Champagne as a Viable Alternative-Investment a Rosé Picture?

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Abstract:
This paper will determine whether there is an economic foundation to support building a business to invest in champagne as an alternative asset management proposition.

The paper is divided into five sections. The first discusses the economic environment surrounding the champagne business from three perspectives. The past economic setting of champagne, the current economic trends of champagne, and what the possible economic future of champagne might be.

The second section will be about the characteristics of the champagne business that make it attractive to investors. The unique value effect is discussed where champagne, as a whole industry, has no direct competition under the same branding. Other sparkling wines of course exist, but they are not typically thought of as substitutes. Ideas to enhance the growth opportunities of the champagne business moving forward, such as extra activities or additional value add-ons such as recently disgorged or recently released champagne. The expansion of the champagne market by broadening its use within current market share if further developed.

The third topic shows the benefits of investors for the champagne industry, specifically the producers. The establishment of an investment portfolio would benefit the growers, producers, and sellers of champagne from the Champagne region. Investment by a systematic and regular basis and therefore not sporadic, transfers some risk to the champagne producing body as it is in their interest.

The paper states that there are three main risk transfers. Before the harvest, when an investor take a position on harvest risk. After the harvest, when the vintage is produced and goes into barrels or tanks and the investor takes a position on the pre-bottling risk as the quality of the harvest is evaluated. The third type of investment is once the champagne is in the bottle, at which point a better understanding of what the vintage will be like and how it might sell in the upcoming market conditions can be evaluated.

These three investment types benefit the champagne company can ensure that it can stay in business with less risk capital and run more efficiently with risk transfer. In order for these to occur new products must be built. A design for a product of weather derivatives and development, in which limited capitalized or “small producers” depend much more on self-support than on others. As is the case with the smaller producers that
they can’t sell shares and therefore share risk. If such an investment vehicle were available they wouldn’t need as much risk capital as well as “cushion capital” as things go wrong. These vehicles would reduce limitations of capital and would level the playing field for the smaller producers next to large producers who would have access to capital from other areas such as the equities market.

The fourth section is on the risk and return profiles from qualitative and quantitative analysis. From a risk point of view champagne is a part of wine, however it’s unique value effect makes it more attractive and a more defensive investment position. It more secure since champagne is less easily to substituted for. The empirical quantitative analysis risk return and qualitative risk return have some limitations as some data not available on champagne.

There is then a comparison of returns from a hypothetical champagne index versus-

1. The S&P 500 Index, which represents an equity based risk asset class
2. The S&P 600 Small-Cap Index, which represents a more aggressive equity asset class
3. 3 Year Treasury Bills Index, which represents the risk free rate
4. The GSCI (Goldman Sachs Commodities Index)
5. The CRB Index (Commodity Research Bureau Index)

The fifth and final section addresses questions on the target group for investment in such an undertaking.

The question of who this investment proposition is best for, either an institutional or individual investor is then evaluated. Since there might be limits and it may not be scalable to support a high level or number of institutional investors, the high net worth investor would be the target. This new investment type would be best suited for an individual investor since it is an interesting topic of conversation, has a residual consumable value, and other non-pecuniary investment values.

The financial question that is asked in this paper is whether there is a significant opportunity for an asset management business to use Champagne as a viable alternative-investment asset class, from a US investor’s perspective.