

A middle-aged man with short, light-colored hair is smiling warmly at the camera. He is wearing a light blue, long-sleeved button-down shirt and khaki pants. He is standing on a white balcony or deck, with his hands clasped in front of him. The background is a lush vineyard with rows of grapevines stretching into the distance under a clear sky. In the top left corner, there is a logo consisting of two overlapping squares, one light green and one darker green, with the word "SUCCESSION" written below them.

SUCCESSION



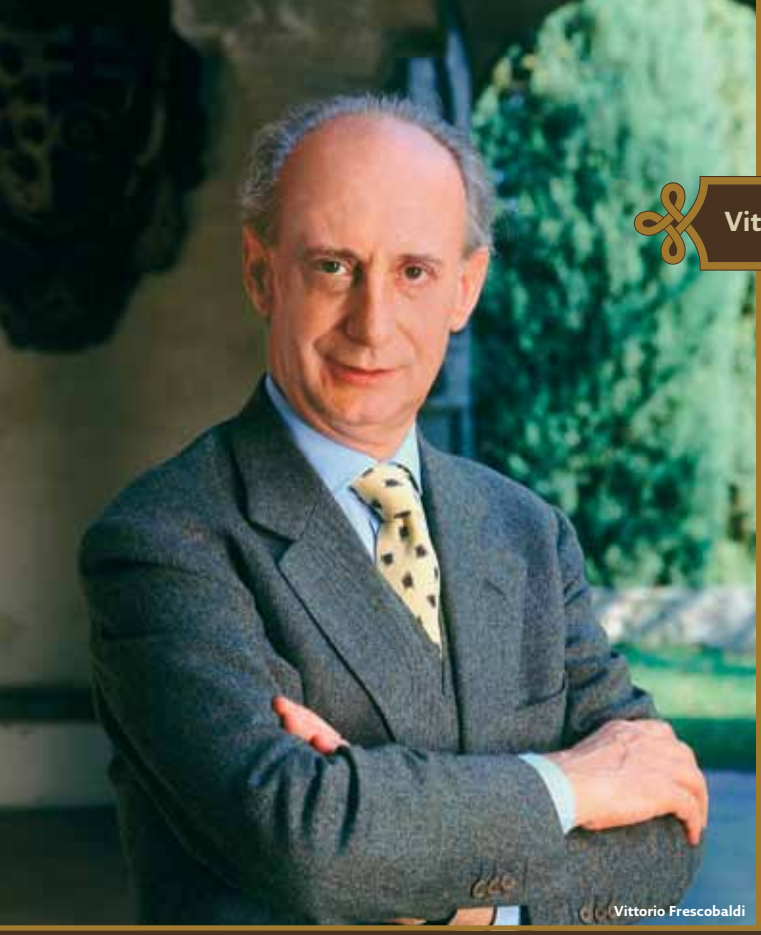
HOW MICHAEL



# MONDAVI TOOK CHARGE

By Lawrence M. Fisher

There was drama to spare in the overthrow of the Robert Mondavi Corporation, the iconic California winemaker. Here was a script for a modern production of *King Lear*, albeit with two sons cast among the three children, or for a reality show version of *Falcon Crest*, that 1980's soap opera set among the golden vineyards of a mythical valley. The real story could serve as a case study in how not to run a family business.



## Vittorio Frescobaldi agreed to let Folio import the Marchesi de

with Vittorio Frescobaldi, patriarch of a family that has been making wine in Tuscany since 1308. Michael was seeking advice, because he intended to make his son, Rob, and his daughter, Dina, joint majority owners of the new business, Folio Fine Wine Partners. He knew well that the Robert Mondavi Winery had come into being only after Robert was pushed out of the Charles Krug Winery by his brother, Peter, and his mother, Rosa. Having just seen history repeat itself once, Michael was determined to avoid another encore performance.

At the time Robert Mondavi was going to be sold, Michael Mondavi approached Frescobaldi. "I spoke to him very confidentially and asked, 'How is it your family is on its 31st generation and mine can't get past the second?'" he recalled. Frescobaldi told him that the Italian tradition of passing total control to the oldest son had worked for a few hundred years, but that today it was important to train the up-and-coming generation in conflict resolution. "I shared that immediately with Rob and Dina, and said, 'Guess what, guys, you're going to have to work hard to work out your differences.' To me it was so wise and so simple."

Mondavi and his wife, Isabel, own 10 percent of the business. Rob, 38, president for winegrowing, owns 39 percent, as does Dina, 33, the creative director. The company's employees own the rest. Robert Mondavi shipped more than 10 million cases in 2004. By contrast, Folio plans to stay below 50,000 cases from its own.

Beyond the fatherly advice, Frescobaldi gave Michael an invaluable prize: he agreed to let Folio import the Marchesi de Frescobaldi wines to the United States, giving the fledgling business an anchor client of immense prestige. Folio had no buildings or even business cards yet, but it was now sole United States importer for 150,000 cases of some of Italy's finest wine. Frescobaldi had been marketed by Robert Mondavi, but Constellation closed down Mondavi's import division.

"That gave Michael the opportunity to establish his own company, knowing that the Frescobaldi group was looking to find a partner," said Leonardo Frescobaldi, Vittorio's younger brother and the head of sales and marketing. "They started from nothing, from scratch. Now, in the last three years, Folio has grown in dimension, in organization, and has become a very serious importer. For us, the partnership was very important in our decision, to know that behind Folio was the presence of the family of Michael Mondavi."

Imports had been one element of Michael Mondavi's growth strategy when he was chief executive of Robert Mondavi in the 1990's; at Folio they would jump-start the nascent business, providing an immediate source of cash flow and a degree of clout with distributors while the family nurtured its

The brothers clashed over strategy, and the sister, although not involved in management, sided with the board's outside directors. The chief executive sought a restructuring that would limit the family's power, while the winery's founder and namesake, then approaching 90, grew increasingly distracted as his personal fortune dwindled because of both philanthropy and free-spending ways.

When R. Michael Mondavi, the eldest son of Robert, was pushed out as chairman in a boardroom coup in January 2004, he felt his life had hit bottom. "It was devastating," he said. "That was as hard a day emotionally as the day my mother passed away — shock, disbelief, anger, sorrow, despair."

But Michael spent little time licking his wounds. Later that year, when Constellation Brands acquired Robert Mondavi for nearly \$1.36 billion, his share was more than \$100 million, and even before that payday arrived, he had started planning a new winery and a new kind of wine business. He personally owned some of the finest vineyard property in Napa Valley, and his years at the head of the wine industry's pre-eminent premium brand had allowed him to forge lasting relationships with a global who's-who of fine winemaking.

"Thank goodness my wife said, 'Michael, get up and do something; you're making me crazy,'" Mondavi said. "Fortunately, that whole cycle was pretty quick, a couple of months. A core group of friends said, 'Take the anger and use it to build something.' The moment I started focusing on the future, the sadness and grief evaporated."

His first move was to hop on a plane to Florence to meet

Vittorio Frescobaldi

own vineyards and developed its own new brands. One legacy of Prohibition is the wine industry's three-tiered distribution system, in which wineries large and small sell their wares to distributors, who in turn sell to restaurants and retailers. Industry consolidation has turned the surviving distributors into giants, who have little interest in smaller brands.

"There's a certain scale that's necessary to make the investment in the distribution channel work, and Folio's import side is one way to do that," said Mike Veseth, author of the Wine Economist blog, and the Robert G. Albertson professor of international political economy at the University of Puget Sound. "Obviously, they have the Mondavi name, which would open a lot of doors, and having that import base lets them think creatively about what they can do with the wine."

With Frescobaldi as a base, Folio was able to assemble a gilt-edged collection of imports from Italy, Spain, Germany, Austria, Argentina and New Zealand. It is a remarkably diverse list, but what the wineries have in common is they are each among the top two or three producers in each region, they are family owned and have long tenures in the wine business.

"We only deal with families, and our preference is that the family has greater history in the wine business than we do," Mondavi said. "In the past 20 years, so many people have gotten into the wine business as a rebound from their previous career, because they think they'll like the lifestyle, and it's chic to have their own winery. If mom and dad started the winery, but the kids aren't that enthralled, you don't have stability for the future when it's time to transfer leadership. But if you're dealing with 10 generations, there's a lot more stability, and in most cases these families also have tremendous heritage in the region and own the best vineyards."

Indeed, despite Mondavi's devotion to family and legacy, there is more strategy than sentiment in Folio's selection of imports. "Here's an example of something very forward thinking," said Dan Berger, a Sonoma-based industry consultant and author of Vintage Experiences, a weekly e-newsletter. "He's got Prinz Von Hessen rieslings. Riesling sales are going up, Americans are becoming far more interested in riesling, and it's important to have one in your portfolio. Does that mean the wine will make you huge profits now? No. But in two or three years, it will be really intelligent."

At the same time that Michael was assembling a dream list of imports, he and Rob began building a portfolio of their own brands. Here too, they emphasized diversity from the start, knowing that retailers and restaurateurs can deal with only so many vendors, but need wines with different flavor profiles and different price points. Folio's Oberon emphasizes classic Napa Valley cabernet sauvignon, merlot and sauvignon blanc

in the style the family pioneered; Hangtime features wines from long-ripening grapes sourced from France to New Zealand; while I'M, named for Michael's wife, Isabel, emphasizes Sonoma chardonnay, Oregon pinot noir and rosé.

All of these wines retail for \$15 a bottle and higher, and the family has no intention of chasing the lower end of the market, which is dominated by big consumer products companies and multinationals. They tried that at Robert Mondavi and the proliferation of poorly differentiated budget-priced wines only diluted the flagship Napa Valley brand. Freed of Wall Street's demand for constant quarterly growth, they say they can now concentrate on wines they would want to drink themselves.



"When we started Folio, we decided we would be specific to our roots in the vineyards," said Rob, who had worked at Robert Mondavi as sales director, in addition to starting his own companies importing cigars and leading mountain bike tours. "We want to create lovely wines, primarily Napa Valley wines, that when somebody takes a sip they get what they paid for. We want that 'wow!' factor."

Part of Folio's strategy is to offer value, even at the very highest range of its product offerings. In a tasting at the World Series of Wine in Cleveland in November, Folio's limited production cabernets — M by Michael Mondavi, and Emblem — beat out some of the most prestigious first growth Bordeaux.



Clockwise from left: daughter Dina, son Robert, Michael Mondavi, wife Isabel.



**We only deal with families, and our preference is that the family has greater history**

winemaker, Tony Coltrin. It is a little-known fact, even within the wine industry, that Michael was the winemaker for the Robert Mondavi Winery from 1966 to 1974, the vintages that put his father's business on the map.

While these prize-winning wines are made in very small quantities — 700 cases for the first vintage of M, about 1,500 for the two wines from Emblem — they provide a halo effect for all of Folio's wines, much as the Reserve cabernet and Opus One, a joint venture with Baron Philippe de Rothschild, did for the Robert Mondavi Winery.

M by Michael Mondavi and Emblem will also serve as Folio's first ambassadors to Europe and Asia. Selling California wines abroad has always been challenging, partly because many wine-drinking cultures are very attuned to their local wines, and many countries apply tariffs to wine imports. But Lenz Moser, himself a fifth-generation winemaker in Austria, and the former sales manager for Robert Mondavi in Europe, says Folio's top wines will be well received.

"There will be a very good reception because of Michael's background," Moser said. "Michael is the last living wine pop star. He is very well known here because in his Robert Mondavi years he made a personal effort in Europe and was here every couple of months. M is certainly not cheap, but it's been extremely well received by the likes of Jancis Robinson," the wine writer for The Financial Times in Britain. His first allocation has already sold out, he notes.

Moser says he can empathize with Michael Mondavi, having personally lost control of the family business that bears his

The final results of the blind tasting were:

- 1st place: 2005 M by Michael Mondavi, Napa Valley (\$200 suggested retail price)
- 2nd place: 2006 Château Lafite-Rothschild Pauillac (\$500 average retail price)
- 3rd place: 2006 Emblem cabernet sauvignon, Rutherford (\$49 suggested)
- 4th place: 2006 Emblem cabernet sauvignon, Oso Vineyard (\$49 suggested)
- 5th place: 2006 Château Margaux (\$500 average)

Value was always part of his strategy, even at the high end, Michael Mondavi says. "It's about exceeding expectations," he said. "If we only delivered a \$50 wine for \$50, it's ho-hum. We want to deliver double the quality for the price."

Left unsaid is the pride he takes in knowing these are his own wines, which he produced hands-on with Folio's chief

name. He is now starting over with his own brand, Laurenz V, which Folio imports to the United States. "Michael now is the most relaxed Michael I've ever seen," he said. "He does great things, and the pressure of Wall Street is off his back."

The Robert Mondavi Corporation went public in June 1993, in an offering managed by Goldman Sachs. While proceeds from the offering were used to pay off some of its \$65 million bank debt, finance expansion, and add to working capital, a major motivation for the family was to manage the inheritance tax burden they knew would come when Robert died. Like a number of family businesses, the Mondavis created a two-tiered stock structure meant to ensure that they would always remain in control, but problems arose almost immediately and were worsened by internecine fights.

"I went into a board meeting in November 2003 and said our focus is on consumers, growers, employees, quality and shareholders. A director said, 'Michael, you're obsolete. Your only focus should be the shareholders. If you can't do that, we can find someone who can.' Eight weeks later, I was retired."

Industry analysts say there is a fundamental mismatch between wineries and the public equity markets. Fund managers seek a rapid return on investment and earnings per share that go up every quarter. Wineries have to invest millions of dollars in hard assets like vineyards that will not produce returns for many years, or French oak barrels, which must be fastidiously maintained and regularly replenished. Wine is also essentially an agricultural product, subject to the unpredictable whims of the weather, which can ruin a promising vintage with one rainy week.

"The Wall Street quarterly statement tends to look the same no matter what business you're in," said Berger, the winery consultant. "The bankers have no clue that a quarterly statement doesn't make as much sense to a winery as to a ketchup maker. Strictly speaking, a quarterly report for a winery should be a quarter of a century. I never recommend that wineries go public."

One element of Folio's business plan that would never have passed muster with Wall Street is the family's decision to share their Napa facility with other winemakers. In stark contrast to the Robert Mondavi Winery's landmark headquarters in Oakville, or Opus One's architectural statement on the St. Helena Highway, the Folio Wine Studio occupies a nondescript set of buildings on a back road. But the bland facade hides a state-of-the-art winery equipped with a laboratory and the kind of equipment most winemakers only dream about.

Inspired by the Carlton Winemakers Studio, a cooperative based in Carlton, Ore., Folio makes this equipment available to

in the wine business than we do," Mondavi said.



some of the smallest producers in California. Unlike the practice in a custom crush, by which larger wineries make wines for other owners' labels, the Folio Studio works only with hands-on winemakers, who produce their own wines on site.

"If they're not passionate, we don't want to work with them," Michael Mondavi said. "The idea exchange is wonderful. We want them here seven days a week during the harvest."

It's a new model for a new era in winemaking. In the 1960's and 70's, many small wineries were built with nothing more than family funds and sweat equity. But today the capital costs are beyond even most wealthy individuals' means, and the distribution hurdle keeps many a fine wine from reaching the market. By letting small winemakers piggyback on their infrastructure, and by including their products in the portfolio of brands it presents to distributors, Folio removes both obstacles.

"We couldn't afford the bones of a winery some place like Napa Valley," said Karen Culler, who produces her Culler Wines at Folio. "You're seeing a lot of good wines coming out that you wouldn't have otherwise. These custom facilities have enabled

a lot of people like myself to make wine where we couldn't before." Culler's 2007 Napa Valley Syrah, produced at Folio, is available online for \$25, but hurry, she made only 76 cases.

Not every relationship has worked out according to plan. Folio originally intended to make pinot noir from Oregon grapes, and still includes one among its I'M offerings, but pulled out of the state after their local winemaker decided to pursue other interests.

"I was looking forward to this 25-year relationship that is Michael's time horizon, but they never really had any stake in Oregon," said Tim Ramey, an investment banker whose Zenith Vineyard grows pinot noir near Salem, Ore. "They didn't own any property, they bought grapes and hired people to make the wine." Nevertheless, he considers the Folio model a good one. "It's less edifice- and land-based and more distribution- and brand-based. That's Michael's path, not to stake his reputation on an ultrapremium edifice winery, but on a portfolio of premium wines that he either makes or distributes."

The past two years have been tough on the premium wine business, with the Great Recession taking a predictable toll. California wine shipments fell for the first time in 16 years, and United States sales of wines priced at \$25 and above dropped 30 percent nationwide in 2009, according to Nielsen, the research company. In such a market, Folio did well to keep sales essentially flat, Mondavi says.

"We had to run like mad to stay in the same place," he said. "Consumers have drunk about 20 percent more than has been sold, because when the economy went south, they consumed what they had at home rather than go shopping. Retailers and restaurateurs did the same thing."

But again, Vittorio Frescobaldi gave him a useful perspective, Michael says. "I went to visit Vittorio about a month after Lehman Brothers collapsed to let him know it was going to be very difficult to meet their pretty aggressive growth figures. I said, 'This is a tragedy for the world.' He said: 'No Michael, it's not a tragedy. A tragedy was when Napoleon tried to conquer Italy; World War I, World War II. This is not a tragedy; this is just a difficult time.'

That kind of long-term perspective is what the wine industry needs, Mondavi says, and for the long term, he likes Folio's prospects.

"I think there's a greater opportunity today than there was 25 years ago," he said. "Twenty-five, 40 years ago, the percentage of the population that was interested in wine was tiny. Today, the millennial generation is the first whose preference between beer and wine is wine. They seek out smaller purveyors. We're trying to make sure that we can communicate that this wine came from these grapes, from this vineyard, from these hands."

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