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International Investment Motivations of U.S. Wineries

ABSTRACT: This study used personal and telephone interviews of wine industry executives and observers to examine the foreign direct investment motivations of U.S. wineries. Underlying most winery motivations was the recognition that U.S. wineries sense increasing pressure to offer a competitive range of wines that meet the price/quality needs of consumers and retailers in important markets and market segments. Wineries' marketing plans are often constrained by their ability to obtain adequate grape and juice supplies that meet important price and quality criteria, especially when domestic grape production drops. The importance of product portfolios and the industry's resource dependence have placed tremendous pressures on U.S. wineries to coordinate winegrape and juice acquisitions, especially as retailers consolidate their supply chains. Some U.S. wineries have invested abroad in response to these pressures while others have not. Interview results suggest that foreign investments by U.S. wineries were primarily motivated by the need for greater access to stable or adequate winegrape/juice supplies, the need for more control over the winegrape costs within given quality levels, and the desire to expand wine portfolios.

INTRODUCTION

Foreign investments by U.S.-based wineries are not a new phenomenon, nor are they unique among U.S. agricultural firms (Bolling, DeBaal, and Handy, 1993).

However, increased U.S. winery investment activity in the mid- to late-1990's represented an important reaction to changes in the competitive environment of world and U.S. wine markets. Much of the increased investment activity occurred despite significant declines in world wine consumption and production. Thus, foreign investment decisions most likely represented responses to shifting consumer demand, and increased domestic and international competition rather than overall growth in the industry. Foreign investments may also reflect wineries' reaction to retail level efforts to create and strengthen supply chains built around a few wineries that offer a wider portfolio of wines.

The purpose of this study was to examine the foreign direct investment (FDI) motivations of U.S. wineries that have and have not invested in foreign operations, and to compare wine industry responses with motivations presented in the literature on FDI. Opinions about firms' FDI motivations were obtained through a series of personal and telephone interviews with wine industry executives, consultants, industry publication editors, and government officials. Interviews were conducted with winery executives whose firms invested in operations abroad, and with those whose firms continue to concentrate their investments and production in the U.S.

One limitation of this approach was that proprietary investment data and current investment plans could not be presented. Thus, investment motivations presented in this study represent general motivational themes identified by at least two industry executives. These motivations and figures should not be attributed to any individual winery. Firm names are used in this study only when company information was gathered from published sources.

MOTIVATIONS FOUND IN THE FOREIGN DIRECT INVESTMENT LITERATURE

An overall goal of supply chain management (SCM) is the reduction of transactions costs within the system that moves and transforms goods from producers' raw commodities to final consumer products. Given the apparent advantages, the wine industry is an active participant in the adoption of SCM principles, and foreign investments are a manifestation of wineries efforts to remain competitive. Geene, Heijbroek, Lagerwerf, and Wazir (1999, p. 30) noted that "The appearance of large-scale companies, with their brands and their need for broad retail distribution, was a perfect response to retailers' need for recognizable brands and fewer, but larger suppliers." For several U.S. wineries, FDI has become the preferred method for coordinating the acquisition and sale of wine and winegrapes internationally. Informational asymmetries, asset specificity, delayed product differentiation, and the increasing globalization of wine supplies may all play roles in motivating U.S. wineries to invest overseas, but access to retail markets is critical.

Various studies conducted over the past thirty years (Vernon, 1966; Caves, 1996; Horst, 1972; Grubaugh, 1987; and Pugel, 1981), have suggested that FDI can be motivated by firms' desires to internalize operations or activities that formerly were carried out in intermediate markets. Dunning reported that firms used FDI as part of a strategy to capitalize on capabilities not shared by competitors. In separate studies, Ray (1990), Markusen (1995), and Trevino and Daniels (1996) found that firm size, industry concentration, risk minimization, and prior export experience were positive influences on firms' FDI decisions. Analysis by Benito and Gripsrud (1995) suggested that FDI is a significant step in a firm's internationalization process because it frequently is used to consolidate or generate a firm's resource base. Furthermore, Craig and Douglas (1996), and Yu (1986) have observed that decisions to invest abroad, though reversible, are evolutionary and sequential in nature.

Similarly, Ferdows (1997), Morrison and Officer (1992), and Wesson (1994) identified three basic FDI motivation categories for firms that fit nicely in a supply chain framework. The first group addresses the exploitation of a firm's tangible and intangible competitive advantages abroad. The second category views FDI as part of a firm's strategic actions in imperfectly competitive international markets, which could include actions taken to avoid trade barriers. The third set of motivations focuses on gaining access to critical assets/inputs in foreign markets. While all three types of FDI motivations fit within the general context of SCM considerations, the strategic-action and asset-access categories fit especially well.

The initial application of FDI considerations found in the literature suggest that U.S. wineries may be motivated by pressures to innovate, to meet differing consumer needs, to reduce transactions costs, and to stabilize access to quality wine or winegrapes—and all these pressures provide sufficient motivation for wineries to utilize SCM practices. Their motivations for using FDI as a primary means of SCM, however, are not as apparent. The use of FDI no doubt reflects wineries' assessments of their desires and capacities to broaden the scope of their activities and intensify their business relationships in other economies, but the selection of FDI over other means needs further explanation. As a result, an initial set of opening questions based on current FDI/SCM themes was developed and used to begin FDI discussions with industry leaders. A copy of the initial questions is contained in the Appendix.

The shift in U.S. winery investment activity during the 1990s has raised interest in determining what motivates wineries to invest in non-U.S. wine and vineyard operations. Handy (1993) and Koechlin (1992) suggest that investment decisions reflect strategic considerations about the current and future actions of domestic and foreign competitors, and each firm's assessment of its ability to react to those threats. However, strategic production considerations are especially sensitive to the geographic contexts within which they arise. Consumers use production location, largely, to identify wines and make initial assessments of product

quality. DeMeza and vander Ploeg (1987), and Meyer and Qu (1995) found that production flexibility and improved access to consistent supplies were the primary motivations for international investments. Because of the significant influence of location, the following brief overview of wine geography serves to open the discussion of world wine market factors within which FDI motivations arise.

THE GEOGRAPHY OF WINE

Most winegrape production is contained between the latitudes of 30°N and 50°N, and 30°S and 40°S, but so, too, is nearly all agricultural production (Dickenson, 1990, 1992; and de Blij, 1983). Technological advances and changing consumer/market needs have opened many winemaking areas. The belief that the best wines only come from high latitudes, poor soils, difficult terrain, and stressing climates (the notion of *terrior*) is, in part, true, but its primacy has been tested by any number of exceptions known collectively as “New World” wines.¹ The institutionalization of these biases through regulations, such as the appellation contrôlée that specify wine-growing regions, grape varieties, and cultivation practices, has played a role in limiting recognition of New World wine regions. However, these regulations have also hindered the current market and investment prospects of wineries bound by their authority by limiting the introduction of quality improving technology or practices, and use of grapes grown outside specified regions (Kraft, 1996).

While environmental factors play a role in wine quality, the influence of these factors is not absolute—especially in wines that compete in lower price categories. Grape quality is an unquestioned essential element in wine making (grape quality may influence up to 95% of wine quality), but the application of appropriate technology can overcome some natural flaws. It was apparent in interviews with several winery executives that experimentation and innovation, as opposed to tradition, were considered keys to future commercial success and consistent product quality.

Finally, though national identities help organize much of the remaining discussion of world wine markets, consumers’ preferences are increasingly defined in terms of price and brand information. Geography remains an important consideration for consumers of high-priced wines, but its significance to wine companies arises more out of production risk reduction and cost considerations, especially for brands in competitive price categories. Thus, despite data limitations that restrict the discussion of wine production and consumption to a national level, the production and marketing actions of companies’ should be considered paramount as it is their actions that most heavily affect world wine markets.

Table 1. Selected Wine Statistics for Major Wine Producing Nations
(1997 data except for 1995 per capita wine consumption data)

<i>Nation</i>	<i>Production (million hectoliters)</i>	<i>Vineyard Area (000 hectares)</i>	<i>Export Volume (million hectoliters)</i>	<i>Per Capita Wine Consumption (liters)</i>
France	53.6	900.8	14.9	60.2
Italy	50.8	913.8	12.5	59.4
Spain	33.9	1,155.0	8.6	37.9
United States	20.2	314.8	2.3	7.2
Argentina	13.5	208.8	1.3	41.6
South Africa	8.7	108.0	—	9.5
Germany	8.5	104.8	2.2	23.1
Romania	6.7	254.1	—	31.4
Australia	6.2	89.8	2.7	18.2
Portugal	5.7	259.8	2.4	58.3
Chile	4.5	131.9	3.6	15.9
Hungary	4.5	131.1	—	29.9
World	259.6	7,813.5	60.8	—

Source: Doering (pp. 48, 50), and *Wine Business Monthly*, (p. 27)

WORLD WINE MARKET FACTORS

In addition to geographic characteristics, quality in the world wine market is segmented by price. As with location, a wine's price range does not necessarily guarantee quality, but it remains a critical factor around which wineries and marketers develop their wine portfolios. Geene et al. (1999) note that the market for "great" wines, which includes "ultra premium" wines (priced from \$14 to \$50 per bottle) and "icon" wines (priced above \$50 per bottle) only account for about six percent of worldwide wine volume. In contrast, "super-premium" (priced from \$7 to \$14 per bottle) and "premium" (priced from \$5 to \$7 per bottle) represent the growing "quality" segment of world wine markets that account for about 44% of world wine volume. Most of the contraction in wine supply has come from the "basic" wine category (priced under \$5 per bottle), though it still represents about half of the world's wine supply. Given the shift away from high volume/low value wines basic wine production and sales, much of the wine industry's recent consolidation has been driven by firms' desires to acquire quality wine brands (Walker, 1999).

As shown in Table 1, the world wine market remains centered in Europe with the European Union (EU) accounting for over 60% of all wine production and 45% of world wine consumption. In 1997, Europe's traditional wine producing nations also accounted for two-thirds of world wine exports. However, Europe's production and export shares declined since 1992 by 6% and 10%, respectively.

The ten-year trends for global wine production and consumption have been heavily influenced by the EU's "Wine-Lake" reduction policies. Moulton (1997) noted that since 1990, world wine production decreased by almost a quarter to an

average production of 252 million hectoliters in the 1993–95 seasons. Geene et al. (1999) indicated that by 1997, world wine production had increased slightly to about 260 million hectoliters. Most of the production declines occurred in basic wines, while quality wine production increased. As noted by Doering (1999), EU policies aimed at lowering the “Wine Lake” worked. These policies, which diverted lower-quality wines from southern France and Italy, and central Spain into ethanol production, and paid growers to pull marginal vineyards, led to acreage reductions in all three countries. As overall production has declined, global consumption also decreased by 21% to an average of 225 million hectoliters in the 1997. Most of this decline has taken place in European nations, where per capita wine consumption dropped because of demographic, and lifestyle changes. For example, French per capita wine consumption declined from 79.9 liters in 1989 to 60.2 liters in 1997, and Italian consumption dropped from 67.0 liters in 1989 to 59.4 in 1997.

As production and consumption declined and converged, global exports increased 33% to about 61 million hectoliters. Trade is an essential part of the world wine market, and as demonstrated by the increased value of wine exports, the trade is in quality wines. On average, about a quarter of world production is exported. In contrast, the U.S. wine industry exports about 11% of its production. However, export wine sales from the U.S. have increased by over 20% per year since 1995 (Walker, 1998).

Although traditional European wine producing nations remain the world’s dominant exporters, their market shares have fallen as New World wine producers have gained market share. The 10% increase in the share of world wine exports held by New World wineries is evidence of the inroads these wineries have made in world markets. These gains may also have served as a positive signal for potential investors. Among New World wine-producers, in 1997, Chile was the largest exporter, with a 31% market share of New World wine exports. Australia was the second largest New World wine exporter with a 26% share. The U.S. and Argentina followed with respective New World shares of 20 and 13%.

A common element in most developed wine markets has been the increased influence of wine marketers. Geene et al. note that as retailers develop their wine supply chains their preference for dealing with a few consistent suppliers that offer a broad portfolio of wines has caused wineries to look for brand alliances and acquisitions. Much of the strength behind retailers’ actions has come from consumers who have reduced their wine purchases of wines consumed away-from-home in favor of at-home consumption. Walker (1999) indicated that the U.S. suppliers, such as Canandaigua (the second largest supplier in the U.S.), are acquiring wine brands, such as Simi Winery and Franciscan to expand their portfolios. These acquisitions provide access to a greater variety of wines and winegrape sources, and allow sales and distribution networks to be more fully utilized.

Despite recent consolidation activities within the wine industry, it is interesting to note that Gallo holds less than a two-percent share of the world market. Yet by volume it is the world's largest wine supplier, and it accounts for nearly half the wine exports from the U.S. (Geene et al., 1999; and Sawyer, 1997). These figures highlight the fragmented nature of world markets, in which no firm's national influence extends much beyond its own nation's borders. This lends a sense of contestability to world wine markets, even if some national markets are led by a few firms.

In summary, world wine markets face a number of changes including increased acceptance of New World wines, changes in consumer preferences, and increased competition within quality wine categories, and increased retail-level influence that appears to heighten winery efforts to consolidate. These same factors are apparent in the U.S. wine market. However, because of the U.S. market's growth and openness, U.S. wineries may be especially sensitive to changes in world markets.

THE U.S. WINE MARKET

Although U.S. wine production represents 43% of New World production and 8% of the world's wine production, the U.S. share of world exports, in 1997, was about four percent. Two reasons account for this small share. First, unlike other major wine markets growth in the U.S. wine market kept U.S. wineries focussed on their domestic markets. Export markets, for most U.S. wineries, were viewed as destinations for "surplus" production. Second, development of export markets has been limited by slow growth in foreign consumer markets, and consistent marketing efforts by non-U.S. wineries competing in foreign markets.

Among the major wine-consuming nations, the U.S., through the 1990's, was considered an attractive import market. Though U.S. wine consumption per capita was eight times lower than that of leading wine-consuming nations, relative growth in the U.S. market exceeded growth in wine markets around the world. The U.S. market's status as a premier wine growth market was the result of a favorable combination of affluence, demographic and lifestyle factors, and absence of substantial social or religious prohibitions. These factors made the U.S. market attractive to both domestic and foreign wine marketers.

As shown in Table 1, U.S. wine exports equaled 2.3 million hectoliters in 1997. This export level represented a 22% increase in volume in the last five years, which helped U.S. wineries increase the value of wine exports by 23%. In 1997, almost half the U.S. wine exports were sold in the European Union and Switzerland; about 30% were sold in Canada, Mexico, and the Caribbean; and Asia (primarily Japan and Hong Kong) accounted for the remainder.

Bottled (3.7 million hectoliters) and bulk (500,000 hectoliters) wine imports

accounted for 18.7% and 2.5%, respectively, of the 1997 U.S. wine market. However, as noted by Cartiere (1997) and Sawyer (1997), many U.S. wineries used bulk and bottled imports to supplement their domestic offerings in an effort to maintain shelf-space. This substitution also enabled U.S. wineries to continue shipping domestically produced quality wines to export markets. This action represented a significant response by U.S. wineries that were often criticized by foreign marketers because they previously abandoned export markets and marketing efforts when U.S. supplies were limited. Despite the marketing flexibility provided by bulk and bottled wine imports, some U.S. winemakers feared that the distinction between U.S. and foreign wines would blur for U.S. consumers, and the U.S. wine industry would suffer. However, this blurring may no be due as much to import inroads as it is to U.S. consumers who, for the most part, do not ascribe product differentiation to wine regions, or recall the names of more than three wine brands.

INDUSTRY LEADER INTERVIEWS

Interview Methodology

This study followed an interview approach recently used by Vaughan, Malanoski, West, and Handy (1994), Hagen (1996), and Solana-Rosillo and Abbott (1998) in which food industry executives were interviewed about their firms' foreign investments. The *Wines & Vines 1997 Buyer's Guide* was used to identify industry executives at the nation's thirty largest wine companies. The 30-winery set was used because contained all the U.S. wineries that had known and significant foreign direct investments.

Twenty-six percent of the executives contacted (representing 20% of U.S. wine production) participated in the survey interviews either in person or by telephone. The remaining 80% refused or were otherwise unavailable during the year-long study period. In addition to industry executives, wine industry consultants, government officials, and wine magazine editors were also interviewed about their knowledge of U.S. wineries FDI. The following discussion of FDI motivations is based on interviews with eight wine industry executives, and six industry "observers" (consultants, editors, and government officials). The comments of staff members who participated in the interviews were included as part of the "leader's" response.

All interviews followed a question script that allowed respondents to expand on any issues raised in the interview. A copy of this script is contained in the Appendix. As expected, industry leaders acknowledged the potential influence of most motive categories, but they often emphasized the importance of different motives and offered differing rationales about the influence of specific factors.

The interview results were distilled by first categorizing responses into general

motive categories. Discussions about the influence of specific factors or differing explanations about the influence of factors are presented in the next section only if two or more leaders addressed similar issues. The interview results are presented in order of frequency of stated importance starting with the most frequently mentioned motivation category. Given the qualitative nature of this analysis, no statistical significance is implied by the order in which the motivations are presented.

RESULTS AND DISCUSSION

Given previously mentioned world and U.S. wine market shifts, U.S. wineries' foreign investment decisions are heavily influenced by resource access, quality control, and production cost considerations. The increasing standardization of wines within specific quality/price point wine categories has placed pressure on wineries to differentiate themselves less on wine characteristics and more on product availability (portfolio breadth), consistency, and marketing transactions costs. This evolving aspect of the U.S. wine market, and wine markets elsewhere, is perhaps the most significant force promoting U.S. wine industry FDI from a supply chain perspective.

Resource Seeking Motives

Interviews with industry leaders suggested that production flexibility and access to varietal supplies were the primary motivations for foreign investments by U.S. wineries. Investment decisions were based on each winery's assessment of gaps in its current wine portfolio. As a result, not all U.S. wineries with the financial capacity to invest in foreign markets did so. Executives who did not invest overseas typically believed their wineries possessed three competitive advantages. First, they had access to a stable and adequate supply of domestically produced winegrapes. Second, they felt they could control the cost of domestically supplied winegrapes (within given quality levels). Finally, they determined that they offered a sufficiently competitive wine portfolio.

Marketing and natural resource access motivations were most often raised as significant factors in wineries' investment decisions. Increased "marketing influence" tied to the desire to "lock-in" sources was an important component of many wineries' investment considerations. Some executives felt that if they created an import division, they would then need to protect their sources of wine and closely control wine and grape quality. Supply and quality control were considered critical. In some cases, wineries that had experienced previous problems associated with imported wines were less likely to trust the effectiveness of contractual obligations designed to ensure import quality and timeliness of deliveries.

Most industry observers and winery executives maintained that foreign-

produced wines were not used to “improve the image” of wines considered part of their winery’s core group of products. However, in cases where the winery was expanding into a price range or augmenting its portfolio, then foreign wines were offered as a least-cost means for that expansion. No winery executive felt that foreign wines were used to bargain for lower domestic winegrape prices. Nevertheless, the indirect role which access to foreign sources could play in mitigating future price pressures was not entirely discounted.

Strategic Motives

Some industry leaders saw U.S. winery FDI actions as a response to worries about the heavy competition in Chardonnay, Merlot, and Cabernet Sauvignon markets (three of the most recognizable wine varietals marketed in the U.S.). They also asserted that U.S. investments served to increase wine consumers’ respect and reduce their quality concerns about wines from other regions. The recent shortages of U.S. wines allowed recognizable wines (e.g., Chardonnay and Merlot) from New World producers to establish sound reputations in the marketplace and within the industry. The benefits of utilizing rather than fighting against imports were noted by several industry leaders.

Even without limited U.S. wine supplies, the reputations of some New World producers continue to grow. Hochstein (1999) noted that several Chilean and Argentine wines compete well in both quality and great wine categories. Not surprisingly, some of these wines are products of alliances and foreign investments between European and South American firms, as well as ventures between U.S. and South American firms.

Firm Size Motives

Firm size was considered an important threshold factor by all industry leaders. However, the reasons provided for the importance of size varied among executives. Some observers felt that large “corporate” wine companies had developed broad infrastructures and distribution channels through which cost advantages could be achieved only by moving high volumes of wines or other beverages. “Corporate” firms in this category (e.g., Gallo, and Canandaigua) were occasionally described as having an “order-taker mentality” that focused on marketing volume over quality, if that choice had to be made. Nonetheless, these firms are positioned to benefit from retailers’ supply chain initiatives because they possess effective distribution systems, focus on cost, and are actively creating or acquiring wine brands that expand their wine portfolios.

Intangible and Tangible Advantage Motives

Larger firms typically were also considered better endowed with tangible and intangible assets that could offset a significant amount of the uncertainty and risks

associated with international investments. Investments also occurred because firms wanted to increase production flexibility and reduce the risk of not having sufficient access to markets or resources. This motivation supported the production-flexibility notion that firms determined domestic and foreign capacity *ex ante*, but made production decisions *ex post*. This was an advantage that only larger wineries could afford. Other observers disclosed that size was important because of the cost associated with managing investments overseas, and because larger firms were more likely to attract the managerial and technical talent needed to make the foreign investment a success.

An assessment of the sizes of the wineries that have undertaken foreign investments (according to published reports), reveals that firm size is positively related to FDI. Kendall Jackson (Argentina, Italy, France, and Chile), Mondavi (Italy, France, and Chile), Wente (Mexico), and Beringer (France and Chile) all have production capacities exceeding 100,000 hectoliters (Cartiere, 1997; Groves, 1996; and Sawyer, 1997).

As noted earlier, firms' perceptions of their access to winegrapes and their perceived lack of control over resources affected their investment decisions, as did higher transactions costs associated with doing business in arm's-length markets. Vulnerability and strategic considerations were, in varying degrees, considered important motivations by most industry executives and observers participating in our study, though no executive used the term "vulnerable." The concentration and increased competition from domestic and foreign sources heightened some wineries' perceived need for additional wine volume.

Technology and Control Motives

All industry leaders and observers agreed that research and development were not considered significant investment factors. Winery executives felt that wineries around the world had access to similar winemaking technologies. Thus, emphasis was not placed on technology, but rather the application and choice of technologies used. The desire to control quality from the vineyard to the bottle varied among wineries, but all recognized that grape quality was the primary factor in determining wine quality and consistency from year to year.

The point at which wineries typically chose to exercise control over the winemaking process was an additional consideration. Wine executives who believed that grape quality was paramount typically chose to invest in vineyards and wineries. Those who considered their vineyard contracts, or other relationships, to be strong were less likely to become involved in grape production. Those executives who viewed wine making as a complicated blend of art and science pointed to this perception as a primary reason for the preference of direct investments by U.S. wineries. Specifically, the technical design and aesthetic

nature of wine production does not lend itself to electronic communication, infrequent inspections, or other poorly timed interactions.

The means by which U.S. wineries enter foreign investment differs across companies. The preference of specific host-country investment strategies is heavily path dependent (Graham, 1996). That is, the respective history and philosophy of the wineries affect the location of their investments, their choice of joint venture partners (if any), and how much control they maintain over their investments. The FDI approaches used by Mondavi are prime examples of path dependence because of that winery's preference for ventures with the "elite" families of a targeted wine region.

Trade Barriers and Political Motives

Trade barriers (both tariff and nontariff) and exchange rate motivations for foreign investments were not cited in the interviews as major factors in U.S. wine industry foreign investments. Given that no unconditionally attractive consumer wine markets exist in wine-producing nations where investments took place, the desire to bypass trade barriers was not great. This finding was no doubt influenced by the practice of importing wines into the U.S. to maintain domestic markets and enable U.S. wine export efforts to be sustained.

Finally, several industry leaders noted that misgivings about political stability in certain wine-producing nations (e.g., Moldova and South Africa) limited U.S. winery investments despite apparent agricultural advantages. In those cases, concerns about the macro-environment overshadowed consideration of potential gains from increased access to winegrape resources, and promoted a "wait-and-see" investment outlook.

CONCLUSIONS

The FDI motivations of U.S. winery executives coincide closely with motivations found in the literature on FDI. However, the dominant wine industry motivations are heavily influenced by world and U.S. wine market factors rather than by some universal set of investment considerations. Two essential elements appear to characterize the environment in which U.S. winery investment decisions are made. First, world wine market preferences have shifted toward quality wines, but are less restrictive with respect to wine origin. Second, U.S. wineries concentrate on access to adequate supplies of quality winegrapes, and access to consumers' market baskets, which includes the needs of supermarkets and wholesalers that increasingly serve as the primary links between wineries and consumers. The influence of supply chain management considerations is critical in this setting, and the investment decisions of U.S. wineries can be viewed as management reactions in those considerations.

U.S. winery executives and industry observers interviewed in this study all reflected on how the industry's focus has shifted from the world's recent and observable excess supply of wine to concerns about adequate supplies of quality winegrapes and competition from new producing sources. New entrants seeking to capture market share, especially in the United States, have placed pressure on existing market participants. This perceived vulnerability to regions with consistent quality and lower production costs was a common investment motivation. The significance of this motivation rested partly on the ability of a firm to sense or assess changes in the industry that threaten its position in the market, and partly on the firm's assessment of its ability to internalize tangible and intangible assets. The presence of price distortions across production stages and the desire to internalize transactions also served to motivate firms' investments. However, investment decisions also were motivated by more aggressive strategic considerations of wineries that used FDI to integrate international operations, expand demand, and reduce supply risks.

NOTE

1. New World producers are defined as wine producers who operate outside the classic Western European core of winemaking regions.

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APPENDIX

Motivations for Foreign Direct Investment by U.S. Wine Industry Initial Questions

If a winery was involved in or considering any foreign investments then the following questions were asked:

1. How many investments?
2. Where is each investment?
3. What is the nature of the investment? (Joint venture, wholly owned subsidiary, etc.)
4. What were the primary motivations for each foreign investment?
5. What factors affected the location of each investment?
6. Were production costs a factor?
7. Was access to foreign market demand a factor?
8. Were domestic market production or consumption constraints a factor?
9. Were tariff or nontariff barriers a factor?
10. Were exchange rate fluctuations a factor?
11. What concerns (political, market, business relationship, etc.) did your company have as it entered into each investment?
12. How important are export sales to your company's financial future?

13. How do you think each foreign investment will affect your company's U.S. exports?

If the winery had not invested and did not intend to invest, the following questions along with questions 6 - 13 from above were asked:

14. What were the primary motivations for not engaging in foreign investments?
15. What factors would need to change before you considered foreign investment opportunities?