Sensual Brands: a Q&A with Coty's CFO

Nabbing a Valentine's Day sales spike isn't nearly as important for the perfume maker as maintaining good branding relationships with Jennifer Lopez, Gwen Stefani, and other glitterati, says Michael Fishoff.
Marie Leone, CFO.com
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- Michael Fishoff, CFO Coty Inc.

It reads like a Busby Berkeley script: Bright kid from Brooklyn makes good, becomes high-powered executive living among the stars. That's not how Michael Fishoff might describe his journey, but it did happen that way. Fishoff graduated high school at age 16, and quickly enrolled in New York's City College in Harlem. The local boy earned an undergraduate degree in economics and an MBA from New York's Baruch College. He passed the CPA exam and signed on as an auditor with the former Haskins and Sells, America's first Big Eight accounting firm.

Fishoff then moved to Corporate America. First, he spent 14 years with Bristol-Myers Squibb, where he held divisional and corporate finance positions in the company's Clairol division. He left in 2002 to become CFO of Coty Inc., the venerable French perfume purveyor now run out of New York. That move landed him in the laps—at least figuratively—of Jennifer Lopez, Gwen Stefani, Victoria Beckham, and other glitterati that lend their names to Coty fragrance lines.

CFO.com caught up with Fishoff to find out what yardstick he uses to measure brand performance, how much cash he likes to keep on his balance sheet, and why he sometimes must slow down a muscle-bound marketing machine fueled by Hollywood hype.

CFO.com: Here we are, almost at Valentine's Day 2007. Do you focus on seasonal spikes at Coty, as other retail product makers do?
Michael Fishoff, CFO Coty Inc.: There's a little bit of seasonality [in our business] because of the Christmas gift giving. And it does have its ups and downs in terms of occasions. So, Valentine's Day, Mother's Day, Father's Day, are significant [in terms of sales]. But that's driven as much by the retail channels as it is by anything else. [Fragrances are] a very low growth category. So it's a [market] share game.

CFO.com: What makes market share so important?
Fishoff: The underlying health of the business is not [linked to] sales, as much as to consumption. There are always ways to accelerate sales through promotional vehicles.

But at the end of the day, it's sell-through consumption, market share, that will better detail the health of a business.

CFO.com: How does Coty play that market share game?
Fishoff: We have to have the ability to measure things quickly, good and bad. The life cycle of new fragrance initiatives is much shorter than it has been historically. So you need better information, quicker access to information, to react. If something is going extremely well, you want to have an early warning system to say, okay let's keep feeding it. Conversely, if something is not doing well, you want to have a similar warning system that says, we need to rethink this ... change the focus, cut our losses, manage more for the short term rather than the longer term.

CFO.com: Are there any metrics you review on a daily basis?
Fishoff: Daily sales, which other people look at in greater detail than I do. I view [daily sales] as the general pulse of orders taken in, and orders shipped, to make sure the supply chain is reasonably current. We don't have daily working capital. We monitor cash weekly within our treasury group to get a pulse on cash flow.

CFO.com: More than 50 percent of your business is in non-U.S. denominated currencies. What did you mean when you said you don't take the benefit or penalty related to currency exchange?
Fishoff: We enjoy the translation impact of higher sales as the dollar weakens. But we also produce some products for overseas markets, and that creates a negative cost of goods. In general, we have an internal hedging policy, so that all of our divisional transaction exposures are netted at our budget rates for internal purposes. That means that only our residual corporate or company-wide exposures are dealt with in the marketplace, if we choose to [hedge risk there]. We try to balance as much as we can internally. After that, we deal with the remainder of unmet, unhedged differences in the marketplace, with either options or forwards. But we're very conservative.

CFO.com: Since it's inception in 1904, Coty has always been a private company, is that correct?
Fishoff: Yes. Coty is an amalgamation of acquisitions and licenses. It's a piece of Pfizer's former consumer business and an acquisition from Unilever. Rimmel [a low-priced cosmetic line available at Wal-Mart] was acquired from Unilever years ago, and of course the fragrance business, a little here, a little there, some homegrown brands. But it's always been private.

CFO.com: Do you find it easier, as a private company CFO, to work toward longer-term financial goals, rather than focusing on meeting quarterly earnings?
Fishoff: We look at [growth] annually ... but also try to manage cash flow quarterly because the more cash you get in sooner, the better your interest expense. So we put pressure on our divisions to do the right thing quarterly, but we are not bound by it. If we have to book an extraordinary expense, or delay a transaction, we could do so [without being penalized by Wall Street.]

CFO.com: As a private company that makes its fair share of acquisitions, how much cash do you like to keep on the balance sheet?
Fishoff: Ideally we would have no cash on the balance sheet. Invariably we do, and generally it's a result of cash that comes in late in the month, which can't be cleared against our debt or our netting system. Generally, I would say that having access to raising cash to fund an acquisition is important; but not necessarily having cash on the balance sheet. I have the ability to tap into a credit line, revolver, or leverage my business further to finance an acquisition. For example, a year ago, we financed the acquisition of the Unilever fragrance business, and we are using our cash to pay down some of the debt. We certainly have the ability to go after more opportunities if they should arise.

CFO.com: How do you raise capital?
Fishoff: Usually through banking syndications. We have banks that have been providing services and support to Coty over the years, and generally they have stayed with us. During the last five years we've done a few refinancings, and [banks] enjoy that because the fees are reasonably lucrative—that's their bread and butter. The marketplace is relatively hot these days for personal care and consumer products companies. There's a lot of M&A activity as well as IPO activity. So everyone's hoping for a piece of that pie.

CFO.com: Compared to what they look for in public companies, do lenders look for a different type of return from private companies?
Fishoff: I think they're all looking for a safe return, a decent return on their investment. The cost of debt generally is less than the cost of equity capital, so I think having a little bit of leverage is a good thing. I don't think private versus public makes a difference.

CFO.com: So managing, not owning the brand is key?
Fishoff: There's a symbiotic relationship between the brand or celebrity and our license. We depend on each other for public relations, advertising campaigns, merchandising, and reputation. [The brands] are very sensual, and we feed off of that. [The celebrities] feed off of us because some of our fragrance campaigns can be, you know, scintillating. So whether you own the brand or license it, is almost a minor detail. It's really sort of an accounting and cash-flow detail more than anything else.

CFO.com: One detail in a recent financial press release announced that Coty grew by 38 percent year over year. That's enormous growth. What was going on?
Fishoff: Well, that includes the [Unilever] acquisition—you have to be careful. We've been growing, I'd say, 5 percent to 7 percent, organically. I don't know if you want to call us a big small company, or a small big company. We're north of $3 billion in revenue, but no matter where you go, whether it's corporate headquarters, divisions, countries, accessibility to [executives and managers] is extremely high. People have the ability to make decisions and they don't have to go up the line for 20 approvals. We have an internal motto that feeds on growth and a culture that is very fast moving and self-empowering: "faster, further, freer." Internally, that means employees are free to make decisions, further enhance their careers, and we do it at very fast pace. Our CEO [Bernd Beetz] is a whirlwind of energy

CFO.com: Is it your job as CFO to rein in the CEO?
Fishoff: Sometimes. Or sometimes my job is to let him do what he believes is right from a commercial perspective, but make sure we're grounded in the back office. You don't want to stifle those activities, but if in fact we felt like things were on overload, I think I would be the one to clarify to the CEO that maybe we ought to slow down, or take an [initiative] off the table. Sometimes [the finance department] brings a sense of stability and reasonableness to the frenzied commercial pace of the marketing group.

Coty brands run the gamut, from new brands such as Sarah Jessica Parker, Vera Wang, and Adidas, to classics, like Jovan. Is it important to own, rather than license core brands?
Fishoff: About 80 percent of the brands within the Coty portfolio are licensed, not owned. The characteristics of the licenses essentially provide ownership, but in a true legal sense we only own 20 percent of the brands.