

On the Other Side of the Crisis: The Ingredient Supplier's View

An end to destocking and the transformative effects of the last 18 months

“What a difference a year makes,” said Steve Somers, owner and president of ingredient supplier Vigon International, in a spring 2010 newsletter. He was speaking, of course, about 2009, which during a recent visit to the company’s East Stroudsburg campus he dubs “the year of inventory reduction.” Somers notes that the breadth of the economic crisis in 2008 and 2009 was such that no industry was spared—even historically steady businesses such as flavors and fragrances. As the economy collapsed and customers cut back on inventory, Vigon and its competitors suffered declining sales. The change was sudden, rather than gradual, compounding the company’s challenges.^a Somers says the company solicited employee suggestions and held monthly staff meetings during that time in order to reassure its employees, who were reasonably concerned as the overall economy suffered. Today, as Somers explains, the industry has not only stabilized, but amidst recent signs of recovery, his organization experienced a very busy first quarter as pipelines filled. This spike in activity continued into the second quarter, but Somers is left to wonder, “Will the other shoe drop?”

Certainly, based on recent lessons, it is clear that the market is more dynamic than in past decades. For Vigon, 2008 was up, 2009 was flat and now 2010 is shaping up to be up significantly. What 2011 might bring is difficult to say. Meanwhile, the F&F industry has grown smaller, consolidating the customer base for ingredients and generally driving profits down—a scenario also facing the companies Vigon serves. And so, even as better times return to the company and the industry, Somers stresses that key lessons have been learned, and change must be the order of the day.

In 2009 Somers’ organization focused on change, innovation and adding value for customers, and invoked the now familiar mantra “do more with less.” This, in Somers’ typical optimistic style, was treated as an opportunity to improve pricing, quality, service, systems and customer-supplier relationships, all the while staying focused on details. “It’s the little things,” says Somers. “Companies might excel at chemistry and formulation, but then they flub simple things like shipping.” Again, these strategic points parallel many of those enacted by flavor and fragrance suppliers and their customers. “If there is one thing that the last year has taught us, it is that the same no longer works,” Somers said last year. “All businesses, even those that are successful, now realize the challenges at hand and are looking to figure out better ways of delivering improved value to their market.”

Changing customer needs, paired with economic realities, have driven the changes within Vigon and other supplier companies. As mentioned, the F&F industry has consolidated and many companies are carrying smaller inventories, necessitating just-in-time supply programs. As a result, Somers has observed that today 30% of orders of in-stock materials are shipped same day. In addition, for small and medium-sized customers, Vigon might end up supplying up to 90% of the companies’ palettes. This, says Somers, removes the inventory burden from risk-averse customers, who also may have smaller sourcing departments that do not have sufficient storage space. These changes have also necessitated the supply of varied pack sizes, the abolition of minimum order thresholds and automated systems, including ordering documentation provided online. Somers says that today the majority of orders are e-mailed by customers.

Today, the company is seeing growth among consumer product companies, especially on the flavor side, which typically requires value-added solutions. Regionally, California and the Midwest are also highlights. Meanwhile, growth is moving overseas; the company now ships to 45 countries.

A tour of the company’s manufacturing facility and distribution building displays Vigon’s strategy to evolve in line with its customers’ needs. The manufacturing operations include vacuum distillations, extractions, reactions, and liquid compounding, in addition to a process development lab, which can support small-scale production projects. Somers is currently running the distillation activities six days a week and is expanding the process development lab. The company’s warehouse site, on the main campus, includes bar-coded inventory control, real-time inventory programs, and automated generation of shipping documentation in support of its increased business. Sample system protocols have also become automated to address the quick turnaround demands of the industry. Meanwhile, the company is expanding its QC laboratory.

The expansion of activities has occurred on the same site begun by Vigon founder Victor Fulgoni in 1988. Ten years later, Somers purchased the company. From 10 employees and 8,000 sq ft of space, the company now employs ~55 and boasts facilities of 76,000 sq ft. Somers, spurred by his chemistry background, considers Vigon a technical company. Assessing the future of the industry and his own organization, he says that the focus must remain on “moving from good to great.”

^aFurther reading: J Simons and E Haley, “More (Financial) Stress to Come,” page 38, August 2010, *Perfumer & Flavorist* magazine.