

# The Turning Point

As economic signs point toward recovery, Givaudan's Gilles Andrier prepares to make the most of the momentum

“In 2008 we went into the unknown under the assumption that [the flavor and fragrance] business is really quite resilient,” says Givaudan CEO Gilles Andrier, “but it had never been tested in such a harsh way.” In 2009 the company reported sales of CHF 3,959 million, compared to CHF 4,087 million in 2008 (on a local currency basis, group sales increased 1.6%). While consumer spending dipped in mature markets, customer destocking was widespread, raw material costs surged and fine fragrance sales were hard-hit,<sup>a</sup> Givaudan noted durability in flavors and consumer product fragrances, reported strength in developing markets, and mitigated exposure via a diverse set of product segments, customers and geographies. Meanwhile, the company managed the crisis by adjusting pricing and reducing expenses. “I think that 2009 was a test both for the resilience of this industry and the strength of Givaudan,” says Andrier. “From both sides, I think we’ve proven the resilience of this business.”

## Lessons Learned in a Difficult Economy

Describing this challenging period, Andrier says, “Anticipation is critical. Things don’t happen the way you plan them. I don’t think that anybody could have imagined that all the headwinds would happen at exactly the same time. We learned that it’s all a question of being humble and having to plan for the unexpected. The better you anticipate, the better you are.”

This year, Andrier’s fifth as CEO, Givaudan marks its tenth year on the Swiss Stock Exchange (**see Givaudan: A Timeline**). The company now estimates its flavor and fragrance world market share at around 25%, with flavors contributing 54% of sales and fragrances 46%; mature markets currently account for 62% of sales, while developing markets account for 38%.

While Andrier observed broad weakness in the market for the first half of 2009, he sees “continuous improving momentum” moving forward. “In the [fourth] quarter [of 2009] we were improving at a rate of close to 5%,” he says. “This is a very positive trend continuing into Q1 [2010]. Obviously the comparables are easier, but ... I think the base is quite positive.” Looking ahead, Andrier sees the company outgrowing the underlying market, powered by new wins in key segments and opportunities in developing markets. And so, even as unemployment continues to slow US and European markets, Andrier sees some recovery—even in fine fragrances—and overall characterizes himself as “cautiously optimistic as it relates to 2010.”

<sup>a</sup>Givaudan reported a 7% decline in fine fragrance sales, compared to an estimated industry-wide drop of 13%.



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## Givaudan: a Timeline

**1820:** Roure Co., a component of modern-day Givaudan, is established.

**1895:** Leon and Xavier Givaudan found their eponymously named company in Vernier, Switzerland.

**1991:** Givaudan and Roure are merged by parent Roche, forming Givaudan-Roure; the company acquires Fritzsche, Dodge and Olcott.

**1993:** Gilles Andrier joins Givaudan following eight years in management consulting at Accenture.

**1997:** Givaudan-Roure acquires Tastemaker.

**2000:** Givaudan-Roure is spun off by Roche and listed on the Swiss Stock Exchange.

**2002:** Givaudan acquires FIS, the flavors division of Nestle.

**2003:** Givaudan acquires IBF.

**2005:** Andrier assumes role of Givaudan CEO.

**2006:** Givaudan announces acquisition of Quest.

**2010:** Givaudan announces 2009 sales of CHF 3,959 million; the company boasts ~8,500 employees spread across 45 countries; the company operates 37 flavor creation centers and 23 fragrance creation centers around the world.

For an extensive diagram of Givaudan’s corporate genealogy, visit [www.givaudan.com/staticweb/StaticFiles/GivaudanExtranet/Publications/giv-history-chart-v6.pdf](http://www.givaudan.com/staticweb/StaticFiles/GivaudanExtranet/Publications/giv-history-chart-v6.pdf).

**Fragrances:** The fragranced consumer product category has displayed buoyancy in the down economy, excepting air care, which is particularly discretionary and does not yet have a significant foothold in the more robust developing markets. Oral care, on the other hand, has experienced growth, supported by increases in the developing world as dental hygiene gains importance.

**Flavors:** While flavors have been hit by destocking, particularly in the United States, the category has still experienced growth. Even as the more discretionary categories such as beverages declined in the first half of 2009, Givaudan's balance across flavor segments buffered it from overall declines. Flavors have also benefited from the company's R&D and innovation efforts across health and wellness platforms. "Last year, 30% of all of our flavor briefs were health and wellness-related," says Andrier. These have been powered by advances in salt and sugar replacers and enhancers and bitter blockers that have resulted from investments in fundamental taste and smell research. "This is a very encouraging segment for us," says Andrier. "It's something that we started three or four years ago; now we have over CHF 120 million a year in sales. It's a real business and market, [for which growth] is incremental to the market size of flavors. This is a good example of what you can do when you actually focus on R&D and innovation."

**Customers:** Over the past 15 years, Givaudan has broadened its customer base and now serves a diverse portfolio of global, international, regional and local clients—a strategy that Andrier says has served the organization well in the tough economy. In seeking to grow this base further, the company continues to focus on identifying segments in which it has a relatively low market share. Andrier sees Givaudan's ability to serve a growing roster of existing and emerging clients as a function of its scale, particularly in the wake of its acquisition of Quest.

## The Quest Factor

Indeed, Andrier credits much of the company's stability to the synergies created by its acquisition of Quest. "We would not have been in such relative good shape with Givaudan standing alone," he says. "We acquired Quest for multiple reasons—scale and complementarities—so I feel very strong about the future for Givaudan."

At the time of the acquisition, Givaudan highlighted Quest's existing strengths in Asia-Pacific, Latin America, Eastern Europe, Africa and the Middle East as crucial assets. When the deal was announced, Andrier said, "We are very excited to have this unique opportunity of creating an unrivalled industry leader, building on the strength, momentum and common values of both companies." Today, he says he feels vindicated by the outcome. "All the assumptions we made about the positive synergies in combining both companies actually happened," he says. "When you do an acquisition, it's not just about acquiring turnover; it's really about thinking how the two companies can do better combined than standing alone."

Andrier adds that the combination of Givaudan and Quest allowed the company to sustain sales and profitability during a challenging 2009 and capture an estimated 25% of

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the flavor and fragrance market via “natural hedges,” sheer scale and R&D investments. “Obviously we are competitive people,” he says, “so we want to grow our market share. You can also have market share erode. Nothing is granted forever.”

As the economy begins its slow recovery, Andrier is focused on leveraging the company's assets to make the most of the upturn. “We are at a turning point now,” he says, adding that Givaudan's multidisciplinary teams are currently focused on “customer intimacy.” “You can do that if you have the scale,” he says. “I think that gives our clients the ability to access the best resources and to feel taken care of, understood.” This includes an in-depth understanding of the sensory aspects of clients' brands, allowing the supplier to develop flavors and fragrances “in a much more intimate, dedicated, meaningful and relevant way. That's what they expect from us.” First and foremost, Andrier describes the company as a solutions business. “That's the way we've shaped Givaudan going forward.”

He adds, “I don't see any magic bullet that is going to change the way we create fragrances and flavors and suddenly create a huge additional application of fragrance or flavors. This is a business that has always grown in a very steady, stable and resilient way.” Yet even as the core of the business is relatively steady, Andrier notes that there are dynamic segments that will help drive growth, including developing markets, health and wellness solutions, new molecules, and other technologies. “It's very exciting.”

### A Strong Footprint in Developing Markets

Last year, Givaudan's developing market sales grew 9.3%, raising the segment's share of total sales to 38%. “It really was an outstanding year,” says Andrier, noting that such growth—witnessed throughout the industry—has helped offset declines in mature markets and categories such as fine fragrances. “Having this very strong [presence] in developing markets in previous years, and leveraging the unique strengths that Quest had in certain markets where Givaudan was weaker—Southeast Asia, Indonesia, India, South Africa and Mexico—expanded the footprint and the presence of [the company]. That really helped us going through the crisis.”

The company has made several recent investments in this “global footprint,” including expansions of commercial offices in Moscow and Dubai. “You can develop a fragrance or flavor anywhere in the world, leveraging the network of perfumers and flavorists on the exact same standard palette of ingredients,” says Andrier. “You can sample anything in the world and it will taste and smell exactly the same.” The results of this scope, as mentioned, have been notable. In 2009 Givaudan reported strong sales in China, India, Indonesia, Brazil, Argentina, Africa and the Middle

East. “Ten years ago we were in the range of 15–20% sales in developing markets,” says Andrier. “Now we are double that. The growth rates [for Givaudan] in developing markets in the last 10 years have been four times what they were in mature markets.” Driven by demographics and client strategies, the push to reach billions of untapped consumers is likely to be a long-term phenomenon. “A consumer in Asia spends about 20 or 30 times less on shampoo on average than somebody in the United States or Europe,” Andrier notes. “People using such consumer products and consumers trading up and going after more sophisticated products as their income rises [are] going to feed and fuel the growth in developing markets.

“What is the share going to look like in 10 or 15 years?” says Andrier of the developing world's share of the total market. “I think you could expect [it to reach] 50%.” After all, he says, “We have gained [on average] two percentage points of share of developing markets a year.”

### R&D, Innovation, Creativity and Technology

In 2009, Givaudan reinvested 8.2% of sales into R&D. “This is all about having the most relevant R&D,” says Andrier. “It's critical for our plans, but also for [ensuring] this industry is not commoditized, which I think is the biggest threat the industry has over the next 10 or 20 years. I think we have a unique business, a very exciting business that is all about taste and smell—very powerful on memory [and] emotion. Commoditizing this industry would be shameful.”

To that end, Givaudan has pursued innovation, R&D and technology in both flavor and fragrance. “The health and wellness platform is about replacing salt, sugar and umami and expanding those taste profiles for our clients [who] are investing in those fields,” says Andrier. The company's initiatives in this area include natural umami enhancers and salt-reducing flavor systems (TasteSolutions), and human taste receptor research for novel sweetness enhancers and bitter masking agents.

In addition, says Andrier, Givaudan is devoting innovation and R&D to the discovery of new flavor and fragrance ingredients, “giving [formulators] the ability to create the most relevant fragrances and flavors vis a vis consumer expectations.” These efforts include the discovery of new molecules based on the analysis of cooking techniques (TasteTrek), and a new high-intensity cooling agent for oral care. Meanwhile, Andrier says, “We have never stopped investing in what I think is essential for perfumers—continuously enriching the palette of ingredients. New molecules and ingredients are critical to make unique fragrances and to sustain the creativity of the perfumers.” Last year the company launched new perfumery molecules, including W Mystikal, a resinous woody note with ambery nuances, and W Petalia, a rosy floral with lily of the valley nuances). In addition, it has continued to pursue sustainable naturals in both flavors and fragrances as a facet of both creativity and emerging consumer demands for sustainably natural product claims.

Elsewhere, Givaudan has worked to innovate in controlled flavor release (PureDelivery), and fragrance encapsulation for controlled fragrance delivery and malodor reduction in laundry applications (Mechacaps).

## Looking Forward: Diversity and Passion

“I’ve really kept this great excitement,” says Andrier of his time so far at Givaudan. “We have grown this company a lot in terms of expanding this idea of servicing and partnering with our clients, which I think is very critical. We see ourselves as a service [that is] innovation-driven.” Despite the disciplined nature of the organization, Andrier continues to see Givaudan as a culture in which “people take freedom to innovate.” It is precisely this structure that has overseen the largest projects of Andrier’s tenure so far: the acquisition of Quest and Givaudan’s rollout of SAP enterprise software, which is set for completion in 2011.

“Every company in this industry has a unique culture, which I think is important,” he says. “Our culture is supported by our people—the DNA of our company.” This complex DNA comprises both a diversity of nationalities and strains of corporate cultures that have been absorbed over nearly two centuries of mergers and acquisitions (see: **Givaudan: a Timeline**). These inherited cultures, says Andrier, “have all nurtured and enriched ... Givaudan.

“We have not wiped out the cultures,” he adds. “We have built on them. I think it’s highly critical because this business requires diversity in the way we create fragrances and flavors for our clients.”

In addition to a diverse corporate genealogy and makeup, Andrier sees active engagement as crucial to the company’s success. “It’s really about passion. It starts with the perfumers and the flavorists who elect to do this job when they’re 18 or 20—when you have to formulate for the next 45 years, you had better be passionate about it. You’re going to lose multiple projects in your career and be disappointed. You need to have thick skin. Otherwise you will lose confidence. If you lose confidence, a fragrance or a flavor doesn’t taste or smell good and you’re going to lose the next project, and so on. It’s a vicious spiral. That’s why it starts with the perfumers and flavorists. They love what they do, and that’s what keeps them confident and successful going forward. It’s also true for everybody else in our company. They love this business. It’s not difficult to love fragrances and flavors, because it’s such an exciting

industry. But, at the same time, to keep on doing so for years means you need a level of engagement.”

Andrier sees all of these cultural aspects as crucial to what he calls the sustainability of the business. “I want to leave, when the time comes, a company which is even more sustainable than before,” he says. “What is going to make this company stronger to live the next 50 years? We’ve talked about culture and DNA: for me those are the leading areas of support to make a company sustainable and strong—development, sourcing, environment, finances, growth, etc. People are our essentials.”

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