



Recent Trends on Mergers, Acquisitions & Financial Investments in the Wine Sector

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In 2005, almost 250 mergers, acquisitions and joint ventures were registered in the world wine and spirits sector. Interestingly this compares with only 70 mergers and acquisitions just five years ago! Even more significant, total value of the financial deals concluded in 2005 in the industry reached more than 22 billion us\$ in 2005, ten times more than in 1998 (close to 2.23 billion US\$).

What are the reasons behind this frenzy of financial deals occurring in the wine sector?

Do we assist, in the wine sector, to a growing globalisation, which would soon become comparable to the other foods and drinks sectors?

Reductions in trade barriers (multilateral or local), lower transport and communication costs, convergence in consumer spending patterns lead to a rising globalization: world exchanges began to exceed consumption (and production) growth in the mid 1970s. This conducted to industry rationalisation and hyper-competition, with an increasing number of firms becoming multinational in most sectors during the past three decades, except for the wine business...

It seems that it is only at the turn of the millennium, when a larger exposure to international competition has started to affect the leading wine firms, which this explosion of mergers and acquisitions has appeared.

But what are the reasons for more and more wine firms to undertake a risky strategic diversification through external growth?

From a theoretical point of view, either foreign competition (imports or local productions from foreign firms subsidiaries) is forcing domestic firms to become more competitive and/or domestic firms can seek to expand their international diversification in order to offset any location specific advantages enjoyed by their foreign rivals (Wiersema and Bowen, 2006). It might therefore be the right time to look at the determinants of economic competitiveness (or efficiency) in the wine sector.

A few theoretical reasons can explain that some firms are performing better than others in industrial sectors: stronger purchasing power or privileged access to scarce resources, higher productivity of assets, economies of scale and scope and differentiation (Jarrosson, 2004).

In order to become more competitive, a fully integrated wine firm would have to master one agricultural activity: grape growing, two industrial activities: wine making and bottling / packaging and one service activity: sales and marketing of packaged goods.