

**CASE 2-2****Argentina Uncorks Malbec; World Ready for a Glass**

Argentina has been producing wine since the sixteenth century, but the country's winemakers did not start competing globally until recently. Argentina's sudden popularity in global markets is due in large part to Malbec, a grape variety that is now synonymous with Argentina. The Malbec grape originated in France, where it was once a crucial blending component in wines from the Bordeaux region. Malbec (French for "bad beak") has largely fallen out of popularity in France and is now only found mainly in wines from Cahors and the Loire.

Immigrants brought Malbec vines to Argentina during the first half of the nineteenth century, and the grape was cultivated with much more success than in Europe. Argentina currently boasts 278 wineries with 1,047 labels, with the vast majority operating in the Mendoza region. Terroir, which refers to the climate and soil, plays a fundamental role in cultivating Malbec successfully. Malbec vines grow extremely well in the desert landscapes and arid climate of Mendoza, which lies in the eastern slopes of the Andes Mountains. The vines' lifeline: an irrigation system that delivers glacial water from the Andes. Mendoza's vineyards are some of the highest in the world, pushing 5,000 feet above sea level, roughly 4,000 feet higher than those found in Napa Valley, California. The altitude ensures more sun with less heat and gives the grapes more acidity with softer tannins. This translates into wines with fresh flavors that don't need cellar aging.

Argentina is the fifth-largest wine-producing nation in the world. In 2009, Argentina produced approximately 1.4 billion liters of wine, exporting 430 million of those liters to 128 countries. The turnaround was remarkable: In 1990, Argentina produced inexpensive red, white, and rosé wines solely for its domestic market. At that time, neither differentiation nor quality was a goal—just quantity. In 1970, Argentina had an annual wine consumption rate of 92 liters per capita and very

little competition, thanks to government protectionism. Even today, 95 percent of the wine consumed in Argentina is produced domestically, but consumption is dropping.

Consumers' tastes have changed in recent years, shifting toward soft drinks and other beverages. Wine consumption fell 20 percent, and the industry realized that it needed to shift its focus. Instead of high yields and large-scale production, winemakers began to concentrate on quality, on controlling and reducing yields, and on exporting specialized wines throughout the world. The transition was a success, and although 70 percent of Argentina's wine remains in the domestic market, Argentina has become the fourth-largest exporter of wine in the world, following only Italy, Australia, and France.

The target market for Argentina's wine exports is the United States rather than Europe. The strategy appears to be working; consumption of Malbec is growing in America. In 2003, Americans consumed 11 bottles of Australian wine to every 1 Argentine bottle. By 2008, Australian wines still outsold those from Argentina, but only by a 3-to-1 margin. In 2009, the value of Argentina's wine exports to the United States was \$150 million, up from \$101 million in 2006 (see Table 1).

What is Argentina delivering to the U.S. market that other imported wines fail to offer? The answer is simple: value. As Jose Alberto Zuccardi, director of the Zuccardi Winery in Mendoza, commented recently, "We are very optimistic, we think Argentina is growing in export sales and the reason is that we offer good value to consumers who may be looking to spend less money for the same or better quality." According to Nielsen, Malbec is the fastest-growing varietal in the United States market, where consumption tripled in 2009. Malbec-based wines can be found throughout the entire price spectrum, from \$10 to \$100. Although the expensive offerings can

be excellent, most consumers are choosing the inexpensive bottles, which offer terrific value for the money and are good for everyday drinking.

The opportunities Argentina presents are attracting foreign investors from around the world. The ability to produce quality wines at a fraction of the cost of doing so in the United States gives Argentina a tremendous competitive advantage. An acre of land in Mendoza costs roughly \$30,000, much less than the cost of an acre in Napa Valley, California. Vintners also have the autonomy to plant whichever variety they want, something rarely allowed in Europe. Michael Evans, an American who moved to Argentina in 2004, started the company Vines of Mendoza. Evans does not operate a winery per se, however. Instead, he leases plots to investors, who get to choose the varietal and develop the brand, while Evans does the rest.

Other, better-known winemakers have a presence in Argentina as well. Paul Hobbs (Viña Cobos) and Kendall-Jackson (Tapiz and Mariposa) both have vineyards in Mendoza, as do European vintners Château Lafite and Pernod Ricard. Perhaps the most surprising investor is LVMH Moët Hennessy-Louis Vuitton, which produces wines under the Terrazas de los Andes label.

Another facet of the opportunity in Argentina is represented by Château HANA in Mendoza. The enterprise is the brainchild of Aziz Abdul, a Muslim who was born in Vietnam, grew up in southern India, and learned to appreciate wine while studying mathematics in Paris. After accepting a buyout package from his employer in 2008, Abdul had the capital to invest in a winery. His aim is to produce wine in Argentina that represents a merging of the modern French style with the robust style of a typical Malbec. The wines of Château HANA (the name is a combination of the first initials from Abdul's first name and those of his wife and daughters) are relatively expensive compared with other local brands.

During his time in France, Abdul had the opportunity to visit Château Lafite, Château Latour, and other world-famous wine estates. Explaining what he learned from France's elite winemakers, Abdul recalls:

They told me the aromas to avoid and how. I learned that after harvesting the grapes, it was better to leave them intact for as long as possible as that imparts more character. . . . There are thousands of wines in Argentina—why add another? You have to be distinctive. That's terroir—it's the land and the man together.

To date, Aziz has spent more than \$500,000 to buy a vineyard in Mendoza, hire an experienced winemaker, and assemble a state-of-the-art production facility with an annual production capacity of more than 100,000 bottles. He has sold several hundred cases of his wine to upscale hotel restaurants in Buenos Aires. Abdul started exporting in 2012; his first target markets were the United States, China, and Brazil.

As can be inferred from these examples, times are good in Mendoza, but threats in Argentina's internal and external environments do exist. One potential risk is, ironically, Malbec's sudden popularity. Historically, varietals that gain sudden popularity tend to lose it sooner or later. Markets are often plagued with hundreds of labels with little differentiation and mediocre quality; Australia is a case in point.

Perhaps the biggest threat is Argentina itself. Its economy is infamous for being vulnerable to an economic crisis every 6 to 10 years. With these crises comes high inflation, which could greatly increase

production costs. If prices rise, then value—Malbec's competitive advantage in the market—will decrease. Inflation is currently running at about 25 percent.

Other regions are also starting to experiment with Malbec-based wines. Argentina and Malbec are synonymous for now, but that identity could be lost. Argentina is currently working to build and maintain that identity by repositioning itself in the global market. Nicolas Catena, who is widely considered to be the founder of Argentina's emergence as a source of quality wine exports, expanded his U.S. marketing budget to more than \$2 million after Argentina's economic crisis in 2001. Vines of Argentina, an industry marketing firm, spends approximately \$3 million a year to increase awareness globally. Michael Halstrick, president of Norton Winery, commented, "We want people opening a bottle of wine to think of tango, of football, of the Andes. We are no longer just producing a commodity, we are a country that has arrived."

With savvy marketing and a dose of good luck, Argentina's wine industry will be able to find long-term global sustainability. Robert Parker, the world's foremost wine critic, believes that Argentina is approaching the tipping point in terms of popularity. Parker commented, "By the year 2015, the greatness of Argentinean wines made from the Malbec grape will be understood as a given." But while the Argentines wait, they will surely be sipping Malbec.

Discussion Questions

- 2-16. Identify the marketing strategies that have helped Argentina's wine industry expand beyond its home market and reach consumers in all parts of the world.
- 2-17. Even though the Malbec grape is well known in Argentina, consumers in other countries are less familiar with it. What recommendations do you have to help increase consumer understanding of, and appreciation for, Malbec-based wines?
- 2-18. The forces of supply and demand affect many industries, and the wine industry is no exception. Currently the world is awash in an ocean of excess wine. Many winemakers in France, Australia, and other countries are struggling financially. Given this situation, what can Argentina's wine producers do to maintain or increase their market share?

This case was prepared by Research Assistant Devin Linn under the supervision of Professor Mark Green.

Sources: Jude Webber, "A Punt on a New Wine with Roots All Over the World," *Financial Times* (October 28, 2011), p. 12; James Molesworth, "Argentina's Hit or Miss Year," *Wine Spectator* (December 15, 2010); Eric Asimov, "Argentina Opens the Tap for Malbec," *The New York Times* (April 28, 2010); Laura Saieg, "Malbec Consumption Triples," *Wine Sur* (May 12, 2010); Dan Prescher, "Argentine Malbec Wine Bucks Trend to Shine in Sluggish Wine Market," *International Living* (April 29, 2010); Ana Tagua, "The 30 Most Exported Argentinean Brands," *Wine Sur* (April 7, 2010); Helen Coster, "Harvesting Profits in Argentina's Wine Country," *Forbes* (March 1, 2010); Mike Veseth, "Wine, Recession and Argentina," *The Wine Economist* (April 30, 2009); Dave McIntyre, "Argentina's Andes Advantage," *The Washington Post* (April 8, 2009); Candace Pierte, "Argentina's Grapes of Success," *BBC News* (March 30, 2009); Andrew Jefford, "On the Roof of the Wine-Growing World," *Financial Times* (March 14, 2009); Dorothy J. Gaiter and John Brecher, "Malbec Beckons: Heed the Call; Argentina's Signature Red Deserves Its Wild Popularity. Offering Zing and Boldness for Modest Prices," *The Wall Street Journal* (January 24, 2009); Lance Cutler, "The California/Argentina Wine Connection," *Wine Business Monthly* (August 15, 2007); Dorothy J. Gaiter and John Brecher, "South America's Rising Star; Argentina's Malbec Makes a Big Splash; Living with Success," *The Wall Street Journal* (June 22, 2007); David J. Lynch, "Golden Days for Argentine Wine Could Turn Cloudy," *USA Today* (November 18, 2007); Jon Bonné, "The Mysteries of Argentinean Malbec," *MSNBC* (June 5, 2006); Mark Mazzetti, "Argentina on the Cheap," *State* (July 11, 2003).

TABLE 1 Fifteen-Most-Exported Brands of Argentine Wine

Brands	Value (thousands of dollars)	Volume (thousands of cases)
Fuzion (Familia Zuccardi)	20,433	1,063
Trivento (Trivento)	14,237	573
Catena (Catena Zapata)	13,158	197
Alamos (Catena Zapata)	12,366	374
Trapiche Reserva (Trapiche)	10,758	270
Trapiche (Trapiche)	10,463	423
Norton (Norton)	8,104	261
Finca Flichman (Finca Flichman)	7,635	337
Navarro Correas Colec. Privada (N. Correas)	7,626	158
Argento (Argento Wine Company)	7,545	414
Pascual Toso (Pascual Toso)	6,638	165
Astica (Trapiche)	6,442	374
Terrazas (Terrazas de los Andes)	6,066	143
Macus James (Fecovita)	5,719	457
Pampas del Sur (Trivento)	5,319	343