

Cognac's Streak Continues

Shipments of the French brandy have reached record highs **BY SALLY KRAL**



Cognac consumers in the U.S. continue to be driven largely by brand loyalty. Despite slowing growth, No.-1 brand Hennessy (barrels pictured) still claims 60% of the market share, according to Impact Databank, and expects to hit the 4 million-case mark in 2019.

Cognac's global growth figures may not have been as high in 2018 as the year prior, but it's easy not to dwell on that fact. The totals last year were enough to break records for the category, which grew by 3% in volume to 204.2 million bottles and 2% in value to \$3.2 billion, according to the Bureau National Interprofessionnel du Cognac. While the percentage growth was down from 2017—when volume and value surged 10% and 14%, respectively—the numbers are encouraging nonetheless.

In the United States—Cognac's largest market—sales volume grew by 6.5% last year to 6.1 million 9-liter cases, according to Impact Databank. Hennessy held steady to its over-60% share of the U.S. market, though the brand's growth eased slightly from the year prior, up just 0.9% to 3.7 million cases. Despite this slower growth, Giles Woodyer, senior vice president for the brand, says that Hennessy is on track to break through the 4 million-case mark this year.

Each of the top ten Cognac brands advanced last year, and several experienced significant double-digit gains, including Bacardi's D'Ussé (up an astounding 79.5%), Pernod Ricard's Martell (up a similarly impressive 57.2%), Beam Suntory's Salignac (up 13.7%), and CIL U.S. Wines & Spirits' Camus Cognac (up 19%).

Although Cognac depletions reached record highs in both volume and value last year, its volume remains dwarfed in the U.S. by Bourbon, which was up to 22.8 million cases, according to Impact Databank. Jeff Feist, category lead for spirits at West Coast retail chain BevMo, points to a lack of new Cognac brands shaking things up as part of the reason for this discrepancy. "The category is extremely healthy, but that's mainly because the No.-1 item continues to grow," he says. "In Bourbon, millennials love exploring different labels and styles, and you see that with Scotch and even Tequila. But you don't see that in Cognac. People are brand loyal, which is a big reason you don't see many private labels coming into the category. Very few people stray outside of the brand they know and love."

Despite the fact that so much of the action comes from one brand, Cognac is a lucrative category for BevMo. "Cognac skews much higher in average on-the-dollar ring and the gross profit side of the business in our stores, and it's about average on units sold," Feist says. "Even at our worst-selling Cognac store, it still does fairly well. Cognac may not necessarily be the most exciting category right now, but there are definitely things there that make it interesting."

Big-Brand Domination

As Feist notes, Cognac fans tend to have tunnel vision, faithfully sticking to the same brand every time they purchase—and for most Cognac drinkers, that brand is Hennessy. "Hennessy is growing by over 20 points this year versus last year chain-wide for us," Feist says. "Seven of our top 12 Cognac SKUs, including the top three, are Hennessy products." He adds that



Cognac shipments across the globe reached record highs last year in both volume and value. The U.S. is the category's biggest market, depleting 6.1 million cases in 2018.



Many producers have focused on partnerships to promote their brands. Third-ranked Courvoisier (château exterior pictured) has teamed up with rapper A\$AP Rocky on the Honor Your Code campaign and NBA star LeBron James on the Uninterrupted Live: The Day Ones series.

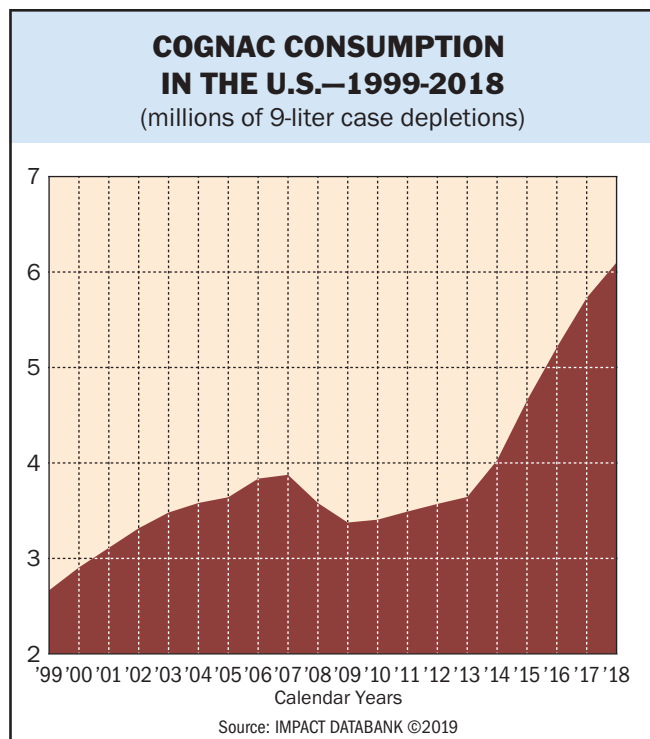
the 1.75-liter format of the Hennessy VS (\$70) is up 30% for the retailer this year, and Hennessy VSOP (\$69 a 750-ml.) is also showing double-digit growth. Hennessy XO (\$180), meanwhile, is up 5% in almost every store in the chain. “Rémy Martin and Courvoisier still do quite well but it’s nothing like what we see with Hennessy,” Feist adds.

Hennessy is the top seller at Joe’s Beverage Warehouse’s two stores in Joliet and Romeoville, Illinois, with VS (\$30 a 750-ml.) performing best—but it’s followed closely by D’Ussé

VSOP (\$37). “The emergence of D’Ussé has been profound—the brand has gained some serious ground on Hennessy and has actually usurped Rémy Martin as our second best-selling Cognac over the past three years,” says owner Ammar Sheikah. Rémy Martin VSOP (\$38) is the retailer’s third best-selling Cognac. “These top three brands make up approximately 80% of our total Cognac sales at both stores,” Sheikah adds. “Cognac is the most top-heavy category in terms of brand domination.” Indeed, combined U.S. sales of Hennessy and Rémy Martin make up over 75% of the market, with 17.2% shared among the next three brands, and just 6.9% devoted to all other brands, according to Impact Databank. But there’s been some action happening within the top five: Although Rémy Martin has remained the No.-2 Cognac in the U.S. for two decades, rising 4.5% in 2018, D’Ussé is gaining tremendous traction after being introduced to the market in mid-2012. The brand surpassed Martell in sales in 2017 to take the No.-4 spot in the market, accounting for 5% of total U.S. Cognac sales in 2018, compared to Martell’s 3.5%.

“We’re continuing to see positive growth trends, led by our VSOP, which is growing by double digits,” says Jennifer Pisciotta, vice president of global marketing at Bacardi, D’Ussé’s parent company. “Our success is largely due to strong distribution and increased consumer pull across our biggest North American markets, which have helped us surpass some of our biggest competitors.” BevMo’s Feist has been impressed by D’Ussé’s rise, but points out that it helps to be owned by Bacardi. “D’Ussé does well and it’s fairly new to the marketplace, but it’s tied to a big company with a lot of marketing dollars behind it, and even a brand like that sometimes has trouble getting a foothold,” he notes.

But Alexandra Albu, U.S. sales and marketing director for CIL U.S. Wine & Spirits, which markets Camus, sees D’Ussé’s





historically dominated by the big Cognac houses, there's growing intrigue in premium niche brands like Hine, and the brand's growth reflects that interest," Robbat adds.

Marketing Matters

Sheikah of Joe's Beverage Warehouse notes that in the Cognac category in particular, consumers are led by celebrity influence. "A unique feature of Cognac branding is the power that celebrities wield in changing the market and fortunes of otherwise middling brands," he says. "D'Ussé's rise was undeniably brought on by the rapper Jay-Z buying into the brand and making strong marketing pushes in his music and through his other means of mass influence."

The big-name Cognac brands take this opportunity seriously. Beam Suntory-owned Courvoisier is continuing its Honor Your Code campaign, which it launched in 2017 with hip-hop artist A\$AP Rocky, and this

spring the brand partnered with Def Jam Recordings to create the Amplified: Icons on the Rise concert tour that showcases artists across major U.S. cities. Also this year, Courvoisier joined forces with Uninterrupted, the athlete empowerment brand founded by NBA star LeBron James and his longtime business manager Maverick Carter, to create the Uninterrupted Live: The Day Ones content series. The No.-3 brand in the U.S., Courvoisier grew 8.9% to 533,000 cases in 2018, according to Impact Databank.

"Social media has been very helpful for the Cognac market," says Brian Davis, owner of Davis Liquor Outlet, a four-store chain in Wichita, Kansas, where the top-performing Cognacs are Hennessy VS (\$43 a 750-ml.), Rémy Martin VSOP (\$50), and Rémy Martin 1738 (\$53). "I think when someone sees an actor or sports figure enjoying a specific Cognac, that pushes them to pick it up."

Hennessy knows it has a large African-American consumer base and markets itself accordingly. In February, the brand celebrated Black History Month with the launch of We Are, a content series highlighting the stories of various African-American trailblazers. "Our strength lies in our strong relationship with poly-cultural audiences," Woodyer says. "We continue to demonstrate this progressive vision through partnerships with diverse communities, individuals, and organizations." This year, the brand teamed up with the Thurgood Marshall College Fund to launch the \$15 million Hennessy Fellows initiative, which awards corporate development opportunities and financial assistance to high-achieving graduate students from historically black colleges and universities.

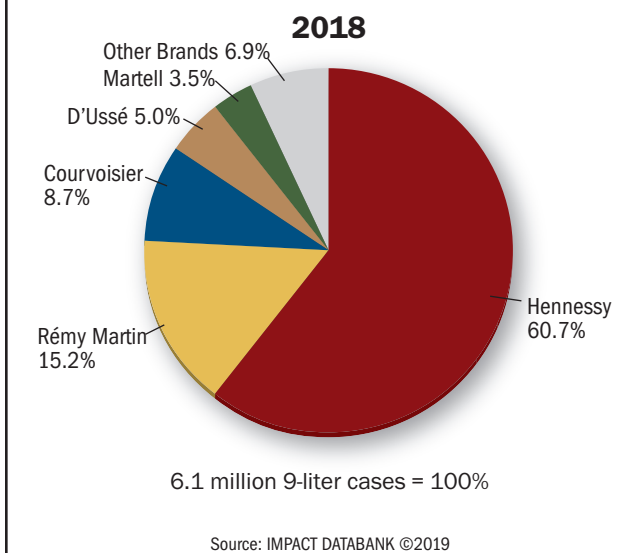
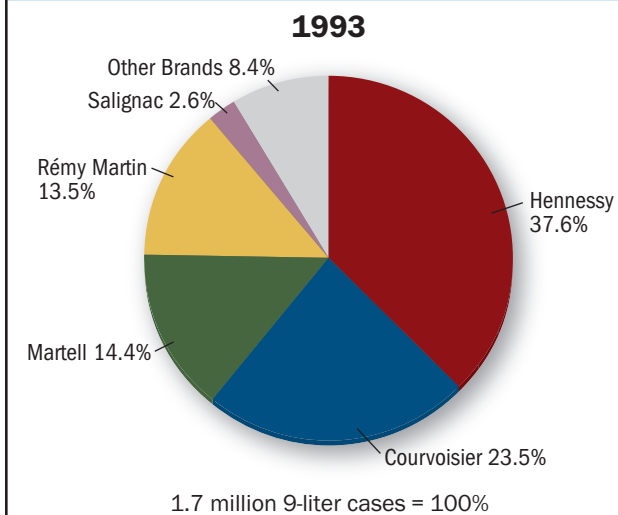
On-Premise Opportunity

Outside of big-budget marketing campaigns, even smaller Cognac brands with less advertising power can benefit from pushing the use of their products in cocktails, especially to

appeal to millennial consumers. "The Cognac category, at least in our world, exists separately from cocktail culture," says Sheikah, noting that customers at Joe's Beverage Warehouse prefer to drink their Cognac chilled and neat. "However, there is potential for growth in the category if non-Cognac drinkers are lured in by tasting a Hennessy Paloma or some other non-traditional drink."

Tasha Zonski-Armijo, general manager at Jubilation Wine & Spirits in Albuquerque, New Mexico, similarly notes that her Cognac customers are not cocktail enthusiasts—rather, they skew older and are only looking for high-end Cognacs to sip. "Cognacs and brandies used to be big movers for us, but in recent years, millennials haven't gravitated toward them and are still mainly interested in Bourbons and other whiskeys," she says. "Hopefully the category will gain more recog-

TOP FIVE COGNAC BRANDS IN THE U.S.—1993 vs. 2018
(share of depletions)



CIL U.S. Wine & Spirits' Camus Cognac (vines top; production above) jumped 19% to reach 25,000 cases in 2018, showcasing the potential of smaller producers against the market's dominant players.

dition from mixologists and bars, and then younger generations will show more interest in it."

Brands have made some attempts at breaking into the cocktail scene, but it doesn't appear to be a main focus for any particular Cognac house. Both Pierre Ferrand and Hine have released expressions specifically tailored for cocktails: Pierre Ferrand 1840 (\$45 a 750-ml.) debuted in 2011, while H by Hine (\$53), a VSOP expression, was created in partnership with bartenders. Camus, meanwhile, hosted its first bartending competition, the Global Shanghai Shake, this spring. And, in an attempt to put more focus on cocktail creation and education, D'Ussé has brought on its first-ever global brand ambassador, Sullivan Doh, a Paris-based mixologist.

"I predict that Cognac will win over new customers in the future by growing its presence in cocktails," Sheikah says. "I don't envision it ever overtaking the cocktail share of the market that vodka and whiskeys have established, but there's definitely room for Cognac to have a presence in the world of mixed drinks." Hennessy's Woodyer agrees, noting that the



While Hennessy has a stronghold on the U.S. market, other brands are starting to make an impact. D'Ussé (pour above) saw nearly 80% gains to become the country's No.-4 brand in 2018, while premium offering Hine (cellars top) is focusing on innovation and cocktails.

success as a good sign for smaller brands. "The top Cognac players remain mostly unchanged every year, but the rise of D'Ussé in the U.S. is one worth following," she says, adding that she's optimistic about Camus' future on the market given its recent sales figures. "Camus has experienced sustained double-digit growth since the opening of its subsidiary in 2011, going from 6,000 cases to over 25,000 cases in 2018. The goal is to hit the 30,000-case mark by 2021."

Boutique brand Pierre Ferrand from Maison Ferrand continues to grow steadily, rising 8% last year to 27,000 cases, according to Impact Databank. Another high-end brand vying for space on the market, Hine has seen double-digit growth year over year, according to Morgan Robbat, CMO for Hotaling & Co., the brand's U.S. importer. "While the category has been

TOP SIX COGNAC BRANDS IN THE U.S.

(thousands of 9-liter cases)

Rank	Brand	Importer	2013	2014	2015	2016	2017	2018	AACGR ¹ 2013-2018	Percent Change ² 2017-2018
1	Hennessy	Moët Hennessy USA	2,263	2,542	3,035	3,420	3,672	3,704	10.4%	0.9%
2	Rémy Martin	Rémy Cointreau USA	621	648	759	823	890	930	8.4	4.5
3	Courvoisier	Beam Suntory	410	446	442	470	489	533	5.4	8.9
4	D'Ussé	Bacardi USA	18	55	58	86	170	305	75.4	79.5
5	Martell	Pernod Ricard USA	64	74	99	105	135	212	27.2	57.2
6	Salignac	Beam Suntory	104	98	90	112	149	169	10.2	13.7
Total Top Six³			3,480	3,864	4,484	5,015	5,505	5,853	11.0	6.3
Total Cognac			3,643	4,027	4,653	5,210	5,729	6,099	10.9%	6.5%

¹ Average annual compound growth rate

² Based on unrounded data

³ Addition of columns may not agree due to rounding.

Source: IMPACT DATABANK ©2019

brand's on-premise growth has recently begun out-pacing its off-premise sales. "This is a testimony to the increased interest in Hennessy cocktails—there's an incredible opportunity here and we're only scratching the surface," he says.

Price Progression

Despite the varied challenges impacting the Cognac category, it remains bolstered by the market's growing premiumization trend. "Cognac consumers are unique because they quickly trade up—even though the entry level for Cognac is higher than many other spirits," BevMo's Feist says. "You might be very happy with a \$50 Scotch, but you probably won't immediately jump to a \$90 Scotch because you like what you already have. But in Cognac, we see a very quick upward progression, from VS to a bigger size, from VS to VSOP, and then from VSOP to luxury and special-edition SKUs."

While Hennessy's VS expression (\$35 a 750-ml.) remains the primary growth driver for the brand, the VSOP (\$54) and XO (\$200) offerings are doing increasingly well. "It gives us great encouragement to see the robust results in value and volume for VSOP and XO, with VSOP doubling in size in the past four years while XO has quadrupled," Woodyer says. D'Ussé is also focusing effort on its XO expression (\$230), marketing it as an "aspirational trade-up" from its VSOP base (\$50), according to Pisciotta.

Because the Cognac drinker isn't one to shy away from spending a little more, brands continue to release increasingly high-end expressions each year, with price points to match. Pierre Ferrand recently launched 10 Generations (\$60 a 750-ml.) and also completely revamped its Sélection



At Joe's Beverage Warehouse (shelves pictured) in Illinois, Cognac's popularity is growing, with brands like D'Ussé gaining ground on category stalwart Hennessy.

des Anges (\$150) expression as SDA, which features a slightly different blend than the original, as well as new packaging. "The price points that work well are between \$50 and \$70, but there's still a great market for \$200-\$300 bottles presented in high-end packages, both for gift-giving and collecting," says Guillaume Lamy, Pierre Ferrand's vice president of the Americas.

Hine's innovation is centered on its Hine Bonneuil single grand cru, single harvest Cognacs; the 2008 vintage (\$140 a 750-ml.) of Bonneuil was released at the end of 2018. Another vintage is planned for 2020, and Robbat notes that the brand plans to place emphasis on its XO (\$212) and above expressions in the future.

In addition to releasing higher-end expressions, Cognac brands are also beginning to innovate with different aging processes, following the trend set by other aged spirits, like whiskies and rum. "We're seeing increased interest in unique finishes, and we're the first leading Cognac house to release a Sherry cask-finished expression," says Stephanie Kang, marketing director for Courvoisier. The limited-edition Master's Cask Collection Sherry Cask Finish (\$40 a 750-ml.) was launched in the U.S. earlier this year following positive response to a similar expression in Europe.

Camus is exploring unique cask finishes following this year's launch of a new intensity range, which includes Very Special (\$30 a 750-ml.), VSOP (\$50), and XO (\$180) expressions. "We're currently producing a Port Cask Finish, a first-of-its-kind Caribbean Expedition Cognac, and a Monbazillac Cask Finish," Albu says. "We expect to see a lot more innovation in these new styles coming to the category." 