“A CELLAR FULL OF COLLATERAL: BORDEAUX v NAPA IN THE SEARCH FOR OENOLOGICAL GOLD”

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Introduction

Our paper begins with an outline of developments in the literature on brand management for luxury items, reputation, classifications and rankings.

We examine the transformations that have occurred in Napa and Bordeaux in the way ultra-premium wines are marketed and focuses on the evolution of the structures that have shaped Bordeaux ‘Grands Crus’ and Napa ‘Cult Wines’
BRIEF OVERVIEW - BORDEAUX

- Largest producer in the world 22 bottles sold every second (CIVB, 2014).
- Grands Crus account for 5% of production of Bordeaux region volume but have a strategic role in promotion internationally.
- Supply limited and restricted to intermediaries – (brokers, merchants, wholesalers /retailers).
- Unique ‘En Primeur’ allocation sales system.
- Traditionally reputation sets the price but recently Parker and Wine Spectator ratings can’t be ignored.
BRIEF OVERVIEW - BORDEAUX

The ‘Place de Bordeaux’ trade wine organization

1. Allocation requests
2. Release of prices (‘en-primeur’ system)
3. Communication of the prices & ‘Allocation’ offers
BRIEF OVERVIEW - NAPA

- The Napa valley is a small area and accounts for only 4% of California’s wine harvest but 28% of retail sales.
- Prohibition (1920-1934) shut down many vineyards and it wasn’t until the 1970’s that the industry recovered with new newcomers adding entrepreneurial zeal.
- In 1975 the newcomers created the Napa Valley Grape Growers Association and this body enhanced the ‘fine wine’ brand (cult) development for the region.
- Parker and Wine Spectator scores set the price and in light of the decision in *Granholm v. Heald*, (2005) now almost all sold direct to consumers (Taplin, 2016).
Figure n°1: Organization of the Grands Crus wine trade in France

Wine Growers (Estates) → Brokers → Wine Merchants → Wholesalers & Retailers → Final customers

Producers → Intermediaries

Figure n°5: Organization of the wine trade in USA

Wine Growers (Estates) → Wholesalers → Intermediaries → Retailers → Final consumers

Direct Sales from the Estate
RESEARCH QUESTION

- Is global competition changing the business models of Bordeaux and Napa premium producers?

- What are the key drivers of premium producers in managing their estates?
RESEARCH APPROACH

- Semi-structured interviews.
- Work in progress:
  - Plan to interview twenty in Bordeaux – two brokers, two merchants and 16 growers and twenty wineries in Napa.
  - Interviews commenced in May 2015.
  - Progress to date 9 interviews completed in Bordeaux and 10 in Napa.
“in California wine growers are businessmen – the estates are big, ratings are more important in Napa because the Bordeaux image is already made”

“the notion of ‘terroir’ is a real marketing advantage here - the Californians spend millions on selling and marketing”

“we are not interested in wine tourism as tourists assume that they are dealing with a ‘factory shop’ – maximum 5% sold to visitors”
“in Napa it’s completely different – they have private clubs of VIPs - we would not like that kind of distribution system – for us it’s more important to be part of a very famous appellation which secures our strong brand”

“the real strength of Bordeaux is its history - our clients do not buy only wine – they will pay for history – we provide clients with a story”

“the brand image of the estate is the most important thing”
“in Bordeaux production is limited – the permitted production for our vineyard is 54hl/ha- no water is allowed for AOC wines whereas in Napa irrigation systems are authorized ”

“restrictions on production in Bordeaux provides us with an incentive to improve and maintain quality - in Napa quantity and yield are not limited”

“the ‘Place de Bordeaux’ and the ‘en-primeur’ system is a real advantage – when we travel on trade missions we are only the face of the wine – we are not under selling or marketing pressures- 80-85 % of our wine is pre-sold”
“we travel more and more all around the world to promote our wines and during these trips we never speak about prices – just about the quality of our wines”

“territorial location and brand image are the most important things – annual financial performance is not essential – we are a family business – we have a long term view”

“to maintain the strength of the brand is a key performance measure – this is how we measure efficiency not periodic financial gain”
“Our market is a consumer who appreciates luxury products and is prepared to pay a price premium for it”

“With wine it’s an experience because once you’ve drunk it, it’s gone – that’s why we’re selling the experience”

“I wanted to make a wine that could be a collectible asset that would appeal to the richest 1% of the population. My initial investment was very high but I covered the costs from my other business”

“you charge what you think the market considers a fair price for a really fine wine. Customers perceive the value between price and quality”
PERCEIVED KEY DIFFERENCES

• Limited regulation in Napa – no limit on yields and permits irrigation.

• Napa prices set by wine owners in accordance with what the market will bear – ‘Place de Bordeaux’ determines price based on quality and classification.

• Different distribution network (layers of intermediaries with specific roles).

• Wine tourism and collectors are important in the US, glorification of celebrity cellars – wine seen as part of investment strategy for wealthy US citizens.
PERCEIVED KEY SIMILARITIES

- Luxury products
- Management of scarcity
- Brand & quality management
- High selling prices
PROVISIONAL CONCLUSIONS

- We observed that Bordeaux relies on historical brand recognition while Napa has manufactured such recognition.
- Originality of Bordeaux sales system.
- Importance of ratings and classifications.
- There appears to be a ‘market for reputations’ (Chauvin, 2010).
- Structured statutory base in Bordeaux.
PROVISIONAL CONCLUSIONS

- Bordeaux & Napa Valley appear to adhere to brand management principles based on scarcity for top quality wines.
- Asymmetrical role between producers and consumers in Bordeaux in the determination of price through the ‘en primeur’ system.
- The ‘en primeur’ system secures liquidity and cash flows of wine estates.
FURTHER RESEARCH

• Our hope is to expand study to other regions –
  • Initially, Spain, Italy, Germany, Austria.
  • Later, Southern Hemisphere