

**Strategic Marketing Changes over
Time & Generations**

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the Case of a Small Champagne Producer

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Abstract

This paper presents the strategic marketing changes a small, family-owned Champagne firm has experienced over three generations. The strategic and managerial decisions have a strong connection to personal preferences and career choices for the grower-producer in charge. Through interview over a 4 years period, information regarding historic decision as well as future plans has been gathered. Analyzing the changes that have been taking place shows that strategic changes should be carefully analyzed since they have implications for a long time, and that the current situation demands a higher degree of marketing expertise than ever before.

Background

This research project was instigated in 2002. It is a longitudinal study of a small Champagne grower-producer regarding small business management and marketing strategies over time. The objective has been to explore the conditions and business situation (in a broad sense) of a small wine producer in a time when larger firms are becoming more and more dominating. In order to gain a solid understanding of the situation a longitudinal methodology was decided upon. Most business studies are usually a snapshot of what is happening within a firm. The advantages of returning to the same site over a period of years made it possible to track changes in planning and perception of market decisions. Another advantage is that the level of trust is built over time, which has been resulting in, among other things, an increasing level of access over time.

The information in this paper has been gathered via personal interviews on site with the current owner/operator between 2002 and 2006 with one to two interviews per year. On one of these visits the father (former operator) was also present and answered questions. All interviews were recorded on tape/mp3 and fully transcribed afterwards.

Champagne – A Background

Champagne is a wine associated with glamour and luxury. Guy wrote for example that "Champagne is an excellent example of the mysterious ways in which humans define themselves through their consumption and use food and drink to give meaning to social events." (Guy 2003:220) Due to its exclusiveness it is also a product that has been copied in many regions and countries all over the world. Due to a strong branch organization, C.I.V.C.³, and the European Union's Protected Designation of Origin (PDO) status, only wine produced in, and with grapes from the Champagne district has the right to call itself Champagne.

The area of Champagne is located east of Paris. The center of Champagne business is found in and around Épernay, where you will find all the large and well-known brands like Moët-Chandon, Laurent-Perrier, Veuve Clicquot, and Charles Heidsieck, to name a few. Another region is found further south, southeast of Troyes in the area of Bar-sur-Aube and Bar-sur-Seine. These parts of the Champagne region is not as well known, probably due to the fact that none of the large well-known brands have their headquarters in this area. Still, this region is an important producer of grapes, both for their own champagne production, but also as producers of grapes, sold to the large well-known brands.

The total Champagne growing area is approximately 30.000 hectares with a yearly production volume of over 300 million bottles per year. During the 1900s, the sales have increased both in volume (ca 400 per cent) and value (ca 600 per cent) (Guy 2003). In total, there are approximately 15.000 growers with an average of 1,5 hectares of land (C.I.V.C. 2008), but as in many other industries, there are a few large firms that together control a dominating part of the later parts of the value-chain.

The balance between the small grower-producers and the large Champagne houses are interesting when it comes to volumes, sales, and export. A study from the middle of the 1980s shows following production numbers in 1985 (Sharp and Smith 1990:23):

	<u>Production</u>	<u>Sales in France</u>	<u>Export</u>
Grower-producers (million bottles):	61	57	4
Champagne houses (million bottles):	135	66	69

In 2006 one can note that 85 per cent of the export was made by the large Champagne houses. They were at the time selling 181 million bottles in France, 84,1 million bottles in Europe, and 56,5 outside Europe (UMC 2008b). But the champagne market is not as international as one might think since more than 50 per cent of the bottles are sold in France (UMC 2008a).

When involved in champagne production you have to decide on what type of grower-producer you want to operate as. The two most common types are *Récoltant Manipulant* (RM) and *Négociant Manipulant* (NM). As *Récoltant Manipulant* you have decided to be a producer of your own grapes only. You produce what your own land can provide but nothing more. (In order to be able to be your own producer of bottles you will need the equivalent of about 3-4 hectares of grapes to make it profitable.) As *Négociant Manipulant* you have decided that you want to be able to buy grapes from other winegrowers in order to be able to produce more than what your own land can provide.

The Small Champagne Producer

The village is located in the Aube district (Côte des Bar) approximately 150 km south of Épernay. The Aube district produces grapes on ca 6.800 hectares (compared to Épernay's 22.000). In this village there are one *Négociant* with about 22-24 hectares of land, three grower-producers with about 10-12 hectares (among them the firm in this study), about 10 co-ops, and in total 124 different brands. This should be compared to all the 57 producers that can be found in the village. Approximately 30 per cent of the village's vineyards are owned by people living outside the village. Most of them originate from surrounding villages and Épernay.

The family in this case has been producing wine since the early 1700s, but this story starts later in history. In 1927, when the final appellation was decided upon, and the family and their vineyard (at this time around 25 hectares) formally were within the Champagne area, they decided to start produce their own sparkling wine.

Management & Marketing Strategies Phase 1 (1930s – 1967)

Their first production of champagne was made in the early 1930s, which made them among the first in the Aube district. The sales went well, which meant that they needed more grapes to be able to produce more wine. The operator managing the house therefore decided to become a *Négociant*. He also became a broker in the area; not only buying and selling grapes for his own firm, but as a trading representative for the big champagne houses in Épernay as well. The firm expanded. They upheld their own press, storage capacity etc, but the operator also initiated the building of a press in the village as a co-op for the smaller producers. It was built in 1942 and is still in use. The manager also labeled the bottles with the family name as well as with his own given name.

Management & Marketing Strategies Phase 2 (1968 – 1999)

It was time for next generation to take over the business in 1968. The son that took over had gone through the proper education at a school specializing in wine production, but he decided that he did not want to operate as a *Négociant* as his father. He also decided to keep the brand name with his father's name on the bottles, since it was well known and established on the market.

Two years later the family vineyard was split between the operator and his brother, leaving him to operate a vineyard of 12.5 hectares. He turned all of the harvested grapes into Champagne bottles under his own brand and was selling approx. 90.000 bottles a year. The clients covered all categories from private customers to wine shops and small supermarkets. This strategy was kept until 1990 when he decided to sell part of the harvest to one of the big Houses in Épernay. The reason for this decision was the changing market structures. The supermarkets became larger and larger. Requests came for volumes of 500.000 bottles, which was not possible to compete for as a small producer. It also became a market of fierce price competition. He then took the decision to produce Champagne of higher quality and focus solely on the private customer market. In order to maintain and serve the private customers, the family therefore also decided to keep the house open for visitors, showing them around the sites, including the vineyard, press, winery, cellar etc.

In 1982 the family changed the ownership structure of the land. At that time they established a *Groupement Foncier Agricole* (GFA). The GFA is a company association whose sole purpose is to manage the land. The GFA then signs a lease to rent the land to the one in the family that is currently the operator. The advantage of the GFA is that shares are divided among family-members when they inherit, but the size of the land itself remains intact. (Many other families have not formed a GFA and the result is that the operator has to sign individual leases with each owner, which results in a lot more paperwork, and the risk that the land is divided into numerous smaller growers instead.)

In the mid 1990s the current operator and his wife visited Napa and Sonoma Valley in California. The visit was an eye-opener for them both. The markets were changing and new competitors from all over the world were entering the French market. The operator and his son discussed three possible strategic decisions. One would be that the son would take over the business and carry on as the family had done for generations. Another possibility would be to lease the land to someone else and let the son make a career within the industry at some other company. A third option would be to sell the family land and start wine production somewhere else in France or abroad.

External forces like *Comité Interprofessionnel du Vin de Champagne* (C.I.V.C.) were also demanding changes. In 1995 the C.I.V.C. decided that their press was too small according to present regulation. After some contacts with C.I.V.C. it was agreed upon that they were allowed to continue with the small press, but when they change, they had to change to the new specifications. In May 2000 they got a new letter from C.I.V.C. stating that the old decision was not valid any more and that they had to have a new press in operation for the harvest of 2001.

Management & Marketing Strategies Phase 3 (2000 - today)

The next generation took over the family business when one of the sons bought the business of his father. The son also signed a 30 years lease on the land with the GDF in November 1, 2000. One of the first decisions for him was to order a new press in September 2000, even before signing the contract for the lease of the land. The construction started in March 2001 and everything was ready for the harvest in fall of 2001. It was a tough investment for the new owner since the investment was approximately 100.000 Euro and the building around the press was another 200.000 Euro. The advantage of the modern press was that it ensured a good quality of the juice.

Changes were made regarding customer records by buying a computer to the office (they were done by hand until 1999), build a web-site, develop the export potential etc., but nothing was changed on the production side. He kept the blends, same length of aging the bottles etc. in order to ensure similar quality on his products.

70 per cent of the land is planted with Pinot Noir, and 30 per cent with Chardonnay (and one single plant of Pinot Meurnier in the courtyard to show visitors). They sell almost 70 per cent of their juice at harvest to De Castellane (part of Laurent-Perrier) in Épernay. A contract running for nine years was signed in 2001, to sell somewhere in the span of 60 to 70 tons of grapes at harvest. The rest of their grapes are used to produce their own champagne. The juice sold to De Castellane is paid in four installments each quarter during the year. This means that compared to their own bottling, they receive a cash return within the same year, compared to having to wait 4-5 years for the aging of their own product.

The production of bottles from 2000 and onwards has been divided as follows (approximately):

- 20% Blanc de Blanc (100% Chardonnay);
- 15% Rosé (100% Pinot Noir);
- 60% Blanc de Noir (100% Pinot Noir);
- 5% Blanc de Noir, Demi-sec (100% Pinot Noir).

In 1995 the operator at that time decided to make a special Millennium bottle. The bottle was a success and his son decided to expand the product range with a more exclusive product. They made another blend of 50% Pinot Noir and 50% Chardonnay on two different years in 2000, and are now waiting for other good years to blend a special cuvée in a similar way.

In 2002 they focused on a large number of private customers (90-95 per cent of their sales), a few restaurants and one or two shops. Only 15 per cent were exported (ca 5 per cent to United Kingdom, and ca 10 per cent to Belgium). The ambition were to keep their large number of private customers, and at time they had to try to limit the quantities per order so that they had enough for all their clients. The prices to private customers were pending between 12,5 – 13 Euros for their Blanc de Noir & Blanc de Blanc, to 19 Euros for their special Millennium bottle sold in 2000/2001.

The current operator planned to expand his market after “settling in”, but he did not want to become a *Negociant* since it would involve among other things to expand the winery to hold more bottles. (The cellar capacity is 50.000 bottles.) The expansion still came natural since an additional 2 hectares that were replaced with new vine were starting to produce grapes. By keeping the whole crop himself, he gained production capacity of another 17-18.000 bottles. Any further expansion of the volume of bottles would mean lowering the volume of grapes sent to De Castellane.

Market Assessment & Activities

The business has been developing over time. Even if he felt it to be important not to change too much in the beginning, he made some small updates to the design of the bottle and label, but similar to his father he kept his grandfather’s name on the label.

The current operator’s analysis of the market is that the general trend toward alcohol in France is shifting. From the ‘classic’ picture of the French man sitting by the table where you always would find a bottle of wine, there is a growing concern about for example drinking and driving. The general trend is also that the French people do not learn as much about wine as they used to, therefore the knowledge about wines are going down among the population. (Compared to some other countries in Europe like UK and Belgium where the trend is growing.) Still the market has been shifting “upwards”. Most people are not interested in buying as much as possible to a low price. Often they want a few bottles of a nice or interesting wine for special occasions and dinners, and not for everyday use.

One way for him to add value to his products was to use a distant relative – a painter, in his marketing. He negotiated with relatives about the rights to print miniature copies of their paintings on the metal cap that covers the cork on each bottle. The year after, the series of 15 different caps were listed in a collector’s catalogue to the value of 1,5 to 2 Euros per piece.

He has also explored the export markets over the last years with a special focus on Asia. Due to a visit to the region by a group of Japanese importers, some export was initiated. During 2006, 25% of the sales were to Japan, and it seems like it could continue to expand in the future. He has developed the relationship with a few importers that are interested in smaller amounts of bottles to uphold the exclusive image.

Recently, the owner decided to invest in two new VATs for red wine production. Due to a higher demand (and therefore higher price) of red wine he started to convert more of the Pinot Noir into rosé. Since the contract with De Castellane only specify quantity, and not types of grapes/quality this has been a way to increase the revenue on the contract without renegotiations. The VAT’s has also let him add a short macerated pink special cuvee to the assortment. In 2006 he also decided to make a special selection of 2.800 bottles aged on oak and stored on old-fashioned cork caps instead of the normal metal caps. His tentative price range for the new bottles are around 25 Euros for the pink special cuvee (similar in price to their normal magnum bottle), and around 35 Euros for the oak aged series.

In 2006 he also experienced a situation where they were “sold out” for two months. This situation created a new problem for the manager. His customers still needed Champagne and there was a risk that they would search for new brands. He decided to cooperate with another producer, negotiating a discount for his clients. He cooperated with a producer he though was good, but sold his bottles to a higher price than himself.

Analysis

Champagne has since its start been an exclusive product with a high price. This is not surprising. As Morin notes: "by restricting the yield of the grapes and limiting the production of any wine to a particular area, the appellation laws act as a type of supply control. If this is the only region or locality in which a wine of this type is made, and if the yield is restricted, the price is likely to be higher." (Moran 1993:704).

As can be seen in the case above, the firm and its strategy has close connections to both market situation as well as the operating manager’s personal preferences. During “phase one” the firm operated on a growing market and the operator was expanding his business to keep up with the changes.

During “phase two” the operating environment changed. Not only was the vineyard divided in two, a trend of mergers within the industry was initiated in the early 1970s starting with Moët-Hennessy in 1971, and compared to many other wine regions, the larger Champagne companies merged with luxury and liquor brands instead of keeping the mergers within the same industry as in other regions like for example Bourgogne (Saulpic and Tanguy 2002:34). This changed the competitive environment, leading to larger producers as well as buyers becoming used to requesting larger volumes. The decision to restructure the family’s land into a GFA in early 1980s was at least to some extent a reaction to prevent the general merging trend to become and even larger divide for their business.

The current manager in “phase three” had a strong conviction that his business should be 100 per cent independent. Most of today’s winemakers are using subcontracts in some form or another, and his assessment is that the amount of firms without subcontractors are less than 5 per cent of the total population. Still, he thinks it is important to ensure the quality of the whole process.

A few years after taking over the business, when he had become comfortable as the manager of the firm, he decided to make some strategic changes. As Bisson et al. noted: “To be successful in the modern marketplace, a winemaker must integrate the artistic and economic aspects of wine production” (Bisson et al. 2002:696). He has focused on his core business even if there are examples where other industries want to benefit from Champagne’s market position. (Examples include chocolate and cosmetics where the Champagne can be used as an attractive component (CGI 2003).) The evolution of the assortment is interesting. He is acting on his analysis that the market is going “upscale” by adding more expensive bottles to the product range.

Adding collectable caps to the present products is another way of adding value to the product on the augmented level. It is not only a way for him to attract new customers as well as retain old ones, but it also help attracting a new segment – the cap collectors. Since the different caps are

randomly spread among the bottles, you either have to buy a lot of bottles to collect all variations, or you can buy the collectors set at the winery-store. Either way, the producer has succeeded in attracting your interest in his products.

His decision to keep his grandfathers name on the bottle is also interesting. A German study found that since "it is rather expensive to obtain information about sensory characteristics consumers tend to make their choice primarily on the basis of objective characteristics that are printed on the label of the bottle as well as on the information obtained from one or more wine guide(s)" (Frick 2004:373). The benefit from being able to print Champagne on label is strong. The Champagne industry's advantage is according to Sharp & Smith (Sharp and Smith 1991) a clear positioning, their quality, what they signal to the market, and a strong brand defense. If they also have a present brand name that is well established it seems to be a good decision not to change is.

Arguments have been made that for an SME to be successful in today's business, they need to uphold an international competitive position even on the domestic market (Karagozoglu and Lindell 1998). This cannot be confirmed in this study. The present operator decided to expand his market to Japan, thereby finding the suitable balance exclusiveness/smaller volumes he desired. This also gave him the opportunity to benefit from a higher profit margin than on the domestic market – a classic price discrimination decision (Kotler and Keller 2006).

Conclusion

This paper shows the evolution of a small family-owned champagne producer over three generations. It establishes the fact that managerial changes must take place in order to adjust to a changing environment, but due to the long production time, changes should not be implemented too fast without being properly analyzed. They have to live with the consequences of their decisions for many years and if doubt recommendations should be to make small changes if at all. Strategic changes might be especially difficult to implement due to the perceived notion of "upholding the tradition" in a successful industry.

Similar to most industries, the impact of the international market has become more important for the Champagne industry. Higher demand from expanding markets, like for example Russia and China, has created a very favorable situation for the industry as such. Exporting is reaching new highs every year, and the demand has even created a shortage of grapes. The Institut national de l'origine et de la qualite (INAO), which regulates the AOC label, is currently investigating the possibilities of adding new villages and land under the Champagne AOC in order to meet this demand (BBC News 2008). Still, the general trend among the smaller producers is to supply the larger Champagne Houses with grapes and juice. Since the domestic market is mature and highly competitive, even small producers need to find new ways to gain a competitive advantage by adding value to the product or exploring new markets. This requires more marketing knowledge than ever before from the managers.

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³ CIVC is the trade association representing Champagne Houses and Growers. Their main objectives are: organization and transparency of relations, quality control, and protection and promotion of the Champagne appellation. (<http://www.champagne.fr/gb/portail-gb/index-gb.html>)