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An En Primeur for America?

A new study argues that small U.S. wineries should sell wine as futures, much like Bordeaux



Photo by: Katherine Huysman Photography

Tom Higgins harvests Pinot Noir for his New York winery Heart & Hands. Should he sell the wine as futures?

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A year ago, as Bordeaux's 2013 vintage came to market for sale as futures and attracted little interest, merchants and collectors alike grumbled that the main attraction of *en primeur* sales—that consumers could pay less for futures now than for a finished wine later—had evaporated. The value of Bordeaux's past four vintages had stalled and depreciated. Would the system even survive? The anemic response so far to the 2014 Bordeaux isn't reassuring.

Now, a study from Syracuse University's Whitman School of Management in New York makes the case that not only is *en primeur* viable and profitable in Bordeaux, but also that U.S. wine regions could benefit from a similar system of barrel tastings and futures sales.

Burak Kazaz, an associate professor of supply-chain management at Whitman, coauthored "Wine

Futures and Advance Selling Under Quality Uncertainty" slated to be published in the journal *Manufacturing & Service Operations Management*. Kazaz began researching the possibilities of wine futures after speaking with local Finger Lakes winemakers, including Tom Higgins of Heart & Hands on Cayuga Lake. Could selling unfinished wine increase profitability for wineries and, if so, by how much? How should the futures be priced, and how much stock should be sold in advance?

"We have a futures market for corn," said Kazaz. "Why not for wine?"

Scores in, wine out

Kazaz considered various models for futures sales based on numerous factors and determined that the most accurate way to price a wine *en primeur* is from barrel-tasting scores.

The model he devised is based on barrel scores by journalists for the 2006 to 2011 vintages from six Right Bank and six Left Bank Bordeaux châteaux. The model can determine the optimal price a winery should sell its futures for and the optimal allocation it should sell with 63 percent accuracy. While that may not sound accurate by, say, Olympic marksmanship standards, in economics it's considered fairly impressive by peer-reviewed journals.

Every spring, wine journalists and members of the trade head to Bordeaux to sample the previous year's vintage and assign scores to the unfinished wines. The wineries then decide how much of their wine to sell at that time and at what price, versus how much to hold until release in bottle roughly two years later.

Kazaz found that wineries with higher barrel scores stood to profit more—and should allocate more stock—with *en primeur*, because buyers at all stages, from négociants in Bordeaux to consumers in global markets, felt more confident in the wine's ultimate quality. For example, when Château l'Evangile received particularly high scores one year, the winery released all of its wine as futures. With high barrel scores across all the vintages in the study, it saw the highest profit improvement, at 41.8 percent.

On the flip side, wines that scored lower in barrel led buyers to balk at buying futures and taking on the risk of a poor wine (and a poor investment). Those châteaux would do better to release less wine at that time and hope for better luck, and the ability to set a better price, when the wines would be reviewed in bottle.

Selling New York wine *en primeur*?

Using his model, Kazaz determined that the châteaux increased profits an average of 10.1 percent selling wine *en primeur* versus if they had not.

What's more, he wrote, "a wine futures market can create even greater financial benefit for small and artisan U.S. winemakers than the Bordeaux wineries." Heart & Hands, for example, could expect to see profits increase between 13 percent and 15.6 percent if it held tastings a few months after harvest and sold futures. Kazaz projected that the châteaux should sell 27.7 percent of their stock *en primeur*, on average. But his model suggests Heart & Hands should sell 55 percent before the wine is even bottled.

"We don't have barrel scores that often [in the U.S.], but I'm hoping that our work changes that," Kazaz told *Wine Spectator*. "You need that culture in the United States. Because [the consumer] can't go to Sonoma every year."

He sees the creation of an *en primeur* system in the U.S. as not only feasible but desirable, a boon to both wineries and drinkers. "You have a good basis—collectors, speculators, people who like to have their hands on this limited stuff. The components of creating this market are there. Once it starts

getting over the inertia of 'I don't know, I haven't seen this,' I am quite hopeful that this is going to be a good thing for the wine market."

Higgins does not have plans to sell futures, but that could change. "It's been nice dinner conversation, especially among my peers in the region, talking about the [study]," he said. "The percentage of profit is enticing and having the real-time cash flow, it's very important to have that in hand sooner rather than later."

Can it be that simple?

But what of Bordeaux's recent slow campaigns? A good score doesn't mitigate the uncertainties of global economies. In the great vintages of 2009 and 2010, wineries raised prices sky-high, expecting Chinese buyers to embrace them. In the ensuing years, quality fell and prices did not decrease apace. The 2014 vintage is potentially outstanding, but there are other vintages of similar quality that are available and drinkable for similar prices, which has dampened interest in futures.

How does this affect Kazaz's model? "Each vintage, the buyers looking at futures, they tend to look at just for that vintage, not necessarily for 2008 [for example]," said Kazaz. "There might be some impact, but we think it's quite small."

And as for market fluctuations, Kazaz pointed to the 2011 campaign. "It's not as big hype, scores are a little lower and all of the sudden you have a dry market. But that kind of thing is not different from any financial market."

For some in Bordeaux, hitting the mark with futures is a little more complicated than simply following scores. "Pricing *en primeur* is a multiple-factor equation to solve," said Jean-Charles Cazes, proprietor of Château Lynch Bages. "The rule is to offer a discount to the consumer who is willing to tie up his money for a wine not yet available, while he also has the alternative of purchasing a [similar-quality] drinkable vintage. Some other factors are also to be taken in consideration: level of stocks on the market, the economic environment, exchange rates, buzz on the vintage, etc."

"As for prices, [barrel scores] have a marginal impact, if any, depending on the vintage," said Cazes, noting the strong brand loyalty customers have to Lynch Bages, one of the few success stories so far this campaign. "Overall, if [there's] no unusually high or low [score], it doesn't affect the demand side very much."

In Kazaz's math, "the brand name does play a role in the calculation of the risk aversion. If it is a well-established brand, the risk aversion coefficient will be much higher, and that's going to make them actually release a smaller proportion but at a higher price."

Still, the model relies on barrel tasting, and the Finger Lakes winemakers, despite being best known for early-bottled Riesling, are talking. "Certainly people have been entertained by doing something like a group [barrel] tasting, whether it be trade or media or consumers, to get a first crack at seeing what's going on," said Higgins.

He has witnessed the potential in the form of visitors asking about buying a barrel of unfinished wine. "The sooner you can get money coming in, the better your business is. And frankly, the sooner the consumer's excited about your brand and that particular vintage, the better off you are."

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