

CHAMPAGNE'S GREAT SUCCESS

The crisis of 2008 hit Champagne hard, as few people wanted to be seen drinking it. But despite the dire predictions that Champagne's sales would tumble, the region has bounced back. Giles Fallowfield looks at what makes this region so successful.

SUMMARY BOX

- Sales of Champagne may have reached 290m bottles in 2009.
- The Champenois keeps the market interested with continual innovation.
- An example of innovation is the non-dosé wine.
- The delicate relationships between all the players in Champagne also contribute to its health.

Measured by almost any criteria, Champagne stands out as France's great vinous success story of the past decade or so. Until last year's dip in sales, it was the only wine region in France to enjoy more than 15 years of continuous solid growth - 1993 to 2007 - with annual shipments moving from 214.2m bottles in 1992 to 338.7m in 2007, an increase of 58.1%. And while there was a drop in sales and shipments in the vital last quarter of 2008, shipments still only ended the year 4.8% down.

In 2009, after considerable de-stocking in the first three quarters and - as a consequence a low level of shipments - Champagne appears to have staged a miraculous recovery in the last two months of November and December, with shipments expected to reach 290m bottles. So what is it that has made Champagne enduringly successful in the good times, and apparently so quick to recover after the world financial crisis?

Innovation

The négociant houses whose famous marques dominate worldwide sales will, of course, say it's all about the power of brands and the effort they have made through marketing to give those brands an image that attracts consumers. While that is certainly part of the story, innovation too has played an important role. The Champenois are experts, constantly reactivating interest in the sector by introducing new styles and cuvées. Three good examples of this are the wider production of single cru, single-vineyard wines, the development of the rosé category - greatly helped by technical improvements and the installation of better red winemaking facilities which led to an

improvement in the general quality of pink Champagne - and, most recently, the creation of a whole new, though admittedly still niche, non-dosé and 'extra brut' sector. Apologies to Laurent-Perrier who will point out that their Ultra Brut brand has been around since 1981. But even Bernard de Nonancourt would have to admit that the movement towards such styles has recently gathered significant momentum. This movement, if not a development that's just a reaction to global warming,

The three production groups

The négociant houses:

297 in total who shipped 214.3m bottles in 2008 (two-thirds of the total). The top seven brands accounted for 54.83% of export shipments in 2008, or 77.3m out of 141m bottles.

The growers:

15,567 in total, 10,851 of whom just sell grapes, 2,694 belong to co-ops and 2,022 make and sell their own wine. Growers shipped 78.3m bottles in 2008.

The co-ops:

137, only 65 sell Champagne under their own brand. Co-ops shipped 29.9m bottles in 2008, 30 co-ops export

The vineyards:

319 crus (villages) in total with 32,946 active hectares in 2008 (some have been replanted or await replanting)

17 grands crus covering 4,548 hectares

44 premier crus covering 6,176 hectares

has clearly been helped by it. "The lower dosage trend got started before the changing climate began to recognisably affect the harvest," says Jérôme Philipon MD of Champagne Bollinger. "But it's certainly easier to make Champagne with lower dosage levels now."

It is clear that higher summer temperatures have resulted in earlier harvests, plus riper fruit with lower acidity, and this in turn has led to lower dosage levels in the most widely produced Brut non-vintage styles, which account for four-fifths (80%) of production and arguably, better Champagne.

But that is really only part of the story. What has been vital to the region's success is making the complicated structure of the Champagne business work so that everyone involved can profitably share in the spoils, from small growers farming a couple of hectares and offering wine at the cellar door, to the big houses selling millions of bottles of one brand in markets all around the world.

Delicate relationships

To understand the complex workings of the Champagne market you need to bear in mind one important fact because it colours everything else: although the négociant houses dominate sales of Champagne, particularly sales outside France's borders - with over two thirds of the volume and much more in terms of value - collectively they only own about a tenth of Champagne's total vineyard. The bulk of Champagne's grapes come from the 15,567 growers who between them farm 29,607 hectares. The négociants only own the remaining 3,339 of the appellation's 32,946 hectares that are in active production, using the 2008 figures. Therefore, to fuel their brands, most of the big producers have to buy in the majority of the grapes they need. Houses like Louis Roederer and Bollinger, which each have enough vineyards to supply about two-thirds of their grape requirements, are rarities.

Although the Louis Vuitton Moët Hennessy group (LVMH) has the biggest total vineyard holding among the négoce with some 1,684

TOP TEN PRODUCERS

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| <p>1 Louis Vuitton Moët Hennessy (LVMH) group</p> <p>22, avenue Montaigne, 75008 Paris, Phone: +33 (0)1 44 13 22 22, www.lvmh.com</p> <p>2008 turnover: €3,126m (Champagne and wine €1,689m of which Champagne accounted for 85% ie around €1,435.65m) CEO: Bernard Arnault Vineyard holdings % of grapes bought in: 1,684 hectares, just under 75% (1,496 hectares in 2003) Bottle production: 57.6m bottles Exports: 83.5%, 51m bottles French sales:</p> <p>10.1m bottles (both in 2008) Key brands: Moët & Chandon, Dom Pérignon, Mercier, Ruinart, Veuve Clicquot Ponsardin, Krug Market share of LVMH brands: 18.9% in 2008 Share of export market: 36.1%; Share of French market: 5.6% Main export markets: USA (17%), UK (12%), Italy (8%), Japan (7%), Germany (5%), Switzerland (2%), others (32%)</p> | <p>6 Groupe Laurent-Perrier</p> <p>Avenue de Champagne, 51150 Tours-sur-Marne, Phone: +33 (0)3 26 58 91 22, www.laurent-perrier.com</p> <p>2008 turnover: €181.3m; (year ending March 31, 2009); CEO: Stéphane Tsassis Vineyard holdings % of grapes bought in: 150 hectares, 89% bought in. Bottle production (group): around 10m bottles, Laurent-Perrier brand: 6.48m bottles (year ending March 31, 2009), De Castellane, Salon & Delamotte and the Château Malakoff brands:</p> <p>around 3.5m bottles. Exports (group): 74.6% Key brands: Laurent Perrier, Salon, Delamotte and Vicomte de Castellane (plus the Jeanmaire, Beaumet and Oudinot brands bought into the group as a result of the purchase of Château Malakoff in February 2004) Main export markets: UK, Belgium, Switzerland, Japan and Italy</p> |
| <p>2 Lanson International & Boizel Chanoine Champagne</p> <p>66 Rue de Courlancy, Reims, Phone: +33 (0)3 26 78 50 50, www.lansonpf.com; BCC: Allée du Vignoble, Reims 51100, Phone: +33 (0)3 26 78 50 00</p> <p>2008 turnover: €300.65m CEOs: Bruno Paillard; Lanson International: Philippe Baijot Vineyard holdings % of grapes bought in: own vineyards provide less than 10% of needs Bottle production: 19.8m bottles, BCC: around 7m bottles, Lanson: 4.5m bottles Market share of group: 6.14% in 2008 Exports: Lanson 75%, all BCC brands 45% in 2008</p> <p>Key brands: Lanson, Alfred Rothschild & Cie, Besserat de Bellefon, Gauthier, Massé; BCC: Boizel, Chanoine Frères, Philipponnat, Alexandre Bonnet and De Venoge Main export markets: Lanson: UK, Norway, Japan and duty-free sector Since March 2006, when Paillard and Baijot bought Lanson, they have overhauled the business making it more streamlined and profitable.</p> | <p>7 Rémy Cointreau</p> <p>21, Boulevard Haussman, 75009 Paris, Paris, Phone: +33 (0)1 44 13 44 13, www.remy-cointreau.com; C&P Heidsieck, 12 allée du Vignoble, 51055 Reims, Phone: +33 (0) 3 26 84 43 00</p> <p>2008 group turnover: €714m; P&C Heidsieck: €125.7m CEO: Jean-Marie Laborde; CEO of P&C Heidsieck: Anne-Charlotte Amory Vineyard holdings: over 90% of grapes bought Bottle production: for the group about 10m bottles, Piper Heidsieck 7.5m bottles Exports: over 65% Key brands: Piper Heidsieck, Charles Heidsieck,</p> <p>F.Bonnet Pere et Fils Main export markets: UK, USA, Germany, Italy, Belgium and Japan The high reputation for the quality of the whole Charles Heidsieck range is a big plus and the image of Piper Heidsieck has improved. But in a market where grape supply is becoming more and more important, exposure to grape price hikes remains an issue.</p> |
| <p>3 Vranken-Pommery Monopole</p> <p>5, place du Général Gouraud, Bp 1049, 51689 Reims, Phone: +33 (0)3 26 61 62 63, www.vrankenpommery.fr</p> <p>2008 turnover: €285.8m CEO: Paul-François Vranken Vineyard holdings % of grapes bought in: 270 hectares, contracts for 1,930 hectares bought in (88%) Bottle production: 19.9m bottles in 2008 Market share of group: 6.17% in 2008 Group exports: 46% of sales Pommery exports: 60%</p> <p>Key brands: Pommery, Vranken Demoiselle and Diamant, Charles Lafitte and Heidsieck & Co Monopole Main export markets: Switzerland, Belgium, UK, USA, Japan, Germany Paul-Francois Vranken says he is going to concentrate all his efforts on export markets behind the Pommery brand as that is by far the best known and most widely distributed.</p> | <p>8 Taittinger</p> <p>9 Place Saint-Nicaise, 51100 Reims, Phone: +33 (0)3 26 85 45 35, www.taittinger.fr</p> <p>2008 turnover: €108m CEO: Pierre-Emmanuel Taittinger Vineyard holdings % of grapes bought in: 289 hectares, 45% Bottle production: around 6m bottles Exports: 70% Key brands: Taittinger, Irroy Saint-Evremond Main export markets: UK, USA, Germany and Spain.</p> <p>Taittinger made an operating profit of €34 million on turnover of 108 million in 2008 and is greatly helped by its considerable and high-quality vineyard holdings which have enabled it to produce new wines like Les Folies de la Marquetterie.</p> |
| <p>4 Pernod-Ricard</p> <p>12, place des Etats-Unis , 75783 Paris Cedex-16, France, Phone: +33 (0) 1 41 00 41 00, www.bernat-ricard.com</p> <p>2008 turnover: €7,203m (Champagne: €222m) CEO: Patrick Ricard, CEO of Mumm & Perrier-Jouët: Michel Letter Vineyard holdings % of grapes bought in: Total: 283 hectares Mumm: 218ha, Perrier-Jouët 65ha, 74% (around 800 hectares) Bottle production: 10.86m bottles (Mumm: 8.28, Perrier-Jouët: 2.58m) Exports: 75% +</p> <p>Key brands: G.H. Mumm, Perrier-Jouët Main export markets: Mumm: UK, USA; Perrier-Jouët: USA, UK, Japan Under Pernod-Ricard's ownership both Mumm and Perrier-Jouët continue to perform strongly, particularly in the French domestic market thanks to PR's strong distribution chain but also in the Far East and the USA, although those markets have been hard hit recently.</p> | <p>9 Duval-Leroy</p> <p>69 avenue de Bamental, BP 37, 51130 Vertus, France, Phone : +33 (0) 3 26 52 10 75, www.duval-leroy.com; (Paris address : 31 rue Jean Giraudoux, 75016 Paris)</p> <p>2008 turnover: €73m CEO: Carol Duval-Leroy Vineyard holdings % of grapes bought in: 200 hectares, 66% Bottle production: 5m bottles Exports: 50% Key brands: Duval-Leroy, Fleur de Champagne, Femme de Champagne, Clos des Bouveries, Authentis</p> <p>Main export markets: UK, Belgium, USA, Germany, Austria. Using its large vineyard resource to produce a smaller volume of high quality cuvées like the Authentis range, Femme and the superb Clos des Bouveries should raise international awareness of this excellent producer.</p> |
| <p>5 Nicolas Feuillatte CVC (Centre Vinicole de la Champagne Co-operative)</p> <p>Chouilly BP 210, 51206 Epernay, Phone: +33 (0)3 26 59 55 50, www.cvcnf.com; www.feuillettate.com www.palmesdor.com</p> <p>2008 turnover: €193m CEO: Dominique Pierre Bottle production: 10m in 2008 for the Nicolas Feuillatte brand including around 1m bottles for its BoB business. The co-op processes the equivalent of 25m bottles a year. Exports: 44% or 3.84m bottles in 2008, 0.54m to the USA in 2008, (French sales 4.62m bottles) Key brands: Nicolas Feuillatte, Palmes d'Or</p> <p>Main export markets: UK, USA, French Caribbean Islands Doesn't have a problem increasing its grape supplies but needs to continue improving image and profitability of brand. Largest player on French domestic market, and prior to slump USA was its fastest growing export market. Priority is increasing value by selling more of its premium cuvées like Palmes d'Or.</p> | <p>10 Alliance Champagne Co-operative</p> <p>Jacquart et Associés Distribution, 34 Boulevard Lundy, Reims, F-51100, France, Phone: +33 (0)3 26 07 88 40, www.jacquart-champagne.fr</p> <p>2009 turnover: €72m CEO: Laurent Reinteau Vineyard holdings % of grapes bought in: has access to 2,300 hectares through its 1700 grower members Bottle production: 6.8m bottles (includes Ritz Champagne, Buyers' owned brands) 3.4m under the Jacquart brand Exports: 55% including duty free sales</p> <p>Key brands: Jacquart white Veuve Devaux, Pannier, Raoul Collet are directly distributed by the parent cooperatives, respectively Union Auboise, COVAMA and COGEVI and not included in Alliance figures Main export markets: UK, Germany, Switzerland, Belgium, Japan The target remains to raise awareness of the Jacquart name outside France.</p> |

hectares, this area provides little more than a quarter of the grapes they'd need to produce their six brands of Champagne – Moët & Chandon, Dom Pérignon, Mercier, Ruinart, Veuve Clicquot Ponsardin and Krug – around 60m bottles of which in total are made each year. To make up the difference, they need to buy in the production of another 4,300 hectares or so from across the appellation.

In a market where the average price of a kilo of grapes remains by far the highest of any of France's major appellations – despite all the bad economic indicators it barely fell last harvest from the record level of 2008 with grand cru prices remaining at between €5.50 and €5.85/kg – buying grapes is the single most significant cost to producers. Four other négociants among the seven biggest groups in Champagne – Boizel Chanoine Champagne, which owns Lanson, Vranken Pommery Monopole, Laurent Perrier and P&C Heidsieck – are in a weaker supply position than LVMH, as each of them has to buy 90% or more of their grape requirements.

The relationship between the growers and the large négociants is therefore a crucial one. Clearly they need each other to function successfully, and a harmonious relationship between the two is usually a good indicator of the health of the Champagne economy. However, the balance of power between the two sides is delicate and can easily be upset, and it appears that over the past decade,

certainly from the négociants' standpoint, that the pendulum has swung a significant distance towards the growers.

And when the market dipped and there was pressure to cut yields dramatically in 2009, the then growers' leader Patrick le Brun, President of the SGV union, managed to agree a higher yield for the growers than the négoce generally wanted (at 9,700kgs per hectare, with up to another 3,100kgs per hectare put into their reserves) while grape prices remained at or near their 2008 peak. This is further evidence of the growers' power.

Avoiding imbalances

Trying to gather more and better-quality grape supplies is an ongoing issue for the négoce. Preserving good relations with their current grower suppliers is taken very seriously and dealt with at the highest level, often by the CEO. On a larger scale, managing grape supply and demand is one of the keys to the whole Champagne economy. Keeping the balance right between the level of production and the demand for the end product is critical in maintaining the high prices that will bring



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MD of Champagne
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in enough profit to continue the necessary investment in the business.

With demand looking like it had outstripped supply during the past decade, the Champenois have managed the growth by increasing allowable yields to the current maximum of 15,500kgs/ha, at the same time as slowly, year by year, adding bits of new vineyard to the appellation. However, as the appellation in its current form is nearly all planted – once a further 785 hectares has come on stream between 2010 and 2013, the Champagne appellation will be less than 1,000 hectares from its current maximum of 35,208 hectares – they have set out plans for a revision of the appellation which will lead to more land being under vine in the long term if demand continues to rise as expected. This work continues quietly out of the spotlight and is understood to be running at least one year behind schedule. Patrick le Brun, sacked as president of the SGV last November, predicted the whole process would be complete by 2020. It would of course make a great deal of sense for the Champenois to finish the research; the next step will be for INAO to appoint a new group of specialists to examine individual parcels of land in the 40 new communes to establish their suitability. This is predicted to take another five years – so that if and when more grapes are needed, this land can be planted, gradually increasing production as is required.

It's very easy to cause an imbalance in a matter of months when demand dips or spurts, as the past year has demonstrated, and a surplus of stocks, or even just a perceived surplus of stocks, leads to prices crashing until demand picks up again. Happily, for the Champenois it looks like the market recovery has been quick this time, although the cautious observer wisely counsels that we wait to see what the first half of 2010 brings. ■

The co-ops

Managing their large annual purchase of grapes has always been one of the biggest headaches for the négoce. It would be an even trickier and more time-consuming task if the houses had to deal with all the individual growers to get this material – grapes or vins clairs (still wine that hasn't undergone secondary fermentation) – for the average grower's vineyard holding is under two hectares. Most individual growers belong to some sort of local co-operative, and many of these have banded together to form larger groups, which means the houses can buy significant volumes of wine from one player. But today the two largest co-op groupings, which respectively market the Nicolas Feuillatte and Jacquart brands, have effectively become competitors of the négociants.

CVC Nicolas Feuillatte, the giant co-operative based in Chouilly, is a union of 84 smaller co-ops with more than 5,000 growers selling it grapes, nearly a third of the total working in the whole appellation. While around half is used for production of Nicolas Feuillatte, the rest is either sent back to the individual growers for them to sell under their own labels, or is available to the négoce to buy for production of their brands. Alliance Champagne is a grouping of three different major co-ops that have united to promote one brand – Jacquart – while still producing their own brands. Alliance Champagne sells and markets around 30% of the 26m odd bottles its three co-ops handle.

With these super co-op groups promoting their own brands, the role of the co-op in Champagne has changed subtly from processor and provider of services to its grower members to brand owners.