



State of the Fragrance Industry: Socialist Countries and Eastern Bloc

By Dr. G.C. Pietzsch, Vice-President, Eastern European Department,
Bush Boake Allen Ltd., London, England

Seven out of the nine Eastern European countries share a common feature—they belong to an economic bloc called CMEA, which stands for Council for Mutual Economic Assistance. It is also known in the West as COMECON. Yugoslavia and Albania are the exceptions. However since 1964, Yugoslavia has been an associate member which allows it to participate in 23 out of 33 key COMECON organizations.

For practical reasons, when I say Eastern Europe, I am speaking mainly about the seven COMECON countries, but I will refer from time to time to Yugoslavia. I will also use the terminology "East" and "West." East refers to COMECON countries and West denotes the US and EEC (European Economic Community).

Market Comparisons

Significant differences are apparent between Eastern and Western markets.

The standard of living is lower in the East.

Comparisons of family budgets are difficult because the East is a non-market economy, but one can obtain an impression by looking at per capita consumption of consumer products and the product line width in particular market segments. Table I shows the degree of penetration of a number of durable consumer goods.

A rough indication of the differences in consumption of washing products between the EEC and some Eastern European countries may be seen in Table II.

The per capita consumption of shampoo in 1985 was 0.627 kilos in the EEC versus 0.33 kilos in Eastern Europe.

From a comparison of the production figures of hair care products between Eastern Europe and West Germany, it becomes apparent that many product variants are only available in the East in small quantities or not at all (see Table III).

These examples reflect the overall situation in Eastern Europe.

There is, of course, a correlation between the amount of consumer goods and the amount of flavours and fragrances being used. In 1984 sales of fragrances and flavours in Eastern Europe were estimated to be 511 million US dollars (see Table IV). If one assumed a standard of living in the East similar to that in the West and that the ratio of free available market to captive market was similar, the potential sales represent only 20% of the potential. This makes Eastern Europe a growth market.

The low consumption of consumer products does not, however, completely reflect the standard of living in the East. Since an increase in real income is not automatically accompanied by a corresponding increase in desirable consumer goods, an increasing amount of unspendable money goes into savings accounts. This is in sharp contrast to the West. In Great Britain, for

Table I. Durable Consumer Goods per 1000 Population - 1983

	<u>Bulgaria</u>	<u>CSSR</u>	<u>GDR</u>	<u>Hungary</u>	<u>Poland</u>	<u>USSR</u>
Radios	285	645	389	N/A	398	280
TVs	268	392	445	268	316	287
Washing Machines	251	467	366	319	323	205
Refrigerators	271	358	487	318	291	270
Automobiles	105	166	170	118	62	N/A

Source: Comecon Statistical Yearbook, 1984

Table II. Per Capita Consumption of Washing Products (Including Liquids and Soap) EEC vs. Eastern Europe (in KG) - 1985

	<u>KG</u>
EEC	21.2
USSR	8.0
East Germany	7.7
Poland	7.6
Romania	6.5

Source: Bush Boake Allen Ltd.

instance, consumer credit has increased substantially during the 1980s, with the level of outstanding debt reaching a figure of 31 billion pounds sterling by March 1987.

The growth of savings in Eastern Europe from 1970 to 1983 can be seen in Table V. In 1985 savings deposits in Bulgaria added up to 13.4 billion leva, which was equivalent to almost 90%

of total retail sales. At the end of 1986, savings deposits in the USSR amounted to 221 billion roubles, or 68% of total retail sales.

The reason for this incredibly high percentage of savings is that there are either no goods or not enough goods people want to buy because of lack of choice, quality, and/or quantity.

Self-Compounders

The Eastern European markets can be considered at the present time to be self-compounders. Almost all enterprises are state-owned and centrally planned and competition is negligible. Due to the state monopoly in foreign trade, imports are mainly channeled through one foreign trade organization; however, this is changing significantly in Poland, Hungary and Czechoslovakia.

Each country has its own fragrance development and compounding facilities which are supported by central research institutions. In 1986, the total production of fragrance compounds in six of the major Eastern European countries was estimated at 13,000 metric tonnes (see Table VI).

Fragrance development and production units

Table III. Production of Hair Care Products in West Germany and Eastern Europe - 1985

	<u>West Germany</u> %	<u>Eastern Europe</u> %
Shampoo	46.04	94.16
Hair tonics	2.40	
Hair colorants	5.71	1.92
Hairspray and home perms	22.35	0.16
Conditioners	16.28	3.77
Setting lotions	7.22	
Totals (in metric tons)	140,070	122,092



**Table IV. Comparison of Merchant Sales of
Fragrances and Flavors - 1984**

	Sales	
	(MM U.S.\$)	(Per Capita)
EEC	1534	4.42
United States	1348	5.74
Eastern Europe	511	1.46

Source: Bush Boake Allen Ltd.

**Table V. Growth of Savings in
in Eastern Europe - 1970-1983**

	%
Poland	822
Hungary	369
USSR	301
Bulgaria	228
Romania	190
East Germany	117

**Table VI. Total Fragrance Compound
Production 13,000 MT - 1986**

USSR	5590
East Germany	2470
Poland	2340
Bulgaria	1040
Yugoslavia	780
Romania	780

are still mainly under the control of holding companies. It is the objective of these fragrance units to maximize the use of aroma chemicals and essential oils, which are either produced in their own country or obtained against soft currency, clearing or counter trade arrangements with other countries.

Each Eastern European country produces essential oils and aroma chemicals in varying amounts. Many of these are well-known in the West as they are staple items on the shelves of perfumers. However, many more essential oils and aroma chemicals are produced mainly for internal use and their quality can differ considerably from those we are used to in the West. It is therefore essential for perfumers working for Eastern European markets to familiarize themselves with these products.

Production estimates and some of the more well-known products by country are shown on Table VII.

Although one might consider the East Europeans self-compounders, they differ from those in the West. The differences are mainly related to:

- end product availability in terms of variety, quality and technology
- availability of commodities, semi-commodities and specialties
- in-house facilities, know-how and technology.

Because of the emphasis on "me-too," plus central planning and lack of marketing, perfumers in the East play an important role in the selection of fragrances. As is the case with self-compounders in general, they decide largely which aroma chemicals and intermediates are of value to them.

Since markets differ so much from situation to situation and because specific conditions exist in each company and for each product, it is desirable for Western perfumers to have direct working

relationships and contact with their counterparts in the East.

Exports to the West have not been very successful in the past and it is this failure which presents the greatest long-term danger for the buying power of Eastern Europe.

One strategy to overcome this problem was to produce Western products under license. In particular, West German companies, such as Beiersdorf, Schwarzkopf and Wella to name a few, successfully made bilateral arrangements with various Eastern countries. More recently, other multinationals have come to similar arrangements. An increasing number of non-food consumer products sold in Western Europe are now being produced in Eastern Europe. As a result, in the last ten years the quality of consumer products from Eastern Europe has been improved considerably.

In order to attract more Western companies to cooperate with Eastern Europe, as of 1985 new legislation is being passed to promote the establishment of joint ventures. In some Eastern countries, even majority shareholding is a possibility.

The growth of East-West trade will depend largely on how successful the restructuring is—with regard to waste reduction and improved productivity. When this happens, we will also

Table VII.

	<u>Essential Oils</u>	<u>Aroma Chemicals</u>
USSR (5,600 metric tons)	Castoreum Siberian fir needle oil Geranium oil Lavender oil Peppermint oil Coriander oil Rose oil Carrot seed oil Clary sage oil	Musk ambrette Musk ketone Coumarin Terpineol
Bulgaria (600 metric tons)	Lavender oil Rose oil Dillweed oil Hyssop oil	Terpineol Terpinyl acetate Nopol Nopyl acetate
Yugoslavia (400 metric tons)	Oak moss res. Lavender oil Sage dalmatian oil Juniper berry oil Spike lavender oil Cypress oil Tarragon oil Savory oil Rosemary oil	
Poland (1,400 metric tons)	Dill seed oil Caraway seed oil	PTBCA OTBCA Isoamyl salicylate Benzyl salicylate Trichloro-methyl-phenyl- carbinyl acetate Methyl salicylate
East Germany (1,600 metric tons)		Isobornyl acetate Benzyl acetate

see an increase of private label and own label products coming from Eastern Europe.

That the *Perestroika* (restructuring) seems to generate interest can be demonstrated by an article published on June 15, 1987 in ECOTASS, the economic and commercial bulletin of the Soviet news agency, TASS. I Quote:

"The U.S. company Procter & Gamble has held in cooperation with the Indian firm Richardson Hindustan Ltd., its first symposium for Soviet foreign trade associations and specialists at Moscow's World Trade Centre.

"P & G is ready to supply its products directly to the Soviet Union, including through India and Egypt and also to practice barter deals by buying in the USSR a wide range of raw materials as well as chemicals, vegetable oils and fats, and raw materials for the perfumery industry. P & G is also ready to discuss the issue of setting up joint ventures to produce a number of products on its export list in the Soviet Union.

"Negotiations toward these schemes have begun already with a number of Soviet foreign trade associations."

Many more companies currently are involved in discussions about various forms of cooperation with Eastern European countries which indicates strong interest in this market.

The Eastern European market is a very different market. Perhaps it is not an easy market, but because of its undersaturation, it represents a great challenge and very good opportunities.

Acknowledgements

From the author:

My presentation would not have been possible without the special help and support of Dr. W.S. Brud, Director-General of Pollena Aroma, Poland.

This paper was presented at the World Perfumery Congress held in New Orleans, Louisiana, USA, February 2-5, 1988.

Address correspondence to Dr. G.C. Pietzsch, Vice President, Eastern European Department, Bush Boake Allen Ltd., Blackhorse Lane, Walthamstow, London E17 5QP, England.

