

Wine Country's global appeal

Sonoma, Napa counties benefit from trend toward premium wines

By **BOB NORBERG**

THE PRESS DEMOCRAT

Published: Sunday, February 20, 2005 at 2:43 p.m.

Suddenly, bigger is better for a vast swath of the wine industry, and the North Coast is at the center of that movement.

It is a trend that was most apparent in the stunning \$1.36 billion buyout of Mondavi Corp. by Constellation Brands in December, and continues with the rumored interest of French spirits company Pernod Ricard in Allied Domecq.

For Sonoma, Napa and other North Coast wine counties - long the center of U.S. wine operations of numerous international conglomerates - the buyouts have further cemented their presence on the global wine stage.

"This is both the geographical and psychological center of the wine industry in America," said Vic Motto of MKF Group, a St. Helena wine consultant.

Beyond the Constellation-Mondavi deal, Britain's Diageo has acquired the fine wine maker Chalone Wine Group in Napa, and E&J Gallo purchased Barefoot Cellars, the Santa Rosa company which turned a catchy brand name into a winery producing millions of cases a year.

Overseas, the Foster's Group - owner of Beringer - is making a run at Australian rival Southcorp, which would create the world's third largest wine company, and the rumors are rampant that Pernod Ricard wants to buy Allied Domecq.

Driving these consolidations is the need to assemble a broader portfolio of wines to present to distributors, said Robert Nicholson of International Wine Associates in Healdsburg.

"As a supplier of wine to big-box stores and chains, you are able to command a larger share of their attention, you can more effectively do business with them, if you can offer them a Sonoma wine, a Napa wine, a Central Coast wine and maybe even Australian, French and Italian wine," Nicholson said.

A second factor is the current booming wine market for higher-priced wines, in which premium vintages costing more than \$10 are the fastest growing segment as the United States is poised to overtake France as the world's largest wine market.

Premium-wine sales were up nearly 12 percent in the past year, compared to a 3.8 percent increase for sub-\$10 wines.

It was one of the reasons that Diageo bought Chalone, said John Pageler, spokesman for Diageo Chateau and Estate Wines in Napa. And he doesn't see the premium trend in the U.S. reversing during the next decade.

"What is happening in the U.S. is pretty amazing, the trend data is incredible," Pageler said.

The fine wine trend bodes particularly well for Sonoma and Napa counties, where premium winemakers still dot the verdant countryside, and global wine companies

PETALUMA NEW RELEASES
New Single Family Homes

From the low **\$400,000's**

DeNovaAtSouthgate.com

are setting up headquarters, warehouses and bottling plants in industrial areas in Santa Rosa, Healdsburg, Sonoma, St. Helena and Napa.

When John Moramarco, president of Franciscan Estates in St. Helena, the fine wine division of Constellation Brands, wants to talk to Bill Newlands, CEO of wine giant Allied Domecq, about a conference panel they are sharing, it's a local call.

"The reality is that as a number of companies have gotten more significantly into the wine business and the fine-wine business, we all have significant holdings in Napa and Sonoma, so it makes sense to have a lot of our operations bases around here," Moramarco said.

Constellation Brands stunned the wine world last fall when it launched an unsolicited bid to buy the Robert Mondavi Corp. in Napa. That sale closed in December.

Constellation, based in Fairport, N.Y., was already the largest wine producer with 66 million cases a year. It gained another 10 million cases in premium and value wines in the Mondavi Oakville wine, Robert Mondavi Private Selection and Woodbridge.

Analysts say Constellation's global distribution network will increase the low-cost brand's ability to penetrate the European market, while adding Mondavi, the world's most recognizable premium brand, to Franciscan's premium wine portfolio.

As part of its consolidation, Franciscan is integrating Mondavi's Napa headquarters into its own St. Helena operations, which it is expanding to accommodate as many as 100 marketing, sales and administration workers.

Franciscan also has a warehouse near the Napa Airport, from which it distributes its North Bay wines and brings in its premium overseas brands.

In one of the latest acquisitions in the North Bay, Diageo bought the Chalone Wine Group in Napa in a deal valued at about \$265 million. The deal closed Feb. 8.

Diageo, the London-based spirits company best known for its Smirnoff vodka and Guinness beer, already had a significant presence in the U.S., with 600 workers in its Napa wine division headquarters, a production of 2.5 million cases at Sterling and Beaulieu and a Sonoma bottling plant capable of handling more than 4 million cases.

Chalone produces 700,000 cases at Acacia, Dynamite, Hewitt Vineyard, Jade Mountain, Moon Mountain, Orogeny and Provenance, plus owns vineyards and wineries in Soledad, San Luis Obispo, and in Walla Walla and Yakima, Wash.

"Diageo recognizes that wine, and especially wine in the U.S., is a huge opportunity for us," said Diageo spokesman Pageler. "The brands of Chalone are extremely well positioned, they are at the sweet spot of the \$10 plus category."

In mid-January, E&J Gallo of Modesto bought Barefoot Cellars, a Santa Rosa-based wine company that produced 600,000 cases last year.

Gallo is already the largest U.S. wine producer in volume, making 70 million cases a year. With Barefoot Cellars, it gained a popular wine selling in the \$6- to \$7-a-bottle market segment.

In a battle involving two Australian wine companies, Foster's has made a \$2.3 billion offer to buy rival Southcorp.

A successful takeover would be a boon to Foster's Napa-based wine operations, Beringer Blass, by giving it access to Southcorp's global distribution network, according to analysts.

Beringer produces 10 million cases a year at its Beringer, Chateau St. Jean, Chateau

Souverain, Asti, Stag's Leap, St. Clement, Etude and Meridian wineries.

Beringer exports 375,000 cases a year, making it California's seventh largest exporter, but analysts believe that could grow to 1 million to 1.5 million cases a year with Southcorp's distribution network.

There also has been much speculation recently that French spirits company Pernod Ricard is interested in merging with Allied Domecq.

Officials have called it "market speculation," even as Diageo weighed in last week, with Diageo telling a London newspaper that Diageo also would be interested in some of Allied Domecq's wine properties.

In the North Bay, Allied Domecq has its U.S. wine headquarters in Healdsburg, a 2.5 million-case warehouse and distribution center near the Charles M. Schulz-Sonoma County Airport and another 1 million-case warehouse in Sonoma.

It produces about 3 million cases a year at Clos du Bois, Gary Farrell, Buena Vista and Haywood Estates in Sonoma County; William Hill, Atlas Peak and Mumm champagne in Napa; and Callaway Coastal in Temecula.

An Allied Domecq-Pernod Ricard merger would create a global wine company surpassing Gallo and rivaling Constellation Brands in size.

With Allied Domecq already a major player in Sonoma County, the merger would bolster the county's role as a global wine center.

"Over the last 15 to 20 years, Sonoma and Napa has driven the premium wine growth in terms of revenue and profits," MKF's Motto said. "This is where the action is."

You can reach Staff Writer Bob Norberg at 521-5206 or bnorberg@pressdemocrat.com.

Copyright © 2012 PressDemocrat.com — All rights reserved. Restricted use only.