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## Small Champagne Wineries: Typology and Determinants of Performance

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### a) Problem statement

Past research works have been mainly focused on the 10 largest Champagne groups, but not on the other Champagne wineries. Those smaller wineries only make 18% of bottles. But they collect grapes and may provide clear wines to the 10 largest groups. But small wineries and co-ops play a strategic role in grape procurement for the biggest “Houses of Champagne”, in a business where grapes must come from 319 villages within the Protected Designation of Origin (PDO)/Protected Geographical Indication (PGI) area. This is a major constraint for the Champagne wineries, must also be produced wine within the area according to specific rules.

So, small wineries, either corporation or co-ops, collect grapes and process them into still wine after first fermentation, while a second formation of blended still wines is made afterwards in order to produce sparkling wine of constant taste and quality. They have the option to sell still wines or bottles ready for drink. They may exert some market power on the still wine market with the 10 largest Champagne groups.

So this will be the first paper with extensive strategy and performance analysis of small Champagne makers.

### b) Objectives

The general objective is to assess the strategy and performance of small Champagne wineries in order to provide a typology and factors of performance. So the paper will: (1) identify the types of strategy implemented by small Champagne makers, incorporated companies and co-operatives ; (2) measure their economic and financial performance from 1996 to 2006 ; (3) relate performance measures to strategic decisions.

### c) Procedures: methodology and data

**Methodology** :The Porter’s model is used for strategic purpose. Per type of winery (incorporated companies and cooperatives), a typology Champagne makers is set up according to their

- strategic options in terms of value creation per type of products : branded bottles for retailers or restaurants, bottles for co-op members, still wines (after first fermentation) for the blends made by the largest Champagne wineries who will make a second fermentation in bottles ;
- strategic options in terms of markets (clients) : co-op members (in case of co-ops), specialized retailers like wine and liquor stores, general retailers( like supermarkets) ;
- strategic options in terms of geographical market: French market (60% of bottles sold) or export markets (40% of bottles sold).

Co-ops do not maximize shareholders’ profit, but the value of products (here Champagne grapes) collected from coo-op members. As a consequence, strategic and financial comparisons among co-ops will be carried out on one side and among corporations on another side. According to their strategic options in terms of products and markets (geographical markets / type of clients), small Champagne makers have different characteristics that can be observed through:

1. measures of financial structure: financial leverage as the financial debt capital to equity capital ratio, financial charges
2. economic measures of performance: - growth of sales, labor costs to sales, EBITDA (Earnings before interest, taxation, depreciation and amortization) margin, operating margin, also called EBIT (earnings before interest and taxation ) margin, return of assets
3. financial measures of performance

**Data**: Secondary data are used to measure the economic and financial criteria of Champagne wine makers come from financial data banks over a ten-year-period (1996–2005).

### d) Results and conclusions

Expected results about strategy and performance of small incorporated wineries and co-operatives;

Expected results about small Champagne makers infer typology of strategies related to their strategic options in terms of products and markets;

Conclusions are drawn to shed light on the consequences of small wineries’ strategic decisions on the Champagne system, particularly grape growers and large Champagne makers.

**KEY WORDS**: Champagne, wine, distribution, strategy, performance