

SPARKLING WITH STILL

Moët Hennessy has one of the strongest prestige portfolios in the business. As Jane Anson discovers, retaining icon status means constant brand vigilance, strategies to connect directly with consumers, plus a willingness to expand into new markets.

One of the most powerful drinks companies in the business, Moët Hennessy (the wine and spirits division of LVMH) didn't take a stand at the recent June 2007 Vinexpo trade fair in Bordeaux, despite having a Moët et Chandon stand there in 2005. Its flagship property Chateau d'Yquem hosted a cocktail party one evening during the week, and there were tastings held at chief executive officer Bernard Arnault's Chateau Cheval Blanc in Saint Emilion, but overall the presence was arms-length. It reinforced the message, whether intentional or not, that efforts are focused on direct-to-consumer activities, and not on the trade.

Recent financial results suggest that the strategy is a successful one, although getting an answer from the company itself is not easy. While figures are easy to come by for Moët Hennessy, interviews and comments are far less so. What is certain is that it operates, in alcohol as in all other sectors of its business, at the highest end of the market. Its Champagne brands are a roll call of the industry - Krug, Dom Pérignon, Veuve Clicquot Ponsardin, Ruinart - with only Mercier standing out as an anomaly. The move into still wines has been similarly prestigious, with the company often choosing to purchase existing brands rather than create its own: Cloudy Bay, Château d'Yquem and Cheval Blanc being the flagships. Today, the company produces still wine from Europe, California, Argentina, Brazil, Australia and New Zealand, distributed primarily through a network of international subsidiaries, some of which are joint ventures with the spirits group Diageo.

Sustained growth

LVMH has an annual turnover of €15 billion. The wine and spirits division, Moët Hennessy, posted a turnover of €3b in 2006, up from €2.26 billion in 2004. These successful results are a return to form following several difficult years in which results had been affected by stalled Champagne sales resulting from stock problems after the 2000 millennium celebrations, common to all Champagne producers, when shops were overstocked and therefore wholesale demand slackened. It had also been affected by the relatively poor performance of some of its former lower priced brands, such as Pommery and Canard Duchene. Profits from Chandon Estates had also been weakened by the economic crisis and currency devaluation in Argentina.

Despite the recovery, current threats to the business include the increasing power of Pernod Ricard since its purchase of Allied Domecq, which has consolidated its presence

and influence in key wine markets, notably South Africa and emerging Asian markets, plus the strong competition put up by other sparkling wines in Australia. There are also Moët Hennessy's own, often tentative, steps into still wine. Another potential question mark hangs over its relationship with Diageo, which industry insiders suggest may be on the verge of ending. The recognition of the vulnerability of over-reliance on Champagne has led it to increase its holdings in still wines, but moving out of a known comfort area is always risky and not all acquisitions have been equally successful.

Overall however, Moët Hennessy is enjoying a period of sustained growth. Shares have been rising and the company's Fitch profile was raised in May 2007 from BBB to BBB+ with its outlook improved to 'stable'. Underlining this, investments into wine and spirits were up from €70m in 2004 to €104m in 2006. The organic revenue growth in 2006 was at 14%, and profit from recurring operations was up 11%.

'What links our wine brands today,' said Pierre Lurton, director of Cheval Blanc and Chateau d'Yquem, 'is an emphasis on quality. We have developed a portfolio of wines that reflect LVMH as a luxury goods producer. Any new acquisitions will be in line with this.'

With such a large company, made up of over 60 subsidiaries, making sense of the wine portfolio isn't easy even - it should be noted - for its own staff, as many questions regarding performance received conflicting responses. Since 2004, Moët Hennessy still and sparkling wine has been grouped under Estates & Wines, to underline the division from the Champagne, spirits and Cognac brands.

A key part of the wine strategy has been expansion into overseas markets. The headquarters of the drinks division remains in France, with Arnault as both a figurehead and an active figure in the day-to-day business. Its profits, and its brands, however, are no longer focused on France, with just 8% of its overall wine and spirits revenue coming from within French borders.

Of more importance to the company today, and entirely consistent with the location of fine wine consumers, is the United States. In 2006, 31% of the turnover was generated there, 28% in the rest of Europe, 9% in Japan and 24% in the rest of Asia and other emerging markets.

Beyond Champagne

Moët Hennessy has been making sparkling wine outside of Champagne since the 1950s, when it founded Chandon Argentina. The move into still wine came with the develop-

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ment of the Chandon brand in California in 1973, and the establishment of Terrazas de los Andes in Argentina to produce high-quality varietal wines. Bernard Arnault, the *président directeur général*, personally bought Chateau Cheval Blanc in 1998 as a joint venture with Belgian billionaire Albert Frère for \$156 million, and followed this with the LVMH acquisition for \$160 million of Chateau d' Yquem – now owned 70% by LVMH, with 30% still in the hands of Lur Saluces family shareholders. In 2003, Terrazas launched a joint venture with Cheval Blanc to produce an icon wine, Cheval des Andes.

In 2001, Veuve Clicquot Ponsardin bought a 60% stake in Newton Vineyard in California and a 90% stake in Mountadam vineyard in Australia. Undoubtedly the greatest New World success was the 2003 purchase of Cloudy Bay in New Zealand and Cape Mentelle in Australia, both of which are high prestige brands that signalled Moët Hennessy's serious intentions towards still New World wines. June 2007 saw the purchase of the majority shareholding (55%) of a distillery in the Chinese province of Sichuan.

The overall holdings within Estates & Wines are also substantial. They include, besides the brands themselves, office and industrial buildings, wineries, cellars and public relations centres linked to each of its main brands, plus production operations in France, California, Argentina, Australia, Brazil and New Zealand. It is the largest land owner in Champagne, where it owns more than 4,000 acres (1,600 hectares), plus more than 1,000 acres (400ha) in California, 3,000 (1,200ha) in Argentina and nearly 2,000 (800ha) in Australia.

Market advantage

Moët Hennessy has a number of key strategic advantages over its competitors, not least of which is complete control over its distribution network. This explains, no doubt, why trade fairs such as Vinexpo are not the highest priority.

This control allows the company, particularly in Asia, to

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Pierre Lurton, director of Cheval Blanc and Chateau d'Yquem

Rather than create prestige brands, the company has chosen to acquire well-known names that already exist. Moët Hennessy also emphasise brands, not categories. Yet rather than relinquishing physical assets to concentrate solely on brand building, as other companies have done, they retain substantial international vineyard and winery holdings. Another important strategy is retaining control of distribution. As Christopher Navarre, Chairman and CEO said, 'If you want to control the brands, you have to control distribution, and we do.' He also said that while the company wasn't 'running after acquisitions' they could be interested if the heritage and image was right.



use LVMH luxury brands to mutually reinforce each other. Louis Vuitton bags are distributed alongside Veuve Clicquot Ponsardin and Cloudy Bay for example. This is not dissimilar to owners of first growth Bordeaux, who package up their lesser wines in product bundles. Yet while it is a common practice, it has not stopped competing brand owners from ascribing the growth of Cloudy Bay in some markets to the 'Clicquot connection'. Moët Hennessy USA is both importer and distributor, and the only company able to distribute the Moët Hennessy brands in the United States. Exceptions are Yquem and Cheval Blanc, which are still distributed through Bordeaux's negociant system.

Cheval Blanc has always been distributed through this traditional channel, but since 2003, Chateau d'Yquem has joined it, both to drive sales and boost the brand's profile.

1 LVMH's brands

Wine brands	Mountadam
Cape Mentelle	Newton
Domaine Chandon California	Ruinart
Domaine Chandon Australia (Green Point)	Veuve Clicquot
Bodegas Chandon	Terrazas de los Andes
Château d'Yquem	Cheval des Andes
Cheval Blanc (owned by Arnault as personal property)	Spirits Brands
Cloudy Bay	Hennessy
Krug	10 Cane rum
Mercier	Belvedere
Moët et Chandon	Chopin
Dom Pérignon	Glenmorangie
	Ardbeg
	Glen Moray

2 Corporate Structure

LVMH is based in Paris, France. The group was formed after mergers brought together champagne producer Moët et Chandon and Cognac producer Hennessy. In 1987, they merged with fashion house Louis Vuitton to form the current group. The group currently employs 56,000 people, with 40% of the staff working in France.

Bernard Arnault has enormous personal power as its *président directeur général* (PDG). Aged 57, he has a personal fortune estimated at US\$26 billion, making him the richest man in France, according to Forbes 2007.

Chief Financial Officer is Jean-Jacques Guiony and Group Managing Director is Antonio Belloni. Former CFO Patrick Houël is now a director on the LVMH board and personal adviser to Arnault. President of Moët Hennessy is Christophe Navarre, of Moët Hennessy Europe is James Cockeram, and of Moët Hennessy USA is Mark Cornell. Mark Bedingham is managing director for Moët Hennessy in Asia and Australia.

Although Lurton said profits from Yquem have risen since the introduction of *en primeur* selling, he is divided as to the benefits. 'It can be useful to release a wine at a time when the world's attention is focused on Bordeaux, but there is less benefit for a sweet wine than for the Bordeaux reds,' he said, pointing out that while 1997 was a fantastic year for Sauternes, 'its price was affected by perception of the vintage for Medoc reds.'

While the *en primeur* market is more successful for Cheval Blanc it's widely acknowledged - despite Lurton's comments - that the 2005 *en primeur* campaign was not successful for Yquem, with prices set too high. Négociants such as Bill Blatch went on record as refusing their allocations. How long this distribution method will continue is clearly under discussion. 'We will see,' said Lurton. 'It will work as long as the *Place de Bordeaux* is the best distribution network for the brands. But LVMH does have its own excellent network and we will have to look long term at what maximises visibility and profits.'

Control over distribution allows for carefully orchestrated marketing campaigns, something which retailers say sets Moët Hennessy apart from its competitors. Tim French, chief wine buyer at Fortnum & Mason in London, commented that 'the value-added promotions, from gift packs to packaging, are by far the best in the market.' Recent successes have included the Clicquot Ice Jacket, the Ruinart Escapade hamper with engraved glasses and a linen tablecloth, and the Moët et Chandon bottles encrusted with Swarovski crystals.

The future for the US looks strong, as the Champagne market there has expanded since 2001 to 23 million bottles, up a further 12% in 2006. Japan saw a 34.9% growth in Champagne imports in 2006, taking sales to eight million bottles. China saw a 50% growth, and according to IWSR, Moët Hennessy currently has 63% of the market, but as overall volume stands at just 500,000 bottles, growth is just beginning. India is the largest market for Dom Pérignon and Moët & Chandon outside Japan.

Similarly, the company has benefited from the success of pink Champagnes, both with the established Moët Rosé and the introduction of Veuve Cliquot Rosé. Tadashi Yasuda of importer Enoteca Japan, where Veuve Cliquot Rosé was launched in 2004, spoke of the dominance of women buying Champagne in Japan, 'who still want to choose an established luxury name even within a new product category.'

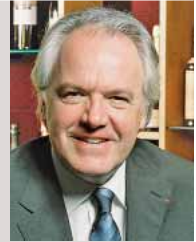
The strongest signal of Moët Hennessy's intention to focus on premium brands, however, lies not in what it has introduced, but in what it has let go. Both Pommery and Canard Duchene were unloaded in May 2002 and December 2003, and the only mid-market Champagne retained is Mercier. Its joint marketing initiatives with Diageo, that have been practised since a partnership began in 1997, have become far less frequent, and there are rumours that LVMH intends to use its improved recent earnings to regain 100% control of Moët Hennessy. 'The two companies operate in successful, but different, market segments,' said one

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Christoph Navarre, Chairman and CEO of Moët Hennessy

Navarre says the company is unashamedly pursuing the number one spot in the super-premium category, world wide. 'Moët Hennessy is the market leader in Champagne, with approximately a 20% share worldwide. We have taken the same approach for our still and sparkling wine as for our other brands: to simplify things and to focus on building the DNA of each individual asset'. As for the future, he sees growth in Asia. 'China is no longer an emerging market for us, not since it has been part of the WTO. India is more difficult because of the taxes, but it has huge potential and we will be there, following the same strategy as with China. We will evolve with the country'.



London-based wine importer. 'And it makes increasingly less sense for them to have a strategic alliance.'

There are also persistent rumours, denied by the company, that they're preparing to sell Ruinart Champagne. They intend to keep Mercier, although it seems a misfit with its other assets.

From sparkling to still

The biggest question marks hang over still wines. Despite problems following the currency devaluation in Argentina, sales have risen every year since 2001, thanks to a restructuring programme and careful management, with the Terrazas line a particular success. The Cloudy Bay phenomenon also shows little signs of abating. Almost all UK wine merchants who stock it report waiting lines, cleverly maintained by Moët Hennessy's very tight allocation policy.

But there is inevitably a tension between large volume still wine brands and the carefully constructed image of a prestige Champagne house. As Moët Hennessy works through wholesale distribution, it has few links with independent retailers and restaurants, cutting down distribution channels for the smaller still wine brands. To compound this problem, its Champagne brands are very successfully managed as separate entities. This is more unusual in still wines, where lines between a company's brands - certainly in terms of distribution - are often blurred.

The choice of priorities is not an easy one. Finance director Jean-Jacques Guiony told analysts after announcing the 2007 first quarter results, 'None of our markets are showing any signs of slowing down' but he cautioned that capacity constraints could slow growth for the rest of the year. This suggests that future growth of a company overly dependent on any one area, even the seemingly unstoppable Champagne brands, could become strangled by its own success. ■