Jane Anson

Mouton Cadet Brand Profile

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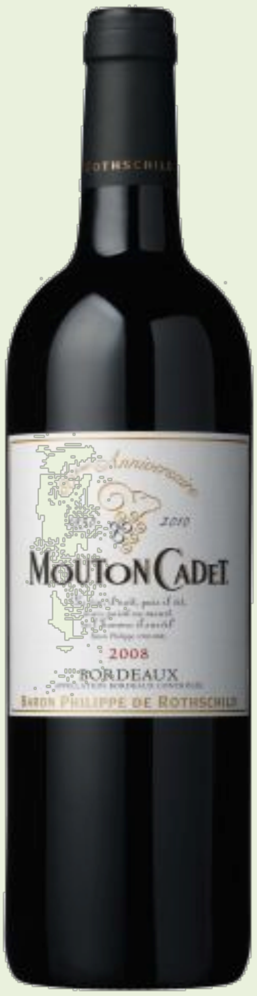
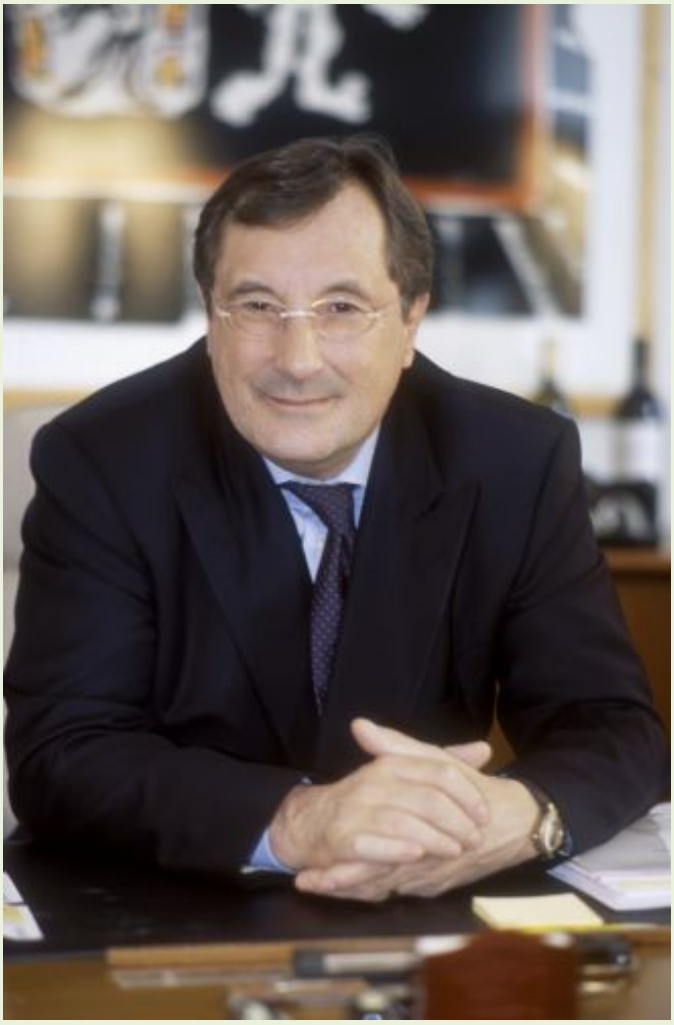


It's hard to imagine today, but when Mouton Cadet launched, it was seen as a close relative of the main brand, Chateau Mouton Rothschild, and was initially styled as the label's second wine, decades before Petit Mouton was born (in 1993).

Today, the two wines are still owned by Domaines Baron Philippe de Rothschild (DBPR), but are treated as entirely separate entities, positioned at near opposite ends of the branding scale. Cost alone makes that clear; one bottle of Mouton Cadet (in pretty much any vintage) will cost you around €9, while you'd be lucky to get to get a bottle of 2009 Mouton Rothschild for less than €900. The main wine has become one of the world's leading luxury brands, while its former little brother has suffered from severe decline in recent years, appearing more and more out of step with the quality image of its parent company.

From a high of just over 1.3 million cases in 2002, sales of Mouton Cadet in 2010 stand at just under 1 million according to the company itself – and these figures are disputed by many in the trade. There are still some clear successes - the market share in Canada, for example, stands at around 22% of the entire Bordeaux market in the country, and in the US it remains the biggest Bordeaux brand. Sales of the rosé wine are growing. Mouton Cadet is distributed in 150 countries around the world, and 80% of its business is outside France but, overall, traditional markets have seen relentless decline, and new markets have not come in quickly enough to stem the flow. The white wine has seen the biggest contraction in sales, and now stands at 25% of production (with red at 70%).

Xavier de Eizaguirre, director of DBPR, says, ‘2010 sees Mouton Cadet’s 80th birthday, an achievement equally by very few branded wines in the world. There are markets going up and those going down, and everything in between. The million cases that we sell today is close to our intention – we don’t want to grow it to be a huge market, we want a positioning that we can control, while still being a truly global brand.’



The origins of Mouton Cadet date back to 1930, a few years after the mis-start of another second wine known ironically enough as Carruades de Mouton. The success of Mouton Cadet meant that grapes were quickly brought in from other vineyards to boost production, first from Pauillac and then from neighbouring appellations. Apart from a small halt during World War II, the wine has grown steadily since, taking on grapes from more appellations as it did so, and finally signing up to the AOC Bordeaux appellation in 1947, as it had long since lost the ability to be classified as AOC Pauillac. In fact today, for all the Mouton Cadet wines except the AOC Medoc (made by 12 producers in the northern reaches of the peninsula), not a single vineyard is located in the Medoc. And not a single vineyard is owned by DBPR; all wine is bought in once fully vinified from 350 producers who are located over 2,200 hectares of vines entirely on the Right Bank, mainly in Entre deux Mers and the Cotes de Bordeaux.

Production facilities, however, do retain their Left Bank location. Customised Mouton Cadet premises were opened at St Laurent, Medoc (between Pauillac and Listrac) in 1993, on a four hectare site with the full range of facilities from wine-making to bottling, laboratory testing, offices and tasting rooms. A new delivery centre is due to open in late 2010. The only part of this huge and slick complex – that would be right at home in California or Australia – that is shared with the chateaux is the laboratory. Prior to 1993, this was based at Chateau d'Armailhac , but it is now in St Laurent, with over 20,000 samples per year passing through the hands of the four full-time oenologists. The white wines, made from 24 producers, are the only ones not vinified here – the grape must is driven to a production facility just south of Bordeaux, where cold-settling and vinification takes place.

The company may (gently or otherwise) play on the association with the prestigious Chateau Mouton Rothschild, but the two arms of DBPR use two entirely separate sales networks. The chateaux wines are distributed exclusively through negociants, while the branded wines move along a more controlled path. The company has (excluding France) around 60 people covering sales and marketing worldwide, alongside partnerships such as Constellation in the US and Torres China in China and exclusive arrangements with importers in other territories, including Jebsen Fine Wines in Hong Kong and Drinks, Wines and Spirits in Taiwan. In France, a subsidiary called Baron Philippe Rothschild France Distribution (RFD) has around 100 staff based in Paris, and also distributes Pol Roger, Campari and Leapfrog.

Today, France, the US and Canada are the three largest markets – but all three are mature, and are not picking up new business (although the acceptance of branded wines is somewhat new in France, so may offer room for growth – ironically because chateaux wines such as Mouton Rothschild have now moved beyond the reach of most native drinkers). In France, the brand has 60% off premise, and 40% on premise. Worldwide, the average is 70% off and 30% on premise. The growth, inevitably, is in new markets – primarily Russia, and China. Markets, one could cynically argue, where the brand values of Mouton Cadet have not been terminally compromised.

'Despite the financial crisis, Russia continues to boom. We have seen double digit growth over the last five years with all our brands (Languedoc, Chile as well as Bordeaux), and expect to reach 250,000 cases within the next five years, which would make it a top five market.' The company has a full time

Russian employee who spends half his time in Pauillac, half the time in Moscow, and there are plans to hire a second.

Things have been far less successful in the UK. De Eizaguirre says, ‘The UK used to be one of our key markets, but it has become so price sensitive, and so dependent on discounting, that we decided from 2003 to get out, because it was killing the brand. We probably lost 250,000 cases, but the UK off trade was pushing us so far it became ridiculous. We made the decision to get back to the on-trade with Mouton Cadet Reserve, and since then we are gaining back slowly but surely our on-trade market, with a more acceptable level of margin.’

Matt Dickinson of Thierry’s, the UK’s leading importer of French wines with 25% market share (according to Neilsen), does not entirely bear this out, ‘Brands like Mouton Cadet that have been kicking around for a while have lost market share to newer brands such as Calvet and Chasse de Pape – I’m not sure that the average consumer really gets the concept of Mouton Cadet. Our feedback at events such as France Under One Roof tells us that the market doesn’t really like the idea of branded Bordeaux, because they feel consumers don’t want it. Plus Mouton Cadet at £9.99 is more than twice the average price on shelf – so it is competing against quality wines with more knowledgeable consumers.’

Its US sales have been equally hit by changing tastes and anti-French sentiment. In 2004, it sold only 2.9 million bottles, down from a high of 6.5 million bottles in 1992. Johan Bruwer, Director of Marketing at the University of Adelaide and consultant to several wine brands, commented, ‘Brands such as Mouton Cadet suffered enormously when the anti-French backlash was whipped up in the US in 2003, following the Iraq War. It’s too easy to say that New World wines are replacing Old in the US – Italy is still hanging on to a 23% market share, whereas France has dropped from 30% in 1997 to 9.2% today. And when they stopped buying French wine, many consumers suddenly realised they could get fruitier, less tannic wine from other countries for the same or less money. The French have not being very adept at opening back up the chink once it closed behind them.’

Perhaps realising the enormous task ahead in the traditional markets, the company is now clearly looking towards Asia. ‘We have been marketing our brand for years in China, but volumes are now increasing. Our No 1 market in Asia for years was Japan, but today China is gaining importance.’

This fine piece of understatement has been underlined by a major drive to increase brand presence. Importers Torres China (of which since 2003, Baron Philippe de Rothschild has been the main shareholder, with Alberto

Fernandez as the Managing Partner) currently employs 200 staff, with 80 in sales and 30 in marketing. And together with the parent company, they opened a flagship Mouton Cadet bar in Guangzhou, around 100km from the Hong Kong border, in March 2010.

Anthony Gourmel, the Export Director for Asia, says they receive about 50 people per day, 55% women, with an average age of 35. The bar sells exclusively DBPR wines, from the branded wines right up to the First Growth chateau – but with the chateaux wines separated into a VIP area, and served by the glass. 'Mouton Cadet is by far the biggest selling wine, but we are seeing very good sales of both our chateaux and Chilean wines.'

There are plans to open other bars if this proves successful, both across China and in other Asian cities, and even to invest in vineyard property, but despite this aggressive push, China is by no means assured. 'Distribution is not yet organised, and there are both legitimate and not legitimate companies out there, so it is hard to see how things will finally get organised, plus there are still issues with counterfeiting and smuggling.'

Some commentators point to basic inconsistencies in the DBPR business model – where the company has launched both varietal lines and New World wines that have cannibalised Mouton Cadet. De Xiagrurre inevitably disagrees, 'Rather than being the victims of the New World phenomenon, we wanted to be part of it. At the moment we are covering the classic Bordeaux markets with Mouton Cadet, but we are also in a position to supply markets with varietals, and new world wines, all within our high-end strategy.'

One of the big question marks surrounding the demise of the Mouton Cadet brand has been over quality – simply that it has not been good enough. Plenty of blogs and internet chatter refer to this, with the brand criticised first for making overly tannic and 'old-fashioned' wine, and then for giving in too far to consumer fashion with its relaunch in 2004 that saw it mutate from a Cabernet Sauvignon-based wine to a 60-65% Merlot-based wine, with barrel ageing (no oak chips) reduced from 18 to 12 months. Despite this more consumer-friendly approach, many remain unconvinced.

Scottish wine shop owner Peter Wood questions on his blog 'The Tasting Note' whether the on-trade approach makes sense for a wine that is essentially mass-market. 'Mouton Cadet belongs in supermarkets and not in restaurants and specialist merchants, despite these latter places being exactly where the company want their product to be found.'

Donald Edwards, sommelier at Le Bouchon Breton in London, equally queries its place on his wine list, but for quality rather than branding concerns. 'Buying for a restaurant, I'm very wary of the entry level blends from the big Bordelais player. BPDR varietal wines are bad too’.

‘Quality and consistency for us is absolutely paramount,’ says Hilde Chevillot, onsite oenologist at St Lauren and technical communications manager. ‘Every single drop of Mouton Cadet is sourced from specific parcels, and we provide assistance technically to the growers through our engineers and oenologists. We offer a 3-year minimum contract, and buy at much better prices than average to encourage quality. A bottle of Mouton Cadet will have been analysed at least 20 times before it reaches the consumer, and we try to be as simple and clear as possible with our taste profiles – a Medoc from Mouton Cadet Reserve will taste like a Medoc, a Saint Emilion like a St Emilion.’

‘There’s not really a close link with Mouton Rothschild,’ admits de Eizaguirre. ‘The Mouton Cadet drinker probably knows that Mouton exists, but he is a Mouton Cadet drinker, he drinks it for itself. Mouton Cadet is for a group of consumers that is accessing the wine market, that doesn’t have the means to buy extraordinarily expensive wines. We offer consistent wine at moderate prices.’

DBPR Branded Wines

1) Bordeaux Wines

-Agneu Blanc, Berger Blanc – two entry level wines from Bordeaux, intended for France and mainland Europe, entirely supermarket distribution

-Mouton Cadet (Red, White, Rose)- 12 million bottles of Mouton Cadet are made, intended for on and off trade distribution worldwide.

-Reserve Mouton Cadet (Medoc, Sauternes, Saint Emilion, Graves Red, Graves White). Approx 600,000 bottles of the Reserve wines produced (130,000 bottles of the Medoc, around 120,000 for the other four appellations), intended for on-trade distribution. For the Sauternes wines, 90% is from the declassified wine of Chateau Coutet.

-A fourth line of Bordeaux branded wines, known as Enchanté, launched in 2008 but was quietly dropped in 2010. Constellation Europe invested £1m in the UK launch of this joint venture with DBPR. ‘The financial crisis made it impossible to continue,’ said one employee, who did not wish to be named.

2) Languedoc Wines

-Cadet d’Or – four lines

-Vins de Cepage

-Carabas – red and white. These are made in the Pays d’Oc but bottled in St Laurent

3) Chilean Wines

-Escudo Rojo – these wines are made from DBPR own vineyards in Chile (plus some extra buying in of grapes not finished wine, so more along the Californian model than that of Mouton Cadet). Sales here are growing, and the company hopes to double production in the next two years. Distribution through independent retailers.