



Russian River Roulette

All businesses have an element of gambling about them. If you want to start a dry cleaning business, for example, you would do some research on the potential demand, the competition, the new environmental regulations, and the costs involved. Then, if it all looked good, you would place your bet, digging in your pocket for some cash and signing a personal guarantee on a bank loan. That's business. Of course, business has one big advantage over gambling. In gambling, there is very little you can do to improve the hand you have been dealt. In many gambling games, you can exchange a few cards but that is about it. In business there is no limit to what you can do to improve your hand. You could, for example, figure out how to dry clean clothes while people are still wearing them, which might allow you to really clean up in the cleaning business.

While all businesses have a gambling nature, the wine business is the Monte Carlo of the business world. First of all, it is immensely expensive to develop vineyards, it is immensely expensive to build processing facilities and it is immensely expensive to build brands. This means that wine business players must place big bets. Secondly, the wine business requires long term bets on the future behavior of our friends, Connie & Conrad Consumer, who are notoriously hard to predict.

Mature businesses, like cars or toothpaste in the United States, resemble games like Texas Holdem, where each player is competing against the other players at the table. The only way you are going to make your car or toothpaste brand grow is to take business away from the other players. Developing business, such as wine or solar power, are more like games played against the dealer, games such as Blackjack. There is, of course, competition among wine producers and among solar energy companies. But a solar power company is mainly betting on increasing energy costs and government incentive programs - interests shared with fellow solar power companies. Wine producers also compete with each other, but the main bet is on increasing consumer demand, especially increasing demand relative to supply. This is an interest all wine producers, and grape growers, share.



A professional gambler, of course, gathers every detail of information he possibly can in order to shift the odds to his favor.

We can carry this gambling analogy even further. In the game of Blackjack, for example, the dealer keeps one of his cards face down and the other he turns face up. In the wine business the card of consumer demand is mostly face down. After all the expensive consumer research is done, there is really not that much we can know about what our consumers are going to do. Most consumer trends in the wine business have taken just about everyone in the business by surprise. Who foresaw, for example, that in 1991 the *60 Minutes* T.V. program would accelerate red wine sales

or that Hollywood would produce a movie that set Pinot Noir sales on fire in 2005? The card of supply, however, is mostly face up. Year to year variations, it is true, are hard to predict. No one realized that 2005 was really huge until the grapes were already coming in. Nevertheless, we do know a great deal about the varieties planted in each region, the number of acres in the ground and when those acres will start to bear fruit. We can make reasonably accurate estimates about average yields over several years. We also have bulk wine data that can tell us a lot about the current inventories and the delicate dance of supply and demand.

A professional gambler, of course, gathers every detail of information he possibly can in order to shift the odds to his favor. Business professionals do the same. Turrentine Brokerage's team of brokers provides you with the best information in order to shift the odds in your favor.

Grapes & Wines in Bulk

Chardonnay: The change we have expected in the Chardonnay market has now come to pass. The number of buyers has increased and the supply of wine listed for sale in bulk has decreased. We have already closed a few sales of 2007 Napa and Sonoma Chardonnay in the \$10-\$17 range and some 2007 Central Coast and North Coast Chardonnay in the \$8-\$10 per gallon range. Chardonnay lots from the interior regions of California have brought a little more than \$4.00 per gallon in some early sales.

Cabernet Sauvignon: There are still substantial gallons of 2005 Cabernet Sauvignon looking for a home - and they are looking in vain. But strong casegood sales growth and a relatively light 2007 harvest in the coastal areas has resulted in increased demand for 2006 Cabernet Sauvignon. We have sold 2006 Napa Valley Cabernet Sauvignon recently in the \$16-\$25+ range and Sonoma County in the \$10 to \$15 range. The market is still relatively slow for Mendocino and Lake County Cabernet Sauvignon but we have made a few sales in the \$6-\$9 range. Demand has increased for Paso Robles and other Central Coast appellation Cabernet Sauvignon but the inventories available are still large. We have closed sales recently in the \$5 to \$7.50 range.

Merlot: The Merlot bulk market remains oversupplied. Large quantities of 2005 inflate the numbers but buyer interest has moved on to 2006. Prices are still low but sales volume has increased, spurred on by an increase in casegood sales growth and a lighter 2007 harvest.

Pinot Noir: Maybe the marketing folks have not gotten the word yet about the reduced yields for 2007 Pinot Noir. Or maybe the financial folks are tired of paying uneconomic prices for mediocre Pinot Noir on the bulk wine market. Whatever the reason, demand for Coastal Pinot Noir seems somewhat less intense than it has been in the past few years. There is no question that many brands would like to increase the size of their blends and they would be willing to pay a hefty price to do so. But they seem more resistant to astronomical prices - especially astronomical prices for wines that really don't taste that great. Lower priced brands have benefited from the increasing supply from the Interior regions and imports from Italy and France have also eased the pressure to some degree.

When Carneros, Russian River, Sonoma Coast Pinot Noir pops up on the bulk market, it has been selling in the \$20-\$25+ range. Mendocino and Monterey Pinot Noir has been in the \$16-\$20 per gallon range. Very little Santa Barbara County, Santa Lucia and Anderson Valley Pinot Noir has surfaced recently and price is very dependent on quality and the needs of the particular buyer.

Pinot Grigio: "Intense but price sensitive" is the best way to describe demand for Pinot Grigio. As a result the market is thirsty for Pinot Grigio from anywhere in the world, but the demand falls off quickly when prices climb over about \$7 per gallon. The problem is that the big gorilla of Pinot Grigio production, Italy, had a very light harvest. In combination with a weak dollar, that has pushed the cost of Italian Pinot Grigio landed in the U.S. to about \$9.00 per gallon. California Pinot Grigio is

also in strong demand. Many of the sales that we have made recently have included other wines, which has helped keep the Pinot Grigio price down.

Sauvignon Blanc: Russian River and Napa Valley Sauvignon Blanc are in short supply, as buyers scramble to extend blends after a light 2007 harvest. Demand for Sauvignon Blanc from other areas is not as strong, although quantities are down in most areas.

Syrah: The Syrah market has been tough for a number of years but there does seem to be some increased demand interest for Syrah both as a varietal and as a base for proprietary red and Rhone blends. Paso Robles is probably the strongest appellation, followed by other Central Coast appellations.

Zinfandel: There is good demand for Zinfandel from just about any appellation if it is good enough to work in programs in the \$10 to \$15 per bottle range. Demand for lower priced programs is relatively weak.

In summary, the bulk market is active early this year. If you are considering selling, it makes sense to at least check in with us now and to stay in touch with the developing market. If you need to purchase, the sooner you call the more options you will have.

Outlook: The Chardonnay and Pinot Noir sections of our new subscription service, *The Turrentine Outlook*, have been mailed to subscribers. The analysis shows that Chardonnay, which claims more than half of the total white grape acreage planted in the state, is undergoing a dramatic change after years of excess supply. Pinot Noir, on the other hand, has been growing rapidly in sales but now faces huge increases in supply, especially from the San Joaquin Valley. These changes, and others like them, will roil the wine business over the next 24 months.

Market Opportunities

AVAILABLE: 16 acres Russian River Chardonnay grapes, planted 2007.

AVAILABLE: 6 acres Russian River Pinot Grigio grapes, planted 2007.

AVAILABLE: Hillside Russian River Valley Cabernet Sauvignon grapes.

AVAILABLE: Dry Creek Valley old vine Zinfandel grapes.

AVAILABLE: Suisun Valley Chardonnay and White Reisling grapes.

AVAILABLE: Central Coast Chardonnay grapes.

AVAILABLE: Lodi/Clarksburg Chardonnay, Chenin Blanc, Pinot Grigio, Viognier 2008 grapes.

AVAILABLE: Napa Valley 2005 Merlot wine.

NEEDED: Napa Valley Cabernet Sauvignon grapes.

NEEDED: Napa Valley Chardonnay grapes.

NEEDED: Sonoma County Chardonnay grapes.

NEEDED: Russian River Valley Pinot Grigio grapes.

NEEDED: Napa Valley Sauvignon Blanc grapes.

NEEDED: Russian River Valley, 2007 Sauvignon Blanc wine, approximately 12,000 gallons.

NEEDED: 2006 Nebbiolo, any California appellation.

NEEDED: San Luis Obispo County, 2007 Chardonnay.

NEEDED: High quality 2006 Napa Valley Merlot and Cabernet Sauvignon.

NEEDED: Any Sonoma County appellation, 2006 Cabernet Sauvignon.

NEEDED: Casegoods of all kinds, both labeled and shiners.



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