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

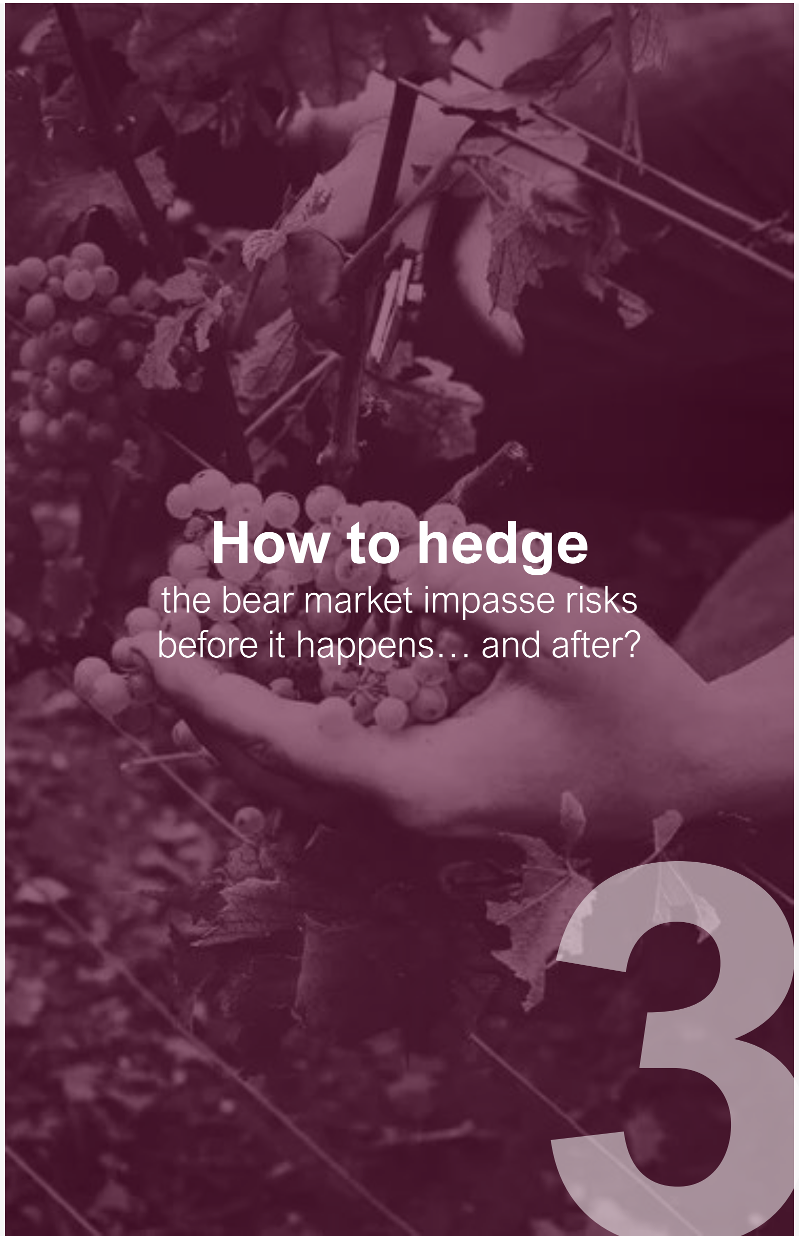
BEAR MARKET IMPASSE

…**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



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

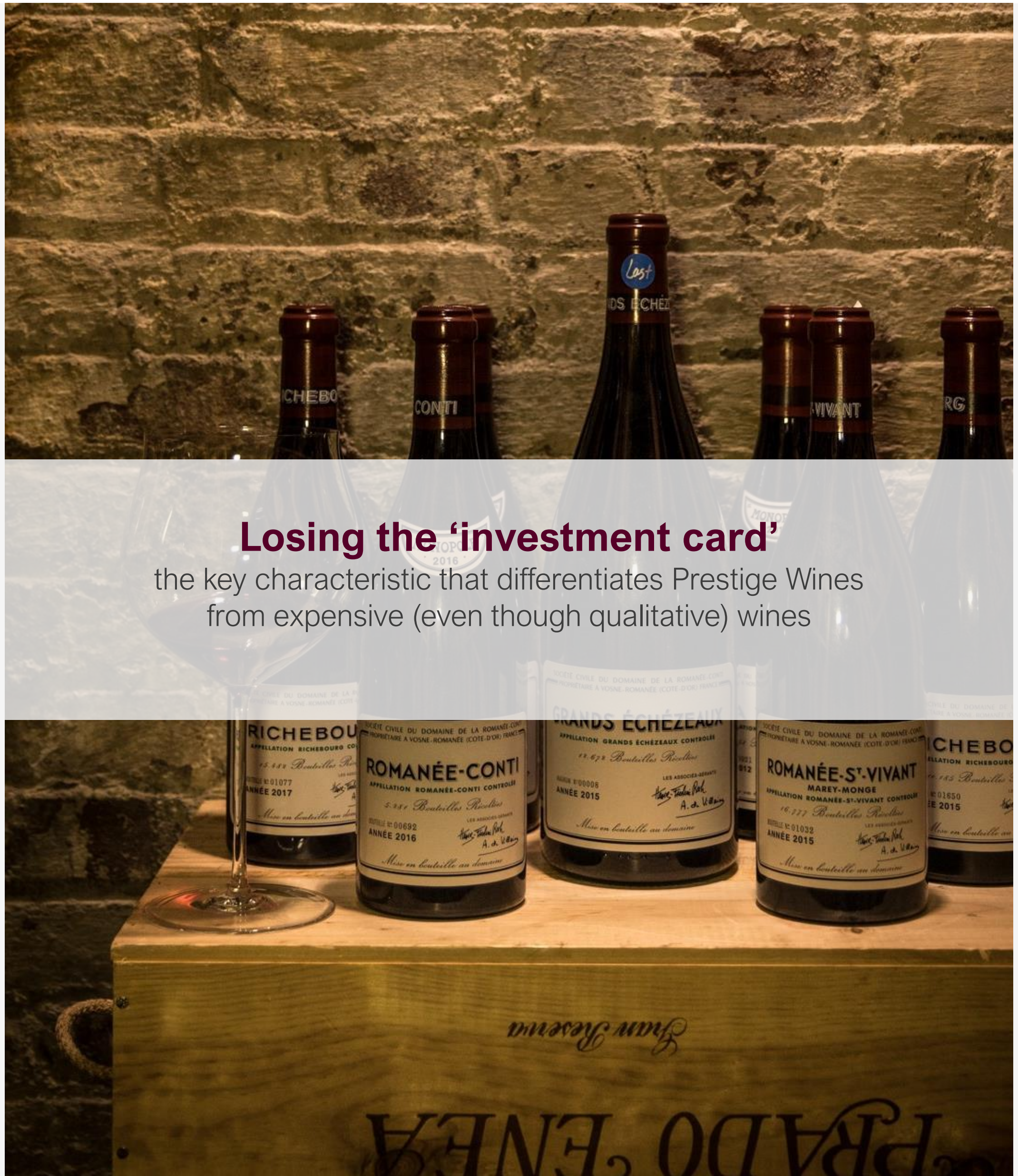
BRAND / TALENT
Give the front seat to Creativity
to break free from the price x quality equation

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

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**	**BEAR MARKET IMPASSE RISK** Risky over reliance Eroding Margin **RISK LEVEL: HIGH**
 CORE LUXURY CLIENTS	2K - 50k€	**10%** *42*	**22%** *219*	**5k**	**BEAR MARKET IMPASSE RISK** True Luxury Clients Loss Brand Love Damage **RISK LEVEL: HIGH**
 ENTRY-LEVEL LUXURY CLIENTS	< 2k€	**90%** *392*	**57%** *569*	**1,5k**	**BEAR MARKET IMPASSE RISK** Large revenue loss **RISK LEVEL: MEDIUM**

THE 2 PITFALLS OF THE INVESTMENT GAME FOR PRESTIGE WINES



Losing the ‘investment card’

the key characteristic that differentiates Prestige Wines from expensive (even though qualitative) wines

Becoming a pure patrimonial product

Never seen, never consumed and at some point forgotten

This risk can weight on Domaines within the same category as the ones within the bear market impasse, even if they did not raise their prices

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

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

Domaines & Maisons — Négociants & Merchants — Final Resellers

Simplified Value Chain

If down the line players decide **to buy at 'high price' & reduce their margin**	If down the line players decide **<u>not</u> to buy at 'high price'**
Beware of the price collapse spirale even below ex-négociants prices ***This is a category risk transcending individual Domaines in the bear market impasse***	**Beware of damaging Brand integrity on the long term** if you cut yourself from strategic *prescripteurs*

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 **<u>down to the final client</u>**

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**

Nb of existing Clients	Client Pool Growth Rate	Average Price	Av. Price Growth Rate
RISK 1 Jamming the Clients Business Powerhouse	**RISK 3** Scrambling the *Prescripteurs* lines	**RISKS 2 & 3** Sabotaging the Investment Game Scrambling *Prescripteurs* lines	**RISKS 2 & 3** Sabotaging the Investment Game Scrambling *Prescripteurs* lines

3 KEY QUESTIONS RELEVANT FOR THE PRESTIGE WINES INDUSTRY

What are the risks	How to control price increase strategy	How to hedge
of playing the 'steep price increase' game and entering the bear market impasse?	to maximise prices without entering the bear market impasse?	the bear market impasse risks before it happens… and after?
CLIENT Jamming the Clients Business Powerhouse	**CLIENT** The Price Perception Rim	**PRICE** Adopt a multi-tier price increase strategy at the service of Brand & product offer
PRODUCT / BRAND Sabotaging the Investment Game		**PRODUCT** Bridge the value gap & explore offer polarisation to revitalise core product attractiveness
DISTRIBUTION Scrambling the *Prescripteurs* lines	**DISTRIBUTION / COMPETITORS** Disruptors in Decanter	**BRAND / TALENT** Give the front seat to Creativity to break free from the price x quality equation
MARKET Stalling the Growth Engine & facing shareholders' *malus*		**D2C** To acknowledge market dynamics and unleash full strategic potential of other levers

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 (<u>not to reach 'too many' times</u>)

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

COMPETITORS-CENTRIC KPI

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HOW TO HEDGE THE BEAR MARKET IMPASSE RISKS BEFORE IT HAPPENS… AND AFTER? (1/2)

PRICE

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

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

PRODUCT

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

OFFER ENRICHMENT

Bridge the value gap
in an authentic (thus product-centric) way

OFFER POLARISATION

Rethink Access
to revitalise core offer by winning (back) 'price alienated' clients though newness

Embrace Über Luxury
to glorify Craftmanship under a new light and leverage this aura on core offer

HOW TO HEDGE THE BEAR MARKET IMPASSE RISKS BEFORE IT HAPPENS… AND AFTER? (2/2)

BRAND / TALENT

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

Master the challenging equilibrium between Domaine & Maître de Chais's unique creative visions
to unleash the full strategic potential of Creativity

A proprietary and truly differentiating storytelling
sparking emotions

The key to break free from the price x 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

D2C / CLIENTELING

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

A QUICK REMINDER ABOUT D2C & CLIENTELING

It goes way beyond selling to clients directly
it is a client centric ecosystem where interconnection unlocks Consumer Lifetime Value

D2C & CLIENTELING IS A KEY LEVER

Addressing clients has never been more pressing
The luxury top-down dynamics remain unchanged, but the bear market impasse somehow shifts the needle to the benefit of clients

A powerful tool to address all risks, detect price signal & properly hedge

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Currently preparing her application for the Master of Wine

Anne-Claire worked in the early 2010s within the marketing and communication department of MH Europe

An entrepreneur for over 10 years, she specializes in the design and marketing of niche retail products with two successfully sold companies

Simultaneously, she develops her oenological expertise by traveling to more than 30 wine regions in France and internationally, as well as being a laureate of blind tasting competitions

Louise VILLEPELET

Expert in Luxury Strategy Consulting

Graduate of HEC (MBA), Cambridge University, and Paris Panthéon Assas

Over 10 years of combined experience in consulting and law. Multiple projects in internal and external growth, D2C strategy, client experience, and retail excellence...

Manager at an international strategy consulting firm (Kearney), within the Retail, Consumer Goods & Luxury practice.

Manager at MAD (5 years), the leading luxury strategy consulting firm, serving iconic French & international houses, notably in the wines & spirits sector.

Former lawyer specializing in Private Equity at Linklaters LLP in London and Paris.