



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

**International
Markets
Bureau**

MARKET ANALYSIS REPORT | MARCH 2011

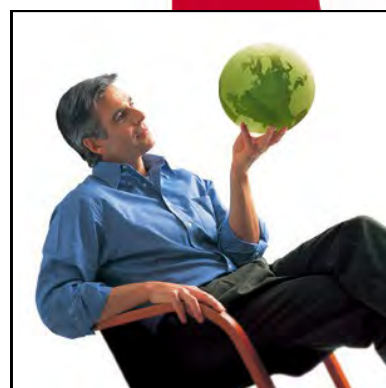
The Global Flavour Industry



Source: Mintel GNPD



Source: Mintel GNPD





► EXECUTIVE SUMMARY

The global flavour industry can be characterized as highly technical, specialized, and innovative. This industry is highly competitive and concentrated, compared to other product categories within the food and beverage market. According to *Perfumer & Flavorist* magazine, the flavours and fragrance industry achieved sales of US\$20.3 billion in 2009 (estimate may vary from other sources), of which the lion's share is flavours. The global flavours market amounted to almost 1.2 million tonnes in 2009 and is predicted to grow at a Compound Annual Growth Rate (CAGR) of 2% per annum through to 2014 (Euromonitor 2010 a). North America, Europe and Asia-Pacific account for approximately 80% of global sales (Euromonitor 2010 b). According to industry leader Givaudan, future growth will come from emerging geographic markets or the BRICMIST countries (Brazil, Russia, India, China, Mexico, Indonesia, South Africa, and Turkey) (Perfumer & Flavorist 2010 a).

The flavours industry remains very country-specific and complex, with product formulations and flavours varying from country to country, as well as from region to region within countries. Processed foods, their flavours and textures, are adapted to local consumer preferences. Local or traditional foods have unique flavours evolving from the indigenous climate, land, etc. Generally speaking, trends in flavours closely mirror those in the packaged food and drink market. This includes the trends toward premium quality, savoury, natural and authentic, and health and wellness.

► INSIDE THIS ISSUE

<i>Executive Summary</i>	2
<i>Market Segmentation</i>	3-4
<i>Regional Differences</i>	4
<i>The Consumer</i>	5
<i>Trends in Flavours</i>	5-7
<i>Costs</i>	7
<i>Leaders in the Global Flavour Industry</i>	8
<i>Conclusion</i>	9
<i>Additional Resources</i>	9
<i>Key Resources</i>	10

► DID YOU KNOW?

Consumers enjoy experimenting with new taste sensations, but still maintain strong preferences for the comforts of traditional flavours:

►Vanilla, chocolate and strawberry, continued to lead in the ice cream category in 2010, representing 59% of all new product launches.

►The more adventurous consumer, however, could indulge in new and unusual ice cream flavours including savoury Camembert cheese, amaretto liqueur and jam (Mintel, 2010).



Source: Shutterstock

▶ MARKET SEGMENTATION



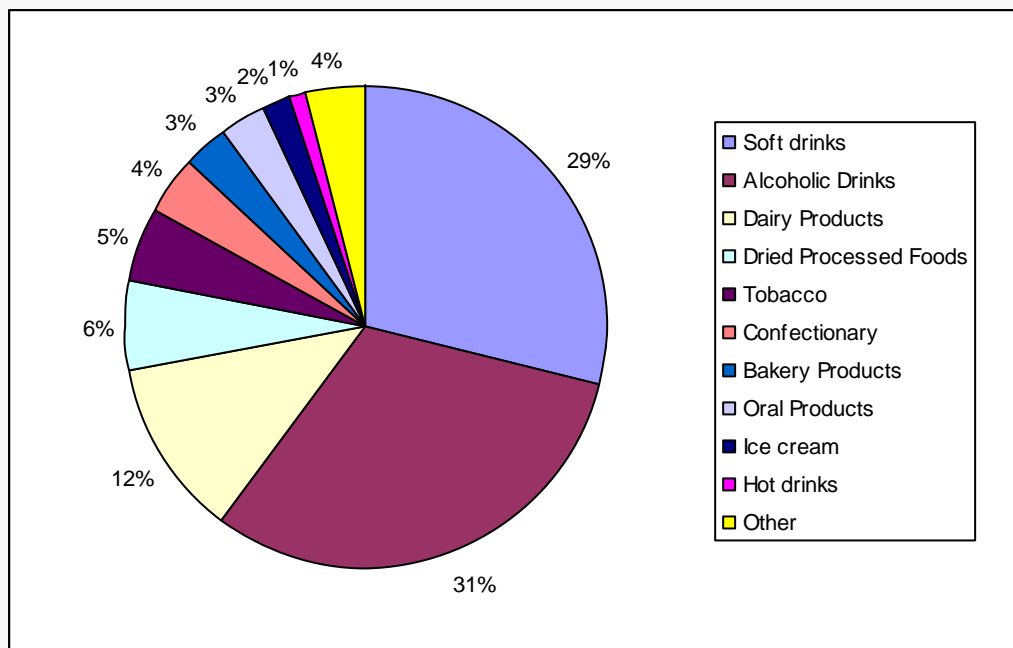
Overall, beverages continue to dominate the global flavours market, accounting for approximately 61% of total volume in 2009, while packaged food represents 31%, and oral care 3%. Figure 1 provides an overview of the global flavours industry breakdown by product category. This breakdown includes both synthetic and natural flavours. According to Euromonitor, beverages remain one of the best growth categories for flavours. Consumption of flavours via fruit-flavoured drinks is expected to increase overall by 75% over the 2009-2014 forecast period (Euromonitor 2010 b).

Dairy products are becoming more important for the flavours industry, with an estimated additional 27,000 tonnes of flavours being consumed in 2014, as compared to 2009 (Euromonitor 2010 a). Exotic flavors, new ethnic forms of traditional dairy foods and unique add-ins and textures are strategies used to attract consumer attention, now that the recession has caused consumers to look for more unique experiences in everyday foods. Some examples of dairy products gaining attention include Indian lassie, Finnish/Russian kefir and Greek style yogurts (Sloan 2008). According to Dairy Industries International, flavour trends are leaning toward mixing the exotic with more traditional flavours, imagining vanilla, strawberry, chocolate or banana with a twist. The international flavour house, Frutarom, states the trend is moving toward non-standard and creative flavour combinations (Christiansen 2010).



Source: Mintel GNDP

Figure 1: Global Consumption of Flavours According to Product Category 2009 (% Volume Share)



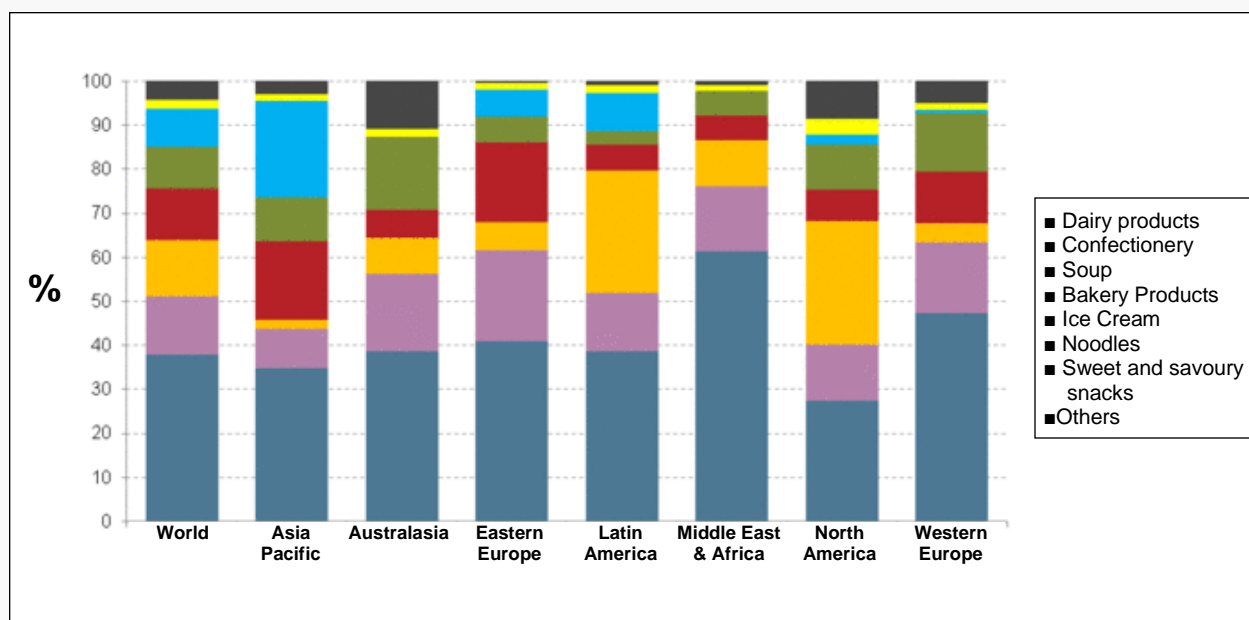
Source: Euromonitor International (a) from trade sources, 2010



► MARKET SEGMENTATION (continued)

Flavour usage plays a pivotal function in packaged food applications in all geographic regions, the importance of which is illustrated in Figure 2. Flavour applications will vary according to the region. However, dairy products, confectionery and soups are key product categories within packaged foods across the majority of regions. The flavours category is expected to show continued regional growth in Asian and Latin American countries. However, in terms of absolute growth over the forecast period of 2009-2014, China will lead the way, consuming an extra 33,666 tonnes. Much of this is driven by an increase in consumption of dairy products, including flavoured milk drinks (Euromonitor 2010 a).

Figure 2: Flavours - Importance of Major Packaged Food Applications by Region



Source: Euromonitor International, 2009.

► REGIONAL DIFFERENCES

Flavour expectations differ considerably between different countries and regions, according to Honorine Riffard, flavour marketing specialist at Robertet. For instance, in China, boiled meat flavours are preferred to the roasted flavours that are popular in Europe and the United States. Citrus flavours for China tend to be sweet and zesty, and sweet Muscat grapes are preferred over other varieties. Chinese chocolate tends to be mild and creamy, with notes of vanilla (Halliday 2010).

Although specific flavour attributes may change from region to region, the spirit of embracing new tastes remains the same. As consumers travel more widely, new ethnic flavours will emerge in many countries and regions. Identifying the point at which an ethnic flavour is about to become established in the mainstream, will be essential for companies to meet the future demands of consumers, retailers and food processors (Mintel GNPD 2010).



► THE CONSUMER

It has been said that taste is “king” when introducing new food products to consumers. Taste is consistently rated by around four out of every five consumers globally as ‘important’ or ‘very important’ in their food, non-alcoholic beverage and alcoholic beverage product choices (Datamonitor c). Consumers want it all when it comes to food and beverage flavour choices; their preferences range from traditional to adventurous, local to exotic, and healthy to hedonistic.

Adventurous consumers are embracing bolder, more extreme flavours and scents. They desire variety and novelty. These consumers are looking for excitement and new sensations in life, which naturally leads to greater sensory experiences in their food and beverage choices (Datamonitor c). More and more consumers have the opportunity to travel. These increasingly worldly consumers have experienced many interesting global food and drinks, and they want those experiences to extend to their homes. Travelers will often associate these foods and flavour variants with the positive experience of the holiday, thus creating a more favourable impression. These consumers tend to be older, which means they need more flavour to satisfy them physiologically. Consequently, consumers are increasingly demanding that products become more ‘charged’, expecting them to be more indulgent, fun, entertaining, sensual, and exotic (Datamonitor c). Understanding consumers’ habits when eating out and travelling can be very useful in product development.

Some consumers’ adventurous tendencies are tempered by conservatism and their desire to have a taste of home. During the economic downturn, consumers gravitated toward comforts of the past and nostalgic flavours satisfied their needs. These local and authentic flavours of home are still desired by consumers.

► TRENDS IN FLAVOURS

According to industry leaders, consumers, retailers, and food manufacturers are seeking products that follow the trends of savoury flavours, premium quality, natural and authentic, and health and wellness.

Savoury Flavours

One of today’s evolving trends is savoury flavours. Demand for these flavours in convenience food has risen rapidly and continues to expand internationally. In developed markets, categories such as ready-meals (ready-to-eat/ready-to-drink), savoury snacks and soups are seeing higher interest in international varieties, leading to greater demand for spicy, ethnic and exotic flavourings. The addition of spicy and exotic flavours to existing product lines continues to be one of the strategies employed by manufacturers to attract consumers’ attention in more mature markets (Euromonitor 2010). One new movement is hot and spicy flavours, such as chilli, ginger or pepper, in combination with fresh and fruity flavours. Other new influences are traditional Asian herbs or combinations of exotic and classical fruits. There is an increased demand for herbs and spices, combined with more conventional flavour tonalities—for example, strawberries and cloves (Christiansen 2010). The growing prevalence of ethnic food and drinks has led to the incorporation of hotter, spicier and more striking flavour profiles, thereby encouraging the development of the next level of flavour differentiation (Datamonitor c).

Savoury flavouring is predicted to increase significantly over the next five years, in line with the rapid growth of the consumption of meat products. A second factor that will influence the supply of savoury flavours is the rising price of food products. The efficient use of meat will drive the market toward ingredients that can extend its application and make better use of off-cuts and parts of the animal that are currently out of style. A third area of increasing importance is the growth of aquaculture and fish farming (Baines 2008) and the use of flavours in these processed products.

***Looks like a Mint but
Tastes like Nachos?***



Cheesy Nacho mints, introduced in the U.S. by Archie McPhee & Co., are described as a burst of flavor reminiscent of processed cheese and spices. Trade literature suggests pairing the nacho cheese-flavored mints with “any kind of food that tastes good with cheese.” The product is available in a 100-count round metal collector tin that retails for US\$2.50. The company also manufactures other mints and dental floss in unusual flavours, such as Ranch, Delicious Onion Ring, Old Fashion Fruit Cake and Egg Nog.

Source: Datamonitor, July 2010.



► TRENDS IN FLAVOURS (continued)

Premium Quality

The flavours industry will be affected by the expected growth within premium lines of sauces and seasonings, appealing to consumers entertaining at home but still looking for a fine dining experience and restaurant-quality meals. These products often hinge on the aspirational values of the consumer. For example, premium vinegars and dressings are frequently marketed like wine by describing the process (e.g. barrel-aged) or vintage to denote quality. Various speciality food manufacturers of premium table sauces and oils use recipes to evoke a sense of authenticity, timelessness and nostalgia (Mintel 2009).

The premiumization trend is currently mainstream in Western Europe and North America and being leveraged across the industry to increase differentiation from private label and maintain consumer interest. Premium "selected" or "gourmet" versions target consumers who are willing to pay a premium for high-quality ingredients and better flavour (Euromonitor 2010 b). This trend will create new market opportunities and challenges for the flavour industry, as it strives to create these distinctive flavours while maintaining its profit margin.



Source: Mintel, GNPD

Natural and Authentic

International flavour house, Frutarom predicts a growing demand for natural and more authentic profiles in food and beverage flavours (Christiansen 2010). Recent research conducted by Create Flavours indicates that the demand for "natural flavours" will increase by over 35% over the next three years (Food Manufacture 2009). Organic product lines and 100% natural flavouring products continue to see an increase in new product launches. The removal of additives/preservatives remains a top trend within these product categories, as food processors position these products in terms of safety, suitability, wholesomeness, quality, and authenticity (Mintel 2010).

As an example, IFF (International Flavour and Fragrances) is developing authentic tea profiles. The company has seen an increase in iced tea offerings, not only in black, but also in green, white and rooibos teas. Trends show the incorporation of jasmine and chrysanthemum into iced tea beverages. The company believes that flavours will further diversify and grow more complex as consumers become more familiar with the range of varieties. In beverage applications, tea has moved beyond the classic RTD (Ready-To-Drink) iced teas to include waters, sport and energy drinks, carbonated beverages, alcoholic drinks, confections, ice cream, and savoury applications, such as salad dressings, marinades and sauces (Gleason-Allured 2008).

Health and Wellness

Health issues have become perennial concerns in the food industry. With consumers demanding lower-sugar, lower-fat and lower-salt products, and governments developing new dietary guidelines, manufacturers are faced with the challenge of retaining the taste and texture of products. Flavour companies are finding solutions to address these challenges with bolder flavours which are able to offset the blandness that low-salt or low-fat products would otherwise have. Finding salt and sugar reduction solutions continues to be a key tactic for most flavour companies (Euromonitor 2008), (Heiler 2010), (Christiansen 2010).



Source: Shutterstock

While still a niche market, there is growth potential for flavourings within functional food lines providing their benefits are clearly communicated. For instance, functional oils could be marketed for their versatility in flavouring food, boosting health, and replacing vitamin/mineral supplements (Mintel 2010). Another trend consumers are following is that of superfruits or fruits with added health benefits. This includes fruits such as pomegranate, blueberry, and acerola cherry, for example, combined with mangosteen or passion fruit (Christiansen 2010).



► TRENDS IN FLAVOURS (continued)

Ethical Flavouring

The trend for ethical food has not greatly affected food flavourings but will likely impact the industry in the future. Food miles, fair-trade, and child labour could influence the acceptance of flavours derived and manufactured from natural ingredients in developing countries. There may be more scrutiny around the use and source of exotic flavours in industrialized economies (Perfumer & Flavorist, Nov. 2008). This may be one issue for companies to consider in their research and development and marketing efforts.



A sweet potato white chocolate snack

Mintel's 2010 Flavour Predictions

- Cardamom – appearing in sweet and savoury applications in food and beverage
- Sweet potato – as a flavour, side dish and functional ingredient
- Mango – moving away from an exotic fruit and into the mainstream
- Hibiscus – used mostly in beverages
- Cupuaçu - positioned as a superfruit, with a most unusual look
- Rose water – used not as a scent but as a flavour in ethnic cuisine
- Bacon – indulgence, strong flavour and celebrity influence



Rose syrup



Bacon chocolate chip pancake mix

Source: Mintel, GNPD

► COSTS

Flavour manufacturers are facing tighter profit margins exacerbated by the demands of processors and retailers and their private label brands. While the trend towards premium ingredients is driving today's flavours industry, there continues to be a market for low cost flavours at the lower end of the food and drink market. Retailers in particular are keen to minimize costs for their economy private label ranges, which cater to a significant segment of price-conscious consumers. With raw material prices rising and the price of basic foods increasing rapidly, low-cost flavours for basic food items, such as yogurt, will continue to be in demand. Low-cost flavours are also important to manufacturers in emerging markets where products need to be sold at lower prices to attract consumers in sufficiently large numbers (Euromonitor 2008).

Additionally, one must consider that putting food manufacturing margins under pressure and excessive value adjustments could end up damaging products and brands. This is a major challenge confronting flavourists whose role is to provide taste and character within new and tighter cost constraints. The demand for natural flavourings will be balanced against the high cost of these ingredients, compared to more cost effective ingredients. Pressure is on manufacturers to develop new products with a lower cost base, which could possibly compromise their "natural" claims (Baines 2008). Companies producing natural flavourings will have to bear this in mind when establishing a price point and will need a compelling case to sell at higher prices.



► LEADERS IN THE GLOBAL FLAVOUR INDUSTRY

The international flavouring industry is a concentrated and competitive industry. Consolidation has been ongoing for many years, but intensified in 2006-07 when major deals were struck by two of the world leaders, Givaudan and Firmenich. The industry has become more concentrated and the top three companies—Givaudan (Switzerland), IFF (U.S.) and Firmenich (Switzerland)—hold 44% (estimated) of the global flavours market. Refer to Figure 3 for a breakdown of company market share and sales in flavours and fragrances. Several mid-sized firms have made large strides through aggressive acquisition programs, including Kerry Group and Frutarom. Much of the acquisition activity at present is aimed at expansion within the growth areas of the flavours market, such as savoury flavours and natural flavours. Further consolidation is anticipated in the future. With health and wellness driving much of the new product development in the flavouring industry at present, any small to medium-sized companies with specialized expertise in a region would be prime acquisition targets (Euromonitor 2009 c) (Perfumer and Flavorist 2010).

Figure 3: Top Ten Flavour and Fragrance Companies in the World 2010

US\$ (millions)	Sales in 2009	Estimated Market Share
Givaudan (Switzerland)	3,824	19.1%
Firmenich (Switzerland)	2,729e	13.6%
IFF (US)	2,326	11.6%
Symrise (Germany)	1,952	9.8%
Takasago (Japan)	1,228	6.1%
Sensient Technologies (US)	549e	2.7%
Mane (France)	539	2.7%
T Hasegawa (Japan)	464	2.3%
Robertet (France)	437	2.2%
Frutarom (Israel)	425	2.1%

Source: Adapted from Perfumer & Flavorist, August 2010

Note: e = estimate

The industry is dominated by large multi-nationals. The matching of flavours is now very much standard practice in the flavour industry and is leading to the erosion of profit margins. One way smaller companies can differentiate themselves is by creating natural flavours that are unique to the region and thus making it difficult for competitors to imitate (Baines 2008). According to Steve Hicks, Director of Flavour and Fragrance Development Global Capability Organization, Procter & Gamble, companies that will thrive in the next decade are those that engage in proprietary innovation and show great creativity. Innovation may include high performance ingredients or inventions that lower costs to enable greater success in emerging markets, or delivery systems that enable flavours and fragrances to display better for the consumer (Perfumer & Flavorist 2010 a).



► CONCLUSION

Canadian companies entering the flavours market will find it highly competitive and will need to compete not only on price but also on quality and innovation. By understanding the demands of food manufacturers, retailers and consumers, flavour companies can capitalize on current trends and provide solutions within mainstream and niche markets. Leveraging regional uniqueness of local flavours that link to one or more of the trends, premium quality, savoury, and natural and healthy, could provide that needed competitive advantage.

► ADDITIONAL RESOURCES

Additional Technical Resources

Flavor and Extract Manufacturers Association (FEMA) USA
www.femaflavor.org

International Organizational Organization of the Flavor Industry (IOFI) Europe – Brussels
www.iofi.org

Flavour Manufacturers Association of Canada
www.flavorcanada.com



Source: Mintel, GNPD



► KEY RESOURCES

- Baines, David, and Richard Seal. (2008, October). "The Challenges Facing Savoury Flavour Formulation." In *Perfumer & Flavorist*. Vol.33.
- Christiansen, Suzanne. (2010, April). "Flavours and Colors. Colourful Business." In *Dairy Industries International*. Retrieved from: [\[www.dairyindustries.com\]](http://www.dairyindustries.com)
- Datamonitor. (2010, June) Food Market Watch. (a)
- Datamonitor. (2010, July). Food Market Watch. (b)
- Datamonitor. (2009, July). Consumer Trends 2009: Sensory. (c)
- Euromonitor International. (2010, August). Firmenich SA in Ingredients – World. (a)
- Euromonitor international. (2010, February). Packaged Foods – Snacks. (b)
- Euromonitor International. (2009, November). Ingredients Trends in Packaged Food – Solutions for a demanding market. (c)
- Euromonitor International. (2008, February). Global Flavours Market - Meeting the Demands of Today's Foods Industry. (d)
- Food Manufacture. (2009, July). Dairy Ingredients Update: The Demand for natural ingredients. Retrieved from: [\[www.foodmanufacture.co.uk\]](http://www.foodmanufacture.co.uk)
- Gleason-Allured, Jeb. (2008, October). "Moving Tea Flavours Forward." In *Perfumer & Flavorist*. Vol. 33.
- Halliday, Jess. (2010, September). "Robertet launches flavour range for Chinese tastes." *Food Navigator*. Retrieved on September 16, 2010. Retrieved from: [\[http://www.foodnavigator.com/Financial-Industry/Robertet-launches-flavour-range-for-Chinese-tastes/?c=tDprOCM163jrJYNCC6TMJw%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily\]](http://www.foodnavigator.com/Financial-Industry/Robertet-launches-flavour-range-for-Chinese-tastes/?c=tDprOCM163jrJYNCC6TMJw%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily)
- Heiler, Lorraine. (2010, September 7). "New Approach to flavours cuts lead times, says DSM." Retrieved on September 9, 2010. [\[http://www.foodnavigator.com/Financial-Industry/New-approach-to-flavours-cuts-lead-times-says-DSM\]](http://www.foodnavigator.com/Financial-Industry/New-approach-to-flavours-cuts-lead-times-says-DSM)
- Mintel. (2009, August). Table Sauces and Seasonings.
- Mintel. (2010, May). Global Sauces and Seasonings Category Assessment.
- Mintel GNDP. (2010, March). Flavor. Trends.
- Mintel GNDP. (2010). 2010 CPG/FMCG Trend Predictions.
- Perfumer & Flavorist. (2010, January). "Next: First-person Takes on F&F's Past, Present and Future." Vol. 35: pg. 22-27. (a)
- Perfumer & Flavorist. (2010, August). "2010 Flavor & Fragrance Leaderboard." Vol. 35: pg. 52-56. (b)
- Perfumer & Flavorist. (2008, November). "New Opportunities in Sensory Innovation for Flavor Ingredients." Vol.33.
- Sloan, Elizabeth. (2008, December). "Dairy's New Dynamics." In *Food Technology*. Retrieved from: [\[www.ift.org\]](http://www.ift.org)

The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada assumes no liability for any actions taken based on the information contained herein.

The Global Flavour Industry

© Her Majesty the Queen in Right of Canada, 2011
ISSN 1920-6593 Market Analysis Report
AAFC No. 11400E

Photo Credits

All Photographs reproduced in this publication are used by permission of the rights holders.

All images, unless otherwise noted, are copyright
Her Majesty the Queen in Right of Canada.

For additional copies of this publication or to request an alternate format, please contact:

Agriculture and Agri-Food Canada
1341 Baseline Road, Tower 5, 4th floor
Ottawa, ON
Canada K1A 0C5
E-mail: infoservice@agr.gc.ca

Aussi disponible en français sous le titre :
L'industrie mondiale des arômes

Canada 