

True worth: Champagne brands

With the recent sale of Lanson and questions hanging over the ownership of Taittinger, Malcolm Davis, director of Intangible Business, considers how to put a price on such luxury brands.



The business of champagne, most recently featured in DB October 2005 in enthusiastic terms, would seem to be a business where generating a decent rate of cash flow and margins hardly troubles the sleep of the owners and producers in this most prestigious of markets. Or does it? certainly LVMH with their stable of top brands are in a regular position to announce good results (although notably their margins on champagne run well below those on cognac), but what of the No. 2?

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Marne et Champagne Diffusion, the key brand of which is Lanson, was forced to go to its banks for help in 2004 reportedly because of problems in paying its suppliers of grapes. Caisse d'Epargne received a 44% stake for about Euros 38 million and extended a line of credit of Euros 410 million. One year later the loss was Euros 10 million and debts were at Euros 420 million - in consequence the business was put up for sale. Last month the sale to Champagne Boizel Chanoine, a smaller rival producer, was concluded; they were finally the only bidder left, backed by Credit Agricole and SNCB, and the price paid is not disclosed - possibly to spare the vendor's blushes?

By the time of this edition going to press the future ownership of Taittinger may also be clear. Last year Starwood, a US group with extensive hotel holdings, took over Societe du Louvre, a luxury goods conglomerate owned in part by Taittinger family interests and including such properties as the Hotel Crillon, Baccarat, and of course Taittinger Champagne. Extracting the value placed on Taittinger in this deal is not easy, but suggested estimates place the expected asking price at between Euros 500-600 million, or about six times annual turnover. In this case also there would seem to be only one potential buyer - the Taittinger family - who one assumes have a good idea of the present and potential value of the business.

But why finally are there no other bidders for such prestigious brands? In the case of Taittinger placing a valuation on the business is aided by clear guides to the value of their fixed assets - primarily vineyards, stock in bottle and vat, and property/plant - plus a track record of sales and profitability against overheads, and a knowledge of the price of contracts agreed with growers supplying grapes or juice to the House. Perhaps then there is the extra factor of Taittinger family confidence in carrying the brand forward, and a tolerance of the timescales needed to reach certain key objectives.



VIEWPOINT

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Lanson poses a different set of problems in its valuation as a brand. Possessing no vineyards of its own its fixed assets consist of maturing bottle stock and the quality of its grower contracts which have to be renewed regularly in a highly competitive environment. As a major brand in many markets it enjoys continuing demand, but in a very competitive marketplace where promotion and pricing are fierce it is very easy to lose vendor interest and market share.

As a further complication the rules of Champagne are much more demanding than other parts of the wine industry, imposing minimum aging requirements meaning that producers carry somewhere between 24 - 36 months stock in their cellars at any time. Add to this the need to pay progressively over the course of each year for grapes purchased at each harvest and the vital importance of good cash flow becomes all too obvious.

Given these scenarios, and particularly the Lanson one, it seems very likely that a valuation of the brand, as distinct from the business in which it resides at any one time, would prove difficult for most standard financial models. New, proven models are now being used for arriving at an understanding of true brand value, such as the relief from royalty methodology for example, which explores the drivers of value, is based on commercial reality and combines robust financial analysis with in-depth brand and market analysis. With this appreciation of brand value, vendors would be able to communicate more effectively the true value of the brand and this would be reflected in the price. If this was the case, perhaps we could look forward to vendors being able to attract a wider field of interested bidders, rather than a field of one.

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