

Firmenich in India

Changing the Rules of Engagement with Low Income Consumers ⁱ

Abstract:

The study describes Firmenich's efforts to co-create value with its clients to design affordable hygiene and nutrition products, meeting the olfactive and taste preferences of low income consumers. Firmenich, the largest privately owned company in the flavor and fragrance industry, founded and headquartered in Geneva in 1895, has created many of the world's best-known perfumes and flavors. Through a holistic consumer insight initiative, utilizing innovative methodologies and surveys, a cross-functional Firmenich team was able to develop and implement new ways of engagement at the low income market segment. In partnership with the Naandi Foundation, the fastest growing social enterprise in India, the team trained and coached young adults from local low income families as interviewers. Being part of the targeted communities helped the interviewers conduct non-intrusive dialogues with the consumers. As a result, Firmenich developed a better understanding of low income consumers' lifestyles, cultures, household dynamics and relationships, patterns of behavior, and preferences. Getting deeper consumer insight is critical in creating affordable and impactful perfumes for products that lead to healthier and happier lives and higher self-esteem of low income consumers. The next challenge for the Firmenich team is how to best identify, systematize, and evaluate the new business opportunities generated by its holistic consumer insight initiative and how to best capture the new insights in order to bring new strategies to internal and external clients. This is in line with Firmenich's vision to remain an industry leader in sustainability and to co-create value with its clients.



"Our Fundamentals: Clients, People, Sustainability, Creativity, and Independence guide our every action, enabling us to remain true to ourselves and make a difference in an ever-changing world".

-Patrick Firmenich, CEO

ⁱ Dr. Djordjija Petkoski prepared this study with the assistance of Dr. Jerome Jallat and Dr. Béangère Magarinos-Ruchat. The study, based on interviews with Firmenich's Shared Senses team, was developed solely as base for class discussion and is not intended to serve as an endorsement of specific management approach.

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The meeting is just about to start. It has been over two years since the idea for more innovative engagement with low income segments of society was launched, and since two small scale pilots and one project on this theme were completed. It is now time to reflect on what actually happened.

The Project Team wants to capture the main insights and discuss the challenges and opportunities of moving forward. Were all these efforts worth it? Are they going to make a difference in Firmenich's strategic positioning as a sustainability and industry leader? Will clients appreciate and join these efforts of value co-creation with low income consumers?

Background

Due to fundamental changes in the global business ecosystem, multinational companies (MNCs) have been under increased pressure to deal with low income people², particularly in emerging and developing economies. MNCs have been facing difficulties identifying and engaging with low income consumers, developing new innovative business and partnership models, and making necessary changes in their mindsets, cultures, organizational structures, and skill sets in order to deal with these new challenges and opportunities. Local brands that want to expand to the low income segment have been facing similar challenges. Business to Business (B2B) companies have been pressured into establishing new relationships with their clients, focused on creating innovative opportunities for co-creating value and risk management in low income segments.

Firmenich's management knows very well that most of their leading and strategic clients are committed to integrating sustainability into key aspects of their business and expanding their operations in emerging and developing economies, even while the global economy has continued to face unprecedented challenges. As a B2B company, Firmenich is committed to helping its clients make affordable, good tasting and smelling health products (hygiene and nutrition) for low income consumers. This is also in line with Firmenich's vision to remain an industry leader in sustainability. As one Firmenich senior executive explained:

"Our vision is to remain an industry leader in sustainability, creating and capturing value with our clients and their consumers worldwide. We are committed to remaining a leader in solving global challenges, such as climate change, inequality in access to health and education services, and inclusive economic growth".

Firmenich's Response

Firmenich's response to the fundamental changes in the global business ecosystem is guided by its innovative approach to sustainability, balanced focus on long term success, and the concept of developing value co-creation opportunities with its clients. The global economic trends and increased purchasing power of low income consumers is clear indications of the importance of the low income segment market for Firmenich's clients. Firmenich is fully aware that it needs to support its clients in their engagement in this segment, by gaining a deeper understanding of hygiene, homecare and body care habits, as well as beauty and nutrition practices. Firmenich wants to share with its clients a deeper understanding of low income communities' olfactive and taste preferences. Most consumer research has been delivering flat results, most likely due to the intrusive approach of traditional consumer insight methodologies. Firmenich wants to overcome that challenge by adapting its tools to the reality of low income consumers.

Responsibility for the Project: One Firmenich

With its holistic, creative, and innovative approach to sustainability that cuts across various Firmenich divisions, the low income segment initiative was launched under a sustainability framework called 3G (Green, Governance, and Growth) and more specifically its “Growth” pillar, which is dedicated to inclusive business and smart growth. The decision to proceed under the 3G framework was based on the desire to make it easier for other departments to join the effort, while creating a sense of empowerment and ownership across the organization.

Firmenich knew that long term success and creating unique value for its clients needed to be based on (1) developing in-house expertise and (2) making that expertise an integral part of its core competences. This unique approach required a strong project team, involving experts from across the company, including the Sustainability department and the Perfumery and Flavor divisions, both from Geneva and India. The Team consisted of Firmenich managers with unique backgrounds, including global experiences of living and working in various countries (See Appendix II).

Project Design

Firmenich knew very well that, as with many other new, complex challenges and opportunities, there was no predetermined path to develop innovative projects for low income consumers. The Team was well aware of various frameworks, such as Strategic Philanthropy, Corporate Social Responsibility, Creating Shared Value, and Base of the Pyramid (BoP) that were designed to address these issues. The Team knew that all of these approaches provided potentially valuable insights, but that they are not playbooks or frameworks that could be followed closely or replicated mechanically. Firmenich decided to address these new challenges and opportunities in an innovative, creative, and sustainable way, starting with two small scale pilots and then a full scale project that would test and generate new ideas during the implementation. As a result, the Team met a few times in India and conducted learning and design workshops, including field visits, to capture a deep understanding of the targeted communities through immersion.

The main challenge for Firmenich was how to co-create value with its clients and contribute to their sustainability strategies. The clients know their own brands well and already had significant knowledge about local markets. Firmenich’s input was just one element of a much more complex mix. Nevertheless, Firmenich contribution could be key, since olfactive and taste preferences are very important for its clients’ consumers as they are a key driver for purchasing decisions. For example, the emotional aspect of perfume leading to self-esteem and happiness plays a major role in purchasing decisions, and consumer preferences more generally. However, sustainable value co-creating requires a holistic approach, looking at the whole product concept including packaging and distribution systems that are not in Firmenich’s normal scope.

The goals of the pilots and the project were to better understand the preferences and aspirations of low income consumers earning between \$3 and \$10 per day and to co-create products with smell and taste that fulfilled these customers’ needs. This was a unique opportunity to demonstrate Firmenich’s ability to innovate, deliver insightful market intelligence, and bring new solutions to its clients. This was also an opportunity for Firmenich to revisit and strengthen its core competences by better understanding the critical product features that Firmenich clients can’t properly integrate, on their own, into their product, marketing, and sale strategies, when engaging with low income consumers.

The Project

The pilots and the project built on the fact that Firmenich's passion for smell and taste and a long term commitment to its clients is at the heart of the company's success. The commitment ranges from purchasing sustainable raw materials, to working with clients to understand consumer preferences, and to delivering the great products consumers desire. The Team decided to approach the value co-creation opportunities from two angles³: product development and holistic consumer insights.

The Team focused on identifying affordable hygiene products that make a big difference, smell good, ensure consumer usage, and create moments of happiness in the daily lives of millions of low income people around the world⁴. Fragrance can play a key role in improving lives and creating moments of happiness across different income segments. Good odors (perfumes) serve as indicators of quality of life, linked to cleanliness and good health. Conversely, malodors convey unhealthy living conditions⁵. Firmenich strongly believes that all people, independently of their income, deserve access to good health and opportunities through hygiene. Making this happen is also in line with Firmenich's need to rethink the importance of perfume at the low income segment.

Presented with various categories, including home care goods, hair products, soaps, detergents, and oral care products, the Team decided to start with one category at the time. They selected low cost soap since it was the most penetrating category with the widest consumer reach and high impact⁶. Furthermore, Firmenich is a leader in designing fragrances that are used in health soap⁷. Its expertise in this area is based on knowing what varying populations consider to be unwanted odors. After conducting the two small scale pilots, the Team decided to implement the full scale project utilizing a holistic consumer insight approach. For the main features of this approach see Appendix III.

Clients

Firmenich's engagement with low income consumers is based on its superior and creative knowledge of fragrance and flavor, and on its practice of carefully listening to clients and then transforming their ideas and ambitions into reality. This is complemented by Firmenich's ability to anticipate consumer desires and constantly reinvent the world of smell and taste. The final objective is to deliver the winning combination of products, service, and value for money, placing authority and accountability close to its clients.

Creativity and Innovation

Firmenich's engagement with low income consumers is also driven by constant focus on, and inspiration from, creativity. The search is for fragrances and flavors that inspire Firmenich's clients and satisfy low income consumers' needs, thus supporting Firmenich's efforts to stay an industry leader in research and innovation. As this engagement was opening an entire new world for value co-creation and a possibility to impact the lives of millions of people in profound ways, innovation was approached in the broadest possible sense. Innovation is about applying research to expand scientific discovery, pushing technological boundaries, and designing and delivering new business and partnership models to create additional value for low income consumers and communities⁸.

The Actual implementation: “Shared Senses and Sensibilities”

In 2012, Firmenich conducted two successful small scale pilots and then launched a full scale project on low cost soaps: a unique consumer insight initiative focused on four regions in India. The Project was called “Shared Senses and Sensibilities”.

Innovative Partnership with Naandi

The Project in India was very complex and required in-depth local expertise. Firmenich had the option to work with a market research agency. However, the objective was to run a different type of consumer survey, to reach out to low income consumers and understand their likes, dislikes, preferences, usage of home and personal care products, and attitudes. This would allow Firmenich and its clients to co-create new products that are better designed for low income consumers. A decision was made to establish a partnership with a local NGO⁹, the Naandi Foundation, which was the fastest growing and likely the largest social enterprise in India conducting large-scale sustainable programs¹⁰. Naandi was well positioned to provide more informed access to, and direct personal relationships with, low income consumers. The partnership further strengthened the diversity and reach of the Team. It brought together the knowledge of Firmenich’s consumer insight experts and Naandi’s social survey experts. The emphasis was on leveraging capabilities and building a shared commitment from business partners¹¹. The unique combination of Naandi’s and Firmenich’s capabilities and resources allowed the Team to implement the holistic consumer insight initiative.

Working with Naandi professionals, the Firmenich Team trained and coached young adults from local low income families¹². Firmenich benefited from Naandi’s engagement in social issues, which included formal training for vocational education through a series of three month courses¹³. Most of the Naandi trainees, were unemployed, and had never done interviews before. Within the holistic consumer insight initiative, Firmenich and Naandi Team worked together on the questionnaire with the trainees to make sure that the interviews did not contain too much technical jargon and would be better understood by the local population. They also worked together on the local translations and pilot interviews as well as evaluating the hypothesis on the ground and making sure that the “excellence on the paper” adequately captured the context within which the interviews were conducted.

Field Visits and Interviews at the Low Income Segment

The complexity and lack of experience with low income consumers did not allow Firmenich to rely on traditional market research and marketing methods because neither was properly calibrated to the unique features and characteristics of the low income segment. The partnership with Naandi was of critical importance in proactively addressing potential challenges and limitations of traditional approaches, which included:

- Intrusiveness
- Language (hundreds of dialects in India)
- Disconnect from low income realities
- Interviewers bias, and
- Limitations on identifying actual consumer needs

The social and educational background of the interviewers was also very important. As the interviewers came from the low-income communities that were the subject of the

interviews, there were no cultural barriers that could increase the risk of misunderstanding and misinterpretation. Furthermore, Naandi implemented a quality control approach, which included safeguards like re-interviewing the interviewers, to ensure that the interviewers properly captured the views and emotions of the interviewed. The quality control approach also included revision of the original questionnaire, to simplify it and make it more meaningful from the perspective of low income consumers¹⁴. The objective was to go beyond “theoretical anthropology” and capture those elements that were critical for Firmenich to develop new products.

The interviewers’ background enabled them to have conversations about the products and how the interviewees used them, but also conversation about the interviewees’ lives and attitudes in general. In addition, respondents were comfortable with the interviewers and felt that they could empathize with their lives and stories. For images from the interviews see Exhibits 1-3. Through ongoing interactions in eight locations, the interviewers met four to five times with the same consumers in order to capture the intangibles that could not be obtained through formal interviews. Oftentimes, the respondents shared a lot of insightful information in the context to their lifestyles, habits, and attitudes which was beyond the questionnaire outline but yet insightful. This helped the interviewers get a deeper understanding of the respondents’ lifestyles, culture, in-house dynamics and relationships, patterns of behavior, and preferences. Furthermore, by interviewing the respondents at the end of the Project, the Team was able to extract additional qualitative insights. In total, more than five hundred interviews were conducted. In addition to the interviews, Firmenich created an innovative approach to analyzing and using the data, which led to unique insights not yet captured by Firmenich clients. For a sample of these insights see Exhibits 4-6.

As the interviews centered on low cost health soap, many of those interviewed had the opportunity to use the sample soap. The reaction was very positive. Some of the interviewees liked the soap samples so much that they asked to keep them¹⁵.

Impact

Internal Impact

The Project has the potential for broad internal impact. For several Team members from Geneva, this Project was the first opportunity for substantial engagement with low income consumers, which in this case had the potential to provide a unique perspective on human behavior. Similarly, the Project provided a transformational experience to the local team members, who initially resisted the idea of partnering with Naandi. The local team members ultimately realized the full benefit of working with a local NGO and the impact the NGO had in local communities. The Project had been a big motivational driver for the Team as a whole, as the team members had the freedom to explore, learn, innovate, and make a social difference. The Project not only helped the Team broaden its understanding of the new challenges and opportunities at the low income segment, but also created an opportunity for the team members to emerge as change makers. The Project could be seen as an additional step in expending Firmenich’s values and culture to better accommodate new opportunities and support longevity.

Impact on Firmenich's Clients

Firmenich has a strong focus on (1) addressing the needs of its clients through innovation, learning, and thinking outside the box; and (2) identifying new value creation opportunities and managing initial project risk with its clients. Firmenich has identified a unique need for low income consumer insights for its clients. Its clients have significant experience with their traditional consumers from the middle and the top of the income pyramid to (1) select and incorporate the features of Firmenich's ingredients into their value chain and (2) develop and market their products. They lack similar insight at the low income segment, and have traditionally been operating in that segment on the basis of a vague understanding that Firmenich's perfumes are important for the buying decisions of low income people, without the ability to quantify or measure the importance of the perfumes in buying decisions. As a result, a critical aspect of the Project was gaining additional insights about the needs and preferences of low income consumers. Through the Project, Firmenich has created a unique opportunity to communicate to its clients that it is now even better equipped to help them address consumer preferences and reduce risk at the low income segment.

New Job Opportunities for the Interviewers

As a socially responsible company, Firmenich has looked at the Project as an opportunity to create a positive social impact, beyond the development and introduction of new products for the low income segment. One opportunity to create a positive social impact was the effect of the Project on the local interviewers. With Firmenich's help, the interviewers received their first work experience. For them, this was the first step in their professional lives and an opportunity to earn an income. Being a B2B company, Firmenich has limited job creation opportunities for low income people that can be supported by its core business. However, by training the interviewers and giving them an opportunity to gain practical experience, Firmenich helped them find new jobs with other companies, after completing the work on the project. Therefore, Firmenich's innovative approach to collecting and analyzing consumer insights has allowed the company to identify unique business opportunities while making a positive social impact by providing employment to young adults in need.

Finally, the Project was not just about conducting interviews and providing an important addition to students' traditional education¹⁶. The engagement with Firmenich also enabled the interviewers to acquire additional, unique skills. For example, they gained a lot of confidence in approaching strangers without hesitation. They also became more aware of the value they can create with a superior understanding of the local context. Through the empowerment and the boost in personal confidence they were better positioned to see themselves as leaders - a new force for change and greater local impact.

Impact on Naandi

To maximize the positive impact on and benefits from Naandi, Firmenich structured an innovative partnership, based on business principles and on leveraging capabilities and unique core competences. Firmenich was not looking for an arms-length relationship, or to help through donations. Instead, it was looking to strengthen Naandi's capacity, helping the NGO gain additional internal expertise and expand its existing services, thereby becoming more sustainable and less dependent on donations.

Impact on Local Communities

Finally, the creative and innovative engagement with low income people has had an important impact on the local communities. These are communities whose members, particularly female members, are not accustomed to being engaged by outsiders, much less outsiders who sought and apparently valued their opinion. As one interviewee said, “Finally, My say Matters, I too can speak my mind!!” While the impact has been surely localized, the Project seemed to empower local communities, and may well serve as an example for future activities. Naandi has reported further feedback from the local communities, about the impact of the Project and related community dynamics, as follows¹⁷:

In India, being still a largely patriarch society, the ladies or housewives, usually do not have a big say in matters outside of their household. This throws up its own set of benefits as well as challenge to the interviews. While the housewives (who are our respondents) were happy and elated with all the newfound importance, at times, the husband or in-laws would not be happy about this situation. They probably felt that their women are getting brainwashed by all this.

BoP communities usually reside in small, intensely clustered localities. The sense of neighborhood is very strong and everyone knows what is happening in the other person’s house! Our Consumer program in this community led to a sense of positive envy among the neighborhood. Incidents of the neighboring families coming and asking our interviewers a series of “Why’s” was very common. “Why am I not getting the test product?”, “Why are you conducting this test?”, “When will my household be selected for this program?” etc. The selected respondent obviously would be brimming with pride and sense of satisfaction.

Moving Forward: Next Steps

One of the key challenges for the Team has been how to best identify, systematize, and evaluate the new business opportunities generated by the two pilots and the soap project, while simultaneously evaluating the quality and the relevance of the new insights. Another challenge has been how to best capture the uniqueness of the approach and package the marketing presentation of the results in order to bring “new stories” to internal and external clients. The Team needed “clients friendly,” but sought to avoid making “just another traditional power point presentation.” Thinking about the next steps, the Team decided to focus on two complementary perspectives, one internal and one external to Firmenich.

Internal to Firmenich

The Team’s primary in-house challenge has been how to ensure that the other Firmenich departments would fully benefit from the findings of the Project. As an initial step they need to develop an in-house communication and brainstorming strategy.

Several issues deserve special attention.

- Help Firmenich management (1) understand the potential importance of low income consumers and (2) take the initial risk in less traditional market segments. This can be an additional trigger to further strengthen the Firmenich value system and culture of continuing change, learning, and innovation¹⁸.
- Scale up the Project in other countries like Brazil, Nigeria, and South Africa.
- Scale up the Project with respect to other products – beyond soap – such as taste related ingredients for soft drinks and food.

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To deal with these issues, the Team plans to engage with management in order to address the following questions:

- Is Firmenich well positioned to take advantage of the new global opportunities from: the G-20; the Post 2015 MDGs agenda; the World Bank and other multilateral development organizations, etc.?
- Should engagement with low income consumers be done with individual clients or with multiple clients?
- How important is collective action, based on procompetitive engagement, to improve the efficiency and effectiveness of market forces at low income segments¹⁹?
- How can Firmenich best engage in capacity and skill development for implementation, both internally and externally?
- How can Firmenich best engage in shaping its internal culture to accommodate the new challenges and opportunities that stem from engagement at low income segments?

External to Firmenich - Key Clients

One of the key goals of the Project has been to share the resulting insights with clients. Given the strategic importance of the low income consumer segment, the Team needs to select key clients, clients that are strategically important for Firmenich and that are interested in expanding into low income segments, through innovative business approaches.

Before approaching those clients, the Team needs to evaluate a number of issues, including: the clients' expectations from suppliers such as Firmenich; their perceptions of new value that Firmenich could bring to their low income consumer strategies; their potential reaction to, and evaluation of, what Firmenich has done with the Project; the potential for cooperation with the clients in new projects; the clients' interest for broader cooperation within the collective action framework; etc. Would this Project help Firmenich explore opportunities for initiating, leading, and managing collective action initiatives²⁰?

The first step is to better understand what Firmenich needs to do by itself and then explore opportunities for collective action with key clients and other stakeholders. The final objective is to help clients understand that Firmenich is now even better equipped to help them reduce the risk inherent in making investments to serve low income consumers.

To further reinforce its image and reputation and provide new opportunity for others to benefit from its experience and lessons learned, Firmenich needs to better capture, in a "client friendly" manner²¹, and communicate the overall impact of the Project. For this, the Team needs to develop an innovative approach to measure impact, including social impact. This innovative approach needs to capture the benefits from new forms of partnership with local NGOs such as Naandi, training and using young underprivileged adults as interviewers, creating employment opportunities, shaping local community culture, etc.²²

The Project Team meeting is just about to start.

Appendix I: Firmenich

Firmenich is the largest privately owned company in the flavor and fragrance industry. Today, the company has approximately 6,500 employees in 64 countries. It was founded and headquartered in Geneva, Switzerland, in 1895. The company created many of the world's best-known perfumes and flavors. Several distinctive features, Clients, People, Sustainability, Creativity, and Independence, known as the "Firmenich Fundamentals," had helped make the company very unique in its industry.

Independence:

"Our independence gives us the freedom to control our destiny."

Being a family-owned company, with a strong commitment to independence, allows Firmenich to view their business in the long term and at the same time allows them to pursue a policy of financial strength. It also gives the company the strength to become more visionary about opportunities in business, particularly with respect to interactions with its clients, suppliers, consumers, NGOs, foundations, development organizations, and governments. Most of these stakeholders have become increasingly pushy for long term solutions. Firmenich has no need to pretend but to remain true to itself; it has the strength to proactively shape expectations and build a business case for longer term engagements as the best way to productively utilize corporate and societal resources. Clients want to do business with Firmenich.

Corporate Culture: People

Since the family name is on the company's logo, it makes a difference in shaping the corporate culture and in the way the company conducts business. Not surprisingly, people – the employees – are the heart of Firmenich. They are recognized for their passion, talent, and integrity. People are one of the main building blocks of the Firmenich Fundamentals.

According to a senior manager:

- *Firmenich creates an environment in which each employee is valued, empowered, and encouraged to grow.*
- *Firmenich values the diversity and commitment of its people, enabling the company to shape its future with confidence and imagination.*
- *Firmenich unites the finest talents and encourages an entrepreneurial team spirit to attain the companies' strategic goals.*
- *The employees' creativity, passion, and commitment drive the sustainable future Firmenich wants, built upon the foundation of the company's core values.*

At Firmenich, employees are perhaps its most important stakeholders not only because of the unescapable influence that the company has over their careers and lives, but at least equally important, because they are the holders of the organization's core competences.

For many companies, the main business focus is on **what** and **how** to do business. But for Firmenich, **why** is also a key, and often most important, question. It shapes the overall corporate culture, sends clear signals to future employees, and helps retain good, smart, dedicated, and happy people.

The employees' sense of individual and collective responsibility ensures Firmenich's long-term success. Its employees strictly maintain the highest level of personal integrity and ethical values; practice a sustainable business model for the wellbeing of present and future generations; and adopt the strictest international standards on quality, safety, and the environment.

Firmenich has a long tradition of philanthropy. Passion and caring for community, smart giving, and volunteer work of its employees has also shaped the corporate culture. This also makes it easier for Firmenich to avoid a mistake that companies make--confusing philanthropy with business driven strategy to address social issues, including engaging with low income people.

Sustainability

Sustainability is a key value for Firmenich. It is used as a guiding framework for doing business and exploring new business opportunities. Sustainability has a much broader meaning than the triple bottom line. It is used as an umbrella approach to more systematically include and holistically address other issues. Sustainability also helps to better understand the consumers of Firmenich's clients and identify opportunities for co-creating value and managing risk.

This innovative approach to sustainability is an example of creative thinking outside the box. Sustainability, as a multidimensional issue, cuts across various Firmenich departments. One example is the close cooperation between the Sustainability team and the HR team that helps recruit and maintain the best talent. Firmenich's dedicated employees understand the big picture. For them it is not only about the sustainability of the Firmenich business but also the planet.

Firmenich embraces sustainability as one of the main pillars of its corporate strategy. Its ability to deliver sustainable solutions to its clients is critical to the lasting success of the company. According to a senior Firmenich executive:

"Making our products greener is essential and corresponds to an increasing demand by consumers. In that context, 'performing' home and body care products using less water is part of our future".

"Sustainability pushes you to the next level – a strategic level. It also helps you see the big picture; all elements of the system that need to be in balance. You do not immediately see the distractive impact of short term missteps that may have serious long term consequences and destabilize the system."

Many of Firmenich's clients have developed sophisticated sustainability approaches and are sustainability leaders in their industries. Firmenich has been inspired by their achievements and appreciates their standards and expectations. Through regular interaction with them, Firmenich is co-creating sustainable solutions and is helping its clients implement their sustainability strategies.

Appendix II: Project Team and Responsibilities

The Shared Senses and Sensibilities Team consisted of Firmenich managers with unique background, including global experiences of living and working in various countries:

Patsy Chodchoey – Geneva - Director, Global Marketing, Body and Home Care

Chetna Gandhi – Mumbai - Consumer and Market Insights - Regional Multi Categories Manager

Olivier Gurtler – Geneva - VP Global Account Executive

Dr. Jerome Jallat – Geneva - VP Global Perfumery Customer Insights

Dr. Bérangère Magarinos-Ruchat – Paris - VP Sustainability Partnerships

Shriya Maheshwari – Mumbai - SR. Consumer Insight Analyst

And Naandi executives:

Manoj Kumar - Naandi CEO

Raj Iyer – Pune - Vice President and Director - Mahindra Pride Schools,

The Sustainability team took the responsibility to create an innovative partnership with local stakeholders and in particular with the Naandi Foundation. The Perfumery division in Geneva developed the idea of working with low income people as interviewers, and the local team in Mumbai took over the Project management and implementation in partnership with Naandi teams. From the very beginning, there was an understanding that, in the process, the responsibility for the implementation and scaling up of the initiative will be done in close collaboration with commercial teams in order to ensure relevance to the needs of Firmenich's clients.

This creative approach to team composition has enabled turning the initiative into a "home grown initiative", instead of being "outsourced" to consultants. Traditionally, in this or similar situations, many Firmenich clients would give the responsibility to an outside consulting and/or marketing research firm.

Appendix III: Holistic Consumer- Insight Approach

Many companies across different industries and geographic footprints take low income markets for granted. Traditionally, the primarily approach to tapping low income consumers has been modifying packaging and prices by introducing smaller packages, lowering prices, and extending distribution. This traditional approach is one of the most serious mistakes that many companies made when attempting to engage low income consumers - over focusing on price and packaging.

The Team understood the limits of this narrow approach. Successful engagement with low income consumers is far more than just low prices and smaller packages. It is necessary to more effectively and productively engage low income consumers through holistic consumer insight initiatives that would shed light on and provide deeper insights with respect to peoples' varied lifestyles, priorities, feelings, and preferences regarding values, tastes, smells, etc.

The key objectives of the Project were to:

- Make low income segment products more adapted to the sensorial preferences of consumers and treat the low income consumers as partners in product development;
- Develop creative and innovative methodologies and surveys for the low income segment that would allow Firmenich to tap into the imagination of low income consumers; and engage in "deep listening and dialogue" with low income consumers to fully integrate cultural and socioeconomic diversity of the consumers into Firmenich's approach in this market segment; and
- Create opportunities for Firmenich employees and clients to immerse themselves in low income communities and bridge the cultural gap, creating opportunities for value co-creation and business innovations.

Traditional approaches to market research are not well suited for the low income segment and deliver very flat results on preferences. Often, traditional interviewers have low or no empathy for low income consumers. People in this segment have traditionally never been engaged in conversations regarding their buying preferences; during interviews they often report feeling "stressed"; and they usually do not openly convey their thoughts or feelings.

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Empathy is needed in order to get honest answers and comments. The Team knew that in order to achieve this they would need to engage interviewers with roots from the local communities. For images from the interviews see Exhibits 1-3.

Deeper consumer insights are critical in creating affordable and impactful perfumes. Products that lead to healthier, happier, and higher self-esteem low income consumers can also help create jobs for communities. Job creation is one of the most urgent challenges facing governments in emerging economies. Employers want healthy and happy employees with positive attitudes. In addition to improving the quality of life of low income consumers, this innovative approach could lead to a virtuous cycle: support the health and self-esteem of the consumers; increase motivation for education, access to better jobs, and foster increasing income and higher consumption.

The holistic approach to consumer insights guided Firmenich's decision not to fully separate low income consumers from the general population. In addition to the general population, Firmenich would collect valuable information on low income consumers' behavior. Having both sets of data would make it easier for Firmenich to utilize the baseline of the general population to compare with the low income segment. For a sample of these differences see Exhibits 5. This is in stark contrast to the approach taken by many companies that have tried to do business at the low income segment by relying largely on general population insights.

Exhibit 1: Interviews



Exhibit 2: Interviews



Exhibit 3: Interviews



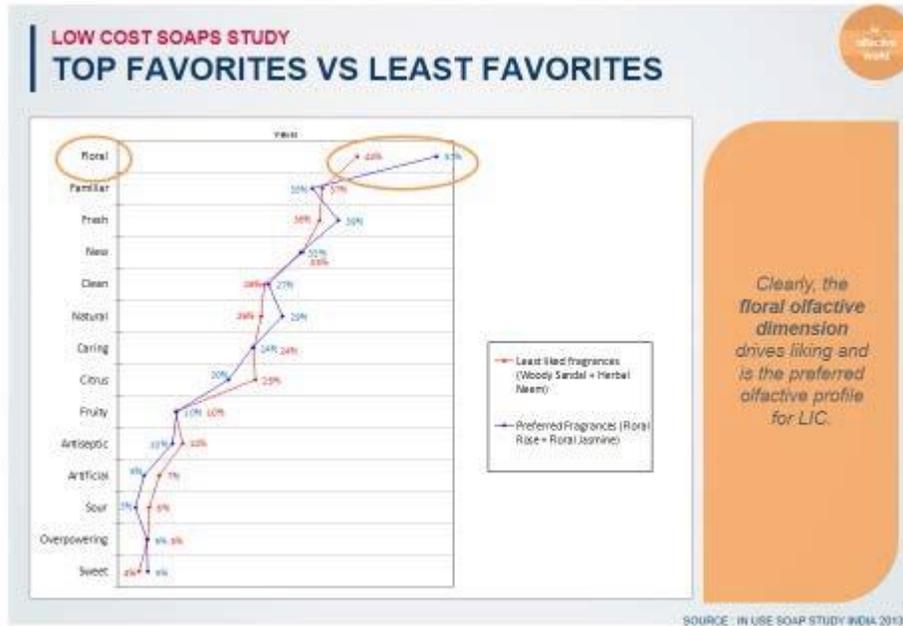
Exhibit 4: Top 5 Purchase Drivers for Soap



Exhibit 5: Top 5 Consumer Motivations



Exhibit 6: Top Favorite VS Least Favorite Fragrances



End Notes

¹For more details about Firmenich, the largest privately owned company in the flavor and fragrance industry, see Appendix I and visit www.firmenich.com.

²We use the term “low income people” instead of poor as the notion of “poor” has various dimensions and a very complex connotation and thus various interpretations. In this study, low income people are defined as those earning from \$3 - \$10 per day. Similarly, we are not explicitly referring to the Base of the Pyramid (BoP) although we build on the work done on the BoP.

³In this particular case, sustainable sourcing, an additional element of the Firmenich sustainability strategy, was not of concern as it did not directly influenced the engagement with low income consumers. The importance of sustainable sourcing can be illustrated by the fact that Firmenich had scaled-up activities with suppliers. It fast-tracked its supplier engagement strategy by hosting a Supplier Sustainability Summit in 2012 and implementing a supplier environmental scorecard (for more information on this initiative see Firmenich Annual Report on page 40). Through an inclusive supply-chain approach to natural sourcing, Firmenich gives special attention to suppliers involved in sustainable farming.

⁴Additional, more specific elements that were considered in selecting the products included:

- Getting a deeper understanding of new challenges when engaging low income people.
- Interaction with the consumers in innovative ways
- Consumers’ data collection and analysis

⁵For example, through its engagement with low income people, Firmenich learned that bad smells can be a stigma of poverty and that it is easier to find a job when someone wears clean clothing and smells good; it also increases respect and self-confidence

⁶According to the World Health Organization, diarrhea is the single largest cause of preventable death, killing 2.2 million people every year. It has been estimated that if everyone washed their hands properly at key times during the day, up to half of all childhood deaths from diarrhea (more than 1 million children) could be avoided. Evidence suggests that people wash their hands more if soap makes them smell clean.

⁷Low income consumers have been known for being very sensitive to smell and having strong personal preferences. When analyzing their buying preferences regarding soap, in addition to hygiene, smell is one of the most important elements considered by consumers. Low income consumers want to go beyond the smell of their surrounding and prefer smells that are different from the local, more “traditional” smells. They prefer the “European inspired fragrances”.

As any other consumers, low income consumers are obsessed by brands. However, for them buying soap is an investment and they are very careful and rational about what they are buying. It is also about whether they actually like the soap and feel good about using it. Soap is also about education: it provides opportunity to educate low income consumers about the importance of hygiene and at the same time to address and complement their concerns about a boarder, formal education, as one of the key success factors in life. For them, it is not primarily about the pleasure of taking a bath but the sense of hygiene and health. It is also about acceptance in society, particularly acceptance by higher income people, who could help with respect to networking and access to new opportunities, such as jobs.

⁸The Firmenich heritage and accumulated history of scientific discovery, which included a Nobel Prize for Chemistry, along with its investment in research and development, has inspired a “culture of innovation”. This “culture of innovation” – the mindset, expertise, and methodologies – is essential to the success of Firmenich sustainability efforts. It invests around 10% of its turnover in R&D annually.

⁹Through its Sustainability Team, Firmenich has extensive experience working with local NGOs and foundations. At the same time, some projects, such as a recent one in North East part of Brazil, were done without engaging local NGOs. This provides valuable experience in identifying areas where NGOs can most contribute to value co-creation and complement Firmenich core competences. Another possibility was to establish a close cooperation with a local university. The initial idea was to create a Center of Excellence in India, based on a joint venture between Firmenich and one of the best Indian business schools. However, this idea was quickly abandoned as the focus of the project was on implementation and it would have limited benefit from additional academic insights.

Firmenich in India

¹⁰Naandi Foundation was founded in 1998 and has been active in three broad sectors: Child Rights, Safe Drinking Water, and Sustainable Livelihoods. Naandi in Sanskrit means a new beginning. Some of Naandi's initiatives included feeding nutritious meals to 1 million school children daily, providing safe drinking water to over 2 million people, supporting the teaching of children in more than 1,900 schools and creating more than 100,000 sustainable livelihoods through ecological farming in the Araku region. For more information see <http://www.naandi.org/>

¹¹At the World Corporate Social Responsibility Congress in Mumbai, India, in 2013, Firmenich received a "Sustainability Leadership Award" in the category of "Best Project Collaboration" for its partnership with the Naandi Foundation within the Shared Senses and Sensibilities project. More than 2,500 applicants competed for this award. For Firmenich, this award marked another milestone demonstrating how Sustainability goals and thought leadership in consumer understanding could support strategic business objectives.

¹²Six interviewers were trained at eight centers, a total of forty eight young adults. In addition, twelve supervisors were trained for execution and supervision of the Project on a daily basis. These supervisors were the lifeline of the Project and a great support to the newly trained interviewers.

¹³Through its Mahindra Pride Schools, Naandi routinely trained these young people over a three month period and placed them in call centers, hospitality settings, and other services, such as in the retail sector and banking.

¹⁴Like avoiding questions such as "how often do you use a bathroom" in cases when the interviewees had no bathroom.

¹⁵Few respondents were even not ready to return the test samples. Some of the excuses for not returning the soap were:

- *"I am sorry, but can't return the sample soap as the rat in our house ate it up"*
- *"The sample soap provided by you is over as our children loved it so much that they kept washing their hands and legs the whole day to smell good"*

¹⁶These interviewers were trained on the following skill sets during the training sessions:

- Basics of market research
- Interaction with strangers,
- Convincing posture,
- Politeness in communication.

¹⁷BoP India – Firmenich and Naandi Initiative 2013

¹⁸This was not about the change of the organizational structure. Many companies tried to compensate for weak culture and values with constant organizational changes without getting any tangible results.

¹⁹As well known, one of the critical precondition for sustainability is effective markets.

²⁰Collective action initiatives are important in addressing more complex development issues, including those related to improving the business ecosystem and governance. Good examples are corruption and antitrust challenges, such as the recent scandals associated with several MNCs bribery allegations in China.

²¹The Team knew that every Firmenich client is different and that they need to develop customized presentations for each of them so that they would see the true value and impact of the Project. For example, they need to develop different presentations for MNCs from those that would target local companies.

²²This is not at all a simple task. Some of the Firmenich clients already have good experience with innovative approaches to measuring impact, including Unilever's ground breaking approach in Indonesia. Coming out with a new approach remains a challenge for the Team.