Overachievers and Underachievers: What it Takes to Beat the Industry Average

Part 2 of 3: Benchmarking the fragrance industry—examining current trends and future growth[a]

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In 2011, students at the Samuel Curtis Johnson Graduate School of Management at Cornell University, in conjunction with Marcum LLP, a public accounting and advisory services firm, conducted a survey of the fragrance industry in the United States. The following is the second in a three-part series of articles to be published in *Perfumer & Flavorist* magazine in which the survey data will be shared with the reader and analyses offered. The Cornell student authors conducted this survey independently; subsequent analysis is the product of their collaboration with Kevin McGann, a partner at Marcum LLP and its fragrance industry practice leader.

The three-part series resulting from this research will examine collected data by size of surveyed company (based on revenue) and respondents' rates of growth over five years, and will offer the authors' conclusions based on answers to three industry-specific questions:

- What drives growth?
- What are the key competitive challenges?
- Where are the growth opportunities?

Survey Methodology

The survey construction was shaped via qualitative research with industry experts. Those that took the survey were offered modest incentives. The data discussed in this article series comprises feedback from 70 companies. This total was achieved after the elimination of bad data (ex: participants that took less than 15 minutes to fill in the survey or skipped vital information such as revenue or number of employees).

Analysis by Growth Rate

As discussed in the first part of this series, the members of the fragrance industry have been achieving growth domestically largely through the acquisition of other companies as well as of market share. In other words, growth is not being fueled necessarily by innovation as much as through general market maneuvering.

In fact, 50% of respondents either strongly agreed or agreed with the statement, "Within the United States the majority of growth comes from taking competition's market share." Within this group, there is an interesting distinction wherein the large companies (defined in the first article in this series) agreed to this statement at a rate of 76%, while only 5% small companies found this to be the case. By way of comparison, 74% of all of the surveyed respondents either agreed or strongly agreed that, "Outside the United States, the majority of growth comes from market expansions."

Based on this research it is clear that companies are growing by capturing their competitors' market share domestically. So the question the present article posits is: what makes some companies better equipped to capture market share (high growth), and what makes other companies more susceptible to loss (low growth)?

High Growth vs. Low Growth

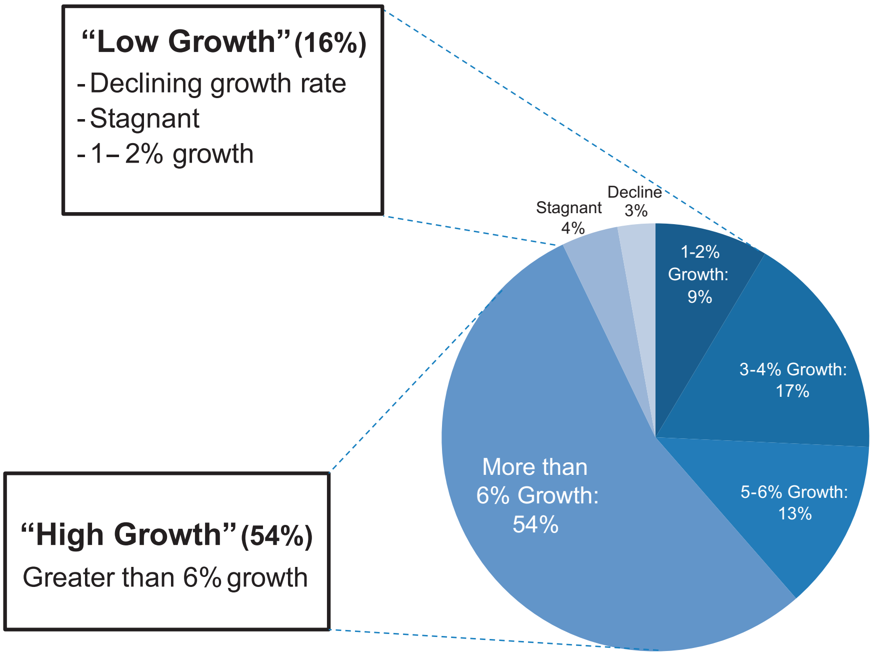
First, one must define these subsets within the sample. For the purpose of this analysis, the author and researchers examined the particular characteristics of two segments of the respondents to the Marcum/Cornell fragrance industry survey. They are defined as low-growth and high-growth companies. The group identified as low-growth (16% of respondents) experienced 1–2% overall growth, which, when compared year-over-year, amounted to a declining rate of growth. The group defined as high growth (54% of respondents) experienced greater than 6% growth (**F-1**).

Standout Similarity

Before discussing the distinctions between the two groups, it is crucial to acknowledge a notable shared similarity. All companies surveyed generated the majority of the revenue from the same set of product lines: fine fragrance, household, personal care (liquid and bar soap) and air fresheners (including candles). It can be concluded that whether big or small, fast growing or slow growing, these are the products that drive the industry today.

[a]Part 1 in this series, "One Size Doesn't Fit All: Varying Factors of Success in Small-, Medium- and Large-sized Fragrance Manufacturers," appeared on page 50 of the August 2011 issue of *Perfumer & Flavorist* magazine; *www.perfumerflavorist.com/magazine/pastissues.*

There is a distinct difference between high-growth and low-growth F&F firms **F-1**



Segmenting "Low Growth" and "High Growth" manufacturers allows for analysis of strategies of successful companies

High- and Low Growth: What Makes the Difference?

To answer this question, the researchers looked at a number of points of differentiation among the surveyed group. These include diversification of customer base, percentage revenue based on product line, benefits provided to employees and product identity.

Diversification of Customer Base

When it comes to diversification of customer base, the Marcum/Cornell survey considered how many customers it took for each respondent to generate 75% of their overall revenue. Among the majority of high-growth group members, that subset of revenue-generating customers totaled up to 20. By comparison, in the low-growth group, that total was never higher than 10.

Likewise, the median number of customers generating 75% of revenue for high-growth companies was 6–10, while the median for low-growth companies was 1–5. Put differently, the high-growth group members were twice as diversified as the low-growth group members and had on average twice as many core customers. As a result, the Marcum/Cornell survey concludes that greater diversification in a company's revenue-generating customer base is instrumental for a company to achieve greater than 6% overall growth.

Percentage Revenue Based on Product Line

For the purpose of this survey, the authors looked at the types of products produced and the associated revenue generated. As noted above, there were areas of similarity between all respondents when it came to product type. However, one particular product type—aroma chemicals/essential oils—emerged as a notable differentiating factor between high-growth and low-growth companies. Survey results indicated that high-growth group members generated 20% of their overall revenue from this product segment, compared to just 10% among the low-growth group members. Clearly, aroma chemicals/essential oils are either/both a rapidly expanding market segment or/and a highly profitable product segment.

Another datum worth noting is that low-growth companies had three times the revenue generated from the Marcum/Cornell survey's miscellaneous "other" category of products than high-growth companies, leaving the authors to conclude that perhaps a lack of focused energy, research or resources in a finite set of product lines is a detriment to a company's business strategy.

Human Capital

In the previous article, the authors made the logical conclusion that larger companies have greater resources dedicated to acquiring more and better talent, whether in research and development or sales. This article's analysis, however, is not based on size, but on percentage growth (high vs. low), regardless of the size of the company.

The Marcum/Cornell survey found that high-growth companies, on average, are two and a half times as likely to provide 401K benefits to their employees as low-growth companies, and twice as likely to provide defined benefit plans. This draws a direct correlation between the quality of employees and the success of a company, presuming that better quality candidates are attracted by better benefits. It also confirms the fact that investing in employees is an investment in the continued growth of a company.

A large percentage of respondents in the high-growth group (61%) noted that the expertise of their sales people was equally as important to customer management and perfumery. In other words, a high-growth company must exert the same amount of energy training its own people as it does in educating and selling to the marketplace (**F-2**).

Product Identity

Enough emphasis cannot be placed on product identity when distinguishing between the high-growth and low-growth sets of fragrance manufacturers. When asked to describe their products, 79% of the surveyed high-growth companies either agreed or strongly agreed to the descriptive term "innovative" and 71% agreed to the descriptive term "unique." By contrast, of the low-growth companies, when given the same opportunity to identify with the descriptive terms, only 36% identified with the term "innovative" and 45% with the term "unique."

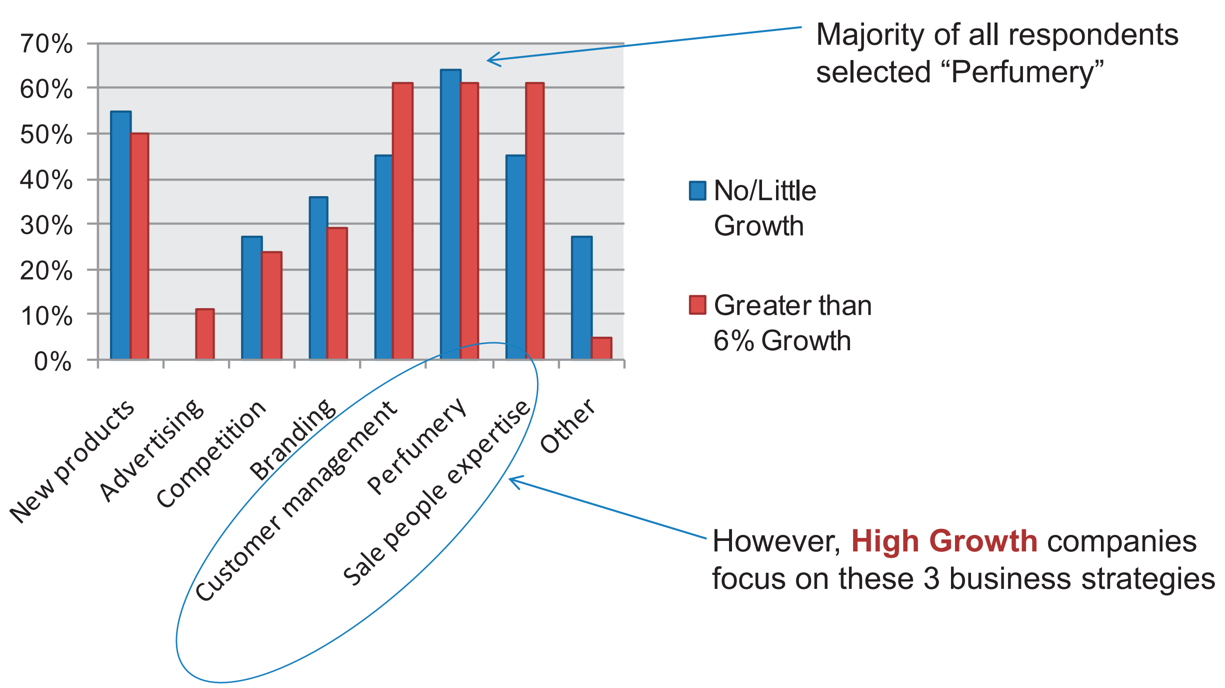
This stark contrast of almost 2:1 clearly indicates that innovation and uniqueness in the marketplace are keys to a successful growth strategy. Also worth noting, 63% of low-growth companies identified their market strategy to be based on the descriptive term "value." This demonstrates a somewhat counterintuitive result. This is an industry that demands innovation. Positioning as the lowest-price solution is not always the best strategy (**F-3**).

Upcoming and Final Analysis: Conclusions and Recommendations

The authors have looked at what makes one company grow large and another stay small. They have also looked at what makes a company stay competitive and what creates underperformance in others. In the third and final installment of this series, the authors will process all of this information from these multiple perspectives into strategic recommendations for success in the fragrance industry overall.

The data collected in the Marcum/Cornell survey has provided valuable insight into the real-world operations of a deeply segmented industry across a broad spectrum of qualifying factors. To the extent that the data provided to

Strategy: focus business strategy on internal staff and external customers **F-2**



High Growth companies place equal importance on "Perfumery," "Customer Management," and "Sales People Expertise"

Defining product strategy beyond pricing **F-3**

79% 71% 69%

High Growth Companies

Strong product identity

HIGH GROWTH	Innovative	Unique	Value	Sustainable Strategy
Strongly Agree	32%	37%	37%	26%
Agree	47%	34%	32%	47%
Neither Agree nor Disagree	13%	24%	24%	21%
Disagree	8%	3%	5%	3%
Strongly Disagree	0%	3%	3%	3%
Total	100%	100%	100%	100%

36% 45% 63%

Low Growth Companies

Poor product strategy

NO/LITTLE GROWTH	Innovative	Unique	Value	Sustainable Strategy
Strongly Agree	27%	36%	27%	9%
Agree	9%	9%	36%	36%
Neither Agree nor Disagree	45%	36%	18%	45%
Disagree	18%	18%	0%	9%
Strongly Disagree	0%	0%	18%	0%
Total	100%	100%	100%	100%

High Growth companies focus not only on value products, but also on creating innovative and unique products—and believe this strategy is highly sustainable

date has not answered by implication the three questions mentioned at the beginning of both parts of this series, the authors will address them specifically in the third installment, as well as offering conclusions as to how to nurture success in the fragrance industry.

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