Port in the Context of Sherry & Madeira

Introduction

Fortified wine is unfashionable, which irks as some of the world's greatest wines are fortified,[i] but comforts as unfashionable means affordable – unlike the best Bordeaux. I was fortunate enough to be a guest of Symington Family Estates recently and while enjoying their generous hospitality learnt much about the fortified wine business and Port in particular. Below I reflect on what I learnt in the context of two other prime fortified wine regions I visited recently.

The Challenge of Changing Consumption

Port, like Sherry and Madeira, is an export-dominated wine. Fortification was a consequence of their nautical history and, as Jancis Robinson notes, fortified wines are rarely best enjoyed in their production regions,[ii] with the notable exceptions of Fino and Manzanilla.[iii] All three wines are highly dependent on sales volumes in their largest markets.

Largest Markets By Volume

Port[iv]	**Madeira**[v]	**Sherry**[vi]
France	France	UK
Portugal	Madeira	Spain
Holland	Germany	Holland
UK	UK	Germany
Belgium	Japan	

The top three markets contribute 60%, 59% and 75% of sales of Port, Madeira, and Sherry respectively. This customer concentration has created an issue for all three categories, as consumption volumes have fallen in several of these key markets.

While Sherry has been worst affected, declining consumption has impacted Port and Madeira too.[vii] This decline is focussed on the lower value product lines: most Port consumed in France is standard ruby or tawny served as aperitifs, most Madeira consumed in France is modified and used for cooking, and most Sherry consumed in the UK is young cream or pale cream.

Therefore producers have sought to limit production and focus on product quality, product development, creative marketing and economies of scale.

Limiting Production

To avoid oversupply in the face of declining consumption, production needs to be limited. Current production volumes are 59m litres,[viii] 4m litres[ix] and 42m litres[x] for Port, Madeira, and Sherry respectively, with production areas of 44,000 ha,[xi] 494 ha[xii] and 7,062ha,[xiii] albeit that these plantings also generate light wine, especially in the Douro because of the superior results attainable compared to Madeira and Jerez.[xiv] To limit fortified wine production efficiently, producers and regulators need to work together which has proved difficult.

Sherry is the ultimate example of how not to handle this. In contrast to Port, Sherry regulators were slow to protect the Sherry name, which created competition from low cost imitations.[xv] Further as consumption declined from the 1970s, production did not decline equivalently and a glut of grapes swamped the market, ruining many producers. This was resolved in the 1990s through a vine-pull scheme and outlawing the "Sherry" name outside the DOs.[xvi]

Port by comparison has a long tradition of managing supply and demand via the beneficio. Commentators suggest that this system has served them well over the years. However several people are now calling for reform.[xvii] Its focus is only on Port wines and by ignoring unfortified Douro wines, it distorts the market. It takes no account of increasing yields. Finally it is undermined by the continuing expansion of the vineyard area. These factors have caused a damaging drop in grape prices.

Madeira's production is necessarily limited; it is a small island with extreme topology restricting the area suitable for vine growing. EU regulations prohibit increasing the total vineyard area, so the focus is on replacing existing vines with quality varieties.[xviii]

Premium Quality

William Todd noted in his 1926 publication on Port that "in the long run it is quality alone that counts."[xix] In response to recent problems, the producers of Port, Sherry and Madeira have embraced this.

Richard Mayson recalls how "over the last quarter of the twentieth century, the Douro landscape has changed more rapidly than at any time since the phylloxera epidemic of the 1870s."[xx] The Port shippers have invested heavily in the vineyards: Symington Family Estates now own 966 ha and satisfy 35% of their requirements, providing greater control of quality.[xxi] The shippers have also invested in varietal research,[xxii] robotic lagars, and have begun paying attention to the impact of aguardente.[xxiii]

In Madeira by comparison only one producer owns vineyards,[xxiv] but there has been huge investment in recent years[xxv] with several producers moving to new modern wineries[xxvi]and quality has improved,[xxvii] including at Vinhos Barbeito which has the island's only robotic lagar[xxviii] and at the Madeira Wine Company where the Symingtons' involvement is accredited with improvements in winemaking practices and equipment.[xxix] The regulator has banned bulk wines unless denatured for cooking,[xxx] but Tom Stevenson does not believe it is doing enough, proposing that more classic varieties should be planted and new independent producers encouraged.[xxxi]

In Sherry the major producers own vineyards, but the same attention has not been paid. Rarely are individual vineyard names seen on bottles in an equivalent way to single quinta Ports. The authors of a new book on the area lament the lack of focus on terroir and the vineyards.[xxxii] However many of the remaining producers, and new producers such as Tradicion and Fernando de Castilla, are quality focussed.

Product Development

Port is innovating styles to meet perceived opportunity. Aged tawnies have become increasingly popular. Symington Family Estates have tapped into this trend by releasing Colheitas and the Fladgate Partnership has released the ultra premium Scion. When we were in the Douro news broke of the Fladgate Partnership's acquisition of Wiese & Krohn, driven by a requirement to access Colheita stocks. Single Quinta Vintage Port is another evolving style, which has the potential to rival Vintage Port, given the Douro's potential to compete on the basis of terroir because of its broad diversity as seen with Taylor's Vargellas Vinha Velha and Graham's The Stone Terraces.[xxxiii] Pink Ports are becoming more popular too, appealing to a younger often female audience.[xxxiv] In Madeira Colheita or Harvest styles are growing in importance for those without the patience or budget to await Vintage Madeiras, Blandy's blends varietals in its Alvada wine in a market where single varietals have dominated, and Vinhos Barbeito has become known for its single cask bottlings.[xxxv] In Sherry, the success of Croft's pale cream innovation lives long in the memory, though more recent innovations are VOS and VORS age designations, range extensions such as En Rama, and vintage dated wines which avoid the solera.

Creative Marketing

Brands have historically been important in fortified wine marketing,[xxxvi] providing a guaranteed wine at a known price.[xxxvii]Sandeman's Don was commissioned in 1928[xxxviii] and Gonzalez Byass' Tio Pepe character dates from 1849.[xxxix] These strong brands have been preserved despite consolidation, so Symington Family Estates preserves Dows and Grahams, in the same way the Madeira Wine Company preserves Blandy's and Cossart Gordon. They make it difficult for new entrants, as those growers who have tried exporting Port have found since the restriction was lifted on exporting only via the entreposto at Vila Nova de Gaia.

In Port Cockburn helped propel premium Port styles by releasing its novel Special Reserve style in 1969, backed by an unrivalled TV advertising budget which helped make it the brand leader in the UK,[xl] more recently Paul Symington is accredited with increasing the focus on the family story in his firm's branding,[xli] products like Warre's Otima are packaged to target specific new demographics,[xlii] and food matching research is moving beyond desserts and cheese into savoury.[xliii] In Madeira Blandy's Alvada has radical modern packaging, Vinhos Barbeito is experimenting with food pairings,[xliv] and Madeira mixed with tonic is a novel consumption style.[xlv] Sherry's innovative marketing includes working with the Sherry bars, capitalising on the increasing popularity of Spanish food internationally by food matching, and promoting cocktails.[xlvi]

Economies of Scale

Fortified wine some years ago was dominated by the multinationals thirty years ago. They have subsequently all departed, focussing instead on higher margin products like spirits or light wines requiring less investment and inventory. Port's Lei do Terço requiring shippers to maintain a 3 to 1 stock ratio is particularly penalising to cash flow.[xlvii] Instead the industry is dominated by family firms such as Symington Family Estates, Madeira Wine Company and Gonzalez Byass. This is no bad thing: those who watched the documentary on the Australian wine boom, Chateaux Chunder,[xlviii] will recall the hangover the multinationals endured after investing there. Wine production is a long term investment not well suited to the short term horizons of multinational public companies, especially in the case of long aged fortified wines such as Port, Madeira and Sherry.

These family enterprises are no strangers to consolidation. Between them Symington Family Estates and the Fladgate Partnership have built market share of nearly two thirds in the premium Port market through consolidation.[xlix] The Madeira Wine Company has over 50% of the bottled export market from consolidation[l] and recently Henriques & Henriques has become part of La Martiniquaise alongside Justino's.[li] The bodegas de crianza y expedicion who dominate Sherry have done so via consolidation.[lii] Consolidation is driven by the pursuit of economies of scale, especially important when negotiating with powerful buyers like the supermarkets who drive down margins.[liii] The vineyards remain in fragmented ownership however and further consolidation can be expected.[liv]

Conclusion

Fortified wine will never be cheap to produce. The vineyards of the Douro are some of the most inhospitable in the world[lv] with pitifully low yields; it is potentially one of the most expensive places in the world to make wine.[lvi] Madeira's vineyards are some of the most difficult to access and precarious. And while Sherry's flat vineyards may be easier to work, like Port and Madeira it takes considerable effort in the winery and years of aging to develop the necessary character, tying up precious cash flows. Therefore these wines should necessarily remain niche and premium and regulators should support producers towards this goal by limiting production and incentivising premium styles. The regulators could do more on this in Port in particular.[lvii] By focussing on product quality, product development, creative marketing and economies of scale, producers should be well equipped for the future. Nobody should be under any illusion that it will be easy, but with low volumes it would not take much for Port, Madeira or Sherry wine prices to grow significantly if demand took off in China or elsewhere. Indeed a recent Wine Intelligence article ponders exactly this possibility.[lviii] With another poor vintage in Bordeaux, the 2011 Port vintage has been a great success.[lix] The major producers are ramping up their efforts in Asia.[lx] We know what happened with the top Bordeaux chateaux, so had better enjoy the top Ports, Madeiras and Sherries while we can.

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END NOTES

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[xxv] The Wines of Madeira, Trevor Elliott, Trevor Elliott Publishing, 2010 at p21
[xxvi] The Wines of Madeira, Trevor Elliott, Trevor Elliott Publishing, 2010 at pp110, 112, 121
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