Global market review of brandy and Cognac – forecasts to 2011

2008 edition
Global market review of brandy and Cognac – forecasts to 2011

2008 edition

By IWSR Drinks Record Editor Alexander Smith

November 2007

Aroq Limited
Seneca House
Buntsford Park Road
Bromsgrove
Worcestershire
B60 3DX
United Kingdom

Tel: +44 (0)1527 573 600
Fax: +44 (0)1527 577 423
Web: www.just-drinks.com

Registered in England no: 4307068

© 2007 All content copyright Aroq Ltd. All rights reserved.
Single-user licence edition

This report is provided for individual use only. If you would like to share this report with your colleagues, please order additional copies or sign up for a multi-user licence by contacting:

Holly Nash
Research manager, just-drinks.com
Tel: +44 (0)1527 573 609
Email: holly.nash@just-drinks.com

Copyright statement
© 2007 All content copyright Aroq Limited. All rights reserved.

This publication, or any part of it, may not be copied, reproduced, stored in a retrieval system, or be transmitted in any form by any means electronic, mechanical, photocopying, recording or otherwise without the prior written permission of Aroq Limited. This report is the product of extensive research work. It is protected by copyright under the Copyright, Designs and Patents Act 1988. The authors of Aroq Limited’s research reports are drawn from a wide range of professional and academic disciplines. The facts within this report are believed to be correct at the time of publication but cannot be guaranteed. All information within this study has been reasonably verified to the author’s and publisher's ability, but neither accept responsibility for loss arising from decisions based on this report.

Incredible ROI for your budget – single and multi-user licences

We understand the pressure your research budget is under and price our reports realistically. You won’t find our reports with four, or even five-figure price tags, but you will find that they make some of the competition look expensive. Each title is available to you on a single-user basis, supplied on the strict understanding that each title is not to be copied or shared. Alternatively, titles can be shared within departments or entire corporations via a cost-effective multi-user licence. Multi-user licences can also save you money by avoiding unnecessary order duplication. To further add value, all multi-user
copies are hosted on a password protected extranet for your department or company – saving you time, resources and effort when sharing research with your colleagues. To find out more about multi-user pricing, please contact Holly Nash.

just-drinks.com membership

From just GBP99/US$195/EUR155* a year you will gain access to a growing portfolio of exclusive management briefing reports, and also receive 12 new briefings for each year you are a member. As well as this impressive list of members’ only reports, you also gain one year’s access to a constantly-updated stream of news, feature articles and analysis. Established in 1999, just-drinks has rapidly evolved into the premier source of global news, analysis and data for busy senior executives. For details of the current special joining offer visit: www.just-drinks.com/offer.aspx

*Prices correct at time of publication.
Contents

Single-user licence edition........................................................................................................................................... ii
Copyright statement.................................................................................................................................................. ii
Incredible ROI for your budget – single and multi-user licences................................................................. ii
just-drinks.com membership .................................................................................................................. iii

Contents...................................................................................................................................................................................... iv

List of figures ........................................................................................................................................................................ vi

List of tables ........................................................................................................................................................................ vii

Chapter 1 Sector overview ....................................................................................................................................................... 1
   Brandy’s rich heritage and diversity .......................................................................................................................... 1
   Market size...................................................................................................................................................... 4
   Cognac’s resurgence ....................................................................................................................................... 5
   Healthy shipment levels .................................................................................................................................... 5

Chapter 2 The changing environment............................................................................................................................... 10
   Greater producer focus ......................................................................................................................................... 10
   Greater competition ........................................................................................................................................... 10
   Inventories................................................................................................................................................... 14
   Pricing trends .................................................................................................................................................. 15
   Contemporising Cognac through hybrids ...................................................................................................... 17
   Armagnac’s continued weak performance ..................................................................................................... 18

Chapter 3 The markets .............................................................................................................................................................. 20
   France ...................................................................................................................................................... 20
   UK market improves........................................................................................................................................ 21
   Germany ................................................................................................................................................. 23
   Mixed picture in Scandinavia ............................................................................................................................ 24
   Russian Cognac market emerges ....................................................................................................................... 25
   Spanish suppliers look to rejuvenate brandy ..................................................................................................... 28
   Strong premium trends in US ............................................................................................................................ 29
   Mexico trades up.......................................................................................................................................... 33
   Brazil, Bolivia and Colombia brandy gains ......................................................................................................... 35
       Conhaque gains in Brazil ........................................................................................................................................ 35
       Domecq dominates in Colombia .................................................................................................................. 35
   Pisco’s phenomenal growth in Peru and Chile .................................................................................................... 36
       Peru ...................................................................................................................................................... 36
   Asia ......................................................................................................................................................... 38
       Cognac sales explode in China ........................................................................................................................... 38
       Taiwan’s faddish market ................................................................................................................................. 41
       Other emerging Asian markets .................................................................................................................... 42
       Japanese malaise ......................................................................................................................................... 43
List of figures

Figure 1: Value share of leading Cognac distributors in Russia, 2006 (% share)............................ 27
Figure 2: Volume share of leading Cognac distributors in Russia, 2006 (% share)......................... 28
Figure 3: Leading brands in US domestic market by share in 2006 .................................................. 30
Figure 4: Leading travel retail brands by % volume share in 2005 .................................................... 46
Figure 5: Hennessy – leading markets as a share of sales and total volume sales, 2006 (% and nine-litre cases) ........................................................................................................ 51
Figure 6: Rémy Martin – leading markets as a share of sales and total volume sales, 2006 (% and nine-litre cases) ........................................................................................................ 53
Figure 7: Martell – leading markets as a share of sales and total volume sales, 2006 (% and nine-litre cases) ................................................................................................................ 56
Figure 8: Courvoisier – leading markets as a share of sales and total volume sales, 2006 (% and nine-litre cases) ........................................................................................................ 58
Figure 9: Camus – leading markets as a share of sales and total volume sales, 2006 (% and nine-litre cases) ................................................................................................................ 61
Figure 10: Otard – leading markets as a share of sales and total volume sales, 2006 (% and nine-litre cases) ................................................................................................................ 64
List of tables

Table 1: Total non-Cognac sales by volume by market, 2002, 2005-2011 ('000s nine-litre cases and %) ........................................................................................................................ 4

Table 2: Europe factfile for shipped Cognac ................................................................................. 6

Table 3: Americas factfile for shipped Cognac ........................................................................... 6

Table 4: Asia factfile for shipped Cognac ..................................................................................... 7

Table 5: Global Cognac shipments in 2006 (millions of equivalent bottles and % change) ........... 8

Table 6: Total Cognac sales in France, 2002, 2006-2011 by volume ('000s nine-litre cases) ...... 20

Table 7: Total Cognac sales in the UK, 2002, 2006-2011 by volume ('000s nine-litre cases) ...... 21

Table 8: Total Cognac sales in Germany, 2002, 2006-2011 by volume ('000s nine-litre cases) .... 23

Table 9: Total Cognac sales in Russia, 2002, 2006-2011 by volume ('000s nine-litre cases) ..... 25

Table 10: Total Cognac sales in the US, 2002, 2005-2011 by volume ('000s nine-litre cases and %) ............................................................................................................................. 29

Table 11: Total Cognac sales in Mexico, 2002, 2005-2011 by volume ('000s nine-litre cases and %) ............................................................................................................................. 33

Table 12: Total Cognac sales in Mainland China, 2002, 2006-2011 by volume ('000s nine-litre cases and %) ............................................................................................................................. 38

Table 13: Total Cognac sales in Taiwan, 2002, 2006-2011 by volume ('000s nine-litre cases and %) ............................................................................................................................. 41

Table 14: Total Cognac sales in Japan, 2002, 2006-2011 by volume ('000s nine-litre cases and %) ............................................................................................................................. 43

Table 15: Travel retail shipment volume for Cognac, worldwide 2002-2006 (m bottles) .......... 47
Chapter 1 Sector overview

Brandy’s rich heritage and diversity

The term brandy is derived from the Dutch word brandewijn, meaning ‘burnt wine’, which is how Dutch traders described it in the 16th century as they brought it to Northern Europe from its heartland in Southern France and Spain.

There are numerous styles of brandy, and in some instances, particularly where it is produced from molasses, the definition is stretched to its limit. In its broadest terms, brandy can be defined as a spirit distilled from fermented fruit juice or fruit skin and pulp. Within that broad umbrella definition, there are three main types:

1. Grape brandy is made from distilled grape juice, or pressed crushed grape skin and pulp. This spirit is then aged in wooden casks, usually oak, where it attains colours and flavours.
2. Fruit brandy, as the name suggests, is the broad term for all brandies that are made from fermenting fruit other than grapes. Fruit eau-de-vie, colourless fruit brandy, notably from the Alsace region of France, is a common style. Calvados, an apple brandy from the Normandy and Brittany regions of France, is one of the more recognised styles of fruit brandy.
3. Pomace brandy is made from the pressed grape pulp, skins and stems that remain after the grapes are crushed and pressed to extract most of the juice for wine. They are not always aged, and if they are aged it is usually not for long, or in wood. Italian grappa and French marc are two of the more popular types of pomace brandy.

Cognac is the most successful and celebrated style of brandy, and takes its name from the town in south-western France which lies at the heart of its delimited production area.

Every step in the production of Cognac, from the growing of grapes to the distillation of the new brandy, must take place within certain delimited areas of the Charente and Charente-Maritime départements. This delimited area is divided into a number of districts: Grande Champagne, Petite Champagne, Borderies, Fins Bois, Bons Bois and Bois Ordinaires. The first two of these regions produce the best Cognac, known as Fine Champagne.
Chapter 2 The changing environment

Greater producer focus

Another reason for optimism for Cognac’s prospects stems from certain ownership changes in recent years. Certainly, Pernod Ricard’s acquisition of Martell at the end of 2001 has reinvigorated that particular brand. Martell had languished under Seagram’s ownership. Similarly, Beam Global Spirits & Wine’s acquisition of Courvoisier Cognac, as part of the carve-up of Allied Domecq, is also in the process of being revitalised.

There were also changes at some smaller Cognac houses. Raynal Cognac is under new ownership, following its acquisition by William Grant & Sons.

Explaining the rationale for the deal, William Grant & Sons’ CEO Roland van Bommel says: “It [Raynal] is a company brand that has two faces. One face is Three Barrels brandy, and that’s the reason we bought it. It’s a brand specifically for the UK and travel retail. It had a good year last year. We see some opportunities for Raynal Cognac in some markets, such as the US, Russia and maybe in China or Taiwan, but primarily for us it is a support to our UK operation.”

Another potentially significant player has emerged under the CL Financial umbrella. Its Belvédère subsidiary acquired Gautier Cognac as part of its acquisition of Marie Brizard last year. The group had also acquired Hine Cognac from LVMH in 2003.

These newcomers are bringing greater focus and investment into the category. It is yet another reason to believe that the current boom in the global Cognac market is sustainable.

Greater competition

Cognac today faces much greater competition at the premium and super-premium end of the market than it ever did. For a long time, Cognac had the top end of the spirits market to itself, but in recent years Scotch whisky has
Chapter 3 The markets

France

Table 6: Total Cognac sales in France, 2002, 2006-2011 by volume ('000s nine-litre cases)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumes</td>
<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
<td>xxxx</td>
</tr>
</tbody>
</table>

Source: The IWSR

For any product, growth in its domestic market lends credibility to the overall category. For several years now, Cognac has struggled in France. Between 2001 and 2005, the market fell by xxxx%. But BNIC figures suggest that in 2006 the market actually grew for the first time in years, rising by xxx%. It was part of a broader improvement in the French spirits market last year after a difficult period.

BNIC director Alain Philippe says: “In the somewhat depressed economic climate, France can be very proud of Cognac’s excellent results in 2006.” The BNIC concedes that there is further work to be done and has enlisted a public relations firm in a bid “to change the consumption of Cognac in France towards a more contemporary style and win back the French market”.

The xxx% growth in shipments is probably not a true reflection of actual consumption. The IWSR estimates that actual sales are at best stable, which in itself represents an improvement. The largest brand is Courcel, which is produced by La Martiniquaise. It is fairly inexpensive at EURxx for a 70cl bottle. UniCognac’s Gautret, another low-priced brand, is the other major player.

UniCognac and La Martiniquaise are also the major supermarket own-label suppliers. Own label accounts for some xx% of the off-trade Cognac category in France.
Chapter 4 Favourable travel retail trends

Figure 4: Leading travel retail brands by % volume share in 2005

Source: The IWSR

Cognac has long been one of the cornerstones of the travel retail liquor industry. It suffered a sharp decline in the ‘90s for a variety of reasons. The bursting of the Japanese ‘Bubble’ economy and the decline of Japanese duty free liquor purchasing was a major factor. The Japanese had been the key locomotive in duty free Cognac purchasing up to this point. This was followed by the Asian economic crisis of 1997/1998 and then the Sars epidemic. And in Europe, the abolition of intra-EU duty free in July 1999 was another major blow. Between 1990 and 2001, Cognac sales in travel retail fell from xxxm nine-litre cases to xxxxm cases.

The good news is that travel retail sales are beginning to claw their way back. Global travel retail Cognac sales rose by xxxx% in 2005 to reach xxxxm nine-litre cases, according to The IWSR estimates.

North America is one of the main markets driving this expansion, with Cognac sales reaching xxxxxxx nine-litre cases in 2005 in travel retail, a rise of xxx%
Chapter 5 Producer profiles

Hennessy builds upon its dominance

Figure 5: Hennessy – leading markets as a share of sales and total volume sales, 2006 (% and nine-litre cases)

 Hennessy Cognac, owned by Paris-based Moët-Hennessy, the drinks division of LVMH, is far-and-away the dominant global Cognac brand with a xx% share of the global market in 2005 – up from xx% in 2001. Over that period it has grown by almost xxxxxxx cases to reach xxxxm cases. In 2006, the brand added another xxxxxxx cases to reach xxxxm cases.

Hennessy increased its growth in volume in 2006. That vigour was seen in all its products and its superior qualities posted excellent gains. The brand performed strongly in its strategic markets, the US and China especially, two markets where Hennessy is benefiting from significant advertising investments.

Momentum was maintained in the first quarter of 2007 (to 31 March) – a period that was marked by strong revenue growth. Hennessy Cognac volumes climbed during the quarter by xx% and again the higher quality ranges recorded strongest growth. Its fast development in China and Russia continues. The company also implemented price increases ex-France (in March/April 2007).