Global market review of Champagne – forecasts to 2016

2012 edition

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Executive summary

The Champagne industry stands at a crossroads at the mid-point of 2012. Following the economic downturn and the inevitable sales declines of late 2008 and 2009, recovery followed in 2010 and continued in 2011.

But there were already signs of a slowdown towards the end of 2011, particularly in the crucial markets of western Europe, the destination of about xx% of Champagne's annual shipments, and that trend has continued in some markets into 2012.

Other countries exhibit a more dynamic sales trend, not least the resurgent US and Japan, the fast-rising star of Australia and, perhaps predictably, the burgeoning economies of Asia and Greater China in particular, although these are working off a much smaller base.

These exciting new markets, which an increasing number of producers are eagerly embracing, can only partially offset the declines, static volumes or slight increases likely to be registered in Champagne's more mature – and much bigger – destinations. Most observers think overall Champagne shipments will rise only slightly during 2012.

After that, the picture becomes murkier, but it's likely that those "new" Champagne markets will continue their growth curve, with recovery coming to the eurozone painfully slowly. Only in 2015 will growth become more pronounced – and that could be the year that global Champagne shipments break through the EURxbn revenue barrier for the first time.

The subtle shift in emphasis for Champagne's geographical reach – magnified by the eurozone debt crisis and its impact on western Europe – is leading to a similar change of priority for many producers, who are increasingly targeting the Far East to engineer future growth.

However, others still emphasise the importance of Champagne's historically strong destinations, battling for market share and increased profitability even if extra volumes are hard to come by, or prioritising the relatively Champagne-savvy US.

One of those advocating the latter strategy is Cécile Bonnefond, CEO of Champagnes Piper-Heidsieck and Charles Heidsieck, which provided the recent highlight of Champagne's corporate landscape.

The twin houses were sold by Rémy Cointreau for EURxxxm in 2011 to Société Européenne de Participations Industrielles, a corporation specialising in retail and clothing and owned by the Descours family.

The Descours family wasted no time in installing Bonnefond, the former boss of Veuve Clicquot at the helm, and they will hope to make a better fist of the business than Rémy, which struggled to turn a profit in more than two decades of ownership.

One of the challenges facing Bonnefond will be securing adequate supply to drive the growth of the Piper-Heidsieck brand in particular, since the company has little by way of its own vineyards.

In fact, the issue of supply is becoming a key talking-point across the industry. With Champagne now more or less fully planted, grape prices have continued to rise slowly but steadily, reaching an average of EURxxxx per kg at the 2011 harvest.

That means that grapes now account for xx% of the cost of a bottle of Champagne leaving a company's cellars – an extremely high figure which is impacting profitability for those engaged in competitive, low-priced retail markets in the UK, Germany and France in particular.

The situation is unlikely to improve until 2020 at least and possibly even 2025 – the date when the first wines from Champagne's revised and expanded appellation are now expected to come on stream.

The long-term consequences are uncertain, but some are suggesting there could be further consolidation as the costs of buying grapes and financing stocks continue to increase, without the necessary equivalent rises in prices at the consumer end of the market.

One especially competitive – and important – time of the Champagne year is Christmas, when the sector's most vital markets sell a disproportionately high share of their volumes, often at eye-watering discounts.

The Champenois would dearly like to change this, softening Champagne's seasonality by spreading its geographical reach to countries that for cultural or other reasons don't shift huge volumes in November and December, before going very quiet in January and February.

In spreading the Champagne message on a truly global scale, the Comité Interprofessionnel du Vin de Champagne (CIVC), Champagne's generic body, plays a crucial role – not through generic advertising, but through the promotion of the category via tastings and other events, and by protecting "brand Champagne" through legal means when necessary.

As Champagne enters a key period in its long-term evolution, the role of the CIVC alongside the sector's famous brands can only become more and more important. Expanding Champagne as a category without losing its luxury status, and in an uncertain world, remains a very tricky balancing act. But if any drinks sector is well-equipped to tackle that task in the years ahead, it is Champagne.

Chapter 1 The markets

After the economic crisis sent Champagne shipments plummeting during late 2008 and 2009, the following two years were years of recovery for the category – culminating in 2011, which closely mirrored 2008 in terms of both volume and value.

But within this general picture, the detail is more complex. “In terms of growth, 2010 was a great year,” recalls Bollinger president Jérôme Philipon. “Then 2011 was very positive, although the year was cut into two parts: the first half was very good, then we saw really a change of trend in the second quarter, and the second half was much more quiet. The end of the year was all right, but nothing great.”

That quiet end to the year – particularly in France, Champagne’s largest market by far – has led into an equally quiet beginning to 2012, as markets continue to digest Champagne stocks unsold at the end of 2011.

The consensus is that, with the vital European markets still relatively depressed, 2012 will not be a year of dynamic growth for Champagne, with the French market likely to fall further following its 2011 decline.

“Europe will probably be down versus last year, because many countries are in deep crisis,” says Philipon. “What’s probably going to save the numbers are what we call the Pays Tiers – the US and Asia-Pacific.”

The recovery in the US has been a particularly pleasant surprise to the Champenois, with few predicting the substantial rise in shipments that has followed the economic crisis.

Given the ongoing economic challenges in the country, that might appear surprising; but Philipon believes the reasons for the return to growth offer hope for western Europe too. “There is also an element of consumer behaviour – and we’ve seen it in the US, and I think we’re going to see it in Europe – there is this element that people are really fed up with austerity,” he argues.

“They’re fed up with the financial and economic crisis. If people are looking for indulgence, Champagne is indulgence and celebration. In those circumstances, even countries badly impacted by the crisis are doing ok.”

There may be something to be said for Philipon’s optimistic view, but it’s hard to see how the ongoing eurozone debt crisis can help Champagne shipments to the countries affected, certainly in 2012 and into 2013 too. Thankfully, the prospects for the US, Asia Pacific and individual markets such as Brazil are altogether more positive.

So, given the dynamism of markets including China, the US and Australia, compared to the static trends of the mature markets of western Europe, are brands changing their global strategies in response?

Chapter 2 The companies

Moët Hennessy

Turnover (2011): EURxxxxbn

Sales (2011): xxxxm bottles

Domestic/export split: x/xx (total for Moët Hennessy)

Major markets: (Moët) US, UK, Japan, France, Spain

Brands owned: Moët & Chandon, Veuve Clicquot, Mercier, Ruinart, Krug, Dom Pérignon

Vineyard holdings: xxxxxha, of which xxxxxha Moët

As the world's economies imploded in late 2008 and 2009, LVMH Moët Hennessy Louis Vuitton's Champagne businesses held their nerve and stuck to the value-oriented strategy that had driven growth for nearly a decade.

The company was bruised by drops in volumes for luxury brand Krug and omnipresent Moët – the latter particularly in the US and Spain – but two years on, Moët Hennessy is positioning itself for further growth in markets from San Francisco to Shanghai.

It's been a mainly solid period for Moët, during which the company points out it has consolidated its position at the head of the Champagne pack, boosted by a resurgent US market and a strong position in the emerging markets of the East, most notably China.

The return to growth of the global luxury goods market has helped Dom Pérignon to post impressive sales in most of the brand's regions, thanks to a surprisingly buoyant Japanese market and the headline-grabbing quality of the 2002 vintage.

Similarly, Ruinart – sometimes a forgotten name in a stable of so many thoroughbreds – is showing its true worth thanks to an overdue focus on prestige cuvées, but it's easy to forget that Moët Hennessy is about more than quaffing luxury bottles in exclusive clubs: volume player Mercier has also had a decent couple of years in the crucial French market in particular.

Perhaps the biggest strength of the portfolio is its sheer scope: each brand has its place, and Veuve Clicquot – still the world's second biggest-selling Champagne brand – is combining its strength in traditional destinations with a developing role in growth markets, posting sales increases in Australia, Brazil and Argentina. While core cuvée Yellow Label remains the best seller, Clicquot's rosé has had a great couple of years to become the brand's clear number two.

Chapter 3 Production

Champagne production, within the confines of EU law, is a highly regulated business. While it is expressly forbidden to fix grape prices, for instance, maximum permitted yields are set by the CIVC based on forecast global sales over the next three years, and the level of stocks held by the houses, co-operatives and the region's growers.

Sometimes, as in 2008, this process can go seriously wrong: Champagne's biggest harvest of modern times coincided with the demise of Lehman Brothers and the beginning of the economic crisis, resulting in huge unsold stocks of Champagne and consequent financial travails for all involved.

But the aim of the control imposed by the CIVC is to preserve the delicate balance inherent in the Champagne industry: while the big houses or *négociants* are responsible for more than two-thirds of global sales and nearly xx% of exports, they own only xx% of the region's vineyards, creating a balance of power with the growers or *vignerons* of Champagne.

Following the debacle of 2008, permitted production was cut severely in 2009 and 2010 in order to allow supply and demand to get back into some sort of balance; as global shipments rebounded in 2010 and 2011, a much larger harvest was allowed in 2011, based on the growth in anticipated demand in 2014.

However, as was noted above, the CIVC is expressly forbidden under EU law to fix grape prices and, because the Champagne appellation is now fully planted to vines, prices are continuing to creep up.

The obvious answer is to expand the Champagne appellation, and as readers of previous reports will be aware, this is a process that has been under way for some time now. However, it's a complicated, politically charged and extremely slow-moving business.

Pointing out that the Champagne vineyard was once more than twice the size of today, Mumm Perrier-Jouët deputy managing director Michel Letter explains: "The whole purpose of the revision is to safeguard the uniqueness of Champagne and improve the average quality of production.

"It is about undertaking a meticulous revision of terroir that attaches particular importance to technical criteria (soil, exposure, sunshine rate…). We do not have any idea yet about how many additional hectares will be granted the authorisation of production. It is a quality-driven review process, committed by experts, that we fully support."

The underlying truth here is that, when the map of Champagne was last drawn up in 1927, plenty of perfectly decent vineyard land was left out simply because the villages concerned had better things to plant – economically speaking, Champagne wasn't a great business to be involved in then.

Chapter 4 Christmas trading

It’s no secret that October to December is the most vital trading period in Champagne’s year, as consumers stock up on bottles in preparation for the Christmas and New Year celebrations.

It also has implications for the rest of the year: if large shipments do not sell through to the consumer, shipments can grind to a halt in January and February as retailers and distributors work through unsold stocks.

A look at official shipment figures compiled by the CIVC confirms the importance of this time of the year: the volume of shipments in October to December 2011 comprised xx% of the total for the year – far higher in many western European markets, including the UK, Germany and Belgium.

But that dynamic changes in other markets – notably the US and Japan among the leading Champagne export destinations, but also in Australia and the markets of Asia-Pacific.

In the US, the last quarter of 2011 was “normal”, accounting for a flat xx% of the year’s shipments, while Australia was similar (xx%) and Japan’s figure was only xx%. (NB: there is anecdotal evidence that Champagne shipments in general fell away slightly towards the end of the year, so all of these percentage figures are likely to be down on a typical year).

Partly these differences between the markets are caused by cultural and/or religious factors – Christmas simply isn’t celebrated in the same way in other parts of the world – but clearly that doesn’t apply to the US or Australia.

General trends for Christmas 2011 were mixed, as Jacquart MD Laurent Reinteau observes. “Champagne is really connected to the overall economic environment, so Christmas in Europe wasn’t that good, but it was better in the north of Europe – the Nordic countries did very well,” he says.

“Overall, the Christmas dynamic wasn’t that good this year, but it wasn’t traumatic. The environment is getting tougher now, but at the end of the day markets can be difficult, but the important thing is how you position yourself in the market.”

Over at Mumm and Perrier-Jouët, international sales director Frantz Hotton describes Christmas 2011 in France as “historic”, thanks to the lack of sub-EUR10 supermarket promotions on Champagne, adding that the company managed to gain some market share in Italy.

His single concern is that stocks may be running at a slightly high level in the first half of 2012, but he expects that imbalance to be ironed out in the second half of the year.

Meanwhile, Bollinger president Jérôme Philipon sounds a different note, observing that all the brand’s top 20 markets had re-ordered by the end of April: “We have no one market stuck with inventory,” he says.

Chapter 5 Generic protection, promotion and the CIVC

Critics may snipe about bureaucracy being the French national sport, but even the most cynical Champagne observer would concede that the CIVC (the Comité Interprofessionnel du Vin de Champagne) has done much to maintain the stability and buoyancy of the Champagne trade for some decades now.

As a generic body it seeks to represent everyone involved in the industry, from the largest *négociant* down to the smallest grower with just a few rows of vines to tend, without showing any hint of favour or bias to any of these. If Champagne's ongoing health is the result of the balance engendered by the frequent sparring between the big houses on one hand and the growers on the other, the CIVC is the umpire.

Much of its work is internal, focused on the vineyards, the intricacies of the Champagne industry and research and negotiations over grape pricing (although fixing prices is forbidden under EU law), yield-setting and dates of harvest.

Indeed, roughly one-third of the CIVC's budget is devoted to research and development, but a similar sum is spent on external communication and the protection of the Champagne name around the world. Protecting "brand Champagne" alone devours an annual budget of about EURxm.

CIVC communications director Thibaut Le Mailloux divides the functions of the organisation into three parts: maintaining the quality of Champagne; protecting the name and status of Champagne around the world; and promoting Champagne globally via a number of international offices or bureaux.

Looking at quality first, Le Mailloux observes: "We are in permanent contact with the INAO (the National Institute for Origins and Quality, which handles Appellations d'Origine Contrôlée in France) as regards harvest yields and other qualitative measures, such as the definition and control of rules for grape pressing."

Furthermore, he adds, half of CIVC employees are scientists, engineers and technicians whose primary role is focused on research and development into sustainable viticulture. "So our first focus on promoting Champagne is to make sure its quality is up to its reputation," Le Mailloux says.

But perhaps the biggest task facing the CIVC – and the one that commands that EUR2m budget – is protecting the Champagne name. "We strive for Champagne to be perceived as it is, a wine region (GI/AOC) and therefore a unique set of production rules within a unique terroir geographically delimited as long ago as 1927," explains Le Mailloux.