

A TUSCAN VISIONARY

Marchesi Antinori, Tuscany's largest family-owned estate, has been making wine since 1385 when it officially joined the Vintners Guild in Florence. Yet, its real ascent into the global market came with the 25th generation, when Piero Antinori, in 1960, at the age of 22 joined the family business. By Michèle Shah and Joel B. Payne.

Over the past 40 years Piero Antinori's vision has taken him around the world - and back. Not only did he expand his Italian portfolio, acquiring new estates in Tuscany, Umbria, Piedmont, Puglia and Lombardy, but also more recently, starting in 1987, has ventured into a wider international arena, purchasing and investing in vineyards in California, Hungary, Malta, Washington State and Chile. Surprisingly, when Antinori first took the reins of the family business, this included only the San Casciano winery and 50 hectares of specialized vineyard purchased in 1900 in Chianti Classico, known as the Tignanello estate. In 1934 came Guado al Tasso with 20 hectares in Bolgheri and in 1940 Castello della Sala followed with 10 in Umbria. Today these names sound like magic; back then they were fully unknown - and in Bolgheri they produced mainly rosé.

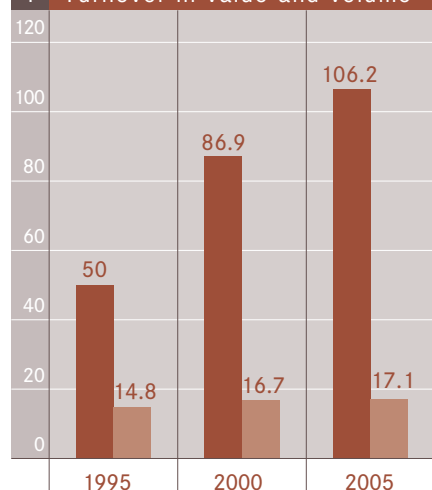
„The 1960's was a very difficult time for agriculture,“ comments Antinori. „Share-cropping had come to an end and farmers were moving out into the cities looking for factory work.“ Viticulture, which in many regions such as in the Veneto and Emilia Romagna plains had always been part of the staple diet, became mechanized, producing quantity over quality. At this time, according to Antinori, the firm's production reached some 100.000 cases, which was partly exported to UK, Argentina, Canada and US - markets established in 1945 by Piero's father, Niccolò Antinori.

„The last 30 years have been a very exciting period in Italy, especially for wine. I have never regretted entering the field,“ declares Antinori. As Italians sought a better quality lifestyle, so did the style of their wines. „No one realized the potential Italy held for 'fine wines', adds Antinori. To improve quality, Antinori brought in not only a qualified winemaker, Giacomo Tachis, but also one of the world's leading consultants, Emile Peynaud. Antinori and his team travelled to Bordeaux, Burgundy and California. New trellising systems were implanted and new vinification methods adopted, while new international grape varieties, such as Cabernet Sauvignon, Merlot and Chardonnay flanked selected clones of Sangiovese, aged in French barrels. The result was the launch of a brighter, more concentrated style of wine, beginning with Tignanello 1971, of which 7,000 cases were released. Today Tignanello's production has grown to 20-30,000 cases.

Constant Growth

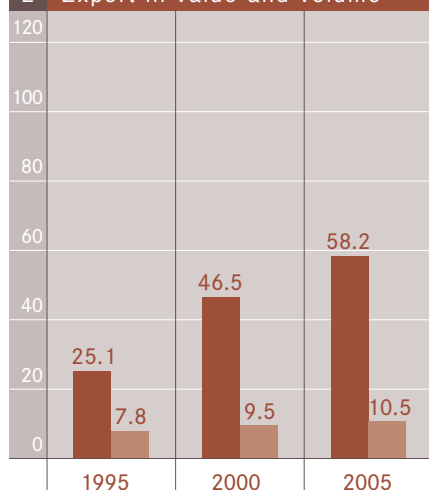
„Tuscany and its authenticity has always been very much the focus of our business,“ explains Antinori, and theirs has grown in the last 10 years from 49.9 million Euros and 14.7 million bottles in 1995 to 86.9 million Euros and 16.6 million bottles in 2000 to 106.1 million Euros and 17.1 million bottles in 2005, an annual accrual 3.23% in volume and 7.85% in value over the past decade.

1 Turnover in value and volume



Value in m € Volume in m litres

2 Export in value and volume



Value in m € Volume in m litres

3 Export by Country 2005

| | Value in € | Volume in litres |
|-------------|------------|------------------|
| USA | 16.35m | 2,867,494 |
| Germany | 9.95m | 1,884,660 |
| Switzerland | 4.21m | 686,468 |
| Canada | 2.66m | 399,583 |
| Austria | 2.62m | 514,900 |
| UK | 2.59m | 385,782 |
| Russia | 2.54m | 406,839 |
| France | 2.07m | 266,679 |
| Holland | 2.09m | 690,849 |
| Japan | 1.32m | 276,624 |

Export: 61% of turnover by value

The company's vineyard capacity today reaches almost 2.000 hectares, with more than 1,200 in Tuscany alone. Although these have grown far „too fast,“ Antinori has stayed abreast of the growth of investments in Tuscan vineyards. „The wine business is quantified in seven to ten year cyclic periods with ups-and-downs,“ he notes. „We are now in a cycle of overproduction of both quality and super premium wines.“ While Antinori waits for the market to recalibrate, it is his opinion that in the next five to six years many producers, especially those in the New World, will abandon winemaking if it does not prove profitable.

According to Antinori, competition from New World brands has had little impact on his business or share of the market. „The 70's and 80's also had their ups-and-downs,“ relates Antinori, who continues to expand in a more traditional way by improving quality and investing in vineyards - growing organically rather than through acquisition.

When asked, if the New World could pose a threat, Antinori is well aware that even entry-level wines today are generally far more drinkable and approachable than before. Yet his response is clear: „Our philosophy is not to base our exports and distribution on the supermarket channels. Part of our story is emotion, which is why we focus on gastronomy.“ Antinori is not interested in investing in publicity or doing discounts and promotions. He feels neither 'obliged nor condemned' to show the results of turnover or the return on investments to a board. „Quality wine is by definition a long-term business. It is not possible to compromise.“

Even a solid company like Antinori suffers from some structural cracks. „If I were to point my finger at our weakness, this could be in the current structure of our management.“ His role as president will remain unchanged, but his right hand man, Renzo Cotarella, who joined as production manager in 1993 with a focus to develop vineyard investment, now acts as chief executive officer. Having planned expansion over the past decade, he is now assisted by viticulturalist Claudio Pontremolesi, „but we need someone to direct production and nurture the talented young winemakers that we have on board.“ Antinori's three daughters, Albiera, Allegra and Alessia will continue to assist in management, supported by a young team which, according to Antinori, has excellent potential but needs to be directed and trained to focus on detailed quality. „I want to be sure Antinori is developing in a way compatible with our financial and human resources.“

Exports and Distribution

Antinori's wines are distributed in 100 export markets, each managed by a local agent. Preference is on smaller wine-based distributors, which is reflected in the mix of market specialists, like Morandell in Austria, Berkmann in the UK, Bindella in Switzerland and Moscow Business Group in Russia, while the global distributors remain Maxxium which represents Antinori well both in Japan and Denmark. „The change in distribution over the last 15 years has entailed working more closely with the local market and its customers,“ he says.

QUOTE UNQUOTE

»» Part of our story is emotion, which is why we focus on the restaurant trade. ««

Piero Antinori

When Piero Antinori first took the reins of the family business, this included only the San Casciano winery and 50 hectares of vineyard known as the Tignanello Estate.



As markets develop and change, Antinori is well aware that his growing export market, which today signifies 60% of sales, may need to take a new direction. Already in the States he has taken a rather 'unconventional' step in forming a joint-venture with a wine producer, Chateau Ste Michelle in Washington State, for distribution. „Having a common interest in wine makes our relationship stronger“.

Italy is a different story altogether. Here Antinori has a squadron of 120 agents managed by area supervisors, selling and distributing the remaining 40% of production. „One day European distribution could be structured like our domestic market, with a similar sales force and support.“

New projects

Fighting global warming is just one of the reasons which led Antinori to invest in Kirghistan. Surrounded by the Himalayas, the region that was once part of the 'silk road' is today ravaged by poverty. „The experimental eight hectares planted at 1,600 metres was a development project to help the locals, yet the results are quite fascinating,“ explains Antinori. The most recent acquisitions, though, are closer to home. In the Florentine hills Antinori aims to develop a new estate focusing solely on white wines.

In 2008 Antinori will be reclaiming the lease on their 280 hectares in Napa Valley, part of Geyser Peak, which had been leased to Allied Domecq back in 1993. The name Antica - from Antinori California - will concentrate mainly on a premium wine based on Cabernet Sauvignon.

The future is also in Puglia where Antinori is building a new winery for the Tormaresca range, in sourcing their own production of Sangiovese for their main label, which remains Villa Antinori, and maybe in separating the entry level wines, such as Santa Cristina, from their icon and premium wines. Santa Cristina will become a stand alone range with its own identity housed in a new winery in Cortona, also producing a white Pinot Grigio, initially to be released in the US.

„If I were to envisage Antinori 25 years from now, I would like to see an improvement in quality, prestige, services and marketing. We need to optimize on what we have, but otherwise I foresee no major changes in the size or volume of our production.“ ■

DYNASTIC FORTUNE

When looking back at the „grandeur that was Rome,“ consumers often assume that Italy’s wine making tradition dates back thousands of years. However, most of the well-know names are the creation of the past generation. Frescobaldi is no exception, discover Michèle Shah und Joel B. Payne.

Marchesi de’ Frescobaldi trace its winemaking tradition in Tuscany back more than 700 years. However, it wasn’t until the mid 20th century, in the 1960’s, that its empire began to resemble the company that we know today, thanks largely to president Vittorio Frescobaldi’s ability to seek out suitable terrain in Tuscany.

Vittorio with brothers Piero, Ferdinando and Leonardo form the management of what is today a tightly-knit family enterprise, in which their kin preside over a range of roles. One of the most active members is the 43 year-old Lamberto Frescobaldi, production manager, likely heir apparent and son to Vittorio, who at the venerable age of 78 is looking to hand over the reins of the business.

After graduating from Davis in California in 1987, Lamberto went to Montpellier to specialize in viticulture, only joining the family business in 1990 with a particular focus on vineyard investment. „We have come a long way from the 35 hectares of specialized vineyard we owned in 1955 to the 400 hectares we managed when I joined to the 1,100 hectares we cultivate today.“ Frescobaldi’s total turnover in 1990 was 11.5 million Euros; today it approaches 47 million.

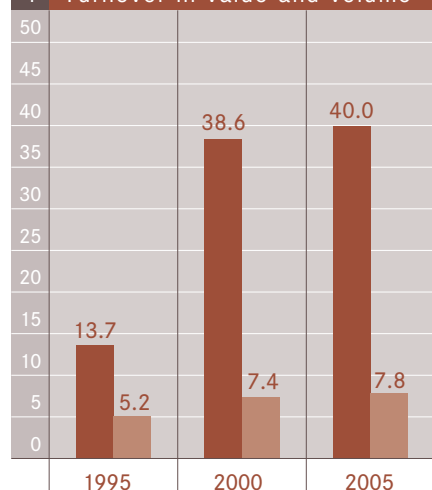
Part of Lamberto’s strategy involved re-planting older vineyards to a higher density with better trellising - and adapting his experience at Davis and Montpellier to the Tuscan hillside. Since 1990 he has been responsible for planting and re-planting

some 956 hectares. Yet despite its recent strategy of adding almost 100 hectares per year, Frescobaldi still buys in some 15 to 20% of its grapes for the entry level wines in order to fulfil demand for the current 9 million bottle production. The investment and business policy, however, has been conservative. „Upfront capital as well as market openings are both essential when looking at new business ventures,“ is Frescobaldi’s motto. „We are not buying art, but soil to make wine.“

Frescobaldi’s vineyard investment has always had a Tuscan focus. The main estates today include Castello di Nipozzano, Castello di Pomino and Remole. However, as the Tuscan coastal area of Morellino developed, garnering international interest, Frescobaldi invested 1998 in the Santa Maria estate in Morellino di Scansano. Earlier, in 1989, it bought the Castel Giocondo estate in Montalcino, which it had already managed years before the purchase.

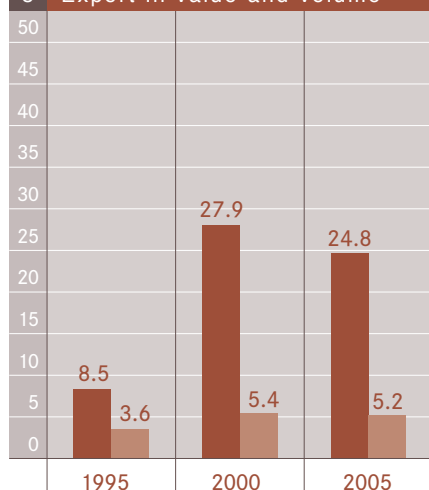
An even larger step was taken in 1995 when Frescobaldi paired up with Robert Mondavi, setting up a 50-50 joint-venture company under the name Luce della Vite adjacent to Castel Giocondo in Montalcino where the icon wines Luce and Lucente are produced. This also marked the first joint-venture between an Italian and American winery, launching Frescobaldi into an entirely new international ballgame and, in 2002, to the 50% shareholding of Ornellaia. „Frescobaldi

4 Turnover in value and volume



Value in m € Volume in m litres

5 Export in value and volume



Value in m € Volume in m litres

6 Export by Country 2005

| | Value in € | Volume in litres |
|-----------------|------------|------------------|
| USA | 4.71m | 1,196,000 |
| Canada | 3.72m | 728,000 |
| Germany | 3.47m | 624,000 |
| Switzerland | 2.23m | 416,000 |
| United Kingdom | 1.24m | 260,000 |
| Asia Pacific | 2.48m | 416,000 |
| Scandinavia | 2.23m | 676,000 |
| Rest of Europe | 1.98m | 364,000 |
| Other countries | 2.73m | 468,000 |

Export: 62% of turnover by value

gained dramatically in image, quality and also financially with the Mondavi joint-venture," says Lamberto Frescobaldi. According to Frescobaldi, having an external partner makes one far more precise, critical and judgemental of one's choices and actions - a process of learning and growth.

Constant Growth

The Attems estate in Collio, which was acquired in 2000, was purchased with a view to increasing the production of white wine to complement Frescobaldi's almost exclusively red-driven portfolio of premium wines. In December 2004, following Constellation Brand's acquisition of Robert Mondavi Corporation, Frescobaldi regained control of Luce della Vite, acquiring back 50% equity from Robert Mondavi. Shortly thereafter, Michael Mondavi, having stepped out of the Robert Mondavi Corporation, stepped in as partner of Luce della Vite, taking over Frescobaldi's distribution in the States. A few months later, in April 2005, it was unanimously decided that Frescobaldi would buy back the 50% share of Ornellaia from Constellation, in the interest of keeping its identity intact.

Though conservative and restrained in manner, Lamberto cannot conceal his pride and satisfaction with the 2006 growth: a 20% increase in value over 2005. Today, turnover sits at 47.1 million Euros - without counting Ornellaia. „The down side of this trend is that we have difficulty supplying our premium wines: Luce, Mormoreto and Castelgiocondo are sold out," admits Frescobaldi. „Even the Nipposano Riserva, of which we now produce over one million bottles, will be short." This is particularly evident in the US, where Michael Mondavi is focusing on high-end wines.

Looking to the future, Frescobaldi realizes that one of their weaknesses stems from the point of strength of his father's generation, a company management shared between siblings, in which Vittorio Frescobaldi as president, was given „carte blanche". Lamberto's generation of cousins is less united and this could lead to individual family members opting out, thus creating a possible future crevasse.

Exports & Distribution

While sales are rapidly rising with importers such as Simple in Russia, Jepson in China and Brindco in India, Frescobaldi's main markets remain the historic ones: US, UK, Germany and Canada. These markets are attracted both to the quality premium wines, as well as the entry level wines such as Remole and the Danzante range, which covers a selection of varietal wines made from purchased grapes: Merlot from Sicily, Sangiovese from the Marches, Primitivo from Puglia and Pinot Grigio delle Venezie. Although total production now reaches some 2 million bottles, 1.6 million of that is the Pinot Grigio sold in the US market.

The split between exports and the domestic market is currently: 63% exports and 37% domestic. Today Frescobaldi wines are distributed in over 70 markets, each with its own importer, though not all the estates and ranges are distributed by the same importers in each country. Looking to the future, Frescobaldi has thought of developing its own distri-

QUOTE UNQUOTE

» I do not play golf or tennis; what I want is to deliver a wine with a soul. «

Lamberto Frescobaldi

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bution network, or forming partnerships. However, at present it neither feels it has the know-how, the total portfolio nor the financial power to do this. What we know is that we need to control public relations and marketing. The next three years will be crucial." Their domestic network includes 98 agents.

A recent partnership was formed in May 2006 between Frescobaldi - owning 72% of the shares - with Michael Mondavi and SPI Group, one of the world's leading vodka producing brands with Stolichnaya and Moskovskaya. „The Tenute di Toscana holding includes Ornellaia, Castel Giocondo and Luce and is a purely financial deal for us, but has helped with distribution in Estonia and Lithuania," explains Lamberto.

New projects

Frescobaldi's conservative approach to investing is reflected in its search for expansion. Frescobaldi is essentially Tuscan and reluctant to invest outside the region. Even within Tuscany, Lamberto is sceptical of the return on investment in certain areas like that of Chianti Classico. „A property has to run on its own legs and be financially independent, in order to develop, while producing wines acceptable to the consumer, without pricing yourself out of the market."

Not surprisingly Frescobaldi has chosen two emerging areas within Tuscany for future investment. The first is the Ammiraglia estate in Maremma, with 150 hectares of vines planted to Cabernet Sauvignon and Syrah. The aim here is to produce a high end IGT to be released in May 2008. The second investment, the Nugola estate on the Tuscan coast, includes 100 hectares of vines, where the family intends to produce good value for money. The first release will be in September 2007 and will include a white Vermentino and a red Syrah, both aimed at the restaurant trade.

With these new estate projects and a third Frescobaldi Wine Bar about to open at Fiumicino airport terminal in Rome, Lamberto hopes that in 25 years Frescobaldi will be clearly seen as a quality producer. „In order to know something about your wines you have to be present every day," sighs Lamberto. „I do not play golf or tennis; what I want is to deliver a wine with a soul. It is vital that when I speak about my wines, the person in front of me feels that I know what I am talking about, that I am part of the wine." ■

A BRAND BY ANY OTHER NAME

Antinori and Frescobaldi are two of Italy's leading wine brands, but both of these family-owned companies have ambivalent attitudes to the way they use their names – and the investment they are prepared to put into official designations of the region of Tuscany where they are based, comments Michèle Shah.

While Piero Antinori would agree that his company has built a marketing strategy based on world-wide recognition for a guaranteed quality standard under the Antinori umbrella, he is very careful about not using the family name on wines such as Tormaresca in Puglia or Prunotto in Piedmont, much less on those of the new world. Antinori would like, instead, to emphasize the identity of each individual estate, making the property the focus. In this way, they should be competing with other key players in the premium market such as Castello di Ama, Brolio and others. The wines which discretely carry the name Antinori are super-premium or icon wines such as Tignanello, Solaia and Guado al Tasso, which provide credibility for Villa Antinori and Castello della Sala. On the other hand, Santa Cristina will in the future acquire a separate identity such as the Galestro Capsula Viola.

For Frescobaldi the boundaries are similarly shades of grey in need of better clarification: Nipozzano, Luce and Danzante are conceived as brands in their own right, with Luce and Danzante no longer even carrying the name Frescobaldi. „However, when I travel abroad, people see Frescobaldi as a brand name. Personally, I think there is still a lot of work to be done developing the integrity of each individual estate,“ explains Lamberto Frescobaldi. „Our marketing division would like to focus more on the name, but I think a long listing of Frescobaldi wines on a restaurant list gives a lower image than individual estates.“

From a business point of view it is interesting to note that both are very reserved about making investments purely for the sake of capital appreciation in an area like Chianti Classico. One has the impression that reserved caution is the password when it comes to investing. Even advertising and promoting is shunned in favour of the more classic word of mouth. For both, though, future marketing strategies may be looking at new structures of distribution with more company involvement.

Tuscany, and in particular the Chianti zone, and to an extent the Tuscan coast, will remain a major focus for both. Chianti Rufina remains the stronghold of Frescobaldi with Nipozzano, Montesodi, Moromoreto and the entry level Remole, of which the now sell 1.4 million bottles a year. With Sangiovese also playing a central role, Antinori's production bases are Tignanello, Villa Antinori, Peppoli and Badia Passignano.

Beyond their differences, though, both of these venerable houses clearly believe that their future is not in trying to compete with Penfolds, Concha y Toro or Mondavi as the Tuscan brand. The word itself seems to ruffle their feathers. Nor do they appear to want to invest much effort in a category like Chianti, which in itself has become a brand. Both have pulled Chianti off the label of their Villa Antinori, Santa Cristina and Remole, preferring instead to write merely Tuscany. Unclear, though, as their volumes and the number of different brands increase, is how many IGT the market will bear. ■

7 Four Tuscan wineries in top 15 of Italy

| Ranking In Italy | Ranking In Tuscany | | Turnover 2005 in million € | Change in percent | Turnover 2005 in bottles | Export share in percent | Company owned vineyards | Paid employees | Share of purchased grapes |
|---------------------|-----------------------|--------------|-------------------------------|----------------------|-----------------------------|----------------------------|----------------------------|-------------------|------------------------------|
| 4 | 1 | Antinori | 115.4 | 6.8% | 18.0m | 55.0% | 1,838 hectares | 150 | 5% |
| 12 | 2 | Banfi | 62.1 | 3.5% | 11.0m | 63.1% | 850 hectares | 300 | 10% |
| 13 | 3 | Ruffino | 59.9 | -0.3% | 14.7m | 63.0% | 600 hectares | 120 | 50% |
| 15 | 4 | Frescobaldi* | 48.1 | 4.6% | 6.5m | 60.0% | 1,100 hectares | 190 | 15% |

Four of Italy's top 15 wine companies are based in Tuscany. Antinori is interesting to compare with Frescobaldi, but they are not alone. Both Ruffino and Banfi impose themselves in any serious economic discussion of the region.

* including Ornellaia

With the exception of Ruffino, it is interesting to note that the major „brands“ from Tuscany source their grapes almost exclusively from their own vineyards.