

Premium potential

□ SIGNIFICANT growth opportunities in Eastern Europe and Asia-Pacific have given a welcome boost to grape brandy exporters. In both arenas, the volume potential for brandies is undeniable, but these markets are bringing another boon to their business - the chance for upmarket range extensions.

In traditional Cognac strongholds, such moves are not easy, and the basic 3-star brandies remain accepted as the entry products in these markets. However this is not the case in developing markets, and while Cognac's position at the top of the brandy tree is not in question, top quality and special presentation brandies are beginning to gain ready acceptance with consumers.

These top notch brandies - though cheaper than comparable Cognacs - are still expensive in their own right, suggesting that consumers in developing markets are prepared to buy premium brandies for reasons of perceived product quality and prestige, without being put off by the fact that they are not Cognacs.

IDV's experience with Metaxa, their Greek brandy now being pushed heavily in Eastern Europe, is a case to point. Metaxa has recorded significant volume growth in the region, focusing primarily on the former Soviet Union, and the growth has by no means been restricted to the 3-star category.

In fact, Metaxa 5-Star and 7-Star, which sells in dollar shops at more than US\$20, sell just as well as 3-Star at US\$7, and even their ultra-premium Centenary brand has gained a foothold, mostly in restaurants. "We thought that 3-star would give us a value-for-money entry into the market, but we have been surprised by the demand for products that compared with disposable income are incredibly expensive," said John Davidson, market director at Metaxa International.

At US\$100-plus a bottle, Centenary is still cheaper than top Cognacs, but the fact that consumers are willing to pay so much for a Metaxa product indicates the brand has real quality connotations of its own.

Metaxa's research bears this out and certainly gives food for thought. "We believe there is more opportunity for marketing premium image non-Cognac brandies," Davidson said. "We did research earlier this year and what came back from it was the positive reaction to Metaxa as a brand of very clearly perceived quality, not necessarily compared with Cognac."

In Asia-Pacific markets, Cognac without question dominates the image

stakes, and the conventional view prevails, that for the luxury or gift purchase brandy will simply not measure up, and the statistics bear this out. This is underlined in China, a burgeoning drinks market, where Cognac outsells brandy by six to one, even though it is far more expensive.

As in all emerging markets, there will always be those who prefer to buy Cognac, and in China these tend to be the ex-pats or the very rich locals, who have become most influenced by western consumer culture. Some may call this "snob appeal", but looking at it more objectively, for these consumers, all the merits of Cognac - in terms of quality and luxury image - are firmly entrenched.

However in these same markets, Cognac's cachet may not be so deeply implanted among the wider section of younger aspiring consumers, and these are the ideal targets for premium image brandies, or line extensions, as well as the basic qualities. As Davidson pointed out, for these consumers with fewer pre-conceived notions about quality and kudos, the central issue of taste becomes even more critical.

Metaxa's experience in Russia certainly supports this and if the same is true of China, the implications for the brandy business are considerable. In the long term, if imported brandy/Cognac consumption really takes off there - a population of 1.2 billion - it would be impossible for Cognac to continue to outsell ordinary brandy at six to one, as its production is limited. Admixes will claim a share of the market, but imported brandies will be the main beneficiaries.

Not surprisingly Cognac producers have taken this into account, and in the Asia-Pacific region, it is French Cognac-to-brandy companies, such as LVMH/Raynal and Cognac Gautier, who have made the early running in the brandy market.

Strategically, these companies see their brandies as a means to gain access to lower price points, and the volume market. But in developing markets, they are increasingly seeing a presence for their brandies per se, and once

again the luxury offerings are included in their plans.

While Gautier see their brandies ultimately as supporting their Cognacs, brandy is playing an increasingly important role, and raising the image of their brandies is becoming more of a priority.

In keeping with this, they are launching premium line extensions, targeted primarily at developing markets in the Far East such as Taiwan and China. Cortel Extra is a completely new launch, in a gold decanter, while additional bottle sizes have been introduced for their Dumas XO.

Another company clearly convinced of the viability of top notch non-Cognac brandies in the Asia Pacific region are Unexpa, the Paris-based group owned by Denis Charpentier who market a range of wines, Cognacs and most recently brandies in the region.

A self-styled niche operator, Charpentier's strategy is based on producing top quality products in elegant

packaging, with price positioning to match, for which ordinary grape brandy is ideal. Once again, the brandies are viewed as complementary to the Cognacs, but this does not preclude the marketing of high-value prestige items.

Last year the company launched Robert Loston XO brandy which has performed well in Japan, China, Vietnam and Taiwan, achieving sales of 10,000 cases in the first year. Encouraged by this success, Unexpa

have now added Robert Loston Extra to the range which is forecast to sell 6,000 to 10,000 cases in year one.

While considerably less expensive than most Cognacs, these premium brandies are far from cheap. Robert Loston XO is the cheapest in their brandy/Cognac range, and still comes in at a hefty NT\$1,280 in Taiwan, while Robert Loston Extra is positioned at NT\$1,980, 15% more expensive than their VSOP Cognac.

To an extent the honed brandy/Cognac strategy has altered the Cognac playing field. For while the upper price bands may always be the reserve of fine Cognac, in developing markets there are signs that Cognacs may have to contest the middle ground, rather than expecting it by right - and contest it rather more aggressively than they had expected. □



A luxury offering from Unexpa