

F&F Focuses on Emerging Markets for Growth

Companies expect Asia, Latin America will grow the most rapidly over the next five years

As mature markets in the United States and Europe face a treacherous economic environment, flavor and fragrance companies have set their sights on new areas for growth over the next five years, mainly emerging markets. Market research firm Global Industry Analysts Inc., for instance, predicts that global perfume and fragrance sales will climb to \$36 billion by 2017, marked by steady growth in Asia-Pacific, Eastern Europe and Latin America.

The top F&F industry players based on sales—Givaudan, Firmenich, IFF, Symrise, Takasago, Mane SA, Sensient, Frutarom, T. Hasegawa and Robertet—have all cited Latin America, Asia, the Middle East, Africa and Eastern Europe among their most rapidly growing markets.

“We see the emerging markets as being the growth driver for the next five years,” says Gilles Andrier, Givaudan’s CEO. “Today we have 43% of sales in emerging markets. We have an objective to reach 50% in the next five years.”

North America and Western Europe, Japan and Australia represent 57% of Givaudan’s total sales, though Andrier says the mature markets are growing six to seven times slower than the emerging markets.

As a result, clients are counting on emerging markets for growth. Latin America, Andrier says, has great growth potential for fragrances, although flavor and fragrance are both strong. “At the end of the day, it has to deal with the whole range of consumer goods,” he says.

Asia is also a powerhouse.

“We’ve always taken the lead to invest early in China and India,” says Andrier. “Today they are countries that represent high potential. We have other significant investments in Asia-Pacific. Africa will [also have] growth potential for the future.”

There’s also a growth story for Eastern Europe, where Givaudan just made a major €130 million investment in Hungary where production is ramping up.

“We are in a very unique position by having a global footprint with perfumers and flavorists and local people being trained in our perfumery and flavorist training schools,” he says.

Echoing similar themes, Symrise AG expects Latin America and Asia to lead the company’s growth story over the next five years and longer term.

In the first half of 2012, the company’s sales grew in North America by 10%, Asia-Pacific by 4%, Latin America by 18% and in EAME—Europe, Africa, Middle East, region—sales were steady year-over-year.

“If you look at the growth rate of the markets, we were growing 10% in North America,” Symrise spokesman Bernhard Kott tells *P&F*. “Can you imagine that 10% is a sustainable growth number in North America? This would be really quite ambitious.

We have to grow always three times higher than the market growth. I think this is very difficult to achieve. So America, of course, would be high on our agenda—this is a focus market—the single biggest market in the world, but if we are talking about real growth in percentage over time, then the focus might be more on the emerging markets.”

Symrise’s fastest-growing region right now is Latin America at 18%, with the strongest areas in fragrance, fine fragrance, personal care and oral care.

Brazil is doing particularly well, based on consumers’ growth in disposable income. Symrise has invested about €12 million in a new facility near São Paulo, roughly tripling its space and boosting its capacity to develop products tailored specifically for the rapidly growing Latin American market.

“The people in Brazil are spending two times more than somebody in North America and even more than people in typical beauty countries such as France,” Kott says. “[There’s] lots of consumer spending in beauty care right now. And we see increasing disposable income. We still see good growth rates there over time.”

Flavor, of course, is also especially strong in growth markets like Latin America. “The need for industry-processed flavors like beverages, the whole savory market, convenience foods—this will simply increase,” says Kott.

In China, growth is across the board. “There is so much need for food, beverages, beauty products, and also we very often forget the oral care products—the mint initiatives,” says Kott. “We did [menthol] products for toothpaste oral care; this is something that will grow tremendously. I do not [immediately] have the number of how many Chinese people use toothpaste, but you can imagine there is unlocked potential in this market. This depends upon the increasing disposable income they have—and therefore, we have quite an infrastructure on the ground, and we have committed to even further invest in that market.”

Meanwhile, Africa is a sleeping giant.

“We, over the years, enjoyed good growth in the Middle East and the North African states, and we have an infrastructure in South Africa, but [as for] the whole continent as such we haven’t even started ... to identify its potential,” says Kott. “We are now starting with certain initiatives that are very selectively targeted to the African population to work on that market,” he adds, emphasizing that the continent will become increasingly important for the global industry. “If you compare it with our current numbers—the ratio between Africa and other countries—it’s small, but this will change.”

Kott continues, “At the moment, I see the emerging markets with higher momentum, but North America and Western Europe, as such, are big markets volume-wise and

will increase at the same time. Different momentum, but the base is much higher. It is a tremendous base. When I started in this business 30 years back, [business] was done in North America and Europe.” The company is also active in Eastern Europe and just opened a factory in Russia last year. “This is a market where we see really good potential,” Kott says, later adding that he believes consumer demand for products such as processed food, beverages and beauty care is strong.

“Asia-Pacific is the fastest-growing region,” says Luke Grocholl, SAFC market segment manager, flavors and fragrances. “Latin America is also very rapidly growing, not quite at the pace of Asia-Pacific. We do see Europe as growing at a slightly faster pace than North America, but both Europe and North America remain the dominant players in the industry.”

However, he says, the United States and Europe will lead most of Sigma-Aldrich’s markets over the next five years. Grocholl explains, “The new growth in the industry is certainly coming out of Asia-Pacific and Latin America.”

Grocholl says the general globalization trend makes doing business in these growing areas relatively easier. In particular, the company often hears, for example, about the rapid economic growth in China as well as other areas such as Brazil.

Latin America, Asia-Pacific and other growing economies want to continue to stimulate their economies and attract global corporations to establish themselves and their manufacturing and production in those areas. Economic incentives, shortening the supply chain into the growing markets, cheaper labor and attractive tax import opportunities, Grocholl says, are all drawing the larger F&F manufacturers and blenders into those regions, which is further stimulating the drive of the F&F industry into Latin America and Asia-Pacific.

In fact, the market research firm Freedonia Group has revealed in a recent report that rapidly rising incomes and urbanization in developing countries is spurring interest in convenient packaged foods and fast food, which will also boost growth, as packaged goods require high flavoring loadings to preserve taste in the face of large-scale manufacturing. The report predicts this will lead to particularly fast growth in countries such as China and India in the Asia-Pacific region, as well as countries in Central and South America. Rising personal consumption expenditures in these emerging economies is also expected to stimulate toiletry and cleaner shipments, which will contribute to healthy growth in fragrance blends.

Grocholl is also seeing this trend. Growing economies combined with a movement of people out of rural areas into urban areas and an increase in overall standard of living in those areas, he says, is driving a move away from farm-fresh food to prepared foods—and those foods and beverages really depend upon the flavor market.

“All of this is growing very rapidly in those regions and that general economic growth in those regions is really driving the F&F business in those regions,” Grocholl says.

So for the years ahead, more companies are further investing in the emerging markets, although the mature markets will still provide a base for the industry.

“Historically [F&F’s base] is in U.S. and Europe, and that’s where it continues to reside,” Grocholl concludes.