New Realities, New Opportunities

How value-added services, consolidation and core lists have reshaped the F&F industry, creating new openings for midsize and small companies

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Years ago, when there were so many more F&F suppliers than now, companies sought to distinguish themselves from their competition. Size of the companies then was not as much a factor as it is today, the playing field was a bit more level. First came the neophyte marketing departments, offering broad industry info and a concept or two for clients. This caught on with the client companies since it was a value-added service offered for free. As time went on, the race for recognition quickened and more sophisticated marketing departments were established in even more supply companies. The concept iteself was no longer good enough. Flavor and fragrance suppliers began to develop package prototypes, trademark names, even some raw consumer testing to reinforce the power of their concept. And so it grew.

The Value-added Boom

Next came technological innovations, studies, etc. The clients loved these and began to take the offensive, in some cases asking that flavor and fragrance suppliers pick up the tab for consumer tests. Then came the demand for regulatory, toxicology experts on staff, etc. Pretty soon some flavor and fragrance professionals began to wonder what business they were in. In the meantime, another phenomenon was taking place. The client companies were consolidating, becoming bigger overnight. The flavor and fragrance houses recognized that to be able to continue to supply and service these clients they had to do the same.

The stakes rose for flavor and fragrance suppliers; while there were fewer competitors, competition grew in intensity especially among those companies that had distinguished themselves through significant acquisitions. The result of these changes was a new urgency to win, win, win. More and more money was being spent without any quantitative return. The pressure on supply houses became even more intense, and the client companies became besieged by suppliers trying to sell their ideas, technologies and programs. The largest clients began to call a halt to this unmanageable state of affairs.

Emergence of Core Lists

A system emerged in which clients selected a small number of suppliers that, when taken together, theoretically represented what the industry as a whole could offer, thus satisfying the clients' plans for new ideas and growth. That only a few houses would be chosen by clients triggered the beginning of the stratification of flavor and fragrance houses from big to small. To many, the system seemed to work. As a result, core lists have become increasingly widespread among the larger consumer goods companies.

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Today, the largest of the flavor and fragrance companies post annual sales greater than $1 billion. That means that just in order to stay even with previous year's sales and allowing for attrition of current sales of 10–20% due to shorter product life cycles, etc., these flavor and fragrance giants have to bring in hundreds of millions of dollars of new business. To add these crucial millions of dollars to the top line, the largest flavor and fragrance houses constantly vie for a position on key core lists. To make the commitment for a coveted core list spot requires careful and involved calculations to determine what profit can actually be gained from such an undertaking. Included in those calculations are the value-added free services and aggressive programs that houses currently provide to top clients. This mass of services has coalesced into mini divisions within flavor and fragrance houses which are completely dedicated to top clients. Due to the magnitude of resource commitments and competitive pricing required to attain a core list status, opportunities are virtually closed to all but the largest handful of flavor and fragrance houses.

Core listings have precipitated a change in the ability of the largest flavor and fragrance companies to provide traditional levels of service, attention and time to smaller clients in the market. Wins of $500,000 can no longer sustain a top supplier that is in stiff competition with other comparable houses. Everybody is running lean today, and one cannot be all things to all people.

New Opportunities

Core listing has opened a new world of opportunity for the medium and smaller companies to step up and move aggressively to fill a void and win those $500,000 pieces of business. Consider this: As cited in *P&F* magazine's "2011 Top 10 Leaderboard," the drop off from the fifth largest company in the flavor and fragrance industry to the sixth largest company—effectively the beginning of the midsize companies—is nearly $800 million. It would seem that this separation in scale offers the midsize and smaller companies the opportunity to focus resources more efficiently on a select group of clients that have not yet joined the core list club or have a loose listing of those with whom they will deal. The news gets even better for the smaller companies that are left virtually unfettered to pursue the 1,000-plus smaller clients scattered all over the country.

There are other ways in which core listing has been a boon to the midsize and smaller flavor and fragrance companies. There are some clients that will work with companies that are not on their core lists—if those suppliers bring a novel concept or technology that can be embraced by the customer. Thus, while smaller flavor and fragrance companies are not in the big game, they can, through some out-of-the-box initiatives, pick off a nice piece of business through the back door with a core list company.

The midsize and smaller houses need a sound strategy centering around opportunistic thinking, objectively determining one's strengths and weaknesses, and identifying a core list of clients that is a good cultural, product and philosophical fit for the supplier. These flavor and fragrance suppliers could perhaps go so far as to present these select accounts with a program highlighting their importance and relevance to the supplier's own growth plans, thus insuring the best service, product and innovation—a core list in reverse, so to speak. Lastly, these suppliers need to hire out-of-the-box, edgy creative types, committed and driven sales people, and perhaps a seasoned technical consultant who might just be able to reinvent the wheel and present it as new. There is a precedents for such things. For example, perhaps the reader will recall the Charles of the Ritz Group's Aroma Disc concept resurfacing some 25 years later in the guise of Febreze Scentstories.

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