

Stay or go?: Dilemma of winery founders in mergers and acquisitions

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Whether a founder or owner of a wine brand stays on after an acquisition can depend on what has been sold.

“If you’re selling a large brand that has pretty solid three-tier distribution and you’re spinning off that brand in particular, there is not as much connection to the persona involved,” said Kevin O’Brien, senior vice president of wine industry mergers-and-acquisitions consultancy Zepponi & Company. “Because there is not a face associated with the brand.”

By contrast, if the acquisition target is a more exclusive brand, like those vinted in the North Coast, with not as much distribution and more of a direct-to-consumer focus, it could be critically important to the transaction for the founder to stay on board.

“If you’re talking about founders that are acting in a sales capacity, that could be quite important,” O’Brien said from his firm’s newly opened Portland, Oregon, office. “On the other side of that, you could have founders who are winemakers, that certainly stylistically, there could be a period they stay on to make sure there is quality-maintenance, as they try to transition the winemaking to somebody else.”

That passing of the “secret sauce” for a brand to the new owner’s team might call for the winemaker to remain for at least a couple of years, he said.

And the increased effort in getting wines into an increasingly crowded marketplace via fewer distributors is one of the oft-cited factors for the sale of a winery, a condition commonly called “founder fatigue.” Having a larger company take over back-office, sales and marketing, and certain supply-chain functions can allow a founder to return to the passion at the start of the venture, O’Brien said.

But for those who want to stay independent, several wine marketing companies have sprung up in the North Coast to handle that challenge.

The dollar value of a key figure’s continued involvement with a brand post-transaction is indirectly linked to the value of the brand based on the profitability of the overall enterprise.

“If it’s a pretty profitable brand and a successful company, and there is an aspect that is built on the back of wine quality but also the brand’s perception in the marketplace, then a certain amount of that can be attributed to either the founding winemaker or, if it’s a direct-to-consumer model, the relationship the owner has with the consumer base,” O’Brien said.

That becomes particularly important if there is a strong club membership component of the business, he said.

“There tends to be a familial connection that is created with these really strong brands, where the owner has built up quite a deep relationship with club members and acts as the face of the brand in the marketplace,” O’Brien said.

Continuity is important for wine quality as well as brand integrity, more so than for a number of consumer products.

“For a lot of these brands, wine is a lifestyle product,” O’Brien said. “If you’re a widget manufacturer, there may not be a face connected to the brand.”

M&A transactions in the spirits business have tended to be less focused on founders, said O’Brien, who worked on the summer 2017 sale of the Masterson’s rye and Bib & Tucker bourbon whiskey brands by Sonoma-based 3 Badge Corporation to Deutsch Family Wine & Spirits.

“With strategic acquisitions by a Constellation (Brands) or Bacardi, depending on the size, they may pull a brand out of a portfolio and move it along in their distribution system,” O’Brien said.

A big exception to the disconnect between personalities and big spirits brands is the mid-2017 sale of the Casamigos tequila brand to United Kingdom-based Diageo for about \$1 billion, including \$300 million for hitting future sales targets.

“Casamigos is the poster child of paying up for the likeness and connection to an international celebrity like George Clooney,” said O’Brien, who wasn’t involved in the deal. “But that’s not as common.”

The brand launched in 2013 and was on track to sell 170,000 cases last year.

“We’re not going anywhere,” Clooney said to the New York Times about himself and the other brand founders, Rande Gerber and Mike Meldman. “We’ll still be very much a part of Casamigos. Starting with a shot tonight. Maybe two.”