, Singapore, the Philippines, Indonesia and Australia.

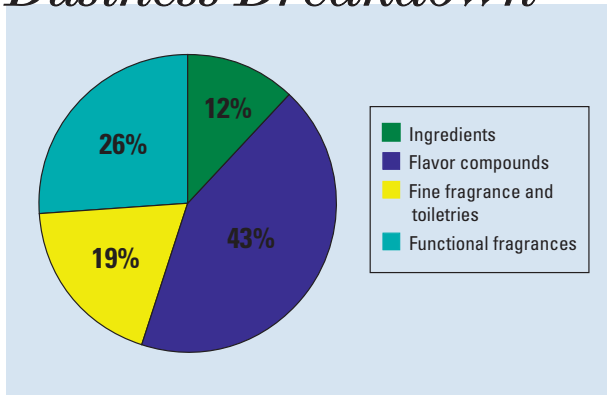
**P&F:** In the recent past, IFF seems to have focused a lot of attention on the Asian market. Last year, IFF expanded its fragrance plant in Singapore. How large of a role does the Asian F&F market play in IFF's future business goals?

**Chia:** Last year, Asia (excluding India) contributed 17 percent of the total IFF turnover in 2005. IFF has invested a lot in the region, in terms of people and capital, to ensure that we follow the growth in the market.

**P&F:** What are the biggest challenges that IFF faces as an Asian F&F supplier?

**Chia:** The biggest challenge for us here is the sheer geographic diversity of the region. This requires us to have diversified and, in most cases, tailored solutions

# IFF's Global Business Breakdown



in partnering with our customers to meet the different needs of consumers. As such, IFF has invested substantially over the years in building up our strength in understanding consumers and brands in the marketplace. This, in turn, has been instrumental in the successful collaboration with our customers in going to market.

**P&F:** In your opinion, what is the current and near-future state of F&F raw material prices in Asia?

**Chia:** Raw material prices in general have been impacted by the increase in oil prices throughout the world, and we are working closely with customers to keep that impact to a minimum.

**P&F:** How are regulatory issues affecting the industry in Asia? How do they impact international trade from Asia?

**Chia:** IFF prides itself on and continues to invest in regulatory and quality control areas to assure our customers that IFF products are meeting today's standards and tomorrow's requirements.

**P&F:** In your opinion, what are the current market trends? What are Asian consumers looking for?

**Chia:** The Western world's attention on all things Asian in the past few years, such as wellness and ingredients, therapies, etc., has renewed the pride in revisiting the goodness of Asian traditions and remedies. As such, one of the biggest trends now in Asia is all things Asian and Oriental. For example, a shampoo company in Japan has been a success because the brand stands as a symbol of strong Asian beauty, and is positioned as a marriage of Oriental and contemporary science with traditional materials in its formula to bring out the customer's inner beauty. Similarly, a shampoo company in Korea has positioned itself as an Oriental hair care brand, restoring the fundamental beauty of Oriental hair. It contains ancient hair care ingredients passed down through generations, such as materials sourced from Korean ginseng,

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— CARINA CHIA

Chinese Longjing tea, black beans, black rice and hemsley plant from Hyogo Prefecture, Japan. We also have seen the introduction of a new shampoo in China as a variant on Oriental beauty with the ingredients of pearl and lotus. Two soap brands launched a variant in China with a local ingredient — wormwood *ku ai* — that can counter summer heat.

Similarly in foods, an Indonesian company has launched a range of instant noodles called Taste of Asia with authentic Asian flavors. Another food company in China did the same, introducing a range of instant noodles with typical Asian flavorings.

One of the latest trends in Asian food is the use of black sesame as a health ingredient. It started a few years ago in China in a variant of a shampoo brand for shiny black hair. More recently, Korea has been experiencing a “black” wave for more than a year now, with products such as harvest biscuits with black

sesame, black sesame with hemp (a dessert) and black beans with black sesame drink. Earlier this year in Japan, we saw the launch of black sesame potato chips and black sesame biscuit stick.

**P&F:** How does IFF stay on top of discovering these trends?

**Chia:** IFF has an extensive and experienced marketing and consumer insights team in Asia Pacific who connects to the bigger team globally. The marketing team on the local level has their eyes on the market, tracking new product launches not only in consumer products, but also in fashion, music, interior design, electronics, new restaurant concepts and recipes, and new concept stores or creative building designs. We also reference many Web sources and magazines. In addition, we have collaborations with fashion schools around the world in order to tap into young talented minds for creative ideas. All of these methods provide us with the means to cross-reference trends and highlight potential trickle-down inspirations to consumer products. IFF is known for our three pillars of differentiation — brand understanding, consumer understanding and fragrance and flavor expertise.

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