



Chateau Agogo Does it Again

Chateau Agogo had too much wine. So did their neighbor down the lane, Brand X. They each needed to dispose of about 15% of their total production. At Brand X, the job of dealing with excess bulk inventories had long been delegated to the winemaker. The winemaker carefully ranked all of the wines into four quality grades, with about 20% falling into the bottom grade. Some varieties, of course, were in stronger demand than others and so the amount to be sold was different for each product. Making adjustments in accordance with the demand profile, the winemaker identified the weakest lots for each product, drew samples from those tanks and listed the wines for sale on the bulk wine market. Removing these lots from the winery's own bottling blends had the happy side-effect of improving the quality of the bottling blends. Unfortunately, however, the bulk market was flooded with similar wines and these samples attracted little interest. Brand X was hoping to get back at least 80% of their costs and they rejected the first, very low-priced offers. On many of the lots, however, they received no other offer until crush was about to start. They ended up selling most of the wines at less than 20% of the cost on their books. This big loss raised the cost-of-goods-sold on the rest of their wines – and necessitated a rather tense meeting with their lender. But what else could they have done?

Chateau Agogo had a different approach. First they formed a team, consisting of the heads of winemaking, marketing and finance, to deal with the difficult task of inventory reduction. Second, they took advantage of the relationship they had built over the years with the top grape and wine brokerage company (hint: the name begins with T). This gave them otherwise unavailable insight into the current market and allowed them to identify their best options in light of market reality. Based on this information, they modified their plans in order to:

1. Absorb into their own bottling blends, as much as reasonably possible, those wines that would produce the biggest losses if sold in bulk.
2. Apply blending expertise to present attractive wines on the bulk market.
3. And, where appropriate, customize bulk blends for a couple of the best potential buyers.

The financial guy provided the winery team with motivation by means of spreadsheets that



With good teamwork – and expert advice from their friends at Turrentine Brokerage – this team put together bulk wine blends that were significantly above average in quality and, where possible, targeted the wines to the mostly likely buyers.

Demonstrated what would happen to the cost-of-goods sold if they disposed of only the weakest wines and consequently took large losses. Such losses would have to be allocated to the cost of the

remaining wines, cutting profitability – and the marketing budget – dramatically. The winemaker had to agree to sell some wines she would have liked to keep, including some 2008 reds that had more bulk market appeal. She also agreed to keep some wines she would have liked to sell. She discovered, however, that she could tweak some of the bulk wine blends at relatively little cost. They also found that a small reduction in the amount of an “A” grade wine in one of their bottling blends made no detectable difference, but allowed them to enhance the blend for sale in bulk. With expert advice from their friends at Turrentine Brokerage, this team put together bulk wine blends that were significantly above average in quality and, where possible, they targeted the wines to the most likely buyers. Chateau Agogo played the bulk wine market as well as possible in a difficult environment and thus avoided large losses while reducing inventory and maintaining bottling blend quality.

This story, of course, is a composite taken from similar experiences with many clients over many years. The bulk wine market is definitely not the most glamorous part of the wine business and management attention is usually focused elsewhere. One time, for example, a winery owner wanted to cancel a meeting with a potential bulk wine buyer because an important restaurateur had unexpectedly come into town. The winery owner had not considered the fact that, while the restaurant purchased about \$25,000 per year of wine, the bulk buyer was looking at a purchase of over \$250,000. As it turned out, the restaurateur was made to wait, and we closed the bulk deal. The bulk market is not glamorous, but obtaining the information and guidance necessary to play it correctly can make the difference between profit and loss or between a small loss and a devastating one.

California Harvest & Bulk Market Review

If we got paid for wines listed and samples sent rather than for sales closed, January would be a hot month. A bigger 2009 harvest – and recessionary pressures – have pushed a lot of wine onto the bulk market early. If casegoods sales reach (mostly conservative) projections, many brands will need to purchase wine on the bulk market. Sellers are anxious in the meantime and some potential buyers are already looking at wines so that they can be prepared to beat the competition if and when they get the green light to buy.

Cabernet Sauvignon

Demand for Cabernet Sauvignon wines from the small 2008 vintage continues to exceed supply. A few new lots are becoming available as sellers realize that it is much easier, and more profitable, to sell 2008 than 2009. Sellers of 2009 Cabernet Sauvignon are getting their wines ready to sample as fast as possible but buyers are not in such a hurry. Supply is available from all over the state, with the greatest number of lots from the higher-priced regions. Most of the demand, on the other hand, comes from value brands. Recent sales of Interior 2008 Cabernet Sauvignon have been in the range of \$5.50 to \$6.50 per gallon. The first, small volume, 2009 vintage sales have been in the \$5.00 to \$6.00 range. Given the strength of Cabernet Sauvignon casegoods sales, our advice to buyers is to fill your 2009 Cabernet Sauvignon needs soon.

Recent transactions for 2007 and 2008 vintage Central Coast appellation Cabernet Sauvignon wines have been in the \$7.00 to \$8.00 per gallon range. We have already listed more gallons of 2009 as a result of a much bigger harvest than the devastatingly light 2008, but we are unlikely to see as much bulk market volume as we did after the 2006 and 2007 harvests. One region that still has some 2008 bulk market Cabernet Sauvignon inventory is the North Coast (made up of Lake and Mendocino Counties and the Suisun Valley). Recent sales for good quality wine have been in the \$8-\$10 region. Significant volumes of mostly grower-controlled 2009 Cabernet Sauvignon will be available soon.

In the Napa and Sonoma regions interest in both 2007 and 2008 Cabernet Sauvignon has been increasing – and supply is limited. Prices have ranged from \$13.00 to \$26.00 per gallon on recent sales. The supply of 2009 will increase from 2008, as it has in the rest of the state.

Merlot

We have closed more sales of Merlot in the last 30 days than for any other red variety. The market has been active all around the state. The vast majority of these wines have been from the 2008 vintage. Interior 2008 Merlot wines have sold between \$4.75 and \$5.00 per gallon. Central Coast Merlot has been in the \$5.50 to \$8.00 per gallon range. North Coast and the Napa and Sonoma regions have been in the \$7.00 to \$10.00 per gallon range. There is still an ample selection in terms of volume, but the better quality wines from 2008 and 2007 are now harder to find.

Pinot Noir

After several years of acute shortage, Pinot Noir is now widely available from the 2009 harvest. Asking prices are also more attractive than they have been since *Sideways* ignited the market. This could be the time to add Pinot Noir to brand line-ups that have lacked it. It is also a chance to improve blends and increase market share.

Interior region Pinot Noir has been active, especially as brands shift appellation from imported sources to California in order to take advantage of increased supply and simpler logistics. Some large deals have already reduced Interior supply. From the Central Coast we have a few lots of 2008 wines and a good selection of 2009 from both the Monterey and Santa Barbara regions. We also have an increased selection of Mendocino Pinot Noir wines. In the Napa and Sonoma regions, there are multiple lots from Carneros, Sonoma Coast, and Russian River. Buyers are moving more slowly than they have in the last few years, but the early birds get the best selection of wines.

Chardonnay

The market around the state continues to be challenged with supply in excess of demand. Great bargains remain for some 2008 wines from the Central Coast and Interior. Recent sales of 2008 vintage Interior Chardonnay have been in the \$2.50 to \$4.50 range. There have been very few recent sales of 2008 Central Coast, North Coast or Napa and Sonoma region wines.

The larger than projected 2009 crop from the Northern Interior and Central Coast, along with a challenging casegoods market, has encouraged sellers to list wines for sale early. We have a good supply of 2009 Chardonnay from Lodi, Clarksburg, Santa Barbara, Monterey County, Mendocino County, and Russian River. In general, the quality looks good. All we need now are some active buyers in the marketplace.

Grapes 2010

With strong casegoods sales at popular price points, the grape market in 2010 is likely to once again be much healthier in the Delta, Lodi and the central and southern Interior than anywhere else in the state. We are already getting our boots muddy and our cars almost stuck looking at vineyards with potential buyers throughout the Interior. A few wineries are getting a head start with re-signs, especially on Cabernet Sauvignon, Pinot Noir and Petite Sirah.

The rest of the state is in a state of rest. Growers are antsy to get things going and there are a few deals on Cabernet Sauvignon and Merlot, mostly on the Central Coast. But wineries – especially higher-end wineries – are dealing with a very difficult casegoods market. Many wineries are waiting

for more information on their casegoods sales and early indications on the size of the 2010 crop. The bulk market will be the best advance indicator for the grape market. When North and Central Coast wines start moving on the bulk market, grape sales will not be far behind. Stay tuned for further information – and give us a call with your needs and items for sale, if you have not already done so.

Audra Cooper, Broker

Our grape sales continue to grow, even in the difficult market of the last couple of years. Fortunately, we have developed some in-house talent to help with the increasing volume. After several years of excellent work in support of our grapes sales around the state, Audra Cooper has now been promoted to the position of broker. In collaboration with Brian Clements, Senior Partner in Charge of Grape Sales, Audra is sealing deals with winery and grower clients in Napa Valley, Sonoma County, Mendocino and Lake Counties. Audra is a great example of intelligent and effective service that helps clients achieve their goals in all kinds of markets.

Accelerated Response

Many clients email their favorite broker at Turrentine Brokerage with updates on inventory for sale or samples needed. Our brokers all carry Blackberries and check their email frequently, but they also spend a lot of time on the road and in meetings. To accelerate our response to your needs when you email your broker, you can now copy our office staff at samples@turrentinebrokerage.com. By the time the broker checks his or her Blackberry, the staff will already be processing your request.

Unified Symposium

You can find Turrentine Brokerage at the famous **Booth 1310** at the Unified Symposium in Sacramento, January 26, 27 & 28. Visit Team T for an update on the market. Also, don't miss Bill Turrentine's presentation, Tuesday, January 26, in Hyatt Regency Ballroom F. Bill will be part of a panel addressing the important challenge of "Factoring Global Supply and Demand into the Business Plan."

Market Opportunities

Grapes Available:

80 tons of Alexander Valley hillside Cabernet Sauvignon

2-25 ton lots of Dry Creek Valley Zinfandel

70 tons of mountain grown Lake County Cabernet Sauvignon

Russian River Chardonnay, Rued and Wente clones, plus 15 acres planted 2010

Russian River/Green Valley Pinot Noir, clones 113, 115, 114, 76, and other field selections

Mt. Veeder Cabernet Sauvignon

Napa Valley Cabernet Sauvignon, clones 337, 191, and See (small to large lots available)

Rutherford Sauvignon Blanc

Oak Knoll Merlot, clone 181

Oak Knoll Cabernet Sauvignon

Rutherford Cabernet Sauvignon

Sonoma Carneros Chardonnay, clones 17, 96, Wente, and 4

Sonoma Coast and Carneros Pinot Noir, clones 115, 113, 667, 777, and Pommard

Sonoma Valley Chardonnay

Oakdale, Ca (District 12) CS, MER, PV 2010 Planting

Central Coast, wide selection of varieties - Give us a call for more details

Interior, some opportunities - Give us a call with your needs

Grape Needs:

Cabernet Sauvignon from the Prichard Hill area
CCOF Russian River Chardonnay

Bulk Wine Needs:

Cabernet Sauvignon, 2008, from all appellation
Cabernet Sauvignon, 2007 - 2008, Napa Valley
Muscat and other white florals, 2009, California appellation
Chardonnay, 2009, Napa Valley
Zinfandel and Petite Sirah, 2008, Alexander Valley
Petite Sirah, 2008, Paso Robles
Zinfandel, 2008, Sonoma County

Bulk Wine Opportunities:

Multiple lots of Pinot Noir, 2009, Russian River, Carneros, Santa Barbara, and Monterey County
Chenin Blanc, 2009, Paso Robles
Multiple lots of Sauvignon Blanc, 2009, North Coast and Central Coast
Chardonnay, 2009, Santa Barbara
Cabernet Sauvignon, 2009, California appellation
Rhone Whites, 2009, California and Central Coast
Cabernet Sauvignon, 2009, Alexander Valley
Multiple lots of Pinot Grigio, 2009, Coastal and Interior