

THE PLACE DE BORDEAUX

Over the last decade even the owners of prestigious estates in Bordeaux have taken to the road in record numbers to promote their wares. Few who meet them know much about the arcane world that links the two. Janes Anson looks at one of the most unusual distribution systems in the world of wine and asks if the system still works.

There are two conversations that inevitably polarise opinion about Bordeaux: the 1855 classification and the *négociant* system that trades through the Place de Bordeaux. Both are seen by critics as evidence of the lumbering colossus that has become the Bordeaux marketplace, where tradition reigns above market reality, and unnecessary layers between producer and consumer create inefficiency and mistrust.

For years, the system has allowed properties to release their wine at one fixed price to all the region's merchants, and reach consumers without producers ever stepping out from behind their wrought-iron gates. In theory, producers distribute their wine in one day to countries worldwide, to both the on- and off-trades, and if one buyer doesn't want to pay, someone else will step in.

But increasingly, you have to ask whether the Place is an anachronism, out of step with the way the rest of the world sells its wine. Most international markets are centred around a small number of powerful brand owners, who deal with the exports for the entire country. The 20 largest wine companies in Australia, for example, account for 92% of all wine sales. In Bordeaux, only 70% of all wine is sold by the approximately 400 *négociants* on the Place - and most labels are purchased by an average of 40. Antoine Gimbert, Commercial Attaché United Kingdom and Ireland for Millésima Bordeaux, commented, 'In terms of clarity of access and clarity of information we are way behind Rioja and even the Languedoc in our sales strategies. We have a lot of work to do, even if many would deny it.'

Lack of price control

The wide distribution of buyers can also prove problematic. Several high-profile châteaux over the past few years have found that two competing buyers - namely supermarkets, with their financial muscle and consumer influence - end up clashing, selling wines at way below the original *en primeur* exit price.

The Place also, inevitably, favours the strong and established over the new and exciting. A brand image has to be built up before most merchants take an interest in selling a wine. They are naturally risk-averse, and therefore often accused of creating the stagnancy that Bordeaux seems to have been guilty of in recent years. Even their own structure favours the establishment. In 2003, *négociants'* total turnover was €3.3 billion (€1 billion for export, with

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» Shippers who sell to supermarkets will lose their allocations in 2006. «

Jean-Claude Rouzaud, Roederer

Jean-Claude Rouzaud has always made it clear that he does not truly understand how the *Place de Bordeaux* works. Although the acquisition of Descaves has been profitable, he chose to market Château de Pez through Roederer's worldwide distribution network. His recent purchase of Château Pichon-Lalande ups the ante. In 2006 he plans to delist shippers who sell to supermarkets.



sales in over 160 countries), but 15 Bordeaux shippers turned over more than €50 million per year, and just 44 firms had a combined turnover of €2.1 billion, accounting for 84% of the total figure. For all, margins vary from a few centimes to hundreds of Euros per transaction, depending on whether they are chasing high-volume and low-value transactions or small-volume *crus classés* that re-sell at enormous margins. The average is 10-18% of the price that the château receives.

Négociants have been part of the fabric of Bordeaux for as long as wine has been produced here. As far back as the 11th century, groups of French merchants were selling their wine abroad, but the growth really came with the arrival of the Dutch and English in the 17th century and the German and Irish in the 18th century, all of whom set up business along the quays of the Garonne in the Chartrons district. At this time, they were buying in bulk and adding their own names - and certainly adding most of the wine's value.

Bordeaux has over 12,000 producers working in 57 appellations, which explains in part why the system developed - essentially, it was a commercial imperative to make sense of the offer to the consumer. But the key to the whole market is, or at least was, the interplay between the courtiers, the brokers that form the buffer between châteaux and merchants, and the *en primeur* system. This is the yearly 'betting' on wine futures that takes place every April, when journalists and buyers give their prognosis on the most recent vintage and châteaux set their prices accordingly.

The upper echelon of Bordeaux wines become worldwide commodities, with the courtiers playing the role of advisor, in theory letting the château owner know the consumer mood and where prices should be set. The entire system rests on relationship building, and at every stage down the line buyers are given an allocation of the allocations of the person higher up the chain.

Does Bordeaux care about the consumer?

Increasingly, the system is being questioned. Price fluctuations such as those in 2005, when Château Ausone released at €500 per bottle and the average price rise was 95% on 2004, seem like a dangerous game. Max Lalondrelle at Berry Bros and Rudd explained that the system does very well for a few at the expense of the rest. 'In 2005, a lot of the lesser-known estates made the fatal mistake of coming out in the middle of more well-known ones, and at a high price, and were completely over-looked,' he says. Other American merchants reported buying large quantities that they then found hard to sell on to their end customers because of the steep price tags. This is perhaps the most serious long-term problem: the system reinforces the perception that Bordeaux has no interest in the end consumer - and no interest in rewarding loyalty. Parker put it most bluntly when he said, 'The consumer is getting screwed by all this market manipulation.'

At the other end of the price scale, the Place works differently. The greater the chance of substituting a product, the less attachment there is to it, which means everybody has to work harder - or go bankrupt, which is a serious problem in the region today. So producers of the less prestigious names have to form more loyal relationships with the négociants - or, increasingly, bypass them entirely and start selling direct. And the question gets asked that if the Place isn't needed by the big châteaux, who could sell without it, and isn't efficient for the little châteaux, who are overlooked by it, then what is it good for?

But with all its inconsistencies, still the Place survives. Hamilton Narby, an American merchant who runs his own small firm, Vinex, points out, 'The Rothschilds could sell their wine with their eyes closed, but they choose not to. Why? Because the system works. It's not the role of the châteaux to have a multilingual, international sales arm.' Interestingly, though, both do operate their own négociant businesses.

Allan Sichel, president of Maison Sichel, sees that the market has to evolve, but not just from the point of view of the merchants. 'The grands crus would never be able to sell at the prices they command if they didn't have 150 people out there every day trying to sell for them,' he says. 'They certainly wouldn't enjoy the levels of visibility that they have. Négociants are criticised for a lack of transparency, but the châteaux themselves are going to have to build up an overall picture of the distribution of their wine, and work out where they are over-represented and where under-

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»» Due to the négociants' cut, margins are very low for us. ««

Simon Staples, Sales Director Berry Bros and Rudd

I find the whole thing extremely frustrating. Because the négociants take their cut, margins on Bordeaux sales are very low for us due to the transparency of the market. The châteaux love the négociants being there, because they buy every year, no matter how crazy the prices! Although I don't think things will change much in the next five years, I'm not so sure about the future of the courtiers.



represented, and try to balance that out.' If they all do, though, the shippers role could become more fragile.

This has increasingly been the case in recent years. Nicolas de Bailliencourt, of Château Gazin in Pomerol, is part of an initiative known as Les Cinq - a small group of property owners who have formed a marketing initiative to promote their wines. They travel together, organising tastings and promoting their names. 'There's no need for brokers to be nervous about giving us details of where they are selling and to whom,' he says. 'It's a full time job selling around the world, and we're not about to do it.'

Anthony Barton, famous for not playing the prices game, still sells his wine through the Place, and wouldn't consider doing otherwise, 'On an average year, we make 75% of our turnover in 24 hours,' he notes. Similarly Bernard Magrez, who owns 35 vineyards and has his own sales teams around the world, sells over 90% of his top wines such as Château Pape Clément, Château Fombrauge and Château La Tour Carnet through the Place because, as he says, 'It's essential for visibility and profile.'

Life beyond the place

Other property owners disagree. Three years ago, André Lurton took both of his cru classé wines, Château Couhins-Lurton and Château La Louvière, from the *en primeur* marketplace. Instead, he now manages the brands himself, either through selling directly or through one of three appointed négociant houses. James Ryland, marketing director, explained, 'The final straw came earlier in 2004, when La Louvière 2001 ended up in a price war between two major supermarkets, Auchan and Carrefour. The price was soon driven down to below *en primeur* levels, meaning the public were buying the wine for significantly less than our traditional merchants had been paying several months before.'

He continues, 'Coupled with that, exclusive agents in export markets didn't have exclusive access, and therefore were wary of stocking the wines for fear of being beaten on

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price. The négociants, meanwhile, assumed local agents would be taking on all the sales, and therefore also concentrated their efforts elsewhere.' This meant, according to Ryland, that Lurton suffered from 'very inconsistent sales, from 200% of what we made one year to 20% the next'.

Three years on, they are satisfied with the results. 'The sales of all wines concerned have been re-established - each year we are now selling the equivalent of the average annual production, across several vintages rather than just the latest vintage sold as a future,' says Ryland. 'We now have complete transparency with regard to the distribution and, if not control, at least the possibility to discuss and influence the positioning of our brands.'

Not many have followed suit, but the trend certainly seems to be châteaux taking more responsibility for their distribution - not just allocating five to 10 cases over 150 négociants and hoping for the best. And some, such as Jean-Claude Rouzaud, the new owner of Château Pichon-Lalande, have made it clear that they will no longer sell to those shippers dealing with supermarkets.

In recent years, a number of different business models have been established, essentially either merging to build strength or specialising to exploit a niche. Some négociants, such as Maison Sichel with E-motif, a 'youth' brand aimed at the under-30 market, have been taking on brands exclusively in order to improve their margin and acting somewhere between a brand owner and an importer. Others are taking on wines from elsewhere in France, or internationally, to act like a wholesaler, such as Yvon Mau and its range of Spanish, Australian and South African wines, imported through Freixenet but sold in France through Yvon Mau.

More successful has been Millésima, a wine merchant that works on the internet and by mail order, effectively acting like a shipper, importer, wholesaler and retailer...and accumulating all their margins. Patrick Bernard, the director of Millésima

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»» **Most châteaux would be unable to distribute their wines at a similar cost.** ««

Lindsay Hamilton, Sales Director Farr Vintners

The system works because it allows wide distribution to a variety of customers around the world, allowing different vintages to be sold to different types of customers each year. As French supermarkets buy off lesser vintages, we are able to concentrate on the great ones.

Further, most châteaux would be unable to effectively distribute their wines themselves at a similar cost.



explained, 'We buy en primeur like other merchants, but there our similarity ends. We sell direct to private customers in 12 countries, 20% via the internet, up from 12% last year. We reach the customer directly, whether by master classes, the internet, brochures or telephone calls, and offer levels of service that no other merchant can approach.' They have also opened a shop in New York to allow them to tap into the lucrative direct sales in the North American market.

His work is an anathema to many importers and wholesalers, though, who see shippers selling to different levels of the customer base, essentially compromising the unspoken and unlegislated three tier system in Bordeaux: négociant, importer and retailer. When the first sells directly to the last's customer, something has to give. Still, as Narby points out, 'If Lafite decides tomorrow to take all its sales in house, then négociants would die a quick death. But until that happens, they will be alive and well.'

All told there are 400 négociants in Bordeaux, of which

2 Top Ten by turnover

Rank	Company	Turnover in million €	Diverse Facts
1	Castel	952m (2004)	447 million bottles, over 5,000 references, 40% export.
2	Grands Chais de France	570m (2005, 70% export)	Its Caves de Landiras in the Bordeaux region reported earnings of 180m in 2005.
3	Baron Philippe de Rothschild	170m (2005, 80% export)	Known for both Château Mouton-Rothschild and Mouton Cadet.
4	CVBG	110m (2005, 56% export)	Known to many as Dourthe, this company was once the dominant player for grands crus classés
5	Grands Vins de Gironde	90m (2006, 35% export)	Bordeaux's largest 'merchant grower', now owned by Barclays Private Equity, with Rémy Cointreau minority shareholders.
6	Yvon Mau	80m (2004)	Now owned by Freixenet this company has become a worldwide wholesaler
7	Sovex-Woltnner	76m (2002, 60% export)	20 million cases, 25% grand cru classé, 35% brands, 35% 'domaines et châteaux
8	Ginestet (part of Bernard Taillan)	80m (2005, 45% export)	30 million bottles a year, of which 12 million are brands (Ginestet, French Roots, Marquis de Chasse).
9	Oenoalliance	75m (2005, 35% export)	The company is the result of a merger of Clossmann & cie, André Quancard André, Promocom, Celliers de Beychac, Vinyrama and Socav, covering Bordeaux (66% of output) and the south of France.
10	Cordier Mestrezat	50m (2005, 67% export)	52% grand cru classé.

Although part of the retailing giant Carrefour, the wine buying arm Prodis is based in Bordeaux and has an annual turnover of 290 million.

some 100 are involved with the distribution of grand cru. Relations between them and the producers remain, outwardly at least, extremely courteous. What always puts a strain on the relationship is the question of price and allocation. The major players are Ballande et Meneret, Cordier Mestrezat, CVBG Dourthe-Kressmann, Duclot, Ginestet, Joanne, Nathaniel Johnston and Millésima. To that list can be added, depending on the château and the market, LD Vins, Dubos, Jean Descaves, Diva, Twins and Mähler-Besse.

Although the picture amongst the fraternity is varied, the conditions have been anything but exultant over the past years. The domestic market is saturated, exports are finding stiffer competition and volatile exchange rate makes the lucrative American market difficult to calculate. For many, Asia appears to be taking up much of the slack. 2000, 2003 and 2005 have been enormously successful and allowed the shippers to carry the weight of 2001, 2002 and 2004, which have been more difficult to sell profitably. Discounting is one way to move stock and generate cash flow, but the low margins had left, at least before the lucrative 2005 vintage, numerous business in a fragile state. For many, the forthcoming 2006 campaign will be crucial.

Four Big Players

1) Castel

Created in 1949, Castel's wine sector (it also produces beer, soft drinks and bottled water) is the leader in Europe in terms of value, and the third largest in the world, including brands such as Bordeaux Baron de Lestac and Malesan. Recent acquisitions include Domaines Virginie in Languedoc-Roussillon, and Nicolas and Oddbins international wine merchants. The creation of Castel Frères, with the largest cask cellars in Bordeaux, enables Castel to control all aspects from growing to dealing and distributing.

2) Les Grands Chais de France

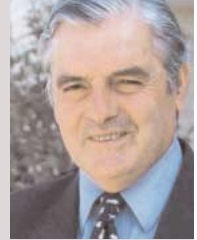
Headquartered in Petersbach, Alsace, with a large ware-

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» We want to know where our wines are sold and at what price. «

Michel Teysseron, Château Lafon-Rochet

We are farmers selling wine. It would be, if not impossible, difficult for us to set up our own distributional structures. What we want are partners. We know who buys our wines in Bordeaux, but not where they are sold or at what price. I would like to go to Beijing, Berlin and Buenos Aires with a list of who stocks my wine so that I can ensure them that they are my true ambassadors.



house and bottling plant near Bordeaux, Grands Chais is the second-biggest wine player in France after Castel, but the leader in exports (70%). The company employs more than 1,000 people over seven sites. In the past few years, Le Grand Chais has bought Eschenauer, Dulong, Calvet and Crus et Domaines de France (Alexis Lichine and Cruse). It owns the JP Chenet brand that sells 91 million cases in 140 countries worldwide, seven times more than Mouton Cadet.

3) Baron Philippe de Rothschild

This is one of the few remaining purely family-owned companies in Bordeaux, and Baroness Philippine de Rothschild is the majority shareholder. The major brand is Bordeaux's oldest and largest, Mouton Cadet, which sells 14 million bottles annually.

4) CVBG-Dourthe-Kressman

This is a more traditional Bordeaux merchant, splitting its activities between own-brands such as Dourthe No 1 and grand cru classé sales, with six of its own vineyards and over 70 châteaux sold on an exclusive basis. ■

3 Courtiers

Courtiers are brokers dating back to the 14th century, when they tasted the wine to establish quality and authenticity before going to market. In 1855, it was the brokers who set the ranking for the classification. Today they establish contacts between buyers and sellers, earning 2% of each completed transaction, funded by the négociants. The best courtiers seek out unknown and dynamic producers, with a new breed of young brokers such as Antoine Moga at Les Grands Crus and Yann Jestin at Oenomedie. The worst are known as 'sample carriers', and simply draw up the paperwork for already established transactions. "These gentlemen earn 2% for doing nothing" is an often heard complaint among négociants trying to justify the higher mark ups that they often earn for doing little more. Bordeaux has around 120 courtiers, but only 10 to 15 of them deal with the crus classés during en primeur. It's a secretive and entrenched business and is very difficult to

break into because the big châteaux have been selling the same amount of wine to the same brokers for decades; just 20% of courtiers account for 80% of transactions. In fact, only four (see list) are thought to do almost three-quarters of that business.

Of all the deals done on the Place, 85% are through a broker, and when it comes to grands crus, that figure rises to 98%. American négociant Jeffrey Davies has gone on record saying that when he first started trading in Bordeaux, he tried to do it direct without using courtiers, but that châteaux owners would refuse to do business with him until he 'went through the correct channels'. Figures are notoriously hard to come by in this closed world, and almost all of their websites are password protected, but extrapolating 2003 figures from the négociants, the courtiers market was worth approximately 66 million.

4 The major brokers

The first four on this list are thought to do three quarters of all the Grands Crus. Younger players, though, like Yann Jestin and Laurent Quancard are breathing new life into the discipline.

Les Grands Crus: Key player: Valentin Lillet

Balaresque: Key player: Richard Kressman

Tastet et Lawton: A family business for eight generations.
Key player: Eric Samazeuilh

Lestapis: Key Player: Max de Lestapis

Haramboure: Key player: Hubert Lagre

Oenomedie: Key player: Yann Jestin

Laurent Quancard: Key player: Laurent Quancard