

Eurofragrance: Scenting success in halal

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The Muslim market offers intriguing prospects for business. However, the need to make halal-compliant products presents sobering challenges.

Since 1990, Eurofragrance has specialized in the design and production of fragrances and flavors for the food, perfumery and personal hygiene industries.

Having enjoyed sustained growth, the Spanish company has ambitious plans for expansion, especially after Banco Sabadell acquired a 25 percent stake in the company in 2010.

Eighty percent of the company's products are exported, with 70 percent sold in markets outside the European Union, including in the growing markets of the Muslim world.

An IESE case study on Eurofragrance considers how organizations can profitably navigate the lucrative market for halal goods, and the challenges that this may present, particularly in relation to obtaining halal certification. The case considers the role played by transnational private regulatory agencies in addressing these issues.

What is halal?

Islamic teaching lays out explicit rules regarding food production and the slaughtering of animals.

However, the interpretation of what is permissible, or halal, according to Islamic law is getting more complex by the day. As the pace of innovation grows exponentially, it becomes harder for Islamic authorities to determine what is halal, and forbidden ingredients can

sometimes find their way into products.

This situation is not helped by the fact that there is no one certifying body for halal products, and different branches of Islam make different proclamations.

Consider the experience of Eurofragrance: Its first foray into the halal market was in Egypt, where the company simply had to declare that its products contained no alcohol or pork derivatives.

However, the Indonesian and Malaysian markets were another story. The certification requirements there were much more complicated and fragmented, with no clear guidelines for producers to follow.

To deal with this minefield, Eurofragrance contacted the Halal Feed and Food Inspection Authority (HFFIA), a not-for-profit certifier established in Holland under the guidance of a council of Islamic scholars and recognized for its demanding standards in providing the accreditation.

Created to address the issues faced by Muslims living in non-Muslim countries, the HFFIA provides a rigorous inspection of the whole product -- from the supply of raw materials to the processing and distribution. HFFIA audits are also recognized in Malaysia and Indonesia, which are considered to be among the strictest countries when it comes to halal regulations.

The thoroughness of HFFIA illustrates just how seriously this issue is being taken worldwide.

Three main obstacles

Given the sheer size and steady expansion of Muslim populations around the world, the market for halal-certified goods is predicted to grow by up to 25 percent a year over the next decade -- signaling profitable opportunities for a market already worth an estimated \$2.3 trillion in 2010.

For international firms looking to expand into these markets, there are several considerations that need to be borne in mind. Eurofragrance, for example, encountered three main obstacles.

Certification Complexities. Every individual flavor needed to be documented. This meant that suppliers had to provide much more detailed product information. Doing so slowed down the entire production process and conditioned the speed with which the company could adapt its

products to consumer demand.

This can be a source of frustration, especially if competitors opt for less stringent halal certifications and succeed in growing faster as a result.

Local Competition and Barriers. Some Muslim countries apply extremely strict halal codes to foreign goods, while homegrown producers seem to get off more lightly, in what can almost be perceived as a "religious trade barrier."

It may be that consumers in Muslim countries are more likely to trust in halal products made by local, Muslim companies, as opposed to foreign, non-Muslim competitors.

Cost. Having a recognized certifier does increase process, handling and raw material costs -- and it remains to be seen whether consumers are willing to pay a premium for genuine halal products.

A market set to grow

Although Eurofragrance initially only turned to HFFIA as a way to satisfy the stringent requirements of the Indonesian market, it has since come to realize that having a respected certificate can give leverage in certain key Muslim contexts. This has opened up significant market opportunities.

Moreover, the close working relationship between Eurofragrance and HFFIA has led toward the welcome promotion of a global halal standard.

However, the relationship has also raised doubts among Eurofragrance executives. There are many other certifiers that operate on a purely commercial basis and are less demanding in providing the halal accreditation. This presents a real dilemma between quick sales growth and high quality standards.

With the Muslim population growing fast in non-Muslim countries, it is only a matter of time before other companies follow suit. Indeed, major players such as Haribo and Nestlé are already launching halal products in Europe with considerable success.

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