Bordeaux 2016 Abstract Submission

Title
A cellar full of collateral: Bordeaux v Napa in the search for oenological gold

I want to submit an abstract for:
Conference Presentation

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Keywords
premium wine – performance – strategy – wine trade system

Research Question
What are the transformations that have occurred in Napa and Bordeaux in the past few decades in the way ultra-premium wines are marketed?

Methods
Detailed case study interviews with chateaux owners and managers, brokers and négociants in Bordeaux and winery owners and managers in Napa

Results
In this article, we put forward the originality of the Bordeaux system and its main differences with Napa Valley

Abstract
This paper examines the transformations that have occurred in Napa and Bordeaux in the past few decades with particular emphasis on quality improvement, investment strategies and changes in the way ultra-premium wine (classified growths in Bordeaux and cult wines in Napa) are marketed. In the case of Bordeaux, one has an original system (Place de Bordeaux) in which châteaux, brokers (courtiers) and négociants develop pricing strategies that facilitate the distribution of large quantities of high quality wine worldwide. This three tiered system evolved in conjunction with the nineteenth century classification system that created an official hierarchy of chateaux. Despite this classification system, wine credibility depends heavily on ratings by wine critics, journalists and sommeliers, which can have a significant impact on market demand and pricing strategies (Beverland, 2004). Regarding wine ratings, Hay (2010) considers that critics help confirm regional rankings such
as 1855 Bordeaux classification of crus.

There are many specificities in the Place de Bordeaux wine trade system. Place de Bordeaux (more than 300 years old) is a moving and challenging system in which each participant (châteaux, brokers, négociants) plays a key role. The relationships between all these actors are inter-connected. For ultra-premium wines, the Bordeaux system is based on the so-called primeurs sales where more than 85% of Bordeaux classified growth wines (1855 classification) are sold when they are still in barrels, that is to say when still being aged (Charters and Gallo, 2014, p203). Iconic châteaux have based their business model on luxury goods producing limited quantities of high quality wines and selling them all around the world.

Négociants, who have a historical experience of sales and a very good knowledge of international markets, buy the majority of the bottled production from the Bordeaux châteaux through the system of allocations. These allocations are given directly by the châteaux or indirectly by brokers (courtiers) who help négociants to select their wines. For historical reasons, courtiers get allocations from prestigious châteaux.

Brokers introduced quality and ‘notoriety’ but it wasn’t until recent decades that a greater consistency and uniformity occurred amongst major producers, quantities declined and demand increased. One of the most critical features for Bordeaux premium wines is their origin (terroir). How the product is made is often related to where it is made. As explained by Usunier and Cestre (2007), wines are intrinsically linked to their place of origin, a level of ethnicity that is constructed and confirmed by characteristics such as production capabilities, history or reputation. Old World Countries have always been deeply attached to the notion of terroir even if producers of differentiated and high quality wines for New World countries also focus increasingly on local identity. In this context, Charters (2006) considers that a respect for local environment, an integrity of production and an uncompromising pursuit of quality are common understandings and practices belonging to Old and New World countries.

Our analysis examines how the Place de Bordeaux system evolves in the context of intense international competition. In this article, we put forward the originality of the Bordeaux system and its main differences with Napa Valley. Great châteaux have invested heavily in improving wine quality and have developed their own distinctive brand and the investments made (state of the art wine cellars, optical sorting equipment) guarantee them a high level of quality well beyond the reach of small local producers (Charters and Gallo, 2014, p101-102).

Through the allocation system, classified growth chateaux have seen their position in the Place de Bordeaux be gradually transformed, making them increasingly able to be price makers rather than price takers. As to Napa, the growth of the region where high quality wines could be produced led in the late 1980s to significant investment of resources by a few individuals determined to produce wines that would replicate Bordeaux first growths. Such strategies relied upon a combination of site specific attributes (terroir), application of scientific and technological innovations in the area of viticulture and oenology, and the use of world famous consultants who could help deliver a wine of exceptional quality and distinctiveness. Geography was important, but the social networks and resource based entrepreneurial zeal, plus the subsequent validation by wine experts (Robert Parker and Wine Spectator) through their high scores enabled them to charge high prices for what was essentially an unproven product. Producing small quantities of high quality, hand crafted wines, sold almost exclusively direct to consumers though allocation lists at high prices ensured almost immediate high status. In doing this and avoiding normal distribution channels that are pervasive in the USA, these self-proclaimed cult wineries organized a market for their product, and targeted individuals who were wealthy and who saw in ownership of such products significant status markers. From the beginning, once their wines were legitimized with very high scores, such wineries were effectively behaving as price makers.

Napa growers have created their own market place where winery owners are able to largely dictate prices by manipulating supply and charging high prices. Furthermore, climatic conditions in Napa enable a more consistent quality and definite profile for wine (bold, fruit forward from over ripe grapes) which when combined with a rigorous scientific approach to viticulture and oenology, neutralises much of the uncertainty that often plagued Bordeaux vintages over the past decades. Once their wines were given high scores, it eliminated much of the brand building and marketing that often accompanies new product development. Scores also validated their product’s quality by assuring new wine drinkers that their investments were secure. Many Napa producers targeted wealthy individuals in the USA who were new to wine drinking but also looking for status markers that corresponded to their new wealth. Bordeaux chateaux benefitted from the classification system that provided them with appropriate status markers for their wines but they have been subject to regulations that constrain...
some operational practices. Napa producers were largely free of such constraints but had to create the demand for their product in the absence of any official classification.

In Bordeaux, an original system evolved over the past three hundred years to give shape and structure to negotiations over quantity, quality and price for wine. Whilst many chateaux initially dispelled the importance of expert ratings (the classification system provided such a de facto service), the growing importance of Parker and Wine Spectator increased public awareness of inconsistencies and quality variation when they sometimes gave low scores to chateaux. Given the global market chateaux compete in, they have been forced to be more attuned to such external validation rather than rest upon historic reputation. In the past several decades there has been considerable investment in many chateaux, both technological and viticultural, which together with global warming has improved the quality of wine. Regulatory frameworks that limit production per hectare also contribute to improved quality (preventing overcropping). Such investments and a growing demand for high quality Bordeaux wine from the wealthy in emerging economies, has led many chateaux owners to consolidate their brand enabling many of them to charge extremely high prices and be less subject to market vicissitudes.

In our study we examine the evolving markets in these two regions, comparing and contrasting the ways formal and informal forces shape and structure actions. Data for our study comes from extensive secondary historical sources, industry reports and financial sector analyses as well as detailed case study interviews with chateaux owners and managers, brokers and négociants in Bordeaux and winery owners and managers in Napa. These interviews have been selected from a wider sample of firms and have been conducted by the authors over a 3 year period.