Building a Sustainable Future from Ingredients to Retail

The International Fragrance Association assembles industry leaders to discuss the state of the fragrance industry.

Members of the incoming IFRA North America board. From left, back row: Michel Mane (Mane), Robert Weinstein (Robertet), Karen Manheimer (Kerry), Fred Kritzer (Symrise), Edward Gotch (Emerald Kalama), Robert Amaducci (Flaroma), James Heinz (Bell F&F), Andy O'Shea (drom) and Jennifer Abril (IFRA North America); front row, from left: Paul Ireland (Takasago), Joy Atkinson (Firmenich), John Vernieri (Givaudan), Steve Tanner (Arylessence), Jean-Paul Benveniste (Phoenix Aromas) and Kim Bleimann (Berjé); read Vernieri's open letter to the industry on Page 64.

According to a 2013 report from Alix Partners, "Consider the Source," it has grown more expensive to do business in China compared to Romania, Russia, Vietnam, India and Mexico, largely due to energy, labor, shipping, water and land cost increases in recent years.[a] China's growing scrutiny on pollution controls has also exacerbated the cost increases. Some sourcing in the aromatic ingredient market has already shifted to Vietnam and other parts of Asia. Given these factors, manufacturing in alternative locations, including the United States, could become more competitive, explained Robert Weinstein (Robertet) during a panel discussion held at the annual business meeting of the International Fragrance Association North America (IFRA NA).[b]

[a]*ww.alixpartners.com*
[b]*www.ifrana.org*

The panel, which comprised Weinstein, Jean-Paul Benveniste (Phoenix Aromas), Monte Henige (Tru Fragrance), Paul Pearl (Arcade Marketing), Andy O'Shea (drom) and moderator Jennifer Abril (IFRA North America), discussed several factors affecting the industry in North America and beyond, including sustainability. Currently, many companies are able to apply their sustainability initiatives as a competitive advantage. However, brands are beginning to feel the pressure from retailers to become more sustainable in exchange for precious shelf space. While no organization can ignore sustainability, the IFRA North America panelists wondered whether customers will actually pay for it, or if instead it will become a commoditized and expected part of business practices. And, the panelists asked, will consumers pay extra for it?

According to a 2013 Nielsen report, "Fifty percent of global consumers surveyed are willing to pay more for goods and services from companies that have implemented programs to give back to society, an increase of five points (45%) from 2011…"[c]

The trend, the report notes, anticipates that this number to climb even further. Most promising, consumers under the age of 30 were the "most likely to say they would spend more for goods and services from companies that give back."

The question of whether ingredient suppliers, fragrance compounders and brands can reap financial rewards for sustainability initiatives is not an academic one. On every level, the cost of serving customers is increasing, the panelists agreed. Particularly in the fragrance industry, pricing pressures are rising even as suppliers perform greater amounts of work up front—work which may not always result in a win.

At the same time, the fragrance industry continues to face ingredient and formula disclosure pressure from NGOs, consumers and customers. Developing new molecules in such an environment is obviously a risky proposition. As such, some on the panel agreed that companies will be making "bigger bets" on fewer ingredients. Or, as the mantra goes, doing more with less.

The lunch presentation by Lisa LaBruno (Retail Industry Leaders Association) extrapolated the panel's key points by painting a complex portrait of post-recession retail. LaBruno explained that retailers face diminished margins due to value-oriented consumers. Like suppliers and brands, she said, retailers and consumers appear to be doing more with less. At the same time, retailers are responding to an increasingly urbanized and wired populace by creating seamless digital and physical shopping—what LaBruno called "the omni channel." Meanwhile, retailers are crafting spaces and offerings to match local needs, including redesigning stores to fit into urban environments.

Of particular interest to the attendees was LaBruno's consideration of retailers' sustainability priorities. So-called chemicals of concern appeared at the top of the list, matched only by transportation. Retailers are "aggressively" focused on supply chain, LaBruno explained. Giants such as Walmart and Target have already announced programs to limit, prohibit or otherwise discourage the use of certain components contained in the products on their store shelves. While the complexity of such an undertaking may eventually lead to revisions or scaling back, this new wave of scrutiny is likely to preoccupy the fragrance industry in the coming years.

[c]*www.nielsen.com*

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