Analysis: A Focus on Growth

A deeper look into growth among fragrance manufacturers with a maximum annual revenue of $10 million.

Kevin McGann, Marcum LLC; and Emerson Wen and Mingxi Wu, Samuel Johnson School of Business, Cornell University

This year marks the second collaboration between Marcum, a national public accounting and advisory services firm, and the Samuel Curtis Johnson School of Management at Cornell University on a comprehensive survey of the fragrance manufacturing industry in the United States. The results and analysis of the collected data were presented, in summary, during the 2012 World Perfumery Congress (*wpc.perfumerflavorist.com*). In this, the second of a two-part article, the authors will present the results in greater detail and offer analysis[a].

This survey was conducted independently by Emerson Wen and Mingxi Wu, both participants of the entrepreneurship program at the Samuel Johnson School of Business. The subsequent analysis and conclusion are products of their collaboration with Kevin McGann, a partner at Marcum LLP and its fragrance industry practice leader.

[a] *K McGann, E Wen and M Wu, Analysis: Trends in Global Diversification. Perfumer & Flavorist, 37(12), 30–33 (2012);* www.perfumerflavorist.com/magazine/pastissues/.

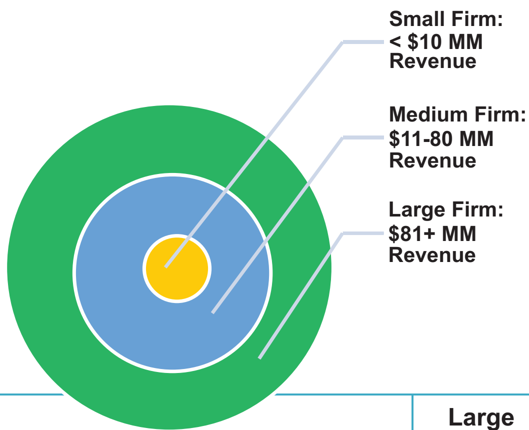
Survey Methodology

This survey followed standard protocols of objectivity and independence to ensure the delivery of clean qualitative research from industry experts. The data discussed in this article comprises information submitted by 110 respondent companies. That number is the net amount of completed surveys remaining after surveys deemed "incomplete" were eliminated. Surveys were designated "incomplete" for a series of reasons, including omitted critical responses, a completion time of less than 15 minutes and others.

Sample Segmentation

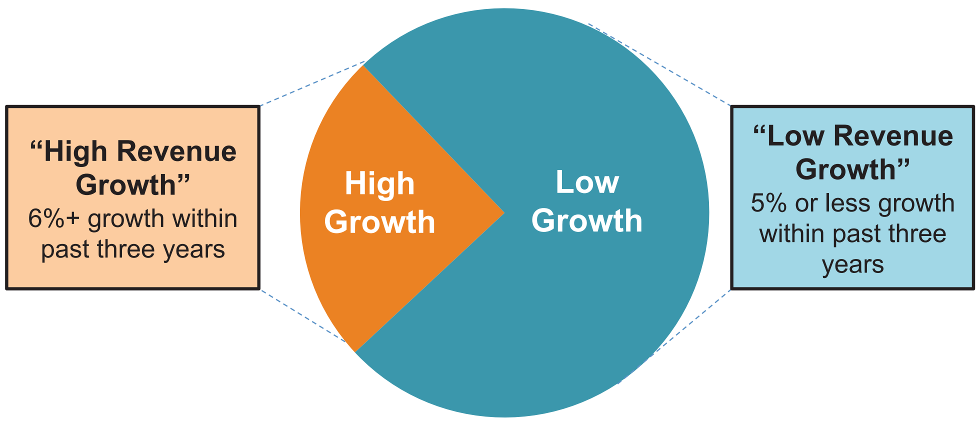
For the purposes of this article's analysis, it is important to define some of the terms established during the survey and used for the balance of the discussion. This article will encompass only those surveyed companies that reported annual revenue of $10 million or less. These companies will be referred to as "small" throughout the discussion (**F-1**). This term refers only to their relative revenue volume when compared to the other companies

F-1. Small, large and medium companies

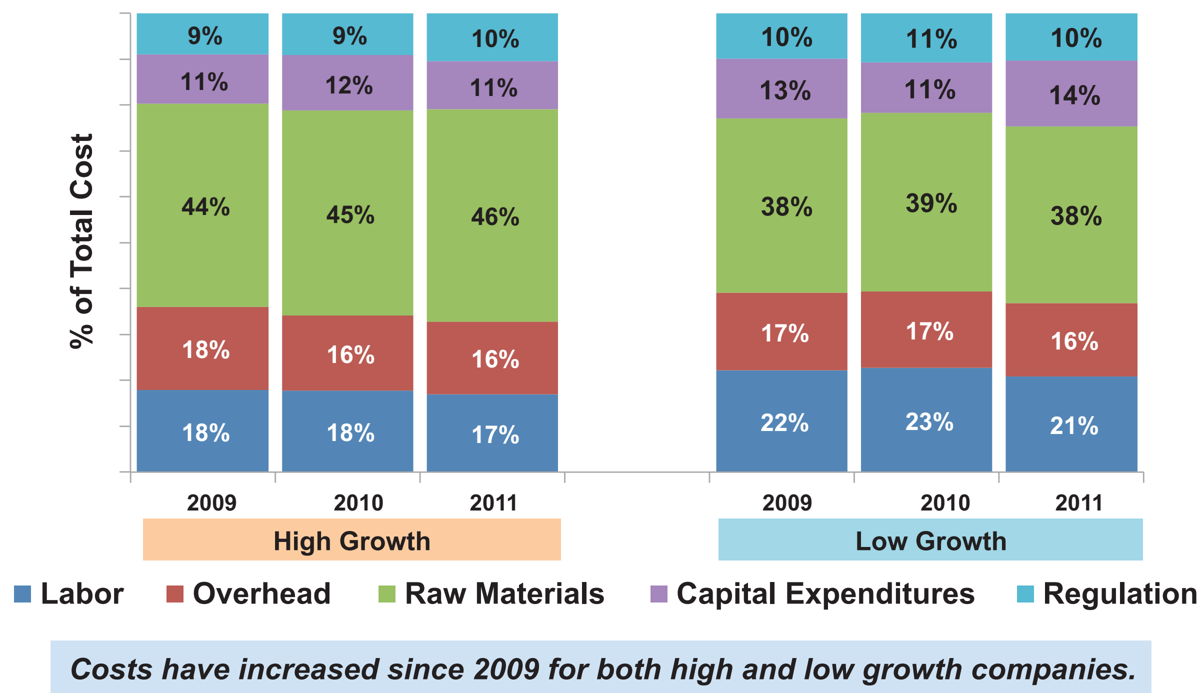


	Large	Medium	Small
Amount of Revenue Coming from Fine Fragrance	$81MM+	$11-80MM	<$10MM
Average # of Employees in Fragrance Division	225	132	10
Average # of Outside Sales People	51	18	4
Average # of Inside Sales People	30	11	4
Average # of Senior Perfumers on Staff	6	2	1
Average # of Total Perfumers on Staff	19	6	3

F-2. Growth segmentation methodology



F-3. As a percentage of cost, high-growth companies spend less on labor, overhead, capital expenditure and regulation.



that participated and not to their success, profitability, number of employees, global reach, etc. For further reference, "medium" companies as defined in the survey have reported annual revenue of $11 million to $79 million; "large" companies reported annual revenue in excess of $80 million. Of the 110 successful surveys received, there were 70 that qualified as "small."

Within the "small" group, this article will focus on two subsets: "high-growth" and "low-growth." Those companies that reported annual revenue growth in excess of 6% are deemed to be "high-growth"; those that reported a revenue growth rate of less than 6% are considered "low-growth" (**F-2**). These terms are not intended to be qualitative and do not refer to the success or failure of any of the subjects. These survey responses represent honest moments in time along the life span of these companies.

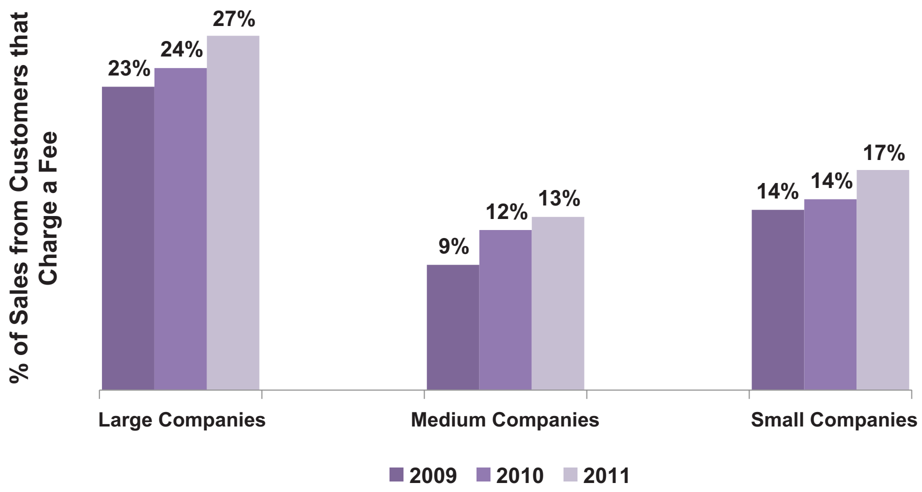
Achieving Growth Among "Small" Companies

The behaviors of high-growth companies versus those of low-growth companies identified in the survey results revealed key indicators and strategies that separate the two subsets. Some are obvious only post facto, while others could be taken as prescription and applied today.

Managing Pressure From Above—the Challenge of Overhead Costs

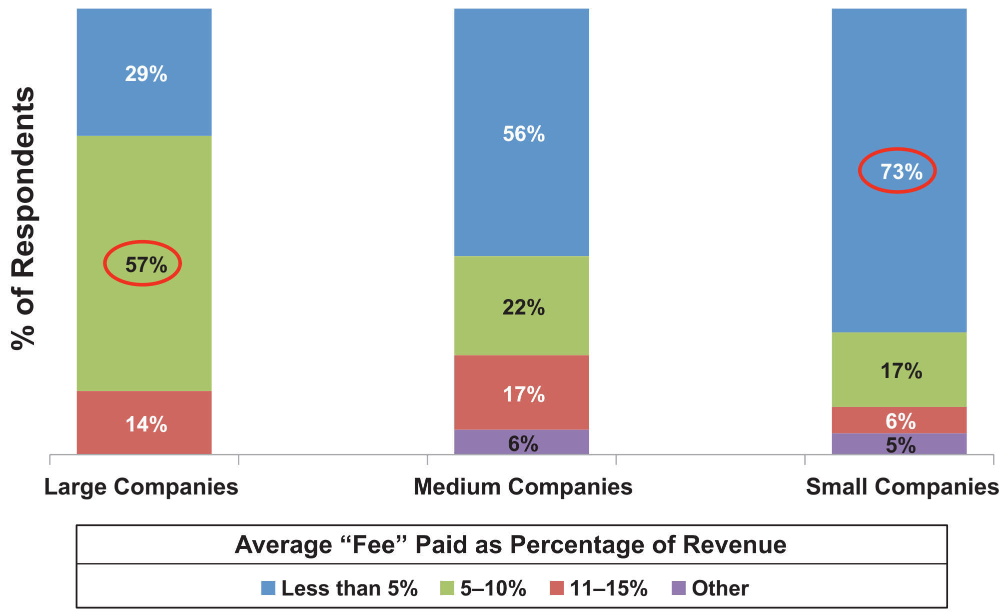
It doesn't take a survey to know that managing overhead costs in relation to revenue is essential to success. However, certain types of businesses are driven by expensive endeavors like research, development, marketing and other high cost output in advance

F-4. Small companies have a smaller percentage of sales tied to customers that charge a "fee" compared to large companies.



The percentage of sales tied to customers that charge a "fee" has increased since 2009 for companies of all sizes.

F-5. Small firms have a smaller percentage of sales tied to customers that charge a "fee" compared to large firms.

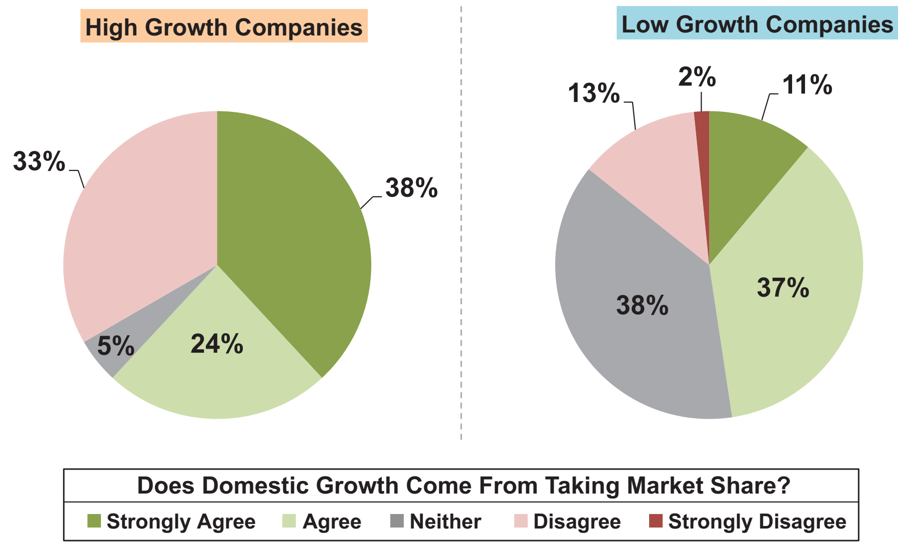


of sales. This balancing act is all the more critical to fragrance manufactures, and doubly so to those whose relatively small size amplifies any imbalance. The data on the labor, overhead, raw material costs, capital expenditure and regulatory costs from survey respondents showed that high-growth companies had lower expense structures than low-growth companies. When focusing on the key costs of labor, overhead and raw materials, as seen in **F-3**, something more insightful comes into relief. High-growth companies have a lower cost of labor and overhead as a percentage of total costs, in contrast to the low-growth companies. Higher-growth companies spend a higher percentage of their dollars on direct material costs while maintaining margins that are competitive with their peers. This would suggest a more efficient organization and supply chain, better purchasing , and ability and a commitment to quality which, when projected out, precedes increased growth.

Fees

As a part of the 2012 survey, fragrance manufacturers were asked about the frequency with which they participated in sales-allowances, fees or other incentive programs with their customers. These arrangements are required in order to do business with that particular customer. The results indicate that low-growth respondents had twice the percentage of revenue associated

F-6. High growth companies are more likely to have an opinion on how growth can be achieved.



to customers who required a fee than did high-growth respondents (15–19% vs. 8–9%). Without reading too much into this fact, as both are relatively small percentages of overall revenue, it would seem that limiting these arrangements, wherever possible, drives growth. That said, in all cases, as evidenced in **F-4** and **F-5**, the surveyed companies are seeing the percentage of sales tied to a customer fee rise, regardless of level of growth.

A Clear Vision

It's good to have a plan in business—"We're going to this, then, we're going to do that." But business is unpredictable and the relevance of short-term action items change quickly in unpredictable ways. As Mike Tyson said, "Everyone has a plan until they get punched."

So, how do small companies succeed through these disruptions? What seems to be separating high-growth from low-growth respondents is the presence of a clear overall strategy and business philosophy. A clear and core system of priorities will guide companies toward growth when plans go sideways. The survey results analysis shows that the high-growth companies are significantly more likely to have established strategic goals, while a large percentage (more than one third) of low-growth companies feel their strategy is accurately described as "ambiguous." Within the survey, two key tenants of high growth companies' philosophies have become clear: acquiring domestic market share and innovation.

Small fragrance manufacturers indicate in **F-6** that their growth best comes from acquiring domestic market share. They are neither intimidated into playing solely in their back yard, nor are they provoked into international pursuits for which they yet lack the resources. Again, this is not the execution of a vague market land grab, but the implementation of a clear and established strategy—which may just keep them out of trouble. Within this small group, there is just not enough mass within a company to absorb large failures such as an ill-timed international play.

According to a 2012 study of the world's top corporate innovators, performed by Thompson Reuter's, "Innovation is the cornerstone of economic growth and success. Innovation can also be the competitive lever that gives one company the rights and offensive positioning over another in the fierce environment in which they operate."

Fifty-eight percent of the Marcum/Cornell study respondents concurred that innovation, in their industry is the key to sustained growth. This response represents a super-majority, as the balance of responses were divided among "international expansion," "improving customer service," "reducing risk," etc. These innovators are able to intellectually manage the downward corporate pressures of overhead costs and other administrative responsibilities while remaining focused on creating new and valuable products for the marketplace.

Conclusion

In the course of conducting this research, a few themes have proven evergreen. Organizations should be aggressive but know their strengths and weaknesses; they should leverage the one, minimize the other. An $8-million manufacturer that identifies market share yet to be had in its "own neighborhood" should pursue that first before looking too far abroad. Companies must focus their money where it counts most and where it works most efficiently. The best advice is to lead with a clear vision and innovate, innovate, innovate.

What's Next?

The Marcum Cornell Survey will be changing its core mission in 2013. The core team will reach out to fragrance professionals to learn about what's next for the industry. The focus of the next survey will move away from financial benchmarking and toward a predictive and forward-looking harvest of information. In the meantime, interested parties should feel free to contact author Kevin McGann at kevin.mcgann@marcumllp.com with questions, input or to volunteer to participate in the upcoming study.

Address correspondence to Kevin McGann; kevin.mcgann@marcumllp.com.