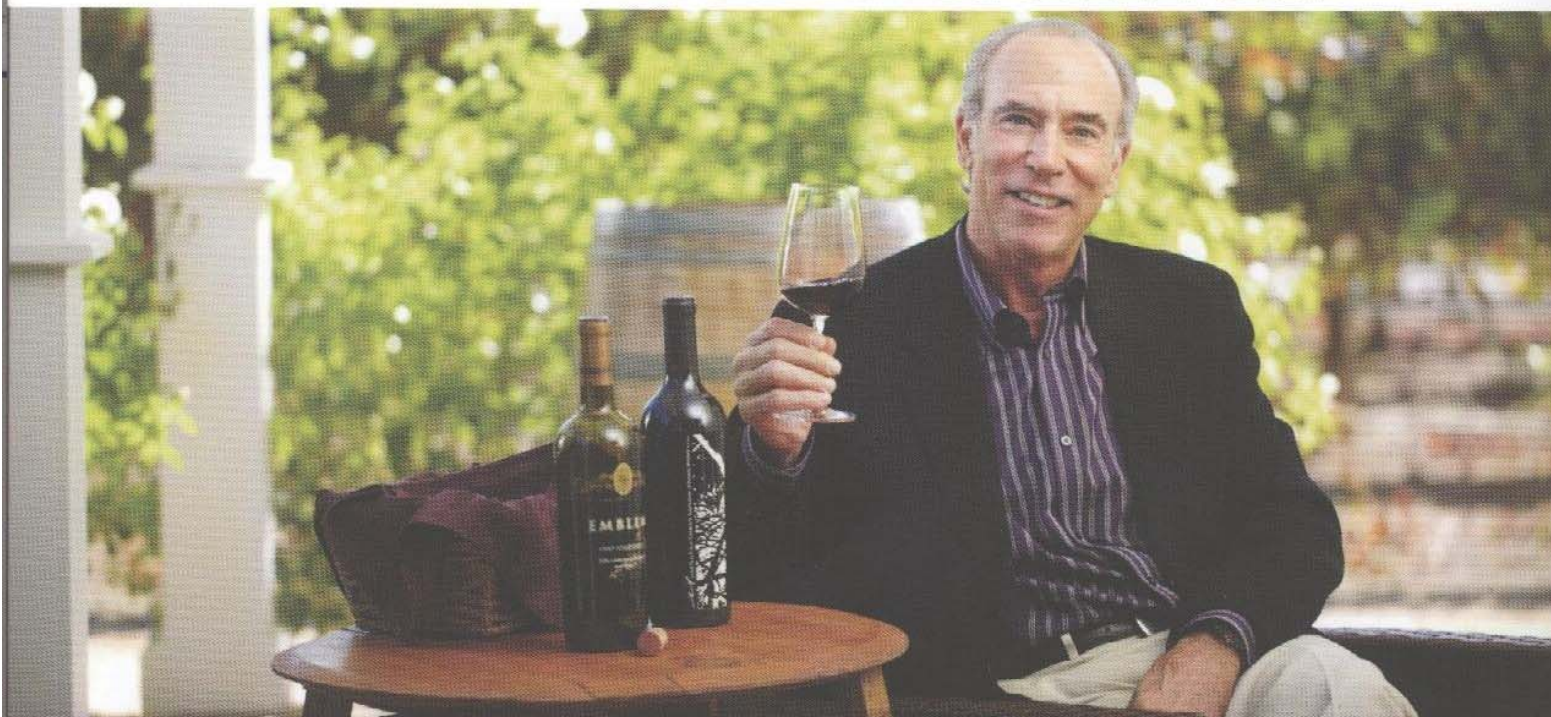


# MEININGER'S

WINE BUSINESS INTERNATIONAL



## MICHAEL MONDAVI: THE SON ALSO RISES

*Six years after the sale of the Robert Mondavi Winery to Constellation, Michael Mondavi is making waves again with his own winery and an import business that only sells wines from family-owned wineries. Page 30.*

## COUNTING THE FAKES IN CHINA

*China's counterfeiters are famous for faking bottles of Lafite and Pétrus, but now they are making copies of humbler fare. Maggie Rosen considers the size of the threat these forgeries may represent for the fast evolving Chinese market. Page 10.*

## AUSTRALIA ON THE COUCH

*Peter McAtamney takes an in-depth view of the challenges confronting the beleaguered Australian wine industry. How serious are the problems? And what are the solutions that are most likely to prove effective? Page 20.*

## SPAIN AT THE CROSSROADS

*Patricia Langton analyses the impact of the European wine reform on the Spanish wine industry. Vast areas have been uprooted and emergency distillation is a thing of the past. But how effective is the treatment likely to be? Page 26.*

## US: STATE OF THE WINE NATION

*Producers across the globe are recognising that the US is the most attractive major market in which to sell their wines. What are the prizes and pitfalls? Robert Joseph reports on a meeting of leading industry experts. Page 38.*

# THE SON ALSO RISES

AN INTERVIEW WITH MICHAEL MONDAVI BY JAMES LAWRENCE

Following the sale of the Robert Mondavi Winery in 2004, many in the wine industry wondered what Michael Mondavi, Robert's son and head of the company, would do next.

Michael Mondavi was born in 1943, trained as a winemaker and, at the age of just 23, following a rift which led to Robert Mondavi leaving his family's Charles Krug Winery, helped his father to found his own wine business. During the early years of the company's existence he had the dual roles of vice president of both sales and production. In 1990, he was named managing director and CEO of Robert Mondavi and four years later, following the flotation of the company, he became president and CEO and then chairman from 2001 to 2004, when the business was sold to Constellation.

In 2004, Mondavi launched Michael Mondavi Family Wines and Folio Fine Wine Partners which imports and produces wines from Italy, Spain, Austria, New Zealand and California.

Unconventionally, and strikingly given the list of corporate positions he had previously occupied and industry roles he has held – such as Chairman and CEO of the Wine Market Council, President of the Napa Valley Vintners Association, Chairman of Wine Institute and Chairman of Winegrowers of California – Mondavi's official title at Folio is 'founder and coach'.

**Meininger's:** You reportedly dislike corporate winemaking. Could you explain the motivation for selling the Robert Mondavi winery?

**Mondavi:** With the change in regulations for publicly owned companies in the US through the Sarbanes-Oxley laws [passed in the wake of the Enron scandal and intended to tighten standards for US public companies, management and public accounting firms], a problem was created for the directors who represented the public shareholders versus the directors who were representing the family. The family focused on long-term healthy strategic growth. The independent directors were required to look at short-term results. With that understanding, we knew that the family either had to buy the company back or it would be best to sell it. The good and bad news was that we were so successful at RMW [Robert Mondavi Wines] that the family could not afford to buy it back.

My reference to not liking corporate wine-making refers to the demand of the shareholders on continuously growing quarterly earnings. Grape

growing and winemaking is an agricultural product. There are various years in which Mother Nature is generous, other years, not so. The shareholders did not care about the climatic conditions. They only cared about the quarterly results. That puts pressure on the winemakers from the financial managers and board to cut costs and, if necessary, blend the wines to meet financial goals, rather than the qualitative goals for those wines. That philosophy might solve a short-term financial problem, but I believe puts the brand at risk. The beauty of being a private company is that you can agree on the style and type of wine you want to produce and pursue that quality in bountiful years and also in difficult years.

**Meininger's:** What is Folio, and how did it get started?

**Mondavi:** Wine has been our family business for four generations. It began when my grandfather, Cesare Mondavi, travelled to California in search of grapes to ship back east for other Italian immigrants. In 1966, my father and I founded Robert Mondavi Winery with the vision of making world class wines from California. Now the legacy continues with Folio Fine Wine Partners. Our objective is to become the pre-eminent purveyor of the finest wines from the world's premiere wine regions.

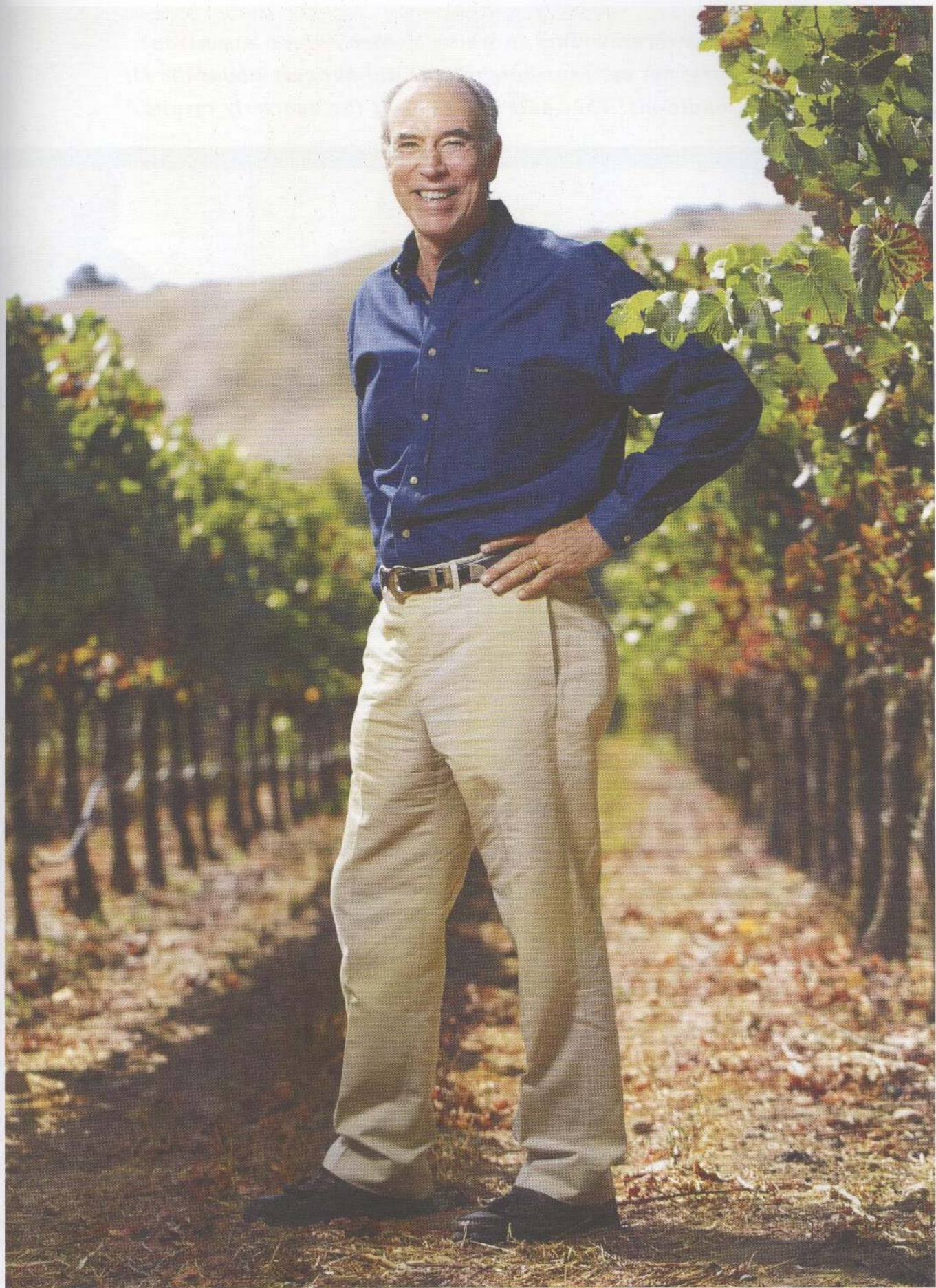
**Meininger's:** How are the current financial conditions affecting Folio?

**Mondavi:** Over the years I have found that the best way to cope with the recession is first to ensure that your wines are high-quality and offering a fair pricing or value. Second, you need to spend far more time with your distributors and your customers. As a result, we invest more time and effort in the marketplace with key retailers and restaurateurs. At Folio we've increased our sales and marketing team by nearly 40% over the last two years. Our strategy has been to target our core client base rather than shrink our output, marketing budgets and personnel. It is easier to grow and gain a bigger market share in a recession than when times are good. Your competition is also weakened. 45% of our wines are sold in hotels and restaurants, 42% to consumers via retailers. 70% of our portfolio are wines from Europe.

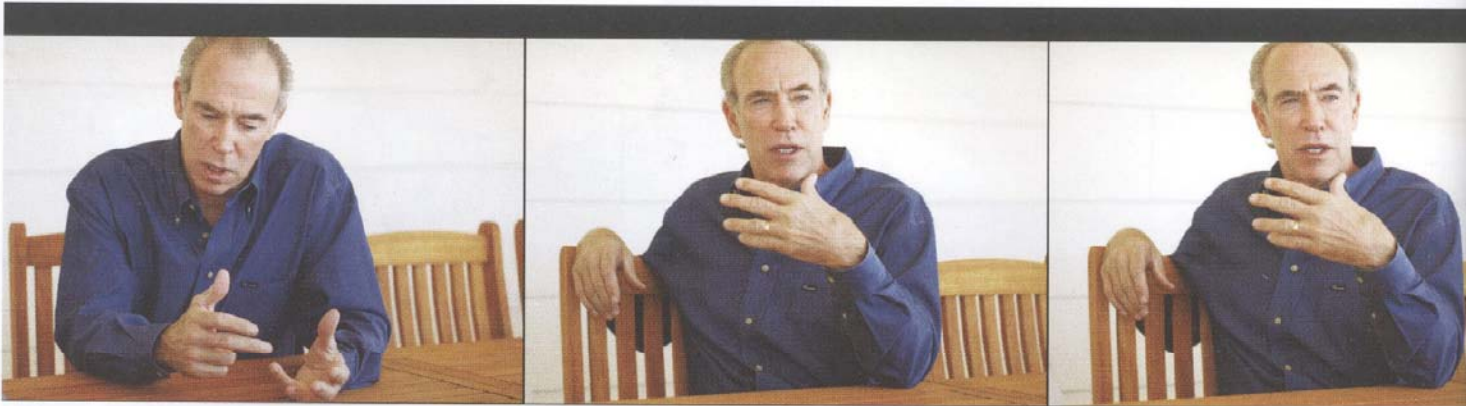
**Meininger's:** How much of that portfolio is Italian in numbers/percentage terms? Where else looks interesting for Folio?

**Mondavi:** 63% of our wine is from Italy, 5% from Spain and 29% from the US. Our objective is to represent family-produced wines from the best regions of Italy, Spain, Germany, Austria, Argentina and New Zealand.

**Meininger's:** Is Folio solely focused on family-owned producers?



*"There are various years in which Mother Nature is generous, other years, not so. The shareholders did not care about the climatic conditions. They only cared about the quarterly results."*



**Mondavi:** We only represent wineries that are family-owned, where the family is intimately involved in running the vineyards and the winery. We believe that family pride and passion will insure higher quality and consistency of their wines for the consumer. The consumer today is more and more interested in who grows the grapes and who produces the wines. They want and deserve wines they can trust. We believe that family integrity is an extremely important factor.

**Meininger's:** What do you believe is the best thing wineries can do to cope with the global recession?

**Mondavi:** Number one, produce better quality wine. Number two, see your customer.

**Meininger's:** "Seeing your customer" can be trickier in the US, given the the three-tier system and bans on shipping to other states etc.

**Mondavi:** Distributors in the US have a plethora of wines, both domestic and imported. It is difficult for them to determine which brands to promote. Larger companies, because of their scale, can influence the priorities of the distributor. Smaller companies, such as ours, need to have quality brands and wines that complement the individual accounts, whether dealing with retail or restaurant customers. Smaller wineries that do not have strong relationships with either the distributor or accounts have serious difficulty in gaining proper distribution. Direct sales from the winery can compete with the retailer or wine shop. We believe the internet is best used for communicating directly with the consumer and then encouraging the consumer to buy the wines through his or her favourite wine shop.

**Meininger's:** How useful can social media like Facebook, Twitter and blogs be for wineries?

**Mondavi:** When used with integrity, social media can communicate with people on a fairly personal basis about the wines, about your experience with wine and food, co-ordinating visits to the wine country, etc. However, social media is not directly a tool for selling; rather, it is a tool for information. Consumers are using social media and the internet to research the wines they like, gather information about those wines and then use that information to barter for lower prices from the retailer. It can work against producers.

**Meininger's:** To change the subject slightly, what style of wines are you now making in California?

**Mondavi:** I like to produce wines that have rich full flavour but they need to be balanced and have an elegant finish. That style of wine can

be enjoyed young and will age beautifully for decades.

**Meininger's:** What are the prospects for the 2010 vintage, given reports of adverse conditions in the Napa Valley?

**Mondavi:** This could potentially be the greatest vintage since 1974. Cooler conditions are what the valley needs, too many of our [the valley's] wines are high alcohol, uber-ripe wines without any finesse or structure. I believe that many of the highly rated wines by the American judges have been overly alcoholic and too intense in fruit. They're big, full wines, but for me, they are too big and too full to enjoy with food. I believe that this year's cooler weather will allow us to produce full-bodied wines that have more finesse and balance than in previous years. Hopefully, this will be a trend. Our neighbours are worried, but we welcome the cooler weather.

**Meininger's:** Those 'big, full' highly rated wines have enjoyed a fair amount of commercial success. How do you promote sales if or when your wines don't suit US critics because they are perceived to not have enough intense ripe fruit?

**Mondavi:** The wine critics who have been giving high alcohol, fruit forward wines high scores, I believe, are realising that those wines do not age and they also overpower food. We taste our wines with the retailer and restaurateur so they can enjoy first-hand the excellence, balance and rich flavour of the wine. The retailer and restaurateur understand that big, heavy, alcoholic wines are not easily consumed. They want wines of a style where people can enjoy two to three glasses with a meal, not just half a glass. I do not believe that wine is digital. I greatly prefer comments about the aroma, flavour, balance, body and finesse of the wine. You can have many different style wines with the same numerical rating but that does not tell you anything about the style and character of the wine.

**Meininger's:** How big can a wine company get and remain workable in your opinion, in reference to your comments on corporate winemaking?

**Mondavi:** I do not believe that scale is as important as family ownership and family passion in producing the highest quality wines in each of their categories. A small or large, corporate-owned winery will look at earnings more intently than they will at the quality of wine. Family-owned wineries look at the strategic health and the growth of the image.

**Meininger's:** Do you believe that a company can comfortably sit in a wide range of price segments? How easy is it to run effective exports to markets like the UK which have very different attitudes to the US?

*“Growth for the sake of growth is evil. Growth that can help develop the wines that we represent in the US is positive.”*



**Mondavi:** I do not believe that a winery can be all things to all people, but within a range of wines, it can excel in each area. Exporting to markets like the UK is difficult because most wines sold there are inexpensive and do not represent the quality that California can produce. We, in Napa and Sonoma, need to take a long-term approach in building the image for high quality. The best wines of California have been gaining a good global reputation over the years. We need to continue to reinforce that image by producing the best quality possible for our export sales.

**Meininger's:** Do you have any plans for expansion at Folio?

**Mondavi:** We believe that we have a responsibility to the individual families who trust us with their family's wines to market and sell within the US. Growth for the sake of growth is evil. Growth that can help develop the wines that we represent in the US is positive. We are also looking at building relationships with some exciting producers in Piedmont next year - definitely one of the most exciting regions in Italy. Their wines are a perfect fit for us.

Selling wine is a personal relationship from the producer to the importer, the importer to the distributor, the distributor to the retailer and restaurateur, to the ultimate consumer. So, direct internet sales make up a very small percentage of our overall sales. The restrictive legal framework makes it difficult to view it as an important avenue of sales revenue for Folio. We value our partnerships with retailers and they are often better placed to reach out to consumers than we are. We don't want to damage our relationships with them by pursuing direct sales too aggressively. Our job as an importer and producer is to represent the winemakers all the way from the vineyard to the ultimate consumer.

**Meininger's:** How do you see the global wine market evolving over the next year?

**Mondavi:** I believe that the recession will go through a SLOW recovery, which will take another three to five years. During this period a number of vineyards and wineries will change hands, some under duress, others under opportunity. I believe the distribution systems will continue the consolidation that we've experienced over the last 15 years, but I don't see any drastic changes in regulations or taxation. In today's world, everyone needs to work smarter and more efficiently.

**Meininger's:** How important is the Chinese market for you?

**Mondavi:** For us we are just beginning. We see it as an important global market for us in the future.

**Meininger's:** What do you believe are the benefits and pitfalls of entering China during this relatively early stage in its wine appreciation development?

**Mondavi:** The pitfall is that you may be with the wrong importer or agent representing your wines in China. There are many people claiming to be importers or distributors from China and other parts of the world. You need to ensure that their credentials are solid and accurate. The trade - restaurants, hotels, wine shops - knows who the legitimate purveyors are. In summary, you need to do your homework. The benefit is that it will take a minimum of three to five years to begin to establish a presence in any new global market.

**Meininger's:** In five years time, where would you like to see Folio?

**Mondavi:** Five years from now, when a retailer or restaurateur sees 'Imported by The Michael Mondavi Family, Folio Fine Wine Partners' they will have confidence that the family and wine represented is of the highest quality and value from that region of the fine wine growing world. Our objective is not to grow and grow and grow. Our objective is to build the reputation and image of each of the family brands that we represent in America and each of the brands we produce in Napa with the trade and consumer. ■

## THE FOLIO PORTFOLIO

**Folio turns over around \$39m and represents the following wineries**

**California:** Emblem, Hangtime, Isabel Mondavi Wines, M by Michael Mondavi, Mayro-Murdick/Hunterdon, Medusa, Oberon, Spellbound; **Argentina:** Ñandú; **Italy:** Arnaldo Caprai, Attems, CastelGiocondo, Danzante, Donnafugata, Luce Della Vite, Marchesi de' Frescobaldi, MASI Agricola, Quorum, Tenuta dell'Ornellaia, Villa Sandi **Austria:** Laurenz V.; **Germany:** Prinz von Hessen; **Spain:** Bodegas Comenge, Bodegas Fillaboa, Capafons-Ossó, Cims de Porrera, Leda, Nita, Palacios Remondo, Vall Llach; **New Zealand:** Vinoptima.

**2010 Estimated Sales**

**Revenue Split**

