

Perfume makers pin their hopes on China

Chandler Burr



The Anna Sui perfume counter at a shopping center in Beijing. (Alan Chin for The New York Times)

One of the fastest-growing consumer products in China is a nonessential Western luxury good that the Chinese have historically never bought and that has virtually no Chinese cultural roots: perfume.

With sales in much of the rest of the world slowing or declining, the perfume industry, primarily based in Paris and New York, has high hopes for China. The market there remains small, and nobody knows the exact growth rate.

But Patrick de Lambilly, the vice president for Asia for Coty, said, "You can see 20, 30, and 40 percent a year." Alexandre de Chaudenay, Asia-Pacific managing director of the perfume licensee Beauté Prestige International, said, "I'd say 20 to 40 percent seems correct, but the figures are extremely difficult, and people tell you anything."

Even if the potential is huge, realizing that potential is far from easy. China's regulatory system is uncertain. The complexity of its bureaucracy is daunting. Its department stores are of varying quality, and because Chinese tastes are changing rapidly, a store that attracts crowds one day can be deserted the next.

To add to the uncertainty, many in the business say they believe that the concept of perfume is so new that a lot of Chinese consumers are, in fact, not buying a perfume but rather the brand to which a bottle of perfume happens to be attached. "China is about brand, brand, brand," Chaudenay said.

The importance of brand raises the question of future market stability.

"Everyone talks about how strong Chanel and Dior perfumes are in China," Chaudenay said. "Are those brands' perfumes selling well? I think so. Are the consumers coming back? We don't know."

For that reason, Lambilly said Coty and others were tempering their enthusiasm for the Chinese market with realism.

"We're learning as we go," he said. "Particularly in fragrances. All of us here are doing the same thing: getting data from the marketing sources, comparing it to other sources, trying to figure it out."

Hans Wohmann, head of Procter & Gamble's Asian operations for scent, said sales in China of what is known as "prestige fragrances" - perfumes made by high-end companies like Chanel, Estée Lauder and Dior - were around \$120 million, compared with \$9 billion in the European market and \$4 billion in the American market. Even the Japanese market, the largest in Asia, was \$500 million in 2006.

As Wohmann put it, "So 20 percent of the world's population has only 1 percent of the global fine-fragrance market."

Perfume is a relatively recent phenomenon in China. Lambilly said the Chinese started using scented shower products in the early 20th century. But they were so light and simple, there was almost no smell, he said: "They were for freshening the body and also to avoid mosquitoes."

Western-type perfumes have been produced in China only since the mid-1980s, said Bill Jin, manager at PearlChem in Parsippany, New Jersey, an importer and distributor of perfume raw materials.

Ralf Ritter, a consultant to the scent maker Takasago International, said he would be "surprised if even 50 percent of the perfume bought in China was actually used." And that, he said, is largely because the Chinese are used to fragrances that serve multiple purposes.

"Chinese consumers care that the product does more than just fragrance the body," Ritter said.

Jin said there were a just a few local perfume brands. Pearlscent, the sister company of Jin's company and based in Guangzhou, is one of them. The fragrance concentrates are mainly created by customers in the United States or France and imported. They are then mixed with alcohol, bottled and sold in China.

Jin added that there was virtually universal agreement that Chinese brands would not pose serious competition to Western brands in fine fragrance until well in the future.

"High-end brands like Dior and Chanel will be for the prestige consumer, which is completely different from the local brand market," he said. "One bottle of Chanel perfume will cost almost a half month's pay for a fresh-out-of-college student."

According to Kline, a worldwide consulting and market research firm, the top perfume brands in China are, in descending order, Kenzo, Dior, Calvin Klein, Bulgari, Burberry, Givenchy, Lancôme, Estée Lauder, Chanel, Boss, Gucci and Elizabeth Arden.

Coty entered China, via its Chinese distributor, ADE China, in 2000, immediately establishing Davidoff and its flagship scent, Cool Water. Coty introduced Calvin Klein perfumes in 2006, and that brand is now Coty's leader. "CK One is obviously very strong," he said, "and IN2U did very well because it fits very well with the young high-tech mentality of the Chinese."

A perfume signed by Jennifer Lopez, which Coty introduced in 2002, is doing well, and the company has introduced Sarah Jessica Parker's perfume brand, though Lambilly said, "Celebrity brands are not doing that well in Asia." Kenzo has been in China for more than a decade and, having developed a stable department store business in the main cities, is now moving into secondary cities.

Beauté Prestige introduced its Issey Miyake and Jean-Paul Gaultier brands in China two years ago.

"We began in Beijing and Shanghai with limited distribution," Chaudenay said, "building up our counters and our visibility with a flagship strategy. We invest more in the point of sale than in media."

In the next three years, BPI plans to start selling its brands in 160 department stores in China's 20 biggest cities.

Inefficiencies, bureaucratic complexities and the daunting capital investments needed for setting up a subsidiary have made partnering with Chinese distributors the norm.

"For regulation concerns, China is still one of the most difficult countries to register your product," said Sung Kim, regional director for Asia Pacific Region for Kenzo Parfums. "You need to register for both sales and hygiene. It takes about two months per product, and there is no guarantee that approval will be granted by the authorities."

Luciano Bertinelli, managing director of Salvatore Ferragamo Parfums, said his company also relied "on our Chinese partner to distribute our products." He added, "It is today almost impossible to negotiate China by yourself." Like Coty, Ferragamo also chose ADE, a 10-year-old company owned and headed by May Zhang that works principally on perfume.

Lambilly, the Coty executive, said perfumes were usually introduced in China five to nine months later than in other markets because of health registration. "They test the perfume as a whole," he said.

The question of which perfumes to offer the Chinese consumer is perhaps the trickiest one. Kenzo, with two huge successes in the Chinese market - Flower by Kenzo and Kenzo Amour - plans to develop perfumes specifically for Chinese tastes.

"The Chinese cannot accept strong fragrances," Kim said. "They prefer the scent to be more floral for women and more fresh for men."

He said the Chinese also preferred the less concentrated eaux de toilette. And for bottle design, "the transparent bottle is more successful, as they can see clearly what is inside," Kim said.

When Prada introduced its original Prada perfume - a powerful, rich patchouli amber - in Japan, South Korea, and Hong Kong, consumers there found it too strong, the company said. So in China, Prada chose instead to introduce Prada Tendre, a much lighter, cleaner version, in March 2007. Prada said the scent was doing well. Because the brand's new clean citrus-tinted Infusion d'Iris perfume is proving to be even bigger in Asian markets outside of China than Tendre, the company is hoping for a big hit on the mainland, where Infusion will be introduced this summer.

Chaudenay, the Beauté Prestige executive, said that companies were investing huge sums in getting into the Chinese market and that they had accepted huge losses for a long time.

"Your store is good, and the next day a new store opens next door and you lose all your traffic," he said. "You've invested in your counter, and now your counter is dead. You have to be aware where the market is moving, and it's moving fast. Very few brands are making money in China, and I mean in all categories."

Some major Western brands are treading cautiously. Parfums Givenchy, a major perfume brand of LVMH, is not yet a presence in China.

"The Chinese perfume market is tiny," said Alain Lorenzo, president of Givenchy Parfums. He said Givenchy was concentrating on the much larger makeup and skin care markets: "Once we hold a big position in these segments, we will start looking at how to develop perfume as well."

Ritter, the consultant, said China was also maturing quickly in regulatory terms, rising toward international standards on allergens and toxicity.

"We're starting to see some regulations coming out," he said. "They're coming more quickly than before and the number of materials being banned is increasing at a geometric rate."

That only means that international brands will try harder to reach Chinese consumers. "I strongly believe that perfume will become more and more attractive to them," Chaudenay said. "China is going to be so big that no one will be able to avoid being in China. We are going there for the long term. We have very ambitious plans."

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