

THE GERMAN IMPRESARIO

INTERVIEW WITH ALEXANDER MARGARITOFF

German giant Hawesco is an importer, wholesaler and direct marketer, as well as owner of the country's largest retail wine chain. Turnover at the holding was up 10.3% to €334m in 2007, with an operating result (EBIT) of €18.3m. What makes this all the more surprising is that this growth is taking place in a stagnant market. Having invested heavily in the business in 2007, CEO Alexander Margaritoff now expects to profit from that investment and increase Hawesco's presence beyond the border. Joel B. Payne spoke to the impresario about his plans.

Meininger's: We are meeting in your offices on the outskirts of Hamburg. Is this where it all began?

Margaritoff: No, the company was started by my father in the basement of a two bedroom apartment in the heart of Hamburg. We moved here 20 years ago. My father left Bulgaria for Berlin just before the war to study architecture. Unable to go back because Bulgaria had turned communist, he stayed in Germany. After the war, he began to produce stockings. At the end of the 1950s, he was Germany's largest manufacturer of women's hose, with seven factories and almost 10,000 employees. Unfortunately, he went bust and started Hawesco in 1964.

Meininger's: How big is the company today?

Margaritoff: We have approximately 1,200 employees, if you include our partners at Jacques Weindepot, and sales of roughly €335m.

Meininger's: What do the corporate parts look like?

Margaritoff: Hawesco started off as a mail order business for spirits. That changed only when we began selling wine in the 1970s. Over time, we added the retail business with Jacques Weindepot and wholesale with Wein Wolf and others.

Meininger's: When did that take place?

Margaritoff: In 1998 and 2000. Today, we have 18 companies in the holding, but each is run fairly independently. At the head

of each there's a person who is in more or less complete control. The idea is to be as close to the final customer as possible, which cannot be done from headquarters.

Meininger's: How much of your business is off shore?

Margaritoff: Just under 11%. We have a small operation in the Czech Republic together with Heinemann, the people who run the duty free shops. In Austria, we have a wholesale business, which is now the third largest there, and a few Jacques outlets. In Bordeaux, we own Chateau Classic, which is doing very well.

Meininger's: Your retail chain, Jacques Weindepot, has no serious German competition. Can you repeat that elsewhere?

Margaritoff: You are right in saying that we are far ahead of our competitors, but all competition has to be taken seriously. Our concept has been refined over the last 30 years and, given certain adaptations to local markets, could also be successful in other places - perhaps not in all, but in a number of important wine drinking countries.

Meininger's: With Multiwein, you recently launched a competing chain at more aggressive price points. Has it worked?

Margaritoff: Between 2001 and 2006 premium wines in Germany had a rough time. With prices falling, we thought it might be a good idea to target those people who were buying cheap wine from discounters like Aldi and Lidl, both of which are very strong in Germany. Albeit at a very low price, every second bottle of wine drunk in this country is sold by a discounter. That said, our concept was not very successful, so we either closed the Multiwein outlets last September or folded them into Jacques Weindepot.

Meininger's: Were margins difficult to generate?

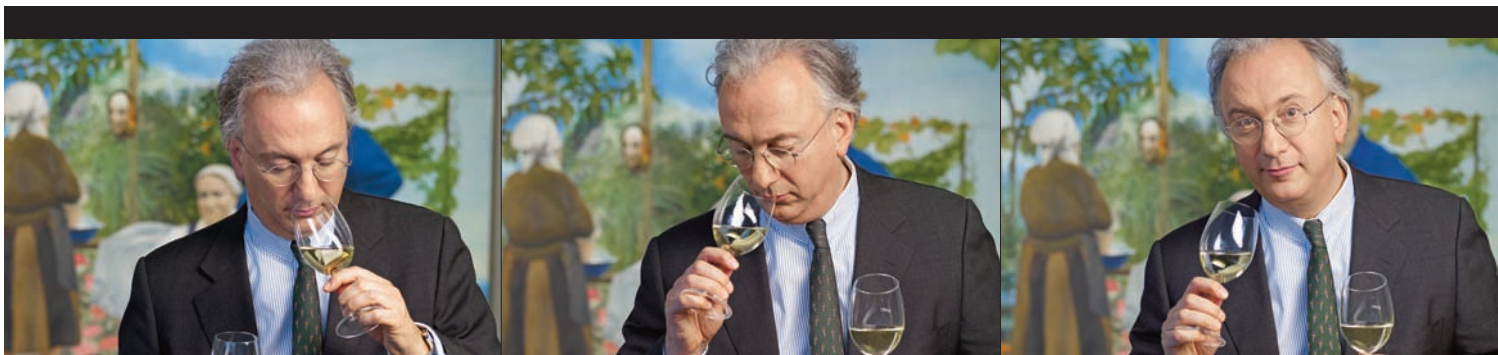
Margaritoff: It wasn't only that. Margins are lower in the €2-€4 segment, but it was more a question of attracting enough people to our shops.

Meininger's: You have famously said that Germans have no wine drinking culture. What did you mean by that?

Margaritoff: When people shop in Germany, the first question they ask is what is cheapest. In France, Switzerland or Belgium, they look for quality. This difference is particularly acute for food and wine. The average retail price for wine here is just €2. The elite in German society, which was responsible for cultivating food and drink 100 years ago, has disappeared. Two world wars, hyperinflation and a divided country have all had an impact. We must rebuild our consciousness for good food and drink.



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Meininger's: Then hasn't it been difficult for your group to operate in that environment?

Margaritoff: Frank Sinatra would have said, 'if you can make it here, you can make it everywhere'. Yes, it is more difficult in Germany, because you have to explain the merits of a bottle of wine that costs more than €10 - and even the market for wine above €5 is very small.

Meininger's: It is said to be about €1bn.

Margaritoff: Yes, but in tiny Switzerland it's €600m. In Britain, the market at the top is several times larger than in Germany.

Meininger's: You say the average price of a bottle in Germany is €2. What is yours?

Margaritoff: It depends on the segment, but it ranges between €6 and €7.

Meininger's: What have you done to make that happen?

Margaritoff: At Jacques Weindepot, customers are able to taste the wines, so you can make them aware of the difference between a cheap wine and a more expensive one. At Hawesko, we have an informative catalogue, but generate sales through carefully crafted brochures sent selectively to our customers 18 or 20 times a year. We have four employees managing our clientele data base to target each individual's preferences and 40 sales people well educated in wine, who can explain the products to our customers by phone. At Wein Wolf, we have 100 salesmen that travel the country. Two thirds of all people working at Hawesko are explaining wine to customers - and I think that is the secret of our success.

Meininger's: What wines have worked particularly well?

Margaritoff: Over the last 30 years there have been a number of trends. In the 80s, the trend was towards French white wines like Chablis. In the 90s, Italian whites and then reds became popular. Now we are seeing a strong growth in German wines.

Meininger's: Have the rapidly rising prices of Bordeaux made it difficult to move the volumes you were doing in the past?

Margaritoff: For many people, the word Bordeaux is a synonym for quality. When they think of Bordeaux, they think of the names like Mouton and Lafite, but Bordeaux also consists of very good wines in the range of €5-€15. There has been a strong movement, almost a revival, towards these wines in the past two years. Yes, the top wines in Bordeaux are extremely

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| Group turnover in value: | 2007: €334m | 1997: €95m | 1987: €22m |
| Group turnover in volume: | 2007: 52m bottles | 1997: 14m bottles | 1987: 2m bottles |

Major acquisitions:

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| 1997: | Jacques Weindepot (retail chain with 270 outlets) |
| 1997: | Carl Tesdorf (mail order) |
| 1999: | Wein Wolf (wholesale importer) |
| 2000: | Chateau Classic (shipper and direct marketer in Bordeaux) |

expensive, but the group of customers willing to pay more than €100 is very, very small.

Meininger's: If we take vertical integration to its logical extreme, you might also produce wine. Is that part of the vision?

Margaritoff: It's perhaps part of the dream, but it would not make much sense for us to go into wine production. Our expertise is buying bottled wine and selling it to final customers. Making wine is a completely different ball game. There are lots of people in this world doing that well - and they don't need us. Further, if we bought a vineyard, we would be fixed to that area. Part of our philosophy is to be nimble.

Meininger's: You do, however, have brands like Zar Simeon that reflect your Bulgarian heritage. Do you have other products like that in the group's portfolio?

Margaritoff: Most of what we sell is somebody else's brand. Our own labels account for less than 15% of total sales.

Meininger's: How has mail order been affected by the Internet?

Margaritoff: The Internet is revolutionising the way people purchase things - and I believe that the mail order business is in a process of dramatic change. Currently, about 15% of our mail order sales are generated through the Internet, but I could well imagine that in less than ten years, half of it will be. We are ideally placed to benefit from this development. Apart from having a good website, we have numerous exclusivities, quick and efficient logistics and direct marketing knowledge, which is very important when you are selling at distance.

Meininger's: Are you trading traditional clients from fax to Internet customers? Or is this developing new business?

Margaritoff: It's both. Many people receive our catalogue and then buy their wines on the Internet. It's faster and more convenient for them. But we can also target new customer groups and the younger generation is very open to good wine - and a

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The **Hawesko** mail order company, the original core business and long the group's driving force, has over one million clients, 450,000 of which it classifies as active. Four employees manage its clientele data base to target each individual's preferences in 18 brochures crafted by the 20 strong marketing department and sent selectively each year. Forty well educated wine sales people explain the products to customers by phone. Its impressive modern warehouse in Tornesch harbours over 14m bottles, assembled by a team of 18 purchasers, and can process 5,500 orders a day.

large majority of these people are simply used to the Internet.

Meininger's: If we were doing a SWOT analysis of your group's current position, what are your strengths?

Margaritoff: Wine is still a growing business in Germany, at the expense of beer and spirits - and we're number one in Germany in the three distribution channels we service: mail order, wholesale and retail. With 40 years of experience, we have good systems, a long term strategy of service and quality as well as highly motivated and very skilled people working for us.

Meininger's: What are your weaknesses?

Margaritoff: I don't see many in our own company, only those generated by the German market. As I mentioned before, Germans are reluctant to spend a lot of money on perishable goods, so that's a weakness associated with the country itself, not so much our company.

Meininger's: Opportunities beyond the Internet?

Margaritoff: Apart from the constant development within Germany, there are opportunities abroad. Although the market grew by only 1% last year, we grew more than 10%, 4% in retail, 9% in the mail order and 16% in the wholesale business. If you look at the world wine market, the top segment could be as much as €25bn, but is only €1bn in Germany, so there is a lot of scope for us to expand, both here and abroad.

Meininger's: And threats?

Margaritoff: The most serious threats are the new ideas being generated in Berlin or Brussels, such as new laws concerning labelling and distribution.

Meininger's: You've expanded into Austria and the Czech Republic. How much further east might your business grow?

Margaritoff: The Eastern European markets are still changing rapidly. Once things have settled down, they will become inter-

esting for us. I could well imagine Hawesko active in Poland or Russia within the next 10 years, but at the moment we are looking more towards West European countries. I think that the smaller European markets like Switzerland, Belgium, Holland are very interesting.

Meininger's: Do you currently sell wines there?

Margaritoff: Not at the moment, but we're looking at these countries carefully to see if there are opportunities.

Meininger's: Could you imagine expanding into Asia?

Margaritoff: Yes, I think the next generation might look at that carefully, but at the moment that is still very far away.

Meininger's: Could you go completely global?

Margaritoff: There is no reason why that should not happen, at least in the major wine drinking wine nations of the world. After Eastern Europe, we, for example, could very well go to the United States or Asia, but each country has its own rules and opportunities. That said, our short and medium term focus is still Europe.

Meininger's: You've been at the helm since 1981. Are you already making plans for your succession?

Margaritoff: I'm only 55 - and feeling like 40! I hope to be around for another ten years. Anyway, it is not my role to plan my succession, but that of our supervisory board.

Meininger's: Hawesko is a publicly traded company. How have your business decisions changed since you have been required to report back to shareholders on a quarterly basis?

Margaritoff: When you go public, there is more attention paid to what you are doing on a very short term basis, but we've always tried to base our policies on long term considerations - in particular on the high quality of the products we sell, an excellent service and investing in the future.

Meininger's: Is it conceivable to treble turnover to €1bn?

Margaritoff: Absolutely! Yes, that's a good goal to aim at and not unrealistic. In the last 27 years we were able to increase sales by a factor of about 70. Trebling sales in ten years should not be too difficult.

Meininger's: When this is over, what else would you like to do?

Margaritoff: I've been in the business for so long that it's difficult to imagine a life without active participation in the wine trade. I've grown fond of it and I wouldn't like to miss it. ■