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Macro-Economic Economic Analysis:

The Robert Mondavi Corporation (MOND) operates in what can be defined as a pure competition infrastructure. Pure competition can be described as, “A market characterized by a large number of independent sellers of standardized products, free flow of information, and free entry and exit. The sellers are "price takers" rather than "price makers"” (WebFinance, 2003). Although we can narrow down the amount of very large competitors in this industry—those with annual revenues over \$100 million, there are literally thousands of vintners operating in the US and around the world.

MOND operates within the confines of the beverage industry and therefore has to compete with industry giants such as Coca-Cola, PepsiCo, and even Anheuser-Busch. The industry, however, can be broken down categorically by SIC codes as follows:

51-- Wholesale Trade-Non-Durable Goods (*non-cyclical*)

518- Beer, Wine, And Distilled Alcoholic Beverages

5182 Wine & Distilled Alcoholic Beverages Wholesale

(World Exports, 2003)

The current major competitors, specifically in the wine industry, are the ConstellationWines division of Constellation Brands, Inc. (STZ), Beringer Blass Wine Estates, and E. & J. Gallo Winery. The following table shows the comparison in terms of finances.

	MOND	Pvt1	STZ	Pvt2	Industry
Market Cap:	559.64M		3.35B		617.03M
Employees:	958		7,680	4,600 ²	2.80K
Rev. Growth (ttm):	2.60%		-24.80%		5.10%
Revenue (ttm):	452.67M	1.36B ¹	2.73B	1.80B ²	458.00M
Gross Margin (ttm):	38.24%		27.24%		38.75%
EBITDA (ttm):	44.22M		490.50M		36.16M
Oper. Margins (ttm):	9.65%		13.30%		10.58%
Net Income (ttm):	19.02M		190.27M		17.99M
EPS (ttm):	1.159		2.004		0.81
PE (ttm):	29.52		15.90		21.72
PEG (ttm):	1.72		0.82		1.43
PS (ttm):	1.21		1.08		0.86

Pvt1 = [Beringer Blass Wine Estates](#) (subsidiary or division)

[STZ](#) = Constellation Brands Inc

Pvt2 = [E. & J. Gallo Winery](#) (privately held)

[Industry](#) = Beverages

(Yahoo! Inc., 2003b)

“Due to slowing consumer demand—especially pronounced in the high-end hotel and restaurant channels after September 11, 2001, combined with reductions in retail and wholesale inventory levels that are typical in a recession” the total shipment of wines were down 6% in the year 2002 (Robert Mondavi Corporation, 2002).

However, overall, MOND appears to have industry average results in their Gross Margin, Operating Margin and above average results in their PE, EPS, and PS. The economic forecast made by most financial analysts place MOND in either the “hold” or “buy” category.

Technology:

The technological changes in the wine-making industry are relatively slow and have very little to do with the actual quality of the wine, but more to do with the quantity produced and the functions of plant technology—bottling, labeling, etc. The finest wines are considered “aged”.

Technology has increased, overall, in agricultural research and these new and important innovations and findings have the tendency to spread across all areas of organic production. For example, in the last 20 or so years researchers have been able to isolate, grow and process certain types of fungi that are very beneficial to most plants; they reduce stress, improve nutrient uptake, fight disease, and make the plant more vigorous in general. Another significant finding is the use of humic acids on crops and soils. Humic acid allows the grower to use far less fertilizer, both chemical and organic, to achieve higher results in their overall yield.

Below I have provided some specific examples that I am familiar with regarding AG.

VESICULAR-ARBUSCULAR MYCORRHIZAL FUNGI

The mycorrhizal fungi are beneficial organisms that enhance plant growth and vitality. The mycorrhizae play an important and positive role in plant physiology, mineral nutrition, water absorption, hormone production, and disease resistance. Cultural practices such as fumigation with fungicides, long fallow periods, frequent disking, land leveling and soil removal, and the application of acid and ammonia based fertilizers can contribute to a deficient level of mycorrhizae in the soil. Plants may exhibit nutrient deficiencies and reduced vigor without the symbiotic relationship with the mycorrhizal fungi.

Benefits:

- Increased absorption and translocation of essential plant nutrients including Phosphorus, Sulfur, Calcium, Zinc, and Copper
- Provides a physical barrier against plant root pathogens and nematodes
- Increased tolerance of environmental stress such as drought, high salinity, and heavy metal concentrations
- Increased plant growth and vigor
- Provides soil stabilization as a result of the aggregation of soil particles

(JH Biotech, 2003)

Liquid Humus:

The humin constituents of the organic acids in Liquid Humus retain nitrates in the root zone by creating anion exchange sites that bond with nitrate ions. The organics then form colloids around soil particles and hold the nitrogen against leaching in the root zone. The organic acids in Liquid Humus are effective cation exchangers, thus maintaining potassium and ammonium ions in soil solution for immediate and prolonged utilization. (Actagro, 2003)

Robert Mondavi is committed to finding ways to enhance the quality of wine while contributing funding towards the continuous researching of beneficial growing procedures through technology. His latest effort was donating \$25 million for the Robert Mondavi Institute for Wine and Food Science at UC Davis, which includes the university's enology and viticulture department.

Sociodemographics:

The wine industry has been on the rise for the last ten years and according to the Wine Market Council, "growth has continued through 2002, with an all-time record 221 million cases of table wine consumed in the U.S. last year. Of the 203 million adults in the U.S., 26.4 percent are wine drinkers. There are 25.4 million core wine drinkers (those who consume wine weekly or more often) and 28.2 million marginal wine drinkers (those who drink wine less often than weekly). Another 30.6 percent of U.S. adults drink beer and/or spirits but not wine, and fully 43 percent of U.S. adults mainly abstain from the consumption of beverage alcohol products.(Wine Market Council, 2003).

According to our text, "The demographic breakdown of wine consumers does show that there are several distinct segments that comprise a majority of consumers. According to the Adams Wine Handbook 1998, women are slightly more likely to consume wine than men, with the majority of drinkers being in the "Baby Boomer" generation. They also tend to be college graduates who are professionals or managers and make over \$60,000 annually"(Thompson & Strickland, 2003).

There has been a recent trend among a group of "30-somethings" that have been responsible for promoting the drinking of wine, instead of, or in addition to, other alcoholic beverages. "In the long term a younger demographic segment must adopt wine as part of their lives if the industry's success is to be sustained," the report concluded.

"The coming age of the 70-million-strong millennial generation (the eldest of whom turned 23 in 2000) presents both an opportunity and a challenge for the industry... Most alarming to the industry is that the core market is graying, with 70 percent at 40 years or older"(Skeen, 2002).

Political, Legal, and Regulatory Issues:

“The U.S. has one of the most "open markets" in the world, with low barriers to entry for imported wines. Despite this, California wines have traditionally dominated the domestic market for years due to the ideal growing conditions and favorable marketing and branding actions taken by some of California's larger wineries”(Thompson & Strickland, 2003). This, in turn, is unlike some foreign markets that have extensive tariffs and other legal issues pertaining to their government that make it much harder for the US to export wine into those countries. For example:

Some of the most common trade issues that need to be addressed in the international market place are subsidies, monopolies and tariffs. Currently, there are many countries around the world that subsidize their local industries by giving them money for research, brand building and exporting. Government monopolies of liqueur stores and over wine production are also seen in several countries around the world. These countries instigate monopolies to help protect local producers or because they are socialist countries where the government tries to gain revenue by taxing and controlling the sale of alcoholic beverages. High tariffs are also very common around the world and can often be used as a political tool, because they are relatively easy to implement and can be country specific...Japan had a 21 percent tariff...Hong Kong had a 30 percent tariff...[and] Taiwan’s government monopoly instigated a flat \$3.62 tax per liter [of imported wine](Thompson & Strickland, 2003).

Recently there has been some controversy over selling wine directly over the internet. In a recent court hearing in Arizona, plaintiffs filed action against the state for its current interpretation of the Wilson Act which regulates imports on “intoxicating” liquids stating that the beneficiaries are only the retailers and distributors. Currently, 26 states allow for direct shipments and with companies such as Winebuys.com gaining momentum, it will be hard for the classic 3-tier system of distribution to maintain its hold on future changes in consumer demands.

Natural Resources:

Natural resources for the “organic” beverage industry—those that rely on mostly nature to complete the process—have an unlimited resource. Since matter only changes form and is never destroyed, there is a constant renewal of “life-giving” properties cycling in nature. However, some agricultural practices actually use more resources and at a higher rate than can be replaced. Oftentimes, the soil is depleted of many animals, insects and naturally occurring substances that provide beneficial aspects to the soil and surrounding lands. Hydroponic gardening is used in some large industries, but does not provide the essential organic structure and composition that contribute highly to the different flavors of the grapes used in wine production—at least not yet.

As discussed in the technology section of this paper, many scientists and agricultural industries are searching for more ecologically friendly products as well as using and enhancing beneficial microbes native to the soil.

At Cuesta Ridge, Robert Mondavi is sponsoring ground-breaking scientific research measuring the impact of best environmental practices on land and water quality, and animal habitat. The results of this research will help Robert Mondavi implement new farming techniques to improve grape quality, while allowing us to farm in ways that are economically feasible, sensitive to the environment and responsive to the needs and interests of the community.

Conclusion:

In giving consideration to the macroeconomic environment, MOND has been able to not only adjust to the needs of consumers, but also to be a leader in the development and implementation of new and important techniques. Through the use of joint ventures in many nations, MOND is preparing to do whatever it takes to continue producing and distributing their wines. Although, I have found some weaknesses in their modification of, and actions, regarding their mission statement and purpose, overall, they continually strive to achieve performance oriented results.

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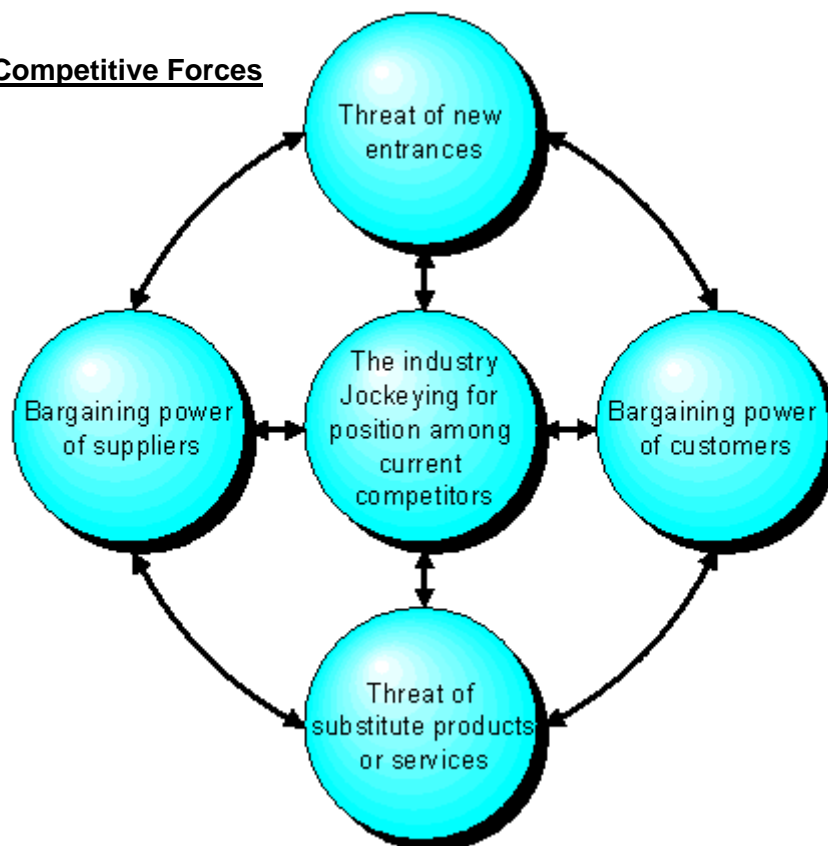
Introduction:

The wine industry in general is now a global affair involving the United States and over 40 countries located on every “inhabitable” continent. “Throughout antiquity the conversion of grapes into wine was considered a gift from the gods and the best wines were thus reserved for the elite of society. The image of wine as a beverage of the affluent persists even today. Wine was also one of the first commodities to be bartered by early civilizations engaged in international trade. Then, as now, the most successful wine producers were those who grasped market forces of supply and demand, and whose products met the prevailing definition of quality”(BISSON, WATERHOUSE, EBELER, WALKER, & LAPSLEY, 2002). The winegrape industry “contributes to the U.S. economy in diverse ways. It generates jobs, exports, tax revenues, tourism and, of course, outstanding wines. Wine is also the center of intense global competition that may seriously affect the ability of American vintners to compete in this very global marketplace. The industry’s future success will hinge on public and private policies that facilitate rather than impede responses to new competitive conditions”(WineAmerica, 2003).

The wine industry is actually a composition of several smaller markets—in terms of division and class. Particular to the US, “70% of the market is comprised of the 'economy' wines, those that retail for less than US\$7 per 750-ml bottle. Wines range from economy to premium, ultra-premium and artisan, with wines in the latter two categories comprising only 2–3% of the market and commanding high prices”(BISSON et al., 2002).

In this report, the primary focus will be based upon Michael Porter’s *Five Competitive Forces* model: The rivalries currently existing in the industry; the strengths of both buyers and suppliers and how they effect the overall market; the entrance and barriers surrounding new entrants; and, the substitutes that exist. The following graph indicates how these factors surround and industry.

Porter’s Five Competitive Forces



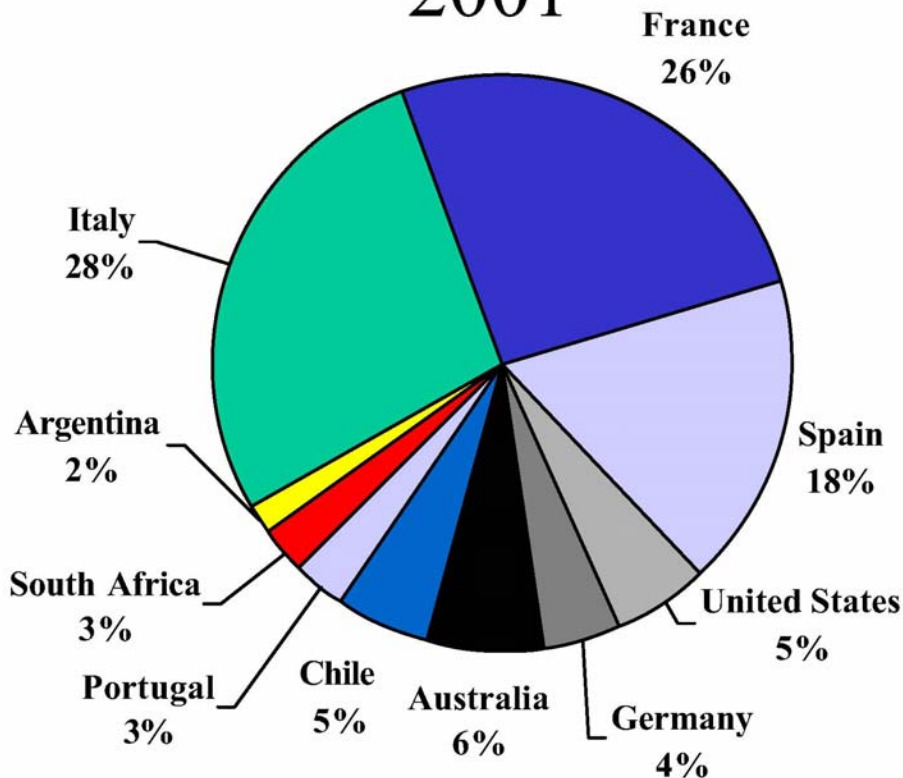
Rivalry Among Competing Sellers: *The industry Jockeying for position among current competitors*

“Competition for global market share continues to be strong, with new world wine producers expanding wine production and aggressively marketing their products. The more traditional wine-producing countries of the European Union (EU) strive to cut production, improve quality, and struggle to maintain market share”(FAS/USDA: Horticultural & Tropical Products Division, 2003). Currently, there is only so many retailers with so much shelf space available, and many determinants factor into which wines are actually made available to the public.

The following graphs show both the dramatic effects of domestic competition and foreign competition(through imports) in terms of wine producers.

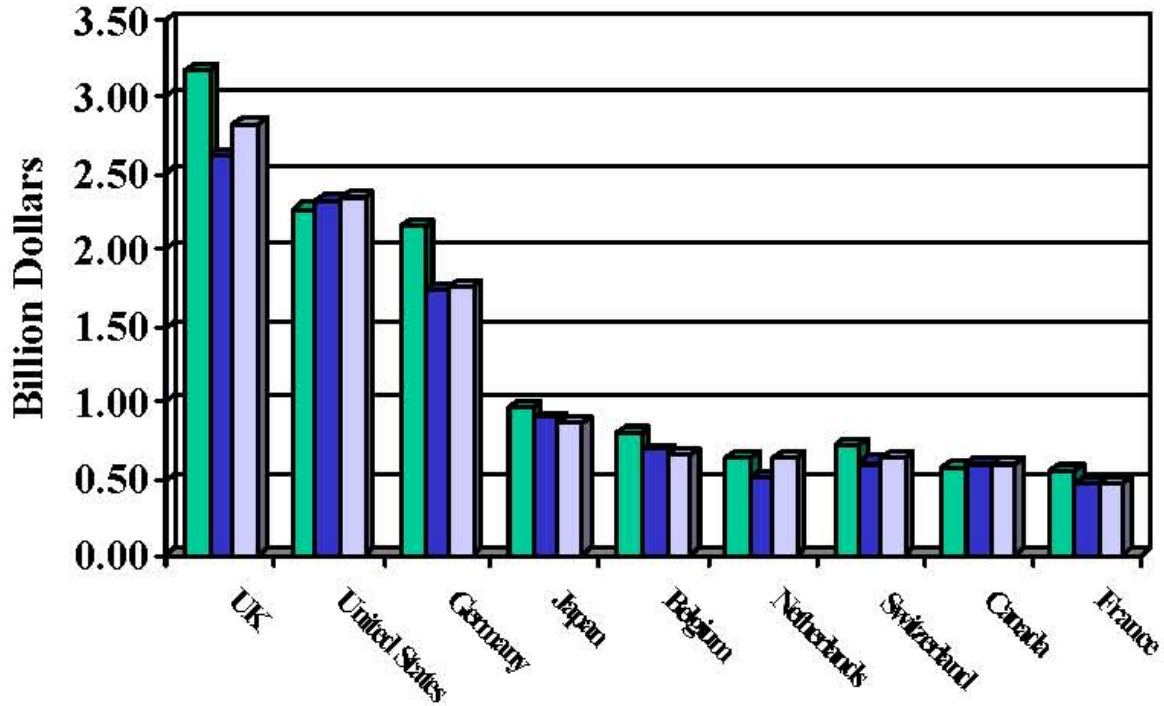
Wine Export Market Share

2001



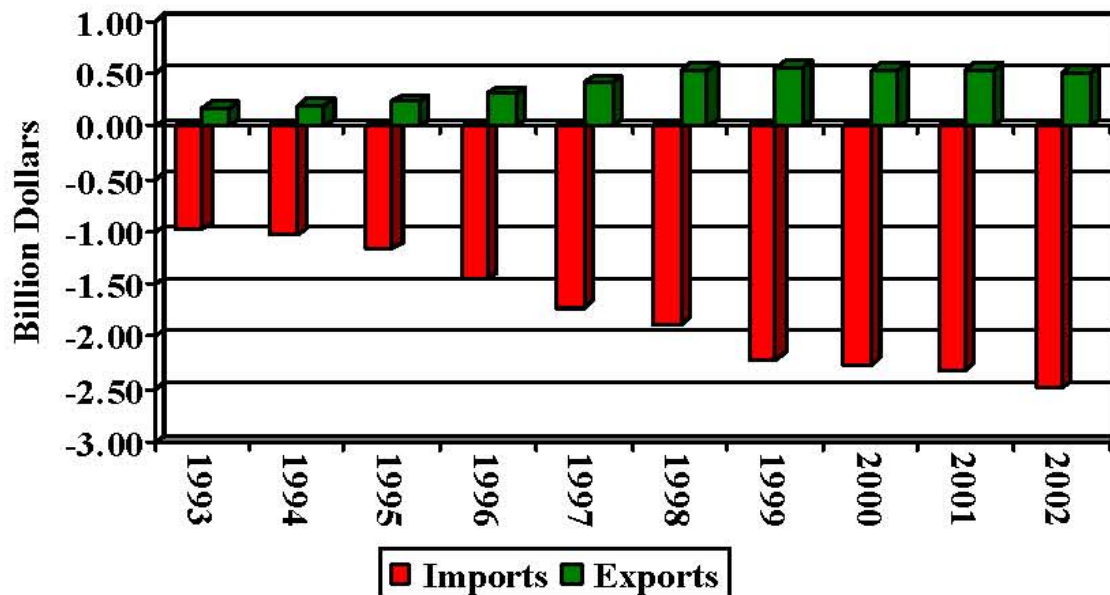
(FAS/USDA: Horticultural & Tropical Products Division, 2003)

World Wine Imports



(FAS/USDA: Horticultural & Tropical Products Division, 2003)

U.S. Trade Balance in Wine



Source: U.S. Department of Commerce, Bureau of the Census

Clearly, the 4th largest producer of wine, the US, is still proving to be an expanding market for foreign wines. Each year, the imported wines from most countries have continued to show gains in percentage points pertaining to the overall consumption of wine drinkers in the US.

Competition among the 48 states is currently engaged in a battle between the wine-makers and the distribution system; however, "Total shipments to the U.S. in 2002 from all production sources-California, other states and foreign countries-increased six percent over the previous year to 595 million gallons...about two out of every three bottles sold were from California, as the state's wineries accounted for a 67 percent share of the U.S. wine market. Foreign wines now hold 25 percent of U.S. wine consumption, and other states eight percent"(Wine Institute, 2003).

Company Profiles of Competition:

Today, conglomerates and partnerships dominate the world in producing alcoholic beverages; in particular, within the scope of this analysis, the wine industry. There are roughly 4 exclusive, very powerful, and very large companies dominating the global market, one of them being a privately held company: They are Diageo (DEO), Allied Domecq PLC (AED), Constellation Brands (STZ), and E. & J. Gallo Winery (private). The Robert Mondavi corporation (MOND) has maintained a small, but sustainable share of the market through various joint ventures and partnerships with relatively influential wine makers and growers around the world; however, they lag far behind the following conglomerates.

Diageo (STZ)

They are an aggressive leader in strategic acquisitions, mergers, and partnerships. Diageo Chateau & Estate Wines produces and markets the fine wines of Beaulieu Vineyard, Sterling Vineyards, Sterling Vintner's Collection, Blossom Hill and the Monterey Vineyard. Within the United States, the company is the largest importer of fine classified Bordeaux, and the exclusive importer of Barton & Guestier and other French wines, including a superlative selection of estate-bottled Burgundies and the distinguished F.E. Trimbach wines from Alsace (Diageo Chateau & Estate Wines Co., 2003).

Revenues from their combined divisions are estimated at \$41 Billion, with an annual net income of \$130 Million, compared to the industry average (alcoholic beverages) of \$18 Million.

Allied Domecq PLC (AED)

AED has the advantage of being “one of the largest international spirits producers, and [having] a global distribution network dedicated to distributing our brands and brands owned by third parties. Our Spirits & Wine business oversees and operates these production and distribution operations...we own or lease land and buildings throughout the world. Our properties primarily consist of a variety of manufacturing, distilling, maturing, bottling and administration operating sites spread across our operations, as well as vineyards in New Zealand, the United States, France, Spain and Argentina. As of 31 August 2002, our properties had a net book value of £468 million”(ALLIED DOMEQC PLC., 2002).

Although AED operates in many classifications of alcoholic beverages, they provide some of the finest wines in the industry. According to their 2002 annual report, “Since January 2001, we have substantially increased our wine portfolio through a series of acquisitions. These acquisitions now provide us with a branded premium wine business of global scale with production interests in New Zealand, the United States, France, Spain, Argentina, Mexico and Portugal”(ALLIED DOMEQC PLC., 2002).

Their contribution to the wine industry consists of:

- Mumm
- Perrier Jouet Belle Epoque—the flagship brand.
- Montana
- Clos Du Bois
- Campo Viejo
- Graffigna

Currently their revenue stands at approximately \$6 Billion; however, their ROE is impressive at 43%. Their net income reflects their ability to manage and stands at \$580 Million.

Constellation Brands (STZ)

Constellation Brands, Inc. (NYSE: STZ and STZ.B) is a leading international producer and marketer of beverage alcohol brands, with a broad portfolio across the wine, imported beer and spirits categories. The Company is the largest multi-category supplier of beverage alcohol in the United States; a leading producer and exporter of wine from Australia and New Zealand; and both a major producer and independent drinks wholesaler in the United Kingdom. Constellation has unequalled breadth, providing consumers with a beverage of choice, no matter what the occasion. Since its founding in 1945 as a producer and marketer of wine products, the Company has grown through a combination of internal growth and acquisitions. It operates over 45 production facilities and sells its products in more than 60 countries in North America, Europe and Asia. Net sales today approach \$3 billion (Constellation Brands, 2003).

STZ produces, markets and sells a broad portfolio of wines throughout the world. "It also operates the leading independent drinks wholesaler and a cider business in the United Kingdom, and produces bulk wine, grape concentrate and other related products and services. Some of its leading brands are Almaden, Arbor Mist, Blackstone, Hardys, Ravenswood and Stowells of Chelsea" (Constellation Brands, 2003).

STZ has 6 brands of wine that produce, market, and sell wine in their home countries and four international sales organizations that market brands from the total portfolio in key regions of the world. They are: Canandaigua Wine, Franciscan Estates, Hardy Wine Company, Matthew Clark, Nobile Wine Group, Pacific Wine Partners.

Although STZ is one of the industry leaders the revenue generated by the overall firm is somewhat smaller than DEO or AED because they are not as diversified. However, they are the (1) largest importer and marketer of wine in the world, (2) the second largest producer and marketer of wine within the US, (3) in both the UK and Australia they are the largest producer.

Their overall revenue stands at approximately \$4 Billion and they had a net income of \$190 Million in the year 2002.

E. & J. Gallo Winery

"*The E & J Gallo Winery* currently employs more than 4,600 people and markets its wines throughout the U.S. and over 90 foreign countries, making it one of the largest winemaking operations in the world. The grapes for our wines are grown and harvested in all of California's important wine-producing regions and represent only the very best in quality. The product portfolio is also diverse, encompassing virtually every form of the winemaker's art from fine table and sparkling wines, to distilled, wine-based spirits and beverage wines. The Winery has been active in Sonoma, California, for more than 70 years" (E.&J. Gallo Winery 1999 - 2003, 2003)

“Gallo has a very strong position in the low-cost segment of the wine industry. Here, they face few competitors that can match their scale and expertise. In fact, Gallo is 3-5 times the size of their nearest competitor. In terms of advertising expenditures, Almaden, Paul Masson, Inglenook, and Sutter Home form are the most significant competitor (*some of them are owned by the major competitors listed above; Almaden is owned by STZ*). However, Gallo’s \$15 million advertising budget outstrips them by 4 to 8 times. This creates very strong brand recognition and Gallo is able to dominate shelf space through exclusive arrangements and owning many of the distribution channels. Their power over suppliers and distributors grants them leverage over other players to engage in price competition extremely effectively and aggressively”(Coff).

Because E. & J. Gallo is a privately held company, we do not have all of the industry information provided; however, the revenue of their products for the year 2002 was estimated to be around \$2 Billion.

Threat of New Entrances:

Within the world wine industry, overall, there is little chance that a “start-up” winemaker will have any success—strictly in terms of financial wealth being produced from their product. Even though one can purchase a piece of land in almost any country and plant grape vines, one must know the soil content, temperature, altitude and the like in order to determine which grapes will be able to not only survive, but produce a quality, salable product. That is the very basic need for starting a winegrape crop—an those analyses are not inexpensive. Furthermore, to enter the industry, one must have sustainable resources, for it does take several years for wine to “age” correctly. With this his procedure, again, one must determine what type of resources to use—i.e. equipment for harvesting, curing, blending, etc.

With equipment costing thousands of dollars and the leasing and/or buying of “quality” land running around \$80 – 150k, per acre, along with the professional advice, entering into the wine industry is very expensive. I conducted a telephone interview with Mr. Pina, of Vin de Vin Wine Tasting and Collecting Consultants, and he provided me with some insights regarding the varieties and quality of grapes used in the industry; however, in Grape Vine, his monthly newsletter from October 2002 explained the costs associated with growing wine:

There are three main areas that contribute to the cost of a bottle of wine: production, distribution, and marketing. Let’s start with a simple concept to understand, the cost of production. The cost of the land, grapes, labor, materials, and winemaking are part of the hard costs of producing wines. Grapes grown on valuable land (think of grapes grown in Bordeaux or Napa Valley versus those grown in New Zealand or Chile) or harvested by hand instead of machine increase the cost of making a bottle of wine. The cost of distribution is pretty straightforward. As you may have read in a previous issue of Grape Vine, nearly all wineries work with middle-people like importers or distributors to get their wines to the retailer. Of course the importers or distributors take their cut for providing their service. There are other costs like taxes, inventory, and shipment charges that importers or distributors must pay in order to offer a wine in a particular country or state. Retailers cannot be cheated out of their piece either. All in all the cost of moving the finished bottle of wine from the winery to the store shelf involves a number of entities, each adding a cost along the way that will be factored into the ultimate price.

The last major area that contributes to the cost of a bottle of wine is also the one that is often the most perplexing; marketing. When I say marketing I mean not only promotion, advertising, public relations, etc., but the practice of pricing wines based on their perceived place/status/brand image in the marketplace (Vin de Vin Wine Tasting and Collecting Consultants, 2002).

With that stated, there are a number of states giving consideration to changing laws that prevent interstate sales/imports of wine. The Internet buying habits of individuals not only give smaller wineries a larger consumer base at very little advertising cost, but also provide direct shipments avoiding the classic 3-tier distribution channel.

Bargaining Power of Suppliers:

When speaking about “suppliers” of the wine industry, one must understand that wineries are subject to union organizations that do provide suppliers with more power. Furthermore, the wineries do, and often must, purchase grapes from dedicated growers—most do have long-term contracts; however, there are spot buyers that are can increase the bidding of certain crops. Bottle-makers, growers, cork manufacturers, yeast culturing facilities, label makers, irrigation companies and the like are often outsourced and have the ability to raise prices based on their requirements—such as raw materials, including shortages, and labor, etc..

As for the overall determinant of price, no single entity above can be solely responsible for any sort of extreme rise in price, availability of product, or other direct threat. Most wineries do have a reserve stock for their “best” reserves or can limit their releases—which become available each year—in order to balance the negative effects if need be.

Bargaining Power of Buyers:

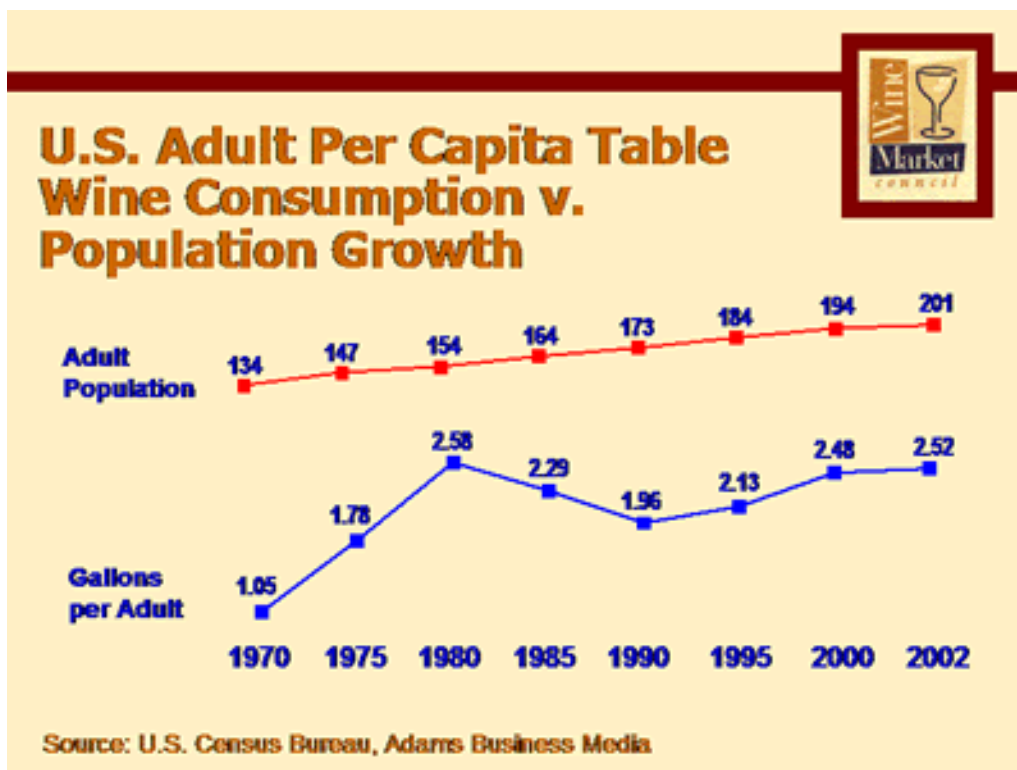
There are a number of types of buyers relating to the grape-growing industry such as concentrate buyer, raisin buyers, winemakers, etc.; however, we will focus on the ultimate consumer as the final source for all grape products, and most importantly their behavior and effect on the sales of wine.

There are many factors that can alter a buyer’s mind in determining which brand and variety a consumer will purchase. These are: the type of food being served with the wine; the historical aspect, both in terms of personal accounts and company history (brand name); preferences in terms of sweetness; and, certainly not last, the cost.

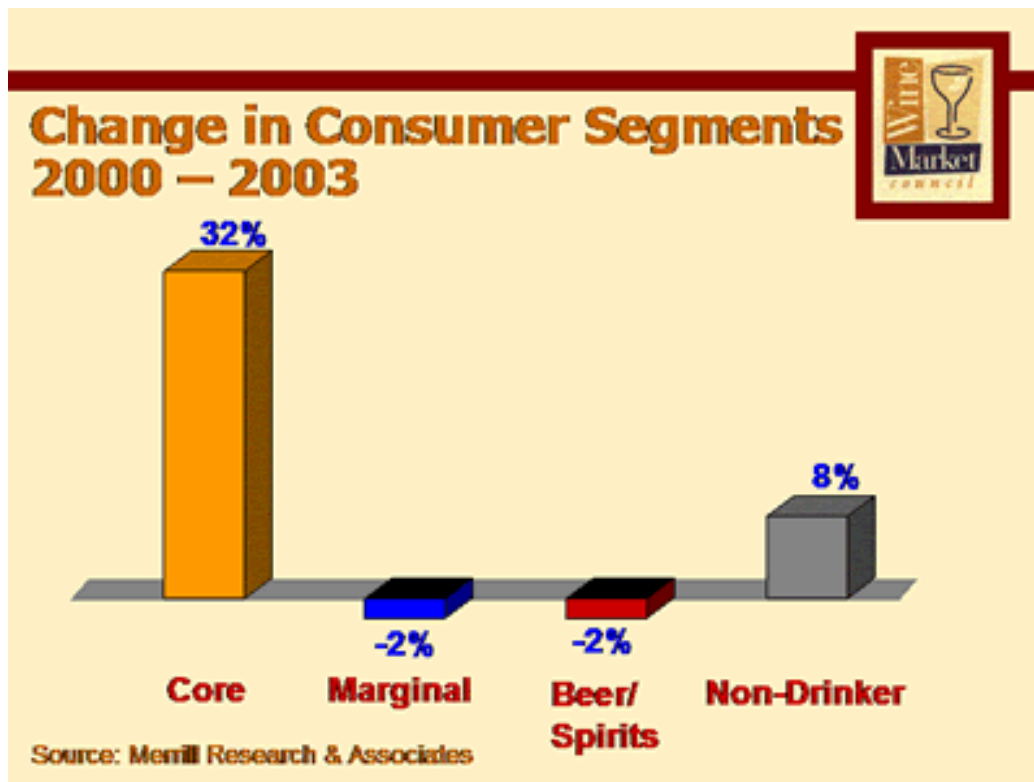
The following graphs indicate trends in the buying habits of consumers in relation to alcoholic beverages; core being wine.



(Wine Market Council, 2003)



(Wine Market Council, 2003)



(Wine Market Council, 2003)

One can determine that there has been a rise in the drinking of wine among alcohol drinkers, and, therefore, the winemakers must continue to push not only the “inconclusive” health benefits of wine over other beverages, but also the pleasure one can derive from the subtleties and varieties of wine. We have seen a slump in the economy and in the overall rise in the purchase of “cheap” wine; however, “Quality will be vitally important here as consumers begin to trade back up with a stronger economy,” and quality brings in more revenue and profits (Allied Grape Growers, 2003).

In addition, the industry will need to play a highly visible role in the promotion of sound and sustainable environmental stewardship, as this will be a strong motivating factor in the purchase of wines. The stakes of success in meeting consumer expectations are high, as the value-added aspects of enhanced tourism are undeniable and economically beneficial for [all]region[s]. In addition to a product that is enjoyable in all sensory aspects, consumers expect wines to be healthful and produced in an environmentally sustainable manner. In the future, these last two factors will become increasingly important economic drivers of profitability. (BISSON et al., 2002)

Not only are consumers’ buying habits and concerns determining the route of industries in general, the wine industry is using the most advanced scientific techniques to produce wines that exhibit certain types of experiences, as noted by *The Present and Future of the International Wine Industry*:

Like sensory analysis, chemical analysis was limited initially to detection of defect compounds present in high concentrations...make it possible to understand the subtle nuances associated with varietal wine flavour...there is also growing recognition that the volatility and release of flavour compounds can be altered by interaction with other matrix components (for example, the presence of sugar, ethanol, lipids and polyphenols). These studies reinforce the idea that flavour perception is dynamic and the result of a complex pattern of chemical and physical interactions in the food and in the mouth, which trigger the brain's response to gustatory, trigeminal and olfactory stimuli. Statistical tools of multivariate analysis and artificial neural networks are being used to relate the chemical and sensory information to the subjective preference responses of consumers. Descriptive analysis is used to characterize wine flavour quantitatively. Using this technique, judges identify sensory attributes that differentiate among a group of wines and then evaluate the wines for the intensity of each individual attribute. Flavour profiles can then be drawn that visually compare the differences in wines. Finally, the role that non-sensory characteristics such as pricing, winemaker reputation and label information play in influencing consumer preferences can be related to the chemical and sensory models developed. These analyses document not only the enormous complexity of individual perceptions and preferences, but also the complexity of the tools that will be needed in the future to understand the relationships among chemistry, perception, preference and behaviour(BISSON et al., 2002).

Threat of Substitute Products:

The local and global wine industry faces stiff competition from not only other wineries competing for customer loyalty and purchases, but also an all-inclusive alcohol producing industry that includes beer, “hard” liquor, and pre-blended mixed drinks. Bottled water (foreign and domestic), and “energy” drinks, have started an upward trend in the name of health, and for that always needed boost of energy. And, further, all-natural fruit drinks such as orange juice, apple juice and cranberry juice, to name a few, also provide competition—especially from parents that want to provide necessary vitamins and minerals to their children’s diet, as well as their own.

Below are the major competitors from both alcoholic and non-alcoholic companies:

Alcoholic Beverage Companies:

Description	Market Cap	P/E	ROE %	Div. Yield %	Debt to Equity	Price to Book
Consumer Non-Cyclical Beverages (Alcoholic)	1171.81B	21.194	34.626	2.354	1.339	7.232
	142.76B	21.211	56.985	1.709	2.316	13.336
Capital Beverage Corp.	1.71M	19.565	14.816	NA	5.884	2.597
Genesee Corporation	6.18M	NA	-0.973	NA	NA	NA
Redhook Ale Brewery, Inco	18.54M	NA	-2.028	NA	0.127	0.38
Pyramid Breweries Inc.	27.21M	NA	-1.145	5.535	0.002	1.166
Golden State Vintners	29.49M	NA	-4.95	NA	0.624	0.523
Todhunter International,	57.99M	25.616	3.439	NA	0.782	0.841
Asconi Corporation	89.37M	38.384	47.726	NA	0.97	14.132
Chalone Wine Group, Ltd.	108.10M	69.38	1.655	NA	0.811	1.116
Boston Beer Company,	254.25M	30.769	12.807	NA	0	4.418
Central European Distribu	332.18M	22.772	28.872	NA	0.147	4.793
Robert Mondavi Corp.	576.05M	30.345	4.224	NA	0.851	1.247
Vina Concha y Toro S.A. (	640.91M	22.28	13.961	1.127	0.287	3.046
Compania Cervecerias Unid	1.33B	NA	0	1.406	0.53	2.988
Adolph Coors Company	2.01B	12.692	14.752	1.488	1.193	1.746
Constellation Brands Inc.	3.63B	17.221	14.125	NA	1.195	1.913
Quilmes Industrial S.A. (	5.56B	NA	-13.698	NA	0.532	8.418
Brown-Forman Corporation	5.56B	23.681	22.879	1.853	0.925	5.99
Kirin Brewery Company, Lt	7.88B	23.971	4.676	1.08	0.359	1.102
Allied Domecq PLC (ADR)	7.98B	13.257	41.379	3.203	2.818	5.068
Companhia de Bebidas das	9.11B	NA	0	4	1.491	6.627
Diageo plc (ADR)	40.64B	263.333	1.409	3.313	1.321	4.633
Anheuser-Busch Companies,	42.22B	21.273	68.73	1.698	2.713	16.192
(Yahoo! Inc., 2003a, 2003b)						
(Yahoo! Inc., 2003a)						

Non-Alcoholic Companies

Description	Market Cap	P/E	ROE %	Div. Yield %	Debt to Equity	Price to Book
Consumer Non-Cyclical Beverages (Non-Alcoholic)	1171.81B	21.194	34.626	2.354	1.339	7.232
	243.16B	24.148	34.086	1.575	0.542	7.592
Aquacell Technologies	18.25M	NA	-387.04	NA	0.284	50.067
Avani International Group	0.48M	NA	-170.14	NA	0.854	1.12
Cadbury Schweppes plc (AD	13.41B	18.372	13.617	2.938	1.526	2.449
ChampionLyte Holdings, In	5.46M	NA	NA	NA	NA	NA
Clearly Canadian Beverage	1.43M	NA	-99.995	NA	0.841	0.45
Coca-Cola Bottling Co. Co	484.34M	18.431	62.142	1.867	15.406	8.616
Coca-Cola Company	114.00B	26.375	34.741	1.892	0.41	8.428
Coca-Cola Enterprises	9.39B	15.24	17.451	0.775	2.937	2.321
Coca-Cola FEMSA, S.A. (AD	2.91B	NA	0	NA	1.49	1.619
Coca-Cola Hellenic Bottli	4.59B	18.618	7.677	1.124	0.831	1.395
Cott Corporation	1.83B	25.321	29.147	NA	1.046	5.898
Eldorado Artesian Springs	4.49M	187.5	1.179	NA	2.259	2.572
Embotelladora Andina SA (	1.20B	22.686	8.862	1.364	0.578	2.027
Fomento Economico Mexican	3.64B	18.2	6.075	NA	0.959	0.972
Hansen Natural Corp.	92.35M	19.712	15.864	NA	0.019	2.752
Jones Soda Co.	28.15M	201.429	8.345	NA	0.029	11.168
Leading Brands, Inc.	15.92M	NA	-60.229	NA	0.616	1.441
M & F Worldwide Corp.	254.44M	12.765	7.577	NA	0.131	0.859
National Beverage Corp.	275.19M	15.975	12.327	NA	0.008	1.756
Pepsi Bottling Group	6.06B	15.701	21.963	0.173	2.597	3.255
PepsiAmericas, Inc.	2.26B	17.649	8.739	NA	0.832	1.485
PepsiCo, Inc.	82.61B	22.969	36.705	1.33	0.209	7.566
Vermont Pure Holdings Ltd	66.90M	46.866	2.965	NA	1.018	1.337

(Yahoo! Inc., 2003a)

SWOT for Robert Mondavi Corporation

<p style="text-align: center;">Potential Resource Strengths and Competitive Capabilities</p> <ol style="list-style-type: none"> 1. Substantial land ownership 2. Brand name – customer loyalty 3. History/Tradition of family wine makers 4. Key personnel—mainly family members—maintain class A, B stock ownership in enough quantity to remain in control and deter takeovers. 5. Public corp.—ability to raise funds, if necessary 6. Good relations with agricultural societies, universities, and “eco-friendly” technology companies 7. Joint ventures with high respectability—recognized and respected winemakers/vineyards 8. Good relationship with distributors--currently 	<p style="text-align: center;">Potential Resource Weaknesses and Competitive Deficiencies</p> <ol style="list-style-type: none"> 1. Decrease in net income due to internal reconstruction 2. Sold “La Familia” winery but maintain name; however, this could reduce quality and reflect on the Mondavi name if not carefully watched 3. Internal promotional costs increased resulting from external competition and oversupply of grapes 4. Only 8% of net revenue came from outside the US 5. Capital intensive operational business practices place demands and risk upon stockholders; long-term investments are required in the winemaking industry before profits are realized—it takes approximately 10 years from planting vines to selling ultra-premium grade wines
<p style="text-align: center;">Potential Company Opportunities</p> <ol style="list-style-type: none"> 1. Historical references and database of customers’ demands and preferences allow for supplying and changing products 2. Increasing % of grapes to be harvested from owned lands estimated to be 22% of total in 2004, as opposed to 10% currently 3. Opportunity to buy/lease lands that have gone under due to the glut and oversupply of grapes and wines 4. Ability to lower overall crop harvests in return for a smaller, “higher-quality” grape to be used in premium wines—these receive a higher return on investment (Currently, 17% of revenue comes from 44% of non-ultra-premium wines. 5. Looking to decrease costs by 10% (\$30 M) by 2007—projected. 6. “Holding” and aging finer wines for a few years until the industry and economy can again support “exclusive” fine wines 7. Continued research with major universities to develop better crop production techniques 8. Cloning/breeding new strains that are more resistant to disease and more specific to the demands—tastes, preferences, etc—and that are very unique 	<p style="text-align: center;">Potential External Threats to Company’s Well-Being</p> <ol style="list-style-type: none"> 1. Oversupply of grapes worldwide led directly to lower sales and greater competition with lower-priced wines. 2. Economy slowdown since 9/11/01, contributed to lower revenue 3. “Mother-Nature”—always a threat to agricultural industry 4. Direct competition annually from over 10,000 wineries worldwide—several being under the control of large conglomerates with extensive funding; however, there is always competition among the smaller, “high-quality” wineries that just produce limited quantities. 5. Pressure from distributors may lead to problems as the industry begins placing direct pressure on the government to allow direct sales (interstate commerce). 6. Power of chain stores is a major concern for wine producers due to the capacity and negotiating prices of those outlets.

I chose to transcribe a (hypothetical) conference one other executive and I had. Our ideas differ; however, they all remain valid points.

Thanks you,

Dave Jecker

My comments will be in blue.

Strategic Alternatives and Recommendations:

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Robert Mondavi Corporation

Part one- Strategic Alternatives

RMC started with the generic competitive strategy that focuses on a market niche based on differentiation. The plan was to provide potential consumers here and abroad with premium table wines and become a major competitor with European market wineries. But, there are many strategic alternatives that RMC may benefit from, in light of there falling yearly incomes. These alternatives are as follows:

- 1. Try to capture any first-mover advantages associated with early commitments to promising technologies, allying with the most capable suppliers, expanding product selection.**

Pro- This move could help RMC lower cost therefore attracting more customers.

There are many companies producing wine at low cost and even in plastic bags—Gallo, I believe, sells wine in plastic bags; I believe there are already too many low price players, and Mondavi, as always, wants to maintain integrity at even modest priced, premium wines.

Better technology could mean better wine faster and therefore more supply, which would also bring down customer cost.

I disagree with most of the above, except for the fact that they have been expanding their line extension through partnerships and alliances for a number of years, and certainly over the last 4 years.

Better technology does not necessarily involve better flavor, but it can influence the palette by finding the bacteria or fungi that would give wine a certain bouquet and manipulate it naturally.

Allying with capable suppliers can give RMC the advantage of exclusivity and a long term contract could cut company cost on supplies.

They purchase 80%+ of grapes from outside sources, and most of whom do have certain contractual obligations. They want to produce more from their own lands.

And expanding product selection leaves room for new customers or more purchases from current customers.

Con - Moving to soon could be costly, due to failed ventures.

Any move would certainly be weighed carefully and always is associated with certain risks. They have had relatively good success with joint ventures and alliances; but the distribution channel is now the main focus

I believe viticulture is an art and they (RMC) have established great resources through local universities, mainly UC-Davis, that provide new and constant technology to the company—but getting the first move does not serve their purpose, it is the quality. And, yes, moving too soon, too rapidly, isn't always the best strategy.

2. Pursue new customer groups, and entry into new geographical areas.

Pro-Pursuing more customer groups and geographical areas can promote more revenue from new purchasing customers.

Entrance into, and partnership/alliance with a major, prestigious rice-wine producer, in China, or actually the best producer in the region, would prove to be beneficial.

Overall exports to China have dropped—especially after the British government reverted power to the Chinese government—in the past few years. As the new economy and economic levels (especially between income classes) changes, there will be greater wealth in the region.

Con- Ventures may fail causing a loss of investment.

They have had relatively good success with joint ventures and alliances. RMC already has the Chilean winery's products, and as the region's demands increase, more land could be purchased and planted, and/or or certain high volume "lower-quality" grapes could be sent and mixed with Chilean blends to create better profits through higher sales in that region, and promote the strongest brands.

CON: Product may turn out to be low priced and low quality because of standards; however, with the current influence of RMC and their choice of partners, I don't see any problem. Also, the risk of terrorism, wars, and the local government all staying faithful to agreements.

3. Use price cuts to attract the next layer of price-sensitive buyers into the market.

Pro- Option can cause current customers to buy more and new cost conscience customers to purchase the products.

I don't think RMC would want to necessarily get involved with using that strategy because of perception. They already have brands and extensions into the \$5-8 range. I don't believe they would want to go below that level due to the quality vs. quantity issue.

Con- May cause loss in profit or potential and current customers who believe the higher cost the better the product.

About your comment above, I think that once you get into “real” wine drinkers, they will have their favorite brand, variety, and often year—in extreme cases—and would more than likely stay loyal and take advantage of a good situation (consumer’s point of view; if RMC had to resort to fighting price wars, everyone in that category would have to) because of the prices; however, there would be some cases who would only want the highest priced item regardless.

4. Pruning Marginal products.

Pro- Low selling wines could be cut from the line saving production, packaging, storage, and advertising cost and leaving more supplies and revenues for better selling products.

Low selling wines may be their highest revenue source. One must look at the economy to see the trend; if the industries and the overall economy slow and this is the cause for the low selling, one may hold onto the wines, especially the aged wines, in order for the value to increase as the economy starts up again. There will probably be a step-up or equal replacement in their product extensions. If one wine was receiving poor reviews from critics and public, and not selling, then that would be a good choice, if that did exist

Con- Loss of customers loyal to the product.

The customer may choose an alternate label made by a joint venture or alliance, or one may trade up to the next level of quality. While phasing out an old product, use very short-term incentives to lower the optional higher priced wine at comparable prices. Perhaps, even a contest, or if it is around the holidays or gift giving occasions—Mother’s, and Father’s day, anniversaries, etc—RMC could bundle “gift” packages with say a Quality men’s polo with RMC’s logo for men, and for women, perhaps, real diamond earrings (small, but real); or any number of things.

Naturally, the price of the package would include a “discounted” price of the wine and the breakeven point for the shirt—the key is to get them to try the wine and move up a level, but the product and gift still must be quality and offer the consumer satisfaction.. These would not reduce RMC to typical gimmicks, but provide something of real value—quality.

5. Purchasing rival firms at Bargain prices.

Pro- Option cuts down on the competition possibly bring swaying them toward RMC, which is a good possibility due to customer to the product name.

Buying land and/or labels at bargain prices is something to seriously consider. The value of land is high, and even if the labels associated with that land is low, one would need to analyze the numbers. First, to see if crops can be improved, and if so, would it be costly. Is having the land purchased and then leased out a good option. They do have \$120 Million in an unsecured credit line and land always is a good investment in wine country.

Con- Acquiring a bad investment.

They could find out the bestselling brand, and continue only that brand while using the remaining grapes to blend or sell. Can't beat acquiring prime assets, long-term assets, at excellent prices that will add and accumulate value as land becomes more scarce.

6. Pursue a focused strategy aimed at the fastest-growing market segments within the industry.

Pro- Strategy will encourage RMC to broaden its product base into things like sparkling wines, distilled spirits, and possibly some lower end alcohols, generating a wider customer base.

They have added new blends aimed at the younger crowd—"new generation". Papio, for example is one extension; also, there are some webzines for magazines geared at younger wine drinkers—one being, <http://www.winexmag.com>. I believe they should seek new ventures to serve the Far East.

Con- Ventures may fail due to prior customer loyalties.

Never leave your core customers looking elsewhere because of a very narrow focus. I don't think it would affect loyalties if the end products are quality and met the demands of the consumer, and your current customers are happy—and kept that way.

7. Strive to drive cost down and become the industry's low-cost leader.

Pro- Strategy may result in more sales.

Don't think that would be a wise investment and would not look good if a core strategy would suffer. Brands that are of quality cannot increase sales by lowering price, as a strategy that conflicts with the core vision, because that would place them among different competitors, directly, and they would need to reformulate the strategy to incorporate the change. Fine, quality wine has always demanded a higher price, as any choice commodity; and, furthermore, the new competitors are large conglomerates.

Con- May cause loss in profit or potential and current customers who believe the higher cost the better the product.

As I stated earlier, I believe people "in the know" would buy up a good stock for a nice discount if they could. If the price were to stay low for many years, it may lose its stature. I would think they would be able to supply a higher priced wine because that is what their goal is to do: Produce quality among all brands they are associated with.

8. Strategic initiatives to plant the seeds for ventures in businesses that do not yet exist.

Pro- Would probably cause the company to enter new markets, potentially bringing in more and new customers.

I don't believe that that would be such a good idea for a company that has a variety of wines available at many price levels; has received many praises in the industry for innovativeness; and, is known for winemaking. Certainly, new ventures are a good idea, but, they must fit within the goals of the company. I think their main, and only focus, is in wine. That is also where the quality name of Mondavi is known.

Con- Ventures may fail causing loss of investment.

Ventures, alliances and the like may always fail, but using the contacts they have made over the years and the quality and name of their partners gives them a better advantage than an up and coming company.

9. Being more agile and innovative in adapting to evolving market conditions and customer expectations than slower-to-change market leaders.

Pro- Option leaves room for the attraction of new products and new customers.

Wine is a slow changing business, when speaking of change. Getting a new blend takes both an awareness of the palate of consumers in the marketplace and in having the ability, and personnel, that are capable of developing and marketing that wine—they do have the ability to do so; however, innovativeness is part of the Mondavi's beliefs and is constant in their company's attitude. Pruning techniques, done yearly, in the actual field can lower or raise quality and quantity; and therefore leaves some options available immediately, or at least in the short-term.

Con- Moving to soon could be costly, due to failed innovation.

I don't think there are really too many, if any cons, in moving to provide customers' expectations.

10. Finding innovative ways to dramatically drive down cost and then using the attraction of lower prices to win customers from higher-cost, higher-priced rivals.

Pro- Strategy will put the company somewhat ahead of close rivals.

With many varieties on the shelves, the encouragement to move up to the next "class" of wine is preferable. If there are any ways to cut costs to drive down production costs, they may just leave the same price point or sacrifice a few cents, and, then, use the market for higher margins.

Con- May deflate revenue.

I think the mistake would be the name association and reputation that may suffer from placing certain brands in low cost categories.

1. Cutting cost.

Depending on what type of cost, whether it was cutting your suppliers cost through negotiation or cutting costs for the consumer through reduced pricing techniques, makes a great deal of difference in the strategy.

Pro- may encourage higher sales.

I don't like the idea of cutting costs on the shelves too much and, again, it is because of association. A personal letter from Bob Philips, VP of Treasury and Investor Relations, explains this quite well. I will attach a copy of it for review at the end of this paper..

Con- May deflate revenue.

I don't think that revenue would suffer if they, in equal or greater proportion, cut their costs to match whatever price gain/losses occur from those cuts. One would assume that the revenue would increase in some positive proportion.

2. Boosting revenues.

Pro- Encourages product growth and development.

Boosting revenues—how? If they are successful at launching new brands and are able to cut some costs, while weeding out the underperformers is one way, but that takes time to look at the economy and the direction, or trend, of consumers' purchasing power.

Con- May cause more spending.

The investments made for future growth may cause more spending; however, if the asset will fit into their strategic plan for bringing in revenue at a specified date, it would be necessary.



I would add that I agree that Capitalizing on competitor's weakness through acquisition, buying land and the like, would be beneficial to the company in several ways. First, it would allow the company to use the acquisition to build the better labels of the acquired company and leave Mondavi's name for the best wines, while eliminating some competition. Second, as mentioned above, land is always considered an asset and especially if purchased below value and has good, or great potential for use or from profit from selling it in the future..

Part Two- Strategic Recommendations

1. Pruning Marginal products.

If low selling wines are cut from the line it would save the company the cost of production, packaging, storage, and advertising. The money saved could be used for buying more supplies or strengthening the rest of the company's product base. If the product is not selling well and the company is losing money it is better to chance losing those few customers, in hopes of acquiring new ones and better serving current customer, than to lose producing a dying product. Chances are the customers loyal to the discontinued product will stay with the company, due to brand loyalty. This tactic does not really cost the company anything.

I agree that low selling wines should be abandoned; but only if they truly are not selling because of consumers' demands, not because of the poor economy. However, I still agree with the fact that Mondavi should focus more on higher-end wines. 44% of their resources makes up for only 17% of sales revenue. I feel that more profit could be made by making changes in this area. Perhaps licensing the name associated with those wines, but monitoring quality could be one idea.

3. Pursue a focused strategy aimed at the fastest-growing market segments within the industry.

If RMC broadens its product base into things like sparkling wines, distilled spirits, and possibly some lower end alcohols, such as coolers, the company will most likely generate a wider customer base and a therefore more revenue.

If strategy #1 is used the products can be produced in the empty facilities with the equipment that is not being used. Any monies needed to fund these products can be taken from the next years revenues. Year ending 2003 net income was only \$17,327. This figure (according to RMC) was largely due to some \$22.2 million in rearrangements made within the company to increase future profits, therefore the \$22.2 million that will be made year end 2004 plus the profits should provide ample coverage of cost.

They do have the available cash to expand; however, the fastest segment is something to move slowly into. A growing segment of younger wine drinkers is there, yet, as they mature and find preferable wines, acquire a taste, and recognize the Mondavi name, you want that name associated with quality wines. The consumer does have a variety of wines and price points, the key is moving them up and building loyalty. Mondavi's know wine and have been successful in the past for traditional, and new technological, ways in making wine.

3. Purchasing rival firms at Bargain prices.

This option will cut down on the competition. After acquisition of the rival company the decision could be made to continue on with their product lines or shut the whole brand down. Whether the decision is made to continue the brand or not the acquired company's customer base could be swayed toward RMC, bringing the company a new customer base. This strategy should only be applied if strategy #2 is not used, because the revenue needed to fund this product would come from the same place.

Again, I would say that acquiring land and a company is usually a good choice if there is a definite, recognizable, and considerable markdown on the company or land. As said, the competition will be lessened and one could maintain their strong brand while cutting back, or improving, production on the land in order to better make use of the winegrapes.

In closing, I would have to maintain that the market is somewhat in a lull and money does need to continue to be pumped into maintaining the current market share and exposing their new line extensions. This is both an offensive and defensive position.

Asia is a growing market and a joint venture, or at least an alliance, may prove to be beneficial. There may be certain areas of China, for example, that are "owned" by ricewine makers, that may be perfect for grapes.

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