

Cognac

The delicate balance between selling too little and selling too much

It's the dream of every marketer; a huge demand for your product that leads to a shortage of that product and as a result of that to a higher market price. That dream has come true for the Cognac region where sales for cognac have gone up with more than 30% since 2009¹. However, in a world where cognac is firmly rooted in history and where stock is traditionally bought by fathers to be sold on by their sons or daughters, the effects of this success for the long term are unsure. In this essay I will explain how cognac came to be where it is today and what efforts are being made and could be made to make sure the cognac business continues to flourish in the future.

1. How it all started

1.1 Going Dutch

Although we don't know exactly when and where cognac was first created, it is said that the frugality of the Dutch led to the first samples of cognac². The Dutch were important trade partners in the 16th century. They already had distilling knowledge and why would you load a ship with barrels filled with 90% of water? Distillation of the wine would vaporize the water and the concentrated alcohol would remain, thus cutting back on transport costs. This is how 'brandewijn' (brandy) was invented. The idea of the Dutch was to lengthen the distillate with water again afterwards in order to get the original wine back. However, it was the distillate itself that got popular.

1.2 Going further away

In the 18th and beginning of the 19th century the protestants ruled the trade in cognac and their co-religionists abroad formed the basis of their commercial network³. Around 1850 cognac was shipped in bottles rather than casks for the first time, which gave a lot of publicity worldwide and therefore boosted the trade. Glass production was set up around the city of Cognac and by 1880 1 million bottles were sold⁴.

By this time the export of cognac had expanded from Northern Europe to two new markets: America and the Far East⁵. In 1878 the vineyards of Cognac totalled almost 700.000 square yards.

1.3 Change of taste and smell

However, when phylloxera arrived this total was diminished to almost 100.000 square yards and trade slowed down as a result⁶. Afterwards the vineyards were replanted with grafted ugni blanc vines. Species used before such as folle blanche and montils all but disappeared and as a consequence the taste and smell of cognac changed. There are still quite a few samples of pre-phylloxera cognac available and connoisseurs say that they have more floral tones 'almost like perfume.'⁷

1.4 BNIC

In the 20th century legislation was introduced with the recognition of Cognac as an 'appellation d'origine contrôlée' since 1936. During the second world war trade continued as Cognac was 'lucky' because the German occupiers didn't confiscate all stock (as happened in Champagne)⁸. During the war the Bureau National Interprofessionnel du Cognac (BNIC) was founded, which has played an important role in the cognac industry until today.

1.5 Ups and downs

Production and sales of cognac have known quite a few ups and downs since then. Cognac was known as a luxury item and therefore sales were heavily influenced by the situation of the world economy. In the seventies the industry therefore suffered badly. The oil crisis and the consequent collapse of the world economy caused a downwards spiral both in production and prices.

¹ Website of the BNIC

http://www.cognac.fr/cognac/_en/4_pro/index.aspx?page=chiffres_ac (last accessed 31/03/2018)

² Koops, *Cognac kiezen op smaak*

³ Gregory, *Cognac alle informatie voor de liefhebber*

⁴ Gregory, *Cognac alle informatie voor de liefhebber*

⁵ Website of the BNIC

http://www.cognac.fr/cognac/_en/2_cognac/index.aspx?page=histoire (last accessed 31/03/2018)

⁶ Gregory, *Cognac alle informatie voor de liefhebber*

⁷ Koops, *Cognac kiezen op smaak*

⁸ Koops, *Cognac kiezen op smaak*

Consequently the cognac industry had a problem regarding overproduction that lasted for almost 20 years. At the end of the eighties the demand from the Asian markets rose again only to collapse partly a couple of years later when the Japanese market crashed when Japanese employers no longer allowed their workers to consummate cognac at the companies' expense.⁹ The production figures therefore fluctuate heavily: in 1989 cognac houses produced 806.000 hectolitres and in 1999 only 325.000 hectolitres!¹⁰ Since then the market has gone up and down again, growing steadily until 2007, with a rather sharp turn downwards in 2009 and then a vast growth again (despite the collapse of the Chinese market in 2012) until the present.¹¹

2. What's happening now

2.1 Key markets 2017

At this moment cognac's popularity has never been higher and this is both good news and bad news. The good news is that sales have gone up tremendously in the past three years and that 2017 saw the highest volume (197,4 million litres) and value (€ 3,15 billion) of export ever with almost 98% of all cognac being exported, mostly to key export markets¹²:

1. USA (41,8%)
2. Far East¹³ (28,8%)
3. Europe (21,1%)

⁹ Koops, Cognac kiezen op smaak

¹⁰ Production numbers are always expressed in hectolitres of eau de vie (72%). It is difficult to calculate the exact amount of bottles because of the ripening process which causes a yearly loss of fluid of 2%-4%. Sales numbers on the other hand express the number of bottles.

¹¹ Website of the BNIC
http://www.cognac.fr/cognac/_en/4_pro/index.aspx?page=chiffres_ac (last accessed 31/03/2018)

¹² Eads, Lauren; website thedrinksbusiness.com, 17/01/2018
<https://www.thedrinksbusiness.com/2018/01/cognac-exports-continue-upward-trend-to-reach-record-high/> (last accessed 31/03/2018)

¹³ 45% of which is exported to China

¹⁴ Woodard, Richard; website Just drinks, 5/01/ 2017
https://www.just-drinks.com/analysis/the-cognac-category-everything-you-need-to-know-just-drinks-spirits-essentials_id121937.aspx (last accessed 31/03/2018)

¹⁵ website Shanken News daily, Hennessy progress drives cognac to new heights; <http://www.shankennewsdaily.com/index.php/2018/01/19/20015/hennessys-progress-drives-cognac-new-heights-2017/> (last accessed 31/03/2018)

¹⁶ White, Sarah; website Reuters, 18/10/2017
<https://www.reuters.com/article/us-lvmh-cognac/lvmh-aims-to-build-cognac-stocks-starting-with-more-vineyards-idUSKBN1CN2SM> (last accessed 31/03/2018)

2.2 The Big 4¹⁴

The cognac market is dominated by 'The Big 4'; 4 multi-nationals that combined have more than 90% market share by value.

1. Hennessy (LVMH)
2. Martell
3. Rémy Martin
4. Courvoisier

Hennessy (LVMH) is the worldwide market leader with a market share of more than 40% worldwide and a market share of almost 70% in the USA¹⁵.

2.3 Shortage

There is also bad news: demand for the product is now so high that production can't keep up. Not only because there is a limit to the area from which grapes can be sourced, but also because yields are dependent on the climatic conditions. In 2017 the Cognac region was struck by spring frosts and yields therefore were disappointing. As a consequence Hennessy announced that the current growth could not continue because the stocks were getting critically low.¹⁶ And when stocks are low the cognac industry has a problem because there is no easy fix as even the youngest cognacs are aged between 2-8 years. Hennessy has announced that it will be planting more vines in areas that are underutilized in order to meet demands, but these new vineyards will take up to six years to start producing usable grapes, so if Hennessy wants to keep its production up with demand in the meantime more reserve stocks have to be released.

3. Future

3.1 Keeping the brand fresh

At this moment cognac is a worldwide success, but the companies in the cognac industry know that that is no guarantee for the future. In order to keep their brands fresh different (marketing) strategies have been developed. To give but a few examples:

- Social media (Camus)
- Pop up stores in airports (Rémy Martin, Hennessy)
- Multicultural marketing strategy (Hennessy)
- Growing a new grape: follignan (Frapin)
- Cognac inspired jewelry (Rémy Martin)

3.2 Old man's drink

Cognac has been considered an 'old man's drink' for a long time. In order to shake this waggish image, the cognac industry has put a lot of effort in attracting a younger, trendier consumer base. One of the ways in which they try to establish this is by making the transition of cognac as a luxury item into an item for mass consumption. The focus is then laid on the younger (and therefore cheaper) VS and VSOP cognacs and the aim is to make these cognacs more accessible to a larger public. Cognac has an acquired taste that may be perceived by new consumers as harsh, also because of the relatively high alcohol percentage. Producers are tackling this problem by developing new ways to drink cognac or by developing products that more or less change the taste and/or mouthfeel of cognac, thus making it more easily drinkable. Hereafter I will give 4 examples of ways in which the industry has been trying to establish this.

3.2.1 Ice Ice Baby

The first example of this change in taste and mouthfeel comes from the active promotion of drinking cognac on ice and/or straight from the freezer.¹⁷ Drinking cognac on ice lowers the temperature, thins the drink and therefore lowers the alcohol percentage, whereas cognac straight from the freezer has a thicker structure. In a way these methods take away the sharpness of the drink and give it more of a 'bite'. In principle all cognacs can be drunk this way, but some producers have developed cognacs specifically for this purpose:

- Godet (Antartica)
- Domaines Francis Abecassis (ABK6 Ice)
- De Luze (A Blend)

¹⁷ website Cognac Expert Blog; How to drink cognac? The best way to enjoy and serve your eaux-de-vie, 23/08/2011 <https://blog.cognac-expert.com/how-to-drink-cognac/> (last accessed 31/03/2018)

¹⁸ Website Cognac Review; Rémy Martin coeur de cognac, <http://www.cognacreview.nl/remy-martin-coeur-de-cognac/> (last accessed 31/03/2018)

¹⁹ According to Pierette Trichet, cellermaster of Rémy Martin

²⁰ Website Cognac Expert Blog, Cognac cocktails and drinks at the bars- the 30 best 27/03/2010 <https://blog.cognac-expert.com/cognac-bar-best-cocktails-with-cognac/> (last accessed 31/03/2018)

²¹ Website Market Watch; For Cognac, China's Loss Is America's Gain, 04/01/2016 <http://marketwatchmag.com/cognac-december-2015/> (last accessed 31/03/2018)

In order to stand out from regular cognacs, the look of these cognacs has changed too: the bottles are designed differently from traditional bottles in order to appeal to a new young and hip consumer group.

3.2.2 A juicy ripe peach¹⁸

In a more traditional way another example can be found in Rémy Martin's 'Coeur de Cognac' which was specifically designed to appeal to a broader target group that includes first time cognac drinkers. Also in this case the aim was to take away the sharp edges of the drink and make it 'softer'. By using a different distilling process with heating at lower temperatures more fruity flavours and aromas were developed. In fact the aim of the makers was to give the consumer the sensation of 'eating a juicy ripe peach'¹⁹.

The more traditional packaging of this cognac shows this new cognac is also trying to please existing consumers. In line with the aforementioned trend, Rémy Martin stipulates that this cognac should be drunk with (shaved) ice.

3.2.3 Mixing

Undeniably the fact that cognac has become a very popular base ingredient for cocktails has boosted the current popularity of cognac. This trend started in the USA with a revival of classic cocktail recipes such as 'the Sidecar', 'Sazerac' and 'Corpse Reviver', and has expanded to China and other parts of the world.²⁰ Especially the young millennials are increasingly asking for cognac based cocktails. Interesting is that the drinking habits of this new consumer group seems to differ from the traditional consumers of cognac as they are drinking cognac based drinks both before and during their meal. Furthermore they seem to have no objection to drinking both cognac and whisk(e)y, sometimes even in the same evening.²¹

Practically all cognac brands have now embraced this trend and when you look on websites of producers, you will find that most provide recipes for cognac based cocktails and that they (and/or the BNIC) organize cocktail events on a regular basis. Furthermore producers are developing new types of cognac to appeal to the cocktail loving consumers such as double barrel aged cognacs (aged in new barrels first, and in old barrels later). Courvoisier Artisan VS Double Oak and Bache Gabrielsen American Oak are good examples of this trend.

3.2.4 And matching

Although some brands claim that 42% of their consumers is female²², cognac is still often considered to be a man's drink. In order to make the brand more attractive to women, the BNIC dedicated the 2012 International Cognac Summit to women. To reach the female consumer group in a different way, cognac companies have tried to think outside the box and some brands have found ways to match cognac with another product that appeals to women. Two examples:

- *SoYang*

This is a match of green tea and cognac which comes in two flavours; peach and ginger. Apparently this drink is targeted towards the party minded women, as this drink is also available in 50 ml. shot tubes²³.

- *Courvoisier rosé*

This is a match of red wine and cognac²⁴.

Both products have a lower alcohol percentage, which makes them a cognac based liquor.

4. Conclusion and personal commentary

4.1 Living in a bubble

There is no denying that the cognac business is doing very well at the moment from an economic point of view. In fact it's a fair conclusion to say that the market for cognac has overheated and there are no signs that it will cool down any time soon. During my research for this assignment I was intrigued by a quote from Frederik Larsen (la maison de cognac Larsen):

'A cognac brand can go bust in two different ways: by selling too little and by selling too much'.²⁵

He said this in 2007, a year when the shortage of grapes was noticeable, when producers were fighting to get their hands on the stocks they needed and had to pay a much higher price

than they were used to for stocks they thought were of inferior quality. Some producers, interviewed at the same time, were convinced the shortage was temporary and refused to enter the arena to compete for grapes thinking the market would restore itself once 'the bubble had burst'.

4.2 Still bubbling...

That strategy seems to backfire now. Stocks are diminishing rapidly for those producers who refuse to buy grapes when market prices are at their highest. Small producers who don't have the deep pockets of the big 4 brands pay the price. In fact Frederik Larsen sold his company to Rémy Cointreau in 2013, saying that he could have continued to stay in business for quite some years until all stock would be gone, but at that time the company would not have any worth left²⁶. Many small producers will likely follow and will be swallowed up by one of the big 4 who will thus expand their stocks and control of the market.

4.3 Fathers and grandfathers

In Cognac there is an old saying:

'Making cognac is not difficult at all. You only need good grapes, a good distiller, lots of patience and a father and grandfather that did a good job'.

But this traditional way of looking at the process is disappearing. Is that a problem for worldwide consumers? Yes and no.

The efforts to make cognac a mass consumption product seem to have paid off, meaning that the demand for younger cognac will not likely go away. The millennials who are mainly using cognac as a base ingredient for their cocktails have most likely never heard of Frederik Larsen and will not mind that this historic company will not continue in the same way.

Consumers who are into cognac because of its luxurious image, will have plenty of choice left. Lovers of quaint cognacs made by headstrong producers who follow their own path and therefore make unique small scale products will find that that type of cognac will slowly disappear or change. As far as volume is concerned that won't have much of an impact. However, it might affect the image of the cognac industry as for a certain consumer group it will take away some of the 'romance' and personality of the product.

²² Website Forbes; <https://www.forbes.com/pictures/lml45hfem/cognac/#35d16d97397a> (last accessed 31/01/2018)

²³ Website SoYang; <http://www.so-yang.com/en/> (last accessed 31/03/2018)

²⁴ Website prnewswire; <https://www.prnewswire.com/news-releases/courvoisier-launches-first-of-its-kind-cognac-innovation-courvoisier-rose-122935908.html> (last accessed 31/03/2018)

²⁵ Koops, Cognac kiezen op smaak

²⁶ Urbajtel Stéphane, la maison de cognac Larsen; Vendre c'est triste mais raisonnable, 09/01/2013 <http://www.charentelibre.fr/2013/01/09/larsen-vendre-c-est-triste-mais-raisonnable,1133517.php> (last accessed 31/03/2018)

4.4 Threats

History has shown that when economies are in a crisis, the demand for cognac will go down. Another crisis will come, we just don't know when. For the short term: if the shortage problem will not be controlled (climatic change also plays a part in this) and prices will go up further as a result, consumers may start to look for cheaper alternatives. The same will happen if the shortages become more noticeable in the stores. I read reports that in all of Philadelphia only 10 bottles of Hennessy were available at a given time²⁷. A cocktail made with cognac, can also be made with brandy from Spain.... The industry has been successful in targeting the hip and trend following consumers. However, trends change and if tomorrow cocktails based on Dutch Genever are the next big thing, sales might suffer. Last but not least: it could very well be that drinking is 'the new smoking'; once very much accepted but frowned upon now.

4.5 Opportunities

Compared to Gin, Vodka and Whiskey, cognac production is still relatively small. That means there is an opportunity to 'steal' some market share. New markets such as Africa and Australia/New Zealand show great promise, but also in Europe there is in my opinion still a lot to be gained as the consumer base there is still fairly traditional. The cognac companies have been successful in targeting the millennials of the US and Asia. It seems a logical step to target the millennials of Europe next!

²⁷ Hines, Nickolaus; website [supercall.com](http://www.supercall.com), 17/01/2018 <https://www.supercall.com/news/hennessy-shortage> (last accessed 31/03/2018)

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