



## Forecasting and Procurement at Le Club Français du Vin<sup>1</sup>

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Stéphane Zanella took a second careful sip from the glass of the 2002 St Emilion in front of him. He spun the stem of the wine glass slowly, watching the velvet-red liquid swirl, and reflected upon the rich taste so typical of the French Bordeaux wines. This particular bottle, produced by the Chateau Les Petites Rangats, presented a delightful combination of high acidity and an overall complex aroma.

However, as Directeur Général (General Manager) of the Club Français du Vin (The French Wine Club), a large catalog retailer offering an exciting collection of French wines to the consumer, he had every reason to be disappointed with the bottle. Zanella and his product manager in charge of forecasting demand for the wines offered by the Club had ordered 10,000 bottles of the wine for the company's January 2004 catalog. They had, however, experienced consumer demand for only 1,704 bottles, and the remaining bottles were now in the company's Dijon warehouse, where they were likely to remain for many months. Since consumers favored lighter wines, such as a Rosé or a fruity white wine, for the upcoming spring season, the remaining 2002 St Emilion bottles would burden the company's cash position and potentially require significant discounts in the future.

Though unpleasant, mismatches between forecasts and customer demand are fairly commonplace in a catalog retail wine business. Forecasting the demand for wines and placing orders with the wine growers require constantly balancing the cash constraints inherent in holding large inventory positions with the goal of sustaining healthy margins (the club typically enjoys around 50%) while ensuring availability of a broad selection of wines even late in a catalog season.

### **Le Club Français du Vin: Company Background**

Le Club Français du Vin, founded in 1973, had grown to a 10 million Euro per year business in 2004 with customers in France, Switzerland, and Germany. The mission of Le Club is to offer wines of good to very good quality to its members, who receive interesting wines delivered directly to their homes. Since most consumers in France purchase wine through their supermarkets (some with outstanding selections) and local specialty stores, Le Club capitalizes on a niche market. Le Club employs several wine experts and specializes in identifying small and mid-size growers typically below the radar screen of the big French hyper-markets such as Carrefour and Champion.

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<sup>1</sup> *This case was written by Christian Terwiesch and Antoine Gouze as the basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Some numbers in this case were adjusted to simplify the case analysis and to protect confidential business information. The authors are grateful to Stephane Zanella, Veronique Gouze, and Gerard Cachon for their help.*

Every member of Le Club receives an offer of wine every two months via a catalog called *Etiquette*, which includes 30-40 carefully selected wines. Typically, a wine in *Etiquette* is featured on a half-page of sumptuous description and photographs of the grower, a chateau, or the vineyard. *Etiquette*, mailed to all of Le Club's 50,000 members, also includes two leaflets, *La Selection* and *La Cave*.

*La Selection* showcases three wines that are Le Club's recommendation for the season. If a member does not place an order from either *Etiquette* or *La Selection*, she might automatically receive a shipment of 12 bottles consisting of the three wines from *La Selection* (four bottles from each of the three wines). The customer may return these bottles free of charge (called "option negative" in France<sup>2</sup>). As this can be expensive for Le Club (shipping and handling costs are rather substantial), Le Club only sends unsolicited shipments to its most loyal customers (loyalty measured in years of membership) as well as to those who have rarely returned shipments from *La Selection*.

*La Cave*, the other leaflet, consists of a cursory list of available wines, their price and year, but offers none of the detailed descriptions and background material featured in the *Etiquette* catalog. Frequently, wines in *La Cave* are leftover from a previous catalog (some of them heavily discounted).

## The Forecasting Process

True to its name, Le Club Français du Vin largely carries French wines. The French wine industry still consists primarily of small- to medium-sized growers that harvest their own grapes and produce their own wines. French wines, especially those from the Bordeaux region, are known for their idiosyncratic tastes. Given that a typical Bordeaux wine is a mixture of different grapes carefully crafted and composed by local winemakers, it is possible that two Bordeaux wines of the same year and from neighboring vineyards can have completely different tastes<sup>3</sup>. This taste heterogeneity across growers of French wines differs greatly from the wines of Australia, South America, or California, where wines are created by large producers (most of them buying grapes from several growers) and composed to achieve a consistent drinking experience.

The heterogeneity of French wines makes forecasting consumer demand for a particular French wine extremely difficult, sharing similarities with the fashion industry. A few comments from the major wine experts can determine the fate of a particular wine for the season. Most notably, the American wine-guru Robert Parker is respected—and feared—in the industry for his wine recommendations and their impact on consumer demand.

At Le Club Français du Vin, a group of professional wine experts visits France's various wine regions. They score the wines on a scale from 1 to 20. They then look at sales patterns of similar past wine offerings of Le Club and create a sales forecast for each wine in the upcoming catalog. The forecasting process takes into account both taste considerations and the season of the

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<sup>2</sup> The "option negative" is the idea that a customer places an order by default and needs to act if she does NOT want to receive a shipment. The option negative is relatively common in various consumer clubs, including books, magazines, and movies.

<sup>3</sup> The mixing of wine and grapes is not done in some other wine growing countries, for example Germany. Mixing wines and grapes allows the wine maker to create more complex and sophisticated tasting experiences.

year in which the wine is offered in the catalog. French wine drinkers prefer “heavier,” more intense wines, such as a dark (red) Bordeaux in the winter season, enjoy champagne over Christmas and New Year, and favor fruity white wines and mild Rosés in the summer season.

## **The Ordering Process**

Once the forecast of a particular wine is established, Le Club places an order with the wine grower. Ordering occurs several months before publishing the catalog and at a point when little information beyond the wine experts’ personal opinions is available. Upon receiving the order, the grower decorates the bottles with a label unique to Le Club and sends the order to Le Club’s warehouse in Dijon (some 300km south of Paris). Le Club’s exclusive label prevents consumers from comparing prices with supermarkets offerings and allows Le Club to enjoy comfortable gross margins of about 50%. Le Club’s shipping and handling cost of 1.25 Euro per bottle are not included in the 50% gross margin (i.e., for a bottle with 10 Euro retail price, Le Club pays about 5 Euro in procurement costs and 1.25 Euro in transportation costs). The Club pays the wine grower 75 days after having received the shipment<sup>4</sup>.

If the forecast of a wine coincides with demand—or comes close to it—these payment conditions are very favorable for Le Club. In many cases, the company is able to collect payments from the end customer before settling the bill with the wine-grower. However, such desirable cash flows are not always the case. If Le Club has overforecasted sales for the catalog season, excess bottles are stored in the warehouse and are likely to be discounted in a future catalog.

As a rule of thumb, Zanella assumes that an overbought white wine needs to be discounted by 40% of its retail price (i.e. a 10 Euro bottle would be sold for 6 Euro) to liquidate the inventory, but a red wine on average needs only a 30% discount, as red wine is less perishable (a white wine typically must be sold within two years or disposed). This liquidation is done via Le Club’s catalog La Cave (see above). Bottles sold this way will also cost 1.25 Euro per bottle in shipping and handling. On average, Le Club warehouses white wines eight months and red wines 15 months. In addition to Le Club’s cost of capital, which Zanella estimates at 15%, there are direct and indirect warehouse operations costs about 0.10 Euro per month per bottle. If, however, Le Club lacks sufficient supply of a particular wine, it misses almost all of the associated profit margins. Only rarely is it possible for Zanella to place additional orders for wines that he had underforecasted.

## **The Customer Experience**

Customers ordering wines from the Etiquette catalog (i.e., those who chose not to receive La Selection but still wanted to purchase wine from Le Club) place their order by mail, phone, fax, or over the internet. As a large portion of Le Club’s customers are in their 60s, orders by mail are rather common. This key customer segment has been with Le Club for many years.

Customers do not have to pay for any shipping and handling costs. A typical customer order consists of 12 bottles of wine of three different types. While customers placing orders by phone and online can directly be informed if a particular wine is out of stock, the majority of

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<sup>4</sup> This is, under French law, the maximum time a firm can wait before settling a procurement bill with a small or medium sized company.

customers (mail and fax) are not aware of the availability of wines for their order. Thus, typically, all demand for a wine that remains unfulfilled is lost<sup>5</sup>. Given the complications associated with stock-outs, Le Club aims at high availability for its wines throughout the catalog season.

## Decision

Zanella thought of the more than 200,000 bottles that Le Club currently held in its warehouse. Unfortunately, he thought, we cannot ship the leftover St-Emilion bottles to the customers waiting for a Côtes du Rhône. The Côtes du Rhône (Dne Notre Dame des Pallieres), another red wine, was also featured in the January 2004 catalog. Forecasted to sell 10,000 bottles, it ultimately experienced a demand of over 11,000.

Zanella replaced his wine glass with a cup of coffee and opened up his Excel file containing information on demand, wine characteristics, forecast information and realized demands (Exhibit 1) that he uses to track the accuracy of his old forecasts. Reviewing the forecasts for the next catalog season, he set about creating a first draft for the orders he would place with the growers in the coming week (Exhibit 2). Once again, Le Club would offer an exciting new collection of wines. However, the task of forecasting and ordering was not an easy one.

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<sup>5</sup> For example, a customer who had ordered 4 bottles of type A, 4 of type B, and 4 of type C would, in case of a stock-out of C, obtain the 4+4 bottles of A and B. Customers almost never cancelled the rest of their order because of stock-outs.

Appellation	Designation	Year	Color	Retail price		
				(€ per bottle)	Forecast	Demand
CÔTES DU RHÔNE (6)	Dne Notre Dame des Pallières	01	Rouge	5.90	10,000	11,280
BORDEAUX SUP	Ch. Tour Petit Puch	01	Rouge	7.20	1,200	252
LIRAC	Domaine Duseigneur (Frs 19,80)	00	Rouge	10.50	900	540
CORBIERES	Ch. des Auzines "Les Garrigues"	01	Rouge	6.90	800	864
CARTON PANACHE	(4 x 3) Pts Kdo Doublés			8.20	3,000	2,169
POMEROL	Ch. Clos Bel Air	01	Rouge	22.95	900	1034
GRAVES	La Grande Cuvée de Dourthe	01	Rouge	9.95	600	384
HAUT-MEDOC CB	Ch. Beyzac	01	Rouge	10.70	400	414
BORDEAUX	Ch. Bordeneuve	01	Rouge	5.95	1800	612
CARTON PANACHE	4+4+2+2			13.74	3960	5436
CHAMBOLLE-MUSIGNY	Bouchard Père et Fils	01	Rouge	33.90	600	528
HAUTES CÔTES DE BEAUNE	Clos de la Chaise Dieu	02	Blanc	10.90	900	1014
MORGON	Dne de Gry Sablon - R de Clarisse	02	Rouge	9.50	1200	1500
VDP des Côteaux de L'Ardèche	La Réserve Rosé du Club	03	Rosé	3.30	2500	2,070
VDP des Côteaux de L'Ardèche	La Réserve Rouge du Club	02	Rouge	3.25	3000	2,784
VDP du Comté Tolosan	La Réserve Blanc du Club	03	Blanc	3.30	2000	1,974
Bordeaux	Réserve du Club	02	Rouge	4.50	2500	4,057
CARTON PANACHEE	Les Réserves du Club			3.59	2600	1,992
IROULEGUY	Dne Etxegaraya	01	Rouge	11.90	3000	726
BERGERAC	Ch. De Fumat (6)	01	Rouge	5.90	800	402
VDP D'OC	Chardonnay-Terret M. Laroche	02	Blanc	5.40	2500	1380
COTEAUX DU LANGUEDOC	Dne Pérès	01	Rouge	6.10	900	612
BERGERAC	Ch. De Fumat	01	Rouge	5.20	1800	1170
CHINON	Wilfrid Rousse	02	Rouge	7.55	1500	960
COTEAUX DU GIENNOIS	Balland-Chapuis	02	Blanc	7.30	3000	2100
ROSE DE LOIRE	Cave des Perrières	03	Rosé	5.50	2300	2934
CHÂTEAUNEUF DU PAPE	Clos de l'Oratoire des Papes	00	Rouge	19.95	300	703
CDR VILLAGES CAIRANNE	Dne Croc de Romet	02	Rouge	8.90	500	480
CÔTES DU VIVARAIS	Beaumont des Gras - C. Prestige	01	Rouge	4.70	2700	1968
CARTON PANACHEE	(6+4+2)			13.73	1800	1356
CÔTES DU JURA V. JAUNE	Fruitière de Voiteur	93	Jaune	29.50	300	324
APREMONT	Le Vigneron Savoyard	02	Blanc	7.50	1200	567
CÔTES DU JURA	Chardonnay bâtonné	00	Blanc	8.90	900	741
SAINT-ESTEPHE	Ch. Haut-Corbian	00	Rouge	12.47	2100	1910
FITOU	Ch. Lahore-Bergez	00	Rouge	6.83	2000	1176
CDR	Dne de la Présidente	01	Rouge	5.18	2200	1788
COUR-CHEVERNY	Dne de Montcy	99	Blanc	6.17	900	834
MEDOC	Ch. Haut-Lignan	00	Rouge	6.38	2100	2208
RULLY	Dne Briday	01	Blanc	9.71	1100	1191
MONTAGNE ST-EMILION	Ch. Les Petites Rangats	02	rouge	10.40	10000	1704

**Exhibit 1:** Demand forecasts and actual demand (regular price sales only) for the January 2004 catalog. A carton panache is a mixture of several wines.

Appellation	Designation	Year	Color	Retail price (€ per bottle)	Forecast
FAUGERES	L'enclos des Moulins	02	Rouge	6.80	12000
GRAVES	Ch. Cabanneux	02	Blanc	9.90	750
GRAVES	Ch. Haut Pommarède	02	Rouge	8.40	1000
PESSAC LEOGNAN	Ch. Haut Nouchet	01	Rouge	18.90	1300
CARTON PANACHE	6+2+4			12.15	3200
BORDEAUX CLAIRET	Ch. De Marsan	03	Rosé	5.50	4000
CÔTES DE BOURG	Ch. Florimond	02	Rouge	7.20	1300
ENTRE DEUX MERS	Ch. La Grande Métairie	03	Blanc	5.15	1500
BORDEAUX	Ch. Gillet - FIDELITE	02	Rouge	4.65	6000
CARTON PANACHE	sauf bordeaux			5.95	6000
Bordeaux	Réserve du Club	02	Rouge	4.50	2900
VDP des Côteaux de L'Ardèche	La Réserve Rouge du Club	03	Rouge	3.25	3500
VDP des Côteaux de L'Ardèche	La Réserve Rosé du Club	03	Rosé	3.30	2900
VDP du Comté Tolosan	La Réserve Blanc du Club	03	Blanc	3.30	2300
CARTON PANACHEE	Les Réserves du Club			3.59	3000
CABERNET D'ANJOU	Goulaine	03	Rosé	5.60	3000
SANCERRE	Le Châtillet - Balland Chapuis	02	Blanc	12.00	1800
CHINON	Clos des Petites Croix - FIDELITE	02	Rouge	5.85	4500
ALOXE CORTON	Ch. Philippe le Hardi	02	Rouge	21.90	1200
BOURGOGNE ALIGOTE	Dne des Lauriers	03	Blanc	7.20	1100
GIVRY	La Buxynoise	02	Rouge	12.90	900
COTEAUX DU LYONNAIS	Pot des Voraces - 50 cl	03	Rouge	5.35	3000
CDR VIII RASTEAU	Domaine Combe Julière	02	Rouge	8.90	900
GIGONDAS	La Payouse	99	Rouge	13.90	1000
CÔTES DU VENTOUX	Gabriel Meffre (6)	03	Rouge	5.60	1200
CARTON PANACHE				9.47	3000
CORBIERES (6)	Ch. La Mondière	01	Rouge	5.70	1300
GAILLAC	Dne de Borie Vieille	03	Rouge	5.80	2500
MINERVOIS	Domaine des Arcades - FID	00	Rouge	5.21	4000
MADIRAN	Folie de Roi	01	Rouge	9.00	12000

**Exhibit 2:** Wine information about the upcoming catalog season.

The average gross margin is 50% (i.e. a 10 Euro bottle is purchased from the grower for 5 Euro).  
A carton panache is a mixture of several wines.