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# 99 BOTTLES OF WINE ON THE WALL

## THE CHANGING NATURE OF WINE COLLECTING

by Claude Kolm



Early in March 2007, the website of Woodland Hills Wine Company in Los Angeles, a prime source of top Burgundy in the United States, carried an offer of 2005 Musigny from Roumier at \$1,650 per bottle. The price seemed absurd, since the price at customary markups through normal distribution channels should have been \$300. Nevertheless, the wine sold almost immediately, and there were many disappointed would-be buyers who had to be told that the wine had sold out.

In August 2007, Michael Armstrong of Premier Cru in Emeryville, California, another major source of top Burgundy

in the United States, told me that he had a customer who had said that he wanted three bottles of 2005 Roumier Musigny and would pay \$5,000 for each bottle. At that price, Armstrong said, they were able to locate the requisite number of bottles and satisfy the order. When I relayed this to the Burgundy buyer at another major store, he was astounded. A month later, Armstrong told me that he now had a standing order at \$5,000 per bottle for all bottles of 2005 Roumier Musigny that could be located. That same day, I checked the wine-searcher.com website and discovered that there were at least two retailers—

one in London and one in New York—offering 2005 Roumier Musigny for \$6,250 and \$6,500 per bottle respectively.

This story is but one of many that could be related for top wines of Bordeaux and Burgundy. We are a long way from the 1970s, when, according to John Kapon of the New York auctioneer and retailer Acker, Merrall & Condit, his father gave bottles of Romanée-Conti as Christmas presents to his customers because the wine sat around in the shop and he got tired of looking at it.

What's happening is a profound change in the place of wine in world society, and this article seeks to bring together the major elements.

The wine market, of course, has a long history of booms and busts. For much of this period, use of the term “international wine market” has referred almost exclusively to the top wines of Bordeaux, a handful of Burgundy estates, and top German estates (until the early 1970s, when those wines ceased to be fashionable). Perhaps the origin of the events in today's wine market began in London in 1966, when Christie's renewed the 18th-century practice of auctioning wines. Published auction prices began to set standard prices for certain wines, raised public awareness of fine and rare wines (especially when dramatic new high prices were reached), and opened up a new way for individuals to invest in such wines.

The next step came in the early 1980s. The 1970s had been a glum decade for fine wine: the collapse of the speculative bubble for Bordeaux, highly publicized fraud scandals in Bordeaux, a general turning to production standards that emphasized quantity and led to a dilution in quality, and generally sluggish worldwide economic conditions. But by the early 1980s, the baby-boomer generation had begun to enter the workforce and, with its new discretionary income, cultivated an interest in wine. The dollar, which had declined throughout the 1970s, began to soar against European currencies, and so a large and important market gained strength. A new and more active wine press spread the word to these newcomers, through the newsletter phenomenon that had begun in the 1970s, through articles in the general press as some leading newspapers began to feature weekly articles on wine, and through books on wine that treated it in a more systematic and critical way than the books of the first part of the 20th century. And then along came a marquee vintage—1982 in Bordeaux—that generated enormous publicity for wine, provided instant gratification to many new drinkers who previously had found young claret too austere, and eventually led to record prices for young wines. In particular, Château Pétrus became the first cult wine. Previously, it had sold at retail only 10 percent or so above the other first growths, but now it rose to prices that were multiples of those of the other first growths.

A general interest in food and wine, which previously had been somewhat restricted to academic types (at least in English-speaking countries), began to spread throughout wider segments of the populations.

These trends continued to percolate throughout the 1980s and 1990s, aided by generally expanding economies throughout the world that enabled increasing numbers of people to attain

the discretionary income to explore wine. As a result, prices of fine and rare wines generally continued to increase, though at rates that seem tame compared to what we've seen over the past year or two. Also significant was the commencement of wine auctions in New York in the 1990s, as New York has come to at least rival London for supremacy in wine auctions.<sup>1</sup>

But the most significant element of the 1990s was the expansion of the Internet to the general public. With services such as wine-searcher.com, individuals had access to stores and prices throughout the world. Additionally, through e-mail, individuals throughout the world could simultaneously receive offers for wines, in contrast to the previous situation where a retailer had a much more limited number of customers, mostly local. Similarly, wine auctioneers and wine brokers used the Internet, likewise reaching many more potential customers. And, of course, the Internet has given immediate access to all sorts of information that previously had been limited to much smaller readerships of hard-copy material, as well as allowing passionate amateurs to spread information and their views via blogs, chat boards, and e-mail. Such expansion from a local to a global and instantaneous market destroyed whatever equilibrium there was in the market for fine and rare wines, as well as other collectibles.<sup>2</sup>

At the same time, the world economy has been changing. It is, of course, increasingly global. But additionally, much of it is what the economists Robert H. Frank and Philip J. Cook call “winner take all”—that is, a system in which, for many areas, the compensation for being perceived as top compared to being even second best is grossly disproportionate.<sup>3</sup> The result has been great accumulations in wealth, especially in areas such as finance and technology. For example, the new *Forbes* list of the 400 wealthiest Americans excludes 82 billionaires.<sup>4</sup> And this new class of the extremely wealthy now extends to areas of the globe that until relatively recently were poor, such as China and Russia.

In contemporary society, wine has now joined real estate, art, yachts, and cars as a marker of wealth and status.<sup>5</sup> Luxury homes now commonly come with built-in wine cellars. Sometimes, the occupants fill them with “bottles by the yard,” a takeoff on the fake or unread books used to fill shelves in some private libraries.<sup>6</sup> But often enough there is a demand for prestige bottles to go into the cellars. One doesn't have to have a billion dollars, or even a hundred million, to have enough discretionary income to buy the top bottles—even at \$600 a bottle and up for, say, 2005 Château Lafite Rothschild. Spending that much for wine is in line with, and indeed seems trivial compared with, \$140,000 handbags, \$700,000 Montblanc pens, and \$10,000 sunglasses.<sup>7</sup>

And with the publicity given to the 2005 vintages in Bordeaux and Burgundy, demand has spread even deeper for these top wines. Acker, Merrall & Condit's John Kapon described 2005 as the vintage where wine became a general luxury good. He goes on to observe that, in the past few years, there has been a changing of the guard in wine collecting. Many of the older collectors have been selling off their collections, either for reasons of age or to cash in on the high prices, though some of the traditional collectors still continue

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to collect. Kapon finds that these new collectors are different from collectors in the past because they are starting younger. Many have already built tremendous collections by the time they are 40, a phenomenon that he says has begun only in this century. Steven Williams, chief executive of London retailer Antique Wine, similarly contrasts the new collectors with the old because instead of starting with less expensive wines and eventually developing an interest in the most prestigious, “the new money wants to drink the top wine from the very beginning... They don’t want to build it up gradually, they want an entire cellar.”<sup>8</sup> Do they drink the wines? Largely, yes, say those in the business who sell them the wine.

Perhaps the best known of these new collectors is a young man born in Indonesia but of Chinese background who lives in Los Angeles. Rudy Kurniawan is now about 30 years old, and over the past several years he is reputed to have spent \$1 million a month on wine at auction, though his interests are now apparently shifting to contemporary painting.<sup>9</sup> Both Kapon and Serena Sutcliffe MW, senior wine director at Sotheby’s in London, observe that these new collectors are not just from the United States, but from East Asia (especially China), Russia, and Latin America, too.

Needless to say, for such a market, price seems to be no object, thereby encouraging a lively speculative market for wine as an investment, further driving up prices. Even the general public has been encouraged to jump in, as demonstrated by prominent wine retailers encouraging the purchase of 2005 clarets for investment purposes and even devoting parts of their websites to wine investment.<sup>10</sup> On the darker side, such prices also bring out increasing amounts of fraudulent wine (a problem investigated in a separate article in this issue).

The world of luxury has been changing, though. Increasingly, much of it is mass produced and branded, often without the artisanal care that traditionally defined luxury, and instead the focus is on the marketing, often to the middle class.<sup>11</sup> Sometimes, the brand is enough, especially in some East Asian countries where it is not unknown to put cola, Sprite, or juice in your first-growth claret.<sup>12</sup> Champagnes, of course, have long been marketed as luxury products, and some people in the trade have made reference to the ways in which some other wines are now being marketed in the same fashion as Champagne.

But at the same time, there is a countertrend for luxury for the very wealthy, with many of them seeking out something more exclusive.<sup>13</sup> This trend has made harder-to-get wines more prized, whether they be older, rare bottles, or small-production wines such as Château Le Pin in Bordeaux or the wines of top Burgundy producers. As a result of this trend, John Kapon notes that the larger Left Bank first-growth clarets restricted supply in 2006 to keep prices high. (Interestingly, Kapon also observes that the small-production California cult wines have not kept pace in this most recent upsurge in the market.)

Let us now apply these developments to the Roumier Musigny cited at the beginning of this article. With the increased knowledge of Burgundy being spread by newsletters such as Allen Meadows’s burghound.com, books such as *Côte*

*d’Or* by Clive Coates MW, and Internet chat boards frequented by those interested in wine, the view that Musigny is one of the three greatest vineyards in Burgundy has become widespread, even among those who have little experience of Burgundy. By contrast, only a few years ago, it is a view that would have been restricted primarily to the relatively small number of people who have tasted widely in Burgundy, and it was primarily they who would have known the names and relative merits of Musigny producers beyond de Vogüé and possibly Domaine Leroy. Roumier’s Musigny, in particular, was unknown even to many who did have experience of Burgundy because of its extreme rarity—only 450–600 bottles being produced each year. But now Roumier’s reputation (spurred on by the fact that Rudy Kurniawan bought Roumier’s wines quite heavily at auction and drove their price up), the fact that he does produce a Musigny, its extreme rarity, and Musigny’s place in the hierarchy of Burgundy crus are much more widely known. Hence the special trophy quality of possessing bottles of his wine, rather like a collector of paintings who owns a work by a particularly rare artist, say Vermeer or van Eyck. In such a context, one wonders where the bidding on the wine will stop.

This accelerating trend is obviously extremely worrisome to the large group of wine lovers who, even though they may be quite well off, do not qualify as super-rich. Is there any hope for them?

The first questions to ask in considering the future are whether this is a passing situation, and whether the extreme price increases represent a bubble that will burst—just as baseball cards in recent times had a period of extreme price increase that did not stick. It appears, though, that it is different with wine. As noted above, it has become part of the general perception of a sign of wealth and the good life, in a way that the other aforementioned items have not. Moreover, Serena Sutcliffe observes that the current situation is different from, say, the late 1980s, when Japanese collectors drove much of the fine-and-rare-wine market, and the market subsequently wobbled with the decline in the Japanese economy. Now, the interest in fine and rare wines is so widespread that even if one country or region suffers financial reversals, she argues, it is likely that other countries and regions will continue to show the economic strength to provide collectors who support the market. We’ll have to wait to see if this view is correct; each new economic crisis seems to show us how the world economy has expanded and changed in ways that we still do not fully comprehend, and perhaps one of the crises will involve all the world’s economies at once. A threat overhanging the market that is easier to perceive is the issue of fake wine, briefly mentioned above. If a prevailing view develops that a large proportion of the trophy bottles offered for sale are fraudulent, that could chill the market for all but bottles of the most impeccable provenance, driving many people away.

With respect to the high prices, Sutcliffe observes that the new collectors who pay them are extremely vintage-sensitive. Thus, while a vintage such as 2005 quickly obtained a special reputation, and the top wines command extremely high prices, other, less fashionable vintages—such as 2004 in both Bordeaux

and Burgundy—will provide excellent wine that is not so difficult to obtain or so expensive. Additionally, it is only a handful of the very biggest names, primarily in Bordeaux and Burgundy, that have been subject to these staggering price increases. There remain many excellent producers of very high quality whose wines have not become major collectibles—at least not yet. And of course, there remain many great wines from other regions—be they other parts of France, Germany, Italy, or elsewhere—that have not become so sought-after, even if for many who have had the experience, a La Tâche or an old Latour is an unequaled experience.

There is also a split among wine producers themselves. Particularly in Bordeaux, many châteaux are owned by corporate interests or have many family shareholders, so the overriding interest is obtaining the highest price possible for the wine. A minority has long been speaking out against this trend to higher prices—notably Christian Moueix and Anthony Barton—but as yet they have not been heeded much.

In Burgundy, the situation is different. First, wines are sold directly from the producer, not on to an open market through négociants, as with Bordeaux. Moreover, in Burgundy, ownership of the estates is generally in smaller family units, and money has long been sufficient, so that obtaining much more of it is not an overriding objective for many of the producers. (The purchase of the René Engel estate in Vosne-Romanée by François Pinault has raised fears of a Bordeaux-like profit mentality coming to Burgundy. However, two Burgundy estates—Domaine de l'Arlet and Château de Puligny-Montrachet—have long had corporate owners who have kept low profiles in Burgundy.) The Burgundy producers sell much of their wine to individual consumers, with whom there is an established personal relationship. Some of these customers do resell the most desirable bottles at much greater prices, but I should imagine that most do not. As for the Burgundians' agents abroad, some of the producers try to keep the importers from taking large markups, though others are indifferent or even pleased to see that people are willing to pay very high prices for their wines. Even so, a policy that restricts importers from taking large markups still does not guarantee that the ultimate consumer of the wine will have paid a reasonable price, for some consumers will resell into the open market. Likewise, some retail stores will mark up the wines to the highest price for which they believe they can sell it, while others will take their usual markup, perhaps trying to assure themselves that the special bottles will go to someone who intends to consume them rather than to “flip” them.

Jean-Louis Chave, the great Hermitage producer, has seen for some time the very high prices at which his wines are resold—especially the Ermitage Cuvée Chathelin—and has been very unhappy about it. He has told me that he is working on a way to get his wines at reasonable prices directly to consumers who will want to keep and drink them. We will have to see how this develops, but it might be a model for other producers who are not happy with recent developments.

In sum, the world's most famous wines have become luxury items sought by the super-rich at prices far beyond the means of the overwhelming majority of wine lovers, and it may be that in the future, only the super-rich will enjoy such wines. ■

## Notes

1. For example, the record \$24.7-million sale by Acker, Merrill & Condit in October 2006. See Howard Goldberg, “Acker Smashes Record,” *Decanter* (October 24, 2006), <http://www.decanter.com/news/98452.html>. For the 2006 year, Acker, Merrill & Condit was the top-grossing auctioneer in the world with \$60.3 million in sales. See Elin McCoy, “Blue Chip Wines like Mouton, Pétrus Set Record Auction Prices,” at [Bloomberg.com](http://www.bloomberg.com/apps/news?pid=20601093&sid=axE_StiG_TBU&refer=home) (January 4, 2007), [http://www.bloomberg.com/apps/news?pid=20601093&sid=axE\\_StiG\\_TBU&refer=home](http://www.bloomberg.com/apps/news?pid=20601093&sid=axE_StiG_TBU&refer=home)
2. Sharon Reier, “Collectibles March to the Baby Boomers' Tune,” *International Herald Tribune*, May 18, 2007, <http://www.ihf.com/articles/2007/05/17/business/mcollect.php>
3. *The Winner-Take-All Society: Why the Few at the Top Get So Much More than the Rest of Us*, The Free Press; 1995.
4. See “The Forbes 400,” edited by Matthew Miller (September 20, 2007), [http://www.forbes.com/2007/09/19/richest-americans-forbes-lists-richlist07-cx\\_mm\\_0920rich\\_land.html](http://www.forbes.com/2007/09/19/richest-americans-forbes-lists-richlist07-cx_mm_0920rich_land.html). A mere million dollars doesn't cut it any more for wealth. In 2006, the Merrill Lynch-Capgemini World Wealth Report reported that there are now 8.7 million millionaires. Rana Foroohar, “Luxury Goes Undercover,” *Newsweek International*, July 2–9 issue, <http://www.msnbc.msn.com/id/19379104/site/newsweek/?from=rss>
5. Kelly Pete Dwyer, Susan Kay, and Alison Beard, “Welcome to the Superleague,” *Financial Times*, October 20, 2006, <http://search.ft.com/ftArticle?queryText=dwyer+kaye+superleague&y=0&aje=true&x=0&id=061020003430&ct=0>
6. Christina SN Lewis, “The Overnight Wine Collector,” *The Wall Street Journal*, January 5, 2007, p.W8.
7. “Spectacular Results...,” *The Economist*, August 16, 2007.
8. “Fine Wine Investors Push up Prices,” by Jenny Wiggins, *Financial Times* (July 20, 2007), <http://search.ft.com/ftArticle?queryText=wiggins+fine+wine&y=0&aje=true&x=0&id=070720011468&ct=0>
9. “Young Wine Fanatic Ups the Ante,” by Corrie Brown, *The Los Angeles Times*, December 1, 2006, [www.latimes.com/news/nation/la-et-rudy1dec01,0,6815010.story?page=1coll=la-home-headlines](http://www.latimes.com/news/nation/la-et-rudy1dec01,0,6815010.story?page=1coll=la-home-headlines). The record auction in October 2006 mentioned in footnote 1 above was of a part of Kurniawan's collection.
10. For example, Berry Bros's: <http://www.bbr.com/US/wine-knowledge/faq-investment.html>. In May 2006, before prices had come out for major Bordeaux estates, the cable network CNN ran on its international business programming a story about the investment opportunities for buying 2005 clarets, including encouragement from a prominent London retailer. The segment, by not mentioning reasonable prices, seemed to encourage purchase at any price and ignored peripheral costs (such as insurance and storage) and risks of such an investment.
11. See, for example, Dana Thomas, *How Deluxe: Luxury Lost Its Luster* (Penguin Press; 2007).
12. John W Miller, “People I Know still Put Ice and Juice in Wine,” *The Wall Street Journal*, February 28, 2007, p.B1.
13. For example, Rana Foroohar, “Luxury Goes Undercover,” and Sharon Reier, “Collectibles March to the Baby Boomers' Tune,” cited above. In an article about wine collector Henry Gill, Andrew Jefford quoted him as thinking that Burgundy is a more attractive investment than Bordeaux precisely because of the much more limited quantities of the top Burgundies in comparison to the top Bordeaux châteaux. “From Baps to Bordeaux,” *Financial Times*, June 10, 2005, <http://search.ft.com/ftArticle?queryText=Jefford%2C+gill&y=0&aje=false&x=0&id=050610006119&ct=0w>