PEOPLE PROFILE

CAN L'ORMARINS FOLLOW MONT BLANC AND CARTIER?

How do you make a small fortune with wine? Start with a large one, is the often told joke – and the global market has certainly seen a surfeit of rich men's winery projects. Michael Fridjhon spoke to the owner of Dunhill, Mont Blanc and Cartier about the brand building skills he will need if it L'Ormarins is to succeed.

Johann Rupert, chairman of Richmond, VenFin and Remgro. Rupert and his family have an estimated worth of $4.3b.

Johann Rupert, scion of one of the world's great brand-owning families, would be the first to admit that there's a great deal of difference between the wine business and the business of wine. He was born into the former and the management of enterprises for which wine is an intrinsic commodity is something he understands at least as well as the luxury goods industry in which he is a front-ranking player. The business of wine – on the other hand – is a game you only get to play when you assume line responsibility for a winery. At this point you can no longer hide behind a supervisory role or pretend that marketing brandy is merely a derivative activity in the wine trade.

The Rupert family owes its fortune to the healthy respect Johann's late father Anton showed for the concept of a brand, as well as for the two sectors upon which he focused those brand-building skills. Working with South Africa's tobacco growers and grape farmers in the 1940s and 1950s he built two entirely separate empires. In the former, his partnerships with tobacco producers enabled him to create a series of brands of which Peter Stuyvesant is probably the best-known example. Its international success in turn opened the way for the purchase of houses such as Rothman's and Dunhill, out of which Johann's understanding of the luxury goods business no doubt developed.

The wine industry connection – developed at a time when much of the South African vineyard was harvested with the intention of producing brandy (pretty much the national beverage of the era) – led to the establishment of Distell, South Africa's dominant wine and spirits producer. While many of the country's best known wine names are owned and operated by Distell, brandy remains its single most important source of income. Two brands alone – Klipdrift and Viceroy – account for over 40% of the nation's proprietary sector. With a brandy market still worth over 50m litres annually, Distell's top products contribute at least 20% to the company's income.

When Rupert père built up his liquor operations (Distillers Corporation, Oude Meester Group, and finally, through merger and acquisition, Stellenbosch Farmers Winery) wine may have enjoyed a disproportionately high profile, but it was never an essential revenue source. Marques like Fleur du Cap and Cellar Cask were visible enough, and estates like Alto and Uitkyk imbued the enterprise with prestige and craft, but the truth is big brand management paid the bills. Over time, as cider and cider derivatives met the preferences of new consumers, while the more traditional customers were not seduced by the vinous revolution, Distell came to own pretty much everything except beer and whisky.

Rupert in the meantime chose not to grow up in the huge shadow cast by his father's presence in the local market. Establishing his personal independence as a banker, he became a founding partner in Rand Merchant Bank - an enterprise which is now the dominant force within one of South Africa's top three banking groups. From banking he moved into luxury goods, founding – and in part bankrolling with the family's tobacco brands – Richemont, proprietor of Dunhill, Mont Blanc, Cartier and a veritable catalogue of Swiss watch marques.

Throughout this time, he was at least peripherally involved in the wine business. The family interest in Distillers and Oude Meester necessitated, if nothing else, a supervisory presence in a company, which manages around 50% of South Africa's branded wine and spirits sector. And he was witness to one his father's most recent brand creations in the rise of Amarula – which in very little time has become one of the few worldwide success stories in the cream liqueur sector.

However, it was only with the death of his younger brother, Anthonij, who was the driving force in developing the family's L'Ormarins estate in Franschhoek, that Johann was forced to decide about just how close to the coal face of the wine industry he was prepared to come. "I realised how extraordinary Anthonij's vision of L'Ormarins had been, and knew that the best way to honour his achievement was to bring his planning to fruition and to finish what he had set out to do," is how he puts it.

As many who have walked the path before him have discovered, you need deep pockets to do this sort of job properly. South Africa's endemic vineyard virus problems necessitated a complete make-over of the property's plantings. Almost all of the old blocks have been removed, and the new vineyards have been situated on the steeper, higher altitude slopes whose cooler meso-climate will partly moderate the effects of global warming. The large sections of the estate which lie on the valley floor have been put to other uses – a horse paddock and a car museum greet visitors on arrival.

Rupert has interesting comments to offer on why vineyards traditionally were planted on the low-lying land, and why there is a correlation between perceived value in the appellation and the price of land. "In the old days," he points out, "you farmed where agriculture was easiest and the land most fertile. That's why Franschhoek – which until recently was something of a rural outpost – did not enjoy a great reputation for the quality of its wines. Stellenbosch, on the other hand, being closer to Cape Town, saw greater population pressure, with the flatter, low-lying land more appropriate for urban development turning sooner to bricks and mortar. The farmers moved up the slopes, to the less accessible sites, and discovered there the quality benefits of the less productive soils."

This observation – the kind of thinking you would expect from a businessman rather than a farmer – both reflects and explains the role that Rupert is playing at the newly evolving L'Ormarins. "One of the benefits of coming into wine production quite late in my business career is that there are many questions I need to ask and no reason at all to be coy about doing so. This means that I approach many of the 'givens' of the trade with fresh eyes. Sure, many of the issues I interrogate merely reveal how much I still need to learn. But every now and again the fact that I have arrived here without the baggage of someone who has worked in production since graduating means that an innovation arising from this quite lateral approach is possible."

Close examination yield several examples where Rupert's not taking tradition for granted has produced a valuable result. One that he likes – precisely because it illustrates the point so well – involves the question of quality control in distribution. "I discovered," he said, "playing golf up near the Kruger Park, that my own wines tasted different and much less complex than they did at the winery. After I had eliminated all the other variables the most obvious explanation was damage incurred in transportation and distribution. I asked a question which seemed so self-evident I was almost too embarrassed to waste the team's time with it: 'what are the storage conditions like at our distributor?' That's when I discovered that though we invest a fortune in viticulture, in fruit handling, in managing the vinification and in temperature controlled storage in our cellars, we pass on our stock to the distribution chain and leave it to its fate. The wholesaler's trucks move around the African sub-continent without refrigeration units, their depots are warehouses without the most elementary temperature controls – no one really knew, no one really thought about it. As soon as we discovered the problem, we fixed it, but we only got there because of the questions I asked in ignorance."

Now that Johann Rupert must take the L'Ormarins wines to a global market which has seen a surfeit of rich men's winery projects, he will need all of his brand building skills if it is to be more

TIMELINE

Name Johann Peter Rupert, 57 yrs
Education Paul Roos Gymnasium and the University of Stellenbosch (Economics & Company Law)
Completed Military Training as Naval Officer
1975 Chase Manhattan Bank, NY
1976 Lazard Frères & Company, NY
1979 Founded Rand Merchant Bank Ltd. (RMB)
1979 Founder Small Business Development Corporation
1984 Merged RMB and Rand Consolidated Investments Chairman of RMB
1987/88 Founded C.F. Richemont AG
1988 Appointed Managing Director of Compagnie Financière Richemont AG, Zug
1988 Elected Businessman of the Year by Sunday Times
1989 Bought Philip Morris stake in Rothmans back
1990 Appointed Vice Chairman of Rembrandt Group Ltd.
1990 Appointed Vice Chairman of Rothmans International plc
1991/2 Formed Vendôme Luxury Group SA
1992 Appointed Chairman of Rembrandt Group Limited
1993 Elected one of 200 Global Leaders of Tomorrow by World Economic Forum, Davos, Switzerland
1995 Formed Nethold SA
1995 Privatised Rothmans International plc.
1996 Merged Rothmans International and Rembrandt Tobacco
1996 Elected Sunday Times Business Times's Businessman of the Year
1997 Merged Nethold into Canal +
1998 Appointed Chairman of Rothmans International B.V.
1999 Merged Rothmans International and BAT Plc.
2000 Restructured Rembrandt Group Limited and formed Remgro Limited and VenFin Limited
2004 Awarded an Honorary Doctorate in Commerce by the University of Stellenbosch
2005 Sold Vodacom to Vodafone

Interview

How well has South Africa performed against its New World competitors since 1994?

Not having been exposed to the World markets for some time, our industry was not as well prepared as we should have been. Initially we were able trade off the weakening exchange rate. This turned out to be a curse, as we exported poor quality wines, which harmed our image. The current exchange rate forces us to produce wines of superior quality, which will benefit the industry in the longer term.

Has the industry shown the necessary unity in the presence of a swiftly evolving global wine market? Is the generic export effort a measure of the highest common factor or the lowest common denominator?

Various factors contributed to a lack of co-operation – such as the weak Rand. Clearly not enough was done to work together. Generic exports, on their own, will not be sustainable – in the end the prices (margins) will be determined by the mixing point, i.e. the multiple distributors. That is not a recipe for success in an over-supplied market.”

If you were to be appointed to head the Cape’s export effort today – given what has happened thus far – what would you do?

I would expect South Africans not to work against one another abroad. I have often heard one producer bad-mouthing another South African abroad and this is very sad. Furthermore, it is common practice for some big exporters to veto or block other South African estates listings with their overseas importers. We have so many opportunities if we behave like adults. Shipping, for instance – we should ensure that our wines arrive in the same condition that they leave our cellars. Why do we not charter properly cooled reefers and ship together?”

Given the apparently foundering generic export effort (a function as much of a severe funding shortage as a management malaise) will you be devising a sales strategy for L’Ormarins that works in tandem with Wines of South Africa (WOSA) or do you see no alternative but to go it alone?

In his recent book on the Great Wine Estates of the World, the influential writer Robert Parker includes Penfolds Grange. Not a word was written about South Africa. Personally, I would have thought that Meerlust, for one, would have rated a mention. This shows that South Africa is not even on the wine map of the World.

We need 10 to 15 wines of superior and consistent quality to serve as flag-bearers. We already have a few stars, but not enough. At L’Ormarins we will celebrate three hundred years of wine-making in the 2008/9 season. We would like to be one of the Estates that help to re-define our image abroad by testing the ceiling for South African wines.”

than a five minute wonder. He will also be forced to reflect on how its position within the greater Brand South Africa – an amorphous but not irrelevant ship to which L’Ormarins’s colours must necessarily be nailed. He will also have to decide whether the road travelled by the country’s wine industry since the end of isolation in 1994 optimised the potential of one of the oldest of the New World producers. Since he cannot rewrite history, he will have to leverage his position off these achievements and make the most of them.

But above all, he will need to be sure that the wines can withstand the added scrutiny of critics who will need to be persuaded that the estate's wines deliver the levels of authenticity appropriate to one of the New World's oldest properties. Several samples made from fruit sourced elsewhere in the Western Cape reveal the competence of the youthful – but clearly ambitious and adventurous – wine-making team. However, at least one superb wine, produced from youngish vineyards on the majestic slopes above the property, is entirely expressive of the L'Ormarins terroir. If it is a sign of what can be expected, Johann Rupert's consummate marketing skills will certainly have stock worth selling.