

THE BOUTIQUE WINERY PHENOMENON IN ARGENTINA AND CALIFORNIA:
GLOBAL PARALLELS AND REGIONAL DISTINCTIONS

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There is a dichotomy between artisanal winemaking and corporate winemaking. One is calculated, profit-driven and largely a marketing exercise. One is an expression of a personal aesthetic.

Randal Grahm quoted by Mike Dunn, "Blending Together,"
Sacramento Bee, May 25, 2005.

Boutique has become a synonym of charm, style and glamour....The boutique wineries are, clearly, the expression of cool for Argentine wines.

Revista JOY, # 26, August 2003, p. 62.

Dating from the 1970s with the appearance of "boutique" wineries in Northern California and in later decades with the "garage" wineries of Bordeaux and an assortment of highly visible boutiques in Australia and New Zealand, the emergence of small wineries has become a major phenomenon in wine world of a number of countries. In subsequent years, small wineries have spread throughout the wine producing areas of California and more recently have begun to play a major role both quantitatively and qualitatively in Argentina. Of the approximately 1,300 bricks and mortar commercial wineries in California, over half produce less than 5,000 cases. In recent years, the growth of boutiques has kept pace with the overall expansion of the industry as in 2002 450 wineries out

* Data on Argentinean wineries was gathered over a 2 year period by Stein, a Professor of Latin American History at the University of Miami, in the course of a multi-faceted project on the history of the Argentina wine industry from 1880 to the present. Stein carried out extensive recorded interviews seven boutique winery owners and wine makers in the Mendoza region. Zucca, owner and winemaker of a boutique winery in the Sierra foothills that has been in operation for the past 9 years, gathered data on boutique wineries in California relying substantially on participant observation methodology. This methodology is used extensively in anthropology, sociology research (Hagan, 2000). In addition to informal observations and interactions with local winemakers, in-depth, recorded interviews were conducted with four boutique wineries in Calaveras County. Since there are only 18 wineries in Calaveras County, it is necessary to maintain the confidentiality or anonymity. Therefore, individual wineries are not identified.

of the approximately 903 registered fit this description.¹ In the Argentine case, while the term began to be faintly heard in the midst of the industry's radical restructuring in the 1990s, both the concept and rapid growth of boutique wineries began in 2001. And grow they have. By mid-2003 a full twenty percent of Argentina's approximately 1,200 wineries were classified as "boutique"². This designation has become in fact so popular that various large wineries have adopted it for their premium lines, in some cases affirming that they maintain boutique operations within their larger production facilities.

Similarities between the structure and functioning of these enterprises certainly abound as the rise of boutique wineries is a global phenomenon. But at the same time, they respond to the specific historical and structural factors in each wine region. The purpose of this paper is to describe the similarities and differences between boutique development in the two areas that have witnessed significant boutique winery growth in recent years, Calaveras County in California's Sierra Foothills and Mendoza, Argentina. Based on these two cases, we will attempt to understand what historical context and economic environment can tell us about the distinctiveness of the evolution of the wine industry in these two regions.

Definitions, or What's in a Name? I Say "Boutique," You Say "Artisan"

Before getting into the specific characteristics of the boutiques in the two regions, it is important to note that the comparison the California and Argentine experiences is complicated by the very definition of the term "boutique winery". Clearly size is a major determinant of boutique status. While a there is no commonly accepted definition of boutique wineries in quantitative terms, wine

¹ Wine Institute, March 2005 and August 2002.

² Mariano González, "Pequeñas bodegas y vinos de alta gama, una tendencia que exige distinción y exclusividad," *Vinos y viñas*, # 983, March 2003, p. 31.

researcher Barbara Insel's approach is useful. Her references to "micro wineries" to describe wineries producing less than 5,000 cases per year would seem to describe appropriately most boutiques while most might consider the term "small wineries," those producing less than 50,000 cases per year in so far as they approach the upper limit as not fitting into the boutique category.³ The majority of the Argentine practitioners agree that the highest production for a true boutique is 100,000 bottles, or some 8,300 cases while others place the upward limit at closer to 20,000 cases.

While the term appears to have been first used in California, the boutique model is largely comes from the French tradition of great wines produced highly limited quantities. Interestingly enough, the French have for the most part rejected the term, preferring the denomination of "garage" when referring to small wineries that make high quality wines with clearly identified *terriors*. In the French case, it also refers to the idea "that the production of each wine mythically happens in an area the size of a garage."⁴ Unlike the French who rejected it, Australian wine makers began to enthusiastically adopt the term boutique when referring to the substantial number of small wineries that began to be established in the mid-1980s, and the same case has occurred in New Zealand where in the 1990s some two hundred entities clearly referred to as boutiques were founded, making up approximately sixty percent the country's wineries.⁵

³ Barbara Insel, "MFK Survey Shows Increasing Importance of Direct Sales Channel," *The MKF Advisor*, Fall 2004.

⁴ Roger Voss, "The Garagistes of Saint-Emilion," *The Wine Enthusiast*, June 2001, Internet. See also, "Garage Wines," *Russian Cigar Clan Magazine/English Supplement*, Vol. 1, # 2, 2005, Internet. In France garage wines first came from Pomerol with Jacques Thienpont's Chateau Le Pin wine first made in 1979 from the grapes of a two-hectare vineyard and later became famous with Jean-Luc Thunevin's Saint-Emilion Chateau Valandraud with its 1.5 hectares of vines. The term has come to mean wines made from special grapes planted on small plots, with extremely small yields produced in miniscule wineries in very small quantities—generally less than 10,000 bottles. Super wines with super prices. While this definition clearly fits some boutique wineries in California and Argentina, it is not clearly the norm for these kinds of establishments.

⁵ Joaquín Hidalgo, "El pequeño gran mundo de las bodegas boutique," *El conoedor*, # 15, December 2002, p.64.

Based on interviews of Calaveras County and Mendoza “boutique” winery owners, while there is very little consensus on its “exact” meaning, the term continues to be the standard for most. It is worth taking a brief look at how these winemakers actually define boutique winery and to see how it is beginning to develop a negative connotation in its California birthplace while it seems to be increasingly popular in Argentina. One Calaveras winemaker best described the negative connotation of boutique. “I think the term ‘boutique’ connotes a business that doesn’t necessarily have to be profitable. I think we should use a term that indicates business may be small, but is professional” (Anonymous, 2005). If the term “boutique” seems to be on the decline and artisan or artisanal wineries is becoming increasingly popular in California to refer to Insel’s “microwineries.” Randal Graham, owner of Bonny Doon describes artisanal wineries as follows: “There is a dichotomy between artisanal winemaking and corporate winemaking. One is calculated, profit-driven and largely a marketing exercise. One is an expression of a personal aesthetic. Megabrands live in their own world. Small artisanal brands live in a totally different universe, and we don’t communicate at all. They have all the money, we have the soil.”⁶ (Graham, in Dunn, M. 2005).

In Argentina, where small wineries have existed since the dawn of the industry in the 1880s, the term boutique only began being widely applied in the new millennium. Angel Mendoza, whose Domaine St. Diego was one of Argentina’s first (1988) wineries called boutique, states: “Boutique is a French term that sounds elegant and identifies small wineries that take special care of their wine... differentiated by the grapes, the land, uses of technology and philosophies different from the large wineries.”⁷ Pedro Marchevsky, co-owner with his wife Susana Balbo of Mendoza’s very successful Dominio del Plata winery makes

⁶ Randall Graham, quoted in M. Dunn, “In the Aftermath of Consolidation, The Face of California’s Wine Industry is Changing, *The Sacramento Bee*, May 25, 2005.

⁷ Interview, June 2005 and cited in Hidalgo, “El pequeño gran mundo”, p.64, and González, “Pequeñas bodegas,” p. 32.

some further distinctions: "Here boutiques are considered boutiques because they are small. But we also use the term *vino de autor* (authored wine) when the people are completely involved in all the fundamental decisions. It's not so much a definition based on size as it is on dedication."⁸ Domaine San Diego's Angel Mendoza explains that dedication in particularly evocative terms declaring: "My affection does not extend beyond 100,000 bottles."⁹

Juan Carlos Ubriaco, owner of Cava Besares, with more direct and perhaps less pretentious language, prefers the word artisan to boutique: "And they asked: 'Why artisan wine?' And I said: 'Because I make it; I am in the vineyard, I am in the winery!'"¹⁰ Finally, Federico Cassone of Familia Cassone wines disagrees strongly with the term artisan and vindicates the term boutique.

What do you understand when you hear boutique? It's something small, fine, delicate, well done, and in Argentina we refer to boutique as a winery that generally does not produce more than 300,000 bottles per year. Well used, it should be limited to those who do things carefully. What are we? A family winery that is doing things right. In what category? Small production, family enterprise. Artisan wines? No, we don't crush our grapes with our feet; we are using the best equipment, the best technology, the best boxes for the harvest, the best crushers, the best brands. But our wine is not made with our hands. Honestly, to make it right, we use machines to guarantee that there is not a bit of oxidation, to guarantee quality.¹¹

Whether California or Argentina, it would appear that the positive characteristics emphasized by Bonny Doon's Randall Graham and by various of the Argentine boutique producers are fundamental for the very survival of the boutique winery. For small wineries, the cost of production per bottle is much higher than for larger enterprises that also have the advantage of much more extensive

⁸ Interview, August 2004.

⁹ Interview, June 2005

¹⁰ Interview, August 2004.

¹¹ Interview, August 2004.

distribution networks and much greater economy of scale. Therefore, smaller wineries must find sustainable competitive advantages in areas other than cost and volume. For the boutique wineries of California and Argentina the advantage is, of necessity, the production of unique wines. In the words of Argentina's Angel Mendoza, "We distinguish our wine as a masterpiece and produce authored wines and of providing personal service."¹² Then he adds a telling observation: "In the boutiques we have friends, not clients," making a clear reference to the fact that the boutiques are able to provide high levels of personal service simply not available in the mass market.

Matt Kramer further summarizes these positive characteristics of boutique wineries, whatever their location, in his recent contribution to *The Wine Spectator*:

What big wineries *can't* deliver-indeed, what they *won't* deliver-is individuality. Individuality, by definition means surprise. That's the only thing big outfits intensely dislike. They want the safety and profits, of big numbers.... Smaller is better. Smaller creates wines of surprise.¹³

Smaller may be better, but that does not translate into easy success. As indicated above, boutique wineries face serious challenges of economies of scale and must compete against well funded enterprises with enormous commercial advantages. In both Mendoza and Calaveras County this has meant that a boutique winery can be a truly risky business. Mendoza's Pedro Marchevsky outlines succinctly what he considers the essential components for success:

First, you have to have conviction. Second, you have to have money. Third, you have to be ready to take risks, because taking risks means investing in very expensive barrels, in very good grapes. And afterwards, making a really good wine is part science, part art and part luck. Because sometimes there

¹² Angel Mendoza, Interview, June 2005.

¹³ Matt Kramer, "Smaller Really is Better," *The Wine Spectator*, June 30, 2005, p. 32.

are accidents in the winery that can ruin the best of investments. You have to be ready to take risks.¹⁴

And risks do not always pay off. Alejandro “Pepe” Martinez Rosell of Cavas Rosell Boher highlights serious concerns about the viability of small wineries in the Mendoza region.

I have serious doubts about the fact that so many boutique wineries are being created. There are already a significant number of boutique-type wineries that don't have much backing. From a commercial standpoint, given the naïveté of many who believe that this business is to wave a magic wand and make bottles of wine and who don't have a history in this – although that's not absolutely necessary and in many cases it's all made up—they're going to have lots of problems. I value highly knowledge about how to run a business, and for the growth of a business you don't need to talk in terms of decades or centuries. Rather, it is knowing how to run this from the standpoint of making a well-positioned product, from the standpoint of marketing and sales, because I may have a Formula One or a Ferrari in the glass, but if I don't know how to sell it, it isn't worth anything to me. I predict that many of these projects are going to die. The entrance of so many of these boutique wineries could litter the road and create certain distortions in sales and in the industry as a whole.¹⁵

Martinez Rosell's comments refer to newcomers to the industry who establish their boutique wineries. But according to Dominio del Plata's Susana Balbo, success is not assured even to those that have considerable industry experience prior to their launching of a boutique winery. She cites the very common case of vineyard owners who have decided to set up a winery to process their grapes.

These are generally vineyard owners who make a lot of money, who are very contented with their vines. But at a certain point when they see a \$100 bottle of wine, they say, “Nobody pays me more than 50 cents. These other guys are making so much money.” The belief is that the winery owner is getting all the profits. “So, I'm not just going to sell my grapes but also my wine.” But many of these growers enter the winery business

¹⁴ Interview, August 2004.

¹⁵ Interview, August 2004.

with great ignorance about markets, the commercial part. They have a very poor base. It takes them a long time to understand the quality and the style that the product needs to be attractive in the market. Sometimes they end up overcharging for products that they have already spent so much on, prices that are completely out of line with the quality of the wine. It takes a lot for them to arrive at an equilibrium. This industry needs good executives, people who have a holistic vision of the business in order to be successful.¹⁶

Historical Context and Economic Environment

California

In the case of California, Federal and State alcohol regulatory laws have a profound influence on the development of small wineries. Alcohol distribution is still strongly influenced by the 21st Amendment to the Constitution that repealed Prohibition in 1933. The 21st Amendment that gave states the right to regulate alcohol, and the enabling legislation passed by each state, developed into a system that insured that wine, and all other alcohol products, would not be controlled by those who were illegally involved in manufacturing and distributing alcohol during Prohibition. This led to a “three-tier system” for wine: manufacturing, distribution, and retail sales. Under this system, anyone involved in one tier cannot have a financial interest in any of the other tiers.

While the original legislation was intended to rid the industry of gangsters and provide for the health and promote temperance, the uses of the legislation changed in succeeding decades. “Over the years, however, health and moral concerns diminished to the point that regulations today primarily are seen in terms of tax revenues, or even as protectionist measures to address industry concerns. Federal taxes on alcohol remained stable after 1951, whereas state taxes periodically increased to meet state government revenue needs, rather

¹⁶ Interview, August 2005.

than as an instrument for control of the product itself."¹⁷ The industry concerns mentioned above largely refer to those in the middle tier, the distributors. In recent years the three-tier system has been under attack by smaller wineries and other companies who argue that not allowing direct sales to consumers constitutes a restraint of trade.¹⁸ Nonetheless, large wineries that have nation or world-wide distribution have continued to market the vast majority of their product through large distributors.

The three-tier system has had a disproportionate impact on small wineries because they distribute a far greater percentage of their product direct to consumers than the large establishments. The situation has been complicated by the fact that the 21st Amendment allowed each state to control the manufacture, distribution and shipment of wine and other alcohol. As a result, each state has different regulations pertaining to the distribution of wine. There are 13 "reciprocal" states that allow direct shipment to customers between these states. The other 37 states have varying regulations from completing a tax information form and paying a small licensing fee to complete prohibition of shipping. The net impact of this system has meant that of the some 25,000 different wine labels produced in the United States, the broad consumer market has had access to only about 500.¹⁹

Small wineries in California have reacted to these conditions in a variety of ways. As most do not have the resources to sort out all the regulations in interstate shipping, they have tended to limit their market to the 13 reciprocal states.²⁰ In

¹⁷ R.M. Blau, "History and Background: Beverage Alcohol in America." Law offices of Holland and Knight, San Francisco, California.

¹⁸ Gregory A. Castanias, "The Supreme Court's *Granholm v. Heald* Decision: What it Means for Interstate Wine Shipping," *Jones Day*, June 21, 2005; Eric D. Price, "Time to Unite the House?," Lane, Powell Spears Lubersky LLP. Olympia Washington) June 2004.

¹⁹ K. Lloyd Billingsley, "Supreme Court Wine Decision is Good for California." *Capital Ideas*, Vol. 10, # 21 May 25, 2005.

²⁰ Wine Institute, "Key Facts: Commercial Wineries," 2005.

addition, these wineries have made cellar door sales to wine tourists and local buyers the major focus of their marketing strategy.

These strategies are certain to undergo some important changes in coming months and years as a result of the Supreme Court's recent decision in the *Granholm v. Heald* case to strike down prohibitions on direct shipment and Internet purchases. Depending on how individual states react to the ruling, the decision will lead to increasingly open markets for the wines of small California producers who might very well seek new avenues for the sales of their wines.

Argentina

As in the United States, the legal context has played an important but very different role in the development of the Argentine wine industry. In the early years of major wine production at the end of the 19th century, the government assured the success of Argentine wine producers by slapping a 300 percent duty on imported wines. From being the second largest importer of wines in the world –directed at the country's enormous and growing southern European immigrant population-- Argentina virtually ceased to import wine and almost overnight became the world's fifth largest producing country, a position it continues to hold in the present day. From that time forward, Argentine producers, big and small, made their wines for a largely undifferentiated market of consumers who demanded little in the way of quality but lots of cheap and plentiful wine. This meant that throughout much of the 20th century the industry slaked the thirst of a seemingly endlessly growing domestic market with uniformly low quality table wines; there was little incentive to raise quality given the preferences of the near totality of Argentine consumers; and there was even less interest in making a better product that would permit competition in the international marketplace since in most years all local production was rapidly absorbed by the domestic market. Those very few wineries that did attempt to raise the bar were stymied by another series of series of high import duties that

closed off the possibility of importing the technology necessary to improve wine quality.

Then, in the early 1970s, the Argentine state once again promulgated a series of laws designed to support the industry but destined to nearly destroy it. This time the government provided enormous tax breaks to investors in vineyards and wineries leading to levels of production that finally outstripped the ability of the market to absorb it. The resulting wine glut, together with declining levels of wine consumption due to the rise of competing beverages, drove the industry into the greatest crisis in its history at the beginning of the 1980s.

Towards the end of that decade, government economic policies underwent a radical shift moving away from the restrictive import policies of the past one-hundred years. Those policies, plus unprecedented monetary stability, created the environment for a true revolution in the Argentine wine industry.

Increasingly aware that exports could potentially provide a life saver to the industry, and for the first time able with a strong national currency to import appropriate technology-- from drip irrigation systems to oak barrels-- various industry leaders began a dramatic shift towards fine wine production. At the same time that the increasing belief in the potential export market encouraged large producers to shift their focus towards quality wines, it became very attractive and fashionable to invest in small wineries directed both to the growing international market and to Argentine consumers who in significant numbers had begun to adopt international preferences for a better product.²¹

The Boutique Models of Argentina and California

²¹ According to Angel Mendoza, Interview, August 2005, the early boutique producers constituted an additional generator of quality in the industry as a whole: "For me, the quality of Argentine wine changed when boutiques entered the scene. Because the larger wineries were very complacent working with their traditional quality standards."

Up to this point, we have examined the boutique phenomenon through the meanings ascribed by winery owners to the term. Another and ultimately more substantive approach involves looking comparatively at the different ways in which boutique wineries have developed, how they are structured in the two regions and eventually how the particular historical context of each region has helped shape their evolution. As well, it is important to take note of the evolution of distinctive models *within* each region. This section focuses on diverse models from Mendoza and Calaveras County. Some of the areas we explored in the interviews include the winery's origins, its organizational structure, production volume and the source of its grapes. An area of particular interest is the issue of quality and how it has been pursued. Also, we examined the boutiques' business models particularly in terms of marketing strategies, distribution channels, exports, and the relative importance of wine tourism as a source of income. After the descriptions of the cases, we will attempt to produce an overview of the similarities and differences within each region and between Mendoza and Calaveras County.

Mendoza Boutique Wineries

In-depth interviews were conducted at seven of the some 200 boutique wineries in the Mendoza region. All of these wineries began production in the 1990s or the 2000s. Their wine production ranges from 1,250 cases at the smallest to 20,000 cases at the largest. While all have their own vineyards, one does not own a winery. Each of these has its own distinctive characteristics at the same time that it shares features common to boutiques in Argentina and elsewhere in the wine world.

Model 1 Alejandro (Pepe) Martinez Rosell, General Manager and Winemaker, Cavas Rosell Boher

Cavas Rosell Boher emerged from the sale in 1996 of one of Mendoza's most successful medium-sized producer of fine wines during the 1980s, Bodegas

Navarro Correas, to the Compañía Internacional de Bebidas y Alimentos (CINBA), part of the Guinness Trust Group. The original owner of Navarro Correas and a small group, mostly made up of the winery's employees, formed a partnership to create Rosell Boher. One of the six partners owned vineyards that had been part of Navarro Correas; in late 1999 they added a 100-year old winery on the verge of being demolished. Remodeling began immediately and ended a year later in early 2001. "We felt like we were in limbo, because the world of wine has something special," recalls Pepe Martínez Rosell. "It has its romance, it has its mystique. It hurt to leave that world. Then we imagined a project of small quantities and very high end products. We began to imagine first a top quality sparkling wine. And Rosell Boher was born." The winery is a limited partnership in which each of the partners holds a portion of shares in the company.

Martínez Rosell has a degree in Oenology from National University of Cuyo in Mendoza. He continued at Navarro Correas, where he had worked for twenty-two years, as chief of their wine making team until February 2003. Martínez Rosell was both the son and grandson of wine makers; his grandfather was in fact the original owner of the winery that would eventually produce the wines of Rosell Boher.

Rosell Boher began making its first batch of sparkling wine before the winery renovation was completed, thanks to an agreement to use the facilities of the Enology Program at National University. It produces 20,000 bottles per year of sparkling wines, the product for which it is best known; Rosell Boher's Grande Cuvée Millésimée is widely considered to be Argentina's best. In 2002 still wine production began and now totals 105,000 bottles annually. The numbers and types of still wines vary from year to year depending on the quality of the grapes. After the grapes are made into wine, Martínez Rosell decides which ones meet Rosell Boher's quality standards. Those that are not up to the bar are sold to other wineries.

Rosell Boher is not an authored wine. That would be the case of Angel Mendoza who produces his own wine. There is a kind of heritage to what he produces. In our case, the production model is of a small winery, a boutique winery, but we're not authors. But yes, we do rescue a family tradition. I've lived two experiences in the same professional activity, at Navarro Correas and now with Rosell Boher. What I'm doing now is somehow more personally intense although I certainly don't forget the knowledge and experience I gained in my former job. But this project has *something special* because grandparents and my father worked where I work now.

How do we survive? Because we've bet on the eventual success of our brand, on our positioning in the market, on our ability to attain growth in sales and to balance income and expenditures, but as yet we have not made a profit. Afterwards we expect to make some profit with greater income than expenditures. The idea, our philosophy, is to maintain a high level of quality in our products. Our idea is to never surpass 200,000 total bottles annually. We cannot think of expanding our production by ten or twenty times because without doubt there will be variables in the management that will not be able to be controlled nor maintained. A winery with 30,000 cases is not boutique. We're more humble.

Give me good grapes and I'll give you a good wine, accompanied by rational accounting and ethical behavior in order to develop a sound project, always remembering the role of luck in all of facets of life.

We have an absolutely demanding market situation that strangles you, where the wine is sold. Whether it's the restaurant, the wine shop. The wines that make it to the supermarkets, they suck you dry. It takes all your blood to be on the menu, on the shelves. 30 percent of our sales are to wine shops, 20 percent to restaurants, 20 percent direct sales and 30 percent exports. For the domestic market we rely on our own staff going out and selling and on sales reps. They make from 8 to 12 percent commission on sales and in some cases we provide some per-diem. Direct sales started out through a client base of individuals who were friends of the winery's partners, and from there it expanded through mouth-to-mouth contacts. As far as exports go, we have someone in

charge of that sector who makes direct contacts with importers or chains.

Our idea is to try to develop day-to-day a good positioning in the export market and get up to 50 percent of our production for export. Now we are 70 percent domestic and 30 percent exports in sparkling wines. The idea is to move more into exports. As for the still wines, we sell them at 17 pesos per bottle (\$6.00). We have the goal of proportionally increasing exports there as well. Because in the domestic market, with the price they have, they are not considered high end wines.

Our tourism is at a very incipient phase. A problem of supporting the winery through tourism is that it depends very much on the stability of the Argentine pocket book.²²

Mendoza Model 2 Federico Cassone, General Manger of Bodega Familia Cassone

Bodega Familia Cassone is a family-run operation focusing on making fine wines with a production of 20,000 cases, the upward limit of the boutique category.

Our family has been involved in the wine industry thanks to the vineyards that our grandfather farmed. We kept on cultivating the grapes, but we didn't make wine. We had top quality grapes that we sold to the large wineries. So then the question came up: Why not make our own wine? So then in 1999 we decided to build the winery and put our name on the wine. And so we started in this fascinating world that has demanded a great deal of work but that has given us innumerable satisfactions.

While the Cassone family had long ties to the industry, their money came from elsewhere, the successful medical practice of Federico's father and President of the winery. The winery was built in response to a vision for a family enterprise. In Mendoza, a community that revolves around the wine industry, and already the proprietors of 32 hectares of excellent vineyards, Bodega Familia Cassone was an obvious choice.

²² Interview, August 2004.

The winery's operations are indeed the picture of hands-on family involvement from the management of the vines to the tasting and sales of the wines. Federico administers the business on a daily basis and is in charge of marketing and exports. While his brothers' professions are law and medicine, they play active roles in the business.

We all work with the collaboration of an enologist who is not a member of the family and with a consultant; well they're not Cassone, but they're working in a family enterprise. My sister-in-law Florencia, who is my brother Martin's wife, and my mother do all they can to help us out. We're all involved -- some more, some less because of time constraints— but we're all in this together. Here in Mendoza we have excellent human capital. There are four employees in the winery, in the vineyards three. In total we are seven full-time employees. At harvest time we take on more people, but they're not our employees.

Federico firmly situates Bodega Familia Cassone in the boutique segment.

This has involved lots of hands-on work and a combination between artisanry and professionalism which we accompany with the necessary technology to meticulously make wines of the highest quality possible. We bought all the technology for the winery, the same machines that the big wineries like Norton and Catena have, but smaller and not so many. The grapes were already there, and so that didn't change. But then we had to buy barrels, and that was a big investment. But we do the labeling by hand. These are some of the tasks in a small enterprise like ours, you have this flexibility. We distinguish ourselves in these ways, in the details; every bottle has a seams and the glass has seams, and it has to be put between the seams, small details. Also it's a question of cost. With our production, we don't need machines for this. The barrels, the technology, the methods, that you can buy, but not the value of these vines that are 102 years old-- that is incalculable. And our way of respecting that value is to allow it to be expressed in the wines.

Seventy percent of Bodega Familia Cassone's wines are exported to United States, various European countries, Mexico and Brazil. With respect to domestic marketing strategy, the winery relies on family members and sales reps who work on a commission basis to sell to specialized wine shops, restaurants and hotels located in Argentina's major cities. The winery does not yet have a tasting room, although one is planned for the future, so there are no cellar door sales.

Here wine tourism is just beginning. We lack professionalism in local tourism. We are training people to work in tourism and trying to attract people as tourists. A girl asked me if we wanted to go to some sessions for wineries that are receiving tourists, but we're not ready yet. Everyone who goes to the winery falls in love with our small, rustic but refined winery at the foot of the snowcapped Andes. Tourists like to see wineries where there's wine and all. But to receive the tourist you need a person who speaks English; we're just not ready, the winery is filled with wine, there's no room, there's no place you can walk around.²³

Mendoza Model 3 Juan Carlos Ubriaco, Winemaker and Petita Mariani de Ubriaco, Co-Owners of Bodega Cava Besares

Bodega Cava Besares, with its 15,000 bottle annual production, is a family operation in terms of the vineyard and in its origins, it has its own brand and label, but it produces its wines off site as it does not have its own winery.

Juan Carlos

My father-in-law used to export cattle to Chile with their truck. When they put together enough money, they got into the wine chain. He had inherited some vineyards from his father. By the 1950s he eventually had two small wineries and some vineyards. In 1984 we lost our wineries (due to the wine glut crisis) and began making our wine in the wineries of friends. We started to experiment with our own brand in 1989. We

²³ Interview, August 2004, "Familia Cassone: El placer de firmar la botella," *Master of Wine*, Vol. 5, #32, 2003, pp. 70-73 and Miguel Angel Flores, "Bodega Familia Cassone: Precursores de un estilo de una cultura de excelencia." *Vinos y viñas*, # 988, December 2003, pp. 20-25.

realized that the old system didn't work. We had to make our own wine in the bottle and get it to the consumer.

The circumstances of our life brought us to opt for this strategy that is now in fashion, today it's the fashion to have 10,000 or 15,000 or 20,000 bottles of wine with one's name on it. Thank God we were the first winery to put a really artisan-style label on our wines. And so we went on the market with our wine in 1991. This is really artisanal wine because of the personal dedication and control of what happens in the vineyard and all the steps of wine making, all passes through our control. I call this artisanal; we really get our hands dirty.

Petita

This 1991 wine was like a prodigal son, and we still keep some bottles. It was like our first son. It's that Juan Carlos has a serious problem with his wines. Because he puts so much affection, so much passion into them that he doesn't want to sell them.

Juan Carlos

When we tried to start distributing in Mendoza, they were arrogant about selling our wine. When we went to restaurants, they said, "Fine, yes, very tasty wine, but you have to bring two girls Saturday's and Sundays, and how many cases are you going to donate to the restaurant?" So we just grabbed our bottles and we left. We had a very bad experience here in Mendoza. So I went to Buenos Aires, and I knocked on the doors of restaurants with a bottle of wine in my hand, and I said, "Here I am, I make this wine."²⁴

Ubriaco sources his grapes from his 3 hectare vineyard that surrounds his century-old, non-working, winery and his home. He continues to make his wines (20,000 bottles in 1991 and down to 15,000 in 2004) in friends' wineries, trading his ability as a winemaker for use of their facilities. Ubriaco has had no formal training but rather has learned "walking through the vines, experimenting and just doing it."²⁵ Paradoxically, his own winery has not functioned since the

²⁴ Interview, August 2004.

²⁵ "El conoedor de Bodegas Cava Besares: Una Antigua postal mendocina," *El conoedor*, # 15, December 2002, p. 30.

1930s, and his own capital falls far short of what is needed to bring it back into operation. In Cava Besares, Ubriaco helps tend the vines, makes the wines and together with his wife continues to make regular trips to Argentina's capital to sell his wine. In addition to helping with sales, his wife Petita Mariani de Ubriaco does the books and warmly supports his efforts. As Ubriaco says, "Since we don't produce very much, you have right here in front of you 100 percent of the personnel of the enterprise (he and his wife): 100 percent of the administrative staff and 100 percent of the stockholders."²⁶

Calaveras County Boutique wineries

There are 18 wineries in Calaveras County, varying in capacity from over under 1,000 cases annual production to over 500,000 cases. Of these 18 wineries, 11 were considered to meet the criteria for boutique wineries. Unlike the case studies of the three Argentinean wineries, Calaveras County winery owners were told their comments would be anonymous and their wineries would not be identified. Therefore these findings will be aggregated. The backgrounds of the 11 boutique wineries are similar in several ways. First, they are part of a new and growing industry. Only two of the wineries have been in business longer than 10 years; two have been operating for 5-6 years; two have been operating 3 years, and almost half, five, have been operating one year or less. All wineries are members of the local Calaveras County Winegrape Alliance, a non-profit, mutual benefit organization of the 18 wineries and 35 winegrape growers in Calaveras County. All but three boutique wineries are members of other state-wide wine associations. The role of wine associations will be discussed later.

An old saying in the wine industry states, "People go into the wine business not for themselves, but for their children." This is especially true for the boutique

²⁶ Interview, August 2004.

wineries in Calaveras County. Two wineries have two generations of family actively involved in the winery operation, and all of the others have plans to involve their children when the business will support them. All of the older generation of owners stated that they hoped their children would continue the winery after they retire. Another old saying in the wine industry goes, "The way to make a small fortune in wine is to start with a large one."* This was clearly not the case with the Calaveras County Wineries. All of the wineries in our sample started with less than a small fortune, and all of the boutique wineries have one or more of the owners employed outside the winery who are contributing a portion of those funds to the winery.

There is a bit of variation in the background of boutique wineries. Four wineries are principally operated by people of retirement age, four are operated by younger couples in their 30s or 40s, and two are operated by parents and adult children. Only one of the owners of boutique wineries has a formal degree in enology. The rest either have practical experience in the industry or have educated themselves through reading or courses in local universities, principally University of California at Davis.

When one hears of California wines the first area that comes to mind is Napa or Sonoma. The Sierra foothills area (comprised of Nevada, El Dorado, Amador, and Calaveras counties) is often ignored or lumped in with the Central Valley area, and is generally not well known for premium wines. Of the Foothill counties, Calaveras has the most potential for future wine development. Nevada and El Dorado Counties are becoming increasingly urbanized, and Amador County has little arable land remaining for vineyard development.

* Interestingly, Argentine boutique producer Angel Mendoza stated something very similar in a recent interview: "To make a small fortune in wine, you have to start with a large fortune." It would appear that the same philosophy, erroneous or not, is common to the two regions. June 2005.

Napa/Sonoma's wine tourism boom has been putting pressure on the wine industry there creating positive effects for wineries in the Sierra Foothills. First, urban expansion is severely impacting the Napa/Sonoma area, and there is little land left for vineyards. The cost of developing a vineyard on whatever land that remains can be over \$100,000 per acre. Even though land prices have been increasing in the Foothills, the cost of developing a vineyard is still significantly less- usually less than \$20,000 - \$25,000 per acre. Second, increasing environmental regulations in those counties are continuing to drive up the cost of maintaining vineyards and producing wine.

The added cost of production in the Napa/Sonoma area directly affects the cost of grapes and wine. Grapes in Napa/Sonoma range from \$2,000 - \$4,000 per ton compared to \$900 - \$1,500 per ton for Calaveras County grapes. Some of this increased cost may be reflected in the retail prices. Boutique wines from the Napa/Sonoma regions can sell for as much \$150-\$200 per bottle (although most are priced well below this) while the most expensive Calaveras County wines sell for \$35-\$40.

The Napa/Sonoma area has become more commercialized and saturated with tourists, and traffic on weekends and anytime during summer months can severely detract from the wine tasting experience. This increased commercialism and tourism is causing people to look for other wine areas that still have an informal country atmosphere. Calaveras County wineries have maintained their country flavor and the area is large enough to accommodate expanding tourism.

Production and Source of grapes

Boutique winery production in our sample varies between 1,200 to about 5,000 cases (14,400 to 60,000 bottles) per year. All buy the majority of their grapes from within the county. Some buy grapes from Amador County, the next county

to the north that has a much greater production. Seven wineries buy grapes from Lodi, a valley appellation whose grapes are generally significantly cheaper than Calaveras County grapes. Although all wineries buy grapes from other growers, four of the eleven wineries grow some of their own grapes.

Boutique wine marketing

The predominant marketing strategy for boutique wineries in California can be best described as, "If you give enough wine away, people will buy." There are unlimited opportunities to give wine away. Most wine is given away by pouring to guests at the tasting room. This amount varies with the size of the winery, but accounts for between 10 percent and 20 percent of production. Wine is also given away at wine tasting and other events sponsored by charitable organizations. Donations to these events can account for 5 – 10 percent of production for smaller wineries. Wineries are reluctant to divulge their sales information or the amount of wine they pour or donate, so the estimates are based on personal experience.

Even though much wine is poured free, sales at the tasting room are at full retail value or slightly discounted for case sales, making this distribution channel substantially more cost effective than selling to distributors at a 50 – 60 percent discount. Nonetheless, almost half of the boutique wineries sell their wine to distributors. Sales to distributors vary widely. About half of the wineries prefer to do entirely retail sales, and other half prefer to use distributors. The largest seller to distributors in our sample sold about half of their production through this channel. The only other significant discounted distribution channel is personal distribution to local restaurants and wine bars. This accounts for perhaps 5-10 percent of sales; restaurants receive a 30-40 percent discount.

Wine clubs also provide a significant distribution channel for retail sales. Wine club customers typically buy between eight to twelve bottles of wine per year at

slightly discounted rates. Wine club members also provide a source of customers for special events such as weddings and help to promote the winery brand.

All of the wineries in our study sold non-wine items ranging from tee shirts to furniture, olive oil, and other items associated with wine. Most of these items were peripheral to wine selling, but still accounted for 5 – 10 percent of the winery sales.

Although only one boutique winery in our sample charges customers for tasting, the trend is clearly moving in this direction. Almost all wineries in the Napa/Sonoma area charge for tasting, and wineries in other areas of California are starting to follow that trend. The charge for wine tasting is not currently a significant source of revenue for the winery in Calaveras County that is doing it, but the minimal charge (\$2.00, refundable with purchase) dissuades guests who are not particularly interested in buying and raises the perceived value of the wine.

Like most industries in the United States, the wine industry has numerous mutual benefit associations to support marketing and influencing public policy. On the national and state level these organizations function mainly to lobby lawmakers, provide funds for research in viticulture and enology, and for marketing campaigns.

Regional wine associations play an important part in marketing boutique wines. While large wineries have marketing resources, boutique wineries depend on these associations to support special events and collective advertising and public relations activities.

Quality and product differentiation

The history of wine in the Sierra Foothills has followed the history of the region. During the Gold Rush days beginning in the 1850s and continuing through the early 20th century, wine was made for local consumption and was of poor quality. As the mining industry declined and tourism increased, the quality of wine improved. Tourists and local residents both have become more discriminating and educated customers, and the industry has generally responded with improved products. In the last 10 years the quality of grape growing and wine quality has improved exponentially. All the wineries surveyed use modern winemaking methods and produce wines that consistently win statewide and regional awards.

Although the wineries produce wine from the same grape varieties as other regions in California, there is a trend that is starting to emerge that is differentiating the Sierra Foothills region. First, wineries are beginning to experiment with some of the more unusual varieties such as Barbera, Fiano, Sangiovese, Tempranillo and others that are better suited to the hotter meso climate of the Foothills. Second, wineries have been producing different styles of wines that focus on bringing the fruit and vineyard out of the wine rather than the stronger, more heavily oaked wines that have been popular in the larger wine making regions.

Wine marketing and tourism

Businesses must have a clear understanding of their mission and what business they are in. It is not enough to make a well-crafted wine and expect that customers will buy simply based on quality. The Calaveras County experience indicates that boutique wineries need to provide their guests a positive experience in order to sell their wines. Potential customers may sample wines at 3-8 different wineries, but will buy wine from only 1 or 2. While quality and type of wine will certainly enter into consumers decisions, it is clear that the wineries that get the sales are in most cases those that provide a more positive wine-

tasting experience. One of the boutique winery owner's summarizes this marketing philosophy best by his statement, "We are as much in the business of making our guests have fun and feel good about their experience at our winery as we are in making wine." This statement is clearly reminiscent of Argentina boutique owner Angel Mendoza's reference to buyers as friends, not clients.

The boutique wineries studied were located in a historical area of the Sierra Foothills and sold the majority of their products to customers from out of the area. One winery reported that about 50 percent of their sales were to customers from the San Francisco Bay Area or from other regions of the state, 25 percent was to customers from larger cities that were visiting for the day, and another 25 percent was to customers from the local area. Clearly, tourism is an integral part of marketing boutique wine, and the wine industry is linked to marketing the local recreation, real estate, restaurant, and other associated industries. Therefore creating partnerships with business in these related industries is critical to marketing boutique wine.

Comparisons Between Argentinean and Calaveras County Boutique Wineries

Parallels

Both have owners who have outside sources of income.

All Calaveras County wineries in our sample are family enterprises with at least one family member involved in some area of the winery business. In the Argentine case, family was commonly a defining factor in the motivation for the founding of the winery and in the administration of the enterprise. The one exception is Cavas Rosell Boher which is a partnership of the former employees of a winery that was sold to a multinational.

Profitability for both is a challenge

While of the Calaveras County wineries have had the goal of becoming sustainable to the point of being able to support a family, none have been able to do so after 5-10 years in business; in all cases, someone in the family is required to work outside the industry. Two of the Calaveras County boutique wineries are currently for sale, not because their owners are taking their profits out for some other endeavor, but because they are reaching the end of their financial resources. As in Calaveras, economic sustainability is generally seen as a *long-term* but nevertheless real goal for boutique wineries. Accounting for differences in size and business plan, Mendoza boutique owners, in the majority of cases project a 6 to 7 year period to reach profitability. One notable exception to this is a winery where the husband and wife owners attained high visibility and prestige in the industry before building their own establishment. They have been able to sell 90 percent of their production (all exports) before even filling the first bottle. Still another case is that of Angel Mendoza whose small Domaine San Diego represents, "A life style. If we don't sell the wine, we'll eventually drink it. We'll see what we'll do."²⁷

Boutiques in both regions seem to share a passion for making wines of distinction that express the flavor of their region

Clearly all of the boutique winery owners in Calaveras County are in the business for the challenge of making a fine wine and developing the local wine industry. They also are in it for the rural life style and the "romance" of wine. As was evident from the various Mendoza boutique owners cited earlier, personal involvement, dedication and passion were key stimuli for their creation of their wineries in the first place and are defining features of their everyday tasks.

²⁷ Interview, August 2005.

Contrasts

Source of fruit

It would appear that for the Argentina boutiques, the most important defining element is the ownership of the vineyard, as all of those surveyed made wines from their own grapes. Indeed, owners and wine makers continually stated that having “special” grapes was a strong motivating factor for establishing the winery, and various of them had been growing grapes for years before getting into wine production. In the case of Calaveras County, a minority of producers possess their own vines, and even those that do use some grapes from independent producers. While in Calaveras County the physical existence of a winery is *a sine qua non* of being a boutique producer, in Mendoza this is not always the case. More than one of the boutiques researched produces wine under its own brand and label in the rented or borrowed facilities of a third party winery; they have the grapes, the brand and the identity, but not the winery. And there may be cases in Mendoza where all that pertains to the brand is the label. “There are wineries that call themselves wineries that don’t have vines and don’t have a winery. The wine maker goes and buys his grapes, finds somewhere to process them, makes the blend and puts some fantasy name on the product. And then they call themselves a boutique winery.”²⁸

Market

In both cases, market strategy is closely linked with the high cost of production for boutiques in comparison to larger wineries. This has meant that both Calaveras and Mendoza boutiques have difficulty competing on price if they work through large distributors. But given the distinct environments in which they operate, the wineries have responded to this challenge in different ways. For Calaveras County, relatively high production costs have led wineries to focus almost entirely on retail sales. When they discount their products for distributors in the three-tier-system, there is no margin left over for the winery. Some have

²⁸ Pedro Marchevsky, Interview, August 2004.

ramped up their production because they found a distributor who was interested in buying. But when sales slowed, distributors have told the wineries that they would have to lower costs to maintain the business. These wineries were faced with holding a large inventory and having to lower costs to the distributor to the point where there was no profit left. In the case of Mendoza, direct retail business has been non-existent for some wineries or represents a small percentage of total sales for others. Where direct sales are not a factor, usually the wineries simply do not have the facilities to directly serve the public. And for those wineries that do sell wine on the premises, direct sales at most make up 30 percent of the total. Increasingly the export market has been the focus of Mendoza boutiques, reaching 90 percent of total sales in some wineries. To secure this market, the wineries have had to rely heavily on importers and distributors from abroad. Nevertheless, the relatively low price of Argentine wines on the international market (given undervalued currency and low production costs in international terms) has made them quite competitive.

Tourism

Tourism is critical to Calaveras County wineries but has yet to play a major role in the commercial strategies of Mendoza wineries boutiques. Particularly in the light of the seminal importance of cellar door sales for commercial success, Calaveras County boutiques increasingly understand that they are in essence in the tourism business given that their customers come to Calaveras County to experience a rural lifestyle and enjoy the regions many recreational opportunities. With this realization, wineries are now starting to form alliances with a mix of recreational businesses. Wine/skiing and wine/rafting experiences have already shown some success, and wineries are waking up to the many other opportunities in this area. In the case of Mendoza, wine tourism is very much an incipient industry. International tourism up to now has largely come from Chile where Argentine wine is not considered a product worth focusing a vacation on. Domestic wine tourism is increasing, but wineries are skeptical

about long-term trends in a country where income has historically been very unstable. And those establishments, generally large and medium-sized concerns, that have winery visits and wine tastings instituted these activities more as a means of gaining visibility and image than for selling wine. In the words of a person involved in the area: "The objective of our Visitor Center is to generate ambassadors for our brand. I mean that every tourist who comes to our winery hopefully will become an ambassador who transmits what they have experienced in the winery."²⁹

Wine associations

Calaveras County wineries rely on regional and state wine associations for marketing, public relations, research and promotion. Most larger wineries do not need the local wine associations because they have their own sufficiently large marketing staff. Boutique wineries, in contrast, must use these associations to combine resources for advertising, promotional event planning and forming alliances with other related industries in the area. In Argentina the major wine associations group both large and small producers that often do very little to coordinate marketing and publicity. A small number of boutique "wine organizations" have been formed when four or five of the small winery owners get together to combine financial and human resources for domestic and export marketing.

²⁹ Tatiana Casero (Bodega Chandon), quoted by Mercedes Granado and Soledad González, "La nueva vedette de la industria," *Vinos y viñas*, # 989, February 2004, p. 44.