Be Different

If fragrance companies and their customers are to protect their bottom lines, differentiated fragrances among products will become crucial

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The fragrance market rebounded quite strongly from the 2008 global financial crisis, fuelled by upbeat demand in emerging markets—notably Brazil and Russia. But as consumers brace themselves for the prospect of a double-dip global recession and as discretionary spending gets squeezed by rising food prices—even in fast-growing emerging markets such as China—points of differentiation between products will become more important if companies are to protect their bottom lines.

What lessons can be drawn from the post-Lehman Brothers era, and how is the strategic playing field for fragrances likely to evolve in the event of a new, potentially more acute global economic slowdown?

More than ever before, fragrances will need to differentiate from the crowd—with greater emphasis on the personalization of brands, stronger strategic focus on artisanal and natural products, and products that stand out for their intimacy and uniqueness.

Latin America Throws Lifeline Post-2008

When the global credit bubble burst in 2008 and the walls of once seemingly formidable financial institutions began to crumble, the fragrance industry—spearheaded by the likes of L'Oréal, Coty, Procter & Gamble, Avon and LVMH—found a modicum of respite in the emerging markets, particularly those in Latin America.

Brazil, Argentina and Mexico were three of the world's top five growth markets for fragrances between 2008 and 2010—measured in terms of incremental US dollar value—generating approximately $1 billion of additional retail business between them, according to data from Euromonitor International. Avon Products Inc., for example, picked up $125 million of new retail business across the three markets.

The two non-Latin American countries making up the top five growth stories in the post-Lehman Brothers era were South Africa and, rather more surprisingly given its exposure to the banking crisis, the United Kingdom. A burgeoning black middle-class, characterized by its youthfulness and high aspirations, was at the core of robust sales in South Africa, while growth in the United Kingdom came from increased demand for premium fragrances. What is striking is that trading up in fragrances seemed to fly in the face of the United Kingdom's weakening middle-class spending power (**T-1**).

Spendthrift Generation Y

The United Kingdom and Brazil, the two strongest performing fragrance markets in the world between 2008 and 2010, actually have more in common than one might think. The first point to consider is that Brazilian consumption culture is geared to spending rather than saving, despite some of the highest interest rates in the world. It is a trait rooted in the hyperinflation era of the 1980s and 1990s when the value of wages eroded rapidly, encouraging households to off-load their disposable income quickly.

The parallel in the United Kingdom is seen in trends among young middle-class adults in the 17–34 age group who are often referred to as Generation Y. They are,

Key Trends

- A greater emphasis on the personalization of brands will emerge, particularly in the higher value developed markets.
- Gen Y are key consumer targets across developed markets, and a clear differentiation in marketing and advertising, as well as scent, for personal, even intimate engagement through real and virtual platforms, will be required to entice these tech-savvy and demanding shoppers.
- Limited edition branding is likely to become increasingly visible in fragrances, creating an aura around an umbrella brand.

Fragrances: top five growth markets by incremental value 2008–2010 T-1

Market	Absolute growth 2008–2010 (US$ million, constant prices)
Brazil	775
United Kingdom	140
Mexico	127
South Africa	103
Argentina	98

Source: Euromonitor International

United Kingdom: fragrances by category 2008–2010 (US$ million, constant prices) T-2

	2008	2010	Growth % 2008-2010
Premium women's fragrances	785	891	13.5
Premium men's fragrances	483	514	6.4
Mass women's fragrances	166	170	2.4
Mass men's fragrances	41	39	-4.9
Premium unisex fragrances	5	7	40.0
Total	**1,480**	**1,620**	**9.5**

Source: Euromonitor International; note: values have been rounded

like their Brazilian counterparts, spenders rather than savers, which marks a shift in UK consumption culture since the 2008 financial crisis when it became much harder, for example, to secure a foot on the property ladder. Indeed, the concept of home ownership itself, once the bedrock of material ambition in the United Kingdom, lost its appeal among young people as the real estate market went into meltdown.

The United Kingdom's increased spending on premium fragrances between 2008 and 2010 was, therefore, indicative of a Generation Y culture that had become skeptical about the macroeconomic future, or at best had been impacted by the financial crisis enough that it preferred to enjoy today what it might not have tomorrow (**T-2**). In short, in both the United Kingdom and Brazil, consumers are reluctant to save or invest their money and instead have a penchant for maximizing their quality of life in the present.

Eyes Wide Shut

The big question is how the fragrance market will continue to evolve in the event of a potentially more acute period of global economic instability. The economies of the emerging markets could, for example, prove less insulated than in 2008, not least because inflation is a global problem, driven by rising commodity costs. Even China's domestic spending, a linchpin of global economic growth in the post-2008 period, is under downward pressure from higher inflation rates.

More than ever before, fragrances will need to differentiate from the crowd—with greater emphasis on the personalization of brands in higher value developed markets such as Western Europe, stronger strategic focus on artisanal and natural products, and products that stand out for their intimacy and uniqueness. Fragrances that break with convention could also become popular.

The cult beauty brand Illamasqua is a case in point. In its first foray into fragrances, it is tapping into the personalization trend by launching *Freak* in the United Kingdom. Packaged in an art deco bottle that reclines on its side, *Freak* was inspired by the darker side of Stanley Kubrick's 1999 film *Eyes Wide Shut*, according to Illamasqua founder Julian Kynaston. It is a potentially risky strategy to design a fragrance that self-consciously appeals to the alter ego of its consumers—mixing less conventional blends such as opium flowers, belladonna and black davana—but this is an illustration of how the bar is being raised in terms of the creative risk-taking behind branding.

Critically, 20- and 30-somethings across the developed markets are the key consumer target. They are also the world's most tech-savvy, sophisticated and demanding shoppers. And if brands need to differentiate in their design and scent to entice this Generation Y, so the marketing and advertising must do the same.

Super-premium Brands for Bulletproof Consumers

Emerging markets are beginning to see ramped up investment in super-premium fragrances as companies seek to harness the spending power of the world's most financially bulletproof consumers. Russia, Brazil, China, India and Saudi Arabia are forecasted to comprise five of the 10 biggest projected growth markets for super-premium fragrances by 2015, according to data from Euromonitor International (**T-3**). Indeed, Russia is on course in 2011 to dethrone the United Kingdom as the highest value market in the world for luxury fragrances.

Super-premium fragrances: key forecast growth markets **T-3**

Market	Absolute Growth, 2010-2015 (US$ million)
Russia	68
Germany	54
Brazil	42
Saudi Arabia	41
France	38
Italy	35
China	29
United Kingdom	29
India	22
Spain	21

Source: Euromonitor International

The fragrance industry is currently falling over itself to understand what high net worth individuals in emerging markets want from a scent. Yet, aspiration issues—probably more than the scent itself—are likely to be key. Specifically, prestige credentials and what brands convey about social status will tend to determine performance in the upwardly mobile consumption bases of luxury goods hot spots, such as China and Brazil.

The latest super-premium fragrance from Giorgio Armani, *Armani Prive La Femme Bleue*, has the type of prestige value that will appeal to luxury goods fashionistas from emerging markets because it is limited to only 1,000 bottles. This type of limited edition branding is common in luxury wines and spirits, and is likely to become increasingly visible in fragrances going forward. The limited edition brands themselves are not about making money, but about creating an aura around an umbrella brand.

What seems clear is that a new and potentially tougher period of global economic instability does not necessarily mean a curb on fragrance spending or on investment from the leading players. The industry has shown itself to be resilient to negative shifts in discretionary spending power, especially in mature markets, while the emergence of a spendthrift Generation Y has created a lucrative new consumption pool. The strategic difficulty, as ever, is how to differentiate from competitors, and over the year ahead, that will be the sternest test.

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