

CHAMPAGNE'S RISING TIDE

Total Champagne sales have grown by nearly a third in the last ten years, raising prices and constraining supply. Many producers are now focusing on rosé and prestige wines – and those markets that drink them, observes Giles Fallowfield.

Despite gathering pessimism about the economic picture spreading from the US, 2007 proved to be another year of strong sales growth for Champagne. A record volume of nearly 339m bottles was shipped, an increase of 5.3% on 2006 levels, finally surpassing the false pre-Millennium peak of 327m bottles achieved in 1999.

Importantly for the Champenois, who are trying to get the highest possible added value out of the most expensive grapes they have ever purchased, exports also hit a record level of 151m bottles, up by 7.3% on bottles shipped in 2006, itself an all time high. Out of the top 30 export markets, 29 saw growth in 2007, and French domestic sales were also up. In volume terms, the bulk of these extra export sales actually came from Champagne's traditional European markets where shipments rose by 9% on 2006, not from emerging markets, which overall managed average growth of 4.7%. However, it is true that the relatively weak performance in America, still by far the largest export market outside Europe, dragged the average down.

In the US, overall shipments fell by just over 6% to 21.7m bottles, according to the Comité Interprofessionnel du Vin de Champagne (CIVC). That said, Moët & Chandon President Frédéric Cuména1 doesn't believe that actual US consumption fell by 6%. "It didn't for Moët, which was flattish in terms of volume." But interestingly Cuména1 thinks that: "Champagne has become less relevant in the US than in the past. Why? It's complex, but one of the reasons is clearly the very big interest in cocktails. Martinis have become more sexy than Champagne, and that's the direct competition for Champagne, not wine or other sparklers."

However, as long as the USA remains

one of the most important markets for higher value products like prestige cuvées and rosé styles, companies like LVMH will continue to plan for the long term and live with the current currency difficulties. While prestige cuvées accounted for 1.5m bottles or 7% of shipments to the US in 2007, rosé took a 9.7% share of the market equivalent to 2.1m bottles, and the average price paid per bottle remains high at €18.29 (\$29), the sixth best among the top 20 export countries. Add to that the fact that Moët and Veuve Clicquot between them account for well over half the US market.



»» The name of the game is quality distribution, to control where you sell and what you sell. ««

*Frédéric Cuména1,
president of Moët & Chandon*

The next biggest market outside Europe, which is Japan by a mile, had the strongest growth out of all the top ten markets bar Spain, with shipments up 14.4% to 9.2m bottles. With this sort of annual growth, Japan

looks set to overtake Belgium. Moreover, in terms of value it is already ahead of both Belgium and even Germany, the third largest export market, thanks to its high average price of €19.90 (\$31), the fifth best among exporting countries, and the Japanese consumers' predilection for rosé and prestige cuvees.

Rosé times ahead

While neither the USA nor Japan can match last year's growth in rosé shipments, when sales of pink fizz rose by 86% to 1.13m bottles in Japan and almost 48% in the US, these two countries remain the largest markets for pink-hued Champagne outside Britain. Even with the overall market declining, the US still managed a further increase in rosé shipments of 8.3% to 2.1m bottles.

In Japan, meanwhile, shipments of rosé Champagne fell, albeit only by a slight 3.6% to 1.1m bottles. Japan has also, perhaps only temporarily, lost its place as the market where rosé accounts for the largest percentage of total sales. It was just over 14% in 2006 and fell to 11.7% in 2007, giving Morocco, South Africa and the Ukraine the chance to overtake. Nonetheless, these three markets between them only account for 116,000 bottles. This may, however, have more to do with the fact that there is still a shortage of rosé Champagne.

While shipments of vintaged prestige Champagne to Japan also slipped slightly, down from 1.6m to 1.4m bottles, non vintage prestige Champagne rose by over 100,000 bottles. In spite of that, Japan has established itself as the most important market for prestige cuvées in the world, with shipments of just over 1.7m bottles in 2007 accounting for 18.8% of sales by volume and far more than that in terms of value. Thus for the LVMH group, the dominant force in both

the prestige and rosé sectors, Japan has become vital to the added value equation.

Speaking about the rosé market in particular, Moët's CEO Cuména1, who has never been very keen to talk about Dom Pérignon's sales figures, believes: "the momentum behind rosé is still going and it is here to stay [as a larger category]. While it's not going to become 50% of total sales, it grew last year to between 7% and 8% and it will definitely go to at least 10%," he says. "But I don't really know... clearly sales are based on what we can produce, not on what consumers will buy."

According to CIVC figures, rosé accounted for 7.4% of total export shipments in 2007, or 11.2m out of 151m bottles, compared with just 3.6% of exports as recently as 2002. In the UK, where most of the major producers have rosé on allocation, the shortage of stock has clearly paid a part in slowing down the growth. Even so, the market improved with overall shipments rising by 6.9% to 3.1m bottles, but this followed annual growth of over 20% for six years. Back in 2001 pink fizz sales in the UK were only 1m bottles. Whether this level of growth could have been maintained had the major players had enough stock is hard to call.

What we do know is that sales have still grown despite some substantial price rises, with several notable

non vintage brands, including Laurent Perrier and Veuve Clicquot, now priced above their white vintaged counterparts.

Cuména1 disagrees that mature European markets grew fastest in 2007. "China grew by 30%, Russia over 40% and Japan nearly 15%, while more traditional markets grew very solidly. Clearly Russia and China will continue to grow very fast in the future, but the key in these markets is the quality of your distribution network. You need to have your own people and we are greatly helped by Hennessy, which is very strong there and this has allowed up to piggyback off the Hennessy network. The name of the game is quality distribution, to control where you sell and what you sell."

Growing thirst

Worldwide, LVMH rosé styles - Moët, Veuve Clicquot, Ruinart, Dom Pérignon and Krug - rose by an impressive 21% in volume terms and Cuména1 says this was mainly down to Veuve Clicquot, which had more stock available last year. But in the LVMH annual report the so-called rising star brands, which we might interpret as those brands selling significantly more and at a higher price, are Ruinart and Krug. The latter appears to have had a particularly good year in Italy, a market in which it has long been well placed, and Japan, a prime target for the brand's growth. Olivier Krug, who

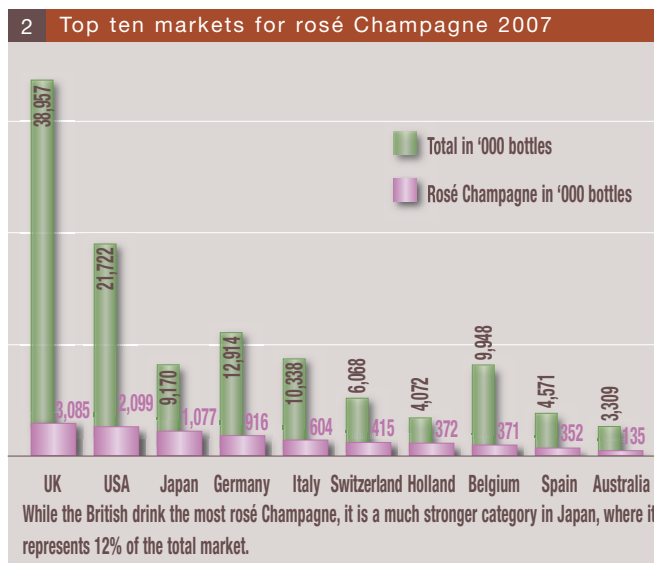
speaks Japanese, spends almost as much time there as Richard Geoffroy, Dom Pérignon's winemaker and international ambassador.

At Ruinart, for long the undiscovered secret in the LVMH portfolio, things have changed significantly over the past couple of years. Efforts are now concentrated behind premium non-vintage lines Rosé and Blanc de Blancs and the well-respected prestige cuvée Dom Ruinart. Straight vintage Ruinart is now only sold on the French domestic market, where the brand has long held a strong position in the on-trade and which still accounts for 60% of the brand's total sales.

Ruinart's major export markets other than the UK are Germany and Russia, where shipments increased by just over 40% in 2007 to around 1m bottles. Out of this total, 21% was higher value styles, prestige cuvées, rosé and vintage. This helped to give Russia the highest average value per bottle among the top 30 importing countries at €22.96. Patrick Shelley, the export director who looks after Northern Europe, Russia and Asian markets, says the long term aim is to split sales half between France and the export markets and confirms that most of the growth as well as added value is coming from the latter.

It was decided to put prices up last year in one jump of around 20% rather

Year	Export	Export as % of total	Total
1998	113,454	38.80%	292,420
1999	136,589	41.77%	327,039
2000	103,583	40.91%	253,210
2001	98,172	37.37%	262,695
2002	112,672	39.17%	287,672
2003	119,273	40.64%	293,505
2004	123,056	40.83%	301,415
2005	129,305	42.03%	307,665
2006	140,650	43.73%	321,666
2007	150,922	44.56%	338,707



SOURCE: CIVC

than spread the increase over several years, says Shelley. "It allowed us to position ourselves where we always should have been. The result is we now do the same business in terms of value, but 20% less volume. It makes sense given that the shortage of grape supplies is a major issue." UK sales now split roughly 70% on to 30% off-trade, and the latter is mainly in up-market department stores, the Harrods, Fortnums and Selfridges of this world, and fine wine shops like Robersons. Ruinart rosé sales went up 21% last year.

Having lived there between 1995 and 1998, Shelley knows the Russian market well. "In 2007 it managed the equivalent of three years growth in 12 months. Back when I lived there, wine knowledge was practically zero. If a bottle of Beaujolais Nouveau were priced at \$500 against a Grand Cru Bordeaux for \$20 on a restaurant wine list, most Russians would have bought the former. But things have now changed dramatically as the country has become a massive economic power, with many people travelling extensively," says Shelley. "They will follow quality and are willing to pay for it."

Spain also rising

This is good as the prices in retail are very high because, Shelly says, of import duties and the massive

distribution costs. "Prices start at around €80 a bottle in a downtown store in Moscow even for non-vintage styles, more than double what you pay in Northern Europe. In terms of price Russia is 100% a premium market and if it's growing so quickly despite these prices one wonders what will happen in the future. It's a similar position in Ukraine, which grew by 70% last year from 74,000 to 174,000 bottles. It's phenomenal growth and a very exciting time for us to be there."

Spain was the fastest growing among the top ten export markets for Champagne, with shipments rising by almost 28% to nearly 4.6m bottles - and this on top of a very similar 27% rise in 2006. Further, as there are no currency issues and the average price is quite high at €16.97 (\$27), Spain is one of the most profitable countries in which to do business. Few would deny that it was Moët that built the market and Cuménal says they are protecting their share, conservatively put at 50% of the volume, but more in terms of value.

Yves Dumont, chairman of the management board of Laurent-Perrier, puts Moët's previous dominance of this market even higher at between 70 and 80%, but says that things are changing now, "as Spanish consumers look for a bigger range of brands and styles". Pol Roger too had a good year in Spain with sales

there up 17%, says general manager Patrice Noyelle. This is all part of his strategy to strengthen the company by ending reliance on the British market.

Pernod Ricard also boasted a 60% growth in the Spanish market for its brands Mumm and Perrier-Jouët in its financial year ending June 2007, so clearly Moët hasn't been having it all its own way there. And it is Pernod Ricard that may pose the biggest threat to LVMH domination in new markets like China, and further ahead still, India. As deputy managing director Michel Letter who runs the two houses says: "The advantage that we have is that while we as a company are behind in the mature markets, in the new markets we start at the same line, but we have a much stronger sales network."

For the moment markets outside Europe, including the US and Japan, only account for 59.5m bottles, less than 18% of world consumption. While total exports to China grew by nearly a third in 2007, they still haven't passed the 700,000-bottle mark. The Champenois must hope that demand for their singular wine doesn't accelerate too quickly so that by the time these countries become serious players, the increase in size of the vineyard now going through a complex process of consultation and revision is complete and more land is planted with vines. ■

3 Key markets for prestige Champagne in '000s of bottles												
Year	Japan			United States			United Kingdom			Italy		
	Total imports	Prestige cuvée	%	Total imports	Prestige cuvée	%	Total imports	Prestige cuvée	%	Total imports	Prestige cuvée	%
1999	3,946	920	23.3	23,701	4,317	18.2	32,261	2,612	8.1	9,432	2,073	22.0
2000	3,175	642	20.2	19,269	2,132	11.1	20,434	516	2.5	8,240	539	6.5
2001	3,560	709	19.9	13,702	860	6.3	25,076	315	1.3	7,031	477	6.8
2002	4,007	880	21.9	18,227	1,181	6.5	31,690	404	1.3	7,951	538	6.8
2003	5,014	1,156	23.1	18,957	1,398	7.4	34,465	488	1.4	8,506	490	5.8
2004	5,922	1,280	21.6	20,578	1,636	8.1	34,953	591	1.7	8,202	455	5.6
2005	5,942	1,269	21.4	20,686	1,802	8.7	36,377	637	1.8	8,833	529	6.0
2006	8,014	1,756	21.9	23,159	1,719	7.4	36,790	610	1.7	9,285	544	5.9
2007	9,170	1,720	18.8	21,722	1,522	7.0	38,957	740	1.9	10,338	634	6.1

Although they drink far less Champagne than the Americans or even the Italians, no country pops more prestige cuvées than the Japanese. The British drink more Champagne than any other country in the world, but only barely 2% of that is luxury bubbles.