

BARON PHILIPPE DE ROTHSCHILD

The Rothschilds – Lafite and Mouton – have been legendary names in Bordeaux since the late 19th century when, within a few years of each other, branches of the family purchased neighbouring estates in Pauillac. Both remain family-owned, joined in name but entirely separate in business. Jane Anson spoke with the two about their visions.

Shareholders of all Bordeaux property owe a debt of gratitude to Mouton Rothschild. Today, a first growth with a turnover of €187 million and a solid strategy of privately owned châteaux, international joint ventures and mid-range commercial brands, Mouton is firmly established as Bordeaux aristocracy. But in 1924, it created a scandal that changed the way the region conducted its business.

Until the arrival in Pauillac of Baron Philippe – under whose stewardship the property assumed its commercial and symbolic place – all wine in the region was sold in barrels to the local négociants, who then put their name on the bottle, usually in far more prominent lettering than that of the château, to ensure the commercial upper hand.

In 1924, when he inherited a joint share in the vineyard at the age of 20, Baron Philippe believed that these merchants were undervaluing his wine, and decided to bottle the entire vineyard's production at the estate, thus shifting the balance of power. Bottling on site meant greater cost for the producer, but also greater prestige, and the four first growths followed suit swiftly. The Baron's cousin at Lafite put up the most resistance initially, citing long-term contracts to merchants.

This established a pattern of firsts at Mouton. It was also the first château to install, in 1926, a large main cellar for barrel-storing its wines, and to commission Parisian stage designer Charles Siclis to provide dramatic lighting within, something

that no self-respecting château is without today. Baron Philippe was also the first, and in fact is still one of the very few, to commission different artists to create his wine labels each year. The first, commissioned in 1924 from artist Jean Carlu, was of the symbolic ram's head with the five arrows of the Rothschild family, while the latest, for the 2004 vintage, was created by England's Prince Charles.

In the 1930s, long before the idea of second wines had become common, the Baron created a second wine for Mouton, and named it Cadet de Mouton. It quickly became Mouton Cadet, first a blended wine, then a branded wine, again the first of its kind in Bordeaux, and is still today one of the largest-selling French wine brands in the world, with over 12 million bottles sold each year. The property had not received first growth status in 1855, an oversight that Baron Philippe described as a "monstrous injustice" and spent his life trying to rectify. In 1973, after years of intense battling, again opposed initially by the Lafite branch of the family, Mouton was finally elevated to first growth status. Serena Sutcliffe MW, head of wine at Sotheby's, has ascribed the elevation to the fact that "the French government and the Minister of Agriculture recognised that it had fetched the prices of the other first growths for decades, and it was making wine at the same level of quality. They decided that Mouton's exclusion was a complete anomaly."

1 The Mouton Rothschild family of wines

THE PORTFOLIO

Chateau Mouton Rothschild; Château d'Armailhac;
Chateau Clerc Milon; Domaine de Baron'arques;
Baron Philippe de Rothschild, SA (Mouton Cadet, Escudo Rojo and other wines traded under Baron Philippe de Rothschild, SA); Almaviva (with Concha Y Toro in Chile);
Opus One (with Mondavi Constellation in California).

THE CHATEAUX

Mouton Rothschild:	16-18,000 cases, 85% export
Clerc Milon:	12-15,000 cases, 85% export
d'Armailhac:	16-18,000 cases, 85% export
Petit Mouton:	6,000 cases
Almaviva:	1996 3,500 cases. 2006 10,000 cases (92% export) with a turnover of US\$4.5 million
Opus One:	2006 25,000 cases (70% US, 30% export) with a turnover of US\$30 million

BARON PHILIPPE DE ROTHSCHILD, SA

With 600 employees worldwide, Baron Philippe de Rothschild SA is one of the few remaining purely family-owned companies in Bordeaux, of which Baroness Philippine de Rothschild is the majority shareholder.

Mouton Cadet, Escudo Rojo and other wines such as Pays d'Oc varietals or Chilean varietals are traded under Baron Philippe de Rothschild, SA.

The major brand is Bordeaux's oldest and largest; Mouton Cadet, which sells 12 million bottles annually. Consolidated turnover 2006 was 187 million Euros, of which 85% went to export.

TURNOVER AND PRODUCTION

Total production:	1999: €170m/2.10m cases
	2006: €187m/1.95m cases (1.65m cases of brands, plus chateaux wines, 85% export)
Mouton Cadet:	12 million bottles sold each year across 150 countries (80% export)

Today the company is run by his daughter Baroness Philippine de Rothschild, with a tripartite structure - châteaux, joint ventures and brands. The team at Mouton include Managing Director Hervé Berland; Director and Estates Winemaker Philippe Dhalluin; Technical Director Éric Tourbier; Marketing Director Xavier de Eizaguirre, who also heads the branded wines' division Baron Philippe de Rothschild SA; and Financial Director Pierre Guinchard.

The châteaux, as with all the first growths, have seen enormous rises in prices and expansion in markets. "Ten years ago, our main markets were Great Britain and the United States, while today the share of each of those has perhaps slipped a little," says Berland. "But new markets in Taiwan, China and India have taken their place. We are much less dependent on specific markets today; it is one of the real benefits of globalisation."

The past few years have, however, seen an overall drop in production, although not in turnover, from 2.1 million to 1.95 million cases. This results from weaker sales in the branded wines, as the Bordeaux mid-market price point continues to lose ground internationally. Sales of Mouton Cadet in the US have reportedly dropped 300,000 cases per year since 1992. In Chile, the company has its sole brand Escudo Rojo, produced by subsidiary Baron Philippe de Rothschild Maipo Chile, which has been a success. In fact, Escudo Rojo ("red shield", or Rothschild, in Spanish) sold about 100,000 cases in 2006, of which 12,000 were sold in the States. De Eizaguirre expects sales to reach 250,000 cases worldwide and 100,000 in the US in the next few years. To encourage this, the company signed an accord in late 2005 with North Lake Wines, a subsidiary of Constellation Wines, to become the sole importer of the Baron Philippe de Rothschild brands there.

International joint ventures have been a key part of the strategy since the formation in 1980 of Opus One in California with Robert Mondavi. In 1997, the château began working

QUOTE UNQUOTE

» Promoting Mouton to first growth was merely correcting an historical mistake. «

Baroness Philippine

Married to French theater director and actor Jacques Sereys in 1961, Baroness Philippine has always shown character. Although now divorced, Sereys remains on the board of Baron Philippe de Rothschild S.A. Three children: Camille, born in 1961; Philippe, born in 1963; and Julien, born in 1971. Her personal wealth is estimated at €190 million by Le Nouvel Economiste.



with Concha y Toro in Chile to produce Almaviva, a quality Cabernet Sauvignon-based wine, in the Maipo Valley.

Both Opus One and Almaviva started as 50/50 joint ventures, 100% family-owned. For Almaviva, both partners invested \$1.5million, with Concha y Toro also providing 40 hectares of vineyards. While Almaviva is still run along the same lines, the partnership with Opus One was transferred to Constellation in 2004. "We never considered anything other than continuing to work with them," says Berland. "Why sell a treasure like Opus One? The only change is that the management became more independent. Although I do have an advisory role, they are effectively autonomous." Opus One sells its wines directly to distributors in the US, where previously it went through the Robert Mondavi network. Off-shore, Opus One is now distributed by selected Bordeaux négociants, the first California wine to be so represented. "Joint ventures are not easy at a distance, but overseas it makes sense because the knowledge a partner can bring is important. ■

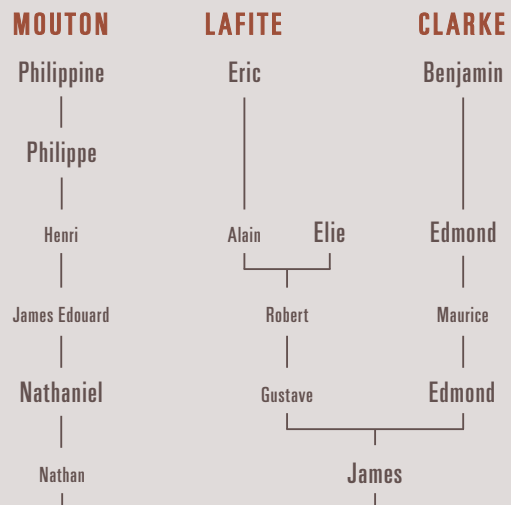
2 How the two families are connected

Philippine and Eric are distant cousins. Their link dates back to Nathaniel de Rothschild (1812-1870). Nathaniel was British-born, but moved to Paris in 1850 to work with his uncle James Mayer de Rothschild in banking at de Rothschild Frères. Just three years later, Nathaniel bought a vineyard then known as Brane Mouton, which he renamed Mouton Rothschild. In 1868, Nathaniel's uncle James followed him into the wine business, acquiring neighbouring Château Lafite, which had already been promoted to first growth status in 1855.

Although there have been persistent rumours that the purchase was motivated by jealousy, or one-upmanship, it is likely that the financially astute Rothschilds saw what vast economic returns lay in purchasing wine properties at the time. Having achieved the purchase, however, James died within weeks, leaving the business to his sons Gustave and Edmond.

Today, although their businesses are completely separate, the family does work together to protect shared interests, such as fraud or improper use of the Rothschild name. On the market, they are sometimes bitter rivals.

3 The Rothschild family tree



BARON ROTHSCHILD (LAFITE)

Where the active control of Mouton has long since moved to Bordeaux, Lafite is still operated from headquarters in Paris. With banking interests still of major importance in the group's holding, this branch of the Rothschild family has only gradually moved onto the global stage, observes Jane Anson.

At the time of the 1855 ranking, Lafite was placed at the top of the first growths. While its quality suffered during the 1960s and 1970s, since Baron Eric took over in 1974 he has followed a long-term strategy of establishing the wine, and the estate, once again at the very top of the pyramid, and was instrumental in raising quality on the Left Bank through severe selections in the vineyard.

Since the late 1980s, only one-third of the crop harvested from Lafite's 103 hectares of vineyard has gone into the first wine, making 18–20,000 cases annually, while another 50% of the crush makes the second wine, Carruades de Lafite Rothschild (25–30,000 cases). The rest of what is harvested is sold off in bulk to a generic Pauillac wine. Lafite's cellars, designed by the Spanish architect Ricardo Bofill, are also among the most modern in the Médoc.

The Rothschild family came to Lafite in 1868, when Baron James Mayer de Rothschild bought the property 13 years after the classification. His nephew had brought Mouton into the family ownership two years before the Paris exhibition. Although he only survived the purchase by a few months, it passed to his three sons and has remained in the family ever since, perhaps representing more of the traditional, establishment face of Bordeaux than its neighbour Mouton.

Today, Baron Eric runs both the estate and its parent company, Domaine Baron Rothschild (Lafite), which has become

increasingly commercially important to the bottom line, through acquisitions of wine properties in France, Chile, Portugal and Argentina. The overall strategy is similar to Mouton – a mix of privately owned châteaux, international joint ventures and commercial branded wines. The branded wine venture DBR (Lafite) Collections is relatively new, dating only from the early 1990s. As a private company, Lafite does not disclose its turnover, but it was thought to be around €110 million in 2006.

As chairman, Baron Eric is very much hands-on, described by his managing director Christophe Salin as “a gentleman farmer, a professional with a long-term strategy”. Alongside Baron Eric and Salin, there is estate director Charles Chevallier; technical director Eric Kohler; estate manager Régis Porfilet; and oenologist Christophe Congé. Further directors of sales and marketing divide their time between Paris and Bordeaux. The company employs 500 full-time staff, doubling that number at harvest time.

Salin describes the commercial strategy as a mix of tradition and innovation. “Lafite and the three other Bordeaux properties are sold like all grand châteaux through négociants, but we increasingly work closely with our shippers to know in which markets our wines are being sold,” he says. “Perhaps 20 years ago, châteaux owners weren't traveling and many didn't speak English. But now we all travel, and there is

1 The Lafite Rothschild family of wines

LAFITE IN FIGURES

Employs 500 staff worldwide

Total annual production:	850,000 cases
The châteaux:	120,000 cases
Lafite Rothschild:	up to 25,000 cases annually; 75% sold in export
Carruades de Lafite:	up to 30,000 cases per year
Collections:	250,000, 90% export
Chile:	400,000 looking to increase to 500,000 (8,000 cases to Chile, 150,000 to the US, and the rest elsewhere)
Portugal:	40,000 cases
Argentina:	20,000 (intend to grow to 35,000 maximum)
Languedoc:	20,000

HOLDINGS

Château Lafite Rothschild (Pauillac); Château Duhart-Milon (Pauillac);
Château Rieussec (Sauternes); Château L'Evangile (Pomerol); Château d'Aussières,
(Languedoc); Vina Los Vascos, Chile; Quinta do Carmo, Portugal;
Bodega Caro, Argentina; Collection Barons de Rothschild (Lafite) Distribution.

LAFITE'S PHOTOGRAPHERS

Where Mouton associated itself with artists, Lafite chose photographers. It has been shot through the lens of Irving Penn, Robert Doisneau and Richard Avedon, among others.

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no room for merchants to keep information back from us. Besides, they know they could be penalised the next year by allocations, just as a châteaux can be penalised by the marketplace if their prices are out of line with their quality.”

“For the rest of our properties in Portugal, the Languedoc, Chile and the DBR Collections, we use our own sales staff, and a network of importers,” he continues. “Because we have a distributor in each country and allow them to implement a different sales marketing strategy for their country, we have only two full-time sales people based in Bordeaux. Of course, with some flags, such as whether the country is strong for on-trade or off-trade and so on. They are our commercial network. We ensure that they have sufficient margin so they will be loyal, but we work without contracts; it’s a handshake.”

The development of the DBR-Lafite Rothschild Collection (Legende, Saga and Reserve Speciale) has seen the company’s annual production rise steeply over the past 10 years. While in the first year only around 4,000 cases were produced, that figure rose to 250,000 cases in 2006. “The development of the Collections has been an enormous success,” says Salin. “There was a strong demand for its development because the wines from Bordeaux châteaux went up in price considerably, and customers wanted something more affordable and more approachable when young. We wanted a feminine touch for these, so our oenologist Diane Flamand developed the range, assisted by Frédérique Que, another female palate.”

The majority of the overseas investment has gone into Chile, where the company holds over 580 hectares of vineyards at Los Vascos, at an average of 130 metres above sea level and just 40 kilometres from the Pacific Ocean. A more recent venture has been in Argentina, where Baron Eric has begun working with Nicolás Catena of Bodega Catena Zapata. In 2004, DBR also increased its shareholding in Chalone, an American company that developed the Quintessa winery, vineyards and brand with the Huneeus Family. Constellation

QUOTE UNQUOTE

»» My ancestors saw that a return on investment could be made in Bordeaux. ««

Baron Eric de Rothschild

Eric de Rothschild is often described as a gentleman farmer. As a Parisian banker, he is also a professional with long term strategies. Although a generation ago he had no adequate response to Mouton Cadet, the last ten years have seen the growth not only of Legende and Saga, but also of joint ventures in Argentina and California. He nonetheless represents the more traditional, establishment face of Bordeaux.



Brands fine wine company, Franciscan Estates, joined as partner and brought its Oakville Vineyard into the new company. It now plans to produce a wine under DBR’s guidance in Napa Valley, with Agustin F. Huneeus as Chief Executive Officer and Christophe Salin as Chairman of the Board.

“For our joint ventures,” Salin explains, “we bring discipline and long-term views. It’s not about winemaking; it’s rather about viticulture. Our marketing strategy has been to educate consumers by introducing other wines onto the market. In Chile, we started by making Cabernet and explaining that this was a Bordeaux variety that could be bought at a more attractive price because it was from Chile, but of exceptional quality because it was made with our expertise honed in Bordeaux. We want customers to see our international wines as the first step on the ladder, and that one day they’ll be drinking Lafite. The Rothschild name is powerful, but it gives us more duty than power. We are building the company, and looking after the wines, always for the next generation.” ■

2 Other winemaking Rothschilds

A great grandson of James, Edmond de Rothschild (1926–1997), bought Château Clarke in Bordeaux, and founded Compagnie Vinicole Edmond et Benjamin de Rothschild. Long an underperformer, the last few vintages have shown this estate on an upswing as well. Today the company has four estates in the Lustrac and Moulis appellations of Bordeaux, as well as further ventures in South Africa and Argentina. Rupert & Rothschild Vignerons, of Fredericksburg, South Africa, is a partnership between the Antonij Rupert, the youngest son of the South African magnate Anton Rupert, and Benjamin de Rothschild.

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3 En primeur Exit Prices

Since 2000

Both Mouton and Lafite have had exactly the same en primeur exit prices since 2000.

2005: € 300

2004: € 80

2003: € 120

2002: € 60

2001: € 85

2000: € 120

A well-known Bordeaux négociant commented, “Until very recently, all first growths were releasing at a similar price; but with the arrival of François Pinault at Latour and LVMH at Cheval Blanc, things got more complex. Perhaps there was pressure for a quick return on investment; perhaps there were egos at play. Of the five 1855 first growths, Latour and Margaux are now releasing higher, while Lafite, Mouton and Haut-Brion are staying behind. That is also in line with the current prices of older vintages available at different wine merchants, where Latour and Margaux reach higher prices.”