

Options

DIAGEO

Bottoms up!

Bonham's Hong Kong wine auction achieves amazing hammer rate

Shanghai surprises

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Show of strength

Two Americans fight their way around the world

Liquid assets

Diageo Chateau and Estate Wines president Ray Chadwick talks about the company's strategy for growth



Liquid assets

What does it take to run the stellar wine portfolio of a mega drinks company like Diageo?

Jenny Tan catches up with Ray Chadwick, president of Diageo Chateau and Estate Wines.

A company's offices tell a lot about its philosophy, and those who have stepped into the swanky Diageo premises — with its spectacular city view at One George Street — will acknowledge that the company is a cut above the rest.

After all, not every establishment — not even their peers in the drinks business — can claim to have a full-fledged bar. Neither can they boast that their employees can invite business associates over to their workplace “for happy hour drinks”.

Diageo is a world leader in the premium drinks business and its alcohol brands such as Johnnie Walker, Guinness, Smirnoff, Baileys and Tanqueray have instant brand

recall. Listed on both the New York and London stock exchanges, the giant has 22,000 staff working out of over 80 countries around the world.

Despite having roots that stretch all the way back to 1749 (when brands such as the J&B whisky range was created), the company was established only in 1997, following the merger of Grand-Met and Guinness. It is headquartered in London.

Incidentally, the word Diageo is formed from the Latin word for day (*dia*) and the Greek word for world (*geo*) — a symbol that every day around the world, someone is celebrating with an offering from Diageo. Yes, it's almost prophetic.

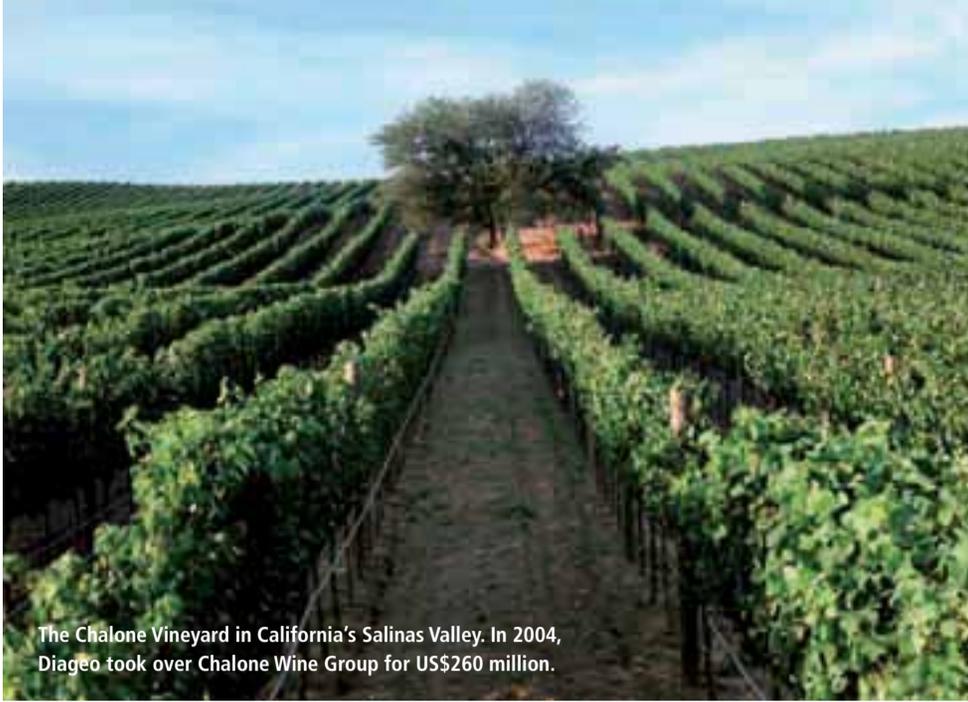
What about wine?

While the alcohol brands under the Diageo umbrella are no stranger to the average Joe, the company's wine division is a newer kid on the block.

Where does it stand in the conglomerate's set-up? This was the reason I was in the Diageo office — to find out more from Diageo Chateau and Estate Wines (DC&E) president Ray Chadwick, who was in town recently.

DC&E produces and markets premium wines from locations around the globe including Napa Valley, Sonoma, the California Central Coast, Washington, France, New Zealand, Italy and Australia. The brands include Beaulieu Vineyard, Sterling Vineyards,





The Chalone Vineyard in California's Salinas Valley. In 2004, Diageo took over Chalone Wine Group for US\$260 million.

Sterling Vintner's Collection, Chalone Vineyard, Acacia Vineyard, Edna Valley Vineyard and Provenance as well as the French wines of Barton & Guestier and F.E. Trimbach. Other than its home brands, it is also a leading importer for classified Bordeaux and Burgundy estate-bottled wines.

In 2001, when Diageo made a move into the California wine business with the acquisition of a number of Seagram wine properties, they had just the right man to quell

the strife and decide what a drinks company would do with a wine business — St Helena resident Chadwick himself.

After all, the distinguished-looking Chadwick is experienced in the arena of takeover battles. "The challenge is always in the integration of two different cultures. Seagram was an established company, but family-owned. Diageo, on the other hand, had no family control and had a corporate culture made up of [that of] several different companies," he says of his work to integrate both companies' cultures.

Diageo subsequently took over the Chalone Wine Group in late 2004, after pundits had thought that Domaine Barons de Rothschild, Constellation and the Huneew family of Chile would be the new owners. By promptly raising its stake to US\$260 million (\$354.3 million), black horse Diageo emerged the winner.

With the dust now settled after the takeover action, Chadwick is pleased with the results of his division. DC&E has exploded from just three brands in 2001 to 30 different brands for eight different companies now.

Today, his focus is definitely the premium wine market, especially with the company's 2011 initiative to increase premium wines in the US and selected markets outside the US. "It's the fastest-growing part of the market, especially in the above-US\$10 per bottle category," he states.

While winery buying sprees by conglomerates has led to speculation over whether they kill the artisan spirit of each boutique winery, Chadwick believes otherwise. "It's a good thing for the consumer as there is efficiency and productivity in wine consolidation," he points out. In Diageo's own experience with takeovers, it has been able to inject money into the wineries that lacked resources.

For example, with the Chalone wine group, Diageo was able to invest in the vineyards and purchase more new French oak barrels. More than US\$50 million was spent at Sterling Vineyards, where more than 1,000 acres of vineyards were replant-

ed. "In the past, they didn't know which grapes grew well in what soil. By the 1990s, we had the wisdom," he explains. Other than the vineyard replantings, Sterling did a major renovation of its visitor centre, as well as updating its winemaking facilities.

Booming market

With the trend towards high-end brands, the company has also channelled its resources to wines such as the Beaulieu Vineyards Private Reserve Cabernet Sauvignon. "We have been producing the wine since 1936, but we were able to make further improvements three years ago with a budget of up to half a million dollars, and buy equipment such as new sorting machines," Chadwick informs.

As the wine market booms, will Diageo be looking at new acquisitions?

Definitely, as long as it fits the purpose, he replies.

"We are always looking at making acquisitions. We just acquired Rosenblum Wine Cellars, a leading producer of Zinfandel and Rhone varietals in California," he says. The US\$105 million purchase in January includes the Alameda winery, where its well-known owners Kathy and Kent Rosenblum will remain on board to consult on winemaking and marketing strategies.

There is no doubt that this will instantly elevate DC&E's premium wine status. The winery produces up to 200,000 cases per year, with about 50 separate bottlings producing 22 different Zinfandels alone. It also produces Syrah, Petite Sirah, Chardonnay and Viognier. Its top wines such as the Syrah Sonoma County Kick Ranch Reserve and Zinfandel Paso Robles Richard Sauret Vineyards constantly receive high ratings.

Of course, Diageo's buying spree is based on cold, hard calculations. As Chadwick explains, the winery will have to have to fulfill a profitability target in the third and fourth year of the acquisition.

Other than the acquisition of new brands and the development of existing brands, Chadwick also has an innovation strategy to grow the company's portfolio. For example, he has already developed a new brand called "Archetype" that produces South Australian Barossa Shiraz and Cabernet-Shiraz, enabling Diageo to enter the Australian wine catego-

'18th century' wine

The Thomas Barton range of wines was launched in Singapore last year by Diageo Chateau and Estate Wines. It is named after Thomas Barton, an Irishman who made good in Bordeaux, and became the most important wine merchant in town.

The wine claims to use 18th century winemaking techniques, and the stout wine bottle — which is specially customised from suppliers — is a design that is replicated from the 18th century. Yet unlike wines in the past, don't expect the harsh puckering tannins that one usually finds from an older style of winemaking. For example, for the Thomas Barton Reserve Privee, Medoc 2004 (\$106, at leading wine stores), the grapes were selected from the most important appellations: Médoc, Saint-Emilion, Margaux, Graves Blanc and Sauternes.



The winemaking team even went as far as sourcing grapes from grape growers who own vineyards that have existed since the 18th century, and using second barrels instead of new barriques — the latter being (thankfully) the favoured trend today.

ry. The wine, produced at Chateau Yaldar, is made based on a joint venture with Australian heavyweight McGuigan Simeon.

Wine in his blood

Despite his involvement in the industry — he was even named *Wine Enthusiast* magazine's Man of the Year 2007 — this was not Chadwick's first choice of profession. "I wanted to be a doctor, and I was required to take up another language during pre-med school. So I took French and spent one year in southern France." Under the auspices of the Fullbright Programme, he also spent a year in Bordeaux, where he did his thesis on French writer Francois Mauriac. The influences turned out to be monumental.

Other than just business at DC&E, Chadwick's heart ultimately lies with Californian wines in general. He sits on the board of directors of the California Wine Institute, and each year discusses issues pertaining to the wine industry with the US president at the White House.

Closest to his heart at the moment is the issue of sustainable farming.

As he says, "The best thing about California is that people compete, and yet they share." **E**

Jenny Tan is an independent food and wine writer with an incurable passion for the vinous tipple

It's a good thing for the consumer as there is efficiency and productivity in wine consolidation — Chadwick, on takeovers of wineries by conglomerates

SAMUEL ISAAC CHIU/THE EDGE SINGAPORE