

## **Clicquot: The Earthquake Hits California**

It's Monday morning, May 2<sup>nd</sup>, 2005, and I am on my way to New York to do battle with the colossal French conglomerate LVMH – Moët Hennessy Louis Vuitton. It is a \$75 billion-a-year global enterprise that markets, among hundreds of other luxury products, many of the most recognizable brands in the worldwide fine wine industry, including Veuve Clicquot Champagne, the subject of the next day's meeting at LVMH's American headquarters at Two Park Avenue. In America, LVMH was known as Moët Hennessey USA, usually called just Moët.

The meeting was likely to be short, and it would certainly be awkward. The Henry Wine Group had just been fired as Clicquot of USA's sole California distributor, a consequence of the previous year's decision from Paris to consolidate control of all American Clicquot sales with Diageo, the country's largest spirits importer. Johnnie Walker, Crown Royal, Smirnoff, Captain Morgan, Tanqueray, Bailey's and Guinness are just some of the most recognizable brands marketed by Diageo, worth nearly \$20 billion. Henry Wine Group would be a faint star in a Diageo universe though we had been, for the past several years, the largest and most profitable distributor of Clicquot in the U.S.

In early 2005, Diageo began firing all Clicquot small distributors; many jobs were lost. We were now the last one standing. Under Diageo's scheme, all California sales of Clicquot would go to the largest American distributor, the widely despised Southern Wine and Spirits – known in our industry as the "Evil Empire." At the time, SWS had \$6 billion in sales and near-monopolies in many U.S. states, sometimes using tactics that would not pass everyone's smell tests.

It was a massive blow to THWG. Clicquot represented \$40 million of our annual \$130 million sales in the state – 30 percent – just like that! The custom-designed 125,000 square foot warehouse and offices, for which we had just signed an eleven-year lease, might become a white elephant. For me, it was a crisis that consumed me mentally – and physically, as it turned out. Without a doubt, this would be the most important moment I had faced in my career. The outcome would reveal to all my ability – or not - to hold everything together at the company during the expansion mode we had undertaken since 2001. Confidence I had. Certainty, I did not.

I arrive later that evening and after checking in at The Pierre Four Season Hotel in Manhattan I eat a quick dinner and retire to bed hoping to sleep reasonably well. Surprisingly, I don't have much trouble falling asleep.

When I awake that Tuesday morning, I trek over to the New York Athletic Club for my morning swim trying to calm the adrenaline that is beginning to build in anticipation of the significance

of the meeting. The two attorneys from Kirkland & Ellis that are with me Jim Basile and James Shannon meet me at The Four Seasons Pierre, and we taxi to 2 Park Avenue, finalizing the strategy as we travel. They are restless and ready for the fight; I like the energy and feel I will take the Moet folks by surprise through the sheer force of my will and the elite troops I have brought to the battle.

From the lobby, we are escorted to Esposito's office. Along with John Esposito is the Senior VP and General Counsel for Moet Hennessy USA, as well as the former CFO for Clicquot USA. I am a bit surprised he is there, but I assumed they had him attend to refute anything I might say they felt was incorrect or I had a different interpretation of the business agreement. He was noticeably nervous and acknowledged me. "Hello, Fred. How are things?" I nodded without a word, and we all sat down across from each other. I sensed a psychological advantage from the outset and got right to the point.

"Before I share my proposal, I would like to introduce you to my friends. Jim Basile is the head of litigation at Kirkland & Ellis, and James Shannon, who leads their anti-trust department. Of course, you all know Kirkland & Ellis?" They nodded but did not smile. Undoubtedly, they had expected I would show up with an attorney, but I believed they would think it likely to be a local attorney, not two stars at one of the country's top firms.

"I got to meet these gentlemen through the friendship I developed with Ken Starr during my involvement with the Coalition for Free Trade. You all know who Ken Starr is, of course?" Of *course*, they knew about the scourge of President Bill Clinton. They all nod, and the discomfort becomes palpable. I look to my right at Basile, who starts discussing the litigation possibilities. Their eyes noticeably widen. As we had rehearsed, Shannon jumped in when Basile looked over at him.

"We will get the Justice Department to look into possible antitrust violations with Southern Wine & Spirits controlling the luxury Champagne business in California." Since this was during the George W. Bush presidency, they knew in a flash that Starr, who was affiliated with Kirkland & Ellis, could get through to the Attorney- General with one phone call.

They fought back gamely, however. Things heated up, but every objection Moet's attorney could muster was countered with more aggressive language and verbal lunges from my two attack Rottweilers. Any observer would have agreed that he was entirely out of his league. Run

over. Roadkill. I watched Esposito. Although he maintained a reasonable, calm demeanor on the outside, I could see his Adam's apple bobbing up and down like a ping-pong ball.

After several minutes of this, I looked at Basile and Shannon and tried not to smile. "Enough, fellows." I turned my attention back to Esposito.

"Now, John," I said, "I am a reasonable man, and I have a reasonable solution. Here it is, and I think you will agree that it makes sense for you at least as much as it does for us: You leave your brands with us for the remaining calendar year 2005, and we will grow your business by at least 10%, as we have done in the past." He leaned forward as the attorney leaned back.

"On January 1, 2006, we will give you a complete release from all liabilities and claims. You will be free to move your brand to SWS, but we will *not* give Southern a pass. It's a good deal for you, but if you choose not to accept it, for whatever reason..." I paused two heartbeats... "I will use the Nuclear Option!"

He leans back a bit and looks at me intently. "Did you just say 'Nuclear'?"

"I just said: Nuclear!" He looked up and right, a sign that he was thinking furiously. I would have bet he was picturing, at warp speed, what an FTC investigation would look like. What it would cost. And what it might portend for Moet Hennessey USA. He loudly exhaled but maintained his calm.

"Well, we need to take this up internally. We'll get back to you later in the week."

"That will be fine, John. I look forward to your call."

Without ceremony, we all stood up and left the office, Basile, and Shannon, preceding me. Esposito caught up with me and escorted me to the front entrance.

As he shook my hand, he said: "If the circumstances were different, Fred, I am sure we would have enjoyed knowing each other better."

"I was just thinking the same thing."

(Just for the record I need to add that John Esposito was a real pro. Which he continued to be during the entire negotiation and afterward. He wasn't the "Bad Guy," just the messenger in this situation).

On the street, I asked Basile if he felt they were going to accept my offer.

"I would bet they do. It's too good of a deal for them."

Shannon jumps in and encourages me to consider rescinding the offer and take them on.

"This might be our best opportunity to go after Southern. They might end up with that monopoly on luxury Champagne."

I pour cold water on that idea. I have always<sup>[3]</sup> negotiated to identify what I needed, not what I wanted, and if the other party accepts, I agree and move on.

"Jim," I say to Basile, "if you feel they will go for it, then you fellows are taking me to lunch at the 21 Club. I have not been back there since the William Hill days when we were a big part of their reopening in 1987." After lunch, feeling victorious, I strolled down Madison Avenue to find my wife a Mother's Day present before grabbing a taxi to Newark to catch the flight back to San Francisco.

Back in the office on Wednesday, I contain myself and do not let on to anyone that I had just been to New York. Nervously, I await the call to learn of my fate and that of The Henry Wine Group.

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It came late afternoon the next day, Thursday, May 5, 2005. John says they have accepted my offer and to have my attorneys look at a few small deal points he would send. They would draw up a draft agreement and forward it to Moet's Attorney. I thanked him and once again assured him that THWG would represent his brands with the same level of professionalism and energy as we always had.

I hang up the phone and immediately call Warner Henry in Los Angeles.

"Warner, they bought it." I hear a great sigh of relief on the other end of the line. After several comments from me about how important it was not to mention this to *anyone*, I hang up the phone and let out a sigh of my own that could have been heard throughout the entire office. I slump back in my chair, exhausted.

That week Kirkland and I work to finalize the agreement and get the language correct. It was critical to ensure that Southern Wine & Spirits not be allowed to breach it in any way, shape, or form. The number one concern is that Southern will leak the deal into the marketplace and start a stampede away from us, to them, depressing the sales we had to make to recover from this blow. By Thursday, May 12<sup>th</sup>, I haven't heard anything back from them. Hmmmm. I send John Esposito an email asking that we keep this simple and not let the attorneys run the clock on us. By late Monday, the 16<sup>th</sup>, the draft is back from their attorney with his approval. I forward it to Shannon and feel that the drama is about to come to an end. How wrong I was to be!

On the morning of Saturday, May 21<sup>st</sup>, I am up early to prepare to play in the member/member golf tournament at my club. However, I am not able to eat, and I feel tired and confused. I go back to bed only to wake up 15 minutes later; I look at the ceiling and recall a dream I had in the middle of the night. In the dream, I was talking with an old friend, Michael Bonaccorsi, an up and coming young winemaker and former sommelier at Wolfgang Puck's flagship restaurant, Spago. He had been accredited by the peerless London Court of Master Sommeliers, and, in 2000, a New York Times critic called him "possibly the best young sommelier in the country. A wonderful guy whom everyone in the California wine and restaurant community loved and trusted.

I could not call Michael and tell him I had been dreaming about him. A year ago, he had died of an apparent heart attack in the middle of the night, alone in his condo in Buellton, near Santa Barbara. He was only 43, ten years younger than me. As I stared at the ceiling, trying to recall what we were talking about, it suddenly hit me: "Oh shit, I'm having a heart attack, just like Michael! I'm in trouble!" I wake up and ask Debra to contact the doctor on call at the local hospital and take me there. While she is doing this, I dress quickly, wake my son Alex and tell him to take my place in the tournament. He is groggy, but there is no time to explain.

Fortunately, the hospital is only minutes away, and by the time we arrive there, I am going in and out of consciousness. We race through the entrance, and I ask where the door to the emergency room is. An admitting attendant points over her shoulder, and, as I head to the room, a nurse grabs me and puts me on a bed. Within 40 seconds of lying down, all I can remember is the nurse saying, "Doctor, Doctor, this patient has no pulse. When I awake several hours later, a doctor is standing over me. "Well, you had quite the heart attack." I was at most a minute away, possibly two, from not having to worry about Clicquot anymore. A quintuple bypass put me out of action for some time, but it was a success. Fifteen years later, like a Timex watch, my heart is still ticking. My dream about Michael had saved me. How could that have happened?

What a mystery life is!

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On January 1, 2006, Moet pulled its business with us, as agreed. But through truly outstanding efforts by our sales team, we had regained by year's end of 2006, \$32 million of the \$40 million we had just lost. The major industry players, who knew all about the deal, were impressed. Confidence in the Henry Wine Group reached new heights. And my star had never been brighter. I was approached several times over the next three years with offers to jump ship. I was told I could write my own ticket. I politely turned them all down. I was where I wanted to be, and, as rewarding as the recognition was, I did not consider leaving. I would, however, come to regret that decision, that loyalty. What a mystery life is.