



The Business of Bordeaux

by Charles M. Bear Dalton



The business of Bordeaux is wine. More specifically, the business of Bordeaux is making and selling wine. Bordeaux is a city (the ninth largest in France), a region that is France's leader in optics, lasers, and aerospace, and a wine making Appellation d'Origine Controllee (AOC) that encompasses over 50 other sub-AOCs. All of these are no doubt important but

whenever the word "Bordeaux" is spoken around the world, Bordeaux wine is the first thing that comes to mind.

Bordeaux the wine region covers about 116,160 hectares (287,000 acres) of vineyards, over 10,000 wine-producing chateaux and 13,000 grape growers which all yield an annual production of approximately 850 million 750ml bottles (70.83 million cases) of wine. Those wines of Bordeaux come in Dry White, Dry Rosé and Bordeaux Clairet, Dry Red, Sweet White, and even sparkling wines (Cremant de Bordeaux). They range in price from under \$5.00 to over \$5,000.00 per bottle. Some chateaux make as little as 400 cases and others make more than 80,000 cases.

Each of these producers, generally referred to as "chateau", can be thought of as contrasts between big versus small, left bank versus right bank, Cabernet Sauvignon-dominant wines versus Merlot-dominant wines, "haves" and "have-nots", and producers of terroir-driven wines versus extraction-driven wines. All the various chateaux of Bordeaux can fit on one side or the other of all the five contrasts listed above. Where they fit on each contrast begins to define the wine they make.

Once they have made the wine, they have to sell it and that's where the business part really kicks in. Over the centuries going back to the 800s, a system for selling the wine of Bordeaux has evolved into the current almost commodities-market of a system that treats the wines of Bordeaux no matter how grand or humble as finite resources to be sold or traded in much the same way as other commodities. Instead of selling to consumers, or directly to their trade customers around the world, most Bordeaux chateaux sell their wines through a small group of courtiers who sell the wine on to a group of négociants. The chateaux effectively sell directly to the négociants with the paper part of the transactions passing through the courtiers who basically take a commission of from .5 to 2% to insure that the chateaux get paid. The négociants then generally take a markup of about 15% and then sell the wine on to the rest of the world.

In this system, a certain chateau might sell (through the various courtiers) to 50 or more négociants, each of whom might then sell to as many as several hundred customers. The chateau then can think of itself as selling to a relatively small number of customers. Most of these chateaux sell to at least a few dozen négociants. The négociants then sell to the importers and wholesalers around the world who then sell to retailers and restaurateurs who then sell to consumers. At least that's how it's supposed to work.



About the first week of April of each year, the wine trade from around the world descends on Bordeaux for a series of trade tastings and chateau visits sponsored by the Union des Grands Crus (UGC) and other smaller organizations. These are focused on tasting the latest vintage that is at that point aging in barrels. You can tell how good the vintage is popularly supposed to be by how many people sign up for the trade tastings. The supposed great vintages draw the crowds, even though it is the classic (which is to say most of the other) vintages that require the most careful tasting. These tastings are the time to evaluate the new wines, get a real feel for the international buzz about the vintage, and formulate a strategy as to how the company is going to approach that new vintage of Bordeaux.

A week or two after we return from Bordeaux, some of the chateaux begin offering some of their wine to the négociants (we'll ignore the courtiers for the moment) who then offer the wine out to the trade as futures. The wine being sold is still laying in barrels in the chateaux that made them and will stay there for most of the following year if not longer. What is being sold is really a futures contract. If the wine is priced right, the trade buys. If the wine is priced too high, the trade balks. In 2006, despite seemingly astronomical prices from many of the top producers on their 2005s, the trade bought. In 2008, most of the US and UK trade balked and did not buy what were perceived to be badly over-priced 2007s. Spec's bought fewer than 100 cases of the 2007 vintage as futures and that was from only three hard-to-get chateaux. If the wine is initially priced below the real market value, a big secondary market develops and some people or companies are able to profitably trade their futures without ever taking possession of them. Of course, that vigorous secondary market seems to be a thing of the past now as it hasn't really happened since the last half of 1996 when the 1995 vintage was entering the public's consciousness. At least that's how it is supposed to work.

The two occurrences of the word "some" in the first sentence of the previous paragraph are important. The campaign generally starts slowly with "some" of the lesser properties putting out feelers. As of this writing (the evening of May 19, 2010), only three significant dry red producing chateaux (Gazin, Grand Corbin Despagne, and Duhart Milon) have released their prices on 2009. That is not to say that there has been no activity. Hundreds of less significant properties have released their pricing and some buying and selling is taking place but the 2009 campaign has yet to start in earnest, at least with regard to the big name properties.

The second "some" is also important as no chateau offers all its wines as futures. Each chateau offers a portion of its production in what is called a tranche or "slice". The first tranche for a small chateau in a classic vintage might be 70% to even 80% of production. In a "great" vintage, a top chateau might offer as little as 10% of its production in a first tranche and then follow that up with second and even third tranches at progressively higher prices. That first tranche was in fact more of a market feeler to find out where the price should be rather than a real offer to the trade. In a great vintage some of the top name chateaux may hold back as much as half of their production to offer for sale later when prices have risen and the wine is scarce.

In a way, Ch. Duhart Milon being offered today is a bit of a feeler. Domaines Rothschild (owners of Duhart Milon) also own Chx. Lafite and l'Evangile so their sell-through on Duhart will give them some idea of where to price their other wines.

The Business of Bordeaux continued from *page 1*

Of course in this age of information in which we live, the Bordeaux market does not operate in isolation. It is affected by other markets (especially currency markets) and the general world economy and it is affected by other kinds of information. When the dollar is strong against the euro, Americans buy more Bordeaux. When the dollar is weaker, we buy less. The same is true of the yen and the yuan and the pound sterling. In the uncertain economic climate of 2009, the 2008 vintage sold at a slower rate than it would have in a more robust economy. As to the effect of information, the publishing industry and the internet have affected the Bordeaux wine trade more than any other part of the wine business.

At the same time that the trade comes to Bordeaux to taste, much of the international wine press is there as well. Everyone is tasting and forming opinions and some are trying scoop everyone else. Robert Parker and Jancis Robinson, Michel Bettane and James Suckling, Steve Tanzer and Jane Anson, they are all tasting and writing about the wines. Due to their brand of magazine one-ups-manship, the Wine Spectator usually has most of Suckling's reviews published on-line (www.winespectator.com) while the trade is still in Bordeaux tasting. His comments can inflame or dampen the market while the chateau owners await the more definitive word from the more deliberative Robert Parker in his printed Wine Advocate newsletter (www.robortparker.com). The later Parker is in getting his Bordeaux issue out, the later the campaign is likely to be. While most Americans get most of their initial Bordeaux information from the Wine Advocate (Robert Parker) and the Wine Spectator (James Suckling), there are plenty of other valid sources. The Wine Enthusiast offers Bordeaux coverage not unlike that of the Spectator and Steven Tanzer's (The International Wine Cellar) offers a quieter sort of coverage with a lean toward more elegant wines. While Michel Bettane writes in French for a French audience, Jancis Robinson's coverage in the Purple Pages (www.jancisrobinson.com) is excellent as are Jane Anson's musings in both Decanter magazine (www.decanter.com) and on her website (www.newbordeaux.com) and blog (newbordeaux.blog.co.uk). A good way to compare the opinions of many of the top writers is to check out the Netherlands-based (albeit English language) "bordoverview" website (www.bordoverview.com) which offers a grid of scores from various writers for immediate comparison.

One thing to remember about all of these wine writers and publications is that they too are all in business. While their business is not that of selling Bordeaux, they are in the business of selling magazines or subscriptions. Each is individual with their own idiosyncrasies but in some vintages, there seems to be a bit of a herd mentality. It seems to me that the great vintages are never quite so good as the wine press portrays them and there are nowhere near so many merely "good" or "poor" vintages as the initial wine press reports would indicate.



If most of the vintages didn't produce a lot wines in at least the fine (to say nothing of the excellent or outstanding) range, Bordeaux would not have the reputation it enjoys of being one of the world's best wine regions. In fact, of the last 30 vintages, only five (2009, 2005, 2000, 1995, and 1990) are universally considered "Great" and even with those there is dissent about certain individual wines. From a quality standpoint, only two (1992 and 1991) were universally considered to be "bad" vintages. Both were cold and wet but even 1991 managed to yield a few good wines.

Most all of the other 23 vintages of that thirty fall into the range of "classic" which is to say normal Bordeaux vintages on which the reputation of the region is built, (2003 was a polarizing exception that some thought was excellent and others thought to be freakish due to its extreme heat. Like 'em or not, there is no denying the 2003 wines were marked by that heat.) Each of those classic vintages is stronger in some areas and weaker in others. 1996 was a great cabernet vintage but it was normal for Merlot wines. The reverse is true of 1998. Most of the wine publications seem to ignore or at least forget that this is the case. To read the Wine Spectator, vintages are either great or disappointing. It makes me think that maybe James Suckling (who also covers Italian wine and writes for Cigar Aficionado) is drinking too much Barolo and smoking too many cigars.

An example of the press in disagreement about a particular wine is Cos d'Estournel 2009. Parker (98-100) and Suckling (97-100) each gave it their top scores but Jancis Robinson (16.5+ out of 20) marked it down as did Neal Martin (89-91) who writes for erobertparker.com. I find myself in camp with Martin and Jancis in thinking that Cos 2009 is over-extracted and lacks both freshness and charm. I recognize what the winemaker has done here but I don't like these chalky-gritty-extracted wines and so this is not a wine for me. I rated it 89 points but hesitate to even call it "fine" as I have no desire to drink it. To my thinking, Cos has great terroir and so should not have to rely on over extraction. Despite the controversy, the high scores from both Parker and Suckling will insure that Cos 2009 will sell almost regardless of price.

For better or worse the writers have done their part. The negociants have opened the lines of communication and the market is primed and ready. At this point, we are waiting for the chateau owners to get off the dime and release their prices - which would be getting on with the business of Bordeaux. Based on the most recent developments, it looks like the floodgates are about to open and we will then see how the 2009s will be priced. Due to

some industry event timing, it seems unlikely that we will have prices on first growths before the middle of June, even if the 2009 campaign finally heats up in the coming week.

Let the fun begin. ❄