

Grapes, almost ripe for the picking, at a Napa Valley vineyard



Ravenswood's Kristine Oberholz treading Zinfandel grapes



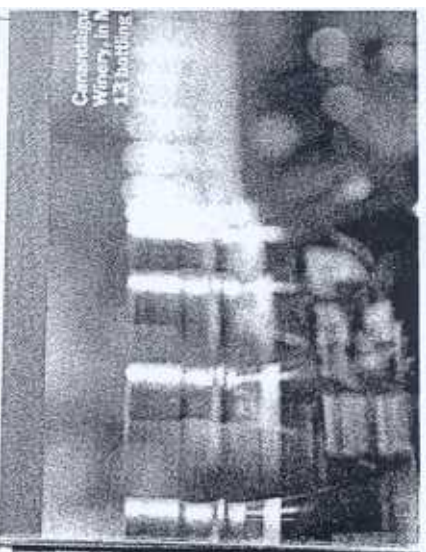
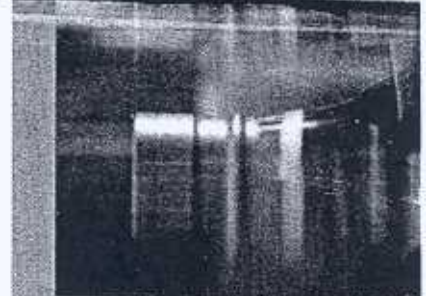
Wine barrels at the Ravenswood winery, full of red Zinfandel

Who **Really** Owns That Winery?

Winery?



Napa Valley



Carmichael Winery, in Napa Valley, with 1.3 billion



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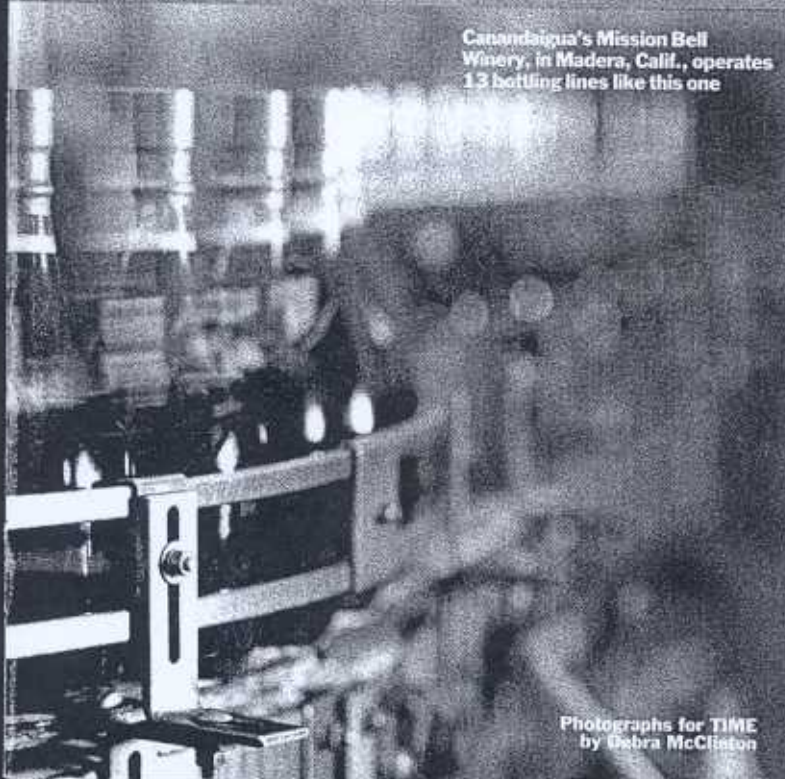
Winery?

Times are tough in the industry, so the big players are growing by gobbling up smaller wineries

By TERRY MCCARTHY NAPA

Jon Moramarco has wine in his blood. His ancestors made wine for eight generations in southern Italy, and after his grandfather Giuseppe emigrated to the U.S., he bought a winery in Los Angeles from the Jesuits during Prohibition. Jon's father was an expert in vine management—the pruning, spacing, grape thinning and irrigating that influence the quality of the grapes and the taste of the wine. As a young boy, Jon cleared weeds between the vines. He later went to work at the Callaway winery as a “cellar rat,” cleaning tanks, moving barrels, stacking bottles and sometimes working 19-hr. days during the busy crush season. “By high school,” he recalls, “I swore I was going to get out of the wine business.”

But he still had the stuff in his veins. After earning a degree at the world-famous school of viticulture at the University of California at Davis, and after spending 20 years learning every aspect of the industry, Moramarco, 45, is president and CEO of Canandaigua Wine. With sales of \$863 million for its most recent fiscal year, Canandaigua is the second biggest wine company in the world,



Canandaigua's Mission Bell Winery, in Madera, Calif., operates 13 bottling lines like this one



Jon Moramarco, Canandaigua's CEO, enjoys the fruits of his labor

Photographs for TIME
by Debra McCliston

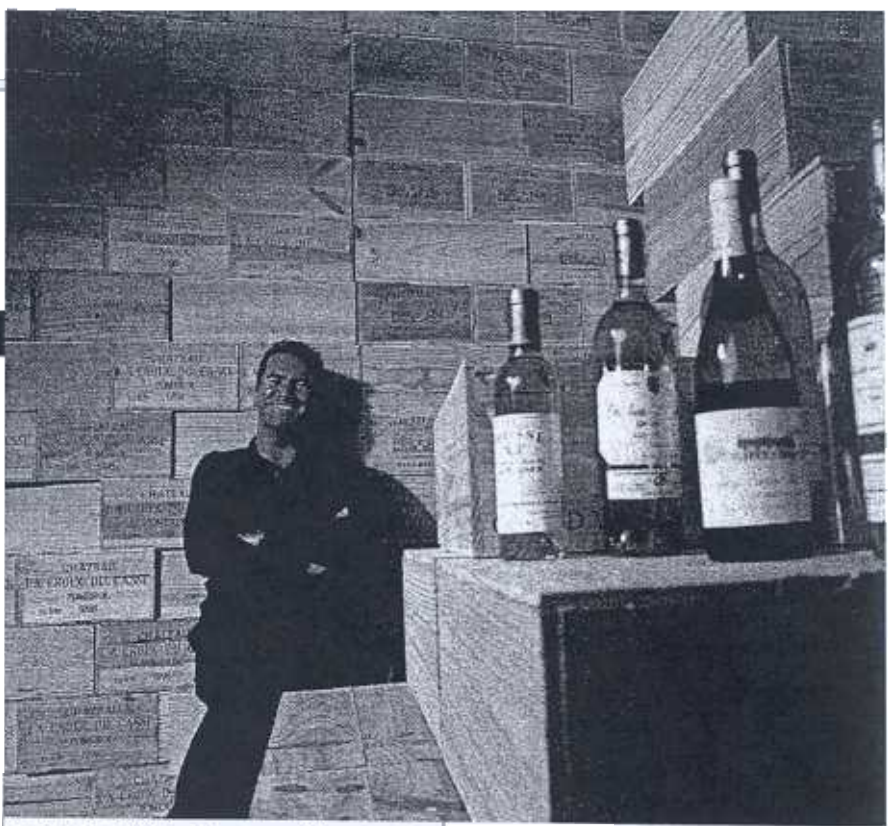
► **Bargains on the Best** Costco's wine buyer David Andrew, at a distribution center in Tumwater, Wash., helps the warehouse giant lead the U.S. in wine retailing

after **E.&J. Gallo Winery**, with a reported \$1.4 billion in annual sales. But Canandaigua (named after the town in upstate New York where the company was founded in 1945), a unit of publicly traded **Constellation Brands**, is expanding more aggressively than its competitors, with profits increasing 134% from 1999 to 2001. Many of his peers consider Moramarco the savviest operator in a tradition-bound industry that is rapidly consolidating under the pressure of changing tastes and global competition. "Moramarco is one of the brightest guys in the industry. He is one of the real movers," says John Gillespie, president of the Wine Market Council, a promotional body for the industry.

Moramarco works long hours directing a company that sold 45 million cases of wine last year. But as the wine industry has become more corporate—60% of U.S. wine is produced by the top five companies—he no longer has much time to stroll through vineyards or sample vintages from the cellar.

On a recent Sunday morning he paused briefly in the Red Carpet Lounge at San Francisco International Airport before hopping a plane for Chicago and the first in a week of meetings that would also take him to Bentonville, Ark. (home of **Wal-Mart**, a big customer), and Rochester, N.Y. (headquarters of Constellation). Moramarco lives in a spacious house in the serene hills above Santa Rosa, north of San Francisco. But he spends three weeks out of four on the road. Moramarco is always in a hurry: to catch planes, hit delivery schedules, grow the business. "The goal is to double the size of the company by revenue every five years," he says, his eyes flashing to check the time.

Times are tough for most in the wine industry today—which creates opportunities for Moramarco and other executives of big wine companies. As vineyards expand in the U.S. and around the world, there is an oversupply of grapes, which depresses prices for growers but offers a boon to companies like Canandaigua,



which buys 99% of its grapes. There is a declining number of wine drinkers, as young adults are attracted to heavily advertised beer and malt beverages. And there is strong competition, with winemakers in Europe, Australia, New Zealand and Latin America benefiting from favorable exchange rates to grab more than 20% of the U.S. market.

The mass-market jug wines with screw caps that have been Canandaigua's largest source of revenue are losing customers to pricier wines in smaller bottles with corks. So how has Moramarco managed to increase

expensive wines with higher profit margins. Understand that when Moramarco talks about moving upmarket, he doesn't mean to Opus One at \$150 a bottle. He can make lots of money just by shifting more of his production—and more of his customers—from 1.5-L jugs of generic red that sell for \$5 retail to smaller bottles of \$7 Merlot.

Around the world and especially in the U.S., companies with cash are snapping up wineries that are struggling, and everyone is trying to improve quality so that the wines can command higher prices. For the con-



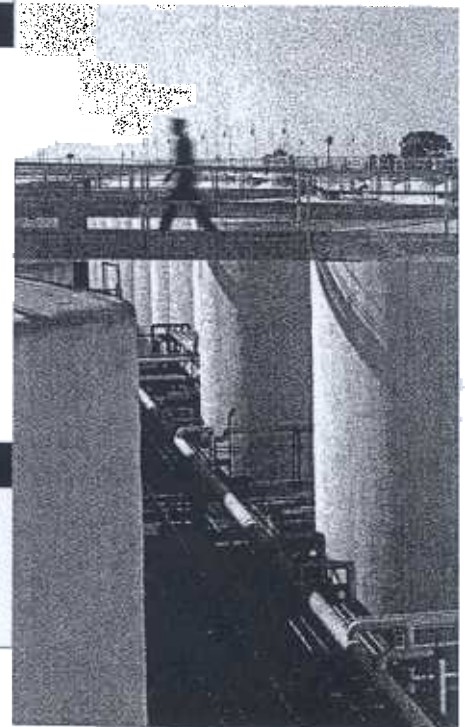
◀ **Grape Slush**

At Mission Bell, the makers of Almaden and Inglenook brands, crushed grapes are poured into metal containers

► **Buying in Bulk**

More than 500 tanks like these store 55 million gallons of wine at Mission Bell

Canandaigua's profits to \$110 million in 2001 from \$47 million when he took over the company three years ago? He has pursued a dual strategy of acquiring other wineries at bargain prices while shifting toward more-



Château Margaux Meets Costco

When David Andrew was growing up on the west coast of Scotland, sipping fine wine was about as popular as polo. Real men preferred an amber shot of Glen something. But Andrew's parents introduced him to French wine at age 10, and he tasted his first Château Margaux as a teenager, liking it so much, he wrote to the vineyard asking for a grape-picking job—which he landed. After a career that included a stint as an actor in TV ads, Andrew, 40, is now a celebrity in the wine trade: he is the top buyer for Costco.

With sales of \$600 million in its past fiscal year, the warehouse giant has become America's unlikely leader in retail wine sales, and it isn't hawking just \$8 jugs. Costco sells more fine wine than anyone else, and doing so has become a key part of its strategy to lure more upscale shoppers. Someone who spots a deal on a 1993 Dom Perignon (\$80) may also pick up a pair of Waterford goblets for \$60. Exploiting such buying patterns has helped Costco to push its average checkout ticket to \$109, compared with \$60 to \$80 at competing warehouse clubs, according to Bill Dreher, a senior retail analyst at W.R. Hambrecht.

When Andrew joined the company in 1998, Costco sold

no top-flight Bordeaux; today, with a wide selection, it sells more than any other U.S. retailer. At the same time, Andrew catered to Costco's bargain hunters, introducing boutique wines at attractive prices—for example, Château Salitis, a French blend of Grenache and Syrah with dollops of Cabernet and Merlot. The vintner produces just 5,000 cases a year, nearly all of which Andrew snaps up. "It's a wonderful little wine," he says. Price: \$6 a bottle. Costco's maximum markup is 14% above its wholesale cost, compared with 35% to 40% at a typical wine shop.

Traveling from Tuscan villages to the valleys of New Zealand, Andrew searches for bargains and little-known gems. Vintners often treat him like royalty. He tastes 5,000 wines a year and purchases offerings that range from Château Mouton Rothschild 1998 (\$165) to \$10 Merlots from Chile.

Snootiness, of course, remains a hallmark of the wine trade. Some boutique vineyards in California's Napa Valley don't want their wines merchandised in stores that also sell gallon-size containers of French's mustard, so they shun Costco. Andrew says, "They don't understand that the demographic of our members is so high." Nor do they appreciate that a lot of wealthy folks got that way because they have an eye for a bargain. —By Daren Fonda/Dallas

sumer, this is good news: new winemaking technology, new foreign producers and intense competition are resulting in higher-quality bottles at all price levels.

"The excess in grapes will accelerate consolidation—some players will run out of cash," says Moramarco, who when he sees a bargain will buy down-market as well as up. He paid **Sebastiani Vineyards** \$295 million last year for Turner Road Vintners (whose Talus Merlot sells for \$7 a bottle at retail) and half a dozen mass-market brands, boosting capacity at the less expen-

sive end of his business. To add more up-market brands to the portfolio, he paid **Corus Brands** \$52 million in March 2001 for several wineries and labels, including Columbia Winery's Syrah, which retails at \$18.

Other companies have been on a buying spree as well. Gallo surprised the industry last month when in the space of two weeks it bought two respected upmarket wineries: **Louis M. Martini** of Napa and the brand and inventory of **Mirassou Vineyards**.

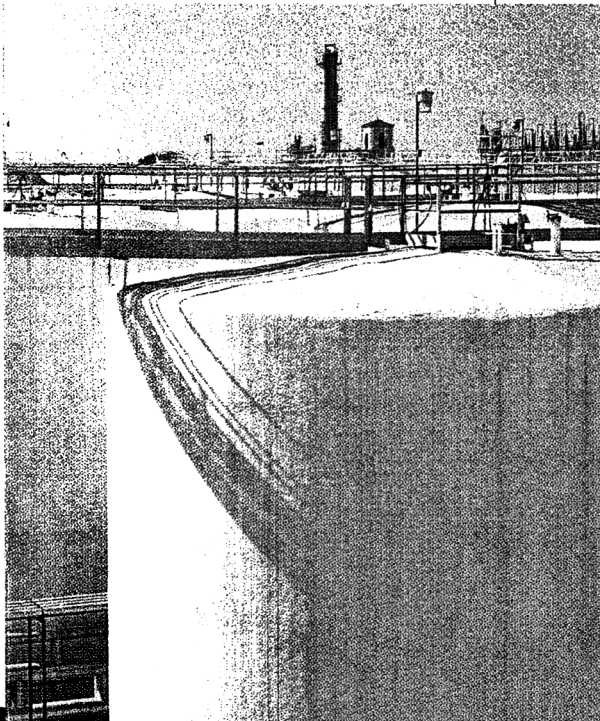
This was a departure for the still privately held Gallo, which had long relied on internal growth. Gallo last year produced 66 million cases of wine, but it has stayed anchored too long at the lower end of the market, and it needs to move upscale as consumers' tastes become more refined. The Martini vineyard, which produces 130,000 cases a year, gave the Gallos, based in Modesto and Sonoma, a presence in the coveted Napa Valley, the region associated with fine wines in the minds of U.S. consumers, and one whose bottlings command a premium price. "We see an expansion in our fine-wine portfolio," says Caroline Coleman Bailey, director of Sonoma marketing and public relations for Gallo. "Look at what the consumers are drinking—it is going to \$10 and above."

The Wine Group, third largest wine company in the U.S., acquired Glen Ellen and M.G. Vallejo in May from **Diageo**, a beverage group based in London. Until then the Wine Group had relied on its Franzia wine-in-a-box brand, which sold in high volume but at a low profit margin. Diageo added Sterling Vineyards—a Napa property that is more up-market than Glen Ellen or M.G. Vallejo—with its purchase of Seagrams this year.

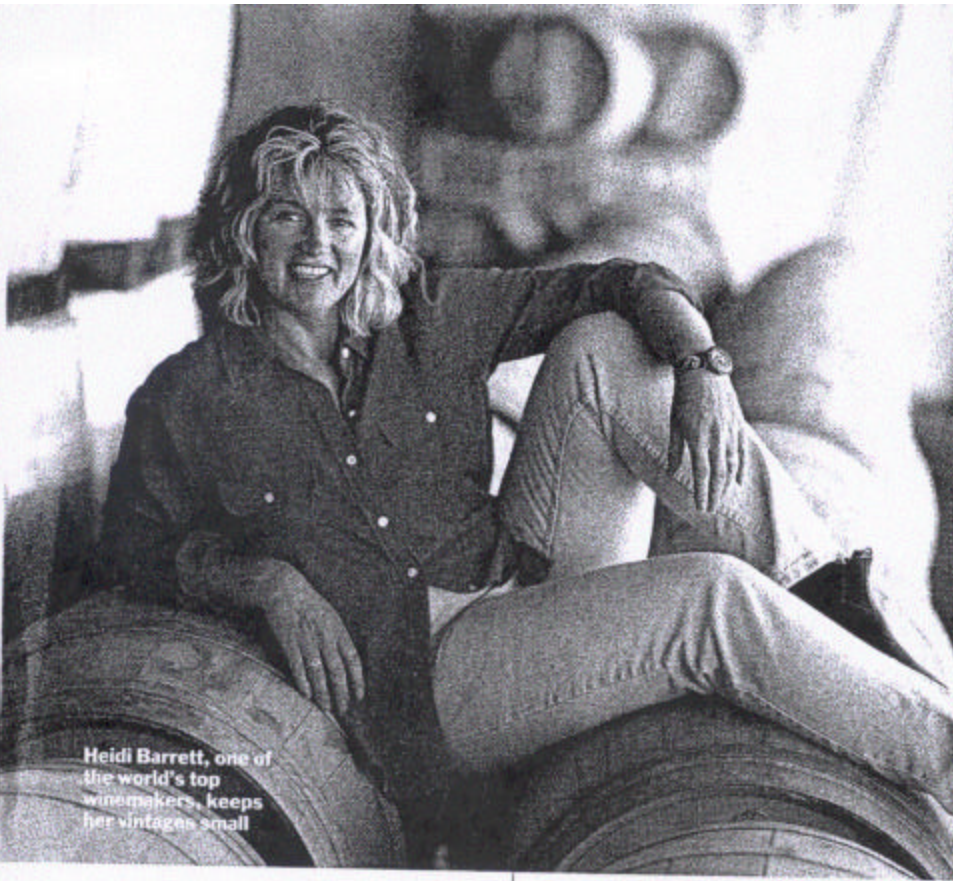
Foster's Group of Australia bought Napa-based Beringer Blass Wine Estates in 2000 for \$1.5 billion, and for the first time last year, the quintessential global beer company sold more wine (\$1.04 billion) than beer (\$931.9 million). **Allied Domecq** of Britain, which already owned Clos du Bois in Napa as well as wineries in Argentina and New Zealand, last September paid \$275 million for Spain's largest wine producer, Bodegas y Bebidas.

Canandaigua's parent, Constellation (which distributes Corona beer in the U.S. in partnership with **Grupo Modelo**), has also been on the acquisition trail. In 1999 it acquired Franciscan Estates in Napa, whose bottles sell for \$20 and up. Franciscan added Ravenswood and Simi to its higher-end collection last year. Together they sold 2 million cases for \$140 million in 2001. More acquisitions are likely for the Franciscan group and Canandaigua. "We will look around the world," says Constellation's CEO, Richard Sands. "An Australian acquisition, maybe, or Italian or Spanish."

Canandaigua's brochures boast that the company sells the equivalent of 1,479,452



REX HANSTEDT FOR TIME



Heidi Barrett, one of the world's top winemakers, keeps her vintages small

standard bottles of wine each day. But Moramarco knows that size isn't everything. The U.S. is the world's fourth largest wine producer—after France, Italy and Spain—but it ranks 35th in per-capita consumption. What the industry calls “core drinkers”—those who consume wine at least once a week—comprise 19 million Americans, according to research by the Wine Market Council. Another 29 million Americans drink wine at least once every three months. And both numbers have declined since 1994. Per-capita consumption at 1.95 gal. a year is still below the peak of 2.48 gal. back in 1986, according to the Adams Beverage Group. The French drink seven times as much, and even the whiskey- and stout-producing Irish drink four times as much wine per capita as Americans.

“The U.S. is not a wine culture—only 10% of adults drink 86% of the wine,” says Moramarco. Three-quarters of wine drinkers are 35 and older. Wine is intimidating to many because of the wide array of labels and the pomposity of many wine experts, wine waiters and wine bores around the country. “We are working as an industry to get casual consumers to drink more wine—to change it from something for a special occasion to an everyday beverage,” says Moramarco. The Wine Market Council is looking for a campaign along the lines of the “Got Milk?” series, he says. But Moramarco and his competitors accept that a

sudden increase in the number of wine drinkers is unlikely. Which means the only way to increase revenues is to sell wine to existing wine drinkers for higher prices.

Sales of what the industry defines as premium wines are increasing even as cheap-wine sales are declining. According to the wine-industry consultancy Motto Kryla Fisher, among wines costing less than \$8 a bottle retail, 116 million cases were sold last year for a total of \$2.55 billion—a volume decline of 3% from the year before. But among wines that cost more than \$15 a bottle, 15 million cases were sold for \$2.17 billion—an increase of 9% over 2000. The higher end is where the profits and the growth are to be found. “With high-quality wines, the costs are higher, but they don't rise as fast as profits,” says Christian Miller, director of research at Motto Kryla Fisher. And now that consumers' tastes are moving upmarket, wine sellers are rushing to keep up with them.

Moramarco's acquisitions for Canandaigua are aimed at easing the company away from the jug-wine market toward the least expensive varietals—wines labeled Cabernet, Merlot, Chardonnay and such—selling at \$3.50 to \$5, and the slightly more expensive premium wines priced at \$7 or more. This move upmarket is happening across the industry, from the behemoth Gallo to medium-size upscale wineries that must increase revenue or fall victim to takeovers—

« The Wine Diva of Napa

When the final bid came in at \$500,000 for a 6-L bottle of 1992 Screaming Eagle Cabernet Sauvignon at the Napa Valley Wine

Auction two years ago, there was a moment of stunned silence. Then the audience broke into applause. It was—and still is—the highest price ever paid for a bottle of wine. The proceeds went not to the woman who made the vintage. Heidi Peterson Barrett, but to fund social services in Napa Valley. But the sale cemented Barrett's reputation as one of the world's top winemakers.

One recent Tuesday, as the grape harvest was beginning, Barrett strolled through a vineyard, picking fruit from the sunny and shady sides of the trellis, chewing on the grape skins. In her hand was a printout of grape-sugar levels that were tested overnight. “But you can't measure for flavor,” she says. “There is no hint of any green flavor, all black and red fruit, blackberry and cherry flavors. I think we are real close—Friday, maybe.”

Barrett, who has a degree in oenology from the University of California at Davis, has worked with winemakers in Australia and Germany. Today for the owners of Screaming Eagle, she makes just 500 cases a year; all are sold in advance to established customers. Resale price of a new bottle: \$1,000 plus. She also makes Cabernet Sauvignon for Barbour and Showket Vineyards, among others. Her private label, La Sirena, sells for \$125 a bottle.

As harvest time approaches each year, Barrett gets tense. “Screaming Eagle grapes are \$4,500 a ton,” she says, compared with \$2,000 a ton for a typical Napa vineyard's. “You have got to get the harvest date correct. Then you're halfway there.” Screaming Eagle is blended from six to eight lots of Cabernet Sauvignon. Smaller amounts of Merlot and Cabernet Franc are added. When the grapes are picked and crushed, Barrett must decide what kind of yeast to add and how long to leave the juice to ferment. She likes to work on her own, which is why she keeps her vintages small. After 18 months in oak barrels, the wine is blended before being bottled. “I do it with a taste test with a count of six,” during which the different grape tastes should hit the drinker's palate. “I want all those stages, one through six, to be seamless and full.” And Barrett usually gets what she wants.

—T.M.

particularly in Napa, whose prestigious name puts it on the wish list of every ambitious wine company in the world.

Clos du Val, a Napa winery set up by Frenchman Bernard Portet in 1972 and best known for its Cabernet Sauvignon, hired a new executive team last year to reposition its brand further upmarket. It will soon sell its top Cabernet at \$62 a bottle, up from \$55. Several of its other wines will also have price increases. The wine labels will be redesigned, but the wine inside will remain the same. "By not raising our prices in the 1990s, we fell behind in positioning and recognition," says David Campbell, the new CEO.

Another powerful force for consolidation in the wine industry comes from the arcane distribution system for alcohol in the U.S., a legacy of the Prohibition era. By law, winemakers may not sell directly to retailers or restaurants but are forced to sell their goods to wholesalers, who operate under laws that vary widely from state to state. As retailers consolidate into large national chains, so do the distributors. For big producers, this is an advantage: Diageo, the world's biggest alcohol-beverage company, recently began reducing the number of its distributors in each state and persuading each to have a separate division cater exclusively to Diageo's Sterling and Beaulieu brands.

But consolidation among distributors is squeezing out the medium-size producers, who make from 100,000 to 1 million cases a year. They cannot charge the premiums of the small, boutique wineries nor rely on private mailing lists for customers. Nor do they have enough volume to get priority from distributors. "In 1975 there were 45 wine wholesalers in California. Today there are three left," says Carolyn Martini of Louis M. Martini. "The middle category we are in makes it impossible to get distribution worked out." This, Martini says, was the principal reason her family sold out to Gallo last month.

The consolidation trend is starting to appear outside the U.S., although somewhat unevenly. Europe has been slow to shed centuries of vineyard traditions, but the New World producers, especially the Australians, have been expanding aggres-

sively. Four companies—**Southcorp Wines**, **B.R.L. Hardy**, Orlando Wyndham (owned since 1989 by **Pernod Ricard**) and Beringer Blass Wine Estates (Foster's)—now account for 74% of the wine exported from Down Under, according to Macquarie Resource Equities.

Much of that wine is coming to the U.S., where Australian imports increased by 30% last year. In Britain too, Australian wine outsells French wine. Why? The Australian wines offer better quality for the money and are easier to understand. Total wine exports from Australia jumped from

Although France still sells 40% of the world's wine by volume and its most famous Bordeaux are the most sought-after wines, the French are losing ground. French winemakers, says Jean-Michel Peyronnet, editor of *La Revue Vinicole Internationale*, "simply didn't see the competition coming." Jacques Berthomeau, who heads a group of industry experts, issued a report in May in which he called for a simplification of wine classifications, varietal labeling and the promotion of recognizable brands.

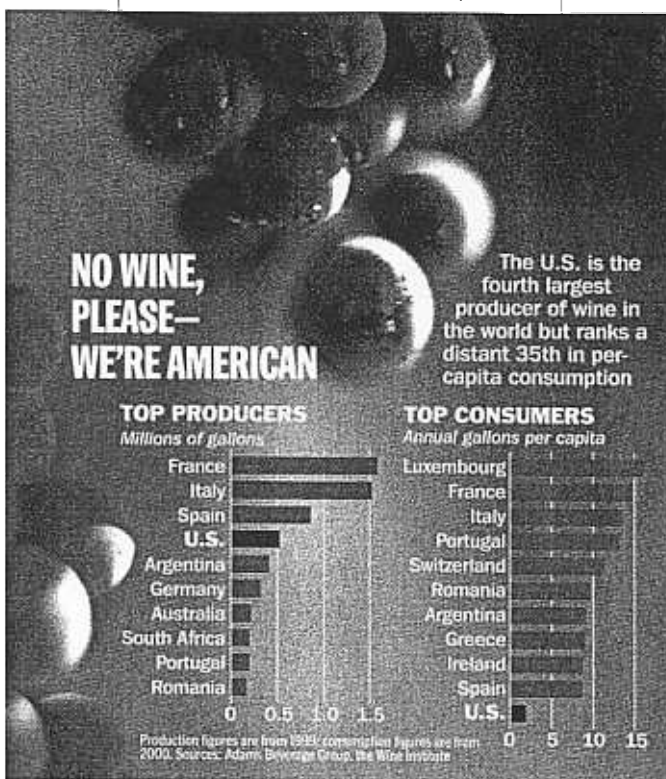
Italy, once looked down upon for turning out cheap table wine that didn't travel well, has been quicker to catch on to the changes in the wine industry by improving quality and learning how to sell overseas. Says Francesco Trimani, owner of Trimani, Rome's oldest wine store: "Before, big wine producers bought grapes from small vintners. Now they are acquiring vineyards so they can control the quality of production from the start."

He points to **Marchesi de Frescobaldi**—best known for its Tuscan red wines, such as Nipozzano Chianti Rufina—which has acquired property in Friuli to make Sauvignon, Pinot Grigio and Ribolla Gialla white wines. "The Italians have figured it out—how to create tastes that suit the American palate," says John Fredrickson of Gomberg, Fredrickson & Associates, a wine-industry consultancy in San Francisco. In the U.S. market, Italian Pinot Grigios

represent the largest import category. At the higher end of the market, the new category of Super Tuscans—such as Tignanello and Sassicaia—are commanding prices of \$80 a bottle and up.

Back at Canandaigua, Moramarco values his Italian ancestry, but his business methods are all-American. The consolidation process, he says, is only beginning: "It won't be so apparent. You won't see a bunch of different wineries closed down—just different corporate ownership." Asked who might be next on the acquisition list, he smiles and says, "A lot of conversations are going on." And he heads off to catch a plane.

—With reporting by Maryann Bird/London, Lisa Clausen/Melbourne, Adam Smith/Paris and Mimi Murphy/Rome



\$98.7 million in 1990 to \$1.01 billion in 2001, powered by favorable exchange rates and strong brand marketing. Like U.S. winemakers, the Australians sell wines that are easily identifiable by the grape they are made from—Shiraz, Sauvignon Blanc—as opposed to the confusing geographical classifications of French wines. "Brands are the key," says David Scotland, president of Allied Domecq's wine division. "New technologies have improved winemaking... the consistency of style builds trust and thus brand equity." Consider Orlando Wyndham's Jacob's Creek brands, which include Chardonnay and Shiraz Cabernet: they have been marketed heavily, and sales have increased by 24% on average for each of the past five years.