Corporate profiles

Economies of Scale

Bell Flavors & Fragrances finds its niche in a landscape of F&F giants

Jim Heinz, president and CEO of Bell Flavors & Fragrances, keeps an old tin of baby powder in his office. He has purchase orders from the product's manufacturer going back to 1915. "We still supply the fragrance that goes in there," he says. "When a company stays loyal to you like that, you want to look at its name every day."

Flavor and fragrance used to be a family business. Look into the history of any of today's massive and still growing industry giants and you will see at their root what were once family-run, privately held operations. But while consolidation has swallowed many once-familiar names, family hasn't entirely vanished from the landscape. These small- to mid-sized companies boast a certain level of provenance and personal attention that allows them to compete from a unique angle. But exactly how do they fit into today's increasingly competitive and tight business climate?

To Heinz, the concept is simple, "Just because a company gets larger and larger and has multibillion-dollar sales doesn't mean that it can provide customers what they need and want."

The Heinz family has helmed Northbrook, Illinois-based Bell since 1967 when it acquired the company from founder William Bell, who had begun his own career in Kraft's confectionary department.

James Heinz and Steve Schuh peg Bell's future on innovation and flexible service.

"Creativity is not limited to a large company," says Bell R&D director Steve Schuh.

Starting with just four employees and from a base of dairy and confectionary flavor systems, the company gradually expanded into fruit flavors for beverages and beyond. Today, the company employs 1,000 and supplies flavors, aroma chemicals, fragrances and botanical extracts to everyone from beverage clients to pharmaceutical firms, expertise fueled by both organic and external growth.

Over time, Bell acquired 16 F&F houses across the globe, most notably the purchase, in 1993, of Leipzig giant Schimmel & Co. Founded in 1829, the German firm is widely considered the founder of modern F&F and was once the largest supplier to Eastern Europe. This acquisition marked the foundation of the company's European arm. Today, Bell's global network of 13 locations stretches from China to Mexico to Russia and beyond.

"A lot of this business came from the acquisitions we made," says Heinz. "When you make acquisitions, you have to take a business strategy of keeping the business, showing the customer that you deserve the business and give them new products."

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Flexibility

Heinz sees the growing consolidation in the F&F industry as an advantage for Bell, and he's banking the company's future on the ability to respond quickly and flexibly to customer needs. All of which he believes leads to greater customer attention and focus. Yet he stresses that Bell is not just a mom-and-pop operation: "We aren't just a small company. We're a global company. A family-owned, large mid-sized global company. We have 10 manufacturing facilities."

Heinz goes on to explain that Bell's size and accompanying management flexibility has led to real-world strategic advantages.

"We really have taken a different approach than the large global competitors. For instance, everybody has withdrawn from Canada. [The major F&F companies are] supplying their Canadian customers from their US-based manufacturing facilities. We maintain our manufacturing facility in Canada, so we supply our customers right from that facility—we give them product development from that facility and the customers are just running to us because that's what they want."

Heinz says that, while pulling all manufacturing to just one site while maintaining all existing Canadian business might look good on paper, the results are often less than stellar. "What's going to happen," he explains, "is that you're going to lose that business because you aren't giving the attention that the customer needs. We're growing in the geographical areas where we're manufacturing because that's the approach we take. Most of the 10 major global companies have fallen back to large regional manufacturing centers. I don't think that's what our customers want. And if you stop listening to your customers you start having problems. You have to listen to what they want, what their needs are, how they want to be serviced—the creativity they expect from the supplier."

Advantages of Independence

Though privately owned companies are a rarity in F&F, Heinz sees this status as an advantage for Bell. "I think [our privately owned status] gives us more opportunities than if we were competing with other privately owned companies. Being private helps us rather than hinders us. I've seen that with our customers and the customers that we pursue. They aren't really getting the service and attention [from the larger companies] that they feel they need to put out a new innovative product in the industry."

But in an age of core supplier lists, how can smaller companies prevail? Says Heinz, "With core supplier lists, if they [the clients] only have two of these companies supplying them, they're losing that benefit of getting the core competencies that we're developing. The product development people in those companies are saying, 'We are not getting what we thought we would get by limiting the supplier base.' " As a result, Heinz says, companies are beginning to roll back these restrictions and opening their lists to more suppliers, all in the name of remaining innovative and adaptable.

Steve Schuh, Bell's R&D director, concurs. "I think core lists were largely driven by corporate purchasing departments, not creative centers. And I think product development people are starting to build a case for what a small company can deliver. By having a core list you're essentially saying, 'OK, we're eliminating everyone else and we're going to get all of our creative ideas from these big companies,' with the assumption that these big companies have a monopoly of creativity. Creativity is not limited to a large company."

The Future

When it comes to Bell's growth potential down the road, the key is new markets. "We're seeing major growth in South America, Asia-Pacific and China," says Heinz. "The American and European Union markets are very mature. We are going to have some growth there, but not to the extent that we've seen in China, Asia-Pacific and South America." In addition, Heinz forecasts growth in the former Eastern Bloc countries such as Russia, Poland and the Czech Republic. "All the Eastern Bloc countries are putting out new products," says Heinz. "That's where we see the growth in new product development. You have to be there. You have to be there to know your customer, to build the relationships, to service those customers and hopefully win business."

"The main focus for Bell is creativity beyond just new flavors and fragrances," says Schuh. "Creativity in new botanicals and technologies is also important. You have to look at all of your assets and use those creatively. For Bell, we compliment our creativity with speed and nimbleness. Because we're a family-owned company, because we don't have a lot of layers and spans, we can make decisions quickly." Schuh continues, "I can ask Jim about customer pricing and supply, and a decision is made in an hour—less than an hour."

When it comes to technology, Schuh stresses Bell's spray drying competencies. "We are basic in spray drying and delivering technologies. We have a spray drying facility both here and in Middletown, New York. We're trying to use that as a basis for developing new carrier technologies for F&F. Customers all want new technologies to deliver flavors and fragrances. Those [new technologies] aren't just ideas that come from large corporations."

"Botanicals are becoming very important also," Schuh continues. "A lot of our customers want new botanicals, unique botanicals, global botanicals. It's becoming very important for our customers to have those botanicals for marketing potential."

"Our job is to develop and create new releasing agents, creative flavors, fragrances, botanicals—we need to bring new developments to the marketplace, adds Heinz.

In this day and age, larger client companies can take longer to launch new products and may be risk-averse when it comes to novel flavored or fragranced products. Bell sees itself as a company that can cater to both types of clients, meanwhile addressing those smaller companies that larger F&F houses may not see as interesting. While many of the major houses focus on, say, the top 30 global customers, small- and mid-sized F&F companies are more free to service the broader base of middle-range customers—a highly valuable enterprise.

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