



State of the Fragrance Industry in North and South America

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To address the state of the fragrance markets in North and South America today requires a mentality comfortable with paradox. One must be a realist and a seer, a cynic yet an optimist, a traditionalist yet an iconoclast, a student of facts with the vision to look beyond them. I don't lay claim to any of these combinations. But let's give it a try.

I would like to start by saying I am fully aware that, in addressing perfumers, I am addressing those professionals in the business who are responsible for creating the fragrances themselves. The perfumers out there are the center of the maelstrom. The rest of us manage, select, manufacture, advertise and sell what they create. Perfumers can do a superb job and fail—if the product is not handled right. They can do a mediocre job and succeed brilliantly—at least for a while. They share the extreme satisfactions and deep frustrations of all artists—they can create the baby that becomes a star, can try to create a concept that aborts or refuses to be born. They often hover between being praised excessively for what they have accomplished—or not appreciated when an effort has been gargantuan.

As perfumers you have it within your power to change the direction of a market—perhaps an industry. More importantly, you have the power to please, in countless intimate, and not so private, moments of which you will never be aware.

We can also reduce this to the absurd. Paraphrasing Descartes, you are perfumers, therefore

you smell, therefore you exist, therefore you have a right to wonder where you are going and what will become of you. Which brings us right back to the state of the business in North America, South America and elsewhere.

I say “elsewhere” because, personally, I find that, like the Brady Commission report on the Wall Street crash, one of the dangers in any business today is to segment our markets conceptually. We find ourselves increasingly in a one world marketplace.

The World Marketplace

The Brady report underlined the fact that one cannot have an analysis isolated to the New York financial market, when a transaction appears forty-one seconds later on a computer screen in Tokyo. While perhaps not as sensational, the fragrance markets are now also compellingly interdependent. In our business, economic downturns and upturns in certain countries, as well as currency fluctuations, can affect the way we market, where we choose to manufacture and sell, the size and impact of the gray market and, yes, even how we create fragrance.

A generation ago it was not unusual to hear the European fragrance market described as quite different from the American. The louder more intense fragrances from the States were looked upon with the same disdain as the new “super marchers” popping up here and there. But nothing succeeds like success. Fragrances, such as

Poison, have shattered the myth of French fragrance being demurely elegant, entering a room quietly. Likewise the strong men's fragrance statements of Aramis and Polo from America have achieved enormous worldwide popularity. All of this attests to the growing universality of what we create and sell.

It would be a pity, of course, if this trend were to lead to homogeneity and mediocrity in fragrance creation. Quite honestly you have the power to prevent this. This evolution to a more unified marketplace should instead be looked upon as a dawning opportunity to create new fragrance directions with more dramatic one-world impact. That special American quest for something ever new has become a worldwide intoxication. What more fertile environment can a perfumer ask for?

Well, for one thing, I suppose, a healthier marketplace for fragrances than has been the case in North America over the last few years. In New York, the Fragrance Foundation sponsored its annual review of "Christmas Past." While, by necessity, this is at most an educated composite guess of what sales were like during this period, it was somewhat encouraging to note that, in several stores, sales increases were in double digits.

Major Fragrance Market Segments

To speak of "the fragrance business" is, of course, an anomaly. There is no possibility of understanding fragrance markets, as such, in any realistic way without first dividing them into their three major segments:

- fine fragrances: perfumes colognes, EDTs, after shaves
- fragrances for toiletries, shampoos and other personal products
- fragrances for soaps and detergents and other household products

Each category has its own characteristics. Each category has, for the perfumer, its own creative challenge. Each has its own recession-resistant traits. All together they constitute the fragrance market, in the truest sense—and they certainly are related to one another.

Let us address first the fine fragrance market in North America.

In my opinion, there are at least six reasons for the slow unit growth which has beset this market. First, prices of the fragrance at retail have risen more than twice as fast as inflation over the past five years, causing an inevitable braking of consumer purchasing. Indeed, many consumer products compete for the fragrance dollar—particularly at Christmas time when half of the year's

fragrances are sold. And I must in all candor admit that such price escalation has not been caused by the fragrance supplier industry. Our price increases to our customers have been restrained over the same period and, I may add, were *less* than the rate of inflation overall.

Rather, as fragrances proliferated on the counters, the competitive challenge has been met with higher advertising, packaging, promotional and gift-with-purchase costs—all aimed at surfacing above the rest of the pack. The creation of the fragrance itself has often been affected by this same motivation—with top-notes which are loud, usually distinguishing, if not always distinctive, and with the clear message, "Hey, try me!" But that's another story.

Getting back to costs—let's face it, many of them have not been judicious, and when the verdict is in on the fragrance launch, two or three years later, too often little or no money has been made. Too frequently, the fragrance itself is not special enough to carry all that freight at prices that have become a wee bit breathtaking.

I have heard time and again from many of my friends in the customer group that even a remarkably good fragrance can't become a success today without a very sizeable commitment for advertising and promotion. I have little competence or desire to contradict them: marketing is their business.

I can, however, in my own experience, cite at least three examples where indeed just that has occurred, that is, where a special fragrance has established itself as a success, I believe, by consumer perception and appreciation rather than by overpowering advertising and promotion.

White Linen, one of the largest selling fragrances in the world today was launched as one of three fragrances by Lauder. White Linen was not singled out, but became a run-away success almost on its own, after which came the specific advertising.

And, of course, there is Giorgio reaching the public consciousness almost through scent-strips alone because of limited advertising funds and because some of the prestige store counters were closed to it.

Calyx, a fragrance launched by the Prescriptives Division of Lauder two years ago with practically no advertising has taken off on its own both here and in Europe. I understand now that the advertising push will follow.

And more examples can be cited.

What I am really underscoring is the *importance of your trade*. My point is not that advertising and promotional costs can be given short shrift. Obviously not. What I am saying is that a



truly well-crafted fragrance with something special to offer the consumer can become a long-term success (and after all that is what we are looking for). It can even spearhead the marketing thrust while being supported by creative but reasonable advertising and promotional expenditures.

Of course, the contrary is also true. All the excessive promotional expenditures and life support systems in the world will not keep alive for long in this market an ordinary fragrance which does not encourage a consumer to say, "This is something special. This is me".

It would be interesting to take a poll among the perfumers at this conference. Only two questions:

1. Do you think the management in the customer companies give as much consideration and time to the quality of the fragrance itself as they do to the advertising, packaging and promotion?
2. Do you believe that the perfumers, who create the fragrance, are given as much credence and involvement in the selection process as they should have?

I have no preconceived notions on these questions. I would simply be interested in the viewpoint of the professional creators in the business.

But getting back to the North American fine fragrance market, four other *bête noirs* stalk the fragrance marketer. The friendly department store, the partner in selling to the public, is increasingly demanding more for the privilege.

The stores have their own problems, but sometimes it seems that they are turning on the goose that lays the golden egg in their effort to solve them. They keep raising the ante for that precious counter space, and then to compound the difficulty, some take inordinately long to pay for the fragrances. It is a tense marriage.

Next, the diverters and the gray market undercut the legitimate market and its pricing structure. This inevitably causes a further erosion of sales and profits.

Thirdly, the so-called "copy-cat" fragrance marketer is constantly telling the consumers they are paying too much for the real thing and the inexpensive substitute is just as good. The courts to a large extent have sustained the right to do this as long as sufficient disclaimers are used that the product is *not* the same as the one being copied. The copy-cat marketer in turn proclaims that the substitute is "perfectly legal" and could not succeed unless the price of the real thing was so outrageously high. It is a sanctimonious posi-

tion. When all is said and done, one fact is undeniably clear—the copy catter is trading off the enormous investment, creativity, product image and, yes, product name for which the original company has expended substantial amounts to achieve a market franchise. The copy catter is riding on the coat tails and the pocketbook of the original marketer.

And lastly, the counterfeiters have become far more sophisticated and well-heeled in making and distributing better replicas of the originals. This is a worldwide problem and cuts across many product lines from Rolex watches to Vuitton luggage. Unsavory elements are in the business, draining both the sales and the dollars needed to investigate and enforce the law against them.

Now anyone exposed to this litany of problems need not wonder why reported sales and earnings of fine fragrances have been sluggish in recent years. But like all such problems, the problems tend to become less foreboding and more manageable when a business markets a good product creatively to consumers who have an appetite for it.

There is no better example of this than the apparel industry which faces challenges that dwarf those of the fragrance houses and where it has been commonly said, "It's tough to make a buck." Cutting through it all have been The Limited, one of the success stories of the decade, and Liz Claiborne, voted the best performing company of the year.

Great success does breed counterfeiters and copiers, but the strength of the underlying organization can be strong enough to render them mere nuisances.

Fragrance Growth in North America

You may ask, "Then what do you see in the future for fine fragrances in North America?" Personally, over the next five years, I see some companies doing extremely well, some companies eeking out profits and sliding by, and more companies disappearing or being acquired primarily by foreign buyers based in strong currency countries. The total market will probably grow at a rate comparable to the previous five years, which is to say an average of about 4-6%, less vibrant than the Seventies.

It is possible for fine fragrance growth to resume at a higher pace? I believe it is, but not unless some of the basic marketing problems are dealt with and creative new distribution patterns are established. Conceptually the use and function of fine fragrance must be re-defined, making it far more a part of our daily lives, our grooming,

our sense of confidence and well-being. I'm not knocking sex and the fragrance it has sold, but our product, like life itself, is far bigger than that. When fragrance marketers understand and deliver this message, we will see another fragrance explosion that will last a long time.

The soap, detergent, household product market is another matter entirely. There is almost no relationship between the fine fragrance retail market and the market for soap and detergent and household products, with two exceptions: first, those obvious common traits in the process of creating fragrance for both uses, and second, the continuing long-term objective in the toilet soap and shampoo areas to achieve a higher and higher quality of fragrance effect approaching the fine fragrance image.

The soap, detergent and household product market at retail has also been growing at a modest rate in single digits over the past five years. While this growth is not dramatic, the effect on fragrance used for such products has been somewhat more positive. First, the worldwide trend to increase the fragrance effect has in some cases resulted in as much as a 30-50% increase in fragrance concentration—a relatively small fraction of a percent in the final product but with obviously a highly beneficial impact on the fragrance supplier. Secondly, the new bases and product introductions in the washing cycle include deo-fragrances, tablets, pouches and fabrics containing multiple washing softening and bleaching characteristics. All of these products have required similar technological advances in the type of fragrance and fragrance ingredients used—opening up, unlike the fine fragrance market, new product introductions representing additional fragrance business.

Finally, the aroma chemical market has been strong, not only in weaker currency countries, but worldwide, reflecting as far as can be discerned, the factors already mentioned.

And what is the immediate outlook for the North American fragrance market? I note, with some satisfaction, that the lonesome minority position I took in November 1987, that the stock market crash does not automatically mean a deep recession, is now the majority position. As the dust settles from the October 19 happening, it appears more apparent than ever that the market collapse was attributable to the conditions first created and then punctured by the institutional investors themselves. The Brady Commission Report has been a great service to the country. It deserves to be carefully considered and acted upon by the exchanges, the key institutional players and, if not by them, the Congress.

At the same time, it is also quite clear that we can talk ourselves into a recession, not otherwise inevitable, by generating fear and lack of confidence. Withholding purchasing, delaying business investment—all can indeed cause a down-turn, a self-fulfilling prophecy.

On the whole, however, thanks to a better understanding of what really happened on October 19, I believe 1988 will be, not a great, but a good year. A recession, if any, is more likely to occur in 1989 under the auspices of a new administration. But that is like long-term weather forecasting—notoriously unreliable even with the most scientific methodology.

The best thing that can happen is that we all go about our business, not drumming up support for a recession, but addressing seriously the budget and trade deficits.

On the basis of this analysis, I see more of the same for the fragrance markets in North America—roughly the same kind of growth we have been experiencing for the past five years—good but not great, steady but not spectacular, but certainly neither pessimistic nor disastrous. And within this atmosphere, will be the opportunities for niche players to make highly profitable returns and to increase their own market shares.

The Market in Latin America

The Latin American fragrance market, as far as local supply is concerned, is largely one for toiletries, shampoos, soap and detergent and household products. Some fine fragrances are produced locally, particularly in Brazil and Argentina, but for the most part, the international companies such as Avon, Revlon, Chesebrough-Ponds, L'Oreal and Shiseido, supply fine fragrances which are originally created and adopted elsewhere.

Considering how tumultuous 1987 was in Latin America, particularly in Brazil, the year overall was not as bad as it could have been, with a strong first half and a poor second half averaging it out.

As I mentioned last March when I spoke at a luncheon in Sao Paulo to a group of business executives: To be a good manager in South America, one must be close to a Renaissance man—a linguist, a financial wizard and political economist, a psychologist, a policeman, a horseplayer and, throughout all, an incorrigible optimist. This is not taught at Harvard Business School.

Whether you are in the fragrance or any other

business in Latin America, your profits are often extraneous to whether you are supplying a fine product. They depend on whether you can obtain the necessary import licenses, display fast footwork in using bank loans, collecting your receivables, and investing in inventory before the next currency devaluation.

Apart from these problems, I find an appetite for good fragrances throughout Latin America with a desire to upgrade and create a superior competitive product. The question is whether the fragrance manufacturer will be able to make and supply the product in the face of import restrictions and price freezes, and whether the consumer has the wherewithal to buy.

The entire area is at a critical juncture. The effects of Brazil's repudiation of its bank loans are still reverberating through the continent. Brazil's future and that of Mexico depend on the resolution of their debt problems. A recession in the United States would be particularly detrimental for the Mexican economy at this point. A successful refinancing of the Mexican debt as per the new U.S. plan will provide much needed stability and may be a model for other countries.

Given reasonable economic stability in Argentina, Brazil and Mexico, I see the prospects for a strong fragrance market among peoples who, by reason of their culture and their climate, need and want fragrance and fragranced products.

One final word on the art of perfumery itself. I suggest that by the end of this century, little more than a decade from now, the way in which we create and make fragrance will be undergoing fundamental change. To be a perfumer will require knowledge of chemistry and biotechnology to a degree not now appreciated. The most effective fragrances will depend as much on ingredients, which are not themselves fragrances, but which impart much-needed characteristics to fragrance—intensity, substantivity and duration. The science of olfaction itself, what is happening in the nose and the brain, will lead us to revolutionary new ways of creating and blocking fragrance effects. The future is indeed an exciting one. New horizons will be opening which will challenge us to be open-minded and to learn new disciplines to truly unleash our creative powers.

We are all in a fun business—whose single, ultimate objective, in the last analysis, is to give pleasure and minimize displeasure. While engaged in such a worthy pastime, we must be sure to enjoy it.

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