

Padua 2017 Abstract Submission

Title

THE USE OF KNOWLEDGE INTENSIVE SERVICES IN THE CHILEAN WINE INDUSTRY

I want to submit an abstract for:

Conference Presentation

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Keywords

export growth, knowledge-intensive services, value chain segments

Research Question

What is the role of knowledge-intensive services in the export growth of the Chilean wine industry?

Methods

The paper explores the role of 38 (knowledge intensive) services in five different segments of the wine value chain. A dedicated survey was responded by 29 Chilean wineries.

Results

The service intensive character of the wine value chain helps to explain how Chile has become the world's fourth largest wine exporter.

Abstract

Within less than two decades, Chile has become the world's ninth largest wine producer and fourth largest wine exporter. This good performance is also reflected by the fast growth of value added and labour productivity of the wine industry since the 1990s. The wine industry also contributed to the expansion and modernization of other agricultural resource-based processing industries in the country, reinforcing the export-orientation of the Chilean economy.

Several researchers have shown that the successful performance of the Chilean wine industry was the result of radical changes that led to tangible improvements in product quality over time rather than a linear process of extending traditional production practices. As a complement to previous studies, this paper looks specifically at the role of (knowledge-intensive services) in the wine sector. It shows how these services have allowed Chilean wineries to add value to their wine exports and constantly improve their operations along the different stages of the value chain. It argues that the service intensive character of the value chain helps to explain how Chile has become the world's fourth largest wine exporter, through the provision of high quality services that allowed the

industry to increase its level of professionalism and achieve process and product upgrading.

In particular, this paper explores the role of 38 (knowledge intensive) services in five different segments of the wine value chain. These are: vineyard preparation, grape production (viticulture), wine production (viniculture), logistics, and distribution, marketing and sales. Answers regarding services activities by 29 wine firms on a survey carried out for this study indicate that 80% of 29 wineries confirm they use intensively 38 different types of services across five segments of their value chain. They fully outsource about the same share (34%) as they fully provide in-house (32%), while another 15% is produced using a combination of both. The share of outsourced services decreases downward along the value chain, being highest in vineyard preparation and lowest in distribution and marketing. Moreover, small and large firms fully or partially outsource about half of all services, while medium firms outsource less. In sum, the service intensive character of the value chain may help to explain how Chile developed into the world's fourth largest exporter. The sector is experiencing a high level of professionalism in which many providers are specializing to produce high quality services to small, medium and large wine makers. All these improvements have led to a process and product upgrading in the sector.

The Chilean wine industry, though, should not take its export growth for granted for the future. The fact that it has completed the earlier phase of the wine technological revolution and that the service industry has developed accordingly does not mean that it is well prepared to meet future challenges and to sustain its export growth in the long term. Industry plans are to position Chile as the leading New World producer of premium, diverse and sustainable wines by the year 2020, increasing the value of bottled wine exports to US\$3 billion within a decade. This will require substantial investments in R&D, incentive structures and institutional capacity carried out at the regional level. This study looks specifically at the extent to which the success of Chilean wine exports can be ascribed to the use of knowledge intensive services, the extent to which this has allowed wineries to improve their operations along the different stages of the value chain, and the extent to which such services are going to be key in addressing the main challenges that the industry is going to face ahead, considering the competition of both Old and New World producers.

This paper is structured as follows. Section 2 describes Chile's remarkable wine export performance and reviews previous studies regarding the main factors that explain this expansion. Section 3 provides a description of the five main segments of the wine value chain and the multiple service inputs within each one of them. The motivations to produce these services in-house or subcontract are discussed in section 4. The results of a survey, carried out in the context of this study, to assess which services are produced in-house or outsourced are discussed in section 5. The last section concludes and provides suggestions for future research.

In particular, this study can be extended in different directions. First, it would be interesting to ask firms which services they assess as most crucial for the export value and profitability. Second, they could indicate their motivations to outsource or provide in-house certain services. Third, it is important to assess the "quality" of support services firms in Chile, in terms of their national or foreign ownership, their market share, their share of certification, innovation intensity, and perception of users. Fourth, similar studies in other new world leading wine producers including Argentina New Zealand and South Africa, as well as in competitor countries such as Australia, could help to benchmark the results of this study and indicate which factors are most essential for increasing the value of wine exports.