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# The World Flavor and Fragrance Industry

## 1979-1981

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Since 1979, the world flavor and fragrance industry has experienced a period of lower profitability brought about by lower nominal (calculated in current U.S. dollars and local currencies) and real (quantity) growth rates as well as increased competitive pressures. Table I analyses in detail worldwide sales of 35 public and private companies (16 individually and 19 collectively) during the period 1979-1981 (with growth rates in current U.S. dollars and local currencies).

Calculated in current U.S. dollars, worldwide sales of flavors and fragrances were \$4,200 million in 1981 against \$4,000 million in 1979, thus growing at an average annual rate of only 2.5% during this period. Worldwide sales increased by 6.2% between 1979 and 1980, from \$4,000 million to \$4,250 million, but there was a slight decrease of 1.2% between 1980 and 1981 from \$4,250 million to \$4,200 million.

It is important to keep in mind that due to the present world monetary system of flexible (fluctuating) foreign exchange rates (e.g. changing periods of dollar depreciation versus appreciation, etc.), all calculations/consolidations in current U.S. dollars are tainted with considerable distortions. Indeed, calculated in current local currencies, the average annual growth rate of the flavor and fragrance industry was substantially higher during the years 1979-1981: 8.2%, including a growth rate of 5.7% between 1979 and 1980 and 10.7% between 1980 and 1981.

Nevertheless, even this higher average annual growth rate of 8.2% is considerably lower than the 12% to 14% average annual growth rate (cal-

culated in current U.S. dollars) experienced by the flavor and fragrance industry before 1979. It is true that the period before 1979 was characterized by the continuous depreciation of the U.S. dollar against most other currencies, whereas the period after 1979 is characterized by a continuous appreciation of the U.S. dollar against most other currencies.

The 35 companies analysed in detail had a total world market share of 61.3% in 1981 whereas the remainder (several hundred) disposed of the remaining share of 38.7%. No doubt, the world flavor and fragrance industry is a highly fragmented one, that is, no individual company has a dominant world market share, the largest being International Flavors & Fragrances (10.7%) followed by Givaudan (7.4%), Naarden (4.9%), Haarmann & Reimer (4.3%), Firmenich (3.3%), Bush Boake Allen (3.1%), and so on.

At present, the major trend in the industry is toward consolidation as many companies are faced with significant merger or takeover proposals. On the other hand, the industry is living in a dangerous sales price erosion period due to the fact that its average unit price increases do not follow the general inflation rate. However, those companies that do not raise their prices to cover increases in their costs and to maintain a reasonable profit will, in time, have serious financial difficulties.

Today, flavor and fragrance companies need a much bigger capital investment than ever before to service customers properly. Much more equipment is needed to provide better stability and longer shelf-life of flavored and fragranced

**WORLDWIDE SALES AND MARKET SHARES OF MAJOR INTERNATIONAL COMPETITORS**

**IN FLAVOURS AND FRAGRANCES**

(ESSENTIAL OILS & OTHER NATURAL PRODUCTS; AROMA CHEMICALS; FLAVOUR COMPOUNDS; FRAGRANCE COMPOUNDS; OTHER CHEMICAL SPECIALTIES; IN MILLIONS OF US DOLLARS AND LOCAL CURRENCIES)

COMPETITORS		1979	SHARE %	1980	SHARE %	1981	SHARE %	GROWTH RATES %		
								1980/1979	1981/1980	AVERAGE 1981/1979
1) INTERNATIONAL FLAVORS & FRAGRANCES (USA)	\$	409	10,2	448	10,5	451	10,7	+ 9,5	+ 0,7	+ 5,0
2) GIVAUDAN/HOFFMANN-LA ROCHE (SWITZERLAND)	\$ SF	281 467	7,0	306 512	7,2	310 610	7,4	+ 8,9 + 9,6	+ 1,3 + 19,1	+ 5,0 + 14,3
3) NAARDEN-UOP (NETHERLANDS)	\$ HFL.	222 444	5,6	236 468	5,6	206 513	4,9	+ 6,3 + 5,4	- 12,7 + 9,6	- 3,6 + 7,5
4) HAARMANN & REIMER/BAYER (GERMANY)	\$ DM	179 328	4,5	191 347	4,5	181 409	4,3	+ 6,7 + 5,8	- 5,2 + 17,9	+ 0,5 + 11,7
5) FIRMENICH (SWITZERLAND) (FISCAL YEAR ENDING JUNE 30)	\$ SF	161 268	4,0	164 275	3,9	137 270	3,3	+ 1,9 + 2,6	- 16,5 - 1,8	- 7,5 + 0,4
6) BUSH, BOAKE & ALLEN (U.K.) (UNION CAMP ACQUIRED BBA IN 1982*)	\$ £	117 55	2,9	128 55	3,0	130 64	3,1	+ 9,4 0	+ 1,6 + 16,4	+ 5,4 + 7,9
7) FLORASYNTH (USA) LAUTIER AROMATICS (FRANCE) (FLORASYNTH ACQUIRED LAUTIER IN 1981)	\$ \$	83 33 } 116	2,9	90 32 } 122	2,9	96 30 } 126	3,0	+ 5,2	+ 3,3	+ 4,2
8) TAKASAGO (JAPAN)	\$ Y (BILLION)	111 24,2	2,8	104 23,6	2,4	117 25,9	2,8	- 6,3 - 2,5	+ 12,5 + 9,7	+ 2,7 + 3,5
9) UNIVERSAL FLAVORS & FRAGRANCES (USA)	\$	90	2,3	100	2,4	110	2,6	+ 11,1	+ 10,0	+ 10,5
10) DRAGOCO (GERMANY)	\$ DM	107 195	2,7	113 205	2,7	102 230	2,4	+ 5,6 + 5,1	- 9,7 + 12,2	- 2,4 + 8,6
11) FRITZSCHE, DODGE & OLCOTT/BASF (USA)	\$	77	1,9	85	2,0	95	2,3	+ 10,4	+ 11,8	+ 11,1
12) PROPRIETARY PERFUMES LTD. UNILEVER (U.K.) (SINCE 1982, PPF INTERNATIONAL INCLUDING PPL, FOOD INDUSTRIES & BERTRAND FRERES)	\$ £	71 33,7	1,8	90 38,4	2,1	87 42,8	2,1	+ 26,8 + 13,9	- 3,3 + 11,5	+ 10,7 + 12,7
13) NORDA (USA)	\$	70	1,8	75	1,8	85	2,0	+ 7,1	+ 13,3	+ 10,2
14) ROURE BERTRAND DUPONT/HOFFMANN-LA ROCHE (SWITZERLAND)	\$ SF	81 135	2,0	79 132	1,9	76 149	1,8	- 2,5 - 2,2	- 3,8 + 12,9	- 3,1 + 5,0
15) POLAK'S FRUTAL WORKS/HERCULES (USA)	\$	45	1,1	50	1,2	56	1,3	+ 11,1	+ 12,0	+ 11,6
16) FELTON-ELAN (USA)	\$	34	0,9	40	0,9	48	1,1	+ 17,6	+ 20,0	+ 18,9
17) THE FLAVOUR & FRAGRANCE INDUSTRY IN GRASSE/FRANCE (19 COMPANIES)	\$ FF	290 1'233	7,3	283 1'197	6,7	259 1'402	6,2	- 2,4 - 2,9	- 8,5 + 17,1	- 5,4 + 6,7
SUB-TOTAL (1 TO 17)	\$	2'461	61,5	2'614	61,5	2'576	61,3	+ 6,2	- 1,5	+ 2,3
18) OTHERS (SEVERAL HUNDREDS)	\$	1'539	38,5	1'636	38,5	1'624	38,7	+ 6,3	- 0,7	+ 2,7
WORLD TOTAL	\$	4'000	100,0	4'250	100,0	4'200	100,0	+ 6,2	- 1,2	+ 2,5
WORLD TOTAL IN LOCAL CURRENCIES	-	-	-	-	-	-	-	+ 5,7	+ 10,7	+ 8,2

ELABORATED BY LASZLO UNGER, ECONOMIST, STRATEGIC PLANNING, GIVAUDAN S.A., (GENEVA)

\*Although a letter of intent has been signed, the purchase has not been completed.

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end-products, to comply with an ever-lengthening list of ingredient and manufacturing safety standards and environmental safeguards, plus added working capital to finance the more frequent deliveries of smaller quantities to customers.

Price increases are a fact of business life in an inflationary era and no company can survive by selling this year's products at last year's prices. Furthermore, the consumer goods industries (foodstuffs, beverages, tobacco, soaps, detergents, cosmetics, toiletries, etc.) served by the flavor and fragrance companies are characterized by a high degree of product turnover resulting from variations and changes in consumer preferences, habits and lifestyles. As a consequence, most consumer products utilizing new flavors and fragrances have a product life of less than five years.

Increasing consumer sophistication leads to demands for greater end-product individualization, which means that flavor and fragrance companies are constantly seeking and creating new products with special appeal to market sub-segments. Once these products have reached the market and become successful, it is relatively simple for rival flavorists and perfumers, utilizing sophisticated instrumentation, to augment their sensory abilities, to identify competitive compounds and either duplicate or modify them to create new products. All of this places heavy demands on the flavor and fragrance industry to find creative, innovative solutions to consumer product marketing problems. No doubt, the cost-reduction pressure and the rapid obsolescence of many flavored and fragranced consumer goods pose difficult challenges to the managements of flavor and fragrance companies to create new specialty flavors and fragrances and, at the same time, produce commodity flavors and fragrances.

Future growth and profitability in the flavor and fragrance industry are likely to be increasingly dependent on the category and characteristics of the individual companies. The better-positioned companies in the 1980s will be those that have integrated modern corporate management practices and basic chemical research (aroma chemicals, etc.) with traditional creativity in flavor and fragrance compounding. Flexible management, an independent and innovative group of creators (chemists, flavorists, perfumers, marketing specialists) and a profound understanding of consumer and industrial marketing techniques as well as the needs of consumer-oriented companies are requirements for the successful flavor and fragrance company in the 1980s.