

NEXT: First-person Takes on F&F's Past, Present and Future

At the dawn of a new decade, with an eye towards 2020, industry experts discuss the drivers of progress: innovation and technologies, emerging markets, consolidation, regulations, product development, and more

In 1999, the global F&F market was valued at roughly \$13 billion. Today, it totals about \$20.3 billion (estimates vary). In light of the recent economic downturn and attendant customer, retailer and consumer destocking, coupled with slowdowns in mature market growth and ever-increasing regulatory pressures, the industry is focused on strategies for future growth. As we turn the page on the first decade of the millennium, P&F magazine presents first-person expert insights into the forces that have shaped the industry over the last 10 years and those that will characterize it for the next 10 and beyond.

Steve Hicks

Director of flavor and fragrance development global capability organization, Procter & Gamble



In the next decade, the flavor and fragrance industry may undergo more change than it has seen in its entire 200-plus year history. I believe that the largest single difference will be that we will lose the practice of secrecy as a sole competitive advantage. NGOs and regulators are increasingly demanding that our industry be more transparent in the identity and safety of the ingredients we use. Analytical sciences have progressed to the point that competitors can more easily deduce the formulas of other perfumes and flavors. As a result, I believe that the companies that will thrive in the next decade are those that create proprietary innovation in addition to great creativity. Innovation may be new high performance ingredients, or inventions that lower cost to enable greater success in emerging markets, or delivery systems that enable flavors and fragrances to display better for our consumers, or other things that we cannot even envision today. The companies who embrace and lead this change and do not fall victim to it will be the ones still thriving in 2020.

"In the next decade, the flavor and fragrance industry may undergo more change than it has seen in its entire 200-plus year history."

—Steve Hicks, Procter & Gamble



In 1999 the fragrance industry launched 335 fragrances. By 2008 that number had nearly tripled to 936. In the wake of the troubled economy of the last 18 months, the industry is trending to release 561 fragrances in 2009. According to NPD, 2009 top sellers are: *Beautiful*, *Coco Mademoiselle*, *Happy*, *Chanel No 5*, *Romance*, *Light Blue*, *Cashmere Mist*, *Pleasures* and *Tresor*. The majority of these scents were created before the beginning of the decade, noted **Ruth Sutcliffe**, senior director of international fragrance development at Coty (pictured), during a recent symposium conducted by Women in Flavor and Fragrance Commerce. While the glut of fragrance launches over the last 10 years has often squelched innovation, Sutcliffe identified olfactive directions that may drive future success. For example, she said, ozonic scents are set for a comeback—in a new iteration: "We're looking for clarity, we're looking for purity." And while the floral category will always remain the largest category for women's launches, Sutcliffe would like to see more launches in the citrus category: "Citruses are fresh and invigorating; they can also be very happy ... and clean." The US market has had trouble embracing citrus, perhaps due to its cleaning product connotation, she conceded, but new synthetics could help break this barrier. Meanwhile, Sutcliffe cited NPD's top men's fragrances as *Acqua Di Gio*, *Eternity*, *Obsession*, *Polo Blue*, *Armani Code*, *Light Blue*, *The One*, *Cool Water*, *Le Male* and *Polo*. While fougère will likely always dominate the men's market, she said, woody scents have had a growing presence. As for innovating for the future, Sutcliffe's wish list includes materials and/or technologies that will make scents last longer.



The January 2000 issue of P&F magazine; at the time, the industry was valued at roughly \$13 billion.

Patrick Firmenich and David Shipman

Firmenich CEO (pictured); and group vice president, corporate compliance, respectively

Firmenich was not immune to the global economic crisis, which presented our company, as well as our customers and suppliers, with unprecedented business challenges. However, these challenges have not impeded our progress in the area of sustainability. A safe work place is particularly important and we are especially pleased about our 26.5% improvement in our total recordable case rate and to have received the 2008 Dupont Safety Award for felt leadership. We also continue to make steady progress toward reaching our environmental objectives. We exceeded three of our five 2010 environmental goals (against a 2005 baseline). In comparison with our fiscal year 2008, in fiscal year 2009 we reduced our volatile organic compound (VOC) emission rate by 24.1% and continued to see the benefits of our



Patrick Firmenich, CEO, corporate compliance, Firmenich

energy efficiency projects with a 5% reduction in energy use. We believe that sustainable business success is anchored in the long-term interests of our employees, local communities and the environment. We also acknowledge our employees and our expert partners for helping us maintain our progress. In 2009, the Firmenich sustainability advisory board was formed. The board is composed of five independent experts and includes leaders from: Forum for the Future, Citrus Partners LLP, GAIN, FSG Social Impact Advisors, and de Pury Pictet Turrettini & Co. They help monitor our performance and advise us on our sustainability strategy. Our sustainability report is the only one in our industry externally verified by the SGS Group, the world leader in inspection, testing and verification. Our sustainability vision is to be recognized by our clients and through independent validation, as the sustainability leader of the flavor and fragrance industry.



Bob Pellegrino

Executive vice president, global strategy, Givaudan Flavors

Changes since 2000:

There has been much consolidation in the food and beverage industry over the last 20 years. The flavor and fragrance industry has mirrored that. Givaudan

has led much of that consolidation. Our belief is that the present and future requires a high level of spending in innovation and a global footprint to fully leverage that innovation. Over the past 10 years we have grown both organically and through acquisition: FIS, IBF and Quest have all been successfully integrated into the Givaudan family. This has enabled us to invest more heavily in areas like ingredient development, delivery systems, consumer research and sensory methodology. • Givaudan has a long heritage in naturals with a strong position in natural products such as specialty essential oils and extracts, and technologies in separation, isolation and biotechnology. There has been increased consumer interest in naturals driven by consumer demand for “cleaner” labels. We have seen this particularly be the case in Europe. Affordability may be an issue for some consumers, especially in the current economic environment. This is particularly the case in developing markets. From our perspective organic remains a niche market. • Today’s fast-moving world [features a] demand for faster paced innovation and a need for product differentiation; there is an

increased demand for greater intimacy, partnership and new ways of working. The technical challenges associated with developing healthier products with reduced sodium and sugar, or reduced fat require greater collaboration to develop a winning solution. Flavor companies that understand customers’ brands and the flavor needs of consumers will prosper. From our perspective those doing just a technical sell will achieve limited growth.

Project time constraints: The pace of development has increased, but technology has helped us become more efficient. In particular, our SmartTools® proprietary technology and devices such as the virtual aroma synthesizer (and portable mini-VAS) help cut product development time, foster co-creation with customers, and improve speed-to-market for new flavors and product launches. These tools enable Givaudan to interact more efficiently with product developers in refining flavors and removing language and fatigue as barriers. They also allow us to model flavors and test them with consumers efficiently and effectively. • **Technology and trends:** The key technology area upon which we have focused is taste research. Consumers want healthier products that have less sodium, sugar or fat. Additionally, functional ingredients are being added to new foods and beverages at an increasing rate. Many times these new ingredients have off tastes and require masking solutions. Givaudan has invested in taste receptor technology enabling us to do high-throughput screening. We have a substantial ingredient development effort behind this to develop new building blocks and molecules that enhance sugar, salt or umami, mask off tastes, and mimic fatty mouthfeel. We have invested in numerous flavor encapsulation

*SmartTools is a trademark of Givaudan.

technology platforms resulting in our suite of PureDelivery[™] systems that bring flavor protection technology to customers' food products, improving stability, shelf life and durability, capturing authenticity, or releasing at the appropriate time during processing or consumption. As mentioned above, our SmartTools technology enables us to work with customers in a new way and allows us to secure information from consumers that provide valuable information for our flavorists to use as they develop new flavors for customers' brands. • The economy has certainly had an impact on the market. Depending on the geographic market, consumers have changed their consumption patterns somewhat. In some cases they have moved to private label, and they are eating at home more. We believe that consumers still want great tasting, healthy products and that is where our investment is, enabling us to help customers differentiate their brands. We also believe that an emerging middle class of consumers will enter the market for food and beverages in the developing markets such as India, China, Middle East, Africa and Brazil. The world has a growing population—and we all need to eat! Natural ingredients and food supply will be issues over the coming decades. Using science like biotechnology will enable us to have answers for natural flavoring materials. Our flavor creation capability (people and tools) will enable us to flavor sources of protein. Those F&F companies that are strong will come out of this stronger still as the economy improves. Note that many food companies are doing well. • Everyone still has to eat and drink, and the global population is expected to increase from 6 billion to 9 billion by 2050, with a growing middle class that wants more flavors and fragrances. Givaudan is well positioned with its financial strength, global footprint and participation in numerous segments to take advantage of the opportunities in the marketplace. Our technology, diversity and size create our robustness. • [R&D innovation] is a growing trend—witness innovations from some of the larger food and beverage companies. We believe this trend will continue as people want more from their food than nourishment. One exciting area we see is mood and emotion and is an area in which we are working. We believe that there is an oppor-

tunity to deliver an emotional signature to a product in addition to great taste. • Probably the most significant set of scientific developments over the last decade [have occurred] with salt reduction, sweetness enhancement (stevia), bitterness masking and discoveries in umami—key areas in the growth of our TasteSolutions[™] program. The industry has worked very diligently over the years to ensure the safety of the substances being used. Consumers do have concerns about lowering levels of ingredients like salt, sugar and fat, and replacing materials like MSG or masking functional ingredients. These are linked to our taste research program, which has seen double-digit growth in the last few years. Meanwhile, consumers do have food safety concerns, and there is increased legislation. A major key is to ensure that there is integrity of supply chain. This requires knowledge of your suppliers, an increasingly important quality assurance effort, advanced analytical methods/capability, and regulatory expertise. • [Sustainability] is becoming more and more important for customers and consumers. We have a strategy in development that looks at all key aspects of our business from sourcing to emissions to waste treatment—and how all of our employees can make a difference. Much of our flavor research portfolio enables us to have greater sustainability by the use of biotechnology and green chemistry as examples. • Labeling is a key concern for consumers and we help our customers by offering clean label solutions. We also believe it is important to have the in-house regulatory expertise so that customers can consult with our regulatory staff on labeling and emerging issues. This is likely to be more important in the future. • **Emerging markets:** Most of the future growth will come from the emerging markets, or the BRICMIST countries (Brazil, Russia, India, China, Mexico, Indonesia, South Africa and Turkey). We have invested heavily these markets, particularly China, India and Latin America, which are helping us to grow double-digits in these regions. We are working hard on our commercialization process and networking capability so that the newest technology and experts are available to help our colleagues in the developing markets.

[™]PureDelivery is a trademark of Givaudan.

[™]TasteSolutions is a trademark of Givaudan.



Aldo Uva

Corporate vice president, flavors, Firmenich

The long-term vision of Firmenich's flavor division includes an important role in supporting healthier diets and nutrition through unique delivery systems, original processes and flavor processes, such as masking and enhancing. These focused initiatives deliver value to our flavor clients and meet the desires of consumers worldwide. Firmenich is a pioneer of "open innovation" in the flavor industry. By reaching out to a range of innovation partners, from cutting edge startups like Senomyx in the United States to well established fast-moving consumer goods multinationals, Firmenich is developing the next generation of flavor technologies, from salt and sugar replacement to vanilla and seafood extracts to citrus tonalities and taste modulation.

Michael Carlos

President, fragrance division, Givaudan

Givaudan has seen many changes in the fragrance industry since the turn of the millennium, some of which are likely to have permanent repercussions. The pattern of consolidation that began in the 1990s has affected both fragrance suppliers and consumer product manufacturers and is likely to continue. Givaudan itself has participated in this trend with the acquisition of Quest International, which was added to the Givaudan portfolio in 2007. Consolidation strengthens companies and is a significant factor when facing the many challenges of the modern commercial environment. • The recent difficult economic period has catalyzed the effects of many changes that have been evolving over the last 10 years: fine fragrance sales in both Europe and the United States are down, the effects of destocking are being felt throughout the supply chain and growth in the consumer products category is now predominantly in developing regions. The consumers we endeavor to engage today in the saturated markets in Europe and North America, and the developing markets of Latin America, Asia and Eastern Europe, are all price-sensitive. This fact drives the need for super-efficiency, for global scale and for strong asset management. At the same time, consumer expectations of the products that they buy have changed dramatically; companies must be open and transparent in order to earn their trust. This new culture is passing throughout the supply chain from source to end product in a trend that is set to continue. Ethics and sourcing are key drivers of product positioning in developed markets, where frequency of launches and informed consumers constantly drive brands to prove their worth. Fragrance suppliers have, in effect, come full circle: Many of the big players are founded on companies that originally sourced perfumery materials and grew to become perfumery houses; today those perfumery houses are returning to guide the development of perfumery materials. Givaudan's



Innovative Naturals program has so far introduced ethically sourced sandalwood, tonka bean and benzoin to the perfumer's palette. The growth in demand for ethically sourced products in developed markets will undoubtedly continue—but other parts of the world are just waking up to the use of many products that are taken for granted elsewhere.

• Fragrance sales in developing markets are growing, both in terms of increased volume and through reaching new customers. With such huge populations and increasing affluence, understanding these markets is key to all

industry players. Givaudan is fortunate to have the global spread that enables it to centralize expertise and keep a finger on the pulse across all regions. In the future it will be the taste of people in China, India or Brazil that will define fragrance launches, rather than fashions in Paris or New York. • Another factor that will certainly continue to influence fragrance development is regulatory pressure. Developing new fragrance molecules is the lifeblood of our business, but the increasing regulatory landscape in both Europe and the United States means that the industry is obliged to invest heavily. The ability to meet regulatory pressures is set to become an increasing point of differentiation among companies as manufacturers seek support from their suppliers; only those with the size to invest can afford to develop modern materials for perfumery. Over the coming years I believe that the perfumery industry will become more focused; fragrance development will embrace environmental concerns, adapt to green chemistry and nurture traditional materials to ensure that they remain available to perfumery in the future. Those companies at the forefront will inspire through the quality and authenticity of the fragrances they create. We see no reduction in the number of young people who aspire to join our industry or apply to the Givaudan Perfumery School to train to become perfumers. We welcome their interest in our industry and our company. It is their interest, coupled with the demand for our products in developing and developed markets that gives us a strong future.

Francesc Montejó Torrell

Inn Flavours

In the near future, developing flavors by merely regarding the properties of the chemicals that constitute them will not be possible anymore. The great complexity of sensory perception is leading researchers to consider other factors, such as memory, learning and certain psychological aspects derived from the functioning of the brain. • Today's consumers look for products that are traditional, natural and as healthy as possible, while taking their originality into account. This duality brings ahead the need for a better understanding of culinary chemistry, or molecular gastronomy, a newer concept that has been named "culinology." This concept represents the merging of culinary arts and food science. So, as a consequence of these new consumer

preferences, flavor creation will have to become fresher and more innovative. Collaboration between chefs and technologists is the starting point for the creation of integral project development units whose strength lies in the intersection of different areas of knowledge. • Traditional flavors are based on raw materials that have been known for many years. However, the optimization of natural resources for the development of new flavors remains the aim of flavor investigation. Today, the study of new molecules of natural origin that act as flavor intensifiers represents an important investigation line. As an example: *Alapyridine* was first isolated from culinary meat stocks, and its singularity lies in the ability to intensify both sweet and umami flavors. In the future, the most valuable newly discovered flavors will be those that bring about significant novelties in technological, economic and sensory aspects.

Robert Weinstein and Laurent Mercier

Firmenich corporate vice president, ingredients division (pictured top); and vice president, ingredients, sales and marketing, respectively (pictured bottom)

Innovation in perfumery and flavor ingredients is a strategic focus of only a handful of fragrance houses. The recent economic downturn, as well as rising competition from chemical companies from around the world, force strategic players to review and redefine their strategies for future research investment, IP protection and market introductions for new products. Ingredients innovation is part of the Firmenich DNA. In order to more deeply leverage our organization into the future, Firmenich has segmented the organization into three business divisions: perfumery, flavors and ingredients. Led by Robert Weinstein, the ingredient division's strategic vision is to wholly align nature and chemistry to become the industry standard for quality in both synthetic and natural ingredients. The mission is to maximize the growth and value of our ingredients portfolio to further strengthen our innovation pipeline to provide our flavorists and perfumers with differentiating ingredients that comply with the increasingly challenging regulations around the globe as well as growing environmental

concerns. We are focused on continuing our lead in the development of synthetic ingredients and to reinforce our commitment to our naturals business unit. We are convinced that our experience and expertise in chiral chemistry and isomer separation have led to the discovery, industrialization and commercialization of specialty chemicals with undisputable signature and measurable impact (ex. Hedione High Cis, Neobutenone****), which are a key to our long term success. This is our sustainable contribution as a responsible and long-trusted manufacturer.



****Hedione High Cis and Neobutenone are trademarks of Firmenich.

Richard Panzarasa

President, Panzarasa Group

We have all heard or read articles from executives acknowledging that business is down. When asked how and when we will recover, nine out of 10 comments revolve around emerging markets and the resources these companies will be dedicating to them, because these are the markets that are growing—the low-hanging fruit, as it were. So what is the domestic [US] division of our flavor and fragrance industry to do to insure growth and jobs? There is a story floating around that, at a sales meeting of a company deeply affected by the economy, the vice president of sales bemoaned the economic climate and told the president that this was the reason for the decided slump. The president asked the vice president what share of the market the company enjoyed, to which the vice president replied, about 25%. The president then said, “The economy isn’t the problem; there is still 75% of the market out there that we haven’t penetrated.” This is a great simplification, but in times like these it is imperative that we look for answers within ourselves rather than take a woe-is-me attitude. • One way in which to gain sales and ultimately access new accounts is to present marketable ideas, concepts and prototypes that fill

voids in the client’s current portfolio. Certainly this has to be done thoroughly with a rationale, market data to support the idea, and perhaps focus group results along with a professionally rendered prototype package to give substance to the form. The marketing departments of client companies are so busy merchandising and watching the numbers of units being sold that not enough time is being spent developing new ideas. Thus enters the flavor or fragrance house. We have become more and more a consultative industry and have moved away from a purely transactional model. • The potential for gaining access to new clients exists in each of the companies that make up our industry. What we need to do is focus. Identify new sources than can provide new ideas or already have them and apply them to our industry. Beat the bushes to find new accounts; spend a little more time with your clients’ marketing and technical people learning what they need, not so much in general, but in particular. Do store checks. Some great ideas can be birthed there. Certainly continuing to solicit fragrance and flavor development people at your accounts or at potential new accounts remains key. But to succeed and grow in today’s market you have to dig, and if you find the well has dried up, dig deeper. You will be rewarded. The water there will be purer and fresher.

Mature Markets vs. the Developing World: A Look at Flavor's Future

"The world is not going back to what it was ... especially in the United States," said Bill Mason (The Hale Group) during the Flavor and Extract Manufacturers fall meeting. Mason added that growth in the food industry in the United States will likely hover below 1% for the next 20 years as a result of foodservice slowdown. To illustrate, he noted that there is currently one restaurant for every 300 diners in the United States. In addition, the rise in women entering the workforce is unlikely to break much beyond its current level due to sociological trending. In short, the status quo is expected to remain largely in place. In such a mature market, the US food industry comprises companies that are fighting for share instead of growth; manufacturers are now focused on cost reductions; product development is outsourced to reduce costs; and innovation is relegated to niches and replacement of products.

- The developing world, Mason said, is experiencing population growth and mass entry of people into the middle class similar to phenomena experienced in the United States in the 1960s. In places like

China and India, the middle class growth is larger than those historically observed in the developed world. Countries like Saudi Arabia are purchasing land in Africa and South America and investing in refrigeration technology to ensure food security.

- By 2030, Mason said, there will 8.4 billion people in the world. The real opportunities are in the areas of booming population. In India and China, the middle class will quadruple in size over the next 15 years—800 million people. And, as income rises, it doesn't take much to drive demand. Diets will begin to encompass more protein and value-added foods. The latter will be driven by scarcity of time and a desire for convenience.
- Already, said Mason, there has been disinvestment in the developed world and growing investment in the developing world. Simultaneously, private labels have ascended in the United States, diminishing the value of brands. In fact, he explained, the quality of private label has improved so dramatically that brands are no longer the ultimate sign of quality. Change is in the air.

Creating Scent Success in a Crisis

In tough economic times, fragrance experts focus on quality, value and differentiation

"How does a fragrance speak to an individual consumer?" asked Karen Grant, senior beauty industry analyst, at the NPD Group during Cosmetic Executive Women's "Fragrance Rainmakers" event in New York. Grant and her fellow panelists addressed the current crisis in the fine fragrance industry and outlined solutions for future success. Grant noted that seven out of 10 men use fragrance today, while eight out of 10 women do the same. Meanwhile, the number of fragrance users and frequency of that usage continues to decline. The industry saw 2008 sales fall 2%; this year, the industry is going into the holiday season down 10%. While fragrance is widely beloved by consumers, she said, as an industry "we're not really able to capitalize on that emotional connection with the category." Part of the problem, Grant explained, has been the "sameness" of many fragrances, olfactively and otherwise: "It's increasingly [difficult] to create success today."

Moderator Jenny Fine of WWD Beauty Biz pointed out that 2008's top women's fragrances were *Beautiful*, *Coco Mademoiselle*, *Light Blue*, *Chanel No 5*, *Cashmere Mist*, *Happy*, *Pleasures*, *Euphoria*, *Sensuous* and *Romance*. Grant noted that the majority of those scents have been at counter for a number of years. The fact that *Sensuous* is the only recent addition to the top tier, she said, shows that "it's very difficult for a new launch to create sustainability." Still, she said, the remarkable performance and resilience of established fragrances prove that "they continue to be important to women and drive business overall." Unfortunately, that sustainability is often driven via promotional means. "As much as 50% of the sales of the top brands are coming from gift sets," Grant noted. This means that the juice is not driving the sale, a situation that is escalating. Fragrances traditionally introduced gift sets after six or 12 months on the market. Today, however, those sets are often introduced as early as three months into a commercial release. Consumers, Grant said, are increasingly focused on deals and aren't given time to fall in love with a fragrance. In addition, a new launch is typically going to be off-counter within 12 months, exacerbating the lack of familiarity. Grant added that fine fragrance sales between October and December represent about 50% of sales for the year. More than 20% of the business is done in just two weeks. The stakes are remarkably high. The main reason women buy fragrance is confidence, to feel better about themselves, Grant said. "Companies need to reconnect with that."

Ann Gottlieb, founder of Ann Gottlieb Associates, concurred. Addressing issues in the US market, she said, "We're not offering fragrance that inspires and is beautiful and as magnificent as it used to be." Consumers understand this reality, she said, and take their money

elsewhere. Gottlieb added that, "We have abandoned the majority of the market in favor of targeting a 25-and-under consumer. Older consumers feel somewhat neglected." Meanwhile, she explained, "Younger consumers ... are not particularly loyal." In fact, despite the industry's focus on that group, they represent the largest faction leaving the fragrance market. Marketers hoping to recapture consumer excitement, Gottlieb continued, could take a page from the niche market, which allows for higher price points and juice quality and thus engages consumers. In addition, older women neglected in other channels may find a home in this arena, fleeing a landscape where "everything is too young for them." Gottlieb added, "The intrigue and appeal of niche is that you don't see it everywhere."

Catherine Walsh, senior vice president of American fragrances at Coty Prestige, echoed her co-panelists' sentiments, but provided a more global perspective.

Looking at the fine fragrance world from a macro perspective, she said, paints a more nuanced picture. The US market is down 10–12%, with US retailers looking at a holiday downturn alone of 2–12%, she acknowledged. Those same retailers are forecasting a flat market through 2011. Meanwhile, southern Europe continues to be challenged. However, said Walsh, Australia is poised for strength and China could be up by as much as 10% in 2009. Surprisingly, the UK fragrance market is also strong. In the current environment, she pointed out, leading global brands—Chanel, Dior, Armani, Calvin Klein and Hugo Boss—prove resilient. Dolce & Gabbana has actually increased market share by as much as 30%. Scents such as *Acqua Di Gio* are doing very well. Of the top five global brands, three have cosmetic lines—Chanel, Dior and Armani—proving there is synergistic capacity.

In addition, Walsh underscored the importance of packaging innovation, embodied by "bold creativity." In addition to highlights such as *Fuel for Life*, she said, the *Harajuku Lovers* fragrance line added "excitement and delight for consumers and retailers," adding it "brings theater into stores." Walsh concluded that quality is the foundation of fragrance success, noting that Coty is de-emphasizing promotional add-ons, focusing instead on value. "Know your brand and its values," she said. "Don't steer too far from them; know your audience," whether local or global, and "let it rip. Bring out the most fabulous, best product you can imagine. It has to be the best product in that department."



Catherine Walsh