

WAW Insights

Decanting Prestige Wines' high price dilemma

September 2024

OUR FOCUS IS TO GIVE STRATEGIC, BUSINESS-FOCUSED, ACTIONABLE INSIGHTS TO TACKLE THE PRESTIGE WINES HIGH PRICE DILEMMA

WAW Insights is not…

…A descriptive ‘état du marché’

We believe in

Actionable insights

… An ‘infinite pool’ of industry numbers

We believe in

Clarifying the ‘ins & outs’ of industry dynamics, backed by **few but relevant data points**

… A subjective (however good) expert opinion

We believe in

Identifying **solid, strategic, business focused insights** that will give you the cards to **reflect on the issue**

FOCUSING ON PRESTIGE WINES IS PARTICULARLY INTERESTING AS THEY ARE INFLUENCED BY THE BUSINESS DYNAMICS OF BOTH THE W&S & LUXURY SECTORS, EACH HOLDING RELEVANT INSIGHTS



Luxury

/ Business giant:
€1500 bn in 2023 and up to €2500 bn in 2030

/ No 'price x quality' equation
Through emotionally engaging Brand dreams and product storytelling

/ D2C champion:
66% sales made online / monobrand stores in 2030

/ GenZ magnet:
up to 30% of Luxury clients in 2030

Prestige Wines

€10 bn
214m eb
in 2024

W&S

/ Multi tier powerhouse:
From access to Uber Prestige

/ Lifestyle product by essence:
In line with the rise of Experiential Luxury

/ Consummable product
Thus subject to specific dynamics

/ Premiumisation trend:
Across segments

THE CROSSING OF A ‘TOO HIGH’ PRICE THRESHOLD HAS LEAD PRESTIGE WINE MARKET TO GET STUCK AT A CHALLENGING CROSSROADS: THE BEAR MARKET IMPASSE

Prestige Wines **prices have boomed** to sky high levels, especially for **Prestige Plus Wines**

Up to +30%

for Prestige Plus Wines
Since 2019

…**Demand is receding** and **Market Indexes are dropping**…

-18%

Fine Wine 100 Index
since September 2022

BEAR MARKET IMPASSE

…**Stocks are on the rise**…

“*Ultimately, the supplier of capital is the consumer, not merchants and négociants who don’t want to take on more stock*”
(Financial Times)

…**Decreasing prices is a delicate strategic move** (re. Brand perception & positioning), for any Domaine stating their ground in the **Luxury arena**

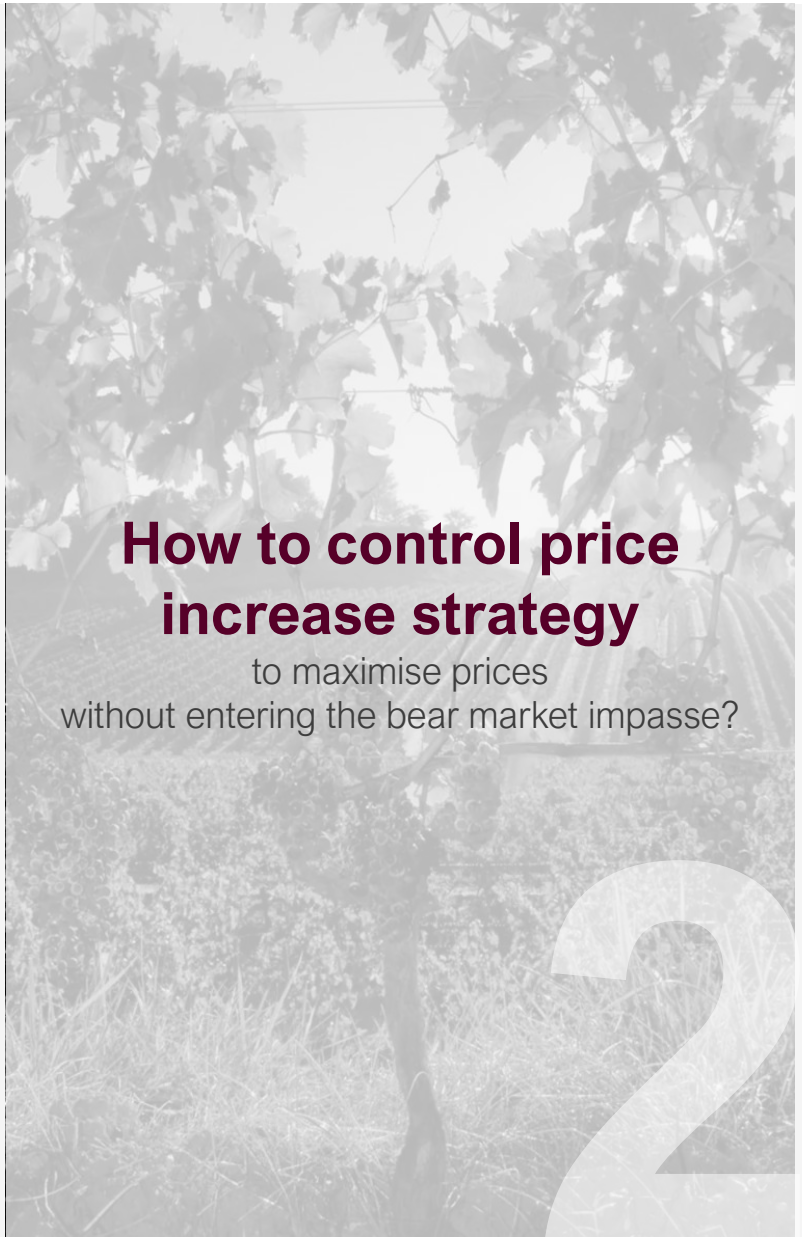
3 KEY QUESTIONS RELEVANT FOR THE PRESTIGE WINES INDUSTRY



What are the risks

of playing the ‘steep price increase’ game
and entering the bear market impasse?

1



How to control price increase strategy

to maximise prices
without entering the bear market impasse?

2



How to hedge

the bear market impasse risks
before it happens… and after?

3

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CLIENT
Jamming the Clients Business Powerhouse

PRODUCT / BRAND
Sabotaging the Investment Game

DISTRIBUTION
Scrambling the *Prescripteurs* lines

MARKET
Stalling the Growth Engine
& facing shareholders' *malus*

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CLIENT
The Price Perception Rim

DISTRIBUTION / COMPETITORS
Disruptors in Decanter

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PRICE
Adopt a multi-tier price increase strategy
at the service of Brand & product offer

PRODUCT
Bridge the value gap & explore offer polarisation
to revitalise core product attractiveness

BRAND / TALENT
Give the front seat to Creativity
to break free from the price x quality equation

D2C
To acknowledge market dynamics and
unleash full strategic potential of other levers

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THE PERSONAL & EXPERIENTIAL LUXURY MARKET CAN BE DIVIDED IN 3 CLIENT SEGMENTS, EACH BEARING SPECIFIC RISKS RE. THE CROSSING OF THE PRICE THRESHOLD OF THE BEAR MARKET IMPASSE

	Spend Threshold (min. spend/year)	Population (in m pax % total, 2024)	Total Spend (in m€ % total, 2024)	Average Spend (in €, 2024)	Comments Bear Market Impasse Risks Analysis
 **TOP VICs**	> 50k€	**0,1%** *0,6*	**21%** *213*	**350k**	/ **Priority Growth Powerhouse** / **230x** each more worthy than Entry Levels in terms of spend / **2x** more relevant in spend over the last 10 yrs (12% to 21%13-23)… / … and **still expected to grow** (9% 23-27) / **Not price sensitive**: Luxury spend is a primary need… / …but **competition is fierce** to wow them and win their attention and loyalty
 **CORE LUXURY CLIENTS**	2k - 50k€	**10%** *42*	**22%** *219*	**5k**	/ **True Luxury segment** (with VICs) and nearly **50%** of it in spend / In the **right mindset for Luxury spend despite recession** (60% feel financially better off than a year ago) / **High sensitivity to value** / They may be able to **afford high prices**, but their decision-making is driven by **price-to-quality/value** consideration… / …they do not tolerate to be '**taken for a ride**' where their loyalty lies
 **ENTRY-LEVEL LUXURY CLIENTS**	< 2k€	**90%** *392*	**57%** *569*	**1,5k**	/ Sizeable **revenue powerhouse** (90% clients ; 57% spend in 2024)… / …**losing purchasing power** over the last 10 yrs (65 – 57% 13 – 23) / **5x more volatile** than VICs due to subjection of spend to eco. cycles / **High sensitivity to price**: 'sky high' prices have **priced them out** / Luxury is an **occasional** spend… / …**curbed** when necessary: -20% yoy in 2023… / …with a **refocus on experience (inc. W&S)**

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 TOP VICs	> 50k€	**0,1%** *0,6*	**21%** *213*	**350k**	**BEAR MARKET IMPASSE RISK** Risky over reliance Eroding Margin **RISK LEVEL: HIGH** Sizeable financial & business model risk Long-lasting effects increasing over time
 CORE LUXURY CLIENTS	2k - 50k€	**10%** *42*	**22%** *219*	**5k**	**BEAR MARKET IMPASSE RISK** True Luxury Clients Loss Brand Love Damage **RISK LEVEL: HIGH** Long-lasting effects of damaged emotional bonds Cooptation & influence power of True Luxury Clients
 ENTRY-LEVEL LUXURY CLIENTS	< 2k€	**90%** *392*	**57%** *569*	**1,5k**	**BEAR MARKET IMPASSE RISK** Large revenue loss **RISK LEVEL: MEDIUM** Temporary drouth Brand love resilience W&S refocus

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THE 2 PITFALLS OF THE INVESTMENT GAME FOR PRESTIGE WINES



Losing the ‘investment card’



Becoming a pure patrimonial product





THE INVESTMENT CARD IS OF PARTICULAR IMPORTANCE FOR PRESTIGE WINES AS IT IS A CHARACTERISTIC MARKER OF THE CATEGORY

A key card for Luxury in general…



Luxury prices are not following the traditional rules of the **'price x cost' equation**

Luxury purchase are inherently 'irrational': "Nobody *needs* a €11k Chanel bag"

The investment card is the (only) argument to **makes the irrational… rational and justifies purchase**

…and for Prestige Wines in particular



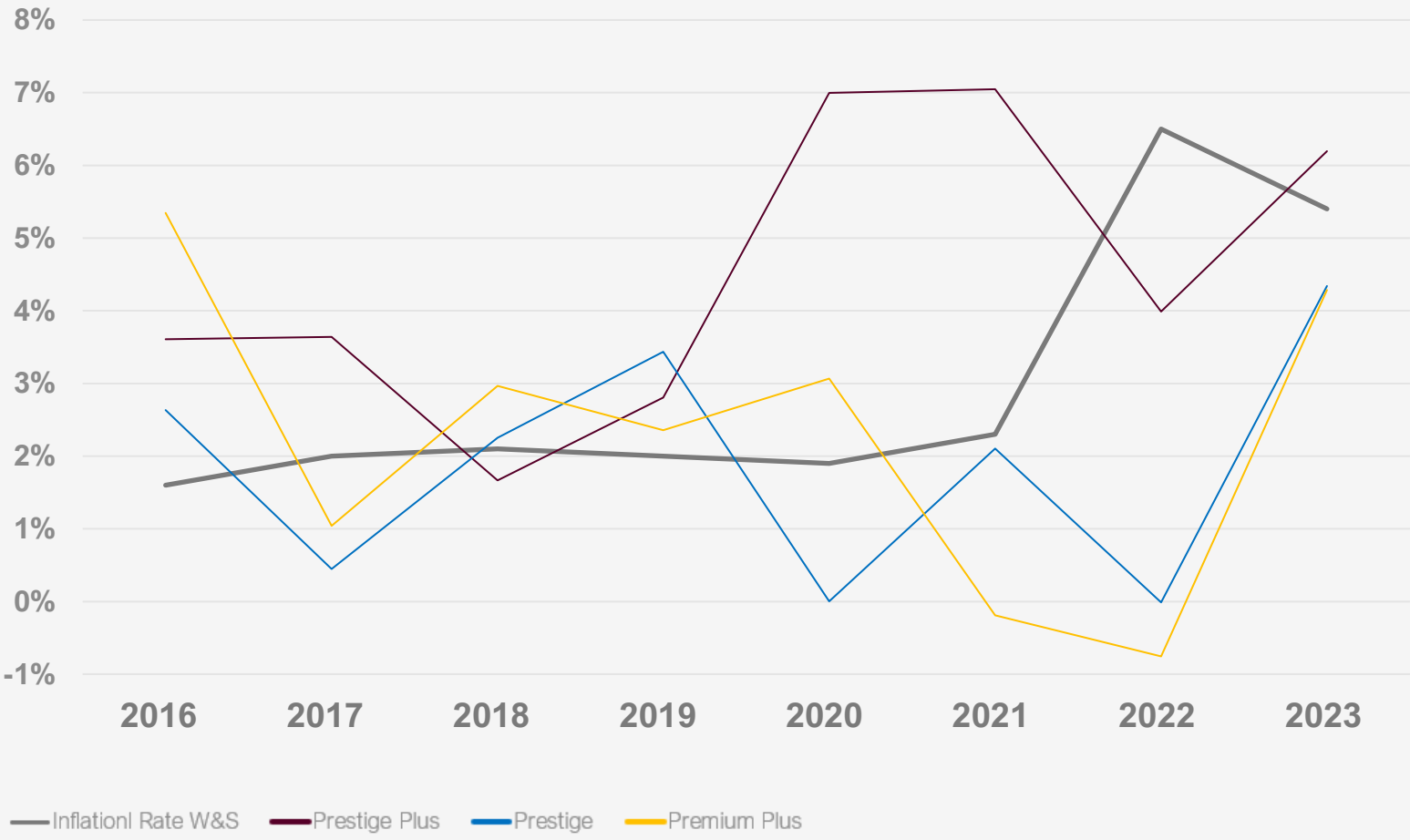
Prestige Wines are, and have historically been, a **solid investment asset** thanks to one of their inherent characteristic: **their aging potential**

The investment card is a key characteristic that **differentiates Prestige Wines from expensive (even though qualitative) wines…**

…thus underlying **category readability**

Playing the steep price increase game too fast & too far can call into question the legitimacy of this investment card

SINCE COVID, THE PRESTIGE PLUS WINES ‘SPECULATIVE BUBBLE’ CALLS INTO QUESTION THE LEGITIMACY OF THEIR INVESTMENT CARD…THUS THE SUSTAINABILITY OF CURRENT PRICES



COMMENTS

/ The ‘**speculative bubble**’ is primarily focused on **Prestige Plus wines**…

/ …and stems from the combination of 2 dynamics:

1. **The passing of ‘steep price increase’ outside of market practice standards**, pushing prices to sky-high levels and **creating volatility**

2. **The rise and establishment of the Experiential Luxury era** (vs Possession) bringing a new (and wealthy) clientèle in the Prestige W&S arena, willing to pay these prices… for a while, **fuelling the speculation spiral**

BUT ‘SAFE HEAVENS’, EVEN IF THEY DID NOT PLAY THE PRICE INCREASE GAME, ARE NOT IMMUNE & FACE AN ALL THE MORE DANGEROUS THREAT: BECOMING A PURE PATRIMONIAL PRODUCT…



… Never **seen**

… Never **consumed**

… At some point **forgotten**

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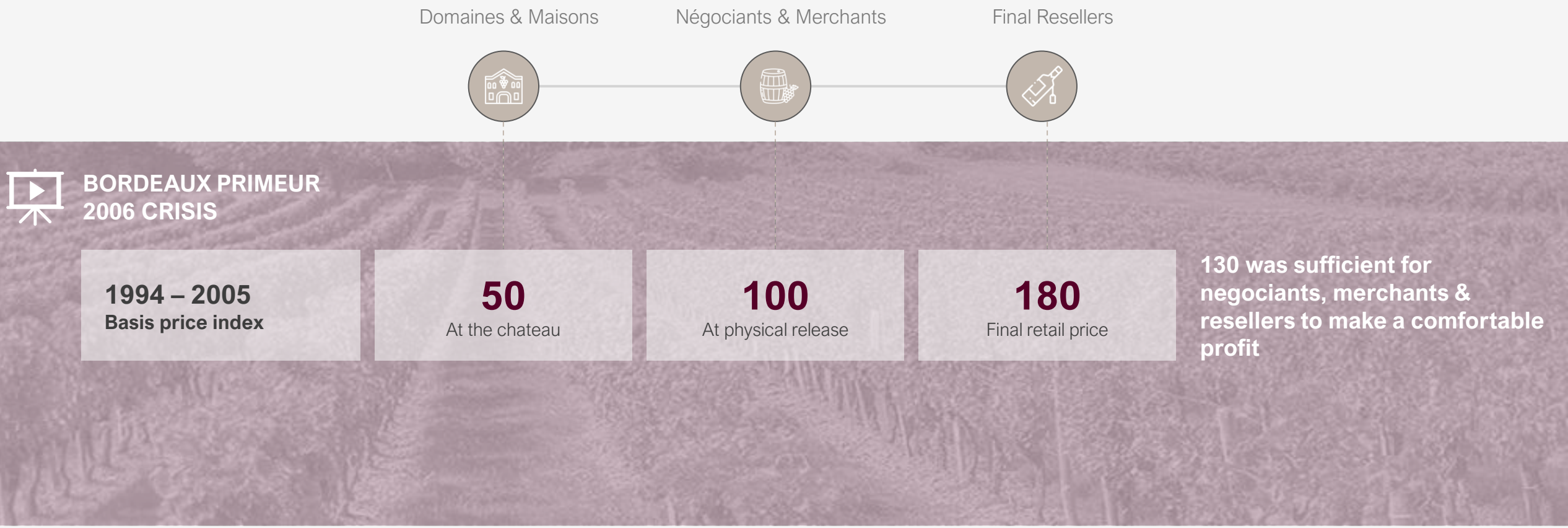
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PRESTIGE WINE IS (AND IS SET TO REMAIN) A WHOLESALE INDUSTRY WITH HISTORIC UNAVOIDABLE PLAYERS ALONG THE VALUE CHAIN

For the Prestige Wine wholesale world to function in a commercially efficient way,
each and every key player along the value chain needs to make sufficient profit



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BORDEAUX PRIMEUR 2006 CRISIS

	Domaines & Maisons	Négociants & Merchants	Final Resellers
1994 – 2005 **Basis price index**	**50** At the chateau	**100** At physical release	**180** Final retail price
2006 **Basis price index** ***Constant prices***	**70** At the chateau	**100** At physical release	**180** Final retail price

ASSUMPTION:

Margins are sufficiently ‘fat’ and Maison’s negotiation power is sufficiently strong for either or all players to accept to lower their margins

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The line was jammed
as it only left 110 (vs 130) to be divided amongst players, not commercially viable

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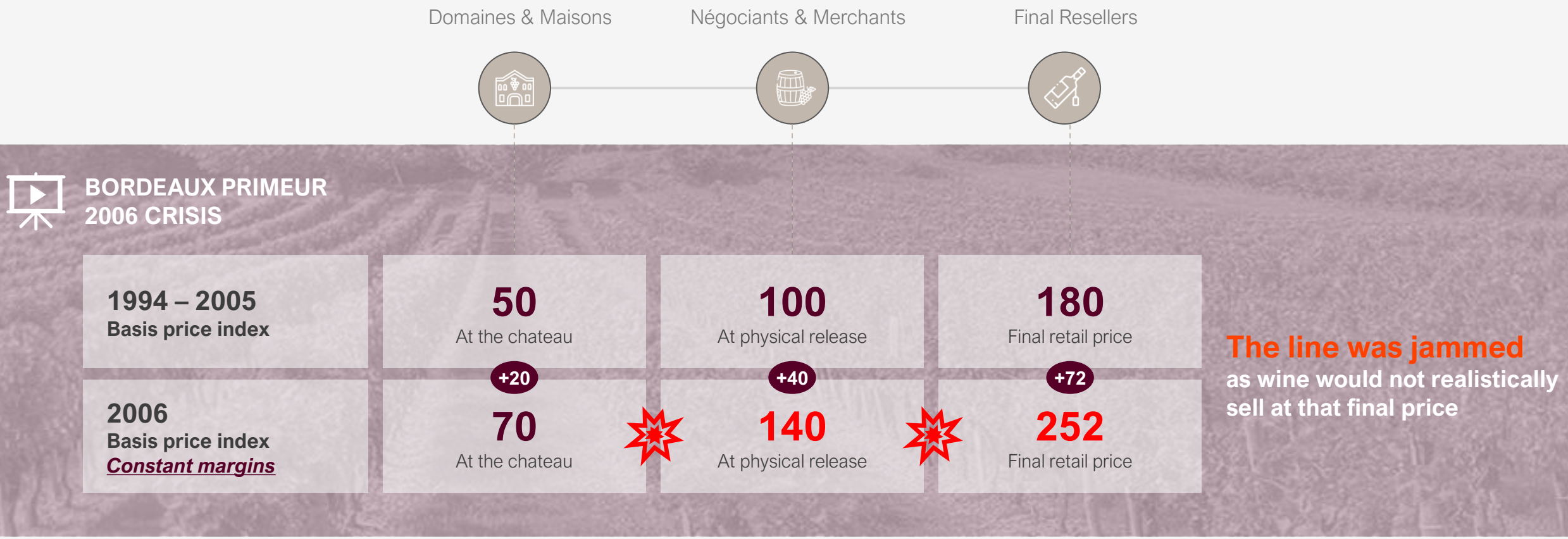
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1994 – 2005 **Basis price index**	**50** At the chateau	**100** At physical release	**180** Final retail price
	+20	**+40**	**+72**
2006 **Basis price index** ***Constant margins***	**70** At the chateau	**140** At physical release	**252** Final retail price

ASSUMPTION:

Price increase can be passed on down the line by all players up to final client, despite 'bull whip effect'

PRESTIGE WINE IS (AND IS SET TO REMAIN) A WHOLESALE INDUSTRY WITH HISTORIC UNAVOIDABLE PLAYERS ALONG THE VALUE CHAIN

For the Prestige Wine wholesale world to function in a commercially efficient way,
each and every key player along the value chain needs to make sufficient profit



To **maximise prices** at Domaines & Maisons level without 'jamming the line', it is crucial to have a **precise & realistic vision of the price elasticity of all players along** the value chain **down to the final client**

PRICING ‘TOO HIGH’ IS NOT JUST AN ISSUE FOR ‘DOWN THE LINE PLAYERS’ AND CAN LEAD TO 2 KEY (NON MUTUALLY EXCLUSIVE) RISKS FOR DOMAINES & MAISONS

If down the line players decide
to buy at ‘high price’ & reduce their margin

Domaines & Maison Risk

Beware of the price collapse spirale



If down the line players decide
<u>not</u> to buy at ‘high price’

Domaines & Maison Risk

Beware of damaging Brand integrity on the long term



IF DOWN THE LINE PLAYERS DECIDE TO BUY AT 'HIGH PRICE': BEWARE OF THE PRICE COLLAPSE SPIRALE

The root of the issue:

Stock is a cash trap

In the **bear market impasse**, buyers won't buy wines at **current market price** and sellers are reticent to lower their prices and **taking on losses**

…Meanwhile, **stock is accumulating** in warehouses & cellars (with more on the way)

In financial terms, stock is **immobilising cash** until it is sold …if it ever happens

And in our inflationary world, **costs of holding** and storing wine have also **risen**…leaving sellers **cash strapped**

The problematic way out :

Resellers shorting stock

Historically, the way for resellers to free up cash (and warehouses ahead of the next vintage) has been **to offload wines with a relatively high amount of stock**

AN ISSUE FOR DOMAINES & MAISONS HAVING PLAYED THE STEEP PRICE INCREASE GAME…

Shorted wines are thus trading not only **below market**, but sometimes even **below their ex-négociants prices**

… BUT NOT ONLY! (SNOW BALL EFFECT)

This also further increases the **surplus of available wine in the market…**

…thus keeping overall prices under pressure at Category level

Particularly relevant for En Primeurs Prestige Wines

IF DOWN THE LINE PLAYERS DECIDE NOT TO BUY AT 'HIGH PRICE': BEWARE OF DAMAGING YOUR BRAND INTEGRITY

It can deprive Domaines & Maisons of

access to strategic prescripteurs…



… a crucial issue for short term **brand positioning**

longer term **client base upkeep & replacement**

Mastering distribution in customers' eyes by being present in strategically relevant POS is key for Prestige Wines to:

/ Claim a Luxury positioning (and related prices)
in line with the Domaine or Maison's DNA

/ Recruit qualified new, and especially younger clients
(placing a greater reliance and trust in retailers and on-premise operators to curate Prestige wines)

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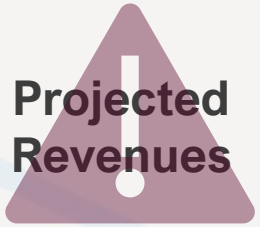
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A COROLLARY ISSUE OF FACING THE BEAR MARKET IMPASSE IS TO GET INVESTORS CONCERNED ABOUT THE POTENTIAL (IF AT ALL) SHORT-TERM GROWTH OF THE MAISON, AS LEVERS ARE JAMMED



Projected Revenues = **Nb of existing Clients** X **Client Pool Growth Rate** X **Average Price** X **Av. Price Growth Rate**

RISK 1

Jamming the Clients Business Powerhouse

Some clients are **excluded or alienated** by the crossing of the price threshold

RISK 3

Scrambling the *Prescripteurs* lines

It is **challenging to recruit** qualified new clients if wines are not sold in **strategically relevant prescripteurs**

RISKS 2 & 3

Sabotaging the Investment Game
Scrambling *Prescripteurs* lines

The **very root** of the bear market impasse

Even more touchy as it can trigger the **Price Collapse spiral**, enticing merchants to short their stock

RISKS 2 & 3

Sabotaging the Investment Game
Scrambling *Prescripteurs* lines

The **very root** of the bear market impasse

Lever is even more ‘jammed’ as brands can not leverage the **‘investment card’**

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KEEPING AN EYE ON SALES VOLUMES IS KEY TO MONITOR PERFORMANCE AND ADJUST PRICING, BUT IT IS NOT A ‘GOOD ENOUGH’ KPI TO GET THE PRICE SIGNAL EARLY-ON AND ON ITS OWN



SALES VOLUMES ARE NOT A GOOD STANDALONE INDICATOR TO GET THE PRICE SIGNAL

/ They are subject to **macro-economic trends**

/ They are the direct reflection of **speculative bubbles**

/ It is often **too late** when declines are noticed

2 WAYS TO CONTROL PRICE INCREASE STRATEGY TO MAXIMISE PRICES WITHOUT ENTERING THE BEAR MARKET IMPASSE

The Price Perception Rim

Leveraging final clients' purchase history and 'market practice' price increase expectations

To keep reality and the 'rules of the game' in mind, and know when you deviate from them (not to reach 'too many' times)

CLIENT CENTRIC KPI

Disruptors in Decanter

Tracking the power of challengers to steel your clients through 'top quality x lower price point' USP

To assess early-on when the price limit is getting close by keeping a finger on Prestige clients' price perception' pulse (disregarding speculation effects)

COMPETITORS-CENTRIC KPI

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LUXURY CLIENTS ARE NOT READY TO SIGN A ‘BLANK CHEQUE’: THEY ARE RICH AND SMART

Luxury Clients have a psychological limit
beyond which ‘too much is just too much’

Some iconic Luxury brands who carried out **steep & frequent price rises** esp. after COVID have experienced **backlash** from alienated clients…

Chanel · Saint Laurent · Balenciaga · Loewe

…Especially from **entry-level / mid tier clients…**

152k

people are members of the **r/handbags Reddit** being fully dedicated to the price increases for **Loewe**’s Puzzle bag costing +$4000.

…but not only!
(U)(V)NWI almost always have **value for money considerations**, esp. on the level of **service & client treatment** associated with product purchase

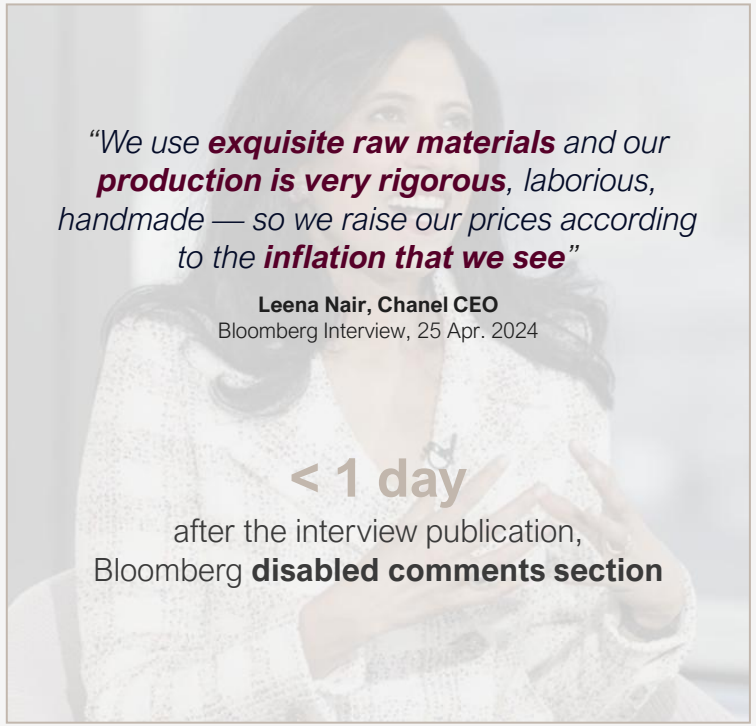
Service & Recognition

levels **not breaching the ‘value gap’** created by price increases is a **key and raising complaint from VICs**

Luxury Clients are (digitally) smarter than ever
and can objectively tear apart any ‘debatable argument’

Some brands like to claim that **price increases reflect their costs i**n a high inflation environment; but the price hikes most luxury companies have pushed through in recent years go **well beyond that**… and **clients can check!**

With the world at their digital fingertips, clients can **quickly make up their mind** as to the **validity** of the Luxury Houses’ arguments re. the **dynamics affecting price**



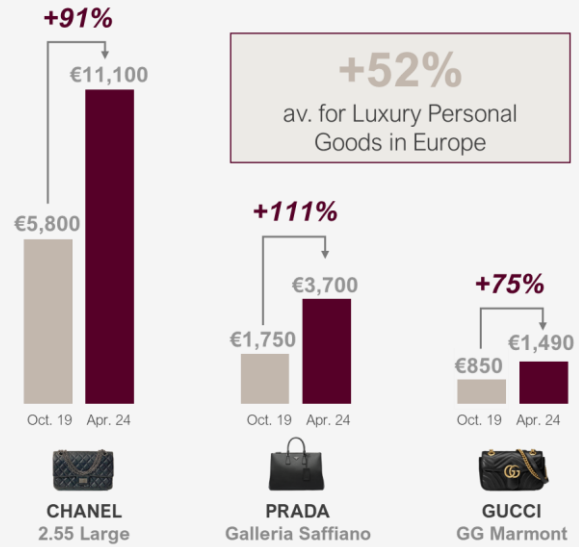
*“We use **exquisite raw materials** and our **production is very rigorous**, laborious, handmade — so we raise our prices according to the **inflation that we see**”*

Leena Nair, Chanel CEO
Bloomberg Interview, 25 Apr. 2024

< 1 day

after the interview publication, Bloomberg **disabled comments section**

Chanel have raised prices on the 2.55 by **+90% since 2019 up to €11k** - more than **competitors**, and the European average increase for **Luxury Personal Goods**



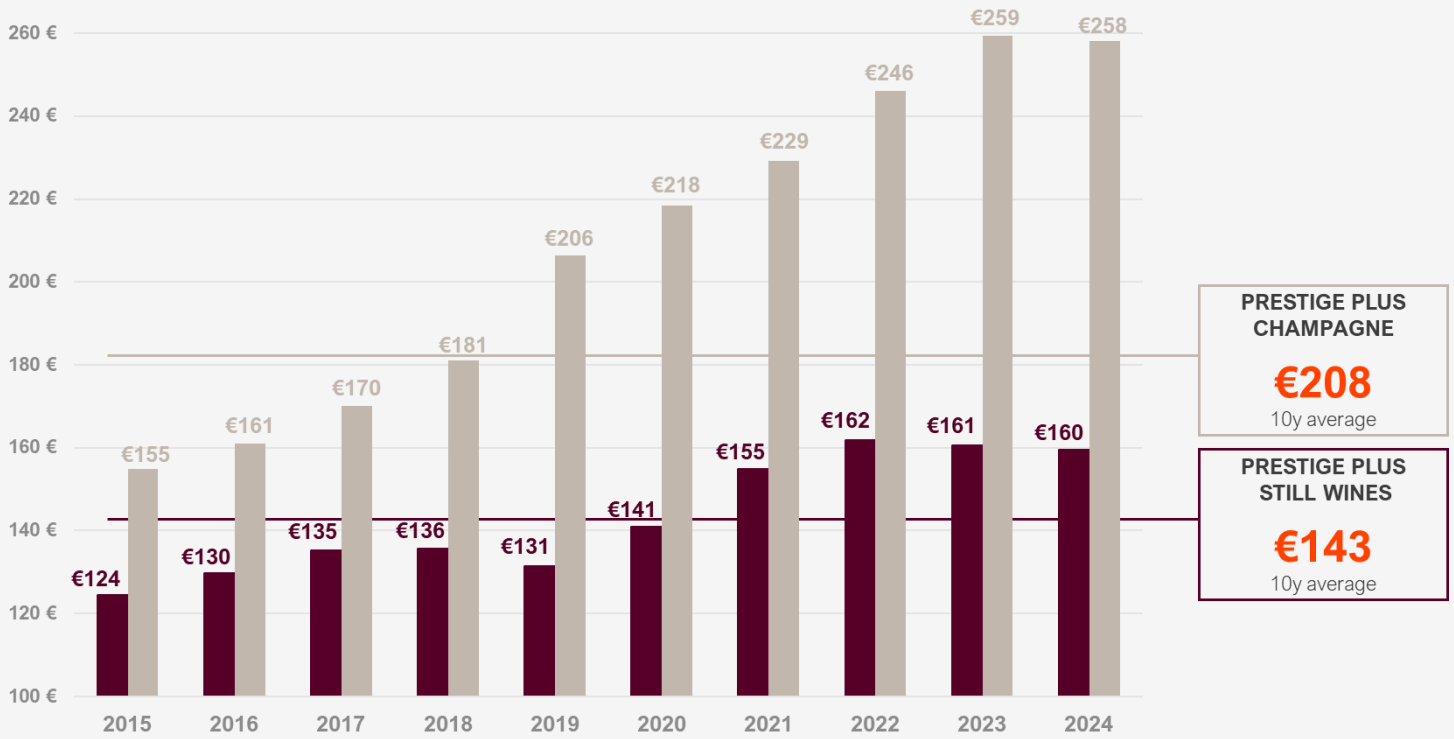
PRESTIGE WINES CLIENTS HAVE AN INSIGHTFUL PURCHASE HISTORY SPANNING OVER SEVERAL YEARS



Despite a growing number of affluent Millenials (25 – 40), **Prestige wine clients** tend to skew older, falling in the **+40 yo age range…**

… thus have a few years of Prestige Wines purchase in mind when they buy some today

Looking at the 10-year average price in a relevant way to assess the price perception rim for your product



Source: IWSR

THE POWER OF PASSING ANNUAL & SPOT PRICE INCREASES UNCORRELATED TO INFLATION IS A PREROGATIVE OF ABSOLUTE LUXURY BRANDS…OUTSIDE OF THE W&S REALM



ABSOLUTE LUXURY BRANDS
(Hermès, Rolex, Ferrari…)

/ Brands elevated as Luxury icons through their **brand name & proprietary lifestyle**

/ **Annual & spot** price increases **uncorrelated to inflation** (+7-10% and above)



CORE LUXURY BRANDS
(mainly Fashion, Leather Goods, Watches & Jewellery…)

/ Brands that **indisputably belong** to the Luxury category

/ **Annual** price increase aligned with **Luxury sector inflation** (+4-6%)



'CONSUMABLE' LUXURY BRANDS
(mainly Beauty, Wines & Spirits…)

/ Luxury categorisation undisputable regarding **Brand name**…
…but somehow **debatable re. Pricing & Distribution**

/ **Annual** price increase aligned with **cross categories inflation** (+1-3%)…

/ … **vs +7% CAGR 2019 – 2023 across the Prestige Plus Wines**

3 KEY QUESTIONS RELEVANT FOR THE PRESTIGE WINES INDUSTRY

What are the risks
of playing the 'steep price increase' game
and entering the bear market impasse?

CLIENT
Jamming the Clients Business Powerhouse

PRODUCT / BRAND
Sabotaging the Investment Game

DISTRIBUTION
Scrambling the *Prescripteurs* lines

MARKET
Stalling the Growth Engine
& facing shareholders' *malus*

How to control price increase strategy
to maximise prices
without entering the bear market impasse?

CLIENT
The Price Perception Rim

DISTRIBUTION / COMPETITORS
Disruptors in Decanter

How to hedge
the bear market impasse risks
before it happens… and after?

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Adopt a multi-tier price increase strategy
at the service of Brand & product offer

PRODUCT
Bridge the value gap & explore offer polarisation
to revitalise core product attractiveness

BRAND / TALENT
Give the front seat to Creativity
to break free from the price x quality equation

D2C
To acknowledge market dynamics and
unleash full strategic potential of other levers

HOW TO MONITOR MARKET SATURATION - KEY PRINCIPLES

1. Market makers, don't be 'snobbish'

Maisons at the top of the category should **monitor the 'bloom' of relevant players (independent domaines & vignerons)**, distinguishing between:

/ the ones entering competition at the mid/top of the category ("**Top Contenders**")

/ the ones entering at the bottom of the category ("**Bottom Contenders**")

2. Trust Resellers' instinct

Resellers are the **closest to your final clients** and always have an eye on their **price sensitivity**

/ When the price limit is not reached yet, resellers will tend to put the **spotlight on Top Contenders** as your competitors in order to maximise pricing thus revenues

/ When they feel that prices are getting high, they will begin **turning to Bottom Contenders** to leverage the 'top quality x lower price point' equation

3. Beware of square waves

The **rise of the Bottom Contenders** wave and the **stalling of the Top Contenders** one signal that the **price limit is getting close** and that **subsequent price increases** should be passed with **caution**

ILLUSTRATIVE CASE STUDY – PRESTIGE PLUS CHAMPAGNE



PRESTIGE PLUS CHAMPAGNE

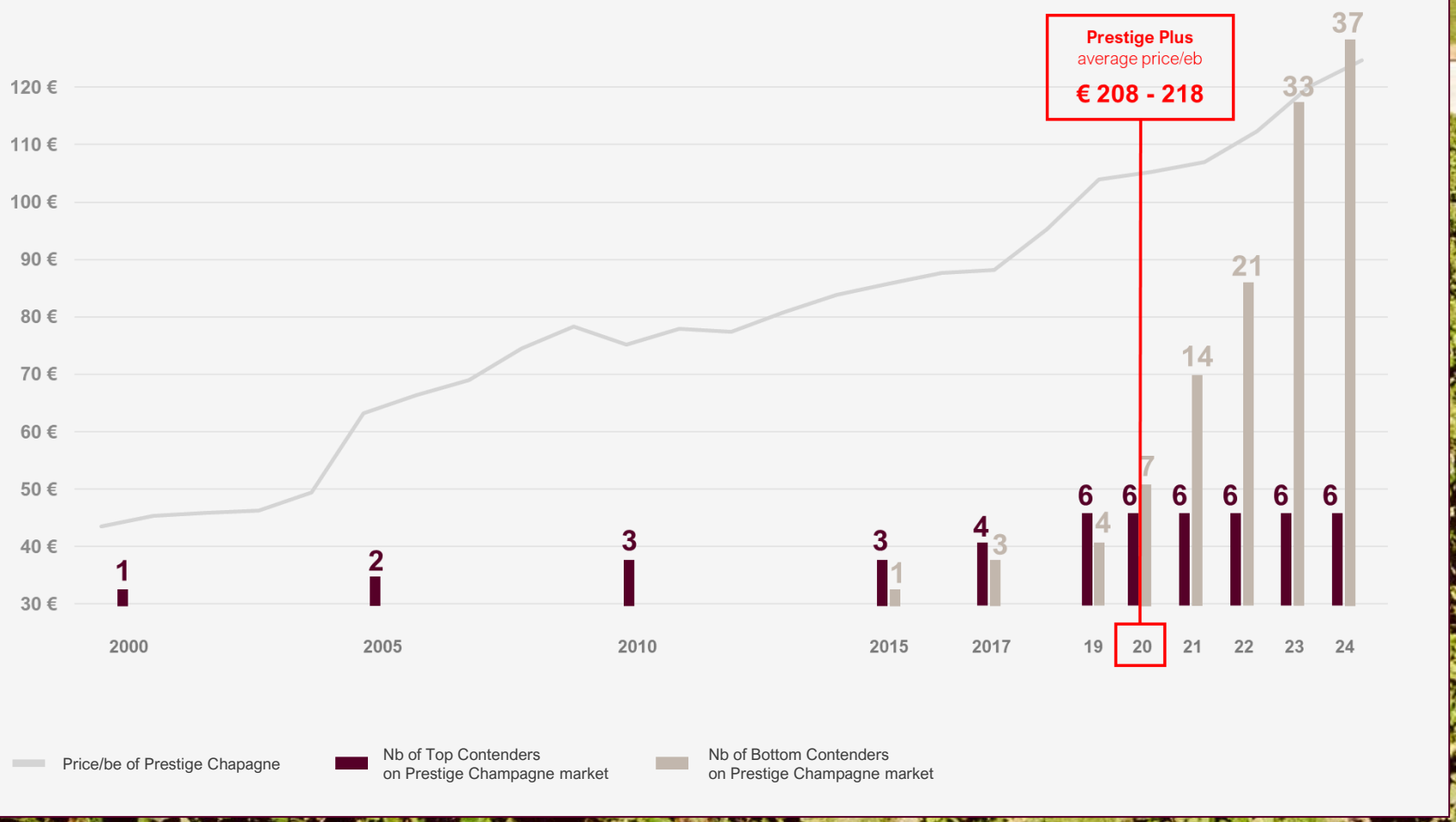


ILLUSTRATIVE CASE STUDY – PRESTIGE PLUS CHAMPAGNE

	PRODUCT boundaries	**GEOGRAPHICAL** boundaries	**PRICING** boundaries
 **CATEGORY**	**Prestige Champagnes only**	**Champagne AOC**	**Boundaries as at 2024 70€/eb and up** Top: av. 258€/eb Mid: av. 185€/be Bottom: av. 70€/eb

	6 TOP CONTENDERS	**37 BOTTOM CONTENDERS**
 **CONTENDERS**	Selosse Egly Ouriet Pierre Peters Jerome Prevost - La Closerie Ulysse Collin Cedric Bouchard	Georges Laval De Souza Leclerc Briant Françoise Bedel Elise Bougy Agrapart Berèche et Fils Chartogne Taillet Larmandier Bernier Frederic Savart Doyart La Rogerie Pierre Paillard R Pouillon & Fils Emmanuel Brochet Elise Dechanne Dhondt Grellet Vouette & Sorbée Adrien Renoir Marguet Romain & Pascal Henin Benoit Dehu Mouzon Leroux Jacques Lassaigne Lamblot Waris Larmandier Seleque Eric Rodez Salima & Alain Cordeuil Bourgeois Diaz Olivier Horiot Perseval Farge Gaspard Brochet Etienne Calsac Novak Stroebel Laherte

ILLUSTRATIVE CASE STUDY – PRESTIGE PLUS CHAMPAGNE



COMMENTS

/ The wave of **Top contenders** rises in 2000's but starts to stall in **2020**

/ The wave of **Bottom contenders** truly picks up in **2020** when the wave of Top contenders stops growing

KEY INSIGHT

This **saturation analysis** shows that:

/ The Prestige Plus Champagne **price signal** could have been **detected in 2020** at about **€ 218**

/ From 2020, Prestige Plus Champagne prices could have been **raised less aggressively** to ensure the price limit was not reached

/ In 2019, price signal was weaker to be detected, but it is interesting to note that it would have been set at € 208, corresponding exactly to the Price Perception Rim

Through a **volume / Champagne 50 Index analysis**, **some price signal** would have been detected in **Q4 2022 earliest**

FRAMING THIS MONITORING EXERCISE IS CRUCIAL TO GET THE ‘PRICE LIMIT SIGNAL’ EARLY ON, IF AT ALL, WITHOUT BOILING THE OCEAN

What

to look at?

Setting the boundaries

of the category in a strategically relevant way:

/ Product boundaries

/ Geographical boundaries

/ Pricing boundaries



Who

to focus on?

Identifying the challengers

to monitor, not to ‘boil the ocean’

/ The characteristics that they should have to be relevant

/ When to start monitoring them



THE OUTILNE OF THE PRESTIGE CATEGORY IS TO BE STRUCTURED ALONGSIDE 3 AXIS AND VARIES FOR EACH SPECIFIC WINE

PRODUCT
boundaries

Product boundaries depend on
Clients' purchasing criteria
for each specific Wine

The degree of importance they attach to:

/ Appellation & Terroir
/ Characteristic organoleptic profile
/ Drinking occasion

GEOGRAPHICAL
boundaries

Geographical boundaries depend on
Clients' adventurous spirit
to find an alternative to said specific wine

How far (if at all) they are ready to explore at purchase consideration stage:

AOC only? Region? Country? Continent? World?

PRICING
boundaries

Pricing boundaries depend on
prices set by actors matching the standards of Luxury
within the Product x Geo. Boundaries

Pricing boundaries evolve over time!

ILLUSTRATION – DOMAINE OTT

When purchasing Ott, Clients buy a
light-coloured rosé wine

When purchasing Ott, Clients may consider other light-coloured rosé wines from
France, Italy, USA

Regarding Ott, the relevant Prestige category begins at
c. €20
(prices set by competitors such as Minuty)

Getting the boundaries right is crucial to get the 'price limit signal', early on, if at all

'BEAUCOUP D'APPELÉS, PEU D'ÉLUS'
JUST A FEW 'CHALLENGERS' MANAGE TO SHINE ALONGSIDE HISTORIC ICONIC DOMAINES & MAISONS

LUXURY CHARACTERISTICS
are an absolute 'must'



QUALITY
Uncompromising commitment to excellence in materials and production



CRAFTMANSHIP
Exceptionally skilled artisans and meticulous production processes



EXCLUSIVITY
Limited availability of products



RARITY
Controlled distribution network



STYLE
Proprietary style, design, parti-pris



HERITAGE
Rich authentic history that often spans generations

To be legitimate
in the Prestige Wine category

'HYPE' CHARACTERISTICS
are a necessary 'add-on'

At the **forefront of Viti & Viti Trends**…

Key Viti. Trends	Key Vini. Trends
Creative and reasoned viticulture	*Loyalty to nature*
*******	*******
Revitalization of plant capital	*Time as an ally*
*******	*******
Exploring the concept of terroir	*Responsible packaging*

…with a **contrarian approach to Marketing** appealing to Clients seeking something **authentic and 'unique'**

An **understated approach** to marketing: their reputations growing largely through **word-of-mouth**, the **endorsement** of top sommeliers, and their presence on the **wine lists of high-end & hype restaurants**

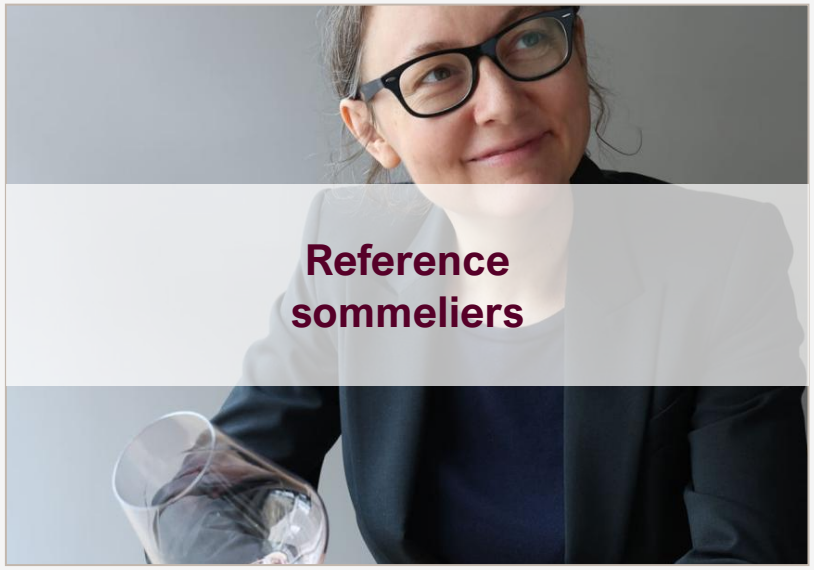
To standout and be relevant
alongside historic iconic Domaines & Maisons

THE MOMENT TO START MONITORING CHALLENGERS IS WHEN THEY 'BLOOM' AS PROPER CONTENDERS OF THE PRESTIGE WINE INCUMBENTS IN THEIR PEERS & INDUSTRY STAKEHOLDERS' EYES













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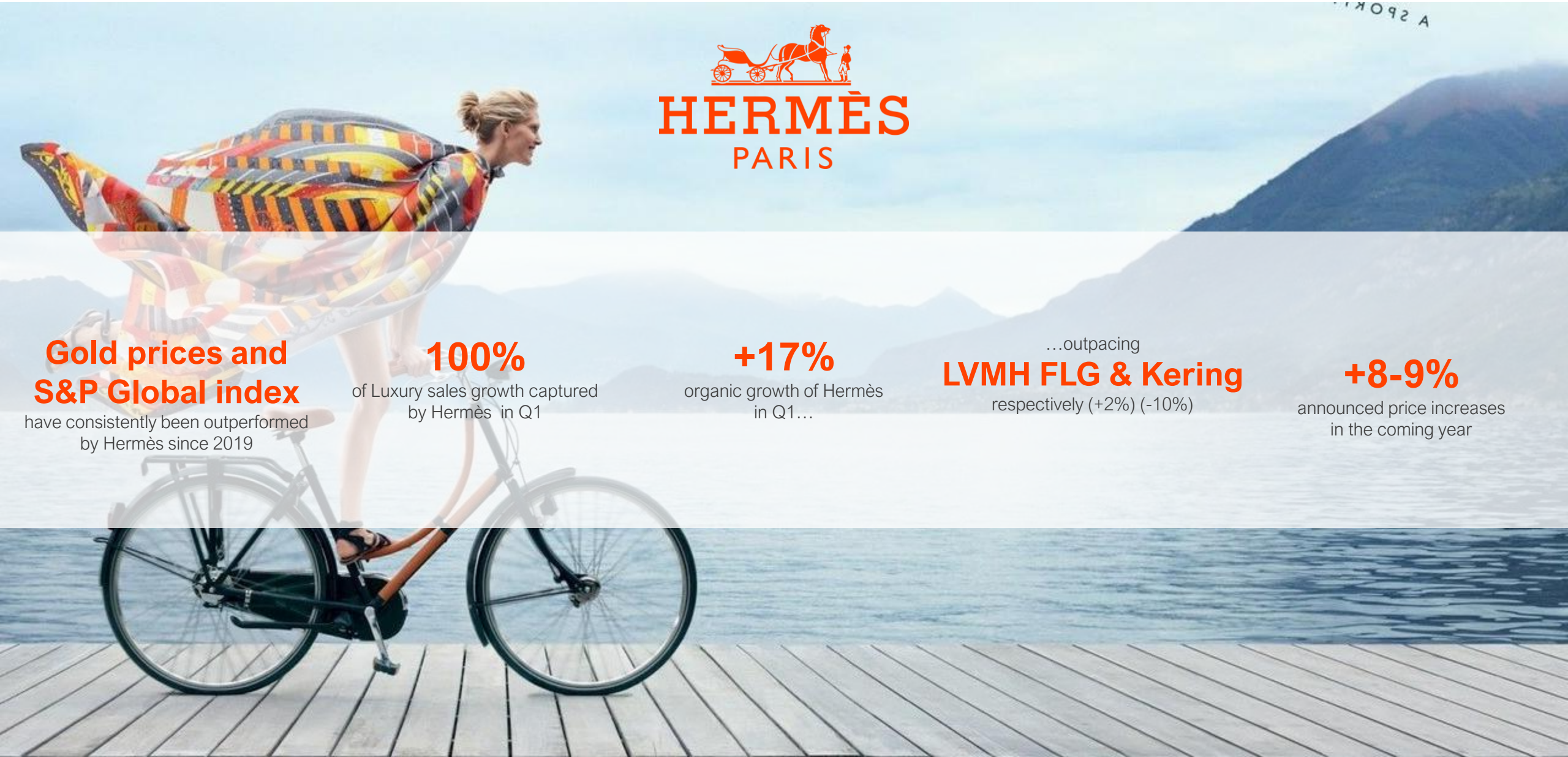
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LET'S TAKE A LOOK AT THE BEST IN CLASS LUXURY HOUSE FOR POST PANDEMIC GROWTH: HERMÈS



HERMÈS
PARIS

Gold prices and S&P Global index
have consistently been outperformed by Hermès since 2019

100%
of Luxury sales growth captured by Hermès in Q1

+17%
organic growth of Hermès in Q1…

…outpacing
LVMH FLG & Kering
respectively (+2%) (-10%)

+8-9%
announced price increases in the coming year

EVEN IF FASHION AND W&S ARE DIFFERENT, INSIGHTS OF HERMES' PRICING STRATEGY ARE RELEVANT TO SET AN APPLICABLE DIRECTION FOR W&S ON HOW TO TACKLE THE BEAR MARKET IMPASSE RISKS



Less SKUs



Vintage variations



Less control over price as part of mainly wholesale industry

Insights need to be adapted to the reality of each Domaine & Maison, depending on their level of exposition to each of those specificities

3 KEY INSIGHTS REGARDING HERMÈS PRICING STRATEGY

Reasoned price increases <u>at brand level</u>
rooted in value considerations

No excessive price hikes…

HERMÈS	LOUIS VUITTON	CHANEL
+3-4%	**+5-10%**	**+10-15%**
CAGR 20-23	CAGR 20-23	CAGR 21-23

…reinforcing the Brand's line that its prices **remain rooted in the cost of top-quality production**

Nuanced price increases <u>at offer level</u>
supporting the readability of the offer pyramid

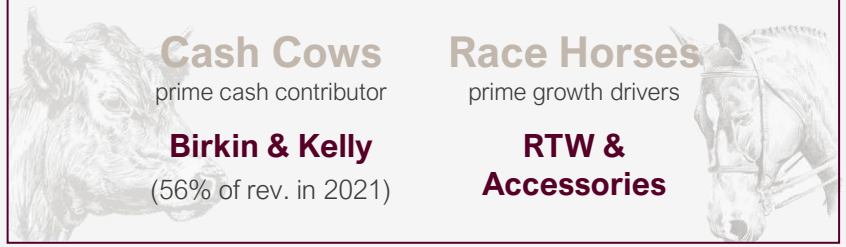
Price hikes maintain the **clear readability of the offer** across **Access**, **Core** & **Top Luxury** segments

*"One reason Hermès is **so resilient** is that despite being the most expensive brand in the space, they carry **many categories that are accessible in nature**"*

Erwan Rambourg
HSBC Global Head of Consumer & Retail Research

Multi-tier price increases <u>at category level</u>
reflecting the strategic role of each category

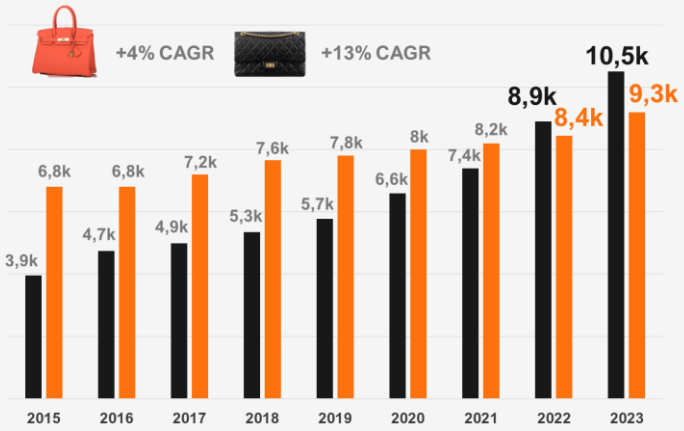
Price hikes are made in accordance with the **strategic role of each category re. growth**, making the distinction between

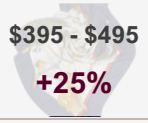
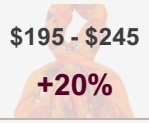
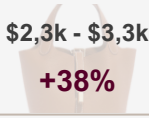
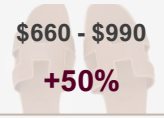
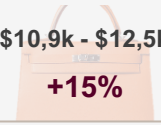


Cash Cows
prime cash contributor
Birkin & Kelly
(56% of rev. in 2021)

Race Horses
prime growth drivers
RTW & Accessories

It has been 2 years that **Chanel 2.55 is priced higher** than Hermès' iconic Kelly, and Hermes is **not playing** the '**catch-up game**' just for the sake of it

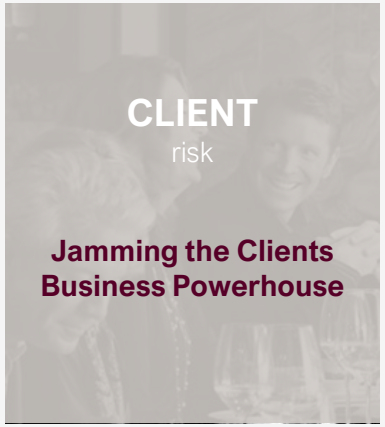


Access Luxury	Silk Scarf **$395 - $495** **+25%**  Silk Bandana **$195 - $245** **+20%** 	Access products remain 'accessible' (in the standards of Luxury)
Core Luxury	Picotin bag **$2,3k - $3,3k** **+38%**  Oran Sandals **$660 - $990** **+50%**  Cashmere sweater **$1,3k - $1,8k** **+47%** 	Core Luxury products supports the steepest price hikes
Top Luxury	Kelly 25 Epson **$11,3k - $11,8k** **+4%**  Birkin 30 togo **$10,9k - $12,5k** **+15%** 	Top products are kept at the forefront of Luxury high prices without excessive price hikes

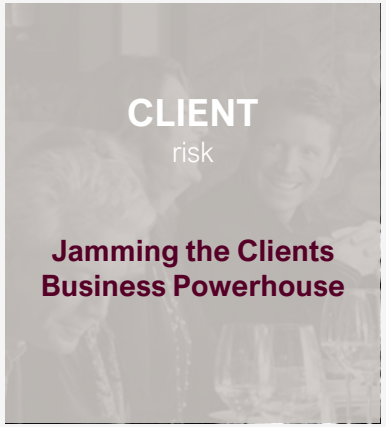
Evolution of Hermès prices (2019 – 2024)

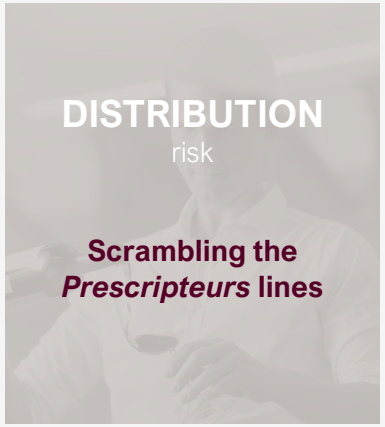
HERMES INSIGHTS ARE POWERFUL LEVERS TO ACT ON PRICING IN A RELEVANT WAY TO ADDRESS THE KEY RISKS OF THE BEAR MARKET IMPASSE

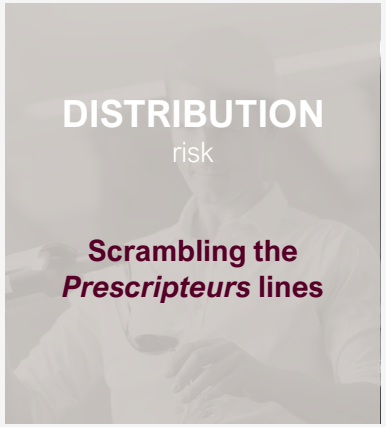
Reasoned price increases at brand level rooted in value considerations	**Nuanced price increases at offer level** supporting the readability of the offer pyramid	**Multi-tier price increases at category level** reflecting the strategic role of each category













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THERE ARE 3 WAYS TO MAKE THE ‘PRICE x PERCEIVED VALUE’ EQUATION WORK AGAIN FOR THE EXISTING OFFER



OFFER ENRICHMENT

1. **Bridge the value gap**

OFFER POLARISATION

2. **Rethink Access**

3. **Embrace Über Luxury**

1. BRIDGE THE VALUE GAP IN AN AUTHENTIC (THUS PRODUCT-CENTRIC) WAY



BILLECART SALMON
Les Rendez-Vous de Billecart-Salmon



DOMAINE LAPIERRE
Morgon avec et sans sulfites



NIKKA WHISKY
Coffey Still Whisky

Product-focus

Take the stand and (re)state your value

Own your product storytelling: no one is best positioned to make clients dream about your product in an authentic (thus impactful) way (cf. D2C chapter)

Create newness & spark (back) interest

Dare to innovate & explore meaningful limited editions to glorify know-how, craftmanship, excellence… under a bold new light that will spark your clients' interest and desire to (re)discover the core offer

Beyond product, at the service of the product

Explore Experiences

to glorify product, know how, excellence… in an immersive, interactive way to match the expectations and 'speak the language' of your Clients

/ 79% of luxury consumers prefer to learn about brands through experiences rather than traditional advertising

/ 70% of luxury consumers say they value brands that showcase their craftsmanship through immersive experiences

2. RETHINKING ACCESS, A POWERFUL LEVER TO…



COS D'ESTOURNEL
Goulée by Cos d'Estournel



YQUEM
Y d'Yquem



CARTIER
Must de Cartier (Tank Watch)

Re-engage with 'lost' Clients & Prescripteurs

that were either priced-out or alienated for price-to-value reasons

Re-enchant existing Clients & Prescripteurs

with newness & extra SKUs, bringing them back to their previous (or higher) average basket through cross-sell of access offer

Win qualified new Clients & Prescripteurs

that were 'intimidated' by current high prices, with a view to upsell them

Access does not mean cheap

Any access assortment should always be developed in accordance with the standards of Luxury

3. EMBRACING ÜBER LUXURY, A POWERFUL LEVER TO…



DIOR
Haute Couture



CLASE AZUL
Clase Azul Tequila Ultra



PORSCHE
911 GT / GT2 RS / GT3 RS

Leverage the rapidly growing ‘Beyond Money’ segment

being <u>less price sensitive</u>, and convert them on core offer through the exclusive Über Luxury door (cross-sell)

Glorify Excellence & Craft and leverage the Über Luxury aura on core offer

To ‘bridge the value gap’ and retain/recruit Clients on core offer, <u>at price</u>

Surf the Premiumisation trend

To recruit qualified younger clients putting the Brand on the map through Über Luxury offer

“*The key to unlocking spending from Gen Z is to offer wines with a clear 'wow factor' worthy of social occasions and sharing on social media*“
IWSC Market Insight report

Über Luxury does not automatically mean gold & diamonds

Any Über Luxury assortment needs to:

/ be authentically **rooted in creativity, know-how, craftmanship, excellence**

/ be aligned with the **brand’s DNA**

/ Nourish the Brand

/ be top quality, respecting all of **Luxury’s standards of execution**

THUS A RELEVANT WAY TO HEDGE AGAINST THE BEAR MARKET IMPASSE RISKS

Enhance Value		Rethink access		Embrace Über Luxury	
CLIENT risk **Jamming the Clients Business Powerhouse**	PRODUCT/BRAND risk Sabotaging the Investment Game	CLIENT risk **Jamming the Clients Business Powerhouse**	PRODUCT/BRAND risk Sabotaging the Investment Game	CLIENT risk **Jamming the Clients Business Powerhouse**	PRODUCT/BRAND risk **Sabotaging the Investment Game**
DISTRIBUTION risk Scrambling the *Prescripteurs* lines	MARKET risk **Stalling Growth Engine & shareholders' *malus***	DISTRIBUTION risk **Scrambling the *Prescripteurs* lines**	MARKET risk **Stalling Growth Engine & shareholders' *malus***	DISTRIBUTION risk Scrambling the *Prescripteurs* lines	MARKET risk **Stalling Growth Engine & shareholders' *malus***

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CREATIVITY IS ONE OF THE FEW PILARS OF WHAT MAKES A LUXURY BRAND, BUT ITS ROLE IS KEY TO STAND OUT & BREAK FREE FROM THE PRICE x QUALITY EQUATION

What makes a brand a
Legitimate
Luxury / Prestige band

What makes a brand an
Authentic
Luxury / Prestige band

What makes a brand a
Front Row
Luxury / Prestige band

QUALITY / EXCELLENCE

Uncompromising commitment to excellence in materials and production



CRAFTMANSHIP

Exceptionally skilled artisans and meticulous production processes



HERITAGE

Rich authentic history that often spans generations



CREATIVITY / VALUES

Proprietary style, design, parti-pris



A must to command Luxury high prices…according to the **price to quality equation**

A storytelling often **similar from one Domaine/Maison to the other**, especially in Prestige W&S (even if the underlying assets are **extraordinary & unique** to each Brand)

ILLUSTRATION – BILLECART SALMON

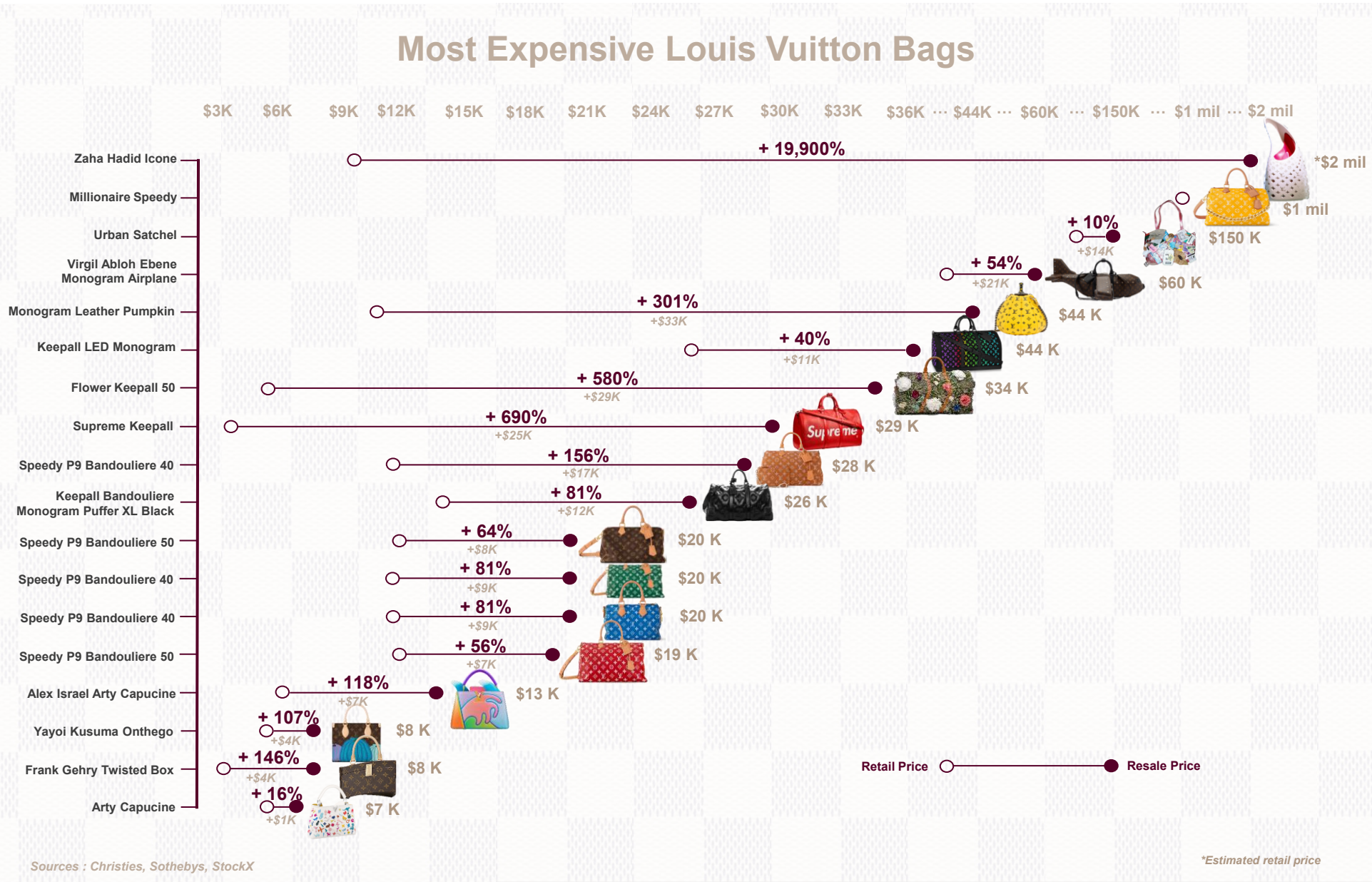
Billecart Salmon's innovative and proprietary '**débourbage à froid**' is presented in a **technical storytelling** paragraph at the **very end of the description of the Maison's Craft**

A **proprietary** and truly **differentiating** storytelling sparking **emotion**

The key to **break free from the price to value equation** in clients' eyes, claim and state (back) the **investment card**…

…thus supporting the passing of **higher price points at domaine level up until final reseller**

LOUIS VUITTON ILLUSTRATION – THE MOST VALUABLE & SOUGHT AFTER LOUIS VUITTON BAGS ON THE RESALE MARKET ARE CONNECTED TO THE CREATIVE DIRECTOR WHO DESIGNED THEM



TO UNLEASH THE STRATEGIC POTENTIAL OF CREATIVITY ON THE LONG TERM, A DIFFICULT EQUILIBRIUM MUST BE FOUND BETWEEN 2 CREATIVE VISIONS

DOMAINE / MAISON

Creative vision rooted in Heritage and DNA (“Brand Platform”)

Preserving the Brand Integrity over time



CHEF DE CAVE

Creative vision rooted in personal creative brilliance

Breathing life in the Brand Platform and bringing it in resonance with zeitgeist



The risk of over-relying on Brand Platform
is to get lost in the ‘sea of sameness’:
Endless variations of what was already created with little to no inspiration for today’s clients

The risk of over-relying on Chef de Cave’s vision
is misalignment with the brand's core positioning & DNA, and the stifling of creative diversity, hampering Brand’s ability to build long-term value

KEY PRE-REQUISITES TO ENSURE STRONG FOUNDATIONS FOR CREATIVITY UPHOLDING

BRAND PLATFORM

WHAT IT COVERS

It **authentically** reflects the **rich heritage** of the House in all its **unique aspects** and defines the **core differentiating elements** of a brand's identity, mainly:

/ **Mission Statement**: The brand's core purpose and reason for existence

/ **Brand Promise:** The key benefit or value proposition offered to customers

/ **Core Values:** Fundamental beliefs and principles that guide the brand

/ **Proprietary Lifestyle:** The distinct culture and ethos the brand embodies and promotes to engage clients

/ **Tone of Voice:** The tone and style of communication

/ **Visual Identity**: Guidelines for logos, colours, typography, and imagery

ROLE IN CREATIVE EQUILIBRIUM

/ Provide DA with a robust framework within which to operate, ensuring their **creative vision is aligned with the brand's DNA in the most authentic way**

/ Ensure **coherent continuity** of the Brand DNA **throughout DA**

/ A proprietary Brand Platform cannot **just** be about **excellence, craftsmanship and heritage**: 'given' characteristics rather than differentiators in Luxury arena

/ A strong Brand Platform does not only frame the creative vision related to product, it ensures that that **proprietary creativity is also applied to lifestyle (the 'Bordeaux pitfall')**

MAITRE DE CHAIS / CHEF DE CAVE

ROLE IN CREATIVE EQUILIBRIUM

A highly skilled Maître de Chais / Chef de Cave is key to **bring to life the Brand Platform** while acting as **custodian of brand's authentic creative vision**

Their role is now evolving fast beyond the frontiers of the Atelier
On top of creative prowess, numerous Luxury Houses are looking for proper spokespersons to embark clients & prospects in the brand dream and their creative vision

Prestige Wines have not taken this strategic turn yet
A necessary step to stand out in the Luxury arena & shine in clients (specially VICs) eyes

3 KEY QUESTIONS RELEVANT FOR THE PRESTIGE WINES INDUSTRY

What are the risks
of playing the 'steep price increase' game
and entering the bear market impasse?

CLIENT
Jamming the Clients Business Powerhouse

PRODUCT / BRAND
Sabotaging the Investment Game

DISTRIBUTION
Scrambling the *Prescripteurs* lines

MARKET
Stalling the Growth Engine
& facing shareholders' *malus*

How to control price increase strategy
to maximise prices
without entering the bear market impasse?

CLIENT
The Price Perception Rim

DISTRIBUTION / COMPETITORS
Disruptors in Decanter

How to hedge
the bear market impasse risks
before it happens… and after?

PRICE
Adopt a multi-tier price increase strategy
at the service of Brand & product offer

PRODUCT
Bridge the value gap & explore offer polarisation
to revitalise core product attractiveness

BRAND / TALENT
Give the front seat to Creativity
to break free from the price x quality equation

D2C
To acknowledge market dynamics and
unleash full strategic potential of other levers

A QUICK REMINDER OF WHAT IS D2C



/ D2C is about **knowing and interacting with your customers** and **potentially selling them products directly**

/ D2C is a **customer centric ecosystem** where interconnection will unlock **Consumer Lifetime Value**

/ D2C ≠ **moving from wholesale to retail**

/ D2C is **not a totally new topic for Prestige Wines** as some initiatives are already D2C ones (events, social media, pop-ups…) although not thougth as an overall ecosytem

ADRESSING CLIENTS THROUGH D2C HAS NEVER BEEN MORE PRESSING TODAY FOR PRESTIGE WINES…



Even though the **luxury top-down dynamics** remain unchanged,
the **bear market impasse somehow shifts the needle** to the benefit of clients

… AND IS A POWERFUL LEVER TO ADRESS ALL RISKS, DETECT PRICE SIGNAL & PROPRELY HEDGE

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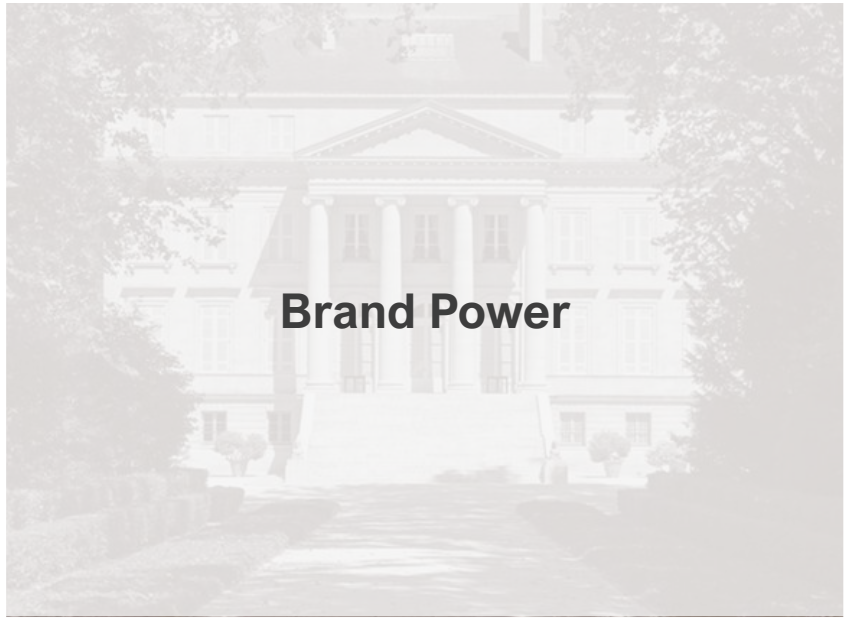
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ONE SIZE NEVER FITS ALL, ALL CONLUSIONS IN THIS PRESENTATION NEED TO BE ADAPTED TO THE REALITY OF EACH DOMAINE / MAISON













Merci