

# PERFUMER & FLAVORIST

## Current Issues and Developments in the Fragrance and Cosmetics Industry

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This paper discusses recent changes in the fragrance and cosmetics market of Japan. Here, fragrance means alcoholic fragrance, such as perfumes and eaux de cologne. This paper also suggests today's requirements for fragrance and cosmetics and it considers the impact that Europe's political changes will have on the fragrance and cosmetics industry worldwide.

### Recent Changes in the Japanese Market

Japan's fragrance and cosmetics industry developed very rapidly following the reconstruction period of the postwar era. Figure 1 shows the trend of annual cosmetics shipments by fiscal year.

Until the mid-1970s, the value of shipments increased each year by double digits compared with the previous year. However, after demand reached saturation point, the annual growth rate dropped and is now less than 5%. Incidentally, the abnormally high growth rate of 18.7% in 1985 is due to the change in the method of computing production. This change occurred when statistical jurisdiction over this market was transferred from the Japan Cosmetics Industry Association to the Ministry of International Trade and Industry.

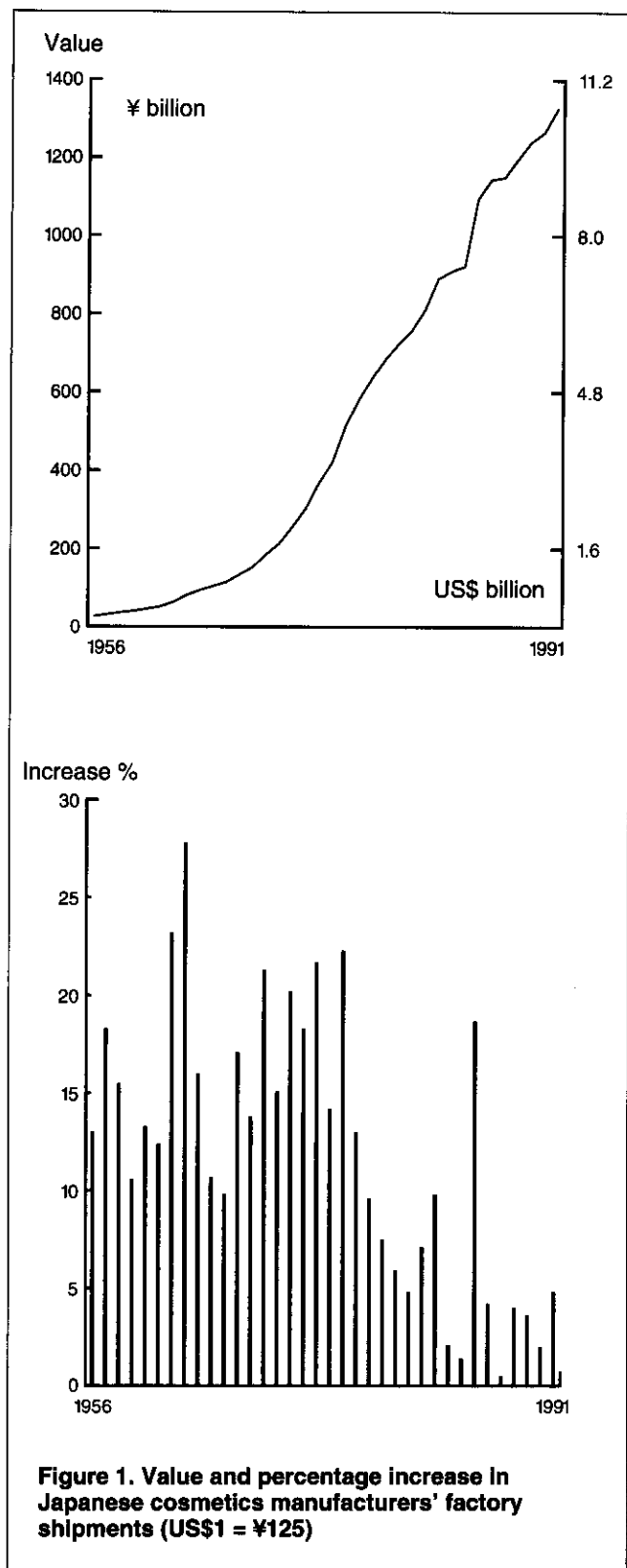
While the growth rate dropped, the shipment value became very large, reaching approximately 1.3 trillion yen (\$10.6 billion, at the exchange rate of 125 yen to the dollar). This is an aggregate figure from 142 companies, each with

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The shipment value in the United States in 1989 was approximately \$17.5 billion. It is considered by market researchers that the magnitude of the Japanese market is second to the American one and that Germany and France are third and fourth.

The major trend being observed in Japan's cosmetics and fragrance market is "internationalization." While the import and export values are still small compared with the domestic shipment value, imports surpass exports and imports are growing rapidly, as Figure 2 shows. In three recent years, the import value grew as follows: 28.2% in 1989, 30.5% in 1990 and 13.2% in 1991. This growth is substantial compared with the domestic growth rate, which stood at around 2-5%. The import value by country of origin in 1991 is shown in Table II. France dominated with 43.5%, fol-



more than 30 employees. Of course, we should add shipments from smaller firms, but at present their figures are not recorded. Table I shows the ten leading cosmetics/toiletries houses in Japan (based on factory shipments in 1991).

**Table I. The ten leading cosmetics/toiletries houses in Japan based on factory shipments in 1991 (US\$1 = ¥125)**

Company	Value* ¥ billion	Value* US\$ billion
Shiseido	383	3.06
Kao	214	1.71
Kanebo	150	1.20
Pola	91	0.72
Kose	82	0.66
Max Factor	50	0.40
Menard	44	0.35
Noevir	43	0.34
Lion	40	0.32
Nippon Lever BV	40	0.32

\*Estimated by Shukan Shogyo Publishing Co., Ltd.

**Table II. Value of perfumes and cosmetics imported into Japan in 1991 by country (US\$1 = ¥125)**

Exporting Country	Total Import Value		Percentage of Total
	in ¥ billion	in US\$ million	
France	23.49	187.9	43.5
United States	12.45	99.6	23.1
United Kingdom	8.15	65.2	15.1
Germany	2.52	20.1	4.7
Belgium	1.64	13.1	3.0
<b>Total</b>	<b>53.96</b>	<b>431.7</b>	<b>100.0</b>

lowed by the United States, Great Britain, Germany and Belgium.

Imports of perfumes and eaux de cologne accounted for 17.5% of the total import value, but it is important to remember that the duty-free fragrances brought back to Japan by overseas travelers are not included in the statistics. If duty-free purchases were added, the total import value would be substantial.

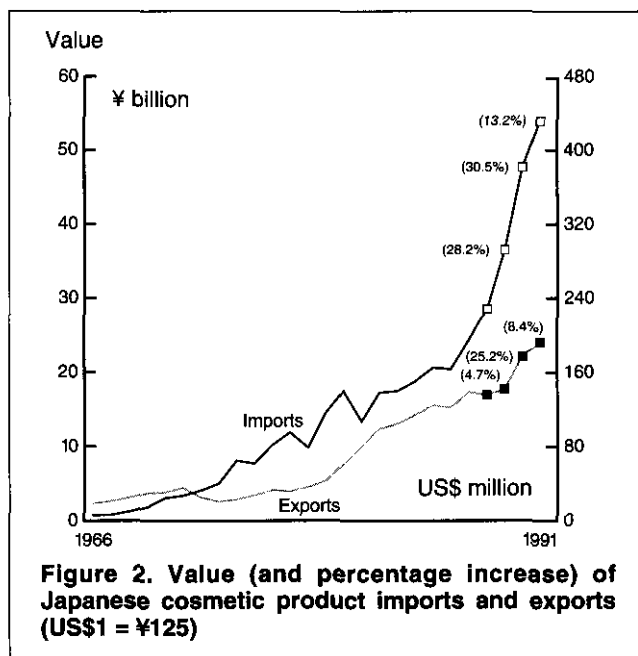
The reason why such internationalization proceeds and the trade value increases rapidly is the rising preference for foreign brands in this era of universalization of international culture coupled with the ease with which import products can enter the Japanese market following the simplification of the import license application procedure by the Ministry of Health and Welfare.

**Today's Requirements**

Now let us consider what is required of perfumes and cosmetics for the enrichment of human life. Figure 3 summarizes our research from the point of view of human beings and materials and also from the point of view of hardware and software.

The hardware aspect of a human being is, of course, parts of the human body, particularly skin and hair. Since cosmetics are directly applied to the skin or hair, it is important to study their physiology. The software aspect of a human being involves psychology. The positive effect good cosmetics have on human psychology is already a well-established thesis by scholars such as J.A. Graham. In particular, the psychological effect of perfumes and eaux de cologne is great. It has been discovered that as a result of producing good psychological effects, a very positive influence is made also on the physiological condition of the human body. More about this later.

As for materials, their hardware aspect is, of course, the



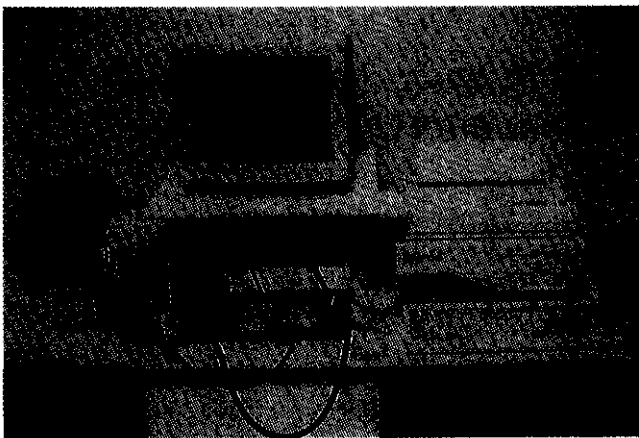
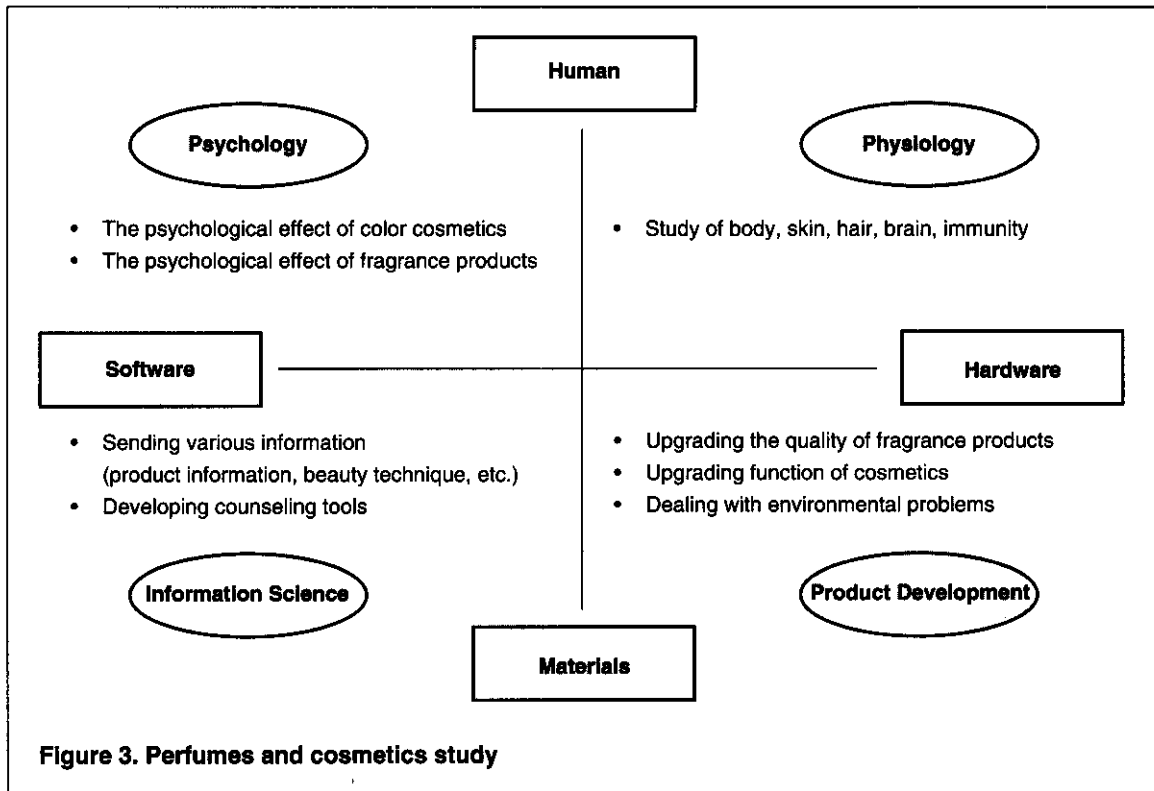
**Figure 2. Value (and percentage increase) of Japanese cosmetic product imports and exports (US\$1 = ¥125)**

development of excellent products. Upgrading product quality and attaching the high functional element to fragrance and cosmetics are important research themes.

Environmental issues are also crucial. Development of environmentally-friendly products and packaging is now in progress. For example, one can avoid using polyvinyl chloride resin for the packaging material. One can eliminate the freon gas from aerosol products. And one can select biodegradable ingredients in order not to pollute rivers.

Studies on the software aspect of materials or goods allow information on products and beauty techniques to be appropriately conveyed to consumers. Today, high-grade products have become more personalized and more diversified to suit the skin condition and tastes of consumers. As a result, various counseling tools have been developed to select the skin care items that suit consumers among these diverse product categories.

Figure 4 shows counseling tools. These counseling tools consist of sensors to check the moisture of the skin; they also check the amount of its surface lipid, its flexibility and its morphology. Counseling tools also include the computers



**Figure 4. Counseling tools**

to compute and categorize the data obtained from the sensors.

Now I would like to focus on three requirements: functionality, quality, and psychological effect.

**Functionality:** Easy application, assured safety, and strong stability are required of cosmetics. Increasingly, another factor is required. It is high functionality or strong effectiveness.

What is meant by high functionality is, for example, helping hair grow or preventing or lessening wrinkles, pigmentation, and spots on the skin. Retinoid has drawn attention in erasing wrinkles and Upjohn's Minoxidil helps hair grow.

Such products are frequently marketed as drugs according to the regulation of a country. But since their purpose is not to cure a specific illness, they are, in my opinion, more properly categorized as cosmetics. I believe that requests for this kind of highly functional cosmetic will grow as the percentage of older citizens in society grows.

**Quality:** We are faced with tough times in marketing perfumes and eaux de cologne in a global economic recession. However, this does not mean that all fragrance products will experience a setback. Outstanding fragrances will undoubtedly continue to sell. By outstanding fragrances I mean those which have both originality and strong appeal to the human senses. If a product is only new or merely different, it cannot enjoy the long-term appreciation of consumers.

Originality is one of the essential factors in creating fragrance and has always been sought for both female and male fragrance. Fragrance is closely linked to fashion and is affected by the way of thinking and living of the people at a particular time, as well as by socio-economical and socio-ecological trends.

As the creation of fragrance is sometimes likened to composing a painting or a symphony, people tend to seek in a new perfume a pleasurable new experience. A consumer opening a newly launched perfume wants to enjoy an original note, as well as a sophisticated, noble and long-lasting fragrance.

Since the birth of modern perfume during the latter half of the 19th century, many outstanding perfumes have left

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their names in history. These products owe their birth to the new chemicals that were developed at each historical point and to the artistic flair of highly motivated perfumers. Aroma chemicals have broadened the diversity of fragrance and produced many products that have become classics. The economical aspect of most aroma chemicals has enabled consumers of all social groups to enjoy fragranced products. Indeed, they opened an era of "democratization" of fragrance.

Experiments with "overdoses"—the abundant use of new aroma chemicals, such as aldehydes in Chanel No. 5—produced fragrance products with originality. In addition, since it became possible to analyze the aroma of living flowers by using the headspace technique, fragrance products now have a more lively natural scent.

All of this progress—namely, the analyses of natural aromas, the synthesizing technology of new chemicals, the application of the headspace technique and the scientific technology to economically manufacture aroma chemicals—will certainly continue to produce materials which will enable perfumers to create fragrances offering the originality and new experience that consumers desire.

**Psychological effect:** Finally, it is well known that a good scent has a positive effect on human psychology. Studies to scientifically prove the physiological and psychological effects of fragrance have recently attracted attention. I would like to comment on this briefly.

Many people in their daily life find that the scent of flowers and herbs relaxes them and that the fresh scent of forests alleviates physical fatigue.

The human body is equipped with a function to maintain normal physical and psychological conditions with the comprehensive works of the autonomic nervous system, the internal secretion system and the immune system to prevent and recover from the illness, to cure injuries and to alleviate excessive stress. This function is called homeostasis. For example, rough skin caused by continuous stress is believed to result from the failure of the balancing function of homeostasis and the resultant adverse effects on human metabolism.

It has become clear through various scientific studies that stimulating the olfactory sense works both physiologically and psychologically to smooth the homeostasis function and restore the physical and mental balance that has been disturbed by stress.

The studies made so far have used brain waves and the response of the autonomic nervous system. It has been found that the fragrances of jasmine and of lemon have a revitalizing or stimulating effect and the scents of rose and of lavender have sedative effects. Studies are now being made on the effect of aroma on the adrenal cortical hormones and on the immune responses which are deeply related to stress. The overall homeostasis coordination function of scents is also under study.

Odorous materials that are useful physiologically and

psychologically are likely to contribute to the development of new forms of fragrances and cosmetics that are beneficial for both beauty and health.

### Political Changes in Europe

Now, I would like to discuss the effect that EC integration and changes in the former Soviet Union and Eastern Europe will have on the fragrance and cosmetics industry.

The great continent of Europe is coming together to pool its resources and wisdom. While many years will likely be required to achieve full integration, already the dawn of a new era for the West is here.

Faced with such a changing and challenging situation, we all have to have great concerns as well as expectations.

However, the dramatic changes are too broad and too complicated for us to make prognoses on their effect on our industry by projecting the possibility of actual events out of many occurrences. For those of us in the Japanese industry, it is an extremely difficult issue. But I venture some obvious and not so obvious conclusions.

First, it is likely that brand products, whose images are well established, could become equally popular in the countries that are now experiencing economic reconstruction.

Second, the latest beauty techniques and the new raw materials that have been developed by the most recent technology are likely to become universal.

Western Europe, the United States and Japan will probably cooperate in various aspects. Corporations with a home base in Europe, in particular, will assume a greater role and at the same time will be given major opportunities for further expansion.

According to *The Competitive Advantage of Nations* written by Professor Michael Porter of Harvard Business School, the following conditions support international competitiveness of corporations in different countries:

- Where demand in the home market indicates the future direction of the world's demand;
- Where the home market has sophisticated and highly demanding consumers;
- Where the value system and tastes of the home market can spread to the world.

These conditions are expected to prevail in the EC market and in the further expanded EC, including Eastern Europe, that is expected to emerge.

During the 1990s, which is considered to be the non-transparent decade, it is difficult to accurately project the future of the world. But the more intense the changes, the stronger the desire for "the unchanging value or the genuine value" in our daily life. The role of Europe, which shoulders "the genuine culture," will inevitably become increasingly more important.

Next, I would like to refer to the former Soviet Union and Eastern Europe. We should not consider these countries as

merely underdeveloped markets but rather we should investigate their potential as partners over the long run.

In reality, there are problems of foreign capital. Since their priority must be economic reconstruction, our industry should endeavor to assist them.

First, we can consider them as a site for a production base, utilizing cheap raw materials and low labor costs. But cost is not the sole factor; the image of the producing country is also extremely important. I mentioned several important elements of the home market earlier. This means that the producing country should have some aspects that give it a competitive advantage.

Cosmetics have a cultural background, the national culture of the country in which they are produced. This is what attracts consumers.

For instance, products currently sold under the label "Made in Japan" could not be sold in the Japanese market if they were manufactured in the Russian Republic and marketed at lower prices but with the label "Made in Russia." However, if some element of Russian culture could be incorporated in the marketing plan, they could be marketed in Japan and indeed elsewhere as "Made in Russia" products.

Our company has not yet entered Eastern Europe or the former Soviet markets. But in China, we formed a joint venture in Beijing in January 1992. We are currently constructing a factory. But already for several years, we and a partner in Beijing have done joint research on cosmetics using crude drug materials. As the first fruit of this joint research, a new hair nurturing tonic was introduced to the market in Japan in October 1992.

The crude drugs we are using are based on Chinese herbal medicine that has long been part of Chinese history. Rather than being mere raw materials, these drugs are accepted in Japan with a strong cultural asset image of China. The hair nurturing tonic will be completed in Japan, since the technology required to manufacture it is not yet available in China. But as this product can enjoy a good image with the label of "Made in China," it will eventually be manufactured completely in China and imported into Japan.

Accordingly, I believe it will be to the advantage of any two countries over the long run to discover each other's cultural assets and jointly develop products that conceptualize these assets.

So, I believe strongly that the major changes taking place in Europe will stimulate the further progress of our industry and contribute to the cultural exchanges and economic development of the world.

### Reference

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