



# Fragrance in Good Times and Bad

Givaudan's Michael Carlos on how the economic crisis could reshape the industry

**F**ine fragrance has suffered the effects of fewer shoppers buying fewer fragrances as a result of the global financial crisis, particularly in the developed world. As a consequence, retailers are destocking and brands are putting new launches on hold. As a recent NPD Group report put it, "2008 was different."<sup>a</sup>

## Refocusing the Fine Fragrance Market

Last year, NPD notes, US prestige fragrance sales totaled \$2.68 billion, down 6% from 2007.<sup>b</sup> Women's sales dropped 5%, while men's fell 8%. "However," the report states, "sales of higher priced gift sets (those priced from \$60 to under \$100) were a bright spot for the fragrance category." These higher priced fragrance gift sets represent 65% of 2008 gift set sales, up from 40% in 2005. This "sweet spot," as NPD calls it, has "grown in both dollars (+12%) and units (+11%) and posted double-digit growth in 2008." Simultaneously, men's launches decreased 20%, while women's actually rose 9%, notably *Viva La Juicy*, *Estee Lauder Sensuous*, *Ed Hardy* and the *Harajuku Lovers* collection.

"Today, people [at the brands] are saying, 'I need to invest more in my basic brands and classics,'" says Michael Carlos, worldwide president of Givaudan's fragrance division and featured speaker at the Fragrance Materials Association's spring dinner, *Fragrance in Good Times and Bad*. "Everybody is putting more money in classic fragrances to promote them better, sometimes enriching their quality at the same time."

As for the future, Carlos wonders if the age of endless line extensions and myriad brands is over. "I think you will see fewer launches, [with] everything much more structured and much deeper. The market in fine fragrances could be more differentiated between, on one side, aspirational designer brands, and then having a lot of mass brands." He adds, "A lot of what's in the middle of the market ... could very well disappear. Fragrance houses will have to adjust to the situation."

<sup>a</sup>[www.npd.com](http://www.npd.com)

<sup>b</sup>NPD Group defines prestige beauty as it pertains to this report as "fragrance, makeup, and skin care products sold mainly in US department stores."

Carlos wonders, "Once we get out of this crisis, is that [fine fragrance] market going to come up or not?" Consumers, he says, may ask themselves, "Do I need my five or six scents?" ... This is where we have to be aware of what's happening."

Karen Grant, NPD's senior global industry analyst and vice president of beauty, notes, "In 2009, we recognize that while consumption will not stop for prestige beauty, it has changed. It has become ... more careful, more selective, and more meaningful. Across all three

prestige beauty categories, there were areas that experienced growth despite overall soft performance. We saw growth in premium price, natural and new innovations among trusted brands as well as alternative brand types."

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—Michael Carlos

## Resilience Seen in Other Fragranced Consumer Product Categories

Meanwhile, fragranced consumer products categories suffer to a lesser degree, with The Freedonia Group predicting growth in the cleaning products and cosmetics and toiletries categories through 2012.<sup>c</sup> "When you look at the consumer products business ... volumes can begin to pick up again to a certain extent," says Carlos.

<sup>c</sup>[www.fredoniagroup.com](http://www.fredoniagroup.com); see a report summary, "US F&F Market ~\$5.3 billion by 2012," on Page 8 of the April 2009 issue

## 2008's Top Five Fragrance Brands, United States\*

*Acqua Di Gio Pour Homme*  
*Beautiful*  
*Coco Mademoiselle*  
*Light Blue*  
*Chanel No. 5*

\*The NPD Group/BeautyTrends

## About Michael Carlos

Michael Carlos began his career with Givaudan in 1984 as general manager in Hong Kong. In 1992, he became head of the European creative center in Argenteuil, France, where he was responsible for integrating the creative resources of Givaudan and Roure. In 1999, he assumed the role of global head of consumer products. Since 2004, Carlos has served as president of Givaudan's worldwide fragrance division. He holds an MBA from the Indian Institute of Management and a bachelor's degree in chemical engineering from the Indian Institute of Technology.

Here, he cites the laundry care category: "You can use a little less, but you will buy laundry detergent." However, he says, "In categories like air freshening, people may move out of the category for some time; then again, some people may not come back at all. You're going to see variations."

"When you look at the consumer product side for flavor and fragrance houses," Carlos adds, "I think you'll see more of a shift into developing markets. Fragrance houses that want to grow and be strong into the future will need to see their investments into developing markets increase even more compared to what they have in the recent past."

### Opportunities: Developing Markets and New Categories

"The developing world is growing much faster than the developed world," says Carlos. "I think that's going to be further accentuated as a result of this crisis." He adds, "One would expect that in the BRIC (Brazil, Russia, India and China) countries, where growth rates were very high for the last few years, we will still get fairly decent growth rates moving through 2009 and 2010."

Globally, he notes, "The challenge is: how do we build some potentially new categories in which fragrances can really deliver? There's a lot of data out there that says consumers will pay a premium for products ... provided they see an inherent benefit. There's so much noise being made in the United States about cold water washing detergents and how environmentally friendly [they] are. It's hugely reducing the consumption of electricity. There is an inherent economic advantage. [Consumers'] normal cost of wash is greatly reduced. There will be opportunities provided you can prove you're bringing some benefit either economically or [via] a brand point of view, which is very important to a final customer."

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