

Wine & Spirits



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values of
the year

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21st century negociant

new lots from
Cameron Hughes

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Cameron Hughes loves to talk—to anyone. Which is probably what makes him a natural-born salesman. To watch his in-store pitch is to see someone channeling, unmediated, the spirit of salesmanship, of top-hatted carnival barkers of yore, of infomercial kings like Ron Popeil and anyone who's ever mounted a soapbox. In Hughes's case, he's talking wine.

The pitch comes rapid-fire, all bluster and spectacle: "Step right up: You've got to taste it to believe it," he calls out from his table in the wine section of the Costco in Danville, California. "You, sir, do you like wine? If so, you must try this one. Thirty-dollar juice for nine-ninety-nine. Won't believe it until you taste it. No, sir, I'm not allowed to give a sample, but buy a bottle and taste it in the parking lot. I guarantee you'll be back to buy a case." Dressed in jeans and a collared shirt, the tall, lean Hughes is kinetic, speaking quickly, confidently, without seeming to stop to breathe. Shoppers passing by can't help but notice him and when they do he beckons them over. Unable (by law) to offer samples, he provides 30 seconds of his spiel instead, hammering away constantly at the notion of value. Handsome in a nondescript way and emanating palpable confidence, the 35-year-old Hughes leaves an impression reminiscent of a slightly grown-up brat-pack actor from the 80s—C. Thomas Howell or maybe Tom Cruise from *Risky Business*.

Hughes's business is risky in its own way. The potential for bankruptcy is just around the corner. But so too is the possibility of growth and success, which is what Hughes has been experiencing lately. After a wobbly start for his wine label in 2002, sales reached

around 30,000 cases in 2006. This year, however, Cameron Hughes Wines will sell between 85,000 and 95,000 cases, projecting between \$8 million and \$10 million in sales. All without vineyards or equipment and without holding any inventory for long.

Hughes is a *négociant*: that is, he buys finished wine from producers and resells it at a profit. Sometimes he blends separate lots of wine together to make something superior to the individual components. And sometimes he just purchases a lot of wine in bulk (or even sometimes in bottle) and repackages it under his name and sells it. It's a classic wine business niche, à la *négociants* like Drouhin or Duboeuf in France, though Hughes has put his own stamp, and a very contemporary one, on the profession. Unlike these two mainstays of Burgundy and Beaujolais, respectively, Hughes does not confine himself to one region; he is currently sourcing wine from five countries and over a dozen appellations. Another difference between Hughes and the classic *négociant* is that Hughes doesn't simply make one big blend from the small lots of dozens of small grower-producers. He buys lots almost exclusively from established, highly regarded wineries that have a surplus in one area or another. And once he has the wine, Hughes works rapidly—the elapsed time between buying a tank of wine and

selling out of it can be as short as a few weeks—via the Internet and Costco superstores.

There is something exhilarating about visiting a wine-producing region and seeing the contours of the terrain, the shapes of the vines and experiencing the human culture that informs them. Funny enough, it's equally fascinating to drop in on the offices of Cameron Hughes, though the terroir here is more that of an Internet startup than a gravelly bench. A long, shotgun suite in downtown San Francisco, just a few blocks from the ballpark, Hughes's whitewashed office has the classic hallmarks of a Bay Area upstart enterprise: jeans-clad twenty- and thirtysomethings, glass partitions, Apple iMacs, shelves of snack food and several large dogs that seem to have free run of the place. Since headquarters also doubles as the shipping hub for Internet orders, the front two rooms are inevitably bursting with cases of wine, styrofoam shippers and flat, unassembled boxes. ("This can't go on too much longer," Hughes says. "We've already outgrown this space.")

To sit in Hughes's office with him feels a bit like hanging out with a day trader. He is constantly on the phone or typing emails, often at the same time. A call comes in from one of the many wine brokers who work for Hughes, and the conversation is a cartoonish

example of bargaining. “They’re countering at \$22? Offer them \$21 and call me back,” he barks, slamming down the phone. The wine in question is “a real nice Rutherford cab, a hundred percent French oak and everything” that Hughes intends to meld with an Oakville–Yountville merlot and a few other Bordeaux varieties to make a Meritage blend.

“Meritage is key,” Hughes grins. “We once bought a lot of merlot from a winery that couldn’t sell it—bought the entire 3,600-case production and labeled it as a Meritage. It was out of the warehouse and through the stores in two weeks—nine-ninety-nine a bottle through Costco. That was Lot 23.”

Every Cameron Hughes wine is numbered by lot. At the time of this writing, he has just released Lot 28, a Napa Valley cabernet, on his website, but he’s already made the deal for Lot 42, which will probably take him through the end of the year. No two lots are the same; Lot 19 was a 2004 Stellenbosch merlot, Lot 25 is a 1998 Carneros sparkler and Lot 26 a 2006 Marlborough sauvignon blanc. So far lots have varied in size from 500 to 10,000 cases, though Hughes is ramping up for a 60,000-case whopper later this year.

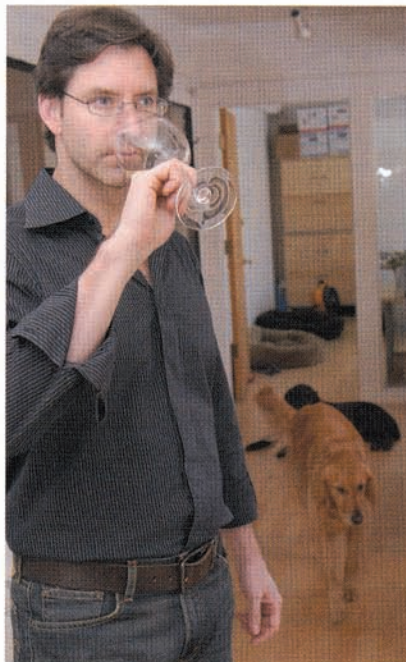
The key to sourcing the wine are the connections that Hughes has made over the past six years in business for himself. His family’s connections have also helped. A native of Modesto, California, Hughes’ father is vice president of sales for the Wine Group, a specialist in boxed wine (e.g. Franzia) and the third-largest wine company in the country. Hughes worked a few years for the Wine Group himself, then as an importer of French wines before he started his first solo venture in 2001, financed by selling his personal collection of 1990 Bordeaux and 1994 Napa cabernets and, in true entrepreneurial fashion, racking up \$100,000 in credit card debt. He named his first wine venture Cinergi. There was a Cinergi white and red, and each wine was an unusual blend of grapes—such as syrah, barbera and pinot noir—the components for which Hughes bought in bulk and blended. His motto was “Blended is Better” and he idealistically peddled the wine to retailers based on its compatibility with food. But Hughes quickly discovered that the terms *blended* and *food-friendly* didn’t help sell wine in America. His work with Cinergi did, however, provide Hughes a glimpse of the opportunities in the bulk market—California was, after all, in the

midst of a grape surplus—and he started making the connections with which to tap it. In 2004 he launched the Cameron Hughes label with Lot 1, a 2002 Lodi Syrah.

Hughes’ business relies on inefficiencies within the wine industry. “Wineries are good at making wine,” Hughes tells me, while munching on cashews, “but most of them have no idea how to sell it.” He continues musing, “We’re kind of a leech on the business in that way. A parasite, really, but a positive one, like that fish that cleans the sharks.” (Remora could be the name for a second label.) Hughes’ point is that he takes small quantities of high-quality wine that’s otherwise unwanted by the winery, pays more than the bulk-market price and then sells it himself. “When we buy, we’re usually getting a very good wine that simply didn’t fit in the winery’s blend or larger scheme. But whereas they’re left with an odd duck that they can’t blend, we can take it and put it with someone else’s wine.”

When most consumers think of value, the first thing to come to their minds might be Two Buck Chuck, but that’s not Hughes’ game. For him, value is relative, and he operates on a sliding scale. His

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mantra may be "Thirty-dollar wine for ninety-nine," but in fact the specific numbers are irrelevant—it's the ratio of savings to quality that he's interested in. The least expensive wine he's sold was priced at \$5.99 and the most expensive was close to \$20, but he says he'd be willing to go much higher as long as the value ratio is preserved.

When it comes time to selling a lot, Hughes is contractually prevented from revealing the name of the wine's source ("but you would know every one of them," he asserts). He can, however, reveal almost everything else about the wine, a tool that is the crux of his ability to market it. The ingeniousness of Hughes's approach is how he positions himself in the relationship between producer and consumer: He gets to enjoy the cachet of the producer (or an adjunct of it), but he also is the savvy buyer searching out bargains. An example of how Hughes's contacts, buying prowess and marketing patter converge can be found in the recent announcement of Lot 24 on his company's website:

Cameron Confidential: I got a call one day from a winemaker friend reporting that a friend of hers, another winemaker, was having a fit about some wine she made on contract for a big wine company. Turns out she put her heart and soul into three single vineyard designate Syrah's that the company had planned to market at \$25-40 a bottle. As the Pinot Noir thing heated up the company changed directions, scrapped their Syrah plans, threw all three wines into one tank and put it on the bulk market. Having ignored her children for some time to make the wines, she says to me, she would like

the wine to end up in a good home and would I please buy it. Tasted a sample and POW! Bought it all. This stuff is very well built with half new French oak the balance on their 2nd and 3rd fill. The vineyards are all 1200+ and a combo of ridge and hillside vineyards. The wines were bought in the first week of November and average together right at 15% Alcohol.

There are only 1300 cases total of this, I wish I had 10,000. This will only release to California Costco's so those of you outside of the area will want to buy online. And buy you should, this is a HELL OF A DEAL!!!!!!

The wine's story is beguiling and the fact that its provenance is secret makes it all the more so. Hughes expects the stock to last only a couple of weeks. "I really couldn't believe no one thought of this before me," says Hughes. But despite the elegance of the business model, he'll be the first to admit that the company would not have blossomed as it has if it weren't for the alignment of his willingness to get out and sell with the rise of Costco and the Internet.

One of the fastest-growing companies in American retail history, Costco last year topped \$50 billion in sales. Costco makes most of its revenue on membership fees, which allows it to sell goods at markups far lower than traditional retail chains. It's these low markups (and the absence of markups on the Internet) that allow Hughes to preserve the value ratio of his wine. Currently the giant discounter is Hughes's only retail outlet, and, for now, his business's survival depends on this relationship.

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unusual way he has used Costco—as his own personal indoor market where he literally grows his business one customer at a time. To that end, he has been setting up shop Friday through Sunday at Costco outlets around the country and making a spectacle of himself. When he was only in California's Costco stores, Hughes and his wife Jessica were able to cover the territory fairly well. But now that he's in a half dozen states, he's hired close to 30 contractors (with ads on Craigslist) to help him take the show on the road. The people he and his contractors have met at Costco now form his contingent of Internet customers. "It's taken us years just to get five thousand people to give us their email addresses," he says.

Over the ten-day stint in the Danville Costco, Hughes hoped to sell \$100,000 in wine. ("Frankly, I think we're going to murder it.") Annette Alvarez-Peters, who oversees Costco's wine departments, believes Hughes's theatrics serve more than his own brand. To sell Lot 19, Hughes had some explaining to do about where Stellenbosch is, and why a Costco customer should care about wine from the tip of Africa. "He was able to bring awareness to the category," Alvarez-Peters says, noting the halo effect on sales of other South African wines at Costco.

Likewise, when Hughes pitches a \$9.99 Marlborough sauvignon blanc, he recommends that buyers decant it. The suggestion quickly devolves into an explanation of how to decant a wine, what decanting does for a wine, why it's necessary, what other wines a Costco member might choose to decant. And Hughes does this over and over, pitching wine to the thousands of Costco members, their oversized shopping carts filled with giant packs of paper towels, 25-pound cat litter bags and 36-packs of chicken breasts. Good thing he loves to talk. ■