



BORDEAUX WINE & VINEYARD

# CHÂTEAU MARGAUX

---

*Andrea Pelayo*  
*Michael Casella*  
*Logan Caswell*  
*Weizhou Wang*

WWW.CHATEAU-MARGAUX.COM





# *Agenda*

1. Agenda
2. Case Summary
3. Marketing
4. Analysis
5. Issues
6. Value Chain
7. Financials
8. Conclusion
9. Alternative Actions
10. Recommendation
11. Bibliography







# *Case Summary*

# Case Summary

Chateau Margaux is one of the only five prestigious estates in Bordeaux Medoc wine region.

Sold 2 kinds of wine by 2013

Wine 1: often exceeds \$1000 per bottle, first made in 1774.

Wine 2: exceeds \$200

Owner Corinne Mentzelopoulos (daughter of Andre, first owner) was preparing for a third wine launch

Marketing for the third wine can deviate from centuries-old tradition but needs a strategy to keep up with global expansion



# Case Summary

Sells 20% of 'excess' mix of the two wines in bulk, and are considering making this into a separate third wine

Need to keep 'traditional' reputation

Merchants (middleman) have control of price, distribution, sales

Shift in market from connoisseurs to Luxury buyers and wine from other parts of the world



*Marketing*



# Marketing

- 1855 Napoleon merchants were told to find the finest Medoc region wine and bring to Paris: rank/classification
- Market prices were reviewed from the 17<sup>th</sup> century, and Grand Vin du Chateau Margaux was selected in the first tear
- Go solely off of 'Premier Cru/ First-growth' classification, quality (tradition), and scarcity (production capacity)
- Consumer base used to be 100% connoisseurs. With time, Luxury buyers have taken over and now hold 40% of base, **connoisseurs are disappearing/losing interest**
- **Trends are emerging in this market.** Global production and exporting is changing the game, consumers are changing/adding to wine traditions
- Need to pay attention to future luxury buyers- use new wine to reappear in traditional markets





# *Issues*

# *Issues/Decision Statement*

They limit CM's potential for increased profit margins, but save from great loss.  
Generate excitement, have credibility  
NO worries on distribution  
Traditional system- community benefits

Should they take distribution channels from merchants?

Should they add new, a less expensive wine or will that hurt the mission/ reputation?

If very successful, cannot increase production without major change.  
Competitors have tried this and succeeded  
Lack of experience in buying grapes, distributing, marketing- investment

Should they build marketing and sales capacity or rely on 1800's methods?

Should they position the new wine to target a new set of customers?

'Priced-out' connoisseurs can connect with the brand they grew up with.  
New generation can grow up with it without being luxury buyers  
Attachment to the brand may grow on early connoisseurs that buy the other 2 wines later

Not traditional for similar wineries.  
Allure of product lies in scarcity and quality, shouldn't need marketing.  
No room for product change- highly regulated

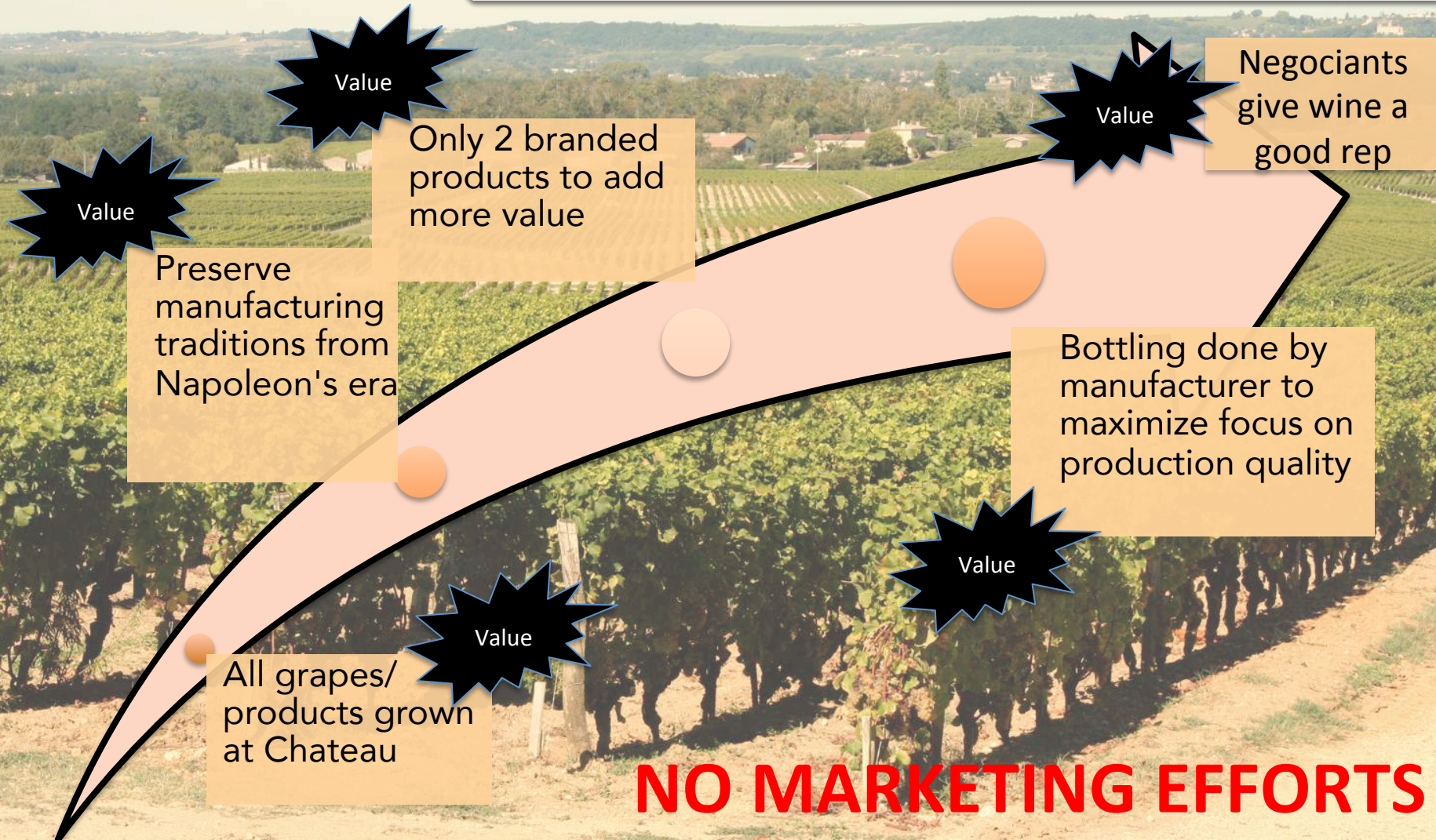




# *Value Chain*



# Value Chain







# *Case Analysis*



# 3 C's

## Customers

Connoisseurs, Luxury Buyers

## Competition

Lafite Rothschild, Latour, Haut-Brion,  
Mouton Rothschild (All first-growths)

## Company

Chateau Margaux: Prides on  
classification (first-growth), product  
scarcity, and quality



# 4 P's

Product

First Wine: Grand Vin  
Second Wine: Pavillon Rouge

Place

Made in Bordeaux region, sold mostly in EU and China via retailers and restaurants

Promotion

None Currently- relies on quality to speak for itself

Price

Luxury wine industry. Around \$1000 and \$200 for 1<sup>st</sup> and 2<sup>nd</sup> respectively

# *Five Forces*

## Buyer Power

Moderate: Luxury brands are vulnerable to purchasing power

## Threat of New Entrants

Low: Expensive industry to get started

## Degree of Rivalry

High: Global trends support emerging international markets

## Threat of Subst. Products

Moderate-High: Consumers switch brands with trends, bad reputation, decline of connoisseurs

## Bargaining Power of Suppliers

Low: Almost no suppliers, have much control of production





# *Pricing and Finances*

# Wine Pricing

Fine wine prices  
fluctuating

Downward trend  
over five years

Chateaux Margaux  
follows

*En Primeur Prices and Current Retail Prices per Bottle (in Euros; €1=\$1.32)*

| <i>Château Margaux</i>           |      |      |      |      |      |      |      |      |      |      |      |      |
|----------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Vintage                          | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| 1st Tranche en primeur price (€) | 120  | 85   | 60   | 120  | 80   | 350  | 270  | 200  | 110  | 450  | 500  | 300  |
| Current price (€)                | 800  | 385  | 350  | 520  | 350  | 760  | 350  | 335  | 400  | 850  | 695  | 380  |
| % increase                       | 567  | 353  | 483  | 333  | 338  | 117  | 30   | 68   | 264  | 89   | 39   | 27   |



# *Tranches and Futures*



## Negotiant:

Term for wine merchant

Assembles produce of smaller growers/  
winemakers

Sells result with its own name.

Buys everything from grapes to wine in any state



## Negotiant:

Attend week long event

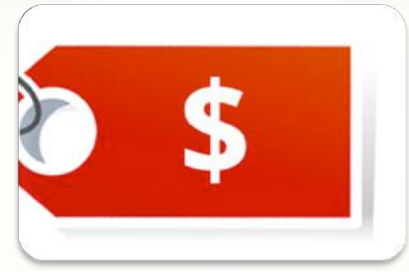
Hosted by best vineyards

In attendance:

Journalists, Critics,  
Importers, Merchants

Helpful for determining price of new wine

Compare to previous wines with similar critic



Once price is set, tranches are organized

# Tranches and Futures



## Tranches:

- Offerings the vineyards are willing to sell to merchants
- Chateau decides who, quantity allocated, and how much
- Value may be good enough for the vineyard to keep for future sale



## Tranches:

- Most vintages have a single tranche offering
- Depending on quality they can offer 2nd or 3rd offering
- Market & weather condition varying make vintage like the IPO of a new company

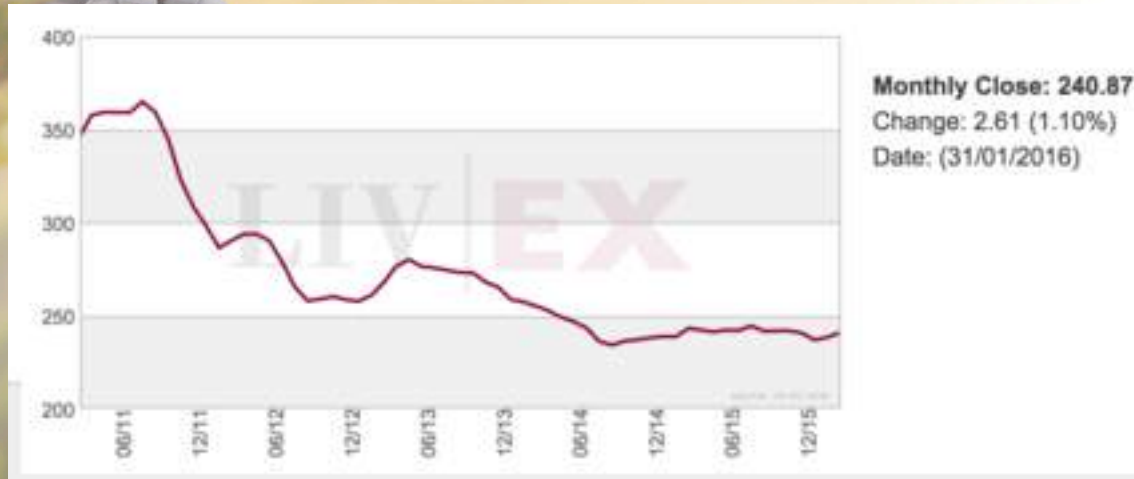


## Negotiants:

- Are in a position to invest in its shares
- Company decides how many shares to sell and at what price
- They mark up price 15-20%



# *Liv-ex Fine Wine 100 Index*



- Industry 's leading benchmark
- Price movement of 100 of the most sought-after fine wines with secondary markets
- Most are Bordeaux wines: Reflects overall market

LIVX100 238.260 As Of 12/31/15

Liv-ex 100 Benchmark Fine Wine Index

LIVX100 Index 99 Compare 90 Actions 97 Edit Line Chart

12/31/2009 - 12/31/2015 Mid Line Nov Avg No Lower Chart GDP

1D 3D 1H 6H YTD 1Y 5Y Max Monthly Table Security/Study Event



Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
Copyright 2016 Bloomberg Finance L.P.  
SN 633446 C564-3559-1 01-Feb-16 20:26:10 EST GMT-5:00



# Wine Index 2015

The index rallied for the first time in 5 years in December

Dropped 40% since peak position

Accounts for 10 recent vintages from each of the top five left-bank bordeaux first grown estates

Demand has switched toward other regions such as Burgundy, Italy, and California



# Wine Index 2015 cont'd

Bordeaux wines  
account for  
74.4% of market  
share

Italian: 3.5%  
Rhone: 3.3%  
Burgundy: 2.4%  
Champagne:  
21%

New index born  
show growth in  
popularity:  
Napa, Dominus,  
Opus one

Some Napa wine  
values have  
increased by  
48% in 2 years-  
reaffirming  
growing  
popularity







*Competition*



# *Competition*

- Anyone between the 30 degree and 50 degree latitude in any hemisphere can produce wine essentially
- Other regions are starting to make a name for themselves
- Particularly California and South America (Chile and Argentina) are making notable luxury wines
- This has led to control and safeguard techniques to ensure wine values stay high



# California's Wine

2011 share of market by value  
was just 0.14%

2012 was 0.45%

2013  
was  
0.46%

1% in 2014

2.1% in  
2015

GROWING

At this  
rate, it can  
compete  
with  
struggling  
Rhone  
index,  
accounting  
2.3% after  
declines



# *South America's Wine*

Carmenere, one of the 6 original Bordeaux grapes suffered from low yields in France

These were brought to Chile and flourished

Chile is now largest producer

Malbec grape was regrown and saved in Argentina 1800's

Argentina becomes main competitor

**GROWING**





*Analysis Conclusion*

# *Analysis Conclusion*

- The fine wine index has been declining steadily over the years
- The amount of Connoisseurs and Luxury buyers has shifted
- People aren't as knowledgeable about fine wines anymore
- Competitors are growing. European family dynamics are shifting and other social activities in the states are increasing the desire for wine
- EU has strict agricultural rules and







*Wine Industry*

# *Wine Consumption 2015*



## **The top 5 key trends in today's global wine market:**

- Exports have doubled over the past 20 years: Europe is global leader, exporting 58% of its annual production
- New Zealand, Chile, Australia and South Africa have increased their export volume by 370%
- The United States has overtaken France as the world's foremost wine consumer, with average annual consumption of 12 litres per person
- Europe still accounts for 50% of wine consumption worldwide
- 84 of the 100 most famous wine brands in the world are French
- The global recession lead Europe to branch out and find new markets



# *Regulation*

## **Oversupply**

- Ease of production
- “New World”

## **Price Decrease**

- Yield curves
- Exit business

## **Government Influence**

- Subsidization
  - Growing restrictions
- 2008-2011 EU destroyed 269,000 hectares

# *Emerging Markets*

2011 CA shares  
value was 0.14%



2012: 0.45%



2013: 0.46%



2014: 1%

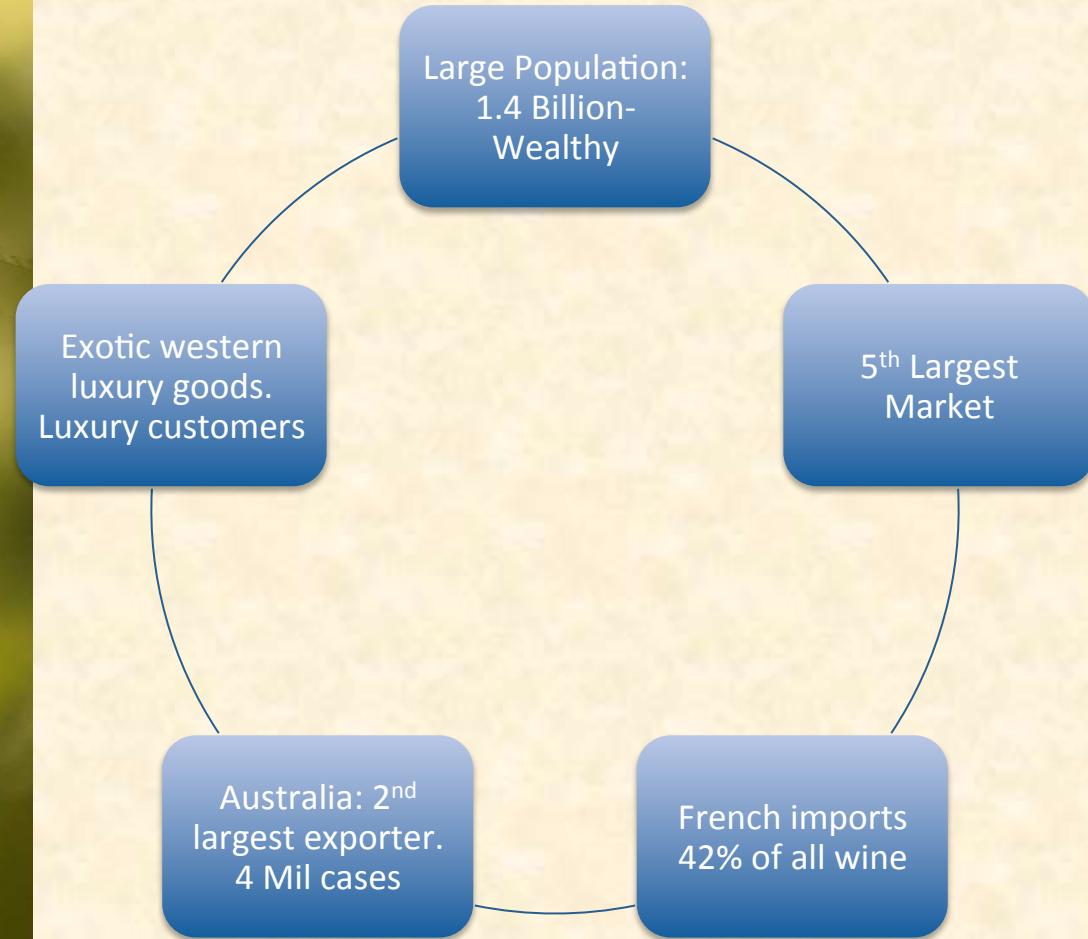


2015: 2.1%





# China Consumption





*Possible Options*



# *Possible Options*

Control  
Distribution/  
Eliminate  
middleman

Create  
Tourism  
Attraction

Introduce  
new wine to  
the line at  
cheaper  
prices

Change  
nothing or  
Sell Estate





# Criteria Matrix

| Decision Factors                   |     | Control Distribution | Create Tourism | Introduce New Wine | Change Nothing | Sell the Estate All Together |
|------------------------------------|-----|----------------------|----------------|--------------------|----------------|------------------------------|
| Criteria                           | Wt. | 1                    | 2              | 3                  | 4              | 5                            |
| Market Share loss to new countries | 5.0 | 5                    | 5              | 5                  | 0              | -1                           |
| Brand devaluation Possibility      | 6.0 | 6                    | 6              | 4                  | 0              | -1                           |
| No Marketing or Sales              | 4.0 | 0                    | 4              | 4                  | 0              | 0                            |
| Limited Sales Channels             | 5.0 | 0                    | 2              | 5                  | 0              | 0                            |
| <b>Weighted Scores</b>             |     | <b>61.0</b>          | <b>87.0</b>    | <b>90.0</b>        | <b>0.0</b>     | <b>-11.0</b>                 |

| Criteria                           | Definition   |
|------------------------------------|--|
| Market Share loss to new countries | New World countries entering market and changing the traditional sense of wine making  |
| Brand devaluation Possibility      | Chateau Margaux's entire reputation is built around fine wine and intriducing a lower end wine could tant the brand                |
| No Marketing or Sales              | Currently they have no marketing or sales resulting in heavy reliance on Merchants   |
| Limited Sales Channels             | Use negociants to distribute wine and once in the hands of Negotiants Margaux loses control over how wine is sold and distributed. |

**What decision should Chateau Margaux make?**

► Winner: Introduce New Wine

**Note on calculation**  
The formula for weighted scores uses a Sumproduct formula and has conditional formatting applied. Please check that the formula and conditional formatting includes the correct cell ranges if you add or remove any rows or columns.



# *Recommendation*

No Third  
Wine

Offering New  
Wine

Retain 'priced out'  
connoisseurs and  
future luxury buyers

Revenue Increase

Remain Traditional

Opportunity for  
control- no  
middleman

Falls Behind


Re-entry into  
traditional markets





*Quiz*

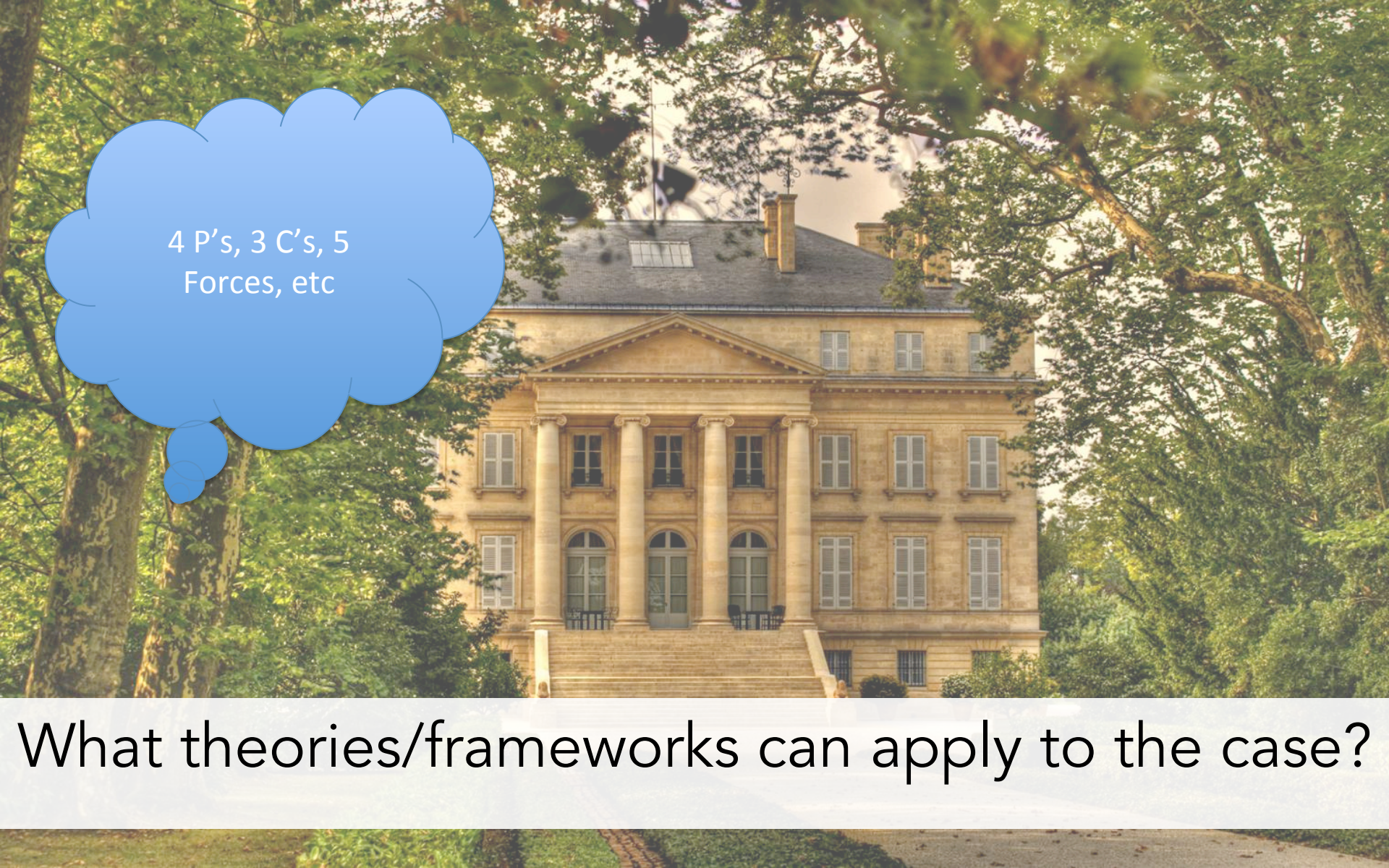




No marketing,  
global shift, less  
connoisseurs

What are some issues for Chateaux Margaux?






4 P's, 3 C's, 5  
Forces, etc

What theories/frameworks can apply to the case?





Europe- Italy,  
France, Spain


Who exports the most wine?





74.4%

How much do the Bordeaux wines account for market share on average?



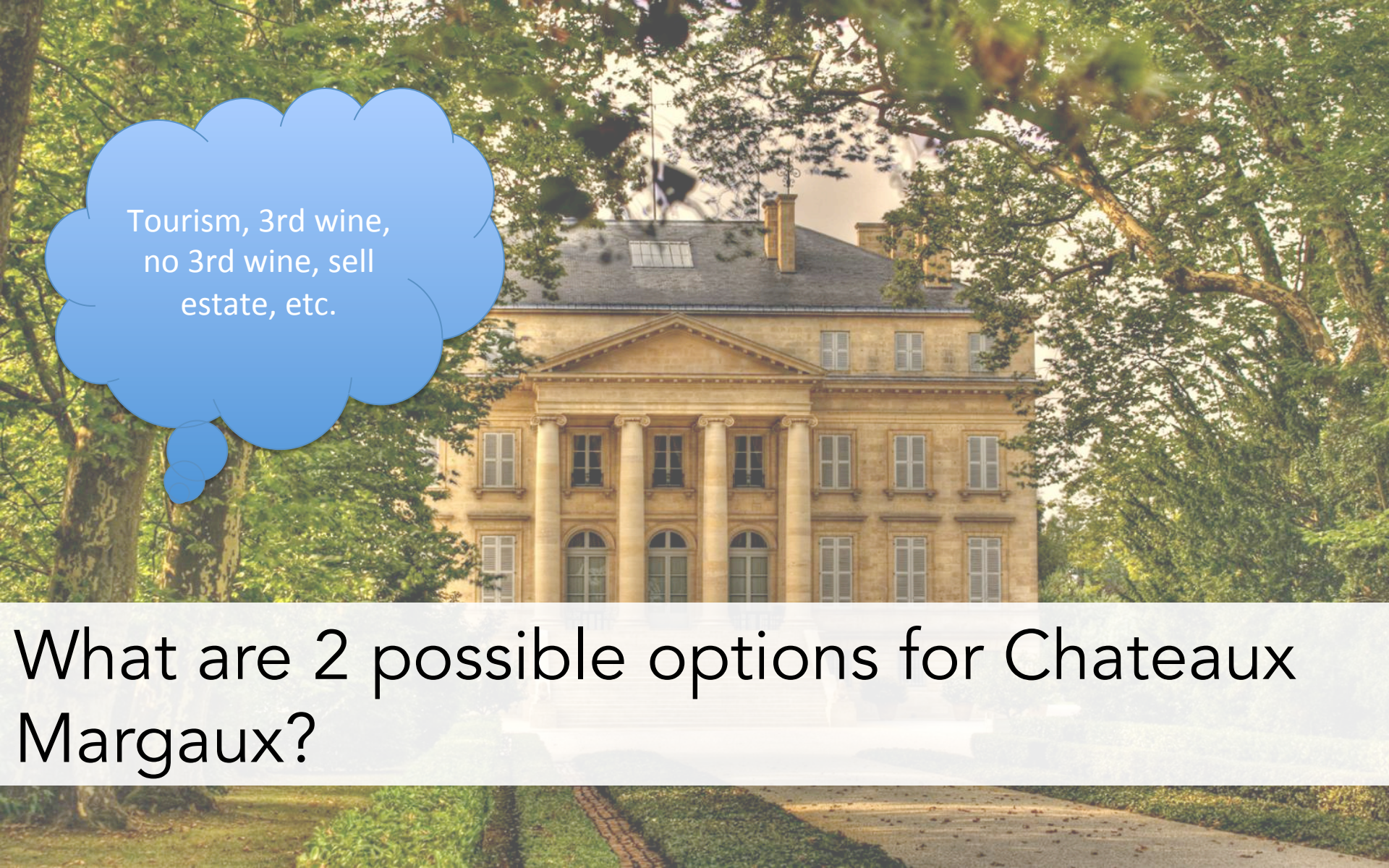




10

How many bordeaux wines are in the Liv  
100 index?






Tourism, 3rd wine,  
no 3rd wine, sell  
estate, etc.

What are 2 possible options for Chateaux Margaux?

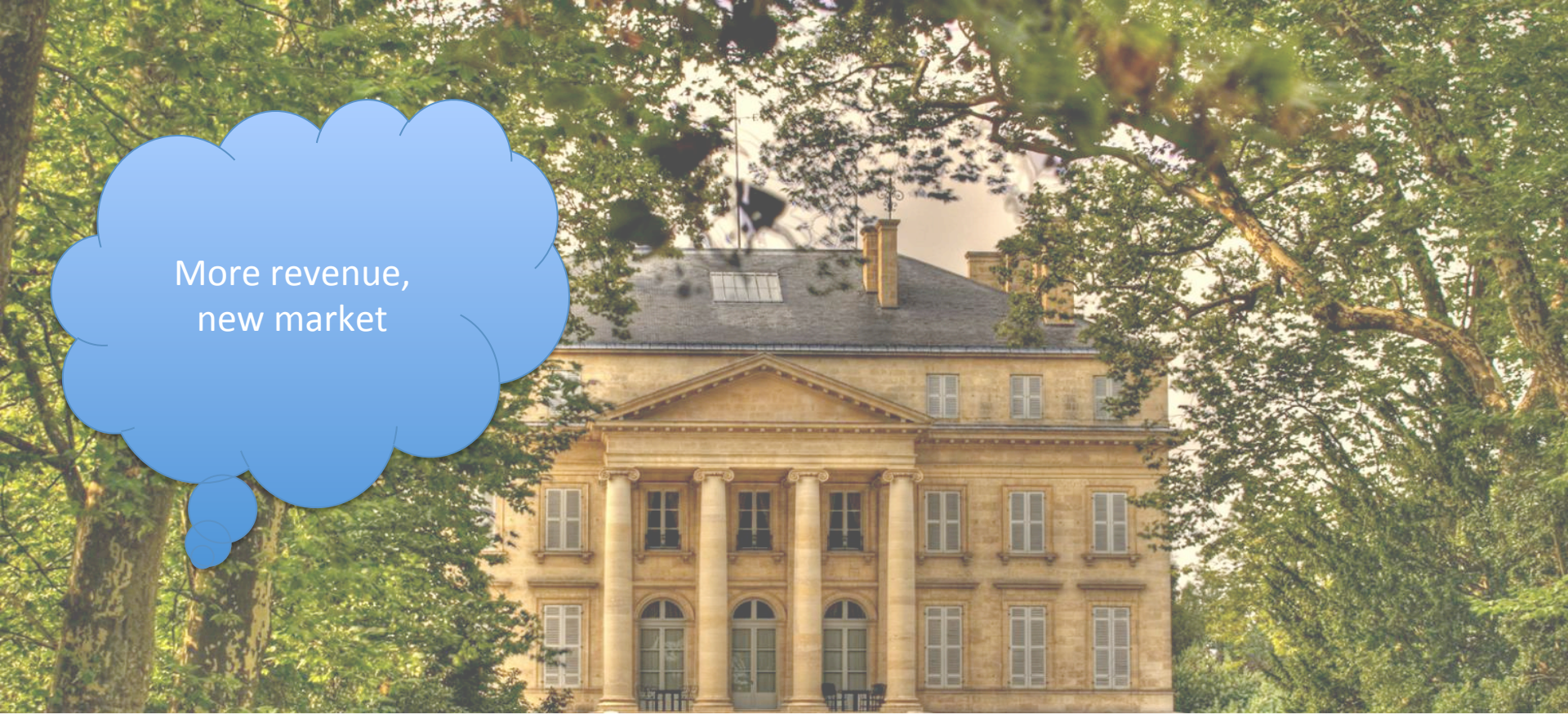




Launch the 3<sup>rd</sup>  
wine

What is the best option for Chateau Margaux?





More revenue,  
new market

What are some benefits of opening a third wine?



# Bibliography

- Harvard Case Study: Chateau Margaux





BORDEAUX WINE & VINEYARD

# CHÂTEAU MARGAUX

---

*Andrea Pelayo*  
*Michael Casella*  
*Logan Caswell*  
*Weizhou Wang*

WWW.CHATEAU-MARGAUX.COM