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Armagnac – view to the future

Humphrey Serjeantson watches Armagnac ride the craft spirits wave



Producers believe the agricultural nature of Armagnac production is a key selling point

Craft is king in the world of spirits. From handmade vodkas to small-batch whiskies to gins boasting terroir, what wealthier, more influential consumers in mature markets are looking for are spirits that present themselves as far from the mainstream as possible, made with care and attention by artisans preferably working to recipes handed down through generations. And Armagnac, the brandy made in the south-west of France in an area between the Atlantic, the Pyrenees and the Mediterranean, has craft by the bucketload, and is now working hard to promote its craft nature to a wider drinking public around the world.

"Armagnac is *the* craft spirit," says Sandra Lemarechal, head of communication and marketing at the Bureau National Interprofessionnel de l'Armagnac (BNIA), Armagnac's promotional body, at its offices in Eauze, midway between Toulouse and Bordeaux. "We have to emphasise that we were craft when craft was not known yet. Armagnac has a lot of characteristics that are trendy now."

One problem with craft, of course, is how to define it. Because there is no formal definition, is it entirely in the eye of the beholder? For the BNIA, which spent several months earlier this year agreeing on this craft positioning, there are four key elements that define craft. The first is heritage, *savoir-faire*, tradition. The second is locality, geographical region. The

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— Marc Darroze, president, BNIA

third is human intervention. And the fourth and final element is quality.

"Being craft and showing that we are craft is not just about communication," says Marc Darroze, newly-elected president of the BNIA. "It is about our entire industry, from top to bottom, from the vine stock through to the end consumer who puts his glass down happy... So this craft trend is an opportunity for Armagnac: it's up to us to grab it."

Craft is critical to the producers of Armagnac, who have been making this artisanal spirit for more than 700 years. Jérôme Delord, whose family business dates

Armagnac: top 10 markets

Market	Volume 2011	Volume 2014	Volume 2015	% CAGR 2005-'15	% change 2015 on '14
1. France	129.3	113.8	112.3	-3.6	-1.3
2. UK	29.5	27.3	26.5	-2.1	-2.8
3. USA	12.3	14.5	17.3	5.3	19.0
4. Russia	16.0	20.5	15.6	7.6	-23.9
5. Duty Free	6.6	12.1	11.1	5.3	-8.1
6. Spain	6.0	5.3	5.3	-7.5	No change
7. Germany	5.8	6.0	5.0	-6.0	-16.7
8. Italy	4.8	3.0	3.0	-0.8	n/c
9. Canada	3.0	2.7	2.9	0.4	5.6
10. Japan	2.5	2.5	2.3	-9.3	-10.0
Others	24.8	23.2	21.8	-0.9	-6.2
Total	240.4	230.8	222.9	-2.1	-3.4

All volumes in '000s of 9-litre cases

Source: The IWSR Database 2016 ©

Armagnac

from 1893, acknowledges the trend towards craft and says: "We're thinking about putting 'craft' on our labels more... We're sticking to wax [to seal the bottles], but will look for a more craft logo." Just as important as craft is the need to promote "family and heritage" as key elements of the Delord brand, he says.

Likewise Benoît Hillion of Dartigalange says: "We should be on-trend – we are craft." For him the promotional focus is on the family, artisanal, artistic and convivial side of Armagnac.

The agricultural side of production is also a key selling point, as are the category's green credentials. For Olivier Bonnafont, cellar master at Castarède and Maniban, work on the environmental side of the production process – "increasing biodiversity, more flowers, all organic fertilisers now" – is not only leading to exceptional results, but also improving quality. "All our work on the environment means we have a quality of product which is quite rare. It's naturally pure and rich," he explains.

China crisis?

Global consumption of Armagnac fell -3.4% in 2015, down to 223,000 nine-litre cases. The problems came mainly from Russia and China. As with Cognac, Armagnac suffered in China due to the anti-corruption rules, which led to a slowdown in entertainment by government officials. However, Lemarechal reckons this is a step towards a more normal market. "Consumption is moving to the public rather than civil servants at banquets. The market will move to the middle class, but it will take time."

Armagnac grew rapidly in China up to 2012, reaching a peak of 7,500 cases (more than the rest of the Asia-Pacific region combined), but since then volumes have declined to just 2,000 cases in 2015.

Olivier Dusautoir of Janneau identifies China as one of the brand's two central channels in Asia alongside duty free. Janneau now has a team of three based in Hong Kong and a Chinese salesman in Shenzhen, "who is developing the market well via relationships with new importers".

Meanwhile, Thomas Gusch of Domaine du Bordeneuve says: "The situation [in China] is hard for now, but I'm not despairing... Now we're going to enter China our way, to build slowly, surely."

Hillion at Dartigalange, who visited the market in 2015, says it is hard to predict: "We have an agent who's there often, who sells a lot of wine. So we get orders. Buyers know Armagnac very well, but distributors don't know

"In China there has been a shift from vintages to VSOP and XO, which is good"

– Benoît Hillion, Dartigalange

Armagnac at all and consumers don't either... Brand visibility is minimal." Chinese consumers, he says "like big brands in Bordeaux, Cognac". But in a positive sign for Armagnac, he adds: "There has been a shift from vintages to VSOP and XO, which is good. They like blends now, which suggests they are ready for distribution, not just stocking high-end retail."

Laubade has long experience in China – Denis Lesgorgues' father was exporting there 20 years ago – so Lesgorgues "knew it wasn't easy and can go up and down quickly, so we weren't too exposed. We hope it could develop again." But this may well depend on Armagnac's bigger, more branded cousin on the other side of Bordeaux. "Let's be honest – in China, Armagnac will do well if Cognac does well. No offence, it has always been the case. Armagnac still has very little loyalty as yet."

Early signs from BNIA shipment data are very positive, with sales in China/Hong Kong doubling in this early part of the year compared to 2015.



Some firms are promoting different methods of consumption for Armagnac

Russia has been the other challenging market in recent years. In 2015 volumes declined by 5,000 cases to just under 16,000, on a par with 2011, as the economic crisis and the collapsing rouble took effect. While acknowledging the difficulties Armagnac has faced in Russia (which has been a key market in the past for his family brand), Darroze notes that one cannot rule out a recovery which is just as rapid as the recent years' decline has been. He says: "We will be ready with an overhauled distribution for Darroze to rebound as soon as the market demands it."

Similarly, Denis Lesgorgues at Laubade says the company has seen this before. "We've been through hard times [in Russia] in 2000, 2008 already, so I want to be optimistic. I think things will recover."

Challenging domestic market

The French market declined, but more slowly than in 2014. The BNIA will hire an Armagnac ambassador for France in an effort to improve communication around the category in its home market. The ambassadors have been a fixture in several countries for some years now, promoting Armagnac and raising awareness of it in several key export markets.

France is by far the largest market for Armagnac, accounting for just over 50% of global volumes in 2015. For Darroze, while volumes may be declining, there are positive signs in terms of quality. "One can note with satisfaction the progress of 10yo-and-above Armagnacs, which grew 6% and their market share grew from 25% to 27%," he says.

Citing the success of whisk(e)y and rum, Darroze says that France is a dynamic market in terms of premium spirits and Armagnac will use two axes to target growth at home. "Cavistes [specialist retailers] who always need help explaining our products – these are the people who sell quality spirits nowadays; [and restaurateurs] who sometimes forget their job consists of allowing people to discover new products at accessible prices."

Armin Grassa of Domaine du Tariquet is seeing the level of interest in Armagnac improve in France. "People had forgotten this great heritage we have here. Commercially, Armagnac had been neglected. Here at Tariquet, when people find that Armagnac is our number one [product], not wine, they are surprised. Ten, 15 years ago all the talk was of Scotch, Japanese whisky, etc. Now people are looking back to local products more. People are more interested in quality alcohol and it has become more democratised. People are

looking for history, authenticity." A critical stage in encouraging consumers to buy and drink products like Armagnac is explaining the product to them and hosting visits to the distillery as Tariquet – and many others – are increasingly doing.

France will undoubtedly be challenging over the next few years due to the economic situation, terrorist attacks and tourist downturn, says Hillion of Dartigalange. However, he adds: "There are places where nobody's seen an Armagnac producer in 10 years." One of the challenges of the French market, then, is having a structure that allows you to visit retailers and teach them "how to talk about Armagnac, how to sell Armagnac," he says.

Laubade had a good year in France in 2015, due in part to distribution "which is very loyal to the trade", says Lesgorgues. "We don't sell directly via the internet. Our partners respect that. We protect our network of *cavistes* and restaurants."

Building brands

So what of the future? Hillion at Dartigalange says: "The challenge for Armagnac over the next few years is quality and marketing. There's not enough strong brand identity in Armagnac. You don't need huge budgets. We know we have good products, but we forget people often don't know who we are. We imagine a *caviste* has 10 minutes to explain grape types, but it's not true... [Often] it's the label that sells the bottle."

For Denis Lesgorgues at Laubade, "Overall for Armagnac there's a challenge ahead, but there's no reason why we cannot get stronger. Armagnac ticks all the boxes, it is high quality." What is essential, besides the obvious increased consumer knowledge, he adds is "room for more consistency of quality of product and positioning. I am annoyed when I see Armagnac sold at low prices. An XO below €40 (\$43.50) is ridiculous. VSOP can be 15-20% below Cognac. With XO it's sometimes half the price [of XO Cognac]. It shouldn't be. This is something that, for sure, Marc [Darroze, the new BNIA president] is eager to work on – to ensure the perception of quality is consistent. The challenge is not all producers share this view."

So does this mean these quality divisions themselves are under threat? "We took off VS, VSOP, etc.," said Bruno Gazanilo, CEO of Spirits Partners, Pernod Ricard's subsidiary, which owns the Marquis de Montesquiou and Comte de Lauvia brands. "These are Cognac things. Armagnac has a personality of its own. We don't want to copy Cognac. We want to return

Janneau's Art Maniak brand is an effort to reach out to new consumers

to the truth of the product." This truth, he says, includes traceability and promoting Armagnac's artisanal nature. Both brands have recently been through a rebranding exercise not just to move towards a more modern look, but also to share more information with consumers. "The label goes all around the bottle. We have a lot to say. On the back we put grape varieties and we talk about distillation."

Janneau, the largest-selling brand worldwide, has also been through changes, having been bought by Spirit France in 2014. "Armagnac institutions are globally medium-size, but we were lucky enough to be bought 18 months ago by Spirit France," comments Olivier Dusautoir. "We've benefited from synergy in distribution networks to enable us to penetrate new markets where we were not present or only had a small presence." Spirit France also owns Calvados Boulard and, according to Dusautoir, Boulard's existing distribution networks are helping Janneau to grow around the world, not least in the US, Russia and the domestic French market where it had previously been absent.

Dusautoir acknowledges that while, with Armagnac, "we are dealing with a universe which is pretty traditional", Janneau is "trying... to present other ways of tasting Armagnac, apart from the traditional way, next to a fireplace with a big glass in the hand". This includes on the rocks, long drinks and also cocktails. Janneau's latest new line, called Art Maniak, is another effort to reach out to new consumers via the retail channel and mixology.

But while some players are removing quality divisions or even the word 'Armagnac' itself from their packaging, others question this

"Training in Armagnac is essential. Barmen really need it"

– Jérôme Delord, Armagnac Delord



strategy. "I think the word 'Armagnac' is the strong point of Armagnac. In other categories the brand can be stronger than the category. Not in Armagnac," says Delord. While he believes tradition is critical to the category, so is communication and reaching out to new consumers. "Training in Armagnac is essential – barmen really need it. They're looking for artisanal products."

There are several smaller houses that are reportedly seeing new dynamism at present, including Château Léberon and Domaine Aurenans. Hillion also cites houses such as L'Encantada and Domaine de Charron, claiming there is a new generation coming into Armagnac. "It will do good... Young people in the industry are creating a new identity."

In line with this is an increased focus on social media, in particular Facebook and Twitter. Lesgorgues suggests that this is a question of serving the market: "If we don't do it, someone else will." But it is also a reflection of the younger generations now running the Armagnac houses. "Our parents were very focused on building up the quality of the product. We continue with that – the solid foundation is there." Leaders now are "spending the same effort in other parts of the business", he adds, whether this is reaching out to Millennials through the growth of online marketing, exploring the ageing process and looking at new types of barrel, or working with bartenders to promote Armagnac through cocktails.

Several players are investing in their production, a sign of confidence in the future. Armin Grassa of Tariquet notes that the company not only now has a second still, but it is also planting more vineyards and increasing its storage capacity.

Gusch at Bordeneuve is also optimistic: the company planted 4.5 hectares of new vines in May 2015 and has confidence in the growth potential of the US in particular.

Lemarechal at the BNIA has the final word: "I'm confident about the potential for Armagnac if producers see we must change our vision of the market. Armagnac producers have everything producers of other spirits would love to have. If they open their eyes there is no way they cannot improve their sales. It's not about money. It's about information... Professionalising the sector will lead to improved business in general." ■