How Are The Key European Fragrance Markets Adjusting To The Downturn?

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Euromonitor International examines the fortunes of the fragrance industry in the five key Western European markets of France, Germany, the UK, Italy and Spain.

Key new launches, distribution trends and other issues currently affecting sales in each market are explored with a view to determining overall market movement to 2013.

France retains its love of premium scents

Despite the global economic downturn, mass scents have only posted marginal improvement in the French market. In order to compete, mass fragrances have adopted a more luxurious image in terms of packaging and general aesthetics in order to appeal to consumers in what is a notoriously premium focused market.

In terms of distribution, Ulric de Varens opened its first own-branded stores in France in 2008, selling a range of exclusive fragrances.

This selective distribution strategy is also used by premium companies such as Guerlain SA and Parfums Caron, both of whom regularly restrict the distribution of fragrances to their own-branded stores.

Although the distribution share of in-store beauty specialist retailers dipped in 2008 to 64% (down from 70% in 2003), premium brands are not shifting towards mass channels.

Rather they are strongly developing their presence in internet retailing, which helped to push the share of non-store retailers to 17% in 2008.

With beauty specialists and department stores posting strong online sales, perfume companies are following suit, bypassing the middleman by setting up their own websites, where consumers can buy fragrances and other beauty products.

In an effort to combat the nascent threat posed by mass competitors, premium brands in France have reinforced their luxury image by launching exclusive fragrances. Guerlain, for example, has expanded its range of selective fragrances under its umbrella brands L'Art et la MatiÃ¨re and Les Parisiennes.

Another trend is that of perfume houses launching more upmarket masstige scents, thereby helping to combat any threat by the mass fragrance industry, whilst helping to maintain an aura of exclusivity and desirability around its fragrances.

The use of rare and expensive ingredients has become more prevalent among premium fragrance houses.

Parfums Givenchy for example launched specialised variants for several of its existing fragrances, such as 'Very Irresistible'. Customised scents remain a major trend in France, especially in the male category.

Premium men's fragrances posted a sales increase in 2008 of 3% in value sales, thanks in part to launches such as Diesel Fuel for Life, which allowed consumers to customise both the packaging and perfume itself.

Premium brands also focussed on launching flankers and limited editions, as well as seasonal versions of existing fragrances and customised fragrance bottles.

German market holds out during the downturn

Fragrance sales in Germany largely withstood the economic turbulence in 2008, despite declining overall consumer confidence.

In spite of a cautious outlook for fragrances, Christmas sales developed positively, allowing fragrance sales to grow for the third consecutive year.

Premium fragrances slightly outperformed mass fragrances in 2008, due to the fact that celebrity fragrances â€“ previously a growth driver for the mass market - are losing their appeal amongst German consumers.

The trend toward prestige purchases has particularly been underlined by the resurgence in demand for traditional brands such as Chanel No. 5. Flanker brands have become the norm as opposed to outright new brand launches, which are riskier in an uncertain economic climate.

Among these flanker brands were Dolce & Gabbana Light Blue, Jil Sander Sun and Coty's Joop!. In the men's premium fragrances sector growth was driven mainly by 'One for Men' by Dolce & Gabbana and 'Fuel for Life' by Diesel, both of which proved particularly popular and successful new products in 2008.

Fragrance retailing is highly fragmented in Germany, with around 2,800 shops selling perfume. In contrast to France, beauty specialist retailers increased their share over the review period to 2008, largely because Germany was slowly emerging from a recession, as a result of which consumers gradually began to start shopping in higher end outlets again.

Manufacturers and importers have considerable power over the distribution of premium fragrances, with sales confined to authorized perfumeries and special perfumery departments in department stores, in order to maintain brand image.

Mass outshines premium in Italian market
Fragrance sales are forecast to remain static in constant value terms over the forecast period to 2013. Perhaps unsurprisingly, mass fragrances are expected to see stronger growth than premium fragrances during the recession.

In an effort to combat declining premium fragrance sales, perfume houses have introduced limited edition fragrances and bottles, as well as travel-size scents which are hoped will reverse the fortunes of premium fragrances in the mid to long term.

As consumers begin to shop in lower end outlets due to the recession, mass brands have gained traction at the expense of premium.

Premium brands are usually only available in beauty specialists, whilst mass brands are normally sold in supermarkets/hypermarkets, shops such as Aqua & Sapone and small traditional perfumeries, as well as some low-end department stores.

The higher footfall through these channels has boosted the popularity of mass scents in Italy.

Although perfumeries are set to remain the key channel for retail sales of premium fragrances, manufacturers have cottoned onto this and as a result premium fragrances are beginning to crop up in grocery outlets, hypermarkets and parapharmacies, who are keen to stock premium products in order to benefit from their higher margins.

Whether or not this keeps sales of high-end scents afloat during the recession remains to be seen.

Celebrity fragrances are a comparatively new trend in the Italian market, with a plethora of new product developments in 2008.

However the appeal of these fragrances is limited, as they tend not to appeal to consumers over the age of 20, after which time consumers typically prefer fragrances associated with fashion houses and well-known designers.

Spain embraces mass brands
As in other markets the economic downturn has seen Spanish consumers trading down from premium to mass fragrances, opting to buy less frequently, or changing preferences from international designer-endorsed brands to domestic ones which are usually cheaper but nevertheless carry an aura of sophistication.

The plethora of brands present in the Spanish market endorsed by national designers includes brands such as Agua de Agatha Ruiz de la Prada.

Puig Beauty & Fashion Group SL maintained its position as market leader in sales of fragrances in 2008, with 23% of sales in value terms, and an impressive 45% in the mass fragrances segment.

Puig â€“ a Spanish family-owned company â€“ has a lead of more than 11 percentage points over L'OrÃ©al EspaÃ±a SA, which occupied second place in the rankings.

The success of some of its recent launches, such as 1 Million by Paco Rabanne helped the company to reinforce its position in the premium segment.

Approximately 200 new fragrances were launched in the Spanish market in 2008, but as in other Western European markets, many were limited editions of flagship fragrances.

Carolina Herrera launched a summer version of '212 Splash', in its classic soft drink can bottle, whilst Jean Paul Gaultier brought out a summer version of 'Classique'.

Premium and mass positioning in Spain is strongly distinguished on the basis of the outlet type through which brands are sold.

For example, distribution of Agua Fresca de Rosas de Adolfo DomÃ-nguez shifted from the speciality channel to supermarkets and the perception of it as a premium fragrance has now disappeared â€“ which is the pitfall of selling premium brands via mass channels and one that has undoubtedly stopped other players rushing to do so.

UK sees dichotomisation trend in fragrances
The UK fragrance market has reached saturation, with a CAGR of just 1% expected over the forecast period to 2013.

An interesting phenomenon in the industry is the polarization of the premium fragrances market between high-end perfumery and mainstream premium brands, with two distinct consumer types emerging.

The first is comprised of perfume connoisseurs with a higher disposable income. These consumers display a marked degree of brand loyalty, with their preferences driven by the exclusivity of the perfume.

Ralph Lauren's â€œLove,â€• is an example of this. Launched exclusively in Harrods in October 2008, it retailed at a price of Â£1700. Its high price point was due to its gold bottle stopper which tapped into the appetite for super high-end luxury.

The other group, who comprise the majority, consists of consumers without the economic wherewithal to indulge in such ostentatious consumerism, and they tend toward masstige fragrances.

In terms of distribution, the internet continues to increase its share of fragrances sales, which reached 4% in 2008. Beauty specialists remained the biggest sellers of fragrances in 2008 with a 27% distribution share in the UK.

However, this represents a 5 percentage point drop since 2003 because of increased sales through the internet and mass market outlets.

There is a clear distinction between premium and 'super-premium' brands in terms of channels through which they are sold. Coco Mademoiselle, for example, is available to buy in chemists while Chanel No 5, which is considered more exclusive, can only be purchased through more high end specialist outlets.

Despite the credit crunch the growth of mass fragrances in Europe is unlikely to outpace that of premium fragrances over the forecast period as consumers will simply buy fragrances less frequently rather than trading down to cheaper brands.

Mass fragrances are set to stagnate at a 0% CAGR despite the development of the masstige segment.

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