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An interview with Michael Mondavi

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1. Introduction: A man of integrity and vision

“Integrity is the most important thing,” states Michael Mondavi. “Integrity in business and integrity in wine. When it exists in everything you do, the consumer knows.”

It is a sunny afternoon and I am sitting with Michael over lunch at his new tasting room a few miles outside of the town of Napa, California called the *Michael Mondavi Family Estate Taste Gallery*. We gaze out the window at a vineyard of chardonnay vines as we sip a glass of wine made from these grapes, and later in the meal, a delightful pinot noir. Both are made by Michael’s son, Robert Mondavi Jr, and are named after wife, Isabel Mondavi. This is just one of several new wine brands that Michael has developed since he started his new Michael Mondavi Family Estate winery. Others include: M by Michael Mondavi, Oberon, and Emblem. In addition, he has created another new company, *Folio Fine Wine Partners*, (Folio) which imports and distributes 30 brands owned and managed by 18 wine families around the world.

“I still remember when I was 13 years old,” continues Michael, “when my paternal grandfather, Cesar, took me into our Napa vineyard. He picked up a handful of soil and thrust it under my nose. ‘Smell this,’ he said. ‘This is dirt and it smells clean and healthy. Your job is to make it healthier so you can give it to your children’.”



Unfortunately that vineyard and the famous To Kalon Vineyard of Napa Valley which was purchased by Michael’s father, Robert Mondavi, were lost to the family in 2004. The board of directors of the publicly held Robert Mondavi Winery decided to sell the company and all of its vineyards to Constellation Brands for \$1.3 billion. According to the US Securities and Exchange Commission, Michael’s share of the proceeds was \$100 million. Though he walked away a much wealthier man, the family holdings were lost.

Yet today Michael Mondavi appears to have learned much from the experience, and is utilizing his wisdom and resources to grow the new companies in a sustainable manner with a focus on family-owned and managed businesses. The call of Wall Street and publicly traded wineries no longer holds any allure for him. “Growth for growth’s sake is evil,” says Michael. “I experienced rapid growth when Robert Mondavi became public. But in the end, we got sand kicked in our faces. However, it’s good to get beat up once in a while. It helps you learn.”

Now he is on a new learning experience, and enthusiasm resounds in his voice. His face lights up and his eyes sparkle as he describes the new companies he is building, the opportunities and challenges he sees in the global wine

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industry, and his vision for the future— one that focuses on integrity and family.

2. Michael Mondavi's formative years

Michael Mondavi was born in the mid 1940s in California; the oldest son of Robert and Marjorie Ellen Mondavi. As a child he assisted his extended family in operating the Charles Krug winery in Napa Valley, and then helped his father launch Robert Mondavi Winery in 1966. It is interesting to note that Robert did not start his new winery until the age of 52—an example that Michael and his younger siblings Marcia and Tim would follow when they all started their own companies in their mid-fifties after the sale of the Robert Mondavi Corporation.

As co-founder of Robert Mondavi Winery, Michael led all winemaking operations as VP of Production until 1974 when he moved into the role of VP of Sales for nine years. This experience was to prove very useful in designing the structure of Folio twenty years later. In 1990, Michael was promoted to CEO and continued in this position following the company's public offering in 1994 when he was also appointed as President. From 2001 to 2004 he served as Chairman of the Board. In 2004, with the sale of the company, Michael started Folio and the Michael Mondavi Family Estate with the assistance of his wife, Isabel, and their two children Rob and Dina. Today, the siblings are majority shareholders, with Rob serving as winemaker while Dina supports marketing and sales.

Despite his very busy work schedule, Michael has always taken time to give back to the local community by volunteering his time on multiple committees and being a guest speaker at schools, universities and conferences. He has served as President for the Napa Valley Vintners, the Wine Market Council, California Grapegrowers and the Wine Institute. He is currently a member of the California State Chamber of Commerce Board, and has received awards such as the "Industry Executive of the Year" by the Market Watch Group and the "World of Food and Wine" Lifetime Achievement Award.

3. Structure of folio fine wine partners and Michael Mondavi family estate

"We have two different businesses," Michael Mondavi explains, "Michael Mondavi Family Estate, which is our family winery, and Folio Fine Wine Partners, which is a wine marketing and sales agency for both domestic and imported wines. However both utilize the same strategy and motto of *family owned and family managed wineries*. This philosophy is at the heart of both businesses and helps to ensure our success."

"The best wines in the world are from producers that are family owned and controlled. When the family name is on the wine and they own it," continues Michael, "their heritage and credibility are on the line and the long term quality and health of the business is extremely important.

When wineries are publicly controlled, and Wall Street focuses on short-term quarterly returns, it can be difficult to maintain quality and integrity while staying true to long-term vision."

3.1. Michael Mondavi family estate

Located in the Carneros region, south of Napa, Michael Mondavi Family Estate (MMFE) showcases both Estate wines made on-site (approximately 40,000 cases), and the popular brands, Spellbound, Medusa, and Hangtime (sourced from various Central Coast and Northern Californian regions).

The prestige wines of Oberon, Emblem, Isabel Mondavi, and "M by Michael Mondavi" comprise less than one-third of total production, and are 100% Napa Valley grown, made, and bottled at the Estate. Wines are sold on-site at the "Taste Gallery" tasting room, online through the MMFE Wine Club, and through an extensive network of distributors nationwide.

All Estate vineyards are sustainably farmed with the team working toward certain vineyards achieving organic certification. Due to the commitment of the grape growing and winemaking team toward environmental excellence, the winery was recently recognized as a "Napa Green Certified Winery".

The family also own select vineyards across the Napa Valley. The Estate vineyard in Carneros is planted to 12 acres to chardonnay and pinot noir. The Oso Vineyard, which is nestled between Ink Grade and Howell Mountain, is planted primarily to Sauvignon Blanc and Cabernet Sauvignon. This 95-acre vineyard is a key component of wines produced under the Emblem label. Located high atop Atlas Peak, the 15-acre Animo vineyard is planted almost entirely to Cabernet Sauvignon and is the exclusive source for the limited edition "M" by Michael Mondavi.

Supplementing owned vineyards, additional fruit is purchased under evergreen contracts. According to Michael, "The best land is privately owned, most for generations, so you have to partner and create a long-term contract. When I worked at Robert Mondavi Winery, we were 50/50 owned vs. purchased grapes (Woodbridge was closer to 20/80). Our goal with MMFE is to be 70% self-sufficient, but if I see the right opportunity to purchase a great vineyard, I would definitely consider it."

It seems MMFE is headed in the right direction, and since the first full year of trade in 2005, the portfolio has seen solid growth, with the exception of 2009 where the entire wine category experienced difficulties as a result of the recession. Despite this difficult year, the business is on track and the outlook for 2012 is strong, with expectations to continue the growth trajectory and surpass 2011.

3.2. Folio fine wine partners

The strategy of the second business, Folio Fine Wine Partners (Folio), is to be the preeminent US purveyor of

Table 1
Folio Fine Wine Partners Portfolio.

California	Spain	Italy	Germany
Emblem	Artadi	Arnaldo Caprai	Prinz von Hessen
Hangtime	Capafons Osso	Attems	
Isabel Mondavi	Fillaboa	Bruno Giacosa	Austria
M by Michael Mondavi	Leda	Coppo	Laurenz V
Oberon	Nita	Danzante	
Medusa	Palacios Remondo	Donnafugata	Argentina
Spellbound	Vall Llach	Marchesi de Frescobaldi	Masi Tupungato
Tyler Florence		Luce della Vite	
		MASI	
		Quorum	
		Tenuta dell' Ornellaia	
		Villa Sandi	

family owned/family controlled fine wine estates around the world. Currently there are 18 families represented in the portfolio (see Table 1 for portfolio). Folio handles all marketing, sales, and public relations with a strong focus on brand building.

According to Michael, another attribute that sets Folio apart from the competition is the market analysis function the business provides. “At any given time we can tell the exact location and quantity of wines sold in specific restaurants, wine shops, and gourmet grocers in our Top 25 markets. We have invested heavily in collecting and analyzing data to share market insights with our suppliers.”

In terms of Company structure, ownership of Folio is owned 39% each by Dina and Rob Mondavi Jnr, 10% Michael and Isabel Mondavi, and 12% among employees (referred to as “Partners”).

Folio currently has 55 employees, including 20 sales people located in their major markets—all 100% on payroll. Michael explains how important sales and marketing are to the company. “Sales people are organized by region and develop very close relationships with wholesalers, retailers and restaurateurs. We also visit each winery in our portfolio every two years, and host monthly phone or videoconference meetings.”

Folio works with more than 150 wholesalers across the US market. “As an importer, we are really working in a 4-tier vs. a 3-tier system in the US market,” states Michael. “We consider ourselves to be a “state importer” since wine sales in the US are so complicated due to different alcohol distribution laws. Our role is as much about demystifying the complexities of individual market regulations, as it is about actually reaching sales targets and building brands.”

In terms of selection guidelines for potential winery partners, Michael describes it as a ‘craftsman guild model.’ “Top family wineries must meet a number of criteria; they must have potential for growth in either an established or emerging category with real trade and consumer interest. They must also be a leader in that category, and have the ability to bring value to the partnership, either through scale or potential for growth. All of this must be underpinned with a shared business ethic and family values; we only do

business with people we enjoy and respect, who produce wines we are proud to serve to family and friends.”

“We also understand the need for a long-term approach, and are willing to invest up to seven years in a new brand, with expectations of breaking even at the end of this time.”

So far the financial results for Folio have been impressive. In 2011, they achieved nearly \$60 million in sales and were rated the #3 Winery in revenue and #5 overall in the Fine Wine Division of their California wholesaler. Michael is pleased with the results, but admits the recession did slow them down; “We began selling wine in 2005, however the recession beginning in late 2008 set us back from breaking even in three years to five years.”

In terms of the future, Michael is open to considering complementary additions to the portfolio, but also firmly believes the most critical factor is to exceed the objectives for the families they represent before considering any new opportunities.

4. Opportunities and challenges in the global wine industry

Michael pours a bit more pinot noir in both of our wine glasses and gazes out the window at the beautiful rolling vineyards of the Carneros AVA. I have just asked him to describe opportunities and challenges he sees in the years ahead for the global wine industry. “There are many of both, but I prefer to focus on opportunities,” he says, and then begins to describe what he sees for the future.

4.1. Increasing demand for wine in the US market and the millennial generation

“We have generated the demand and growth that started in the 1990s in the USA, but now we may not be able to meet this growing demand. Millennials, that is, people in their 20’s and early 30’s, are driving much of the demand; they are independent, experimental, and open to sharing their experiences with their friends more than ever before. They are more inclined to listen to their peers over “experts” and often put wine in the same conversation as food and fashion. They do not have a problem with buying \$300 sunglasses or designer jeans, and are willing to spend

money on wine. As wine becomes part of their everyday conversation, they are introducing their friends, thereby bringing more young consumers to wine.”

4.2. *Opportunity for improved wine branding*

“We in the wine industry have not done a good enough job of branding. People ask for Chardonnay, but not specifically for Isabel Mondavi or Beringer Chardonnay. However, they do ask for Absolute or Grey Goose Vodka. The wine industry can learn much from other categories and needs to do a better job at branding. It is highly competitive and extremely fragmented market with many different labels, but we can improve.”

4.3. *Growth in sustainable vineyard and winery practices*

“In our early days of winemaking in California we didn’t recognize the impact of grape quality on overall wine quality to the same extent as today. As grapes ripened we would run sugar, acid and pH tests, but didn’t take the time to go into the vineyard and taste grapes. Instead, the grower would pass the baton to the winery—more a relay race than in tandem.” So today we spend time in the vineyard to understand all aspects of the cycle; as ultimately we are just the babysitters of the vineyard. Mother Nature is in charge so must help and support her. Because of this, we have committed extensive time and resources in long-term sustainability, and both our winery and vineyards are recognized as “Green Certified”.

4.4. *Maintain quality through the inherent nature of wine market cycles*

“Coming out of a period of oversupply, the pendulum is swinging back toward a shortage in the global industry”. During this time, producers with integrity will continue to make great wine; but some opportunists will look to “stretch” their blends with other varieties or wines from outside of country to meet legal demand. We saw this issue with pinot noir a few years ago when the variety became popular and there was a supply shortage—people added Syrah, Zinfandel, or Grenache to stretch their blends, compromising both varietal integrity and quality. While it will always be a challenge to predict specifics and timing, the best producers know to manage through these swings while maintaining integrity in their wines.

4.5. *Increased focus on consumer taste preferences*

“The US wine industry has traditionally been production-orientated, asking consumers to buy what we make, versus engaging them to help understand potential demand. So when you engage the consumer in the

conversation, and they are empowered to make choices based on their taste preference, you have a far better understanding of what your consumers are looking to drink. We are seeing this right now with the current fashion for muscat and sweet red blends.”

4.6. *Balance vs blockbuster*

“Above all wine needs to be balanced. Regardless of region, variety or style, I believe the best wines are those with varietal definition, elegance, balance and a finish that invites you to have another glass. I always remember what my grandmother told me. She said, “You know the best way to tell if a wine tastes good? Just watch the people. If they ask for a second glass, then you know it is good.”

“To support this, we need to develop a system to communicate what is in the wine bottle in a simple and universal way. Consumers should be able to read the label and understand what to expect in flavors, weight, sweetness, and tannin. **We need to take the mystery out of wine, but keep the magic.**”

4.7. *Recognition for the everyday wine consumer*

“Many in the wine industry forget most wine is sold under \$10 per bottle to the everyday consumer. Did you know that in France the most popular category is Rose—and a *vin ordinaire* at that. Obviously there is the luxury segment, and we also have customers who prefer high quality/high priced wine, but we need to remember the everyday consumer in our consideration.”

“Also loyal consumers recognize changes in wine styles and many have good palate memories. I learned this lesson as a winemaker when making what we thought were style improvements, only to receive letters and phone calls from annoyed customers saying “You changed my wine.” Therefore, you need to take baby steps so the changes are subtle.”

5. Conclusions

As we finish our delicious lunch and two hour interview, Michael explains he is getting ready to catch a plane to Japan that afternoon. Even though he is incredibly busy, he takes the time to walk me to my car, open the door, and see me safely buckled in. As I drive away, I find myself deeply impressed with this man and his family who have been through such turmoil, but still seem determined to focus on bringing excellent wine to the world. The Mondavi’s are truly one of the great wine families, and Michael is a positive role model with his clear vision and strong integrity, with just as much energy and commitment as he had 40 years ago.