

Wine Tasting a la Vending Machine: The case of Max Bordeaux

Kirk Plangger

King's College London, United Kingdom

Kirk_Plangger@sfu.ca

Karen Robson

Simon Fraser University, Canada

krobson@sfu.ca

Leyland Pitt

Simon Fraser University, Canada

lpitt@sfu.ca

Colin Campbell

Kent State University, United States

ccampb51@kent.edu

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- *Purpose: This teaching case study introduces an innovative distribution system for luxury wine products and outlines the consumer segments for the fine wine industry with special attention drawn to East-Asian/Chinese consumers. It is a useful tool to discuss luxury products, the luxury industry, and the unique strategic marketing challenges associated with them.*
 - *Approach: This is a teaching case study for use as part of a university undergraduate or graduate marketing course. It highlights pricing, product/services, as well as place/distribution decisions in a retail environment. This case is based on published sources.*
 - *Findings: The main protagonist, shop manager Anne Melchior, has been charged by the founder, Henning Thoresen, to explore expanding the successful retail tasting room and wine cellar business, Max Bordeaux. Through information from the main text and the appendices, students must grapple with evaluating expansion to Paris and internationally, developing new brand extensions through the introduction of food, a cooking school, and Chateau tours. Students explore luxury experiences and also consider the difference between luxury products (ex. first growth wines) and luxury services (ex. a three star Michelin restaurant).*
 - *Practical implications: Students will be able develop a strategic marketing understanding (Product/Service, Place/Distribution, Price, and Promotion) of a retail luxury business. Instructors are encouraged to use this case in conjunction with Berthon et al. (2009), "Aesthetics and Ephemerality", California Management Review, which outlines a framework for managing different kinds of luxury brands. Combined, students will have a solid foundation in marketing luxury market offerings.*

Key words: Wine; Tourism, Distribution, Advertising; Customer Value

In January 2010, Max Bordeaux founder, Henning Thoresen, is concerned about the future of his highly successful retail fine wine tasting room and cellar business. He is also the founder of the Bordeaux Winebank Group (BWB), one of the world's leading wine investment companies and the holder of more than \$100 million in wine stored in Bordeaux and parent company of Max Bordeaux. Thoresen is now pressuring the Max Bordeaux manager, Anne Melchior to investigate future paths of growth for the retail operations.

From customer comments, Melchior knows she is doing something right in the tasting room. So right that the BWB board has charged her to think about expanding the business outside of Bordeaux. But Melchior is worried that expanding the business outside of the Bordeaux region will take away from the unique experience that the store in the city of Bordeaux offers. And after all, it is the experience of tasting great wine that is selling well, not so much cases of the fine wine the shop stocks. Will expansion to Paris, Tokyo, or Shanghai strengthen the Max Bordeaux brand or will the company be spreading the retail operations' resources too thinly?

At the same time, Melchior has always been a dreamer, so she is exploring other expansion ideas that might increase retail profits. She is considering proposing to Thoresen that he should invest in providing menu options to complement the wines. Moreover, Melchior wonders if the shop could be a hub to provide other related services such as a cooking school or local Chateau tours to capture additional value from patrons. Also, should she revise the current pricing plan to encourage larger consumption of each wine? Furthermore, she is unsure of how to further promote and advertise the retail business as it is, other than its great central location and website.

1. BORDEAUX

Sitting on the banks of the mouth of the Gironde river in South-Western France, the surroundings of the city of Bordeaux produce the most famous and arguably some of the best red wines in the world. Bordeaux is the largest wine producing region in the world and dominates the futures and auction markets for luxury wines (Thompson and Mutkoski, 2011). The region is legendary for the longevity of its wines, that allows the wine to lose its astringency, and better develop the aromas and flavors. It is this property that feeds the active market for younger and older wines by providing the incentive for speculators to invest in young wines in the hopes that they can sell them for more after several years of storage (Ashenfelter, 2008).

1.1 The 1855 Classification

Requested by French Emperor Napoleon III, the Bordeaux Wine Official Classification of 1855 offered a quality ranking system to visitors of the 1855 Exposition Universelle de Paris. Since then, the classification system has been very influential in pricing decisions and consumer demand. The system involves five growth (or *cru*) categories for Bordeaux red wines. Only wines from the Medoc district (with the exception of Chateau Haut-Brion from the Graves district) were included in the 1855 classification, leaving some critics to call this system the 1855 Medoc classification (Thompson and Mutkoski, 2011). The premier wines are classified as first growths and retail for well over \$800 a bottle depending on the year.

This system has been criticized for being too narrowly focused on the Medoc. Moreover, critics argue that the 1855 classification is outdated and does not provide an accurate guide to wine quality as many estates in the lower growths and unclassified Bordeaux vineyards have invested vast sums of money into their estates and improved quality substantially. Regardless,

consumers of fine wines seek out wines from highly classified estates and pay a premium to drink them.

2. CONSUMERS OF FINE WINE

Like most luxury industries, fine wine attracts two main consumer groups: wine connoisseurs and aspirational wine drinkers (Spawton, 1991; Hall and Winchester, 1999). Fine wine consumers generally base their purchase decisions on persistent quality expectations, rather than short-term trends (Landon and Smith, 1997), as opposed to other luxury markets such as fashion or automobiles. Fine wine consumers look for vineyards that have a long history of producing excellent products, which is why the 1855 Bordeaux classification is so influential.

Wine Connoisseurs are characterized by high product and industry knowledge and are the primary purchasers of fine wines. They usually consume wine on a daily basis and are very brand loyal. They often purchase only through recognized wine merchants or directly from the vineyard. They see wine education as a hobby and are not price sensitive (Spawton, 1991). These consumers utilize previous experiences with wine brands to make purchase decisions. They are most concerned with the vintage, the age of the wine, grape type and the brand (or label) (Hall and Winchester, 1999).

Aspirational drinkers are concerned with the social aspects of wine and purchase wines and labels with good reviews. They spend considerable time searching for the right bottle and often choose well-known brands, as these brands are seen as safe. These consumers are highly influenced by wine writers, “tastemakers”, and other opinion leaders (Spawton, 1991). The best-known wine writer and tastemaker is Robert Parker, whose wine-rating newsletter, *The Wine Advocate*, can make or break a lesser known vineyard. These consumers care about the image of drinking a famous wine brand to increase their reputation, reflect a luxurious lifestyle, and to get social approval. They see a prestigious wine brand as signaling a sense of status and class to others (Hall and Winchester, 1999).

Other wine consumer groups are more interested in the wine as a beverage or are still too new to drinking wine to be interested in purchasing and consumer fine wines. They lack any “wine appreciation” and would be just as happy consuming supermarket wines.

2.2 The Rise of the East Asian Wine Drinker

Wine has generally been a part of Western culture for centuries, and more recently has become very popular around the world. East Asia – Japan, China, Korea, Taiwan, Singapore – has seen wine consumption annual growth rates of over 65% in the past decade. This has been attributed mostly to globalization (the ability to get fine wine locally) and economic growth of the region (the ability to buy fine wine) (Lee, 2009). For example, China has become the largest importer of Bordeaux wines and consumption has risen nearly 110% in 2011 (Douet, 2012).

Recently, a few wealthy Chinese businesspeople have been buying prestigious Bordeaux wine estates. Chinese tastes are generally a bit different than others as they often prefer sweeter, more sugary wines, and a common practice is to “cut” the wine with a soda such as Coca-Cola or Sprite. Chinese luxury travelers love the vistas, food, and wine of Bordeaux but often complain that they would like to see more luxury in the services provided by the local hospitality industry (Douet, 2012).

3. MAX BORDEAUX / WINE GALLERY & CELLAR

Opened in 2009, Max Bordeaux is a highly successful wine tasting room and wine cellar in the city of Bordeaux located in the heart of the shopping district with many nearby hotels. The tasting room offers tasting glasses of fine wines mainly from the local world famous Bordeaux wine region. The wine cellar also offers fine wines at reasonable prices online anywhere in the world shipped with Five Star provenance certification.

3.1 The Max Bordeaux Experience

The problem for most consumers, when it comes to fine, classified Bordeaux wines, are their prices. Wines served in the tasting room range from an expensive \$50 a bottle for a great wine to a nearly unaffordable \$1,500 a bottle for a first growth Bordeaux. The tasting room offers sample “tastes” of these hundreds of great wines in 25ml, 50 ml, and 75 ml quantities (see Appendix A for a sample price list). This provides an unforgettable and unique experience to wine enthusiasts, wine connoisseurs, and luxury-seeking customers alike. Anyone who loves wine can at least taste even the most expensive first growth wine label. For many wine enthusiasts, tasting all five first growths is a life-long ambition that Max Bordeaux caters to.

Customers are greeted from the busy shopping street with a red carpet going through a simple, but stately door and down a long hallway with famous Bordeaux bottles on pedestals. The main tasting room is set up like a fine art gallery with framed wine dispensers and impressive displays of high quality wine bottles and wine crates from famous vineyards. The gallery is lit with a spectacular array of Bordeaux wine glasses suspended from the ceiling (see Appendix B). The stage is set for an unforgettable experience.

Upon entering the tasting room, customers are welcomed by a staff member who shows them to a standing-room only table and offers wine glasses, some water, and complimentary local snacks, while explaining how the tasting system works. For a minimum 25 euros, customers can get a Max Bordeaux Club Card that allows them to purchase wine directly from the Enomatic wine dispensing machine (see Appendix C) at the ideal temperature and free from over-oxygenation. These special Italian wine dispensers offer perfect servings of wine that tastes as if the bottle was freshly opened and aerated by replacing the liquid when poured with nitrogen to preserve the taste and quality of the wine for up to four weeks (Enomatic, 2012). Thus, customers, not staff members, choose and pour their own wine glasses with their Club Card, making the tasting gallery a fun and lively place with people walking around, taking pictures, tasting wine, and just enjoying themselves (see Appendix D for some customer reviews).

3.2 Max Bordeaux at Home

The Max Bordeaux cellars operate mostly online and offer a way to get a guaranteed chateau experience at home. The online store offers customers a wide selection of the finest Bordeaux wines with the additional assurance of Five Star provenance certification. Five Star provenance, owned by Thoresen’s Bordeaux Winebank Group, is a quality label that assures consumers of a case of wine’s authenticity. It guarantees that the wine purchased looks, smells, and tastes the same as though it was enjoyed at the Chateau. The purchaser receives the wine in its original wooden case, which is certified right at the Chateau as being authentic. Unopened cases offer a price premium for tasters and collectors in the secondary market. Each case is certified never to have been shipped out of Bordeaux, until the purchaser orders it. In addition, every case is equipped with a temperature and humidity monitoring device to further assure the wine is delivered in pristine shape (Bordeaux Winebank, 2012). Thus, wine purchased in the Max Bordeaux online wine cellar can be enjoyed “just like at the Chateau, anywhere, anytime”.

4. A PLAN WITH A VISION

Melchior has a few options to recommend in her plan:

- She could go along with Thoresen and propose expansion to other cities. The French capital, Paris, is an obvious choice with its droves of visitors every year and since it is in France, it eliminates a lot of the risk in setting up an international operation. There is also the possibility of expanding to Asian cities, such as Tokyo and Shanghai, where there are many wealthy consumers seeking luxury experiences. However, Melchior knows very little about these markets and would have to rely on existing BWB operations in Asia for help. She wonders if franchising might be an option, or if wholly owned branches are the way to go.
- She could recommend offering traditional French hor d'oeuvres, such as foie gras, fine local cheeses and/or charcuterie plates, among others, although her current retail location does not have the facilities or the staff for a kitchen. This is also an issue with offering French cuisine cooking classes, but she believes there might be a market for it.
- Thoresen and others on the BWB board are well connected within the Bordeaux Chateau community. If Melchior could persuade them to seek out tour opportunities to famous Chateaux that are usually off limits to the public, Max Bordeaux would have an advantage over other tour operators and attract more customers to Max Bordeaux. But she is unsure of how this idea might be received by the board, as they might not want to strain their relationships with the famous Chateaux.
- Melchior believes that the key to a successful business is customer awareness. She has been promoting Max Bordeaux online with websites, and offline with small professionally printed flyers that were distributed through nearby hotels. She knows that she could do more, but is not sure what other good channels to reach her potential customers there might be. She has read a lot about social media, but does not think it fits well with the business.
- Currently, the price for wine tasting is based on volume. Melchior is considering changing this to offer a small discount for larger quantities to encourage increased spending per customer. But the decreased margins associated with larger volumes will only result in higher overall profits if customers continue to try different wine labels.

Thoresen is a successful businessman with BWB, but he has maintained a hands-off approach to managing Max Bordeaux. Melchior not only wants to show she can handle her position, but also she wants to impress her boss with a viable plan of action that includes a vision for what the shop should look like in five years. It is obvious that Thoresen sees the potential of this business and Melchior is under a lot of pressure to put together her business plan soon. The prime tourist season starts with Bordeaux's VinExpo, the annual major international wine exhibition, which is just around the corner in June. Melchior now needs to contemplate which of Thoresen's expansion options, along with her own ideas, she should include in her presentation to Thoresen and the BWB board. She knows she has to balance her plan so that anything she proposes adds value to Max Bordeaux without taking anything away from the successful wine tasting business.

APPENDIX A: SAMPLE GRAND CRUS TASTING PRICE LIST

			 25 mL	 50 mL	 75 mL
	CLERC MILON 2007 5ème Cru Classé en 1855 Pauillac		4 €	8 €	12 €
	LANGOA BARTON 2005 3ème Cru Classé en 1855 Saint-Julien		5 €	10 €	15 €
	CLARENCE DE HAUT-BRION 2007 Second Vin de Haut-Brion Pessac-Léognan		6 €	12 €	18 €
	PICHON BARON 2008 2ème Cru Classé en 1855 Pauillac		7 €	14 €	21 €
	PALMER 2008 3ème Cru Classé en 1855 Margaux		10 €	20 €	30 €
	COS D'ESTOURNEL 2003 2ème Cru Classé en 1855 St Estèphe		14 €	28 €	42 €
	MOUTON ROTHSCHILD 2004 1er Cru Classé en 1973 Pauillac		25 €	50 €	75 €
	CHEVAL BLANC 2008 1er Cru Classé "A" St Emilion GC		25 €	50 €	75 €
	MOUTON ROTHSCHILD 2003 1er Cru Classé en 1973 Pauillac		25 €	50 €	75 €
	MARGAUX 2006 1er Cru Classé en 1855 Margaux		25 €	50 €	75 €
	D'YQUEM 2006 1er Cru Classé Supérieur en 1855 Sauternes		20 €	40 €	60 €

Source: Max Bordeaux (www.maxbordeaux.com)

APPENDIX B: THE MAX BORDEAUX WINE GALLERY



Source: Max Bordeaux (www.maxbordeaux.com)

APPENDIX C: THE ENOMATIC WINE DISPENSER



Source: Enomatic SRL (<http://www.enomatic.it>)



APPENDIX D: FIVE CUSTOMER EXPERIENCES

David S. from Brooklyn, NY writes:

“This was a really interesting experience, if you're serious about wine and have a bit of cash to spend, I would definitely recommend it. The basic setup is that you put money on a card, and they have these machines where you can sample 30 or so really good Bordeaux wines. You choose whether you want just a taste, a half glass, or a full glass, and you pay accordingly.

The staff is really knowledgeable, and the wines they have to choose from are some of the best of Bordeaux (and the most famous). Many of the wines are quite

both a plus and a minus, depending on how you look at it. For me at least, I'm not likely to spend \$200+ on a bottle of wine, so on one hand this wasn't terribly helpful for me to try things out that I might drink back home. On the other hand, they've got most of the biggest names in high-end Bordeaux, and since I'm NEVER going to spend \$600+ on a bottle of wine, it was pretty cool to have the opportunity to try those out.

There are some

I'd say this place's real uniqueness is in the higher end. Expect to spend a bit of money, though--my fiancée and I were there for about an hour and we wound up spending about 100 EUR, but in my opinion it was well worth the visit!”

Evnoonan from Glastonbury writes:

“It's not often you get to taste some of the best wines produced in Bordeaux and Max Bordeaux offers you the opportunity to taste 2.5cl tastings for a reasonable price. They have a great selection and very knowledgeable staff!”

Macaw from Michigan writes:

“On a recent cruise to Bordeaux, I made it a point to go to Max Bordeaux, a world-class wine gallery/tasting bar at 14 Cours de l'Intendance. They have a hundred or more of the best French wines in Enotèque machines for tastings. You purchase a "debit" card, and each tasting is a different price, depending on the wine and the size of the tasting you choose. It adds up, but where else can you taste wines like Ch. Margaux, Latour, Lafite-Rothschild, Haut-Brion, Yquem, etc., plus many other great chateaux, for less than the price of a bottle of one of those great wines? It is a mandatory stop for any serious wine afficiando.”

Icie_lynx from Melbourne, Australia writes:

“Wonderful - very modern facility to taste top chateau's wines. It's not really a bar and there is no food accompaniment. Where else can you try a first growth grand cru???? At 25-30€per 2.5 (25ml), it's not cheap, but then again, it's a lot more expensive to buy the bottle! There are other wines starting between 3-10€per 2.5cl - and the white selection was outstanding value for money. We spent 100€pretty easily between the two of us. Great substitute for visiting the impossible chateau like Rothschild. Highly recommended!”

Source: Trip Advisor (<http://www.tripadvisor.com>)

APPENDIX E: SAMPLE MAX BORDEAUX WINE CELLAR PRICE LIST (750ML)

	<u>CLERC MILON 2007</u> <u>5ème Cru Classé en 1855</u> <u>Pauillac</u>	65 €
	<u>LANGOA BARTON 2005</u> <u>3ème Cru Classé en 1855</u> <u>Saint-Julien</u>	96 €
	<u>CLARENCE DE HAUT-BRION</u> <u>2007</u> <u>Second Vin de Haut-Brion</u> <u>Pessac-Léognan</u>	120 €
	<u>PICHON BARON 2008</u> <u>2ème Cru Classé en 1855</u> <u>Pauillac</u>	135 €
	<u>PALMER 2008</u> <u>3ème Cru Classé en 1855</u> <u>Margaux</u>	245 €
	<u>COS D'ESTOURNEL 2003</u> <u>2ème Cru Classé en 1855</u> <u>St Estèphe</u>	330 €
	<u>MOUTON ROTHSCHILD 2004</u> <u>1er Cru Classé en 1973</u> <u>Pauillac</u>	500 €
	<u>CHEVAL BLANC 2008</u> <u>1er Cru Classé "A"</u> <u>St Emilion GC</u>	600 €
	<u>MOUTON ROTHSCHILD 2003</u> <u>1er Cru Classé en 1973</u> <u>Pauillac</u>	615 €
	<u>MARGAUX 2006</u> <u>1er Cru Classé en 1855</u> <u>Margaux</u>	670 €
	<u>D'YQUEM 2006</u> <u>1er Cru Classé Supérieur en 1855</u> <u>Sauternes</u>	680 €

Source: Max Bordeaux (www.maxbordeaux.com)

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