THE WINE FIRM (Loosely Chp 9)

1. Concept of a wine firm
2. Legal organization
3. Winery and wine cellar
    a. Bonded winery
    b. Alternating proprietor winery
    c. Custom crush winery
    d. Wine cellar
4. Wine products and brands
5. Organizing and coordinating activities
    a. Transaction
    b. Contract
    c. Spot contract and long-term contract
    d. Incomplete contract
    c. Opportunistic behavior
    d. Transaction cost
    e. Asymmetric information
        i. Adverse selection
        ii. Moral hazard
6. New wine product example
7. Choices
    a. Input, output, quality, price, sourcing
8. Objectives
    a. Profit maximization
    b. Market goods
    c. Nonmarket goods
        i. Wine quality
        ii. Lifestyle
        iii. Winemaking philosophy
        iv. Nepotism
    d. Survival of the fittest argument
9. Constraints
    a. Technology
    b. Government regulation
    c. Market structure
        i. Number of firms
        ii. Size distribution of firms
        iii. Nature of product
        iv. Conditions of entry
    d. Commodity, premium, luxury segements

New Wine Product Example

Assumptions

- New Merlot wine product
- 5 year trial period
- Purchase wine on bulk wine market

Necessary activities

- Find a seller
- Negotiate a contract
- Enforce the contract

Two alternative markets and contracts

- Spot market and spot contract
- Long-term market and long-term contract

Three important contract terms

- Quantity
- Quality
- Price

Spot contract

- Advantages
- Disadvantages

Long-term contract

- Advantages
- Disadvantages

Product Differentiation Example

Wine Product	Vintage	Score	Case Production	Price
Screaming Eagle	2010	96	610	$850
Caymus	2010	96	9,600	$130
Turnbull Fortuna	2010	95	243	$75
Beringer Knights Val	2010	94	5,000	$60