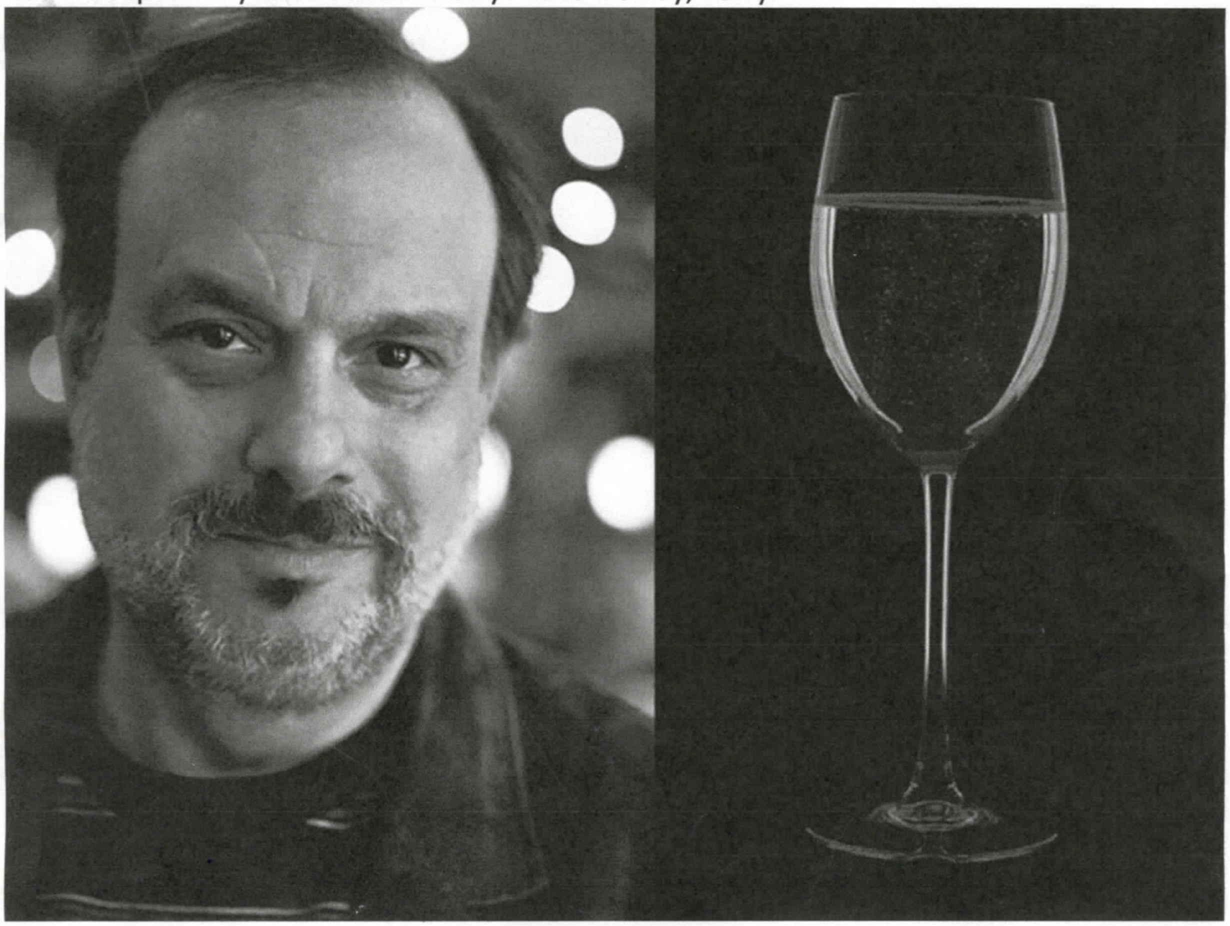
Terry Theise On the Price of Wine

You may know wine importer Terry Theise from his excellent book, *Reading Between the Wines*. Or you may know him from seeing his name on the back of a bottle. Or you may not know him yet, in which case you're in for a treat. This week, we asked Terry if he would address a few practical considerations that have come up among Serious Eaters when discussing wine. The questions: **Why does wine cost what it does?** When I buy wine, where does the money go? How do I spend my wine dollars wisely? Take it away, Terry.



The price of a wine is determined by five things:

1. The cost to produce it and bottle it, both tangible (labor, quantity per unit of land, supplies and equipment, bottles, closures, capsules and cases, among other things) and intangible (e.g., debt service),
2. The laws of supply and demand, along with the grower's willingness to price based on what the market will bear,
3. Logistical and distribution costs to get the wine from the producer to you,
4. Costs to comply with all federal, state and local regulations, and
5. For imported wines, the prevailing value of the dollar.

Let's start with numbers 3, 4, and 5.

> With imported wines, the costs of transportation and taxes are more or less fixed. Only state and local fees differ, sometimes markedly. A case of big-brand Cava, let's say, costs about $18-20 to ship from Spain to an east-coast port; the higher amount is for a temperature controlled container (the so-called "reefer"), and so it stands to reason that if the case sells for $56 wholesale, which includes its price from the winery, there's very little "value" in the bottle. Just a couple dollars' worth of wine; the rest is cost and the wholesaler's margin. Those $6.99 bottles actually represent poor value, whereas **a trade-up to $9-10 gives you twice the wine, because the fixed costs of freight and duties are the same.**

One hears of the so-called "3-tier system" set in place after Repeal. This refers to three entities handling the wine and taking a markup. One, the producer (or "supplier," i.e., the guys with the rights to sell the wine to wholesalers in different states), the wholesaler (a.k.a. the distributor), and finally the retailer. This system is said to be cumbersome and even unnecessary. No one likes the "middleman." This is an echo of the Aquarian Age, when all of us learned to assume that capitalism was inherently corrupt and based solely on greed. Sometimes these things are true.

But even if the wholesaler could somehow be eliminated, any system to take its place would have to allow wineries (or the marketing agencies who have sales rights for them) to do the legwork of cultivating thousands of individual accounts in every state—all those wine shops and restaurants—not to mention set up a freight entity to ship their orders next-day, as buyers have come to expect. Believe me, there are plenty of resourceful and creative people in the wine industry, and if it were possible to do away with wholesalers, it would long since have been done. Provided the individual state permitted it. (Some would, many would not.) Nor can you presume that a state where wholesalers weren't required, would actually do away with them. Example: I once wrote a 1,000 case German wine order for a big retailer in a state where he could own an import license AND a retail license. Theoretically he could have bought the wines directly from producers in Germany, if he wanted to pay for the staff to do the sourcing. After confirming the order, I asked him if he'd like to ship using his license, which would have saved him the wholesaler's handling and delivery fees, plus we'd have given him a discount. The drawback was, he'd have to do all his own freight-forwarding and U.S. Customs work, plus take delivery of the entire order in one chunk. He opted not to. For him, the service provided by the wholesaler, and most saliently the ability to draw the order in staggered smaller units was worth paying more for. I often think of this when the wholesaler's very right to exist is questioned.

I realize each of these statements prompts additional questions. Let me try to simplify it.

Say a hypothetical French wine costs 9 Euro per bottle, or about $12.87 at today's exchange rate. As we reckon in cases of 12, that's a cost of $154.44 for the case to leave the property that produced it.It has to be picked up by a trucker, consolidated with other wines so that, ideally, a container is filled (which saves shipping costs), put on a boat to the U.S. port, cleared through Customs, and trucked to the distributor's facility. A typical cost this, assuming an east coast destination and a "reefer" container, is about $11 per case, give or take. So: the distributor's cost to "lay-in" the wine is $165.44.

He has to warehouse it, pay for a sales force to sell it, drivers and vehicles to deliver it, and finance it. It's unlikely he'll have sold it all before the producer must be paid. The profit margin he takes is based on his size. If he's large enough to have economies of scale, and if he has a few cash-cow brands he sells easily and in large units, he can work for a few points less, but if he's a small fine-wine house his business is far riskier and more labor-intensive, and he marks up higher. This assumes he's at liberty to decide this for himself; there are, astonishingly, states which mandate his markup. But let's choose a figure somewhere in the middle—say he'll sell the wine that cost him $165.44 for about $220. That's a profit margin of 25%, which is a reasonable median figure. His actual net will range from 4-7% depending on his operational costs. These are not huge profits.

Your local wine shop pays $220 per case, or $18.33 per bottle. His standard markup is 50% (because he's smaller than the distributor) and so he puts the wine on the shelf for $27.49, though he might go up to $27.99. Retailers are always looking for "long-margin" wines they can go above their standard markups on. Often they buy these wines in multiple cases, and often the price looks attractively low. But in fact the retailer is making extra profit—for which I don't remotely blame him! Very very few people get rich in the wine business.

Sometimes someone will return from a trip to France where he has visited the producer of the wine he's been paying $27.99 for, and he's shocked to see he can buy it at the winery for 9 Euro. He assumes a retinue of greedy capitalists have squeezed every shekel they could eke out of the wine.

Having established the five things that influence wine prices, I've sought to explain numbers 3, 4 and 5. Now it's time to look at numbers 1 and 2:

1) The cost to produce and bottle a wine, both tangible (labor, quantity per unit of land, supplies and equipment, bottles, closures, capsules and cases, among other things) and intangible (e.g., debt service),

2) the laws of supply and demand, along with the grower's willingness to price based on what the market will bear.

How do you spend your wine dollars wisely? If you possibly can, try to favor the wines of Old-World small family estates, not because they are necessarily "better" (though often they are) but because you're getting more absolute wine-quality per dollar spent.

Why? Because these families own their land, their vines and their homes. Their only actual expenses not already cited are for equipment maintenance and upgrades, and most saliently for labor. They don't have any PR or marketing infrastructure to create and maintain. If you visit them you usually meet with an actual family member, and more often than not you sit together in their home.

As a rule, in the New World you are dealing with start-up producers who often buy grapes and sometimes have them crushed by someone else. In 200 years, assuming the wineries survive, the startup costs will long since have been amortized and absorbed, but right now these producers are servicing debt—sometimes considerable debt—and who do you think pays for it? You do.

Please note, I'm not talking about wine quality here. The Old World family grower does not invariably make excellent wine. Still, your odds are higher if you buy from them, and you can be nearly certain you're paying a fair price based on tangible costs.

There is a similar dichotomy based on size. The larger a winery, the more pressure it's under to sell its wines, and the more they invest in PR and marketing—for which of course it's you who pays. Champagne offers an enlightening study.

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A giant such as Moët & Chandon, itself an arm of the luxury-goods conglomerate LVMH, is an enormous industrial wine producer. Notwithstanding their image-based marketing, the reality of production is, it happens in a huge modern factory. They have all the most cutting-edge machines, which they use not to improve quality but rather to save money, and they have enormous economies of scale. It costs them far far less to produce one of their 1.2 million bottles of Champagne than it costs a little grower with 6-8 hectares who makes 72,000 bottles annually. So why are they priced nearly identically to you? Because the giant producer has immense costs associated with marketing, PR, product-placement and donations to all the beautiful-people events where willowy things languish in smug apathy, awash in free Champagne, and having worse sex than you do. So if you walk into the store with $40 to spend on a bottle of Champagne, **the grower's wine contains about twice as much pure wine value as the big guy's.** It costs Goliath less than half of what David pays to make a bottle of Champagne, but Goliath has massive marketing/advertising costs, and who pays them? You do, Schnooky.

That is, if you consent to.

So all in all, the best way to ensure you are actually paying for wine in and of itself, is to buy from small family Old World domaines. You also enjoy the collateral benefit of keeping these lovely cultures alive and healthy.

Except, there is a catch, only one, but a big one. In some instances, **the laws of supply and demand** as well as a commodity value that can be conferred on a wine by mega reviews from influential journalists can create a feeding frenzy whereby a wine's price is bid up into the stratosphere. Then you're paying for mere access to something that

> everyone wants, like World-Series tickets on Stub-Hub you paid $800 for, which carried a face-value of $175.
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> Burgundy is the classic example of a small region making (sometimes) stellar and uniquely beautiful wines, which cost a ton because there's five buyers for every three bottles. Bordeaux, in contrast, is a classic example of a wine commodity which attracts the attention of a lot of rich idiots, speculators, and people for whom the accumulation of the "required" first-growths in the "best" vintages *is just another way to take out the ruler and drop trou.*

There's also been a tendency for some wineries to **set prices in order to Make A Bold Statement.** That is, you overprice your wine dramatically (at least based on prevailing assumptions about what that type of wine "ought" to cost), and by doing so you beat your chest and attract attention. My wine's as good as those others, and it should cost what they cost, damn it! And sometimes this is justified. But even when it is, the wine has now become a commodity competing against its supposed peers, as opposed to a means by which a family makes a living and a reasonable sustainable profit.

Alsace is both a classic example and a cautionary tale. In the old days (about 25 years ago) a grower made (let's say) a normal basic Riesling he sold for (the equivalent of) 6 Euro, and he made a "Reserve" Riesling he sold for 10 Euro. Then came a vineyard classification resulting in a Grand Cru system, and lo and behold, our grower's Reserve Riesling came from a vineyard now identified as a Grand Cru. Such things are mandated to cost some serious scratch, and so the wine is now priced at 18 Euro instead of 10—though nothing about it has changed except the words on the label—and the price of the basic wine is also dragged up, since it looks undignified to sell it for a piddly 6 Euro.

I don't want to beat up on Alsace by any means. They're suffering enough as it is. And who's to say the Grand Cru introduction didn't actually increase wine quality overall? I think it has despite its many errors and failures. And why shouldn't these vignerons enjoy some prosperity? Their region was perennially overlooked and undervalued, and they have some steep vineyards that cost a great deal to work. But it does good to consider the effect on you and me as wine consumers. What is the value of these wines, and are the prices realistic and sustainable?

But say you're with me so far, and now you want to buy some German wine from a small family estate, such as I have been extolling. You go to the shop and there's a Riesling Kabinett from the Mosel for $25 a bottle, and another from the Rheinhessen for $16 a bottle. Is the Mosel wine that much better? Is there some flim-flammery going on? The answers are yes and no.

The Mosel wine is made from vineyards on extremely steep slopes, where machine labor is almost impossible. The Rheinhessen wine is made from flat or gently sloping land. The Mosel vintner's cost-per-vintage-per-vine is about eleven times higher than his Rheinhessen colleague's. The Mosel fellow's wine is indeed somewhat "better," especially if you love raciness and vigor and explicitly minerally flavors. The Rheinhessen wine is softer and not as complex. Whether that Mosel wine is truly 50% "better" I cannot tell you. You taste and decide. But I can guarantee you that both wines cost what they must. The Mosel guy has not goosed up the price because he thinks he can get away with it. All things being equal, the kinds of flavors (at least in white wines) that many drinkers cherish need to originate in steep and hard-to-work land.

So what now? How do you find your way to truly top values in this complex wine world? The answer is simpler than you think. ***Bet against the crowd.*** That is, use the laws of supply and demand to your advantage, and favor undervalued or even unpopular wine categories. Often this will lead you to the finest wines of all, since their virtues are often too refined and subtle for a mass audience. Chances are, if you're looking at wines in a shop or in a restaurant's list, the more things you see that you don't know or have never heard of, the higher the likelihood you've just made a wine-bff, and you'll probably drink a marvelous wine. Don't assume the people in the store or the restaurant are condescending because they're "experts" who are smarter than you. Far more often they're passionate believers in great wine, willing to do the difficult job of extolling what they truly love instead of just sticking the same old brands in your face (and worrying their competitor's price is nine cents cheaper).

The smartest question you can possibly ask, as you look around in perplexity at all those obscure and foreign labels, is; "I haven't heard of any of these, and that fascinates me. What's going on here?"