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Down the Champagne drain

Unlike every other business in every other industry in every other country of the world, Champagne knew a cataclysmic financial crisis was coming and had as long as eight years to prepare for it. For all other businesses, the global economic meltdown took barely days to sink in while watching the events unfold on television in October 2008. Consequently, a lot of good businesses all over the world will go bust through no fault of their own, whereas if any Champagne houses go down the drain, they will have only themselves to blame.

Champagne has always been a notoriously cyclical business, going from boom to bust and back to boom again, but predicting the peaks and troughs has not that been easy, and this has caught many of its houses on the hop. Some people call me a cynic, but if I were to say that Champagne houses have to endure so many years of loss-making after a crash that they are well into the next boom before they can enjoy any of its profit, even bigger cynics will accuse me of being in their pay. That is why, in September 1994, I published the 1993 balance sheet for 43 Champagne houses and the six largest groups, much to the horror of the Champagne industry, which wondered where I got the data from. This was two full trading years after the slump of 1991, and yet no fewer than 25 houses were still trading at a loss. Another five made a pretax profit on turnover of 1 percent or less, and only two houses (Roederer and Bollinger) made double-digit pretax profits. From the figures published, it was clear to see that the ratio of capital to total debt spelled serious trouble for 19 houses, while the ratio of borrowings to turnover put 11 houses at risk of bankruptcy.

How long do you think this sorry state of Champagne's financial affairs went on?

Well, the average ex-cellars price did not crawl back to its pre-1991 level until the year 2000, so perhaps we should not be too quick to judge this industry when it appears to be cashing in on one of its booms. When on a roll, Champagne is the nearest the

wine industry gets to printing money, but when its institutionalized losses are factored in, the overall profit is far more modest.

Apart from the inevitable dip following the pre-Millennium peak of 1999, sales have increased year on year since 1997, making the recent boom the longest and most profitable since the turn of the 19th to 20th century. But the Champenois are not as smug, arrogant, or greedy as their own lack of PR inadvertently makes them out to be (during the expansion debacle, for example); as previously stated, they really have no excuse if any of them goes bust. This is because, throughout 2000 and 2001, they witnessed every classic economic and social factor that has historically caused the collapse of the Champagne market, and yet sales continued to soar. For the first two or three years, they were just relieved; but for the past five years, the question I have been asked every time I visit Champagne is: "How long do you think this can last?"

It is clear that the Champenois have been waiting eight years for the bottom to fall out of the longest and most profitable boom of their lives. And it should be equally clear that even the slowest-witted Champenois must have asked himself every day for at least the past five years, "What if the market crashes tomorrow?" and "What did we do last time that we could, with hindsight, have done better?" So it is only fair to expect that, out of every industry in the world, Champagne must have made and refined an appropriate business strategy to survive plummeting sales, which is why I will have no sympathy for any Champagne business that blames the global situation for going belly-up. What will happen? What can they do?

The worst thing about a Champagne crash is not the drop in sales, but the fall in price. Volume is relative: No matter how low it plummets, you can always look back a few years and see that the industry would have been ecstatic to achieve such sales; that is because they would have been regarded as record-breaking at the time. But when volume drops, Champagne producers worry more about market share than profitability, and this is where it all begins to fall apart. To preserve market share they traditionally cut prices, but that has a predictably catastrophic effect three years later, when the first Champagnes made at the end of the boom come on to the market. Those Champagnes will have been made from the most expensive boom-time grapes, but after three years of price cuts, they have to be sold at the lowest price, sometimes below cost. It is also at about this time that those houses most in debt are forced by their banks to liquidate their stocks at almost any price to make their repayments. These factors explain how it takes a decade for Champagne's balance sheet to recover from a crisis—and why price is the key.

This time, however, Champagne does not have to worry about falling prices. When demand threatened to outstrip supply in the recent record-defying boom, the biggest producers tried to slow the market down by jacking up the price, but nothing could quench the consumers' thirst. Until, that is, this industry, like all the others, had to face the consequences of an economic meltdown, and consumers found less cause to celebrate. But the Champenois have had at least five years to hone their survival strategy, and Champagne is now so overpriced that, for the first time in this industry's boom/bust history, plunging prices no longer pose a terminal threat. ■