

Professional Postgraduate
Diploma in Marketing
Strategic Marketing in Practice
Case Study
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The Fragrance Industry

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Candidate's Brief

You work as a Senior Marketing Consultant for a full service marketing agency in the fragrance and cosmetics industry. You have experience in market research and analysis, along with an ability to make key strategic decisions, in particular relating to product innovation, branding and strategy development. Part of your role is to consider market research based on the fragrance sector with a view to developing effective high-impact marketing strategies for new fragrances launched into the market.

Recently your agency undertook a significant piece of research to gain a more in-depth understanding of the fragrance market as it is rapidly evolving and changing, particularly with the high level of celebrity involvement. The research consisted of:

- a critical analysis and appraisal of the fragrance industry, which is large and complex
- consideration of the fragrance market, including France, which is considered to be the most sophisticated perfume market in the world
- an in-depth look at a specialist perfume manufacturer, Scents of Time, which makes perfumes for a niche market, and
- an in-depth look at Coty, one of the leading competitors in the fragrance market, specialising in celebrity perfumes.

The art of making perfume originated many years ago soon after our early ancestors learned how to make and control fire. Certain plants produce pleasing aromas when they smoulder.

Latin Per fumum 'through smoke' gave rise to the word perfume.

Creative perfumery houses -B2B – manufacturers of consumer products. Key USP – understanding of how fragrances communicate product messages to consumers (B2C) including freshness, relaxation and excitement.

There are two types of manufacturers: the brand owners (P & G, Unilever, etc) who manufacture products to sell under their own brand names, and parallel manufacturers who specialise in the manufacture of products for the distributor's own label market(e.g Tesco, Asda Walmart, M & S etc.)

The brand manufacturers are responsible for marketing, NPD, technical support, quality assurance, production and procurement.

Tesco, Walmart etc. do not manufacture their own label products, they are

supplied by contract manufacturers who work closely with the retailer's marketing, product development and quality assurance staff. Own label is a highly profitable business for retail companies.

The perfumery house must understand the end use consumer just as well as P & G and Unilever, even though it is further up the supply chain. Good market research and market intelligence is needed to spot the products in decline and products that are growing. Detailed local knowledge is needed as products are often at different lifecycles in different parts of the world. This represents an opportunity for Fragrance manufacturers who can extend the PLC in LDC's such as India, Slovakia and Bolivia for example.

Creative perfumery house

Key roles are:

Key account manager- manages major clients

Creative perfumer – the 'nose', the person who creates the perfume

The evaluator – has an intimate understanding of the marketing context of the product area for which they are responsible.

Technical support

Quality assurance and regulatory affairs – ensures that the product is safe and legal for its intended use, according to relevant legislation e.g European Cosmetics Directive

Production and logistics

Perfume – another 'P' for the marketer

Marketers must remember the olfactory aspects of perfume. Aromas are widely used in retailing, e.g smell of newly baked bread is wafted through supermarket stores to attract people. Starbucks (coffee aromas), Ben and Gerry's (ice cream).

'Cognitive assonance' – when a fragrance is linked to a purchase decision – retailers use it to encourage future spending.

The perfume market relies very much on packaging style, brand image, price and scent quality to determine exclusivity.

(Product examination, testing session looking at a variety of perfumes)

Market research is aimed at understanding the product architecture and making it specific to the needs of the customer. Repositioning of products for different markets and rejuvenating products can extend their life.

Aromachology – odours can effect mood and trigger memories. Bottom line for marketers – odours provide a powerful, non-verbal channel of communication, with the ability to affect moods and emotion.

In the branding of consumer products, packaging and signal attributes are vital aspects of the integrated communications strategy.

Positioning of bath and shower products – bath products (foam baths) are based on the platform of relaxing. Shower products are based on developing an ‘invigorating’ and ‘get up and go’ experience.

Strap lines have to reflect these positions – e.g. for relaxing - ‘contains relaxing aromatherapy oils’

Fragrance creation and the perfumery brief

In a typical supermarket, there are thousands of fragranced products on sale. Normal product life cycle of a fabric conditioner is 2 years. A continual stream of fragrances has to be developed by the fragrance house. (‘New improved formula’)

The perfumery brief provides the information from the client to the creative perfumery house, and is the basis for developing the desired fragrance. The brief gives information about intended market, positioning, and target segment.

The brief should specify what is required : the amount of test fragrance to be supplied, technical reports, market reports, commercial documentation (e.g. quotation) and quality assureddocumentation (e.g specification).

A successful fragrance must:

- perform and convey the right olfactory message (e.g.fresh)
- be stable in the product
- have the right price
- be safe and legal

Range of products

Perfumes

Typically, these are solutions in alcohol of the perfume oil at around 20% for an extrait perfume and around 5% for a toilet water. Market is divided into premium (£50) and mass (£10).

Perfumes are aimed at female, male and unisex. Each fragrance has its own identity and brand positioning. Market is highly fragmented with over 100 launches a year.

Chanel No 5 is timeless, others have limited lifecycles and launched for a year. Own label perfumes have not made inroads into the brand manufacturers' share of the market. A fiercely protected market!

Other product ranges are cosmetics and personal care products, fabric care, household, and air fresheners.

New product development – NPD

Organisations need to innovate to survive. As existing products fall out of fashion or become obsolete, new products must be added to the portfolio.

Page 18, figure 3 is a very useful table which outlines a market research process for developing a product.

Highly competitive market so have to be innovative.

NPD can take several forms – genuinely new product is launched which may include technical innovation., old product relaunched with new packaging, limited editions, light versions of existing products (Dolce & Gabbana – blue), range extensions, licensing, celebrity endorsement, issuing a fragrance as part of a collection – gift packs.

Suppliers

B2B market – source of competitive advantage is to provide superior technical service. Perfume industry – creative houses use their **creative** ability as a source of competitive advantage – they provide market leader brand manufacturers with new product concepts and positioning strategies.

Competitors and market leaders

A legitimate business strategy is to be a market follower. The art of innovation for this type of organisation is to copy technology quickly. Chemical analysis allows reconstruction of the product.

The distributor's own brands are largely 'me too' copies of market leader products. Care must be taken with I.P but it is not easy to patent protect a perfume. The secure way is to include novel fragrance ingredients – which can be patent protected- in the formulation.

Perfume houses with R & D capability to produce novel aroma materials have a competitive NPD advantage in creating exclusive products

One key element of the marketing information system (MkIS) in the creative perfume house is the product library. This is extremely useful when creating new products in international markets.

Channels and customers/market analysis/line extensions

Keep close to your customers so as to spot trends and NPD opportunities. Market intelligence gathered by agents in overseas markets is invaluable. The MkIS system is a valuable input into the creative processes. New segments can be identified, ethnic and cultural diversity provides a range of profitable niche markets for perfumes, cosmetics, and personal care products. Good local market knowledge is vital. Cosmetic chemists sometimes formulate a range of cosmetic products (e.g. skincare products) to complement a successful new fragrance brand.

Creative inspiration

Creative inspiration is particularly important in fine perfumes, not only for the perfume but also for the perfume bottle and packaging.
(See range of perfumes on show)

Formulation of new product ideas, test marketing, product launch etc.

There must be a genuine market need and a cost effective technical solution. Detailed local knowledge of markets is needed due to cultural differences, hair types, skin colours, etc.

Once opportunities are screened and concept testing is complete, you need to check the fit with the business mission, aims and objectives. Will the product remain true to the brand values?

The NPD plan should be developed taking into account reliability of supply, on a JIT basis.

The use of green products from sustainable sources is becoming mandatory so the use of POP's (persistent organic pollutants) should be avoided.

Integrated perfumery houses seek to produce a continual stream of novel patented captive ingredients so they can offer clients unique products that can not legally be copied.

As the product is being developed, parallel work needs to be undertaken on the development of the business and marketing plans. Good working relationships must be maintained with the brand manufacturer's DMU and other suppliers (e.g packaging manufacturers).

Alpha, beta and y testing is vital. Alpha – does the product work in the lab?

Beta – ensures the product performs and survives in real life situation.

y – determines whether the product does what the customer wants and provides real benefits.

In the final stages of product development, additional panel testing may be needed to select the best product for the market. Panel testing is costly and attracts significant overheads. Skilled panels are more consistent but get 'house trained' so get into 'company group think'

It is particularly important to know just how people actually use products, especially in international markets. The safety and legal aspects must be

checked and all labelling requirements and hazard warnings must meet EU directives.

Pilot production provides a realistic estimate of costs. The outline plan has to be firmed up into the full launch with cash flow projections. Test marketing is a double edged sword! Advantage – gives an organisation opportunity to estimate likely success, disadvantage – delays launch allowing competitors to steal a march.

Creative perfumery house and brand manufacturer must work hand in glove to appreciate what is happening in the field and to monitor competitor activity.

There is a continual demand for product innovation. The creative perfumery house needs to research the B2B and B2C aspect of the market place. Sound market research and market intelligence must be fed into the NPD process to ensure that a competitive advantage is sustained.

Perfume industry's regulatory framework

Regulation has become a greater issue, resulting in bans of the use of animal products (e.g natural musk) and the use of animals in product testing. EC regulations (REACH) make regulatory compliance a vital and expensive aspect of the creative perfumery house's activities. USA and Japan have regulations that are significantly different from those within the EU. Major brands have to tailor the production and labelling of their products to different foreign markets.

Detailed analysis of the French market

The women's fragrance market in France is worth E 1.2 billion, 3% higher than in 2006 and 7% higher than in 2002. Mintel predicts growth of 8% between 2007 and 2012. This represents an actual value decline in real terms of around 7%. The market will continue to be extremely competitive, with luxury brands competing even more fiercely.

90% of French women (24million) use fragrances, and of the 90%, 75% (18million) use it on a daily basis. Many perfumes are tied to a woman's perception of her attractiveness, femininity and self image.

Selling a fragrance is about selling a dream, image and heritage. It is much more than just selling a consumer product, it is pure theatre.

Growth is likely to be fuelled by organic fragrances, purse sprays, alcohol-free perfumes and innovative new scents to keep the exclusive cachet that brands possess.

2,500 fragrances on the market with nearly 400 new brands launched every year.

French women are a little less attracted by celebrity perfumes compared with

their British and German counterparts. There has been little change in the top ten brands over the last 10 years which suggest that the French women are interested in quality and are brand loyal, with a tendency to stick with their tried and trusted perfumes!

Packaging is innovative, with interesting bottles, sculptural effects and limited edition designs. Some perfumes are produced as belt and bag attachments for frequent spraying. Nina Ricci launched L'air du Temps in a collectable Lalique bottle at E300.

The fragrance companies have to be innovative to survive and to maintain market share. France is still regarded as having a major influence on the fragrance industry.

Scents of Time

DP, owner of Scents of Time, works as a consultant to the perfume industry and is about to launch his range of fragrances based on perfumes that have been lost in time, rediscovered and recreated for the modern world.

DP is a qualified chemist, marketer, and aromancer. He has worked for 30 years in the fragrance business with Boots, ICI and Unilever

DP searches out perfumes that have been lost in time, finds them, recreates them and gets them ready for market. He is developing and launching 15 perfumes over the next few years, all of which have an interesting historical context to support them.

He is quoted as saying that perfumes 'are transient ephemeral beings. Open the stopper and they are lost in the arrow of time.'

There are 5 ways to capture perfumes in time and recreate them:

1. decipher pictographs from tombs or formulae from old books
2. recover actual samples in archaeological digs
3. capture them from plants known to be used, using head space analysis
4. recover samples from museums
5. imagine the aroma from written records and clues

The new fragrances are developed to be as near to the originals as they can possibly be. DP states that they keep the aroma experience intact. The new perfumes are created from absolutely safe materials under the strict regulations of RIFM and IFRA – the regulatory authorities for the perfume industry.

DP was involved with the RMS Titanic and the salvaging of one of the passenger's fragrances. The perfumes belonged to Adophe Saalfeld, a German born perfumer who was on the Titanic. He was on his way to America to see if he could sell his samples commercially. DP has managed to examine and work with two samples. DP is determined to help consumers learn more about the perfumes they are buying.

He was awarded £80,000 by two dragons in Dragons Den in return for a 40% share of the company.

The first 2 fragrances being launched in quarter four, 2007 to selected outlets are Nenufar (the Blue Lotus- favoured scent of Cleopatra) and Pyxis, the lost fragrance of unguentarius (perfumer) Sperato of Pompeii. They will be sold in presentational boxes of 100ml perfume with a booklet explaining how the perfumes were lost, found and recreated, as well as the origin of the name for the scent.

(It is likely that there will be a niche market from consumers who are interested in ancient times and the novelty factor. Has the market research been carried out prior to launch?)

The perfumes will be distributed through a number of channels including major retailers, chemists and pharmacists, duty free shops, museums, the internet.

The aim is to capture one tenth of one per cent of the global market, which is currently worth £15 billion. This would equate to £15 million. (or E21million) this represents 2.22% of the UK market value.

Coty

Established in Paris in 1904 by Francois Coty and is now based in the United States. Multinational producer of premium and mass market cosmetics and toiletries. Has operations in more than 25 companies globally, with a presence in the Americas, Europe, Asia Pacific, the Middle East and Africa.

Turnover – US\$2.9 billion per annum, with 50% of its turnover coming from Western Europe and 26% from North America.

In 2005, 635 of the company's total sales came from fragrances, up from 50% in 2001, as a result of the company's intensive product development and acquisition strategies.

Has a wide portfolio of over 35 brands, divided between Coty Beauty and Coty Prestige. Coty Prestige distributes through up market and exclusive stores. Coty Beauty brand is more widely distributed.

Acquired Unilever's premium fragrances portfolio in 2005 – gave them a comprehensive portfolio of Calvin Klein, Chloe, Lagerford, Vera Wang and Cerutti. Acquisition resulted in Coty becoming a global market leader in fragrances and raising its ranking in the global cosmetics and toiletries market from 15th to 13th.

Coty's core business is the mass markets, specialising in celebrity endorsed products. In the toiletries sector, Coty produces a wide range of products (bath and shower products, deodorants, skin and sun care) and cosmetics for both the mass market and exclusive sectors.

Adidas – example of cross-sectoral brand extension strategy, but over cross-sectoral extension may weaken a brand.

Recent developments

1996 – taken over by the German company Joh. A. Beckinser

2000- signed up with Club Mediterranee to market Coty fragrances, bath and beauty products under the Club Med name

2000 – signed a licence agreement to produce and distribute Pierre Cardin fragrances in Europe

2001 – agreement with Chupa Chups to develop and market fragrance and cosmetics with Chupa Chups brand

Has over the years concluded agreements with Jennifer Lopez, Celine Dion, Kenneth Cole, Marc Jacobs,

Miss Sixty, David and Victoria Beckham, Kylie Minogue, Gwen Stefani, and Kate Moss

2005 – Coty purchased Unilever Cosmetics International (UCI), Unilever's global fragrance business.

2006 – signed a deal with the Kose Corporation in Japan to manufacture and sell Rimmel cosmetics(a brand owned by the company)

Coty launched its first US based 'fragrance bay', an innovative retail kiosk on Fifth Avenue, New York. New fragrance bay consisted of 18 brands with Coty's Prestige product lines. Coty has also worked closely with French designer Denis Boudard to create a range of innovative packaging.

Business objectives

Coty is established in Western Europe and North America, and both are central to its growth strategy.

Growth in Asia Pacific market has been disappointing in comparison. Is focusing on Japan to address this, aiming at Japanese women.

Coty is also introducing fragrances and skincare products into China, aimed at the younger age groups (segmentation). R & d is highly regarded within the organisation and they are proud of their speed to market, which gives them a crucial competitive advantage. Coty thinks global, acts local e.g euphoria blossom has been developed for the Asian consumer.

Sales distribution

Coty's two markets are:

1. Mass market, through Coty Beauty, distributed through mass distribution channels such as pharmacies, large retailers, supermarkets (e.g, Boots, Walmart, Carrefour)
2. The prestige market through Coty Prestige , distributed through upmarket department stores and duty free shops (e.g Harvey Nichols and Bloomingdale's)
3. Some products are marketed through both channels, adidas and Celine Dion fragrances were distributed as 'upper mass' brands when launched in 2003

4. Cotyshop is Coty's online sales site, used to promote its many brands including men's and women's fragrances, aromatherapy lines and bath and body products.

Business performance

The guiding vision for Coty is to be 'even faster to market, go even faster in the beauty industry and think more freely than ever'. (Coty CEO)

Net sales for 2006 - \$2.9 billion, up 38% on previous year. Coty Prestige accounted for 55% of the sales and Coty Beauty 45%

Coty's strategic priorities to help them achieve their sales target of US\$5 billion by 2010 and to be one of the top five global beauty companies include

- Identifying priority brands for development –Rimmel, Adidas, Calvin Klein
- continuing strategic development of brands, new launches and planned partnerships
- maintaining growth and active development in fragrance (forecast for 3% in the global fragrance market)
- targeting developing areas – Eastern Europe, Africa and the Middle East
- enhancing premium fragrance range into new geographical areas
- exploiting opportunities for mass market fragrance in emerging regions
- strengthening its position in colour cosmetics market through promotion of the Rimmel and Astor brands
- building on advances in the Asia-Pacific market for colour cosmetics, especially in Japan
- targeting US premium fragrance market

Celebrity fragrances

Coty has signed deals and partnership agreements with celebrities to capitalise on the intrinsic desirability of association with famous, attractive and popular personalities. The marketing campaign typically focuses on promoting the celebrity endorsement by capturing key characteristics that are associated with that person and, by extension, to the perfume.

In years gone by the elaborate packaging associated with celebrity endorsed fragrances most were considered collectors' items rather than perfumes for regular wear.

Celebrity fragrance industry has recently been transformed by a new wave of celebrity perfumes, such as

- Jennifer Lopez's (JLo) Glow
- The Beckhams' his and her range, 'Intimately'
- Kylie Minogue 'Darling'

Sales of celebrity endorsed perfumes have increased by 2,000% since 2004 – big business!

Perfume Shop has increased sale of celebrity perfume from 1% of sales in 2004 to between 15 -20% in 2007.

In the USA celebrity perfumes have grown rapidly and contributed to mass fragrance sales, but mass sales are expected to decline by 2010. Quality is likely to be the deciding factor in future sales expansion and profitability. Are we heading for a possible downturn in celebrity endorsed perfumes? Will the bubble burst? Could consumers become irritated by the continually increasing choice?

If popularity of celebrity diminishes this can have a detrimental effect on the value of the product

(cf, Paris Hilton). Kate Moss however actually seemed to achieve more sales ironically by promoting an eye cream which made you look great after a night out, despite her reputation for hard drugs abuse.

Euromonitor International – potential of celebrity fragrances is under threat.(see appendix 13).

Summary

Greater consumer confidence is reflected in higher levels of disposable income. Working women are more likely to use fragrances than non working women. Emergence of cut price retailers and lower high street pricing has ensure greater accessibility to, and purchase of, premium fragrances. Even Prada has become accessible to all. Fragrance is now seen as an essential rather than a luxury product.

Consumers are increasing their expenditure on skincare and cosmetic products – represents an opportunity for companies to diversify into related product markets.

Any downturn in the world economy is likely to affect demand for luxury items.(Global credit squeeze!) Parts of the mature markets in Europe and USA are arguably over saturated, leaving little room for growth.

Fragrance market is becoming more price sensitive as consumers become more discerning about the comparative costs of products and the availability of discounted products, both offline and online (price comparison sites).

Costs of production are increasing because of EC regulations on chemicals and their safe use.

The European market is the largest in the world but in time the growing markets of Asia Pacific may eclipse Europe's position in terms of turnover and sales. Competition is likely to intensify over the next decade and growth will be fostered by both innovative product development and intelligent marketing.

Practice questions

1. What branding strategy should Coty adopt to maximise sales and profitability?
2. Prepare a communications plan which will increase sales and profitability for Coty across all its target markets
3. What branding and positioning strategy should Coty adopt to improve its appeal to consumers?
4. Devise a marketing plan to make Coty the leading player in the fragrance business
5. Prepare a relationship marketing campaign which will effectively increase Coty's customer loyalty and their lifetime value.
6. Coty is at a critical point in its development and growth. Produce a strategic marketing plan which will ensure increased revenue and negate the marketing strategies of domestic and international competitors within the fragrance business.
7. Prepare a corporate social responsibility charter for Coty in the light of the recent outcry about POP's?
8. How can Coty leverage Celebrity Endorsements to increase sales and profitability within emerging markets?
9. Devise a marketing plan to ensure that Scents of Time achieve 0.1% of the global fragrance market by 2012