Bordeaux 2016 Abstract Submission

Title
Identifying successful export strategies of Chilean wineries: a panel data analysis of firm export growth, 1995-2015

I want to submit an abstract for:
Conference Presentation

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Keywords
Chilean wine, exports, export strategy, diversification, panel data analysis

Research Question
Do differences in export strategy explain the variation in firm level wine export growth rates in Chile over the last 20 years?

Methods
Beginning with a model of firm choice of strategy (market diversification, etc.) we use firm-level and market destination export panel data to estimate the relationship between strategy and export growth.

Results
Export growth rates at the firm level is explained in major part by a choice of market diversification, of fast-versus slow-growth markets, and of quality (price) level of products.

Abstract
The Chilean wine industry has grown significantly over the last two decades, in mayor part due to growth of exports, increasing in production volume between 2008 and 2012 by about 45 percent. Currently wine exports are currently in the order of 1.9 billion dollars and make up approximately 75 percent of the value of total industry (foreign and domestic) sales. And recently Chile overtook Australia to become the fourth largest exporter of wines, following France, Italy and Spain; it is now the leading exporter from the New World. Wine represents 3 to 5 percent of Chile’s total exports, which are dominated by copper and minerals, and nearly 15 percent of agroforestry and food sector exports. The number of Chilean exporting wine companies is
approximately 300, although not all export during the same year. Ten wine companies dominate exports, with over 50 percent of the total. Most exporters are characterized as small or medium firms. Using a simple average across firms, approximately two-thirds of the average wine producer’s revenue derives from international markets, a relatively high figure compared to the international competition, with many firms depending even more heavily on foreign sales. Over time, national wine exports have diversified, and more recently volumes have increased faster than total value, suggesting that diversification has meant entering new or growing markets with mid-price products and bulk wine.

This study makes use of export data from Chile’s customs agency for individual wine producers and firm-specific destination countries to describe various export strategies of exporters. We first develop a model of firm export behavior, where firms make a choice of the degree of export diversification and target markets. A firm faces production costs, which depend on quality and volume, and export marketing costs that rise with diversification, ceteris paribus. Larger firms that can enter new markets, and so increase their export portfolio diversification, can take advantage of the scale economies that come from spreading the fixed costs associated with country-specific marketing and the logistics of product transport and delivery (insurance, freight, customs, etc.). Total revenue and revenue volatility depend on volume, quality (as reflected by price) and diversification. Market targeting also can depend on future sales growth, where there is a trade-off between market specialization (in a country with expected fast-growing sales) and exposure to potential revenue shocks due to market-specific demand or exchange-rate changes. We translate the insights from this conceptual model into observables by defining three measurable dimensions to characterize the export strategy of each firm: (1) The degree of diversification of destinations. We construct a measure of each firm’s degree of diversification for each year, and compare it to the industry’s degree of diversification, identifying if the firm pursued an increasing diversification strategy, a focused-destination market strategy, or no identifiable pattern to diversification trend. (2) The geographic focus of the firm’s exports. We consider eight possible (not mutually exclusive) geographic strategies and characterize firms by year as focusing on: emerging markets, Asia, North America, Latin America, Europe, low per-capita consumption countries, high per capita consumption, and everywhere. (3) We classify exporters as specializing in premium, mid-range and bulk markets, and perhaps no discernible specialization.

Controlling for domestic market participation, we correlate yearly export market growth with the three measures defining the firm’s strategy in order to detect whether or not export performance is related to a strategy. To account for possible endogenous changes to export strategy (e.g., with export volume growth and greater diversification maybe driven by common firm factors), we make use of the lagged diversification and destination-focus measures and other instruments. Large firms are likely to invest in having a presence in high-volume markets and to maintain that presence in the face of short-term shocks to returns from that market. Large firms have the wherewithal to endure negative income events in order to maintain market share and consumer awareness that would be profitable in the long term. They also can spread the fixed costs of export marketing and shipments over larger volumes in each destination, permitting greater diversification. Small firms, however, face higher financial costs of weathering short term shocks and perhaps are less apt to benefit in the longer term from protecting small market shares. We test the hypothesis that large firms with diversified export strategies are less responsive to demand and exchange shocks. Smaller firms tend to be more opportunistic, increasing or decreasingly their exports to destinations due to short-term shocks. Bulk sales are less likely to be associated with premium and mid-range pricing strategies, appearing to be more opportunistic. We also test whether or not bulk sales are sensitive to demand, exchange rate and internal supply shocks. Using more detailed monthly data we test whether bulk sales follow seasonal patterns. We also decompose changes in national (industry-wide) market diversification into changes in the diversification of larger firms and of smaller firms. We find that the increase in national diversification is correlated with large-firm diversification, with smaller-firm growth in exports coming from a less diversified export marketing strategy.