

CHANGING OF THE GUARD

Although he founded Millésima as a shipper in the classical sense of the term, Patrick Bernard soon turned his attention to mail order, selling Bordeaux directly to consumers. In doing so he changed the way the system works. Joel B. Payne looks at the consequences.

Selling to your clients' client has never been a good business model. For many in Bordeaux, though, that is exactly what Patrick Bernard is doing. Wrong. He is not selling to his clients' client, he is selling to theirs.

When he created Millésima in 1983, Patrick Bernard originally planned to play by the established rules. It was a fortuitous time to begin a business. Although Bordeaux was slowly recovering from an extremely difficult period in the 1970s, no one was prepared for the heady times that Robert Parker and the en primeur sales of the 1982 vintage were going to bring. Stepping onto the train as it begins to leave the station is always the most pleasant way to journey.

Demand was increasing. Yes, but so were the prices. In particularly the overpriced 1984 vintage posed a problem, putting pressure on all links in the chain of distribution, and compressing, even annihilating, margins. In 1998 Millésima thus turned its attention to the consumer and, a first in Bordeaux, began selling directly by mail order.

The idea makes sense in obviating one of region's inherent weaknesses. The two major criticisms levelled at the way Bordeaux is traded both revolve around marketing and distribution. The fact that the individual châteaux can not control their marketing, distribution and pricing the way a brand owner in Champagne does, is well known, but they are wholly responsible for that state of affairs and could solve the problem if they so wished. The other criticism is that the traditional distribution chain in Bordeaux is far too long in a world raised on the internet. Millésima has changed that.

Traditionally a bottle sold via a broker to the shipper in Bordeaux would also pass through the hands of an importer, wholesaler and retailer before reaching the cellar of the final consumer. While it is true that the margins generated are no longer sufficient to nourish all the links in this chain, more importantly the message posted by the producer when the wine left his estate is often lost on route. It is a little bit like the game of telephone, or Chinese whispers, that we played as children. The line spoken quietly into the first child's ear came out, at best, severely jumbled by the time it reached the end of the line. Patrick Bernard identified this weakness and proposed a solution. By selling directly to the consumer, Millésima drastically shortened the lines of communication.

With the original mail order of the early years, or today's online offers, the company was able to provide the buyer with information that he wanted, but generally lacked, and the direct contact provided Millésima with a vehicle to sell vintages that were not in great demand.

As those who deal in claret know, this is one of the quirks of the system. If you want your allocation in the most sought after vintages you must bite the bullet and take on the years which have little public appeal. This was less of problem a generation ago, when wines were not nearly as expensive and

generally appreciated sufficiently in value over the years to more than cover the costs of interest on the original investment. At today's prices the initial outlay is much larger and the return, at least in the eyes of many, less sure.

Patrick Benard himself is still very upbeat on the long term value of blue chip claret. "I generally buy the entire allocations that I am offered," he says. "You never lose money with the finest growths. You merely sometimes need to be patient." With 2.5 million bottles in stock, and a magnificent collection of large formats, patience is good thing to

have. His unvoiced dream appears to be to one day have a selection of old vintages like Frank Mähler-Besse, whose cellars, filled to the brim with 1961 Palmer and 1945 Mouton-Rothschild, are well-known to well-informed claret lovers.

Allocations, allocations, allocations

To make it to that point, you must have the original allocations. In that light Millésima has been very fortunate. Before he even thought of founding his own business, Patrick Bernard played squash once a week with Max de Lestapis, one of the four key brokers in the local trade. Not only did he learn a lot about how Bordeaux functions in the shower after the match, he also had the man he needed as a friend when Millésima opened its doors. Some of the established shippers were in dire straits after the scandals that had rocked Bordeaux and were no longer able to take their full allocations, freeing volumes for an upstart. Today Millésima is one of the five largest buyers in Bordeaux. "I have important allocations at almost all the châteaux," he relates, "with the largest being 2,500 cases of Lynch-Bages. The only allocations that I have ever cancelled were those of

| Millésima in numbers | |
|-----------------------------|------------------------|
| Turnover 2006: | €24 million |
| Share of online business: | 25% |
| Number of private clients: | 55,000 in 12 countries |
| Average order: | €1,700 |
| Yearly mailings sent: | one million |
| Calls answered per year: | 20,000 |
| Number of yearly shipments: | 250,000 in Europe |
| Current stock: | 2.5 million bottles |

Pichon-Lalande. They knew which shippers were selling their wines on discount to the supermarkets and did nothing to stop it.” That said, he was pleased to see the arrival of again Roederer at the estate and is willing to again add Pichon-Lalande to his portfolio, knowing full well that the new owners will rectify their sales policy.

Unwritten rules of the game

In 1998 he bought Château Peyrabon in Pauillac. Like many of his brethren in the trade, it is considered it good form to own an estate as well. His extended family also owns Domaine de Chevalier in Pessac-Léognan. Playing by the rules, he distributes his own property via the place, but sells the second wine exclusively through his own house.

The problem, at least from the viewpoint of his competitors, is that by selling directly to the final consumer Bernard himself is breaking a tacit code of honour that had long set the rules of the game. He responds that he scrupulously respects the margins needed by each link in the chain of distribution. The fact is, though, that the market no longer can or does provide the margins necessary. With no control over their distribution, and the internet providing worldwide transparency, the estates must watch passively as their wines are sold at whatever price the market thinks apt. In cumulating the margins of the shipper, importer and retailer in one hand, Millésima has a flexibility that no other link in the chain will ever be able to match. Whether the company uses that advantage to discount pricing, or line its own pockets, is its own decision.

The fact that shorter routes to market have become necessary has driven other shippers to bypass importers and sometimes even wholesalers in order to sell directly to the retailers, essentially obviating the need for those tiers in the chain. Some of the importers have responded by setting up their own shipping companies in Bordeaux, others by relegating claret to a minor role in their portfolio. In their turn, and in order to justify their partnership with retailers, many shippers have added other wines, first from France and then from the rest of the world, to their offers. Millésima, again one of the first, has done the same. Although he lists as many as 4,000 different wines in his catalogues and now sells revered labels from Burgundy, the Rhône, Champagne, Alsace and the Loire as well, Bordeaux still represents 80% of total volumes sold.

For claret, his advantages are readily apparent. Not only can he boast that all his wines are purchased directly from the estate and warehoused in an old stone cellar built on the Quai du Paludate in the 18th century, he also carries as many as 15 different vintages from up to 150 châteaux. Further, he guarantees that the prices fixed on the 1st of January will remain valid until the 31st of December. He has also turned the warehouse into a tourist attraction, allowing keen wine enthusiasts the opportunity to walk through the cellar, view the rare wine collection and taste wines commented by oenologists, adapted to their public’s language. This won him an award in the Best of Wine Tourism Awards in 2007.

QUOTE UNQUOTE

»» You never lose money with the finest growths if you are patient. ««

Partrick Bernard

Born in 1947, a benchmark vintage for Bordeaux, Partrick Bernard studied business at the Ecole Supérieure de Commerce in Bordeaux before rejoining the spirits company Lucien Bernard that his grandfather founded in 1928. He left to start Millésima in 1983.



In January 2001 he created a new company, then called E-vintage, with Moët Hennessy that, as the name implies, sold only online. A year later the company was restructured and now trades as Wine and Co (www.wineandco.com). He had already been present on the web with Millésima (www.millésima.com) since 1997 and online sales now represent 25% of turnover. That is not to say, though, that he is abandoning the mail order business. He still sends some one million mailings a year and places over 100 advertisements in international consumer magazines each year.

Subsidiaries in eleven markets

Not only are the mailings tailored to the target market in terms of language, Millésima has set up subsidiaries in ten other European countries. These are not only digital companies run from Bordeaux, but often bricks and mortar. After Belgium, Luxemburg, Austria, Switzerland, Italy, Spain, Portugal, the United Kingdom and Ireland, the most recent addition was the United States.

Originally scheduled to launch last June in time for the 2005 Bordeaux en primeur campaign, bureaucratic hitches postponed the opening. “I am not worried about losing money on the 2005 claret that we set aside,” says Patrick Bernard, “but it would have jump started our operation there had we been able to profit from the frenzy surrounding that vintage.” Roger Bohmrich MW, Millésima’s partner in New York, expects to have few problems selling them upon their arrival. “But 2006 will be far more difficult.” As in Europe, the selection at Millésima USA will focus primarily on wines whose retail price is above \$20 per bottle.

Few in Bordeaux today question that Patrick Bernard has built a flourishing business. And the original criticism of Millésima has gone quiet. Even producers who were at first sceptical, would never consider shortening his allocations. It is the importers and wholesalers who remain bitter that the rules of the game have changed. That said, had Millésima not taken the initiative, another company would have done so. The time had come – and it is not surprising that it happened in Bordeaux. No other region in France was so in need of some fresh thinking. ■