



AN OUTSIDE opinion

Michel Letter's non-Champagne background gave him the benefit of objectivity when it came to running GH Mumm and Perrier-Jouët, writes **Giles Fallowfield**

MICHEL LETTER once described himself as an outsider in Champagne and in his early days as the boss at GH Mumm and Perrier-Jouët he found he was in agreement on many issues with another recent arrival in the region, Jérôme Philipon, president of Bollinger. Both men, new to the peculiar eccentricities of the Champagne market, thought that the Champenois didn't always seem to apply logic to the decision-making process and were refreshingly honest and straight talking in expressing their views about this.

Each arrived at a crucial time in their respective companies, just before the banking crisis hit worldwide sales of

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Champagne. One year into his job following the completion of the 2008 harvest and immediately after the Lehmann Brothers collapse revealed the depth of the world economic crisis, Philipon was amazed that the Champenois proceeded to agree paying an even higher price per kilo for grapes from that harvest, apparently oblivious of the fallout.

Letter arrived in Champagne at the start of 2006, shortly after Pernod Ricard had purchased GH Mumm and Perrier-Jouët from Allied Domecq. Several years of

neglect under first Seagram and then Allied ownership had weakened both brands, particularly Mumm. And he only had a brief window to reinvigorate both houses before recession hit.

Both men found the political nature of Champenois decision making on important issues – like agreeing the level of harvest yields – irrational from a business perspective. After being critical, Letter now finds himself in charge of the CIVC's *observatoire économique*, which controls this process. And today he's keen to emphasise this decision is made almost entirely as a result of a factual, statistical-based analysis, and is not influenced by political lobbying from interested parties among the négociants, growers and cooperative groups.

When he talks about current harmony in the "Champagne family" I mention the recent public row between Pascal Ferat, president of the SGV (the main growers union) and Moët's CEO Stéphane Baschiera around the level of yield set for the 2012 harvest. "It is a mathematical decision. When we meet up in July not long before the harvest we look at sales over the previous 12 months, the level of reserves and stocks currently held by the houses, plus the forecast for the next two to three years. We have a model, you put these numbers in and the figure

for the yield comes out automatically, not too high and not too small," says Letter. "If neither side is happy with the result we know we have got it about right."

"The weather is obviously an influence so we wait until July, after which frost ceases to be a danger. It's a logical decision and although it's never easy to pitch at the right level for all businesses – our forecast for growth at Pernod Ricard is much higher than many others – it's a collective decision and Champagne as a whole gains from agreeing collectively; it's one of the great strengths of the appellation."

Looking back on the decision made in the summer of 2012 for 11,000kg/ha to be the maximum yield, Letter says: "If shipments for the year [2012] reach between 314-315m bottles that's about eight million bottles less than the stock level, which is in balance [11,000kg/ha over 33,000ha of active vineyard is about 308m bottles]." But he notes that because many producers hit by the triple whammy of frost hail and disease had far lower yields in 2012, their *réserve individuelle* may be quite depleted. This too will have to be taken into consideration when deciding the yield for 2013.

RESTORATION WORK

"The hardest part is forecasting how different markets will perform in 2013," says Letter. "We can expect another difficult year for the French economy which looks unlikely to recover this year. Happily the US is going quiet well and so is Asia. But if France is down 1% you need Asia to be up by 10% to compensate. The UK, Italy and Spain are all difficult markets at the moment.

"What we need to think about is how to bring back the 'desirability' of Champagne to the position it enjoyed 25 years ago. We have to build a stronger image again. Sparkling wine is coming closer to Champagne especially in terms of things like packaging." Does he think all the cheap Champagne offered in the market over the past 12 months, especially in the run-up to Christmas and the New Year, has done damage to Champagne's collective image? "We are not in the same market as Champagne sold for €10 or less. Like with cars, there are customers who always want to buy Audis or Ferraris. I don't think it's the same customer that pays €25 for a bottle of Mumm who buys

Pernod Ricard Champagne: global sales

Source: Pernod Ricard

Brand: Mumm	2007	2008	2009	2010	2011	2012*
Volume (m bottles)	7.98m	8.28m	7.2m	7.62m	7.8m	8.4m
Value (m €)	€155m	€165.6m	€144m	€156.9m	€165m	€183.12m
Brand: Perrier-Jouët	2007	2008	2009	2010	2011	2012*
Volume (m bottles)	2.4m bottles	2.58m bottles	2.28m bottles	2.35m bottles	2.38m bottles	2.4m bottles
Value (m €)	€51.2m	€56.76m	€50.16m	€53.25m	€55.55m	€56m
Pernod Ricard	2007	2008	2009	2010	2011	2012*
Volume (m bottles)	10.38m bottles	10.78m bottles	9.48m bottles	9.97m bottles	10.18m bottles	10.8m bottles
Value (m €)	€206.2m	€222.36m	€194.16m	€210.15m	€220.55m	€239.12m

*Pernod Ricard financial year runs to 30 June so 2012 figures are 2011/12

NB: Around 90% of Perrier-Jouët's volume is exported while for GH Mumm, which is one of the biggest brands in the French domestic market, exports represent about 55% of volume

this €8.95 wine in Carrefour, but there is some damage to Champagne's image. Is it desirable? I'd say not. I'd rather see the grapes go to the bigger houses to make good value Champagne.

"There is not enough raw material currently with the harvest down a third on average in 2012 at around 9,000kg/ha and it's only thanks to the réserve that

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people will be able to reach the maximum yield [11,000kgs/ha]. Thanks to the good work of our team in the vineyards we [GH Mumm & Perrier-Jouët] actually reached this level from the 2012 harvest and we also bought the extra grapes and *vins clairs* to achieve our planned growth." Letter believes this was down to the good price Pernod

Ricard is paying for grapes, combined with the difficulty small producers have in selling their own wines in the current market, even at a low price. "We have increased our supplies of grapes under long- and short-term contracts every year, as we need to in order to fuel the growth of our brands."

Letter doesn't mention the fact that the maintenance of good relations with grape suppliers is one of the roles he fills for the company and success in this strategy is partly down to his own hard work and visible profile. Growers like to deal with and see the boss, at least some of the time.

"Markets like Australia, China and Brazil are doing very well, the difficulty is in what we might call 'Old Europe'; UK, Italy and Spain, while France is stable for us," says Letter. "Japan continues

for the second year running to be our top market for prestige style Belle Epoque." This is now the only vintage range Perrier-Jouët offers, as the 1998 wine was the last of the regular vintage style made. While that decision was made before Pernod Ricard's ownership of the brand, Letter has increased the resources behind rosé production both for Belle Epoque

and Blason at PJ and Mumm's regular non-vintage pink, recognising this as a more profitable sector with particular appeal to the "emerging" markets for Champagne where the future growth in business is predicted to come from.

CHAMPAGNE SHORTFALL

"The big issue for the next 20 years in Champagne will be grape supply," affirms Letter. "With nearly all the currently available vineyard land planted and yields on average between 13 and 14,000 kg/ha that's around 375m bottles and we aren't going to see any new vineyards planted until at least 2022." He sees the setting up of the "Champagne 2030" group under the auspices of the CIVC as a very positive step aimed partly at addressing this issue. "It was started a year ago and has representatives from all three families in Champagne, the houses, growers and co-ops," says Letter.

Biography: Michel Letter

Michel Letter has been deputy managing director of Champagne GH Mumm and Champagne Perrier-Jouët since January 2006. After graduating from one of the best French engineering schools, Michel joined the Pernod Ricard group in 1983. He spent five years with Pernod in Paris and two years in Cognac before being posted in Singapore as managing director for South East Asia.

In 1993, Michel was promoted to managing director in charge of Hong Kong, Taiwan and China. He concluded his overseas appointment with four years as managing director of Pernod Ricard Greece. Just before joining the Champagne area, Michel was sales director of Ricard leading a team of 650 sales people.

Born in 1956 in the east of France, Michel is married and has three children. His main passion is rugby: he played for 15 years as scrum half before becoming a marathon runner.

From 1997 to 2002, Michel was council member of the Centre Français du Commerce Extérieur for France. He also heads up the *observatoire économique* of the CIVC, the Champagne industry body.

“With new plantings one of the big issues will be maintaining quality. I’d rather have just 8,000kg/ha of high quality grapes than a larger volume, if quality suffers. It’s easier to tell your clients you have less volume, but the quality level is maintained. There was a quality issue with Mumm in the 1990s and we don’t want to repeat that.

“By the time we reach 2030 there will not be enough *grand blanc* [top Chardonnay] for the three or four groups who will continue to grow. We [Pernod Ricard] will have to be selective about our distribution, giving preference to markets like the BRIC countries rather than domestic consumption in France. Sales outside Europe are growing every year. Better prices can be achieved in these countries, but the marketing costs are higher, so not all the players are present.”

Asked if Pernod Ricard had any plans to buy up more vineyards to increase its supplies Letter says no. “We prefer to build strong relationships with growers and find extra supplies, that way there is no need to buy.” In any case, thanks to the activity of one big group that is buying up everything, the price of vineyards has escalated to over €1.5m a hectare, which makes it an even less attractive option. Once an outsider, Letter’s straight talking approach has quickly won him friends in Champagne and both brands have benefited from his leadership. db

