

3 Fine fragrances in the UK

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3.1. In this chapter we describe the supply of fine fragrances, including their production, distribution and marketing. In the next chapter we examine in more detail the formal relationships between the suppliers and the retailers.

Cosmetics and toiletry products

3.2. Fine fragrances (see paragraph 2.2 for a definition of this term) are a group of consumer products found under the more general heading of cosmetics and toiletries. A report for the EC Commission in

1988¹ (the Weber Report) distinguished between four different categories of cosmetics and toiletry products, as listed below:

- (a) *Alcohol-based perfumery products*, including extracts of perfumes, the waters derived from the extract, toilet waters, EDPs, EDCs, lavender waters, pre-shave and aftershave lotions and other perfumed products.
- (b) *Beauty preparations*, covering make-up preparations (powders, lip colouring and rouge, nail varnish, nail varnish removers, face powders and preparations for the eyes), and skincare products (sun products, make-up removers and body and facial care products such as skin tonics, milks, lotions and oils).
- (c) *Hair preparations*, covering colouring preparations, lacquers, brilliantines, preparations for permanent waving and setting, shampoos and hair lotions.
- (d) *Toiletry preparations*, namely toothpastes and other oral hygiene products, shaving creams and foams, preparations for bath and shower, deodorants, perfumed soaps and miscellaneous products.

Except for the absence of the price criterion, the category 'alcohol-based perfumery products' coincides closely with the definition of 'fine fragrances' given in the terms of reference for this inquiry.

3.3. As Table 3.1 shows, retail sales of all cosmetics and toiletry products in the UK amounted to about £3.4 billion in 1991. Of this, male and female fragrances, cosmetics and skincare products represented about 46 per cent.

TABLE 3.1 **Cosmetics and toiletry sales in the UK domestic market, 1991**

	<i>Estimated retail sales</i>	
	<i>£m*</i>	<i>%</i>
<i>Women's perfumes and fragrances</i>	418	12.3
Women's perfumes, toilet waters, women's colognes		
<i>Make-up and colour cosmetics</i>	434	12.8
Facial make-up, eye make-up, lip products, nail products		
<i>Skincare products</i>	462	13.6
Skin foods and moisturizers, astringents and skin toners, skin cleansers, general purpose cleaners, hand and body creams and lotions, depilatories, baby lotions		
<i>Suncare products</i>	85	2.5
Sun-tan products, after-tan products, artificial tan products		
<i>Haircare products</i>	642	18.9
Shampoos, conditioners, hair sprays, colourants, home perm products, styling agents		
<i>Bath and shower products</i>	305	9.0
Bath additives, shower additives, toilet soaps, talcum powders		
<i>Deodorants</i>	238	7.0
Deodorants, body sprays		
<i>Oral care</i>	343	10.1
Toothpastes, denture products, mouthwashes and dental rinses, toothbrushes, flossing and cleaning products		
<i>Men's fragrances</i>	239	7.0
<i>Men's toiletries</i>	230	6.8
Shaving soaps and creams, shaving systems, men's hairdressings, men's bathroom toiletries		
Total	3,396	100.0

Source: MMC, based on estimates by Euromonitor Market Direction.

*At retail selling prices, including VAT.

3.4. Cosmetics and toiletry products are mainly sold through some 27,000 of the 350,000 retail outlets in the UK. As Table 3.2 shows, the two most prominent categories of retailer selling these products are

¹*Les Systèmes de Distribution Sélective dans la Communauté du Point de Vue de la Politique de Concurrence-Le Cas de L'Industrie des Parfums et des Produits Cosmétiques*, a report by Professor André-Paul Weber of CERESSEC (Centre d'Etudes et de Recherche en Sciences Sociales, Economiques et Commerciales), EC Commission Document, 1988, ISBN 92-825-8615-4.

TABLE 3.2 Sales of different types of cosmetics and toiletry products by retailer category, 1990

percentage of UK retail sales

<i>Retailer category</i>	<i>Female fragrances</i>	<i>Male fragrances*</i>	<i>Cosmetics</i>	<i>Skincare</i>	<i>Suncare*</i>	<i>Haircare*</i>	<i>Bathroom toiletries*</i>	<i>Deodorants*</i>	<i>Oral care*</i>	<i>Men's toiletries*</i>	<i>Total</i>
Pharmacies	40	42	48	45	59	37	34	29	25	46	35
Department stores	30	32	20	15	4	2	3	5	-	16	8
Drugstores	5†	9	5	5	10	20†	13†	22	14†	9†	10
Multiple grocers	5	4	7	8	9	27	28	37	47	11	24
Independent grocers	-	-	-	-	}	6	6	5	9	3	5
Direct sale	20	5	16	15	13	8	16	-	-	15	10
Other‡	-	8	4	12	5	} —	} —	2	5	} —	8
	100	100	100	100	100	100	100	100	100	100	100

Source: Euromonitor.

*1989.

†Including Woolworths.

‡Including Marks & Spencer, Woolworths (except as noted above), duty-free shops, hair salons and petrol stations.

3.8. Fine fragrance brands account for about two-thirds by value and one-third by volume of all fragrance sales in the UK (the proportions vary somewhat from year to year), and mass-market brands account for about one-third by value and two-thirds by volume. While the distinction between fine and mass-market brands appears to be widely accepted, some also refer to volume prestige fragrances (see paragraph 3.13) as a subcategory of fine fragrances, and to replica or 'copycat' fragrances (ie brands which try to imitate, either in the design of their packaging ('look alike') or in their scent ('smell alike'), or both, particular fine fragrance brands) as subcategories of mass-market fragrances. Replica or copycat fragrances should be distinguished from counterfeit fragrances which are illegal attempts to replicate particular fine fragrance brands by tricking consumers into believing they are genuine (though in some circumstances promotional material for particular replica fragrance brands may infringe registered trade marks, and so be actionable in civil law).

3.9. Typically, fine fragrance products tend to be made from more expensive ingredients, are available in a wider variety of perfume strengths and sizes, and may have a longer lasting scent. The materials used in creating the packaging are more expensive and the packaging itself is more elaborate and refined (being of premium quality and using specially designed and manufactured bottles) for a fine fragrance compared with a mass-market fragrance. Mass-market fragrances are usually sold without boxes, and the bottle is straightforward and mass-produced. Additionally, most fine fragrances have a fashion designer parentage, and the significance for the fragrance's image depends in part on consumer awareness of the reputation and style of the fashion designer.

3.10. The scented raw ingredients used in producing fragrances are the essential oil concentrates, or 'juices', being various mixtures of natural or synthetic products derived, for example, from flowers (eg rose, jasmine, iris and lavender), from fruits (eg citrus), from spices (eg nutmeg, vanilla or cinnamon), or from miscellaneous other sources (eg musk, oak moss, patchouli oil or sandalwood oil). Fine fragrances are products which generally have a more complex juice formula and generally contain more ingredients of higher quality and greater subtlety than mass-market fragrances. The cost of developing and manufacturing the fragrance itself is therefore higher for a fine fragrance than for a mass-market fragrance. While in many cases the choice of ingredients and image is developed in close partnership with the fragrance house, most fragrance houses buy-in the fragrance formula and essential ingredients from companies specializing in them. The resulting essential oil mixture is manufactured into the various different types of fragrance products by the addition of alcohol and/or water, depending on the product. The Weber Report identified the main upstream suppliers of perfumed ingredients as companies such as Unilever's PFF and Naarden, International Flavors and Fragrances, Hoffman la Roche's Givaudan and Roure & Bertrand, and Bayer's Haarmann & Reimer. The two other important but not large companies mentioned in the Weber Report were Firmenich (Switzerland) and Delaire (France). A small number of fine fragrance houses (including Chanel, Patou and Guerlain) have preserved their independence from these suppliers by retaining direct control over product formulation and by growing some of their own crops in Southern France.

3.11. Fragrances are products bought by consumers for reasons going beyond the strict function of the product. It appears to be the general view that consumers can be induced to try a particular fine fragrance brand as much for the sake of its image as for the scent, but that the scent may be more important in encouraging repeat purchases. Image differentiation and promotion are therefore crucial to the marketing process. This process starts with a famous name which is the basis for the image of the product. While some long-established fragrance houses, eg Guerlain, have concentrated on fragrances and rely primarily on reputation, most fragrances houses, eg Chanel, Yves Saint Laurent or Calvin Klein, bear a house name which is either the name of an *haute couturier* or a *prêt à porter* designer. (Over the last ten or so years, however, some new fragrances houses have been established which rely on celebrity names, eg Elizabeth Taylor.) The *couture* products of these houses, based as they are on designs and fashions, are mostly unattainable to the public because of their limited availability and very high prices. The fine fragrances which bear their names may thus represent an affordable means by which consumers can associate themselves with high fashion, style or a glamorous film star lifestyle. Fine fragrances also receive a very high level of investment in terms of promotion, public relations, in-store activity, point-of-sale environment and display to enhance the luxury image and quality of the product.

3.12. Mass-market fragrances are not usually associated with well-known personalities or fashion-linked heritages, and they may be more heavily promoted in national media that reach a very wide public. They are generally on sale in a wide range of retail outlets, where they are normally available for self-selection purchase without personal service.

3.13. Volume prestige brands are seen by some as a subcategory of fine fragrances. Indeed, though terms such as 'volume prestige' and 'accessible prestige' are used, the market position of these brands *vis-à-vis* the fine and mass-market fragrance brands is unclear. Such brands have many of the same product qualities, attributes and image-led focus as fine fragrance brands, but typically may have a less well acknowledged designer/fashion link. They are normally in wider distribution, with a heavier emphasis on promotional activity, and have a lower entry price point.

Suppliers and the international context

L'Oréal SA

3.14. L'Oréal SA is France's, and one of the world's, largest cosmetics, haircare and toiletries companies (it, or one of its subsidiaries or agents, is active in well over 100 countries), with three-quarters of its cosmetics sales in 1991 being in countries other than France. 51 per cent of L'Oréal SA's share capital is owned by the French company Gesparal (a holding company controlled by Mme Liliane Bettencourt, the daughter of L'Oréal SA's founder), and the remaining 49 per cent is owned by the Swiss company, Nestlé SA. Group turnover reached £3.4 billion in 1991, of which the Perfumes and Beauty Division accounted for 25 per cent. L'Oréal SA operates through four divisions: Salon Division (hairdressing products); Consumer Division (haircare, skincare, make-up and fragrances, with brands such as Eau Jeune and Vanderbilt); Perfumes and Beauty Division (with fine fragrances such as Lancôme's Trésor (1991), Cacharel's Anaïs Anaïs (1979) and Loulou (1987), Parfums Ralph Lauren's Polo (1985) and Safari (1991), Parfums Guy Laroche's Fidji (1966) and Drakkar Noir (1981), and the Helena Rubinstein range of *beauté* products); and the Active Cosmetics Division (ie mostly dermatological cosmetics). Those of its UK subsidiaries which market fine fragrances are P&C, Parim Limited (Parim) and Golden Limited (Golden). Its sales to duty-free outlets in the UK are made by the Paris-based company Parfums et Beauté International.

Unilever

3.15. The Unilever group has two parent companies, Unilever NV in the Netherlands and Unilever PLC in the UK. It is the world's largest consumer products group and has five core areas of operation:

- *food*, which accounted for 51 per cent of its turnover in 1992;
- *detergents*, with about 24 per cent of turnover;
- *personal products*, with 13 per cent of turnover;
- *speciality chemicals*, with 8 per cent of turnover; and
- *other operations*, which accounted for 4 per cent of its turnover in 1992.

In 1986 Unilever acquired Chesebrough-Pond, the leading skincare manufacturer with a substantial share of the US hand and body lotion markets. In July 1989 Unilever acquired Minnetonka, originally a speciality soap producer but which had, in 1980, acquired the Calvin Klein cosmetics and prestige fragrances business (Calvin Klein's cosmetics operation was discontinued in 1984, and it then concentrated on building up the fragrances activities, with brands such as Obsession (1986) and Eternity (1989)). Unilever also entered the colour cosmetics field with its acquisition of two colour cosmetics companies, Rimmel and Chicogo, from Schering-Plough. In August 1989 Unilever acquired Fabergé (with its range of fragrances and deodorants under the Brut brand name) and Elizabeth Arden (with its prestige skincare products and fragrances businesses). As a result of these and other acquisitions, Unilever joined L'Oréal SA, Avon Products Inc and Shiseido Company Ltd as one of the world's major personal care product suppliers, with strong representation in each of the six personal product areas, namely skincare, haircare, cosmetics, fragrances, oral products and deodorants.

Elf Sanofi

3.16. Elf Sanofi is the healthcare and beauty products division of Société Nationale Elf Aquitaine (SNEA) (known as the Elf Aquitaine Group). YSL Parfums, the haute couture, fashion, perfumes and cosmetics business, was acquired by Elf Sanofi on 17 May 1993. YSL Parfums is one of the leading suppliers of fragrances in Europe and is also an important supplier of make-up. It has four female brands (Y (1964), Rive Gauche (1971), Opium (1977) and Paris (1983)), and three male brands (Pour Homme (1971), Kouros (1981) and Jazz (1988)).

3.17. Elf Sanofi already had a number of interests in perfumes and beauty products, in particular Sanofi Beauté (with trading names such as Oscar de la Renta and Van Cleef & Arpels), and a 49.9 per cent holding in Nina Ricci.

Estée Lauder

3.18. The Estée Lauder Group, a privately-owned group of companies (of the Lauder family) based in New York City, manufactures bath and body products, suncare products, hair products, make-up and colour, skincare and treatment products, and fine fragrance products which are sold in 86 countries round the world. These products are sold under four house names which trade separately, each with its own network of retailers: Aramis (mainly male products); Clinique and Clinique for Men; Estée Lauder and Lauder for Men; and Prescriptives (for women). The Estée Lauder Group has 22 brand names, including Youth Dew (1952), Aramis (1965), White Linen (1980), Beautiful (1986), New West (1990) and Calyx (1987). Estée Lauder Group fine fragrances sold in the UK (and elsewhere) are made in the UK by Whitman Laboratories Limited; in Switzerland by Estée Lauder AG Lachen (which is also responsible for sales to duty-free outlets in the UK and elsewhere); and in Belgium by Estée Lauder NV. The Estée Lauder Group manufactures and sells more than 1,300 separate products or stock-keeping units (SKUs), less than 9 per cent of which are fine fragrances.

LVMH Moët Hennessy Louis Vuitton SA

3.19. LVMH Moët Hennessy Louis Vuitton SA (LVMH) owns Parfums Christian Dior SA (Parfums Christian Dior) (which it acquired in 1968), Parfums Christian Lacroix Paris (now absorbed into Parfums Christian Dior), Parfums Givenchy and RoC. (It also owns 14 per cent of Guerlain SA, another Paris-based perfume house-see paragraph 3.24.) LVMH's net sales of perfumes and beauty products amounted to £0.5 billion in 1991 (about 22 per cent of the group's turnover). Two-thirds of the £0.5 billion turnover was accounted for by sales of Parfums Christian Dior products, with fine fragrance brands including Miss Dior (1947, but relaunched in September 1992), Eau Sauvage (1966), Poison (1985), Fahrenheit (1988) and Dune (1991). As well as its fine fragrance brands (which include a range of bath and body products), Parfums Christian Dior also markets cosmetics and skincare products.

3.20. Parfums Givenchy is also a leading supplier of fine fragrances, with a net turnover in 1991 of £89 million. Its leading brands are Givenchy Gentleman (1975), Ysatis (1984), Xeryus (1986) and Amarige (1991). Parfums Givenchy also markets ranges of cosmetics and skincare products, but these products are sold in the UK in only a small number of outlets.

Chanel

3.21. Chanel Limited, the company marketing Chanel products in the UK, is under common control with a number of companies around the world which manufacture, distribute and sell fine fragrances under the Chanel, Bourjois and Ungaro brands. It was incorporated in 1925. The Chanel name is associated with three major activities: Chanel fashion, including *haute couture* and *prêt à porter* fashion, accessories and shoes; Chanel fragrances, including the well-known brand Chanel N° 5; and Chanel beauté, marketing a range of skincare and colour cosmetics. The Chanel N° 5 fragrance was created in 1921 and has come to be known as a classic, being still very much in demand. Chanel's other fragrances include Chanel N° 19 (1971), Coco (1985), and L'Égoïste (1990). Chanel SA's turnover (as estimated by Euromonitor Market Direction) was about £300 million in 1990.

3.22. Bourjois SA, a separate company but in common ownership with Chanel SA, ranks fourth in the French market for women's mass fragrances, and it also produces a range of make-up and skin-care products. Its UK subsidiary, Bourjois Ltd (Bourjois), has a manufacturing plant in the UK which produces most of the Chanel and Bourjois fine fragrance products (but not perfume) which are sold in the UK. Bourjois SA's turnover amounted to about £200 million in 1990. The Parfums Ungaro brand range was launched in the UK in 1985, and now includes a range of fragrance, bath and bodycare products but sales remain small.

Avon Products Inc

3.23. Avon Products Inc of the USA is the world's leading direct seller and marketer of beauty and related products, with a net turnover of £2.5 billion in 1992 (about 19 per cent of which was in Europe). It sells in over 100 countries, primarily mass-market fragrances and cosmetics sold through independent sales representatives. In 1987 Avon Products Inc acquired Giorgio Beverly Hills Incorporated (Giorgio) and Parfums Stern (Parfums Stern was sold to Elf Sanofi in January 1990). Giorgio was first established in a boutique in Beverly Hills in 1982 and entered the UK market in 1985. Its world-wide sales in 1992 were £99.6 million. Its Red (1989) is a top-selling prestige fragrance in the USA, and its other brands are Giorgio Original (for women) (1984), Wings (1993), Giorgio for Men (1985), VIP Special Reserve (for men) (1989), and Red for Men (1992). While originally all Giorgio's fine fragrance products for sale in the UK were manufactured in the USA, this is now the source of only about 20 per cent of its requirements, with the rest being manufactured from Giorgio's ingredients and packaging at Avon Cosmetics Ltd's plant in Northampton and at SDPP's plant in France. The UK branch of Giorgio also supplies UK duty-free outlets.

Guerlain SA

3.24. Guerlain SA is still a family concern, established in 1828, with almost 86 per cent of its shares being held by members of the Guerlain family. Guerlain SA's turnover reached almost £200 million in 1990 from the creation and manufacture of a range of fine fragrances and related products in France for distribution in more than 80 countries. Its fine fragrances and related bath and body products account for two-thirds of its turnover, with the rest being cosmetics and skincare products. Guerlain SA owns seven exclusive shops in Paris. Its main brands include Jicky (1889), Mitsouko (1919), Shalimar (1925), Samsara (1989) and Héritage (1992). It also markets several EDTs and EDCs, including Eau de Cologne Imperiale (1853), Eau de Cologne du Coq (1894), Eau de Guerlain (1974) and Jardins de Bagatelle (1983).

The market in various countries

3.25. The fine fragrance markets in different countries each have their own special characteristics. The largest market for perfumes and fragrances is the USA, where retail sales of female fragrances in 1991 were about four times those in the UK. Within the EC the largest market is France (about 50 to 60 per cent larger than the UK). The German market is slightly larger than that in the UK. The other two main EC markets are Italy and Spain.

Employment in the industry in the UK

3.26. As noted below (see paragraph 3.39), about 40 per cent (by value) of the fine fragrances sold in, or exported from, the UK are manufactured here. The rest is imported. Consequently, the vast majority of the 8,000 people employed in the UK by the suppliers are in the marketing, sales and distribution fields, and only about 800 or so are employed in manufacturing (see Table 3.4).

TABLE 3.4 Numbers employed by the suppliers of fine fragrances in the UK, as at December 1992

Category of employment	Number	%
Manufacturing	812	10
Distribution	235	3
Finance and administration	559	7
Own retail outlets	39	<0.5
Sales	461	6
Marketing	172	2
Training*	63	1
Beauty consultants†	5,008	63
Other‡	<u>602</u>	<u>8</u>
	7,951	100

Source: MMC.

*Staff exclusively or primarily engaged in the training of beauty consultants.

†Full-time equivalents.

‡Including staff employed in more than one of the above activities.

3.27. By far the largest category of employment within the industry is that of beauty consultants. These are the trained sales staff who serve consumers at the counters in retail outlets. Suppliers employ about 3,400 full-time consultants and approaching 3,000 part-time and seasonal consultants. They are in addition to sales staff directly employed by retailers. The costs of about two-thirds of the supplier-employed consultants are shared, usually on a 50:50 basis with the respective retailer, and the costs of the other one-third are borne fully by the supplier.

Supply of fine fragrances

Sales and market shares

3.28. Total wholesale supplies of reference brands (including non-reference products-see paragraph 3.45) to the UK domestic market (ie excluding duty-free outlets) in 1992 amounted to about £205 million (see Table 3.5). This figure, allowing for an average retail gross margin of 38 per cent and for VAT at 17.5 per cent, suggests that the total UK domestic retail market for fine fragrances in 1992 was worth about £390 million at VAT-inclusive retail selling prices, of which authorized retail sales were worth about £330 million. In response to our questionnaire, authorized suppliers reported their wholesale sales of reference products in 1992 to be about £148 million and of non-reference products to be £22 million, giving a total of £170 million. Allowing for non-respondents, this suggests a total figure for authorized fine fragrance supplies to the UK domestic market of about £173 million. Of this, sales of reference products account for about 87 per cent, and non-reference products for 13 per cent. Estimates, based on information from some of the grey-market suppliers and from retailers, suggest that total grey-market supplies of reference brands (see paragraph 3.76) may have amounted to about £32 million in 1992, consisting mostly of reference products. We estimate, therefore, that grey-market supplies account for about 16 per cent of the UK domestic market.

TABLE 3.5 Wholesale sales of fine fragrance products to UK domestic retailers, 1992

	£m	%	%
<i>Sales by perfume houses</i>			
Reference products	151.3	87.3	
Non-reference products	<u>22.0</u>	<u>12.7</u>	
Total authorized sales	173.3	100.0	84.4
<i>Grey market (estimated)</i>			
Reference products	30.0		
Non-reference products	<u>2.0</u>		
Total grey market	<u>32.0</u>		<u>15.6</u>
Total UK domestic market	205.3		100.0

Source: MMC.

3.29. In the 1980s sales of fine fragrances grew considerably in relation to sales of mass-market fragrances, with consumers apparently (based on their increasing feeling of financial well-being) showing a marked preference to move from the mass-market brands to the fine fragrance brands. However, with changes in consumer fortunes, sales of fine fragrances have proved not to be immune to the effects of recession in the UK economy. Thus, sales in the UK in both 1991 and 1992 were down on the figure for 1990, a peak year for authorized sales of fine fragrances in the UK when they reached about £190 million (valued at manufacturers' selling prices). While the growth in sales during the period 1988 to 1990 was considerable (with sales in 1990 up by about one-third compared with about £144 million in 1988), the decline in 1991 was also quite marked (down by 14 per cent to about £164 million in one year), though there was some recovery to £173 million in 1992. Indeed, the information we received from the suppliers about the price trends for their products shows that during the period of growth up to 1990 fine fragrance prices generally rose by as much as, or a little above, the rate of inflation, and during the more recent period of lower sales, prices have fallen in real terms (see paragraph 3.86).

3.30. Having noted that the quarterly industry data circulated by the Fragrance Information Service (FIS) of the Fragrance and Beauty Association (FBA) includes sales in terms of numbers of units sold as well as the value of the sales, we considered whether or not to collect data in volume terms (perhaps in terms of the numbers of items sold, or the volume of liquid sold) as well as in value terms. When we consulted several of the suppliers about appropriate volume measures, the clear view was that, given the wide variety not only in terms of the perfume concentrations in the different types of reference products and the very considerable variation in bottle sizes between different brands, volume would be an inappropriate measure of market size and of market shares. We therefore decided not to collect sales information in volume terms.

3.31. It is worth noting, however, what the FIS data show in this respect. The data in Table 3.6 show fine fragrance sales figures for 1992 in both value and volume terms (note that the FIS data, from which the figures in Table 3.6 have been calculated, are based on returns only from those companies which are members of the FBA, and are therefore not directly comparable with the data in Tables 3.5, 3.7, etc). The FIS data show that over 16 million individual fine fragrance units were sold to domestic retailers in the UK in 1992. Of these, almost 70 per cent were reference product units, and a little over 30 per cent were non-reference fine fragrance products. The unit sales data also enable average unit value figures to be calculated. These show that the average manufacturers' sales value of reference product units in 1992 was £12.96 (equivalent to a retail price of about £24.50), with the female reference products being about 16 per cent more expensive than the male equivalents (£13.51 compared with £11.64; see also paragraph 3.84). Taking into account sales of non-reference fine fragrance products reduces the average manufacturers' selling price per unit sold from £12.96 to £10.69, with the average price of non-reference products being less than half that of reference products.

TABLE 3.6 Wholesale sales of fine fragrance products to UK domestic retailers, 1992

	Value			Units			Volume			Average sales value per unit	
	£m	%*	%†	'000	%*	%†	£	Index (Average=100)			
<i>Female fragrances</i>											
Reference products‡	106.1	86.1	61.0	7,850.8	78.5	48.3	13.51	126			
Non-reference products	17.2	13.9	9.9	2,152.0	21.5	13.2	7.98	75			
Sub-total	123.3	100.0	70.9	10,002.8	100.0	61.5	12.33	115			
<i>Male fragrances</i>											
Reference products‡	38.5	76.3	22.2	3,309.5	52.9	20.4	11.64	109			
Non-reference products	12.0	23.7	6.9	2,943.7	47.1	18.1	4.07	38			
Sub-total	50.5	100.0	29.1	6,253.2	100.0	38.5	8.08	76			
<i>All fragrances</i>											
Reference products‡	144.6		83.2	11,160.3		68.7	12.96	121			
Non-reference products	29.2		16.8	5,095.7		31.3	5.73	54			
Total	173.8		100.0	16,256.0		100.0	10.69	100			

Source: MMC, calculated from FIS data.

*Percentage of the total for female or male fragrances respectively.

†Percentage of the total for all products.

‡Includes gift sets.

3.32. Each fragrance house's wholesale sales figures for 1992, but for reference products only, are shown in Table 3.7. The largest supplying group in 1992, among suppliers of fine fragrances to the UK domestic market, was L'Oréal. The next largest supplying groups were SNEA (which owns Parfums Yves Saint Laurent Ltd (YSL) and Sanofi Beauté Ltd (Sanofi)), Unilever (which owns Calvin Klein Cosmetics (UK) Limited (Klein) and Elizabeth Arden Limited (Arden)), Estée Lauder Cosmetics Ltd (Lauder) and LVMH (which owns Parfums Christian Dior UK Ltd (Dior) and Parfums Givenchy Limited (Givenchy)). These five groups between them accounted for 70 per cent of UK authorized domestic sales of reference product fine fragrances (whereas the five largest individual companies shown in Table 3.7, regardless of whether or not they are members of groups, between them accounted for 53 per cent of authorized domestic sales in the UK). The next largest suppliers were Chanel, Giorgio and Guerlain Ltd (Guerlain). The largest ten suppliers (counting members of a group as one supplier) accounted for about 88 per cent of the authorized supplies to the UK market. (These market share calculations exclude grey-market suppliers, but Table 3.7 shows the effect on market shares of adding the estimated total of grey-market supplies.)

3.33. There has been considerable variability in market shares over the years. This was partly because of several important commercial transactions during the second half of the 1980s involving the transfer of a number of fragrance house names between different companies (see, for example, paragraph 3.15). It was also partly because changes in fashion led to some fragrance brands losing popularity in favour of others, and because of the launch of new brands. Using data provided by European Forecasts, Lexecon Ltd (see paragraph 3.7) traced the changing market shares of 12 of the main fragrances houses during the period 1976 to 1992. This analysis showed that among the leading suppliers of female fine fragrance brands Lauder's share fell markedly (by a little over 40 per cent, especially during the mid- to late 1980s), while the shares of Cacharel (part of P&C), Chanel and Givenchy grew. In the meantime new fragrance houses such as Giorgio (which entered the UK market in 1985), Klein (which entered in 1986) and Lancaster (which was established in 1991) had a significant impact on the UK market, gaining respectable market shares in a relatively short period of time. Similarly, among suppliers of male fine fragrance brands, while fragrance houses such as Aramis (an Estée Lauder Group house name), Chanel and Rabanne (distributed in the UK by Creative Fragrances Ltd (Creative Fragrances)) have seen their market shares fall, houses such as YSL have seen their shares rise, while significant new entrants such as Cacharel (1976), Klein and Lancaster Group Ltd (Lancaster) have gained in market share. Some of the smaller suppliers shown in Table 3.7 are also new companies, eg PAL Management Services Limited (PAL) (1990), Muelhens Ltd (Muelhens) (1991) and Kenneth Green Associates Limited (Green) (January 1993).

3.34. One widely used measure of market concentration is the Herfindahl-Hirschman Index (HHI), which calculates the sum of the squares of the individual market shares of companies. (The US Department of Justice *Merger Guidelines* regard an HHI of below 1,000 as unconcentrated, 1,000 to 1,800 as moderately concentrated and over 1,800 as highly concentrated.) The market share figures shown in Table 3.7, taking account of the various company groupings shown there, produce an HHI figure of 1,114 which puts the supply of reference products to domestic retailers in the UK into the moderately concentrated range (companies not named in Table 3.7 and grey-market sales have been excluded from this HHI calculation). Ignoring those groupings, and taking only the market shares of the individual fragrance houses as listed in Table 3.7, gives an HHI figure of only 749.

3.35. As Table 3.7 shows, not all the UK-based suppliers were able to provide figures on duty-free supplies in the UK, for these are often supplied direct by the parent company (in France, for example) rather than by the UK subsidiary. In order to gross up the figures to take account of duty-free sales by fragrance houses which did not provide this information, we have assumed that the same ratio between supplies to UK domestic and duty-free retailers applies as for the houses which did provide the information (ie 23:67). This suggests that total duty-free sales of reference products to outlets in the UK amounted to about £52 million in 1992. This is equivalent to almost 35 per cent of the UK domestic market for reference products (excluding grey-market supplies) as measured by manufacturers' selling prices. Sales of non-reference fine fragrance products through duty-free outlets amounted to a further £2 million. Allowing for the fact that manufacturers' selling prices to duty-free outlets are generally between 40 and 75 per cent of their selling prices to high street retailers (see paragraph 3.109), these estimates suggest that sales volumes through UK-based duty-free outlets are equivalent to about two-thirds of UK high street sales volumes.

TABLE 3.7 UK wholesale sales of reference products by supplier, 1992

Supplier	Net sales to domestic retailers £'000	Percentage of authorized supplies %	Percentage of all domestic supplies %	Duty-free sales (reported) £'000	Total sales £'000	Percentage of total, including duty-free %
<i>Authorized suppliers</i>						
L'Oréal: P&C Parim Golden	[
SNEA: YSL Sanofi						
Unilever: Klein Arden						
Lauder						
LVMH: Dior Givenchy						
Chanel: Chanel Ungaro Bourjois						
<i>Figures omitted. See note on page iv.</i>						
Giorgio Guerlain Creative Fragrances Creative Fragrances Rochas Ricci Revlon Muelhens Procter & Gamble Lancaster Alfred Dunhill Green Patou PAL Diana de Silva Douek Houbigant Hermès Others (estimated)*]
Other duty-free sales (estimated)				29,000	29,000	12.4
Total authorized supplies	151,257	100.0	83.4	52,193	203,450	87.1
<i>Grey-market suppliers (estimated)†</i>	30,000		16.6	-	30,000	12.9
Total supplies of reference products	181,257		100.0	52,193	233,450	100.0

Source: MMC survey.

*[Details omitted. See note on page iv.

†See paragraph 3.76.

3.36. Major duty-free retailers are another source of information about duty-free sales. Sales data from the main duty-free retailers operating at airports show total purchases of fine fragrances from suppliers amounting to about £34 million, including some onward supplies for retail sale on board aircraft, ferries and cruise-liners. The remaining £18 million, compared with the estimate of £52 million shown in the previous paragraph, is accounted for mostly by supplies obtained directly from the fragrance houses by some airlines and ship operators. Of the total duty-free market, we estimate that sales through airport duty-free outlets account for about 60 per cent (by value), sales on board aircraft account for about 25 per cent, and sales on board ships and other miscellaneous sales account for the remaining 15 per cent.

3.37. Taking all supplies together, ie authorized supplies, grey-market supplies and duty-free sales, gives the breakdown shown in Table 3.8 (all figures are at manufacturers' selling prices). This shows that authorized supplies to domestic retailers account for about two-thirds of all fine fragrance sales in the UK, with supplies to duty-free outlets accounting for about 21 per cent and grey-market suppliers for the remaining 12.5 per cent.

TABLE 3.8 Wholesale sales of fine fragrance products in the UK, 1992

	Reference products		Non-reference products	Total	
	£m	%	£m	£m	%
Authorized supplies to domestic retailers	151.3	64.8	22.0	173.3	66.8
Grey market (estimate)	<u>30.0</u>	<u>12.8</u>	<u>2.0</u>	<u>32.0</u>	<u>12.3</u>
Sub-total: domestic sales	181.3	77.6	24.0	205.3	79.1
Duty-free supplies (estimate)	<u>52.2</u>	<u>22.4</u>	<u>2.0</u>	<u>54.2</u>	<u>20.9</u>
Total sales in the UK	233.5	100.0	26.0	259.5	100.0

Source: MMC.

UK production and imports of fine fragrances

3.38. Five companies told us that they, or their associated companies, manufactured fine fragrances in the UK. These were Houbigant Ltd (Houbigant), Chanel, Giorgio, Lauder and Arden. Total production by these companies amounted to about £30 million in 1992 (see Table 3.9). Houbigant's figure was quite small, and production by Lauder was by far the largest of the five (at £13.6 million). The other three companies' production levels were roughly equal (at £4.3 million, £5.6 million and £6.4 million respectively).

TABLE 3.9 Imports and UK production of fine fragrances, 1992

Destination	Imports £m	UK production £m	Total £m
Resale in UK domestic market	40.8	6.9	47.7
Resale in duty-free outlets	4.6	4.5	9.1
Direct exports from UK	<u>1.7</u>	<u>12.9</u>	<u>14.6</u>
Total	47.1	30.0*	77.1*

Source: MMC.

*The total includes total production figures from one company which was not able to break down its total into the three components.

3.39. The bulk (about 60 per cent by value) of the fine fragrances reference products sold in, or exported from, the UK were imported into the UK. Total imports, at cost, in 1992 amounted to £47 million, of which about £41 million (87 per cent) was for the domestic market, £4.6 million was for duty-free sales (note that this excludes the vast majority of duty-free supplies, which go direct from the overseas supplier to duty-free premises in the UK), and £1.7 million was for direct export from the UK by the fragrance houses.

Brand shares

3.40. With over 400 different reference brands on sale in the UK (Harrods), for example, currently stocks about 425 different brands), the market shares of most are very small. Indeed, the share of authorized sales to domestic retailers held by the largest selling brand in 1992 (namely Anaïs Anaïs) was [†] per cent (see Table 3.10). The next most important brand, in terms of value of UK sales in 1992, was Chanel N° 5 at [†] per cent. The top ten brands in 1992 accounted for about one-quarter of UK sales. [†] by far the best-selling brand of Superdrug, the largest unauthorized retailer, in 1992, with its other best-selling brands being (in order of significance) [†].

TABLE 3.10 Wholesale sales to authorized retailers of the top ten selling brands in the UK, 1992

Brand	Net sales to UK domestic retailers	
	£'000	%*
Anaïs Anaïs	[
Chanel N° 5		
Narcisse		
Loulou		
Dune		†
Jazz		
Eternity (women)		
Paris		
Eternity (men)		
Opium]
Total of above	38,180	25.3

Source: MMC.

*That is percentage of UK total authorized sales of £151.3 million.

3.41. A number of the suppliers drew it to our attention that not only did the commercial success of individual brands vary considerably from year to year, as fashions change, but that new brands regularly appeared on the market as others declined, ceased to be promoted or were withdrawn from sales. Thus, while some current brands are long established (eg Jicky (1889), Chanel N° 5 (1921), Arpège (1927), Joy (1935), or Miss Dior (1947)), others have only very recently been introduced (eg Red (1989), Dune (1991), or Héritage (1992)). We saw a number of lists, prepared by or for some of the suppliers as part of their responses to our questionnaire, showing the names of new fine fragrance brands launched each year in recent years, as well as brands that had been withdrawn from sale (in some cases brands may still be available but the suppliers have ceased to advertise or promote them, and their sales gradually decline). While assessing the details of such lists is not easy, given that success is not guaranteed and many of the brands launched fail to make any significant impression on the market, it is clear that even in the last two years many new brands were launched, perhaps having been initiated and developed during the period of growth during the late 1980s and launched even when the market had become depressed. We also noted a newspaper article dated March 1993 (see paragraph 7.110) which reported that increased competition, with the combination of economic recession and the growth of large fragrance house groups, meant that only one-fifth of the fragrances launched today would recoup their launch costs, compared with one-half six years ago. The figures in Table 3.11, supplied to us by one fragrance house, are given here as an illustration of the numbers of new brands launched in the UK by all the suppliers of fine fragrances over the last seven years.

TABLE 3.11 Numbers of new fine fragrance brands launched in the UK,* 1986 to 1992

Year	Number of new brands		
	Female	Male	Total
1986	5	6	11
1987	10	2	12
1988	5	6	11
1989	6	6	12
1990	13	11	24
1991	19	10	29
1992	27	12	39

Source: Prepared for Guerlain by Imogen Matthews Associates.

*By all suppliers, including relaunches.

†Details omitted. See note on page iv.

Sales by type of product

3.42. We also looked at the breakdown of fine fragrance sales by product type. As Table 3.12 shows, the most important products are EDTs, which account for about 41 per cent of sales to domestic retailers (by value at manufacturers' prices) of reference products in the UK. The other important products are the EDPs, with about 28 per cent of wholesale sales. Comparing sales to domestic retailers with those to duty-free retailers shows that EDPs are somewhat more important as a proportion of duty-free sales, as are the EDCs. Sales of non-reference fine fragrance products to duty-free outlets are relatively less important, and are dominated by the deodorant products.

TABLE 3.12 Wholesale sales of fine fragrances to UK authorized retailers by type of product, 1992

per cent share

by value

Type of product	Sales to domestic retailers				Sales to duty-free retailers				All sales to retailers		
	Female	Male	Total*	Total†	Female	Male	Total*	Total†	Total*	Total†	
<i>Reference products</i>											
Perfume	6.7	-	4.6		6.1	-	4.9		4.6	4.1	
EDP	40.0	-	27.5		48.4	-	39.4		29.1	25.7	
EDT	46.7	29.3	41.3		45.5	26.7	42.0		41.4	36.5	
EDC	0.4	6.2	2.2		-	21.6	4.1		2.5	2.1	
Aftershave	-	46.0	14.4		-	51.7	9.6		13.7	12.1	
Gift sets	<u>6.2</u>	<u>18.5</u>	<u>10.0</u>		<u>-</u>	<u>-</u>	<u>-</u>		<u>8.7</u>	<u>7.7</u>	
Total	100.0	100.0	100.0	87.1	100.0	100.0	100.0	96.4	100.0	88.2	
<i>Non-reference products</i>											
Skincare products	16.0	-	9.7		12.9	-	8.8		9.6	1.1	
Deodorants	8.3	38.3	20.2		9.9	71.5	29.2		20.5	2.4	
Talcs/dusting powders	16.1	6.2	12.2		10.1	0.8	7.2		12.0	1.4	
Soaps	11.6	5.6	9.2		8.4	0.8	6.1		9.1	1.1	
Shampoos	0.8	6.9	3.2		-	0.8	0.3		3.1	0.4	
Other bath products	43.5	13.1	31.4		58.3	5.6	41.7		31.8	3.7	
Other perfumery products	3.7	-	2.3		0.4	-	0.3		2.2	0.3	
Other shaving products	-	22.0	8.7		-	12.9	4.0		8.6	1.0	
Other men's products	<u>-</u>	<u>7.9</u>	<u>3.1</u>		<u>-</u>	<u>7.6</u>	<u>2.4</u>		<u>3.1</u>	<u>0.4</u>	
Total	100.0	100.0	100.0	12.9	100.0	100.0	100.0	3.6	100.0	11.8	
Total: all products				100.0					100.0	100.0	

Source: MMC.

*Percentage of either reference products or non-reference products respectively.

†Percentage of all reference and non-reference products.

3.43. It is also apparent from the data in Table 3.12 that there are many different types of fine fragrance products. We looked at the price lists of the major companies listed in Table 3.7 to establish how many individual 'references' or SKUs of reference and non-reference fine fragrance products were listed. The results are shown in Table 3.13. (The companies listed in Table 3.13 between them accounted for about 94 per cent (by value) of authorized supplies to domestic retailers in the UK in 1992 and for about half of all brands marketed, and are listed in the order of the value of their sales of fine fragrances to UK domestic retailers.) Between them, these companies currently market 2,311 different fine fragrance SKUs in the UK domestic market. The figures in Table 3.13 distinguish between the reference products named in the MMC's terms of reference, with 1,371 SKUs, and the other fine fragrance products, such as soap and talc, which are sold as part of the same brand ranges, with 940 SKUs (apart from a few minor exceptions, the figures do not include any products in the suppliers' cosmetics and skincare ranges). Thus, about 41 per cent of all fine fragrance SKUs are non-reference products.

TABLE 3.13 Numbers of fine fragrance references, or SKUs, sold in the UK

Company name	Net sales to domestic retailers, 1992 £'000	Number of fine fragrance brands	Number of fine fragrance reference product SKUs	Number of non-reference product fine fragrance SKUs	Total number of fine fragrance SKUs	Proportion of non-reference SKUs %
L'Oréal:	[	21	207	126	333	38
P&C		15	177	85	262	32
Parim		4	20	18	38	47
Golden		2	10	23	33	70
SNEA:		16	160	117	277	42
YSL		7	76	67	143	47
Sanofi		9	84	50	134	37
Unilever:		21	105	93	198	47
Klein		5	27	36	63	57
Arden		16	78	57	135	42
Lauder		20	118	137	255	54
LVMH:	*	20	119	83	202	41
Dior		10	69	58	127	46
Givenchy		10	50	25	75	33
Chanel:		11	133	73	206	35
Chanel		7	93	56	149	38
Ungaro		3	37	17	54	31
Bourjois		1	3	0	3	0
Giorgio		5	30	29	59	49
Guerlain		21	160	86	246	35
Creative Fragrances:		12	123	85	208	41
Creative Fragrances		8	76	49	125	39
Rochas		4	47	36	83	43
Ricci		6	64	27	91	30
Revlon		3	40	28	68	41
Muelhens		10	53	28	81	35
Procter & Gamble		4	27	26	53	49
Lancaster		9	32	2	34	6
Total	]	179	1,371	940	2,311	41

Source: MMC survey.

The marketing of fine fragrances, cosmetics and skincare products

3.44. As mentioned in paragraph 2.2, the terms of reference for this inquiry defined fine fragrances as perfumes, EDPs, EDTs, EDCs and aftershave lotions which are supplied to retailers at a resale price exceeding £15 per 50ml. These products are sold in many different sizes of container. For example, perfumes are sold in bottles with capacities ranging from 7ml to 960ml, and each of the other products mentioned is commonly found in two or three different bottle sizes, often in both spray and non-spray versions and with refills sold separately. For just one brand name, therefore, there may be up to a dozen or more individual SKUs of reference products. With over 400 fine fragrance brands on sale in the UK and an average of about 8 SKUs per brand, there could be some 3,000 or more SKUs within the terms of reference of this inquiry.

3.45. Many reference brands also include as part of their product range a number of different toiletry products (such as talcs, deodorants, and soaps) which fall outside our terms of reference. For some brands the number of these non-reference fine fragrance products is small, but for many brands there are about half as many non-reference products as there are reference products (see Table 3.13), though in total such

*Figures omitted. See note on page iv.

products account for only about 13 per cent of the authorized sales to domestic retailers (by value) of reference brands (and considerably less in the case of duty-free sales) (see Table 3.12).

3.46. Some suppliers of fine fragrances (notably Lauder and Parim) also market a wide range of cosmetics and skincare products, and see themselves first and foremost as marketers of cosmetics, and only to a lesser degree as marketers of fragrances. For these companies cosmetics may well be the dominant component in forming the image of the supplier's name and of its individual brands, including its reference brands.

3.47. Some of these other products are directed towards improving the user's physical appearance, thereby addressing a need beyond the scope of a fine fragrance. Fragrance products generally cannot be marketed as having any special scientific ingredients nor as affecting the physical appearance of the consumer. However, some skin treatment products may contain recently-patented ingredients which are very recent developments in modern cosmetics. Marketing such products in this context attracts additional customers, and enhances the image of the company or brand to the benefit of its fragrances.

3.48. In cases where a range of product types is made by the same supplier (reference and non-reference fine fragrance products, cosmetics and skincare), then most, or a fully representative selection of them, are normally displayed together at the same place in a retail outlet. In this way, consumers are able to purchase at the same point of sale not just make-up and treatment, but also, for example, perfumed body cream (a non-reference product), a perfumed soap (a non-reference product) and an EDP (a reference product) from the same house name. This enables the consumer to achieve a successive layering of the fragrance rather than purchasing products with different, possibly conflicting, scents perhaps manufactured by different suppliers (layering is a skin care routine involving cleansing (with soap or gel), toning (with a deodorant or EDC) and moisturizing (with body lotion or body cream) followed by loose powder and then perfume or EDT).

3.49. Fine fragrance products are referred to by the EC Commission in its Decisions in the YSL Parfums and Parfums Givenchy cases (see paragraph 2.12). In these two Decisions the EC Commission says that 'given the low degree of substitutability in the consumer's mind between luxury cosmetic products and similar products falling within other segments of the sector, the relevant market is that for luxury cosmetic products' (Part II, Section A, paragraph 8 of the YSL Parfums decision). Luxury cosmetic products (perfumery, skincare and beauty products), the EC Commission said, are 'high-quality articles, sold at a relatively high price and marketed under a prestige brand name'. This assessment of the EC Commission was based on the findings of the Weber Report which it had commissioned (see paragraph 3.2).

3.50. While the Weber Report does not explicitly discuss the extent of relevant markets, it contains several references to different markets. Indeed, its introductory comments include the statement that 'a large number of markets' exist in the perfumery and cosmetics trade. The Weber Report refers to 'the alcohol-based perfumery market', and it also distinguishes between a 'market for luxury items' and 'the markets for volume distribution'. In a later part of the Weber Report five different markets are introduced based on the type of retail outlet through which the products are sold, rather than on the nature of the products concerned. These are markets for the goods sold:

- in perfumeries and similar retail outlets using the selective distribution channel, possibly including goods sold outside the scope of any agreement;
- exclusively in pharmacies and similar establishments, bearing in mind too that such outlets may also sell volume-marketed products;
- through drugstores and department stores, which sell selectively distributed products as well as volume-marketed products;
- in supermarkets and hypermarkets and other grocery stores, which have typically been volume-marketed goods; and
- through direct sales channels.

3.51. The Weber Report goes on to note that because of selective distribution, a feature of the marketing of fine fragrances, the market for perfumery products and cosmetics is segmented. Indeed, the Weber Report finds that 'the normal operation of the perfumery and cosmetics market depends on the continuing existence of segmented markets, ie markets between which there is negligible scope for substitution'.

Fine fragrance marketing and distribution

The image of fine fragrances

3.52. The basic starting point in the marketing of a fine fragrance is choosing its scent, or fragrance 'notes' (usually referred to as the top, middle and bottom notes, depending on the speed with which they become apparent on contact with the skin, with the bottom note coming through last and usually lasting longest). Haarmann & Reimer GmbH (H&R), a German company, is one of several which researches and supplies many of the essential oils and other ingredients that go into making fragrances. It has published what it calls 'The H&R Genealogy', two charts showing a classification of fragrances, one for male fragrances and the other for female fragrances, according to their basic characteristics. The main H&R groupings are:

(a) *for feminine fragrances:*

- *floral* fragrances (a large group including, for example, Joy, Chanel N° 5, Anaïs Anaïs and Giorgio);
- *oriental* fragrances (eg Opium, Joop! and Samsara); and
- *chypre* fragrances (ie fresh/woody mixtures, eg Miss Dior, Ma Griffe, Knowing and Y).

(b) *for masculine fragrances:*

- *lavender* fragrances (a small group, eg Silvestre and Grès);
- *fougère* fragrances (fragrances based on lavender and oak moss in combination, eg Paco Rabanne, Drakkar Noir, Cool Water, Jazz and Dunhill);
- *oriental* fragrances (spicy fragrances, eg Equipage, Obsession for Men and Monsieur Carven);
- *chypre* fragrances (ie fresh/woody mixtures based on citrus and oak moss, eg Aramis, Givenchy Gentleman, Giorgio VIP, Polo, Vetiver and Fahrenheit); and
- *citrus* fragrances (eg Armani, Eau Sauvage and Monsieur de Givenchy).

Although no two products should be identical in terms of their exact formulation and the longevity of their notes, fragrances within the broad classifications used by H&R (floral, oriental, chypre, etc) are broadly similar.

3.53. When buying a fragrance the consumer is not just choosing it for its functional aspects, but is also buying the image and prestige associated with that brand. For the fragrance supplier, branding is thus a major source of added value. For a top fashion house, the value of the brand names within the portfolio of fragrance products may be the company's single most important trading asset, and the matter to which a substantial amount of management time and resources are committed. The image of the fragrance house and individual fragrance brands is therefore created and enhanced by a combination of involvement in other fashion and beauty-related activities that create an image around the fragrance brand. This is further enhanced by advertising and promotion.

3.54. The image-creating activities to support the house or brand name include: *haute couture* and fashion boutiques; other fashion goods, eg jewellery; and cosmetics. Frequently these activities earn lower margins than fragrance sales, but are justified by the contribution they make to the prestige of the brand. Similarly, over-exposure of the fragrance brand in other activities (eg by licensing the name without adequate quality control), or failure to capture the imagination (eg with a *couture* collection that flops or fails to excite the fashion world), can adversely affect a brand's image.

The demand for fine fragrances

3.55. Because of the importance of image, some have argued that when buying fine fragrances consumers attach importance to the element of exclusivity. If this is true, consumers' purchase decisions concerning products for which image is important may be significantly influenced by their perceptions of what other consumers are buying. This may be particularly true when such products are bought as gifts, with the price and image of the gift being important symbols to both the giver and the receiver. Two particular influences, in this respect, have been identified and appear to be relevant to the assessment of the demand for fine fragrances. These are the 'snob' effect and the 'conspicuous price' effect. For products where the snob effect is apparent a significant number of consumers may drop out of the market if price decreases lead to extra demand and, in their eyes, less exclusivity. Therefore demand responsiveness to price changes is more inelastic than it would otherwise be.

3.56. For products where the conspicuous price effect is apparent, consumers attach at least as much importance to the product's price as to its inherent qualities. Buying the product demonstrates opulence and status, and the consumer derives psychological benefits from this conspicuous consumption. In analysing the consequences of this it is possible to think of the product as having two prices, its real price (ie what the consumer actually pays for it) and its conspicuous price (ie what the consumer thinks other people think its price is). While actual demand is dependent on both the real and the conspicuous price, consumers attach considerable importance to the links between a product's image and its conspicuous price. In certain price ranges the demand curve may therefore be positively inclined, showing (for example) that in that price range a price cut will lead to a fall in demand rather than, as is usual, to an increase in demand. In such cases, individual consumers are happy to buy particular items when the real price to them is less than the conspicuous price (eg because they have negotiated or taken advantage of a discount or special offer) so long as this price does not in their minds seriously erode the conspicuous price of the product group as a whole. There may also be different effects, on the quantities bought, following a general price decrease (of say 20 per cent) for all brands sold through all retail outlets, compared with a similar price decrease affecting one or a few brands or one or a few retail outlets.

3.57. The demand for fine fragrances may be influenced by both the snob and conspicuous price effects, and if so the relative importance of prices and exclusivity in determining how consumers will react to price changes may be difficult to predict. For example, if the conspicuous price effect was strong, then it might outweigh any snob effect that was also present. It should also be borne in mind that in an assessment of the demand for and image of fine fragrances it obscures, rather than clarifies, matters to think of them as luxury goods. Luxury is very much a relative concept in which the analysis of demand is linked to income rather than to prices (that is, a luxury good is one for which demand clearly increases as income increases)-see also paragraph 3.29, where the effect of economic recession on the demand for fine fragrances is noted.

3.58. The demand for fragrances appears to be very much influenced by the importance of the products as gifts, for example at Christmas, on Mother's Day or on birthdays. Consumer research published by Mintel (in its *Market Intelligence*, May 1992) suggested that up to 40 per cent of purchases were for gifts at Christmas or on birthdays, 17 per cent were for gifts at other times, only perhaps 15 per cent were bought for self-use as a replacement and 12 per cent were bought on impulse for self-use. (Note that there were further categories, though not mutually exclusive, the most important of which was duty-free purchases, which accounted for 20 per cent of the purchases in the sample, and which will have been both for gifts and for self-use.) The patterns of purchases did not appear to vary very much between the different categories of consumers, though comparing the AB and E socio-economic groups of consumers the significance of gift purchases tended to be lower for the ABs (down to 32 per cent for Christmas and birthday gifts) and higher for the Es, and duty-free purchases tended to be much higher (at about 33 per cent) for the ABs but unimportant for the Es (at 7 per cent). While too much importance should not be attached to the detailed results of individual surveys such as this, the results are broadly indicative of the influences of consumer demand on the patterns of fragrance sales, for example in the links between prestige and the perceived conspicuous value of gifts, and the bunching of sales at particular times of the year, notably in the run-up to Christmas.

Advertising and promotion

3.59. We found that total advertising and promotional expenditure in support of reference brands in 1992 was about £76 million, which is about 44 per cent of the value of suppliers' sales to retailers. Of this, expenditure on media advertising was about £25 million, including about £11 million on magazine advertising, £9 million on television advertising, £2.3 million on newspaper advertising and almost £2 million on advertising on commercial radio. The other main expense was that of the beauty consultants and their training and support. The total cost of this in 1992 was about £30 million, of which payments to consultants and other direct costs accounted for £26 million (some 28 per cent of which was recovered from retailers), and training costs for about £2.4 million. Other promotional expenditure included gifts with purchase (GWPs) at about £6 million, and point-of-sale material at about £15 million (including £5 million for testers and samples).

3.60. Changes in the levels of advertising expenditure from year to year, and the pattern of advertising expenditure in any one year, are heavily influenced by product launches or specific promotion campaigns. This is reflected in the considerable variation of expenditure by individual fragrance houses from one year to the next. Advertising fragrances, whether new or established, does not guarantee success, though it is probably the case that substantial advertising support is an essential ingredient in the promotion of any new fragrance. With the importance of image in the fragrance market, the types and location of advertisements for fine fragrances are important. Suppliers try to ensure that fragrance advertising-whether mass-market or fine brands-is usually of the highest quality. Most fine fragrance advertisers are very selective in the type of media in which the advertising image is presented, with greater use being made of press advertising, particularly in those publications that have what are considered to be both the appropriate image and print quality (see also Appendix 3.1).

3.61. All fragrance houses engage in significant promotional activities. The main categories are in-store sales consultants, other point-of-sale services and promotions. The promotional strategy emphasis is on training of sales consultants, and on ensuring that products are displayed and available for testing by the consumer in an appropriate retail environment. Methods of product promotion used widely include the offering of GWPs, offering a related product (for example, a bath product from the same fragrance brand) at a reduced price (purchase with purchase or PWP) and special promotions in the approach to key dates in the fragrance market year (such as Christmas, Easter and Mother's Day).

3.62. Within this overall context, the fragrance houses consider selective distribution to be an essential aspect in positioning their brands within the market, and closely tied in to the way in which the fragrance is promoted and perceived by the consumer. The fragrance houses believe that their images are supported and enhanced by ensuring that retailers have an appropriate shop sign (they favour the French word *enseigne* which encompasses both the name and the goodwill that goes with it), a high level of retail sales support in the form of sales consultants, a high level of decor and other in-store facilities for the sale of their brands. In summary, the fragrance houses' policy is to try to ensure that the retail environment and presentation of the product reflect and enhance the status of their brands in the eyes of consumers.

3.63. But in requiring such, often expensive, point-of-sale support for their brands at the retail level, the fragrance houses face a trade-off between a desire to enhance the image and exclusivity of their brands and the desire for higher sales volumes. While selective distribution of one form or another is usual, no two fragrance houses adopt exactly the same standards, and the precise requirements laid down by the supplier, and the inclination of different retailers to agree to meet those criteria, vary between suppliers and between retailers.

Selective distribution

3.64. The two EC Decisions exempting the YSL Parfums and Parfums Givenchy authorized retailer agreements from the provisions of Article 85(1) (see paragraph 2.12) set out the main arguments for and against selective distribution agreements of these kinds. The first point to note about the Decisions is that it was necessary at all to exempt them from Article 85(1). All such selective distribution agreements include provisions which by their very nature affect competition, and the fact that the two agreements have been exempted from the provisions of Article 85(1) shows that the agreements do have as part of their object or

their effect the prevention, restriction or distortion of competition within the EC. However, the two Decisions go on to say that certain products:

which are not ordinary products or services have properties such that they cannot be properly supplied to the public without the intervention of specialized distributors. A system of selective distribution may thus constitute an element of competition which is in conformity with Article 85(1), if it is established that the properties of the products in question necessitate the establishment of such a system in order to preserve their quality and ensure their proper use ... and provided that resellers are chosen on the basis of objective criteria of a qualitative nature relating to the technical qualifications of the reseller and his staff and the suitability of his trading premises and that such conditions are laid down uniformly for all potential resellers and are not applied in a discriminatory fashion

3.65. The Decisions also note that the relevant market for assessing the effects on competition of these particular agreements is the market for luxury cosmetic products, somewhat wider than the market for fine fragrances on which the MMC's inquiry has concentrated. The Decisions note too that both YSL Parfums and the LVMH group (which owns Parfums Givenchy) had shares of the market for luxury cosmetic products in several member states 'well in excess' of the 5 per cent level that, according to the European Court of Justice, puts a company in a position to influence intra-EC trade.

3.66. Another point made in the Decisions is that the two agreements which were exempted had to be seen in the context of a market where such restrictions on supply were usual. Consequently, the impact on competition in part derived from the cumulative effect of such a distribution structure.

3.67. In justifying the acceptance of selective distribution for luxury cosmetic products (perfumery, skincare and beauty products) the Decisions, taking the YSL Parfums example, set out a number of benefits, including the following:

Improving production and distribution

- (a) The manufacturer is able to create and maintain an original and prestigious brand image.
- (b) The procedure for dealing with new applications is intended to ensure the flexible integration of new retailers into the distribution network, including the training of staff and any refitting of the shop that may be required.
- (c) The minimum annual purchase per outlet requirement (for each EC country this is set at 40 per cent of the average annual purchases of the domestic retail outlets in that country) rationalizes costs of distribution and ensures that each retailer will contribute actively to enhancing the brand through customer service.

Consumer benefits

- (d) The consumer is assured that the luxury products will not become everyday products.
- (e) Competition is focused on factors other than price, such as provision of advisory services for customers, and the constant availability of the essential products in the ranges (suppliers can require retailers to hold, as a minimum, two-thirds of the SKUs of the reference brands stocked).
- (f) As new outlets cannot be refused on the basis of purely quantitative criteria, the system does not unduly restrict intra-brand competition, particularly as retailers have complete freedom to set retail prices.

3.68. In the questionnaire we sent to the suppliers we asked each company to explain its approach to the marketing and distribution of its fine fragrances in the UK and, in particular, if they did not agree to supply all retailers who wished to stock their brands, why not, and what were the qualities they were looking for in retail outlets. Secondly, we asked each supplier what it considered to be the effects of a policy of limited or restricted distribution on:

- (a) its sales of fine fragrances;
- (b) retailers, the competition between which might, as a result, be restricted; and
- (c) consumers, whose choice as to where they could buy these products might be restricted.

The replies to these two questions by the parties to the provisionally determined complex monopoly (see paragraph 8.18) are fundamental to understanding the main issues raised in this inquiry and are summarized in Appendix 3.2.

3.69. In essence, and noting also the companies which made the particular points most clearly, the suppliers argued that selective distribution:

- (a) maintained and enhanced brand image and reputation by concentrating on retail outlets with an appropriate environment and good standards of service, pre- and post-sale (Chanel, Dior, Lauder, Givenchy, Guerlain, P&C);
- (b) ensured that brands and products were consistently presented (Chanel);
- (c) maximized consumer choice by ensuring that all outlets offered an adequate range of product types and sizes (Chanel, Lauder);
- (d) ensured continuous availability of products to the consumer throughout the year (Chanel);
- (e) provided reassurance to consumers that stocks were authentic and in prime condition (Chanel, Klein);
- (f) provided retailers with a stock control service (Lauder);
- (g) allowed suppliers to allocate promotional resources to retailers to maximize their sales (Klein, P&C); and
- (h) enabled retailers to benefit generally from enhanced image and prestige (Dior).

Muelhens made the point, which should perhaps be considered with (c), that retailers which do not meet the standards set by the fragrance houses would have difficulty in selling the range of products which authorized outlets are expected to stock. This seemed to tie in with the information which emerged from the Research International Limited (RI) report (see paragraph 4.44), which suggested that one of the reasons why small retailers looked to the grey market was because they did not expect to have sufficient turnover to justify the cost of meeting the fragrance houses' standards.

3.70. The various fragrance houses have adopted two different attitudes to exclusive launches (indeed, individual houses may vary their policies in this respect even between their different brands). While the following fragrance houses said that they normally made use of exclusive launches:

Creative Fragrances;
 Giorgio;
 Klein;
 Lancaster;
 Lauder (but only occasionally, not as a general policy);
 P&C (occasionally for some brands);
 Revlon International Corporation (Revlon); and
 Sanofi;

the following said that they offered new brands to all their authorized outlets:

Chanel;
 Guerlain;
 Muelhens (except for a three-week preview in Harrods);
 Procter & Gamble (Cosmetics & Fragrances) Limited (Procter & Gamble) (except for Boss Spirit, which at first was exclusive to Boots); and
 YSL.

3.71. The formal relationships between suppliers and retailers are looked at in more detail in Chapter 4. Suffice it here to note that in the past most suppliers have more often than not followed informal criteria and procedures in determining which retail outlets should be admitted to their selective distribution networks, and have also tended not to have formal supply agreements with those retailers which they have agreed to supply. But since the EC Decisions, suppliers have introduced new and formal retailer agreements, and have put together formal retailer assessment check-lists as part of a more open and regularized retailer admission procedure.

3.72. While selective distribution of one form or another is thus followed by all fine fragrance houses, the precise approach adopted by different suppliers varies significantly. For example, whereas P&C delivers to 576 out of 1,084 Boots outlets, and to about 935 out of 12,000 chemists outlets, Lauder supplies Aramis Classic and Tuscany brands through 113 Boots and 84 other chemists shops, and its female fragrances through only 18 Boots outlets and 45 other individual chemists shops. One result, as Table 3.14 shows, is that the number of individual retail outlets, or 'doors' (as they are known in the trade), varies considerably not only between different suppliers, but even between the different brands of the same supplier. It should be noted, though, that there are various reasons, other than differences in distribution criteria, for the differences. These include whether or not the brand has been recently launched in the UK (and is therefore only available in a limited number of outlets either as part of the supplier's launch programme, or simply because the brand is new and retailers have yet to be persuaded of the demand for it), and how popular the brand is (retailers are more likely to want to stock the popular brands). Table 3.14 compares the number of retail doors through which various, but not all, fragrance houses market their products in the UK.

TABLE 3.14 **Numbers of doors (individual domestic retail outlets) selling particular fragrances in the UK, 1992***

<i>Fragrance house and brand</i>	<i>Number of doors</i>
Muelhens:	
All brands	249
Patou:	
Joy	355
Giorgio:	
VIP	386
Original (for women)	454
Red (for men)	482
Lauder:	
Beautiful	372
Aramis Classic	498
Parim:	
Lancôme	632
Klein:	
Eternity for Men	649
Eternity for Women	685
Guerlain:	
Héritage	554
Samsara	709
Chanel:	
each main brand	772
Arden:	
Blue Grass	777
Dior:	
each main brand	1,084
Givenchy:	
all brands	1,150
Sanofi:	
Tsar	476
Volupté	608
Roger & Gallet	1,179
YSL:	
each brand	1,179
P&C:	
Gio	887
Cacharel Homme	1,671
Loulou	1,707
Anaïs Anaïs	1,729
Golden:	
Vanderbilt	1,978

Source: MMC, based on data from suppliers.

*As at 31 December 1992.

3.73. Selective distribution also shows its effects when sales of fine fragrances through different types of retail outlet are looked at (see Table 3.15). Fine fragrances are mostly sold in two types of retail outlet in the UK: in department stores (which account for about 53 per cent of suppliers' sales) and in chemists shops or pharmacies (accounting for about 40 per cent of suppliers' sales). The rest are sold through beauty salons and a limited number of specialist perfume shops. This pattern of sales does not appear to have changed very much over the last few years. Boots is the largest single retailer of fine fragrances in the UK. With purchases of about £40 million in 1992, Boots' share of net manufacturers' sales of reference products to authorized domestic retailers was about 26 per cent. If grey-market sales through unauthorized retailers are taken into account Boots' share of purchases by retailers would fall to about 22 per cent. Taking into account sales through UK-based duty-free outlets as well would cause Boots' share to fall further, to about 17 per cent. Amongst grey-market retailers, whose total share of all domestic retail sales in 1992 was about 16 per cent, sales by Superdrug, Tesco and the Perfume Shop (a small specialist chain) accounted for about 30 per cent.

TABLE 3.15 **Sales of fine fragrance reference products through different types of authorized domestic retailer, 1992**

<i>Retailer</i>	<i>Percentage of manufacturers' sales to retailers</i>
<i>Department stores</i>	
Debenhams	16.6
HoF	10.2
John Lewis	4.4
Harrods	2.1
Selfridges	1.3
Others	<u>18.2</u>
Sub-total	52.9
<i>Chemists shops</i>	
Boots	26.4
Others	<u>13.9</u>
Sub-total	40.4
<i>Others</i>	6.8
Total	100.0

Source: MMC.

3.74. While in the UK virtually all fine fragrance retail sales are through non-specialized outlets (that is, in department stores or pharmacies), in other EC countries the importance of such outlets is significantly lower and specialist perfume shops are much more prominent. In Italy, Belgium and Luxembourg virtually no fine fragrances are sold through non-specialist shops, with most being sold through specialist perfumery outlets. In France, Portugal, Germany and Greece about 15 to 25 per cent is sold through non-specialized outlets, and most is, again, sold through specialist perfumery outlets (for example, in France about 66 per cent of fine fragrance sales are through specialist perfumery outlets). In Spain and the Netherlands the share of the non-specialist outlets is higher, at about 35 per cent, and in Denmark it is about 75 per cent. In Japan, the USA and Canada fine fragrances are sold mostly through department stores (in the USA, chemists shops which dispense prescriptions are known as drugstores, unlike the UK where drugstores are not operated by pharmacists, and some of the more prestigious drugstores in the USA are authorized stockists of fine fragrances).

Grey market

3.75. The grey market is the trade in fine fragrance products outside the selective distribution network of authorized distributors and retailers supplied by the fragrance houses. Although grey-market supplies have been sold in the UK for many years, there is no doubt that the demand for, and supply of, grey-market fine fragrance products has increased over the last few years. However, by its very nature the supply of products on the grey market is uncertain both in terms of the quantities that may be available at any moment, and also the particular brands and SKUs. Sources of supply, being mostly authorized stockists who (in breach of their agreements with the fragrance houses) sell outside the selective distribution network, are unpredictable. For example, grey-market supplies in recent years may well have been

enhanced by the effects on international travel of the Gulf War in 1991, political and economic upheaval in Eastern Europe and in countries of the former Soviet Union, as well as the recession affecting retailers' sales in the USA. Increased trading in grey-market supplies in the UK in recent years may also be the result of the entry into the market of important new buyers such as Superdrug and Tesco. While most reference brands and products have been available on the grey market in the UK at one time or another, the number of different SKUs available at any particular moment may be small.

3.76. We were given the names and addresses of some 30 grey-market suppliers in the UK by a number of the retailers which have been approached by them or have bought from them. We sent a questionnaire to those that we had identified, although because of their very nature we did not expect a big response (grey-market wholesalers are either quite small businesses, or businesses which are reluctant to be publicly identified). We did, however, receive a number of helpful replies from them. We found that of the 30 or so grey-market suppliers which had been identified, only four or five were regularly selling fine fragrances on any significant scale. Those grey-market suppliers which did respond to our questionnaire, including three of the main ones, reported sales of fine fragrances to UK retailers in 1992 of £23.8 million. On this basis we estimate that total grey-market sales of reference products to retailers in the UK in 1992 were at least £25 million and possibly as much as £30 million (probably about three-quarters of these sales were of EDTs and aftershaves). (It should be noted that because some of these grey-market supplies may come from certain duty-free and other retailers in the UK, these estimates of the size of the grey market may involve some double counting with authorized supplies in the UK. The extent of this is, however, believed to be small.) Although figures for earlier years were very patchy, they suggest that grey-market sales increased by perhaps 50 per cent between 1990 and 1992. Grey-market sales of non-reference fine fragrance products were very much less, at about £2 million.

3.77. Grey-market products are usually sold in retail outlets which the fragrance houses do not supply, either because the retailer has been refused, or has not applied for, authorized retailer status. This means that the products may be sold to consumers in conditions which the fragrance houses would generally consider to be inadequate for their products (eg a down-market image, poor decor, or staff lacking qualifications or training).

3.78. The fragrance houses argued that the availability of fine fragrance products on the grey market undermined their reputation among consumers for several reasons. Firstly, they claimed that grey-market products were, by the time they reached the consumer, often in poor condition. They might well be somewhat older than the products sold by authorized distributors, as they were quite likely to have been transported over considerable distances (eg it was not uncommon for supplies in the UK to have been obtained from the Middle East, Russia and India). They might have been stored incorrectly (for example, at high temperatures), which could lead to a deterioration in their quality. Retail sales of products which had deteriorated harmed the reputation of the brands concerned.

3.79. The fragrance houses have been taking steps to make their products traceable, for example by using pin, ink and laser codings and specialized packaging in order to identify the authorized distributors or retailers diverting products into the grey market. Equally, grey-market suppliers develop new means of defacing or removing such markings or codes. Thus, grey-market suppliers usually have to obscure or remove the country of origin or batch coding on the packaging in order to conceal the source of their supplies. This may mean that, to the extent that they contravene the requirements of The Cosmetic Products (Safety) Regulations 1989 (SI 1989 No 2233), Article 6(1)(g), the products are then unlawfully sold in the UK. In case of any investigation arising from the condition of the product, it would be impossible for the originating fragrance house or for a Trading Standards Officer to determine the date and place of manufacture of the product, or its batch. The fragrance houses have had some success in stopping leaks from their authorized networks, and we understand from the grey-market wholesalers that some brands (eg Chanel, Klein and Guerlain) are difficult to obtain in this way. In general, however, the fragrance houses appeared to accept that it was unlikely that it would be possible to eradicate the grey market completely.

Fine fragrance prices

3.80. As is set out in more detail in paragraphs 5.8 and 5.20 to 5.42, we found that manufacturing and wholesaling margins achieved by the fine fragrance suppliers varied considerably from company to company.

3.81. The pattern of pricing was, however, quite similar. Suppliers generally formed a clear view as to where on the retail price scale their particular brand should be positioned. This was determined in the light of factors such as the brand's image, its consumer appeal, the amount of advertising and promotional expenditure backing it, and the retail prices of competing brands. As Appendix 3.3 shows, all the suppliers in the complex monopoly group (see paragraph 8.32 and Appendix 8.1) include RRPs in their price lists to retailers, except P&C which ceased doing so during the course of our inquiry (see paragraphs 3.95 and 7.126).

3.82. A number of retail price points can be clearly identified by looking at a sample of RRPs for very similar SKUs, such as the 50ml EDT spray version, one for each brand. Figures 3.1 and 3.2 show the results of analysing a sample of 148 female reference brands and 78 male reference brands. The results of analysing the female brands are shown in Figure 3.1, where it can be seen that over a price range of £12.77 to £42.00 the two most prominent price points are £29.50 (ten brands) and £27.50 (nine brands), with significant price points also at £17.50, £22.50, £25.00, £31.00 and £36.00. The majority (70 per cent) of the basic 50ml EDT sprays (or nearest equivalent) in the female fragrance brands fall in the retail price range of £23 to £36, with 30 per cent being in the range £27 to £30. The average RRP of the 148 brands was £26.30.

3.83. Figure 3.2 shows the results of analysing the male fragrances. For male 50ml EDTs we found that RRPs ranged from £11.44 to £35.00, and by far the most frequently occurring price was £21 (ten brands). Other significant price points were £18.50, £20.00 and £23.00. Most (63 per cent) of the male 50ml EDTs were in the price range £19 to £25, and 49 per cent were priced in the range £19 to £23.

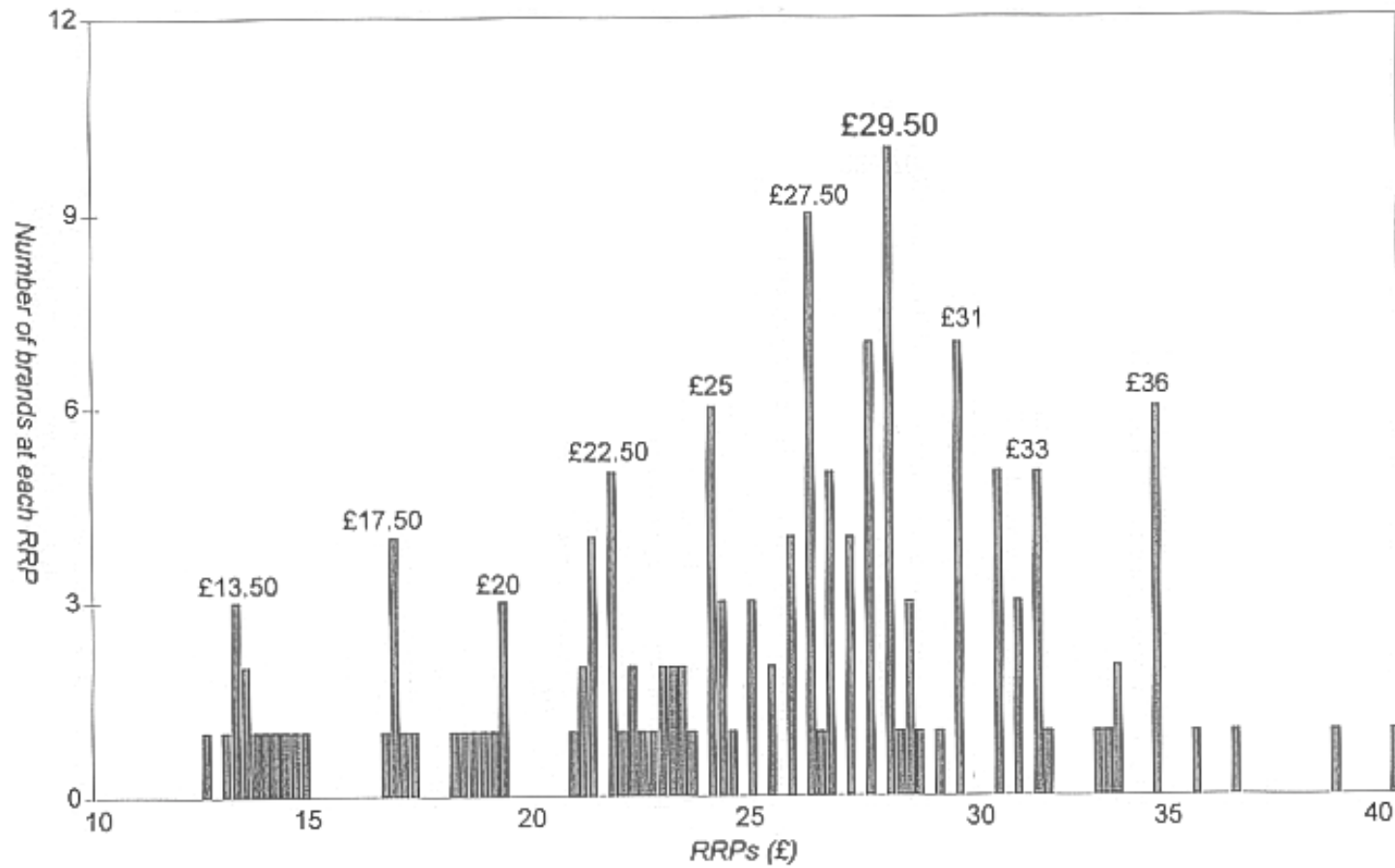
3.84. The average RRP of male fragrances is less than that for the female fragrances. For example, for the 78 male reference brands referred to above the average RRP was £20.69, or about 21 per cent less than the equivalent price for female fragrances (see also paragraph 3.31). The view of most suppliers seemed to be that differences in costs, when comparing male and female fragrance products, were not that significant (the cost differences being mostly because the notes (see paragraph 3.52) used in producing male fragrances (eg musk, citrus, chypre) are cheaper than the floral notes more usually used in producing female fragrances, and the simpler bottle designs used for male fragrances). More important were the relative newness of male fragrances, the relatively small market for them, and the reluctance of consumers to pay as much for a male fragrance as for a female one.

3.85. Paragraph 5.49 shows that on average authorized retailers normally achieve a gross margin of about 38 per cent on fine fragrances. As the description of RRPs in paragraph 3.92 shows, RRPs are set with a view to allowing what the industry has over the years come to recognize as an appropriate retail margin over the wholesale price. A supplier's wholesale selling price for a particular brand is thus largely determined by its decision about an appropriate RRP and retail margin for the brand.

3.86. Information we received from suppliers about price changes for their more popular brands during the period 1986 to 1992 showed that in general terms wholesale list prices had increased in line with, or slightly above, the rate of inflation up to the end of 1990. Since then prices have fallen a little in real terms. However, the pattern did vary, and it was clear that some suppliers took the opportunity, when issuing new price lists, to leave some of their prices unchanged and to change others in varying amounts. Where this was the case, the suppliers explained that the changes in the relative prices of their different brands were usually the result of either differential movements in costs or, more likely, a decision to change the market position of particular brands in response to, or in anticipation of, competition from other brands.

FIGURE 3.1

Range of RRP's for female fine fragrance brands: example of EDT 50ml sprays*

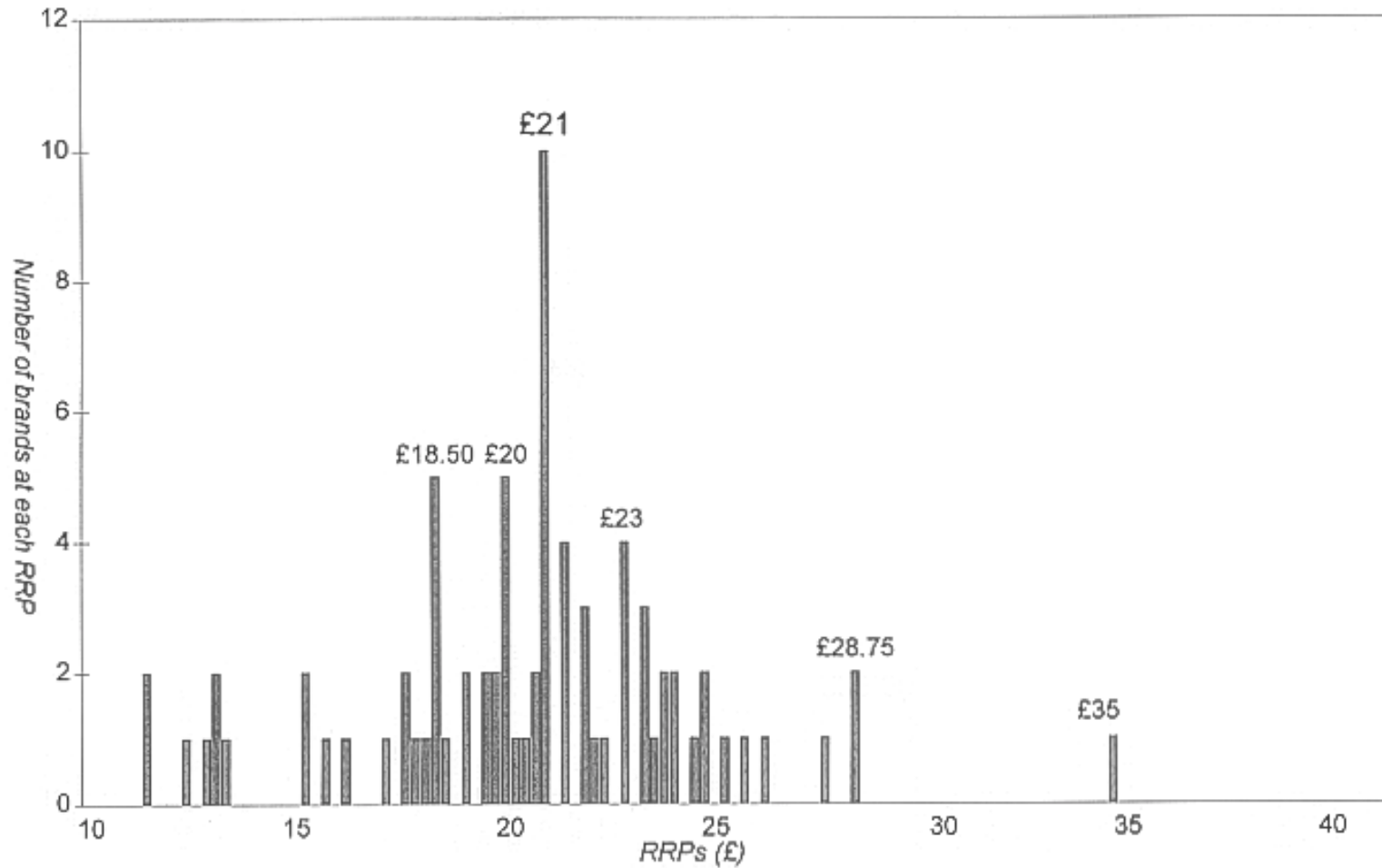


Source: MMC.

*For brands where 50ml sprays are not available in the EDT range, the RRP for the nearest equivalent EDT size or bottle type has been used.

FIGURE 3.2

Range of RRP's for male fine fragrance brands: example of EDT 50ml sprays*



Source: MMC.

*For brands where 50ml sprays are not available in the EDT range, the RRP for the nearest equivalent EDT size or bottle type has been used.

3.87. We enquired whether suppliers negotiated with retailers any discounts against their list prices. One difficulty is that the precise terms of supply normally take into account not only the actual net price to be paid by the retailer but also the volumes involved, the warehousing and distribution arrangements, merchandising and other point-of-sale arrangements, the terms for any joint promotions or advertising, terms under which beauty consultants are provided, the provisions for returns of unsold stock, and other cost-sharing arrangements between the retailer and the supplier (see paragraph 5.53). Hence, the size of any particular wholesale price discount negotiated with one retailer will not necessarily in itself be a reliable guide to whether that retailer's terms are better or worse than those of any another retailer. Indeed, as we saw in paragraph 3.59, a significant part of the suppliers' own promotional costs are in fact contributions towards meeting their retailers' costs. Suppliers' expenditure on beauty consultants and point-of-sale material, totalling £45 million (see paragraph 3.59), is equivalent to a retail gross margin contribution of about 16 per cent on authorized retail sales of reference and non-reference fine fragrance products by domestic retailers in the UK.

3.88. Against this background the suppliers have, for the most part, been able to resist demands from retailers for discounts off wholesale prices. In fact, some suppliers told us either that their list prices applied to all their customers and that no discounts had been negotiated (eg Klein), or that the discounts they had negotiated applied only in the case of supplies to Boots (eg [*Details omitted. See note on page iv.*

]), with some saying that this discount had only been in place (or had been increased) since early 1993 to reflect the suppliers' lower costs in delivering into Boots' newly-established central warehousing and delivery system. A few suppliers also reported having negotiated discounts with other large retailers besides Boots, such as Debenhams, HoF, and the John Lewis Partnership (John Lewis). Discounts to this small number of retailers were usually low, ie 5 per cent or less, but were higher (we saw figures of up to 9 per cent) for some brands.

3.89. We also enquired about fine fragrance prices in the UK compared with those in other countries, recognizing that international price comparisons always have to be interpreted carefully given the influence of variable exchange rates, differences in consumer tastes, different taxes applying to retail purchases, and so on. A number of suppliers quoted international price comparisons for particular fine fragrance SKUs. They made the point that major changes in exchange rates (such as when sterling left the European exchange rate mechanism in September 1992) could make a big difference to prices in the UK compared with those in other countries. A number of suppliers said that while their UK wholesale prices had been higher (in the case of one supplier, up to 25 per cent higher for some SKUs) than the average in European countries, price increase in the UK over the last two or three years had been negligible or small (see also paragraph 3.86). This had furthered their policies of harmonizing prices across the EC. It should be noted, too, that one of the EC Commission's aims, in approaching its Decisions in the YSL Parfums and Parfums Givenchy cases, was a desire for greater harmonization of prices between member states within the EC. It had therefore insisted that under these selective distribution agreements authorized retailers should be free to buy fine fragrances from, and sell them to, any authorized retailers throughout the EC.

3.90. Klein provided us with comparisons of current RRP's (ie those prevailing at various times between November 1992 and February 1993, excluding VAT and any sales taxes) in 13 different countries (including the USA and several EC and Scandinavian countries) for its Obsession and Eternity brands. This showed that while RRP's in the UK for the various SKUs were mostly 10 to 20 per cent higher than in the USA, they were roughly in line with those in several EC countries (including Germany and France) and up to 20 per cent lower than in Norway and Sweden. Comparisons of Dior's wholesale prices in five different countries for the years 1992 and 1993 showed that, again, prices in the USA were lower (by about 15 per cent in 1992 and by about 6 per cent in 1993) than in the UK, but that UK prices tended to be broadly similar to or lower than those in France and Italy, and 10 per cent or so lower than those in Germany. A comparison of Givenchy's prices in the UK and USA in 1992 and 1993 for the three best-selling SKUs for three of its brands showed that while its wholesale prices in the USA tended to be higher than in the UK for the two female brands, the reverse was true for its male brand. Retail prices for the three brands were lower in the USA in 1992, but in 1993 the position was reversed for the two female brands.

Recommended resale prices

3.91. Appendix 3.3 summarizes the main suppliers' responses to a question we put to them about why they notify RRP to retailers, and how important RRP is to their marketing strategies. By far the most commonly cited reason given for recommending resale prices was that retailers needed or wanted guidance on the appropriate retail prices for each of the many fine fragrance products they sold. Examples of how this was expressed by suppliers include:

- The retail trade expressed a need ... for ... guidance (P&C).
- Retailers generally welcomed RRP information (Lauder).
- [RRPs were] ... helpful and convenient [to retailers] ... [who] generally expected and welcomed [them] (Chanel).
- [RRPs] were requested by retailers, in particular small retailers who relied on RRP (Dior).
- Historically, it had been regarded as helpful to retailers to give RRP, but it was not essential to do so (Givenchy).
- The RRP was seen as of significant assistance to the retailer (Guerlain).
- RRP were notified to our customers at their demand (Creative Fragrances).
- [RRPs] encourage an orderly market [and] protect ... profitability from discount erosion (Giorgio).

3.92. Behind these comments, however, is the more fundamental question of why retailers should need, or be thought to need, RRP. Suppliers' comments on this mostly concern the size of retail margins:

- [RRPs indicate] the approximate price the retailer will need to charge to cover, with an appropriate margin, its various financial and other outlays required in selling [fine fragrances] (Lauder).
- [RRPs] provide retailers with a useful indication of the approximate level at which they can expect to resell a product whilst remaining competitive with competing brands and retailers (YSL).
- [RRPs allow the company] to set uniform wholesale prices as a percentage of the RRP (Klein).
- [RRPs give] a general indication of what may be a satisfactory retail margin (Chanel).
- [RRPs include] the generally accepted retailer margin for fine fragrances (Sanofi).
- [RRPs] reflect their [ie the retailers'] required margin over trade price (Revlon).
- [RRPs are] determined with a view not only to producing a reasonable margin to incentivize the retailer, but also to yielding reasonable wholesaler margins (Muelhens).

3.93. These general supplier sentiments suggest that in giving guidance to retailers on their retail selling prices, RRP in this industry have the effect of establishing the required or generally accepted gross retail margins for fine fragrances. The size of the retail margin allowed by any one supplier appears to be something of a compromise between providing a sufficiently high retail margin to encourage the use of fixtures and fittings of appropriate quality, sufficient sales staff and floor space, etc, and not having too high a retail price, which might place that supplier's brands in an uncompetitive market position.

3.94. Some suppliers provided other reasons for RRP. The most comprehensive explanation was given by Lauder. The first reason given by Lauder, being a variant on the 'retailers' requirements' theme, is that retailers benefit (in time-saving and expertise) from the suppliers' 'considerable time, energy, research and expertise in determining an RRP for a particular product'. Secondly, consumers benefit in that RRP enable clear price signals about the products to be advertised or displayed. Thirdly, suppliers can position their products in the market accurately. This brand positioning reason was also cited by several other suppliers, eg P&C, YSL, Klein, Chanel, Arden, Nina Ricci UK Ltd (Ricci) and P&G.

3.95. P&C was one of several companies that had noted that RRP's were also a bench-mark used by grey-market suppliers and unauthorized retailers when quoting discounted prices, and that sometimes the ostensibly RRP-based price comparisons were inaccurate or deliberately misleading. This was one of the main reasons why P&C decided to cease including RRP's in its price lists (see paragraph 7.126).

Retailers' observations on RRP's

3.96. We asked major retailers whether they always abided by RRP's, whether they matched local prices, whether they understood that their status as authorized distributors was not in any way affected by whether or not they abided by RRP's, and on what occasions they sold fine fragrances at other than RRP's. Their views, summarized below, are set out in Chapter 6.

3.97. Most of the leading retailers said that they always sold at RRP's (Selfridges Ltd (Selfridges), Harvey Nichols and Company Limited (Harvey Nichols), Connors Chemists Ltd (Connors) (in Northern Ireland), Forte Retail Services (Forte) retail outlets, and Harrods Limited (Harrods)) or usually did so ([^{*}], Debenhams and James Beattie PLC (Beattie)). A few said that they matched local price competition (HoF, John Lewis, Alders Department Stores Ltd (Alders) and Boots). Fenwick Limited (Fenwick) said that it had kept to RRP's 'until the discounting began'.

3.98. Nearly all the major retailers that we contacted said that they understood that their position as authorized retailers did not in any way depend on them selling fine fragrances at RRP's. One said that there was no requirement to sell at the RRP in any of the supply agreements it had seen, but suppliers did not approve if their fragrances were retailed at less than the suggested retail prices. Some retailers said that as a general policy the retail price for all products was the same in each of their stores, except where they had to meet local market competition (and, in Boots' case, in connection with planned promotional activity). In fact most of the major retailers, with the exceptions of Harvey Nichols, Connors, HoF (though it would match in certain circumstances), Forte, Harrods and Alders International Limited (Alders International), said that they would match local price competition but would not initiate it. Debenhams said that its policy was to refund price differences in individual cases but not to lower its prices. This, by implication, was also Selfridges' policy.

3.99. We asked Boots about its nation-wide price promotion for fine fragrances in the last few weeks up to Christmas 1992. It said that it had initiated this promotion because general trading conditions for fragrances had been very difficult and it wanted to increase significantly the level of promotional activity during the crucial gift-selling period of the year. Boots said that it decided on the 29 products to be included and the size (25 per cent) of the price reduction. It then informed the relevant suppliers of the timing and size of the price reduction in order to secure additional stock (see also paragraph 6.6).

3.100. The retailers which said that they had responded to Boots' pre-Christmas price promotion with their own price cuts were Alders, John Lewis, Fenwick and Beattie. Selfridges said that its response had been to offer value-added promotions in conjunction with its suppliers. It had also offered free holidays with purchases of £75 or more from its fragrances, cosmetics and skincare products ranges. Debenhams said that it did not offer substantial discounts in this pre-Christmas period, but it had responded by fully supporting its suppliers' promotional initiatives, by mounting special in-house added-value activities (eg special gift wrapping, free 'make-ups', a special Christmas cosmetics brochure), and by 'purchasing price competitive products from suppliers, eg Nina Ricci: 50 ml spray EDT at £19.75'.

*Details omitted. See note on page iv.

Duty-free sales of fine fragrances

3.101. The term 'duty-free' relates to products which, because they can only be bought by travelling consumers who are either leaving or have already left the country, are exempt from excise duty and VAT or from VAT only. A number of fragrance products include alcohol, but because it is denatured alcohol (ie alcohol that has been rendered non-potable by the inclusion of approved denaturants and trace elements) these products are exempt from excise duty. Since fine fragrances are exempt from excise duty in the domestic market, for all practical purposes so-called duty-free sales of these products in the UK are in fact simply VAT-free.

3.102. Duty-free retail sales take place in three distinct sectors:

- (a) *airport duty-free shops*;
- (b) *airline outlets*, ie sales on board aircraft on international scheduled and chartered flights; and
- (c) *shipping outlets*, being mainly sales on board cruise-liners, cross-Channel ferries, other international ferries, and sea and ferry terminal shops.

Paragraph 3.36 gives the shares of total duty-free sales going through these three categories of outlet.

3.103. International travel by both sea and air has grown significantly over the years. Much of the increase has been in holiday visits or other recreational activities. This has increased considerably the opportunities for duty-free buying. We noted that market research by BAA plc (BAA) has shown that about 40 per cent of those buying fragrances in duty-free outlets at BAA airports are residents of countries other than the UK. These customers would have little incentive to purchase in the UK high street knowing that duty-free purchases, though in limited quantities, would be possible on their way back to their home countries-though such purchases may be instead of high street purchases in their home countries.

3.104. As has already been seen (in paragraph 3.35), duty-free sales of fine fragrances in the UK are equivalent to almost 35 per cent of the UK domestic market for reference products (excluding grey-market supplies) when measured by manufacturers' selling prices, and about two-thirds when measured by volume. In other words, they may account for approaching 40 per cent by volume of the fragrance houses' total supplies to the UK of fine fragrance products. Duty-free sales are a substantial proportion of the total in some other European countries, eg in the Netherlands and in Switzerland, but are very much less significant, in relation to the local domestic market, in countries such as France, Italy and Germany. This relative significance depends, among other things, on whether there is an important international airport in the country (eg London's Heathrow), on how aggressively airports utilize floor space for generating extra income, and whether the country is primarily a destination for tourists or a country of origin.

3.105. Fine fragrances represent a substantial proportion of all duty-free sales (for example, being about one-fifth in the case of duty-free sales at BAA's airports in the UK). We were told that while some duty-free sales of fine fragrances, for both gifts and personal consumption, were in substitution for domestic high street sales in the UK, the majority (particularly of those sold at duty-free outlets at BAA's London airports) were incremental sales (ie were bought, because of the price saving, as part of the 'travel experience' and in addition to what was purchased in the high street).

3.106. Moreover, the suppliers see duty-free sales as reinforcing the image of their brands in the eyes of consumers because of what they may see as the importance, glamour and excitement of the occasion and surroundings. Supplier-employed consultants are usually to be found at airport duty-free shops (see also paragraph 4.34). Most of these consultants are visited regularly, perhaps once a fortnight, by head office training supervisors, and they also receive classroom training during the year. Sales staff directly employed by the ships and airport shop operators and airline cabin crew also receive training.

Duty-free prices

3.107. In the case of airport duty-free shops, some 75 per cent of these sales in the UK are in the BAA airports at Heathrow, Gatwick, Stansted, Glasgow, Edinburgh and Aberdeen. The concessionaires at these airports are contractually required by BAA to set their retail prices so as to offer consumers minimum savings against domestic RRP's amounting to 21 per cent in the case of fragrances (ie alcohol-based liquids) and 15 per cent in the case of toiletries, bath products and cosmetics. The saving of 21 per cent in the case of fragrance products compares favourably with the saving of 15 per cent (or, more accurately, 14.89 per cent when compared with the VAT-inclusive retail price) which would apply if only the VAT was deducted. At other UK airports, the most important being Manchester and Birmingham, the consumer saving on fragrance RRP's is usually 20 per cent, though at both Manchester and Glasgow Airports the saving at the time of our inquiry was 30 per cent. In the ships and airline sectors, the consumer saving from the domestic RRP is at the discretion of the individual operator, and in practice there can be considerable variations in the duty-free retail price both between different brands and between different operators.

3.108. A comparison of prices showed that wholesale prices charged to the duty-free retailers at the London airports are roughly half (mostly between about 43 and 53 per cent) of the equivalent wholesale price to domestic retailers (see Table 3.16).

TABLE 3.16 Wholesale prices to domestic and duty-free retailers at the London airports

Wholesale prices as at 31 December 1992

<i>Brand*</i>	<i>To domestic retailers £</i>	<i>To duty-free retailers £</i>	<i>Duty-free price as a percentage of domestic price %</i>
Chanel N° 5†	[
Dune‡			
Narcisse‡			
Anaïs Anaïs			
Paris			
Giorgio (for women)†			
Red (for men)†			
Eternity for Men (100ml)			
Eternity for Women (splash)‡			
Loulou			
Amarige]

Figures omitted. See note on page iv.

Source: MMC.

*The prices quoted all relate to EDT 50ml sprays unless otherwise shown.

†As at 1 January 1993.

‡As at 1 February 1993.

Note: The brands shown in this table are a selection of the best-selling brands in the UK. We found similar relative prices in many other brands. The domestic prices shown in the table are standard list prices (before any discounts), and the duty-free prices refer mostly to sales to duty-free retailers at the London airports, though in some cases the same prices may be charged to other duty-free retailers as well.

3.109. We did note, however, that wholesale prices to other duty-free outlets, for example on board ships and aircraft, were sometimes higher than those to retailers based at airports. Airlines tended to pay the highest duty-free wholesale prices for the very limited range of duty-free products they are able to sell on board aircraft (the wholesale price to airlines being of the order of 75 per cent of the domestic wholesale price), with prices for duty-free sales on ships being of the order of 60 per cent of the domestic price. This reflects the fact that sales to aircraft and ships often pass via an independent wholesaler which also requires a margin on its throughput-see also paragraph 3.110. By way of example, we asked [\$] why the price (£[\$]) its [\$] parent company, [\$], charged [\$] for [\$] EDT 50ml was so much less than its own price of £[\$] for domestic supplies. [\$] told us that the duty-free price to this particular retailer for sales at London (Heathrow) Airport was exceptionally low compared with the prices [\$] charged to other duty-free outlets for

§Details omitted. See note on page iv.

this SKU (for example, prices to two other duty-free retailers were £[*] and £[*] respectively). Making allowance for these duty-free sales through airline and shipping outlets at higher wholesale prices (see also paragraph 3.35) decreases the ranges of average 'discounts' on duty-free wholesale prices compared with domestic wholesale prices from 43-53 per cent to 54-60 per cent (depending on the supplier).

3.110. Suppliers told us that wholesale selling prices to authorized duty-free outlets took into account the sector of the market concerned and the position of the operator within that sector. Financial operating conditions differed between the three sectors (see paragraph 3.102), and while in airport shops and concession-operated shops on ships the concessionaire remitted a percentage of its turnover to the airport or ship owner by way of rent, ship and airline operators managing their own duty-free shops did not have comparable commitments and were usually charged higher wholesale prices.

Domestic and duty-free prices and cost allocations

3.111. We asked a number of suppliers for more information about the different prices charged for supplies to the UK domestic and duty-free markets respectively. Of these distributors, only Chanel and Giorgio directly supplied the UK duty-free operators themselves. In all other cases, supplies were made by an overseas connected company.

3.112. The general explanations of these differences given by the distributors which responded were the competitive nature of the duty-free market and the lower costs involved in servicing that market. Costs were lower, for example, in the case of specialist sales staff (consultants), sales promotions (eg GWP/PWP), point-of-sale material and media advertising. The position was also affected by the way in which indirect costs were allocated. Thus, the costs of media advertising for brands were generally allocated wholly to domestic sales, and only advertising specifically aimed at travellers (eg advertising in in-flight magazines) was allocated to duty-free sales. There were also substantial administrative economies of scale because of the large deliveries and faster turnover involved. On the demand side, the owners of duty-free sites were in a strong bargaining position at any given site. Some duty-free retailers, notably at airports, had to make substantial turnover-related payments (the size of which was normally determined by a process of competitive tendering) to the site owners, and needed high gross margins to cover these charges.

Chanel

3.113. In response to a request from us, Chanel prepared schedules, based on its profitability statements for the years 1988 to 1992 (see paragraph 5.11), which showed two methods of calculating the contributions to profit made by its domestic and duty-free supplies. Under both methods selling expenses were allocated on a specific basis, as separate personnel were engaged on selling to retailers in the domestic and duty-free markets. Training expenses were allocated in the ratio 772:58 to domestic and duty-free respectively, reflecting the numbers of 'doors' in the two markets. General overheads were not allocated, but Chanel told us that a higher proportion of these costs would have been attributable to domestic sales if an allocation had been made, because of the relatively higher average value of orders (which were therefore less costly to process) and the higher value of sales per employee on duty-free business.

3.114. The difference between the two methods lay in the allocation of the costs of media advertising, sales promotion and sales consultants:

- *Method A*: costs were allocated on the basis used in Chanel's accounts: all advertising, except that specifically targeted at duty-free customers, eg in-flight magazine advertising, was allocated to domestic sales because, Chanel told us, most sales in the duty-free market were made to overseas residents returning to their own countries. Promotion and consultants' costs were allocated on a specific basis.
- *Method B*: costs of media advertising, promotion and consultants were apportioned pro rata to sales values.

*Figures omitted. See note on page iv.

Chanel at first told us, in a letter dated 2 July 1993, that it did not regard Method B as having any greater validity than Method A. It subsequently amended this and stated that it considered Method B had no validity.

3.115. We noted that as Chanel's duty-free prices were lower than its domestic prices, a smaller proportion of its advertising, promotion and consultants costs was allocated to its duty-free business under Method B than would have been the case if the allocation had been made on a sales volume basis. We therefore allocated these costs on a volume basis, calling this Method C, having estimated sales volumes for this purpose on the assumption (based on an estimate provided by Chanel) that its average wholesale price to duty-free outlets was 60 per cent of the average wholesale price charged to domestic retailers.

3.116. The percentage contributions made by domestic and duty-free business respectively under Methods A, B and C are shown in Table 3.17. All show a positive contribution to profits from Chanel's duty-free sales. As would be expected, however, the contributions by the duty-free business are highest, and the contributions by the domestic business lowest, under Method A, whereas under Method C the converse applies. The contributions shown in Table 3.17 are, moreover, before general overhead expenses. In 1992, when the duty-free contribution under Method C was [†] per cent, these overhead expenses represented [†] per cent of sales. If they had been allocated pro rata to sales volumes, the net profit margin on Chanel's duty-free business under Method C, on a full cost basis, would therefore have been [†] per cent. As noted in paragraph 3.113, however, Chanel believed that a higher proportion of overhead costs would be attributable to domestic than to duty-free supplies.

TABLE 3.17 Chanel: contributions made by domestic and duty-free supplies

Method	1988			1989			1990			1991			1992		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
Domestic	[
Duty-free															
Total*															

Figures omitted. See note on page iv.

Source: MMC using Chanel data.

*Contributions by domestic and duty-free sales combined.

Giorgio

3.117. Giorgio provided us with the estimated percentage cost and profit breakdowns of its 1993 planned sales to domestic and duty-free outlets reproduced in Table 3.18. In explanation of the difference between the two sets of figures, Giorgio referred generally to the higher costs involved in servicing the domestic market, such as visual display materials, window displays, promotional programmes, sampling and testers. It did, however, add that the duty-free business could not stand on its own without a strong presence in the domestic market: the two were inextricably linked.

TABLE 3.18 Giorgio: profit and loss breakdowns* of planned 1993 domestic and duty-free sales

	per cent	
	Domestic	Duty-free
Cost of goods	[
Advertising and sales promotion		
Overheads		†
Operating profit		

Source: MMC using Giorgio data.

*Estimates.

† Figures omitted. See note on page iv.

Givenchy

3.118. Givenchy explained the difference between domestic and duty-free prices by reference to the commissions of between 20 and 45 per cent of turnover payable to airport operators, the economies of scale resulting from the larger volumes ordered by duty-free outlets, and the lower cost of point-of-sale material relative to turnover at those outlets.

Lauder

3.119. Lauder provided the profit and loss breakdowns of its 1992 supplies (including cosmetics and other non-reference products) to domestic and duty-free outlets (see Table 3.19). Domestic supplies were made by Lauder itself and duty-free supplies were made by a connected company based in Switzerland. Lauder told us that duty-free supplies were made at wholesale prices that varied widely, quoting a range of between 50 and 80 per cent of domestic wholesale prices.

3.120. In the case of airport duty-free outlets, Lauder said that high concession fees were payable to the airport operators (in some cases 60 per cent or more of turnover). Costs generally were also lower. In the case of advertising, marketing and promotion, costs representing [*] per cent of revenue incurred on domestic supplies could be broken down into promotions ([*] per cent), media advertising ([*] per cent) and marketing ([*] per cent). All domestic media advertising incurred by Lauder was allocated to domestic sales. Advertising supporting duty-free sales to the travelling public, who were not necessarily UK residents, was undertaken by the Swiss company (eg in in-flight catalogues). In Lauder's view, given the international nature of the business, this was the only appropriate method of allocation. Lauder also said that sales promotion costs, such as GWP/PWP, mail shots, sampling and in-store point-of-sale material, were incurred specifically in relation to domestic outlets and were therefore wholly attributable to domestic business. Some 2,000 consultants were employed on domestic business compared with only 30 on duty-free business.

TABLE 3.19 Lauder: profit and loss breakdown of all 1992 domestic and duty-free sales

	<i>Domestic</i>		<i>Duty-free</i>	
	<i>£m</i>	<i>%</i>	<i>£m</i>	<i>%</i>
Sales	[
Cost of goods				
Advertising, marketing and promotion			*	
Consultants				
Shipping and warehousing				
Management, finance and other costs				
Operating profit/(loss)]

Source: MMC using Lauder data.

*Figures omitted. See note on page iv.