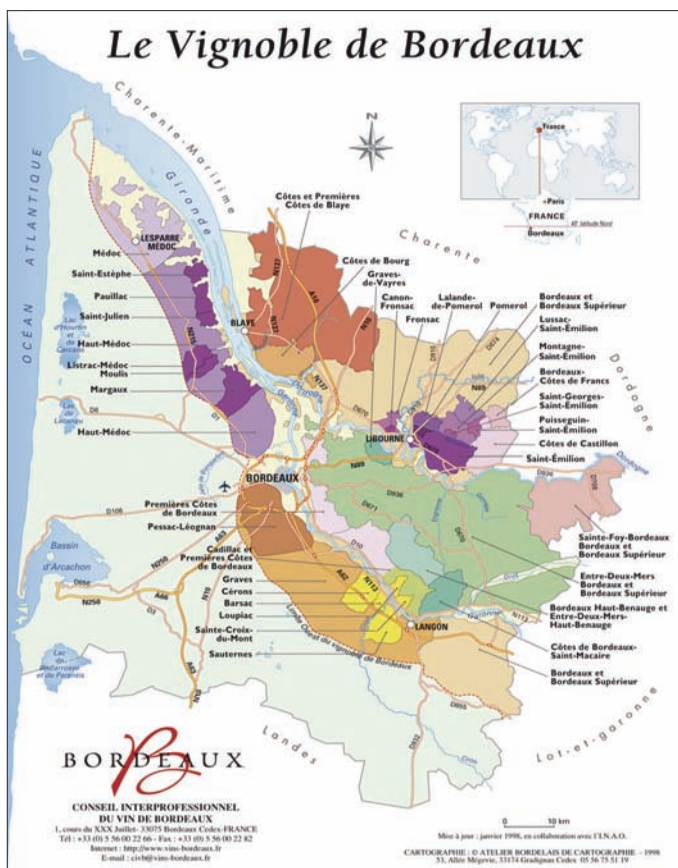


THE TWO SPEED ECONOMY

Although the noble estates in Bordeaux are awash in success, their fortune has done little to relieve the misery of their neighbours. Jane Anson asks if it would be possible to turn things around with a mass market Bordeaux brand.



Christian Seely, managing director of Chateau Pichon Longueville Baron in Pauillac, Chateau Suduiraut in Sauternes and Chateau Petit Village in Pomerol, has a privileged overview of the workings of the upper end of the Bordeaux market place. His Pauillac estate is the epitome of a fairy tale châteaux; turrets, towers, leaded windows, all reflected into a mirror pool that has been cleverly relaid over the new €2m (\$2.95m) underground cellar complex. The D2 Route des Châteaux that winds up through the Médoc is a narrow road, unsuited to large volumes of traffic, but you'll often find cars double parked at this point, enjoying a picnic in front of one of the most romantic views that Bordeaux offers.

At a recent wine conference, Seely spoke of the economics of making wine in the region. "It hardly needs to be stated that over the past 20 years, Bordeaux wines have proved a sound investment at the higher end." Seely himself is every inch the part - immaculate bow-tie, well-cut suit, clipped English tones, glowing with prosperity - and he illustrated his point with

figures showing that, since 1986, the price of Bordeaux's first growths has risen an average of 988%, the second growths 477% and the third growths 245%. The new complex at Pichon Baron is among a rash of building projects started among the classified growths in the past few years, making the most of a run of vintages where there seems to have been a never-ending supply of customers ready to pay whatever price is asked for stately Cabernet Sauvignon from the Médoc.

How the other half lives

But move away from the illustrious appellations, and the construction projects dry up rapidly. Over the same 20 year period where the cru classés have been spiralling upwards, the price of 'basic Bordeaux' has remained more or less unchanged, fluctuating between €800 and €1,200 per tonneau containing 900 litres or 1,200 bottles. Bordeaux has around 10,000 winemakers, 400 négociants and 120 courtiers, and one in every five adults in the region is involved in the wine business either directly or indirectly. But the spectacular growth rates affect perhaps 300 - at a generous estimate - of the region's properties, mainly concentrated around the Médoc, Saint Emilion and Pomerol. These are the ones whose wines sell on in auction houses and make margins at every point of the retail chain. For everyone else, around 95% of the whole, the competition from emerging wine producing countries, falling consumption in France and tougher drink driving laws have all proved heavy burdens.

Bordeaux is still France's largest quality wine region, making 40% of its AOC wines, and contributing €4.8b (\$7b) towards the GDP in 2004. Sales, which had fallen every year between 2001 and 2006, stabilised up 0.4% in 2006/2007, reaching 5.67m hectolitres, up 0.4% from the previous year. International corporations from Peugeot to Louis Roederer to LVMH have invested in the region, taking control of flagship properties such as Chateau Guiraud, Chateau Pichon Longueville Comtesse de Lalande and Chateau Yquem. However, Bordeaux is a two-speed economy. While appellations such as Saint Emilion and Margaux sport land prices of up to €4m per hectare (\$2.3m per acre), French bank Credit Agricole is the biggest viticultural landowner in Bordeaux today, having repossessed so many smaller vineyards, and prices in the less prestigious appellations have fallen steeply from highs in 2001 and 2002. Despite global good news, the sales figures still reveal worrying trends when broken down by appellation (see box), particularly for basic red Bordeaux, which continues to lose market share.

So how has such disparity arisen? In theory, the halo effect of the name of Bordeaux and the fervour surrounding the top names should trickle downwards, giving the smaller appellations some reflected glamour. It should also mean that a Bordeaux brand – an accessible, mass-market wine range that gives everyone the chance to spend a few hours in the world's most famous wine region – should be a big seller. But a truly successful brand from the region has stubbornly refused to materialise. In reality, the focus of Bordeaux continues to remain not on large brands but on châteaux, whether the prestigious names or the smaller individual properties. The biggest brand in Bordeaux is still Mouton Cadet, with annual sales of around 1.3m cases, but turnover in the US has reportedly dropped 300,000 cases per year since 1992. The only other one million plus brand in Bordeaux is Malesan, according to the latest figures from its owner Castel, but the wine is seldom seen outside of France. In a world where Yellow Tail sells over 12m cases annually, can Bordeaux ever capitalise on its name and have a truly international brand?

“The organisation of the trade in Bordeaux will not allow a brand of 10 million bottles,” says Pascal Loridon, marketing director for the Conseil Interprofessionnel des Vins de Bordeaux (CIVB). “Maybe as cooperatives start working together this will happen, but globally it just doesn't correspond to the structure of the Bordeaux vineyards. I wish there could be more, but very few companies are really dedicated to brands. They don't have that mindset, they are dealing with grand crus and petit châteaux, but their business model is not fully brand minded.”

Structural rigidity

The structure of Bordeaux is unlikely to change, partly because of the vested interests in the system. For a start, power is concentrated – overall, 70% of Bordeaux wine is sold by the 400 négociants on the Place de Bordeaux. In 2003 (the latest figures available from the Union des Maisons de Bordeaux), their total turnover was €3.3b (€1b for export, with sales in over 160 countries), and in 2004, 44 wine merchants had a combined sales of €2.1b, accounting for 84% of the total turnover of the Place. Almost all wine merchants also own châteaux, and have exclusive deals to distribute others, meaning the structure cosily supports jobs and historical relationships within the region itself.

Bill Deutsch of WJ Deutsch & Co, the fourth largest wine importer in the United States, annually imports over nine million cases of wine, including Yellow Tail and André Lurton's range of Bordeaux wines, including Chateau Bonnet. Deutsch is blunt about the region's chances of creating an international brand: “Frankly, don't bother. A Bordeaux brand will never happen.” He says that such a brand could never sell 100,000 cases in the US because Bordeaux doesn't make the kind of wine that large numbers of people want to drink. “Any successful brand must contain a

“Red Bordeaux just can't deliver a mass market taste profile; it's too acidic, too tannic, too lean for majority tastes.”

Bill Deutsch

Bill Deutsch, owner of WJ Deutsch & Co., the fourth largest wine importer in the United States. The company has been particularly successful in introducing export wines such as Yellow Tail and Georges Duboeuf to the US market.



Merlot, a Cabernet Sauvignon and a Chardonnay, and besides the lacking grape, Bordeaux just can't deliver a mass market taste profile; it's too acidic, too tannic, too lean for majority tastes. You need at least 500,000 cases to be a player in the US market, at a maximum of US\$7-8 (in the UK that figure would be closer to 50,000 cases).”

He says that to achieve that, a producer needs to spend at least 10% of the retail price on above-the-line marketing and that Bordeaux's figures just don't stack up. “Even if producers can meet the price point, they would have no money left over for marketing. And then there is the labelling. Chateau Bonnet is sold as a Sauvignon in the States, or as a white Bordeaux, or as an André Lurton; but never as an Entre deux Mers. The Bonnet white taste profile works in this market, but if Bonnet came from California they would sell 100,000 cases, not 10,000 – the origin is so key.”

James Ryland, the marketing director for André Lurton, comments: “This doesn't mean there's no opportunity for Bordeaux, just that chasing after bigger production in itself won't work. The only route is bloody hard work. Concentrate on the US\$10-15 range and try to push hundreds of 20,000 case properties.”

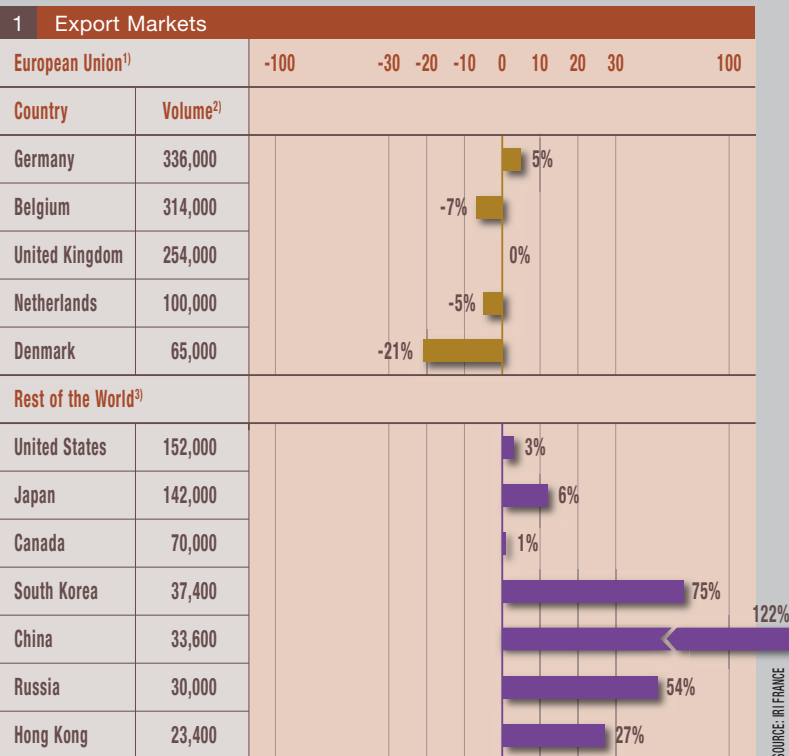
The fractured market

Can the smaller properties make real inroads? “The problem,” says Thierry Arnaud of Chateau Puy Arnaud in Cotes de Castillon, “is the fractured nature of the market. The small producers find it harder and harder to work with négociants, who just are not interested in taking on wines that they have to work hard for to sell.”

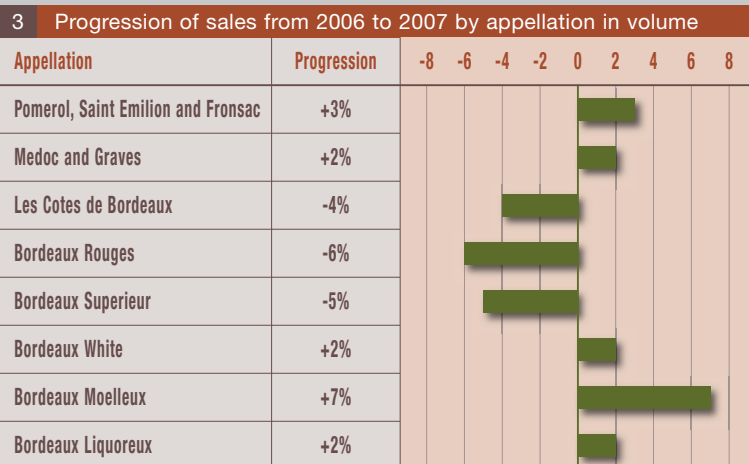
But this may in fact drive many smaller producers to take control of their own marketing. Arnaud, despite his words, bought Puy Arnaud in 2000 after selling Chateau Pavie, as a property selling almost the entire production in bulk. He has since raised the quality and entered into the Place de Bordeaux in just five years, a difficult feat for a small property. Other small château owners take the view that direct selling offers great possibilities, particularly if they emulate



REGIONAL ANALYSIS



¹⁾ -2% in volume, +2% in value; ²⁾ in hl; ³⁾ +12% in volume, +6% in value



5 Evolution of red wine plantings from 2000 to 2006					
Red grapes	2000 in ha	2000 in %	2006 in ha	2006 in %	Change ha
Merlot	65,175	58.9	69,138	61.6	+3,963
Cabernet Sauvignon	29,821	26.9	28,347	25.2	-1,475
Cabernet Franc	14,184	12.8	13,218	11.8	-966
Cot	1,043	0.9	974	0.9	-69
Petit Verdot	422	0.4	479	0.4	+57
Total	110,482	99.9	112,222	99.9	+1,435

While the world at large crows about Cabernet Sauvignon, which it equates with Bordeaux, in fact only a quarter of all red wine plantings fall to that variety. The major grape is Merlot – and its share is growing!

2 Best selling Bordeaux brands		
Brand	Owner	'000 cases
Mouton Cadet	Baronnie	1,100
Malesan	Castel	1,060
Baron de Lestac	Castel	750 ¹⁾
Cellier Yvecourt	Yvon Mau	375 ²⁾
Ginestet	Ginestet	250
Dourthe No. 1	CVBG	150 ³⁾
Marquis de Chasse	Ginestet	125
Premius Exigence	Yvon Mau	75
Calvet Reserve	BVC	85 ⁴⁾
Sirius	Sichel	80
Mascarcon	Ginestet	25
Michel Lynch	Jean Michel Cazes	10

SOURCE: IRI FRANCE

¹⁾ #1 in growth; ²⁾ #1 rose;

³⁾ Dourthe would not confirm this figure; ⁴⁾ mostly in UK

4 Production in Bordeaux			
	2002 in ha	2006 in ha	
Bordeaux	120,764	121,496	
Red or Rose	106,580	88%	107,992
White	14,184	12%	13,504
No of Producers	11,091		9,863

SOURCE: IRI FRANCE

While many analysts believe that white Bordeaux is closer to the flavour profile preferred by consumers, it is losing market share to red varietals that work well for icon wines, but are thought to be too tannic for the majority of consumers.

6 Evolution of white wine plantings from 2000 to 2006					
White grapes	2000 in ha	2000 in %	2006 in ha	2006 in %	Change ha
Semillon	8,459	55%	7,728	54%	-731
Sauvignon	5,021	32%	5,064	36%	+42
Muscadelle	1,059	6.8%	929	6.5%	-130
Colombard	280	1.8%	127	0.9%	-154
Ugni Blanc	605	3.9%	335	2.4%	-270
Total	15,438	100%	14,226	100%	-1,256

SOURCE: IRI FRANCE

Long the white workhorse of the region, Semillon is falling out of favour, as are Colombard and Ugni Blanc that have almost disappeared. Number two Sauvignon Blanc is bucking the trend, but hardly growing.

the approach of bigger structures. "Increasingly," says Loridon, "there are brands which are chateaux: Chateau Pey de la Tour is a brand, Chateau Bonnet is a brand, Chateau Tour de Mirambeau is becoming a brand. These châteaux are treated as a brand with the authenticity of a châteaux, and that is a model that more and more properties should be following." The CIVB is helping this approach by underlining the word châteaux in its ongoing advertising campaign.

In 2005, Gilles Laurencin, owner of a small property in the Premieres Côtes de Bordeaux, launched a branded wine called CABS, a blend of Cabernet Sauvignon and Cabernet Franc, with a London black taxi cab on the label. "I had heard the word 'cabs' referring to a blended wine when in California," says Laurencin. "I thought of developing it for the English market, but it's in the US where it has really taken off." Today he sells through Beverage and More stores in the California, and is thinking of buying in grapes to expand production.

Cooperating to make a difference

There are other signs that Bordeaux is freeing itself up in certain areas. The Côtes - Castillon, Blaye, Premieres Côtes de Bordeaux and Côtes de Franc - traditionally seen as among the most rustic appellations, with many entry price wines, are now working together to create an overall appellation, as opposed to four separate ones. This means, importantly, that from 2008 there will be 54 Bordeaux appellations, as opposed to the current 57 from 2008. Côtes de Bourg has so far been unwilling to join, preferring to keep its own identity. Christophe Chateau, president of the Union des Côtes de Bordeaux said, "This association will make things simpler in the eyes of the consumer - one overall appellation, with the communal names retained for a sense of place. The aim is to have access to greater stocks of wine, so we can create effective brands. Overall, we have nearly 10% of the production of Bordeaux, which gives us great negotiating power." They are concentrating largely on the French market, where there is greater recognition of the appellations, but are looking to increase their exports, which are currently only 10%.

The other key indicator of change in Bordeaux is its approach to working with supermarkets, an area in which it has traditionally been weak, but which is essential in modern retailing. Jonathan Evans, managing director of Summit, the CIVB's British promotions' agency, says, "There is a healthy market for small, 'hand-crafted' niche wines. Even UK supermarkets are strengthening their ranges at the £5 plus price points to encourage consumers to try new styles and, of course, to trade up in price. One could argue this is where it's counter-productive to be a global brand. Better to be a small, chateau label with the pulling power of the Bordeaux region behind you. But in supermarkets, the cost of display is prohibitively expensive for smaller producers. However, assistance from the CIVB and increasingly other generic bodies, means smaller brands and products can benefit from the huge sales surge that display can deliver. We are now in our third year of funding display at major supermarkets, at key times on behalf

"The current organisation of the trade in Bordeaux will not allow a brand of ten million bottles to develop."

Pascal Loridon

Pascal Loridon, marketing director for the Conseil Interprofessionnel des Vins de Bordeaux (CIVB), which promotes the interests of vine growers and negociants, through press and promotions, among other strategies.



of a significant range of Bordeaux wines (around 90 wines in 2007). Participating wines are then responsible for funding the price discount."

In UK supermarkets, Bordeaux has seen two years of increased sales, up 11% in volume. From January to August 2006, there was a rise of 5% in volume and 8% in value. The average selling price has gone from £4.87 at the start of 2007 to £5.22 today. Perhaps if Bordeaux concentrates on these areas, there is a real chance for the region to pull out of the crisis that deeply affected it during 2002 and 2003. Inevitably it seems the sub-€5 wines will continue to suffer, while the premium keep attracting the dizzying prices of recent years.

The rest - the mid range from €10 to €30 - have a real opportunity. Jean Luc Thunevin, winemaker and merchant in Saint Emilion, points out: "The problem recently has been that the top wines have become almost too expensive to sell in restaurants, whereas those in the mid-range are still accessible. The top wines still have good days ahead of them, but there has been a renaissance at the lower levels."

The owners of those mid-range, good quality Bordeaux may not have to give up on a brand new cellar just yet. ■



7 Shaky domestic market

The exposure of almost 35% of sales to the French domestic market is risky. Annual French wine consumption fell by 11.1% to four billion bottles between 2001 and 2005 - and continues to decline. France, currently the world's largest consumer, is expected to fall behind both the United States and Italy by 2010. Today, 32m French people, roughly half of the population, consume wine, but only 21% of the younger generation consume wine regularly. This has a major impact on consumption, which dropped in the last four decades from 160 to about 67 litres per person per year today - and it may be no coincidence that the latest figures from the Fédérations des Exportateurs de Vins et Spiritueux (FEVS) show that one of the two French regions with runaway success, Cognac, is over 90% export. The other, Champagne, is still around 50/50, but with exports rising fast.