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# Strategic thinking for the future of Bordeaux wines An interview with Bernard Farges

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## 1. Introduction

Bernard Farges, a producer in the heart of the Bordeaux "*terroir*", from the largest wine producing area in the world, greets me with:

> "Here we are in my office, but think that on Saturdays and Sundays I'm on my tractor!"

From his office in the City of Bordeaux, Bernard Farges, chairman of the Conseil Interprofessionnel des Vins de Bordeaux (CIVB), sees the famous opera and many other eighteenth century buildings. Bordeaux is one of the well-known wine capitals in the world. Considered to be "the boss of Bordeaux wines," some analysts think that Bernard Farges is not only one of the most powerful actors in the city but also in the region. His influence on the French wine industry is associated with the fact that CIVB is the biggest organization in the French wine sector and includes producers, châteaux, cooperatives, brokers and merchants (Fig. 1).

Forty-nine-year-old Bernard Farges is a producer who works with his brother and is the owner of real estate located in Mauriac, a village that belongs to the Entre Deux Mers terroir in Gironde. The size of his vineyard is 145 ha. Most of the production is red wine under the Appellation "Bordeaux—Bordeaux Supérieur". Twenty percent of the production is white wine.

As a grower cooperator, Bernard Farges supplies his products to the Sauveterre-Blasimon Cooperative, which is the result of the merger of two cooperatives. Thanks to this concentration, Sauveterre-Blasimon is one of the leaders in Bordeaux in terms of volume: 160 families who operate on 2600 ha and produce 160,000 hectoliters of wine.

Bernard Farges is also the current president of the CIVB. He was elected in July 2013 and his term ends in 2016. He was vice president of the European Federation of Origin Wines (EFOW) and president of the National Federation of Producers of AOC Wines and Eaux de Vie (Confédération Nationale des Appellations d'Origine Contrôlée).

## 2. A tool for regulation and promotion

The CIVB (or Bordeaux Wine Council) was founded in 1948 and represents the three actors of the Bordeaux wine industry: wine growers, wine merchants and brokers. As such, the CIVB has three main missions. The first consists of marketing and promoting Bordeaux wines in France and abroad through advertising campaigns, digital communication, public relations and training. The second is dedicated to the acquisitions of economic data and management knowledge in relation to the production, marketing and sales of Bordeaux wines throughout the world. The third mission is technical and aims to improve the industry's understanding of various procedural issues concerning the quality of Bordeaux wines and anticipating new environmental and health requirements.

Presidents of the CIVB are elected by the membership, chosen alternately by growers and merchants. The annual budget of the CIVB is about 22 million euros.

"Bordeaux wine" is produced in the Bordeaux region, which covers the whole area of the Gironde Department. Its center is the city of Bordeaux. The area counts the largest number of vineyards in France which cover 120,000 ha and produce about 600–700 million bottles per year.

The range of wines produced includes table wines, the largest appellation being "Bordeaux-Bordeaux Superieur" in the Entre Deux Mers terroir, but there are also 56 other

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Fig. 1. Bernard Farges.

appellations. The group of "Côtes de Bordeaux" wines represent about 16% of the total production. Prestigious vineyards are located in the east of the region (Saint-Emilion), northwest (Medoc), and south (Graves and Sauternes-Barsac). The number of producers in the Bordeaux region is estimated to be 7400 (*châteaux*). Three hundred merchants (*negociants*) are the actors of "La Place de Bordeaux". Their main role is to market the wine domestically and abroad. About 25% of the production is exported, but this percentage is of course far more important for the "Grand Cru" segment. Wine activities employ about 60,000 people in the Gironde Department and the total turnover of the sector in Bordeaux can be estimated at 3.4 billion euros.

The "Place de Bordeaux" system identifies separate roles for the chateaux (in charge of production) and the merchants or traders. There are 132 châteaux that belong to the Union des Grands Crus and take part in the most prestigious production of Bordeaux wines, a niche that represents about 5% of the total production of Bordeaux. The top of the range is managed by speculative activity, especially during the "campagne en primeur" (review of future wines). After tasting the young wine of the previous harvest, the experts determine the price; a few weeks later, the châteaux send their allocations to the main merchants of La Place de Bordeaux and a certain number of cases are proposed to be set at a fixed price. It is up to the merchants to accept the risk of the allocation or not, to pay for it, and then to wait 18 months before selling the wines to their clients.

In addition to this speculative market, the role of Bernard Farges's CIVB team is to regulate the price of the "tonneau de Bordeaux Rouge" (one barrel of 900 l–1200 75 cl bottles). Depending on many parameters (vintage, terroir, level of demand and production, etc.), the market price of a barrel is set between 700 and 1300 euros, while the cost of production for 900 l is 1070 euros for bulk wine and 1280 euros for bottled wine. This highlights how price regulation can be a central strategic component of production decisions.

## 3. The "Bordeaux Demain" road map

A few years ago the CIVB Board decided to create a road map for the entire Bordeaux wine sector. According to Bernard Farges, this tool, which is called "le plan Bordeaux demain," has two main objectives: promoting Bordeaux wines and regulating their production. Even if the level of the average price of Bordeaux rouge seems to be stabilized at the correct level, Bernard Farges estimates that "two new elements have to be taken into consideration. The first one comes from the fact that the European subsidies are coming to their end. The second one [concerns] the 2013 vintage. As we know, this vintage gave lower volumes than expected. As a consequence, the revenue of the producers has decreased […] and so [has] their subscription to the CIVB. That is the reason why this period is difficult for us, even if we decided to maintain our efforts for the promotion of Bordeaux wines".

Bernard Farges estimates that "we have to increase the commercial efficiency of Bordeaux actors and concentrate our efforts on the main markets. This is particularly true for […] export activity. A kind of revolution concerning the promotion is that we are going to target very precisely six key Countries in the world during the coming years". One of the innovations of the plan Bordeaux demain is to determine a new approach to market segmentation. The idea is to go out of the box of classic segmentation based on terroir, which is mostly ranked in categories such as "Grand Crus," "Côtes de Bordeaux," "Bordeaux and Bordeaux Supérieur", and so on. By contrast, the new segmentation is based on demand and "expected use" of the product. Four segments have been defined and Bernard Farges insists that "this is an internal and technical approach for our members: we do not really communicate [about] it".

The first segment (men, 40-year old, with higher income), the smallest in size, is the "art segment". It mostly consists of consumers who buy Grand Crus and accounts for 5% of the volume. Although it comprises a small percentage of the new Bordeaux system, it is considered to be the flagship group. The marketing tools of the luxury industry are used for this segment.

The second group (men, 30–40) is called the "exploration segment". This segment is ground for competition, but Bordeaux has key advantages to attain success. This is a growing global market segment composed of consumers who wish to invest time and money to discover and better understand complex wines and especially the specificities of their blending, which is a particular strength of Bordeaux wines.

Specialized retailers seem to be an adapted channel of distribution for the exploration segment.

The third group, called the "fun segment" (young women and men), is where the most competition arises. Being fashionable, trendy, and easy-to-drink are the specific dimensions of the wine-drinking practices for this segment. The consumer behavior is quite different from traditional Bordeaux culture. The marketing for this segment is more concentrated on hyper and supermarkets. It is through this group that the rejuvenation of the Bordeaux brand image is proposed.

The fourth group (women and men, 50+) is the "basic segment." Cheap prices, daily consumption, intense competition, high power of negotiation by the distributors, rotation of inventories, and drinking from a bag in box represent some of the characteristics of this segment.

Once again, Bernard Farges explains that "this segmentation works really [well] internally, for our members, in order to help them think out of the box and have a new analysis of the Bordeaux productions with [fewer] geographic bases, like it was […] with the implicit ranking of our appellations" (Tables 1 and 2).

According to Bernard Farges, this segmentation is an answer to the "traditional French consumption of wine, which was a daily one. The volumes and the availability of stocks were the key issues. Now it is more [about] differentiation and communication".

The public is not aware of this new segmentation. In fact, the mission of CIVB is to communicate the new Bordeaux brand image.

When he compares the efficiency of the brand orientation versus the appellation orientation, Bernard Farges estimates that "the appellation system not only resists the progression of competitors but also progresses". The consumer needs and likes to know the root of the wine he or she drinks. Of course, it is complex when so many appellations are concentrated in such a small area. But "it works and, for instance, the elite appellations [Medoc, Saint Emilion, Pessac-Leognan, Sauternes] need to be inside of the Bordeaux system and not apart".

According to Bernard Farges, this is particularly true since 2008: "During this year [there were] two important events: the first one [was] the global crisis, of course, and its impact on Bordeaux wine consumption. The second one was the confirmation of China as a real market—the most booming for us—and a concentration of opportunities there. So the role of the CIVB was to help the actors to discover, understand and enter this new market with the specific strengths of Bordeaux".

Table 1
Global market.
*Source:* CIVB-IRI report/IWSR (2013).

| | Volume | Value |
|---|---|---|
| **Global market** | 219 million hectoliters | $94 billion |
| **Trend 2012–2017** | +11% | +7% |
| **Art** | 1% | 7% |
| **Exploration** | 16% | 36% |
| **Fun** | 39% | 36% |
| **Basic** | 44% | 21% |

Table 2
French market.
*Source:* CIVB-IRI report/IWSR (2013).

| | Volume | Value |
|---|---|---|
| **French market** | 27 Million HL | $10 billion |
| **Trend 2012–2017** | −4% | −2% |
| **Art** | 0.5% | 4% |
| **Exploration** | 5% | 14% |
| **Fun** | 48% | 59% |
| **Basic** | 47% | 23% |

## 4. Necessary concentration and integration of the sector

Bordeaux wines are sometimes accused of being too complex with too many appellations. How can one differentiate each of them? How can the region express the identity of more than 50 terroirs, which seem so geographically close to Korean, Russian, and American consumers? How can one evaluate any possible differences between Côtes de Bourg and Côtes de Blaye, when the ground, the orientation, the blending of the varietals and the wine-making processes are the same? In fact, Bernard Farges understands this reproach. But he also insists that he totally belongs to the appellation system, being also the president of the A.O.C. National group (C.N.A.O.C.). He also knows "the strengths and the limits of this new trend of wines, so called without I.G. [geographical identification]". He estimates that "this is not the key factor [for the] success of the Bordeaux region; this is not the role of Bordeaux".

But he is also certain not to be misunderstood when he says that "a château cannot strive to make three trades: producing fruits, being a wine maker, and marketing its wine. So the future lies in a distribution of roles. In the future, we will see more powerful cooperatives in order to obtain the economies of scale to really penetrate the globalized markets. We will see new firms offering important tools and services like wine-growing machines, bottling lines, and so on to producers [who] will no longer want to [conduct] part of industrial processes with important fixed assets. This will need the understanding of a more integrated wine industry".

When the discussion comes to the question of how to share the value added in this new integrated industry, Bernard Farges estimates that "the industry will never go towards a strict separation between those who produce the wine and those who sell it as certain merchant would like. In fact, we need to work more on partnerships between the world of cooperatives and the world of merchants".

This proposed partnership between châteaux and distributors would be based on a contract. This process would allow merchants to have a look at the management of the vineyard, the wine-making process, the moment of the harvest and other parameters of wine making and ageing. In return, the merchant would agree to buy a certain volume of the harvest at a fixed price. This decision would be based on the knowledge the merchant has of the wine's demand. Most of the times the price ends up by being higher than the equivalent on the spot market that fixes the price of Bordeaux Rouge each week. This system enables the actors to better anticipate the behavior of the market.

Bernard Farges estimates that “even if this system concerns only 60,000–80,000 hl, it works really well. Thanks to this kind of integration of the wine industry, the regulation of volume and price is a reality. The fact is that during the past few years, we have known less fluctuation than ten years ago, when the price of the barrel was at 700–800 euros. This partnership between a merchant and a producer is multiannual [3 years most of the times] and concerns the totality or only a part of the production of the château”.

## 5. The Bordeaux brand image

When someone says that elitism is a traditional characteristic of the Bordeaux brand image, Bernard Farges does not agree: “How could one say that Bordeaux has such a brand image when we produce each year 5.5 million hectoliters and we provide 3 billion euros of revenue to Gironde?”.

Four elements can possibly summarize the brand image and the storytelling of Bordeaux: “First, its promise. The promise of Bordeaux is a great opportunity, a large range from fine wines to fun ones. Surely the largest range in the world”. How could Bordeaux prove that it holds this promise? “By the volumes produced each year—5.5 million hectoliters here with a control of the quality and a great diversity of moments of consumption”. This results in the third dimension of the brand image: the target. Here Bernard Farges speaks of “all kind of consumers,” and once again does not agree with the idea of snobbism of Bordeaux consumers, in France or the rest of world. The final element of the Bordeaux story: its style. Here the president of the CIVB suggests that “this style comes from the great diversity of blendings that we have developed for a long period, for instance, with Merlot, Cabernet Sauvignon as a basis”.

## 6. Sustainability as an opportunity

When it comes to sustainable viticulture, Bernard Farges acknowledges “the fact that the market share of organic is currently increasing,” from almost nothing a few years ago to 5–7% today.

According to Bernard Farges, four questions have to be considered today: “first, the mediocre vintage that we faced recently does not allow [the production of] important volumes for this kind of wine. Second, other regions than Bordeaux present more opportunities to develop important volumes with a stable level of quality. Third, it is not so sure that the organic wine producers really wish to adopt a mass market orientation, with huge volumes”. Lastly, Bernard Farges is wondering if the French consumer is ready: organic wine producers need to understand the French wine market.

Bordeaux is doing important efforts to promote sustainable viticulture. The CIVB proposes to châteaux the S.M.E. (*Système de Management de Environnemental du vin de Bordeaux*), which is a collective process. The producers that want to commit to this process work together in meetings dedicated to various steps: initial environmental audit of the winery, strategy of environmental implementation, operating process, final analysis and measurement of the gap.

Bernard Farges continues: “This plan allows the producers to differentiate and to improve their environmental impact. It represents a real key factor of success for the brand image of the chateaux while maintaining the traditional economic performances. Currently, the pressure of the distribution channel is not very strong, but it's increasing. The CIVB does real efforts and would like to be helped by the media for the promotion of this orientation and by the public institutions, too.”

## 7. When China will be exhausted

As for many actors of the wine world, the most promising part of the future of Bordeaux abroad seems to rely on the booming Chinese market. But for a few months now everybody has also known that this booming period is going to end. China is now number seven in the world for production – before Chile, for instance and its geography and climate represent a real potential for the coming years. Chinese investors have recruited expert enologists and they may have the most effective key factor of success: the proximity of a very motivated market with about 150 million new consumers having money to invest in this “new” beverage.

Bernard Farges perfectly knows these data and he is able to answer clearly to the question about the future of Bordeaux wines in China: “500,000 hl of Bordeaux wines have been exported to China in less than 8 years. That has never occurred before. We have really taken the opportunity of this launching market. Now, of course, we have to anticipate a reduction of the growth. First, because we lack the raw material: 2013 had such a marked reduction of volumes for us that it is difficult to guarantee the supply.” Bernard Farges adds that “for the future, the worst scenario would be the closure of this market for international policy reasons”. Another scenario is based on the fact that powerful wine companies from Bordeaux have already signed solid agreements with local firms for the distribution and retail of wine. “We also have teams working permanently on local surveys: they analyze the fluctuation of the demand, the main trends for consumer behavior and the evolution of distribution channels”.

Bernard Farges insists on the specific relationship between China and Bordeaux: “We are surely the most attractive region for Chinese wine investors. At the moment, they buy chateaux here, not really in [the] Grand Cru segment but in the core of Bordeaux—Bordeaux Superieur. [Are] we to be afraid by such a trend? It would be more worrying if these investments went elsewhere! Of course, it's a kind of externalization of the value added, but we have strong relations with these investors. They need to supply their domestic market with ‘our’ wines and they have the know-how to do so”.

And, finally, Bernard Farges adds this: “Since the Middle Ages with England, we have always had this tradition of direct relations with foreign markets, which is not the case of other wine regions."

## 8. Conclusion

As a conclusion, Bernard Farges proposes his overview of the coming years and acknowledges important changes: "We can imagine that the owner of a château will be able to manage a 10–20 ha vineyard, producing 50,000 bottles. But when it comes to 500,000 bottles, a quarter being exported, this will not be possible anymore".

He insists on the fact that "we will need not only wine makers but real entrepreneurs. I am confident, because now the real managers of the Bordeaux vineyards, 50-year old on average, have observed the errors of their predecessors, especially [concerning] the question of overproduction that we faced a few years ago. They know better the danger for the future of […] viticulture. When you are a leader you are often attacked, and in particular when the global market does not really grow or is in stagnation. This new generation of 'wine managers' are ready to adapt their behavior to maintain their personal revenue and the quality of their production for a more and more educated consumer, not only in France but worldwide".