

The Argus



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Kenzo Tsujimoto is chief executive officer and chairman of Kenzo Estate in Napa. Tsujimoto established a presence in Napa Valley in the 1990s, with the acquisition of several thousand acres on the slopes of St. George.

Winery owner battles slump

New vintner undeterred despite worst high-end sales in 17 years

By Ryan Flinn
Bloomberg News

NAPA — Kenzo Tsujimoto overlooked no detail in creating his \$100 million Napa winery. He replanted 70 acres of vines with the finest grapes and turned to world-renowned chef Thomas Keller to create the tasting-room menu.

What he couldn't control was demand for high-end California wines. The industry is mired in its worst slump in at least 17 years, hitting wines above \$20 especially hard.

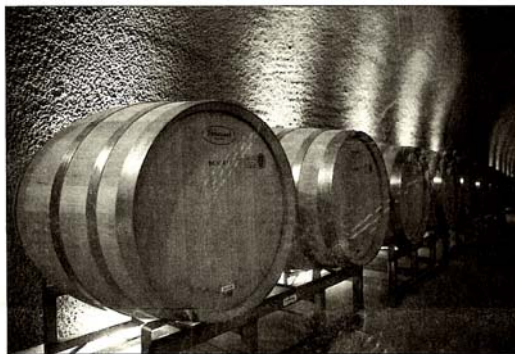
Tsujimoto, chief executive officer of Japanese videogame Publisher Capcom Co., is joining the scores of California vintners that have opened new wineries since last year, undeterred by the slump. After tapping Napa's biggest names to craft the wine and build a state-of-the-art facility for visitors at the winery, called Kenzo Estate, Tsujimoto doesn't expect the industry's woes to keep customers away.

"If I wanted to get 80 percent of the market share of wine, that would be a huge problem," said Tsujimoto, speaking through an interpreter, as he sat by the fire-place in the estate's pool house. "Of course, if you're going to go somewhere, clear weather would be nicer than pouring rain, but I'm going to go anyway."

Tsujimoto, whose company created the "Street Fighter" and "Resident Evil" games, is relying on some of the best-known people in the Napa wine business. In addition to Keller — the chef of the French Laundry restaurant — he tapped Heidi Barrett, who owns La Sirena Winery, as a consultant winemaker. David Abreu, a viticulturalist who has worked for the region's top labels, is the vineyard manager.

'Awfully Tough'

The question is whether these celebrities alone will spur drinkers to pay top dollar for a Bordeaux-style bottle of wine, says Pat Merrill,



Barrels of wine line the walls of a wine cave at the Kenzo Estate winery in Napa. Tsujimoto chose Napa because Capcom's U.S. headquarters is in San Francisco.

a wine-industry consultant. Kenzo Estate plans to charge \$60 to \$75 for its bottles, in addition to offering a few higher-priced wines.

"If you have names behind you like that, that could overcome a lot of people's resistance," said Merrill, co-founder and partner of Merrill Research in San Mateo. "At a \$75 price point, that's awfully tough, though."

Last year, shipments of California wine fell 1.2 percent, while the retail value of those shipments dropped 3.2 percent to \$17.9 billion, according to the San Francisco-based Wine Institute. It was the first decline in shipments since 1993.

Crowded Market

Even so, the number of wineries in California rose 4.5 percent to 2,972 last year, according to the institute, which represents more than 1,000 businesses in the state. The competition is especially tough for higher-end wines, as buyers shy away from expensive bottles, says California restaurateur Bill Upson.

"There's virtually no market left for us for anything over \$40 a bottle," Upson, principal of Real Restaurants, which owns the Buckeye Roadhouse in Mill Valley, Fog City Diner in San Francisco and Tra Vigne in St. Helena, said at a Napa Valley Grapegrowers conference in April.

Glen Knight, a wine retailer who spoke at the same conference, was more blunt.

"For us, 2009 sucked," said Knight, the domestic wine buyer for the Wine House, a shop in Los Angeles with more than \$2 million in inventory. Reacting to consumers' desire for cheaper wine, the Wine House increased its bottles priced under \$20 by 87 percent, while cutting wines over \$100 by 26 percent.

Recent Rebound?

Terry Hall, spokesman for the Napa Valley Vintners, isn't so glum. Citing Nielsen Co. data, he sees things picking up. Sales of standard-size wine bottles costing \$20 or more increased 13 percent to \$101.2 million during the 13-week period ending April 3, according to Nielsen.

"The market is better in 2010 than it was in 2009, that's for sure," said Hall, whose group includes almost 400 vintners.

Consumers also gravitate to winemakers they're familiar with, he says. That benefits Kenzo Estate, because the people involved in the project already have a track record, Hall says.

Barrett has made many of Napa's most coveted Cabernets, including Screaming Eagle and Dalla Valle. Abreu, a third-generation Napa native, has managed vineyards for Grace Family, Viader,

Bryant, Harlan Estate and Spottswoode, earning him the label "grower to the stars."

The 4,000-acre Kenzo property, located on Napa's Mount George, has two new fermenting rooms — one for stainless-steel tanks, another for concrete vats. There's also a cave for aging wine-filled barrels. Electronic gates keep deer from munching on the 70 acres of planted grapes, and faint horse trails line the rolling hills. That's a remnant of the days when the site was a training ground for the 1984 U.S. Polo team, says Michael Terrien, Kenzo Estate's general manager.

New Soil

Abreu insisted on ripping out the property's existing vines, as well as digging up the top 4 feet of earth to ensure consistency in the soil, Terrien says.

"When he realized to get David to sign on, to get him to really support the idea of working here, it was necessary to do this," Terrien said.

Tsujimoto chose Napa over other wine regions because Capcom's U.S. headquarters is in San Francisco, and when he retires, he plans to spend half of his time here.

"I'm not making the wine just to show off, or for status," he said. "The wine we can produce from here is comparable or better than French wines. That's why I decided on this place."