



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 17th 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?

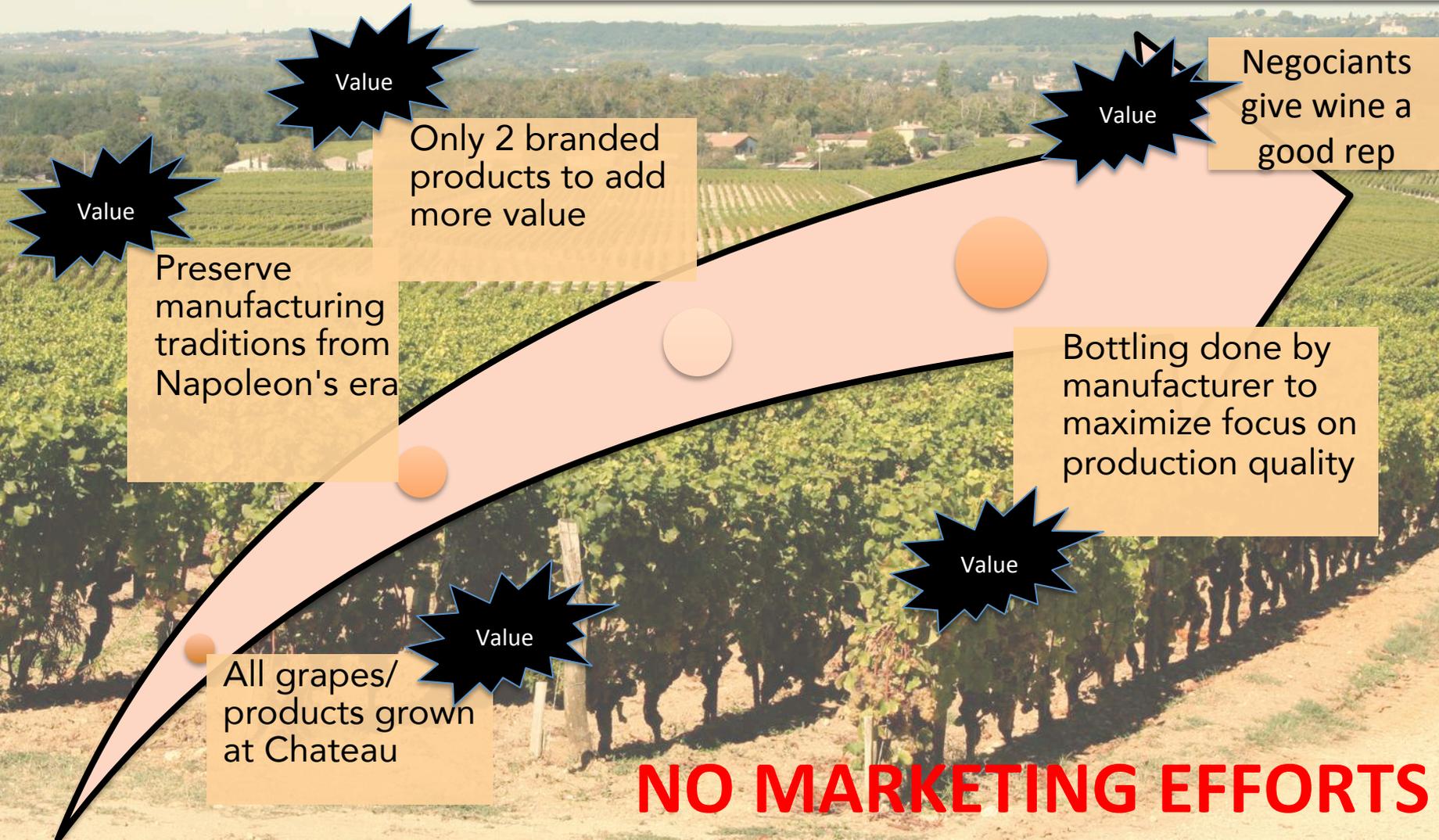
'Priced-out' connoisseurs can connect with the brand they grew up with.
New generation can grow up with it without being luxury buyers
Attachment to the brand may grow on early connoisseurs that buy the other 2 wines later

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



Value

Only 2 branded products to add more value

Value

Negociants give wine a good rep

Value

Preserve manufacturing traditions from Napoleon's era

Bottling done by manufacturer to maximize focus on production quality

Value

All grapes/products grown at Chateau

Value

NO MARKETING EFFORTS



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 1st and 2nd 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

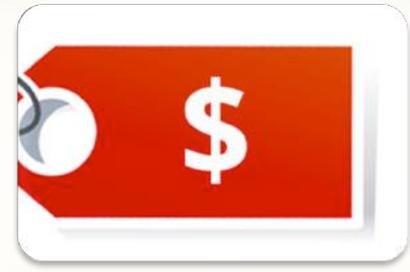
Hosted by best vineyards

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:

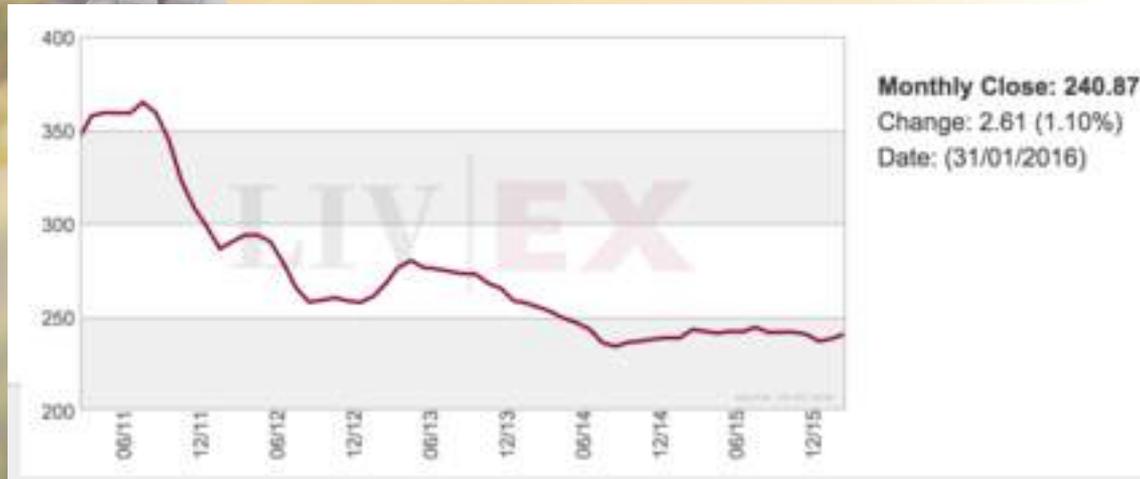
- Most vintages have a single tranche offering
- Depending on quality they can offer 2nd or 3rd offering
- Market & weather condition varying make vintage like the IPO of a new company



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

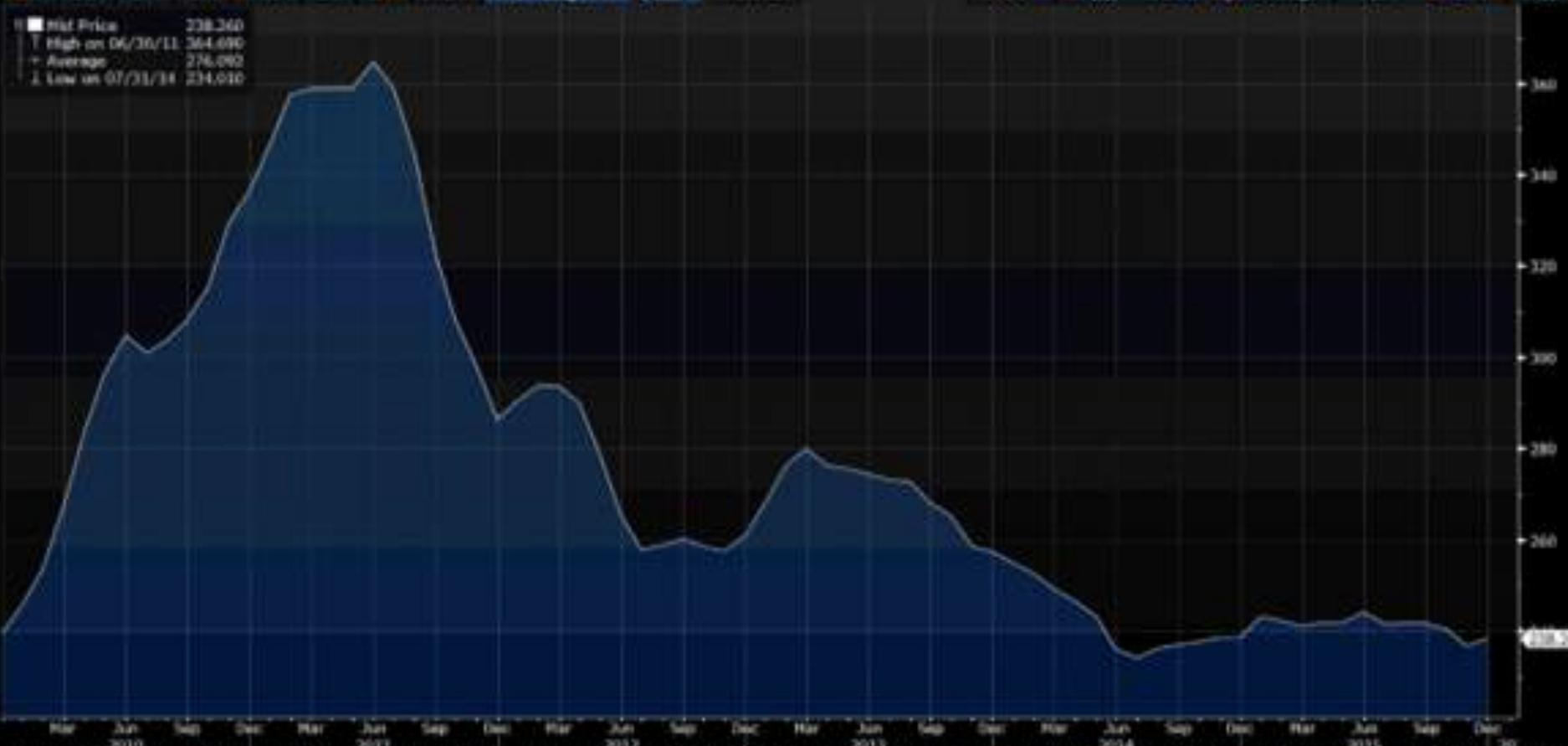
LIVX100 238.260 As Of 12/31/15

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%



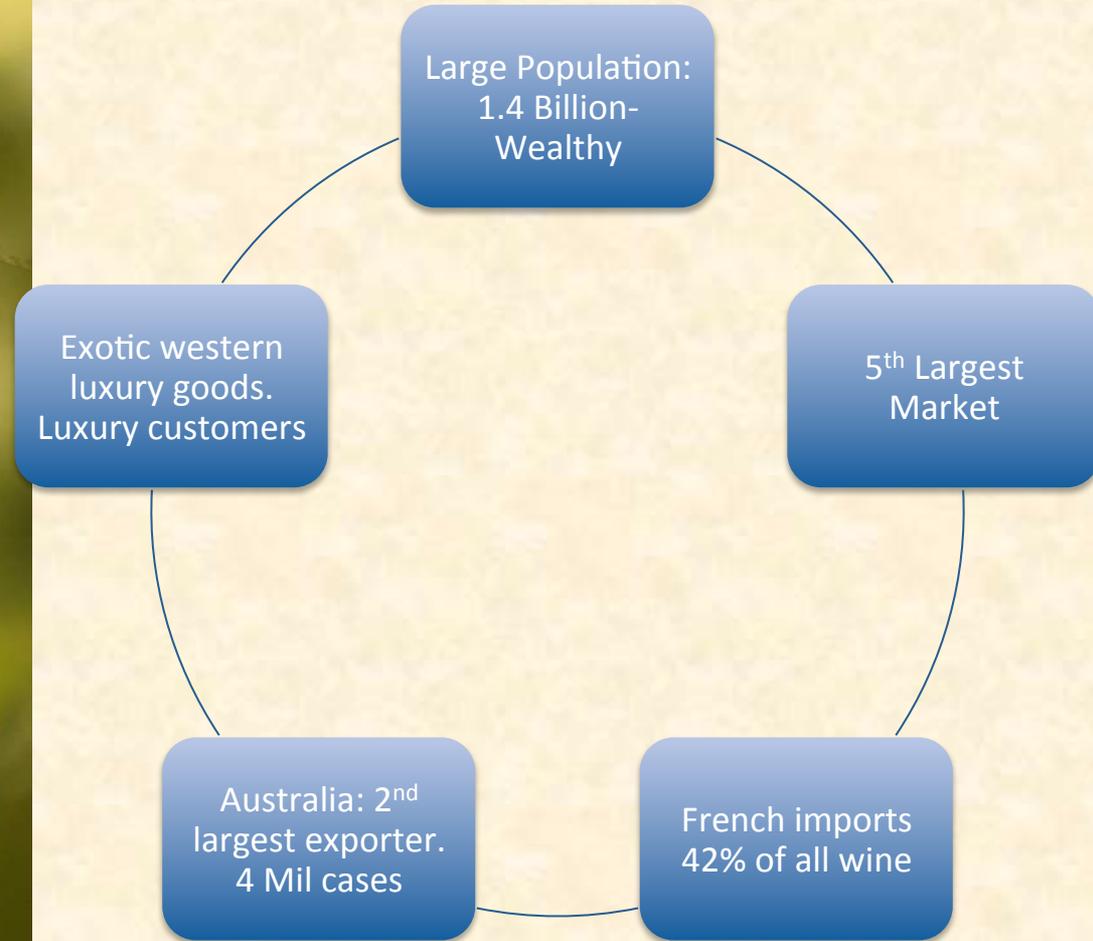
2014: 1%



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	Criteria	Wt.	Control Distribution	Create Tourism	Introduce New Wine	Change Nothing	Sell the Estate All Together
			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
Weighted Scores		61.0	87.0	90.0	0.0	-11.0	

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

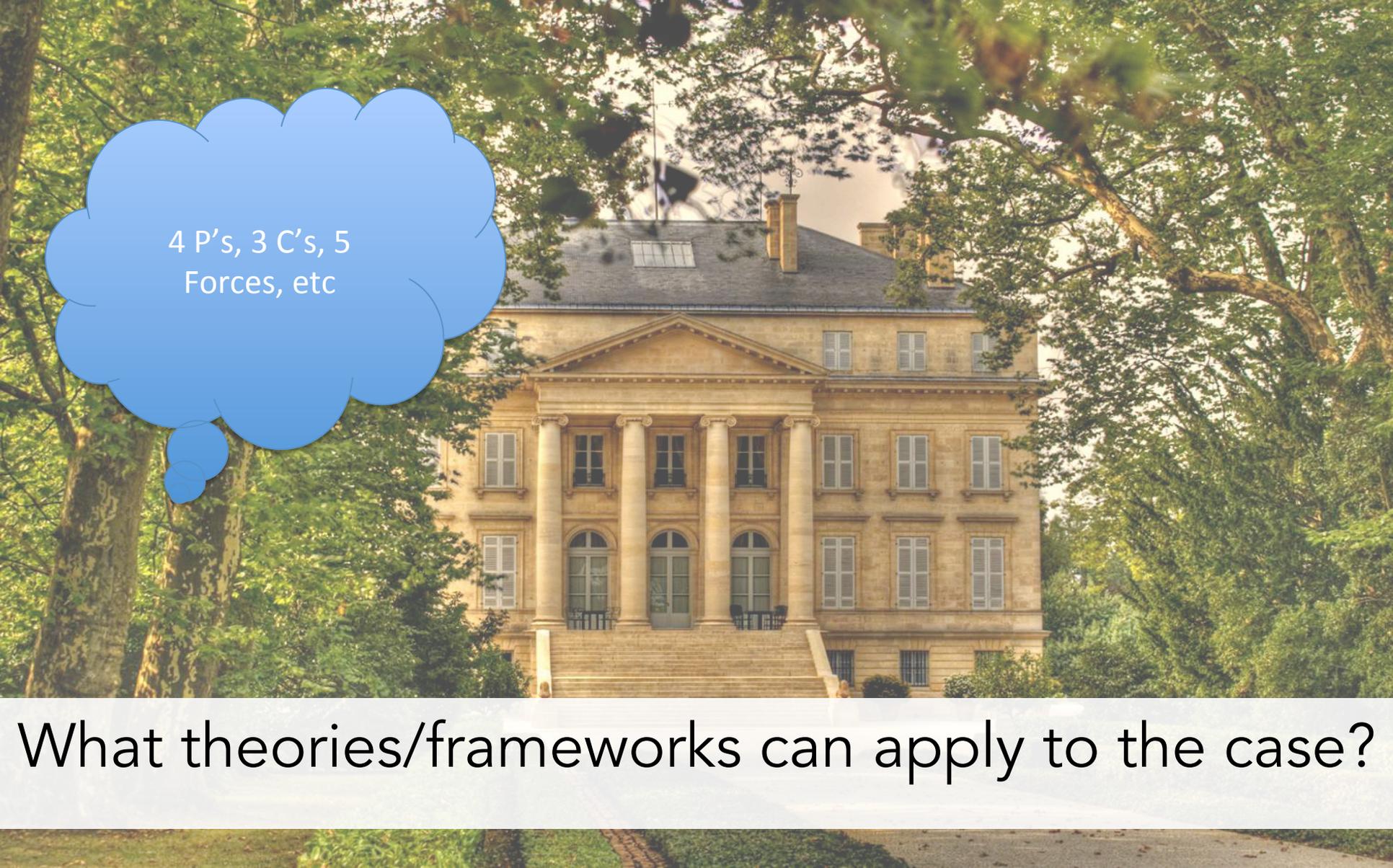


Quiz



No marketing,
global shift, less
connoisseurs

What are some issues for Chateaux Margaux?



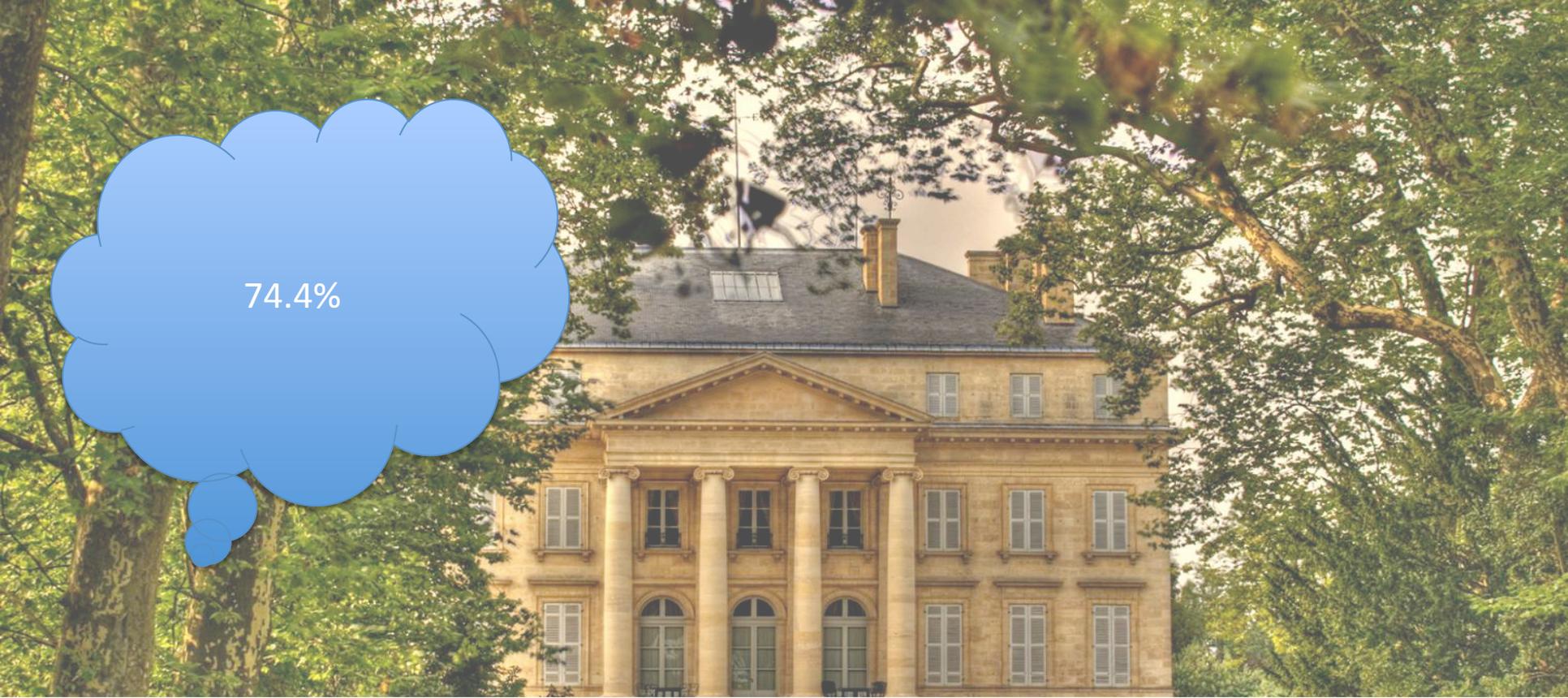
4 P's, 3 C's, 5
Forces, etc

What theories/frameworks can apply to the case?

A large, classical-style building with a portico of columns, surrounded by trees. The building is made of light-colored stone or brick and features a prominent portico with six columns. The roof is dark and has a skylight. The building is set in a lush, green environment with many trees and a paved path leading towards it.

Europe- Italy,
France, Spain

Who exports the most wine?



74.4%

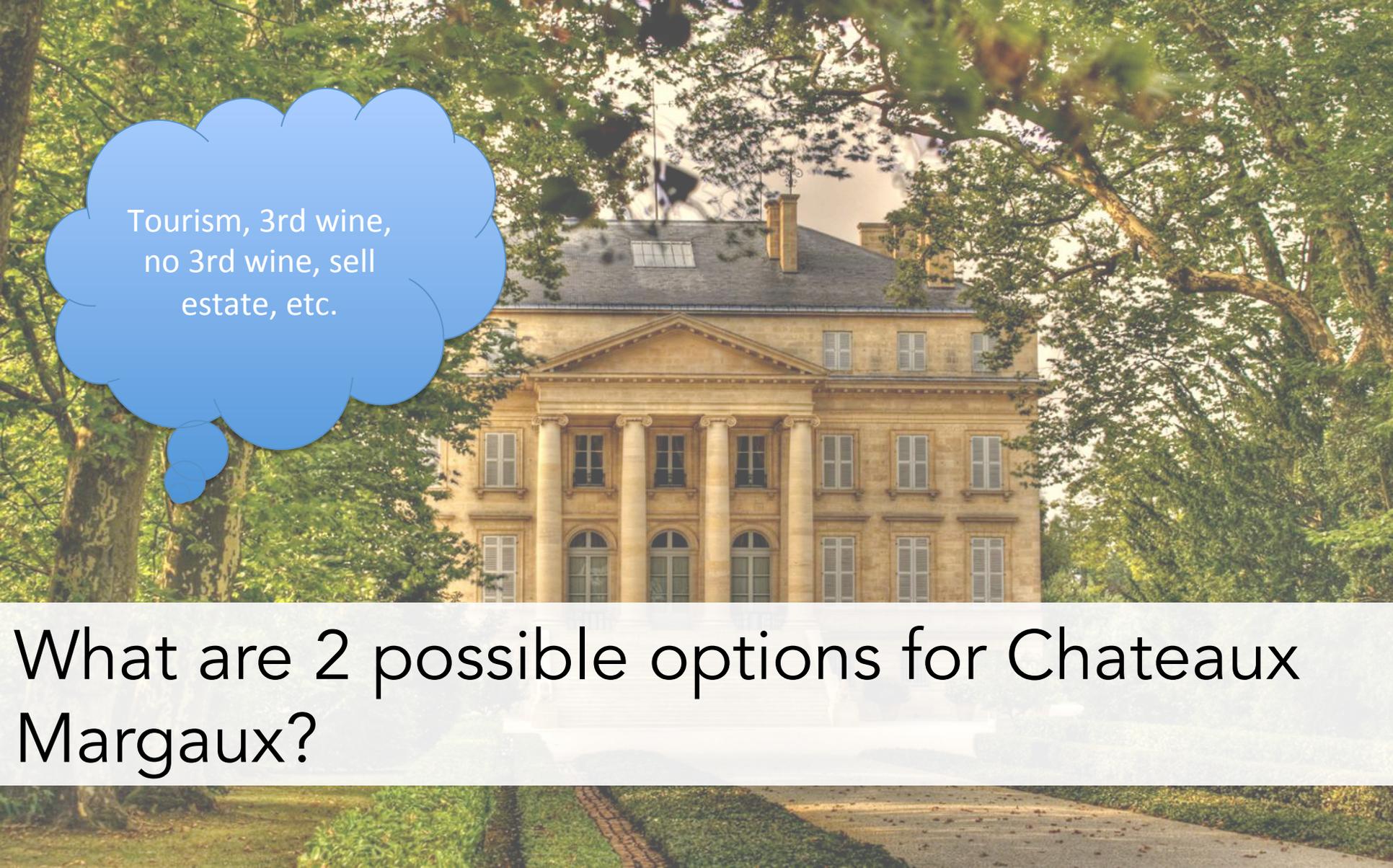
How much do the Bordeaux wines account for market share on average?





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 3rd
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