Scent and Taste

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The combination of nature and chemistry, and the development of our industry since the last century, have changed the industry of flavors and fragrances substantially. If we try to look into the future from today's point of view, we see not only challenges and chances, but also risks, restrictions and new requirements. Plentiful and growing legislation makes us wonder whether we are still in a business giving people pleasure, or in a business mankind has to be protected against!

From the anti-fragrance campaigns in the United States to the musk warnings in German media based on bioaccumulation findings of fragrance materials, from environmental demands on biodegradability to claims of multichemical sensitivity, from newly required chemical inventories in many countries to test requirements on natural and nature-identical flavor components in the European Union, we see ourselves in a world where one word comes to the forefront: compliance. Compliance demands are growing much faster than turnover, and we have to prepare ourselves as an industry to meet our customers' needs to comply with consumer demands. But we must be ready to defend products against unreasonable demands by influential pressure groups who want to destroy freedom of choice. Product safety and quality guarantees backed by a sound data base and quality assurance systems will be vital to the future of our industry. And we expect the same from our suppliers.

If we look to the developments in our customer base, we see a trend to globalization and concentrations. We'll need to respond. Increasing demands for service are developing, parallel to cost pressure in all application areas. This is the backlash of the global consumer goods fight for market share and/or the fight between branded and own-label consumer products. This pressure is accelerated by those giant retail companies that are more concentrated in major world markets than are the manufacturers of their goods.

Please don't get the impression I want to paint only a dark scenario of risks and threats for our industry. My major message is that the business of fragrance raw materials, fragrances and flavors is still growing and will be for the foreseeable future. But conditions and prerequisites to obtain and maintain a share of this market have changed, and will change as we approach the threshold of the new century. It is up to us to meet those challenges and stay on top.

The Market

If we look at the world market of aroma chemicals, fragrances and flavors (AFF) in US$ and by regions (Figure 1), we at H&R estimate a future growth rate of 4-5% per year worldwide, to $12 billion by the year 2000. This seems to conflict with statements about saturated consumer markets in major countries, but our products grow above the world rate of growth due to new applications in technical areas, such as masking perfumes for unpleasant odors, or mood fragrance applications. New food and beverage prod-

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New products call for strong flavor demands, for instance in fashionable drinks.

Most important, however, will be the growth pattern in Asia and, especially, China (and soon also in Eastern Europe, we hope). There will be a relatively smaller growth rate in Europe and the United States, so the AFF market will change its relative distribution by region, as shown in Figure 1.

If we split the total sales of fragrance and flavor materials and compositions into six major application areas (Figure 2), you can see their relative size last year and our expectations for 2000. Looking at such totals, our world of flavors and fragrances continues to look attractive.

For several years, there has been a clear trend to globalization of major producers of consumer goods, food and beverages. Many local companies and/or their brands have been bought and integrated into the successful great names we all know. Those companies have also broadened their range from soap and detergents to fine fragrances, from standard food items to all sorts of specialties. This allows multinational customers to market those brands worldwide with appropriate advertising budgets.

This has not been without impact on the traditional small- and medium-size flavor and fragrance houses. The number of suppliers accepted by those giant customers is fortunately—or unfortunately—limited. Between 1990 and 1995, a continuous acquisition activity has concentrated our industry.

Now let’s look at our best guess about how the major competitors in the AFF market fared in 1990 and 1995 (Figure 3). I apologize immediately for any errors in representing the market share of our dear competitors, but, as you know, only limited data are published and available, and a lot of guess work has been necessary. In addition, currency changes play a major role.

One thing, however, seems very clear: The leaders of our industry could increase their share at the expense of hundreds of smaller companies that together now hold less than 40% of the market.

The Needs

In the years to come, the success of aroma chemicals manufacturers will be based on new needs:

- Research will focus not only on new and innovative substances, but also on cost-effective and environmentally safe process improvements.
- State-of-the-art manufacturing equipment is necessary to meet safety and environmental demands.
- Staying current with chemical laws and registration
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requirements is relatively expensive for an industry used to smaller volumes of individual chemicals.

• The need for toxicological data has recently required our industry to invest substantial amounts of money in corresponding investigations. Good cooperation from all in our industry is necessary to achieve results as quickly as possible in order to defend vital product groups.
• All this, of course, means high costs that need to be considered in our calculations.

The heart of our activity, the creation of flavors and fragrance compositions, needs new tools for use by the innovative and experienced perfumers and flavorists. We need not only the latest analytical results of trace components synthesized in new molecules, but also market research results on trends and scent preferences, as well as test market results on our own developments.

Creators need modern computer programs to work with perfume complexes and to manage the data on raw materials, restrictions and cost calculations. Sometimes they have to follow their global customers and thus need to find the group’s data base available to them at headquarters as well as in Singapore, New York or elsewhere. Above all, however, remains the creative talent of the individual, and the image of the company one is working for.

The customers expect more than a fragrance or a flavor from us, today and tomorrow. They look for tailor-made solutions for their products. That could mean a marketing idea or concept, a new release system, a set of convincing consumer test results, or a tool (such as a genealogy or comparable flavor profile) to find the right place in the fragrance market for the customer’s product. Finally, the customer expanding into the new markets of China, India or Eastern Europe expects us to follow.

To help meet customer demands in the areas of sales, marketing and evaluation, flavor and fragrance houses are using modern tools such as audio/visual presentations and laptop computer systems to trace developments and projects.

We still have to manufacture our compositions. Today, around the globe, we find traditional hand-mixing operations as well as high-tech automated plants. Computerized dispensing of components, even in small amounts, is state-of-the-art with the help of modern mini dispensers.

The automated systems are not only cost effective, they increase reliability and product quality in everything from samples to full-size batches. They can run in shifts and make every addition accountable, thus providing the data base for ISO 9000 certification.

An ancient art has become a high-tech industry, and this will be the future standard of all leading flavor and fragrance houses. The future holds opportunities in the ongoing product inventions of our customers, who need our participation and input for a vital part of their product profiles.

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