On being forced to be born global: Determinants of Chilean wine performance in international competitions

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Chile’s share of the world wine market has been growing at a fast rate. Expansion is led by two groups of companies which are very different from each other. The first group is formed by large and old firms. Many of them have been around for at least a century. Examples include Concha y Toro (established 1883), Santa Rita (1880), San Pedro (1865), Santa Carolina (1875) and Casa Silva (1892).

The second group of firms is formed by companies that tend to be smaller, but highly successful in key international markets and in important international competitions. These firms are very young. Many of them were established in the 1990s (Casas del Bosque, Falernia, Lapostolle, Leyda, Loma Larga, Matetic, Ventisquero), and others even more recently (Garces Silva, Haras de Pirque, Marin, Neyen, Perez Cruz, Quintay, Tabali). Firms in the second group are, according to most definitions, ‘born globals’.

Traditional explanations of firm internationalisation rely on the ‘Uppsala model’, according to which a company develops new areas of expertise, first domestically and then abroad, gradually or incrementally. Learning in the domestic market is eventually followed by successful expansion abroad, but only slowly, step by step. Theories of ‘born globals’ (the name is self-explanatory) developed out of some scholars’ dissatisfaction with the Uppsala model.

The central question this paper addresses is whether the Uppsala model or born global theories offer a better explanation for Chilean wine’s international success. Our indicator of success (the dependent variable) is award performance in London’s International Wine Challenge (IWC), 2004 and 2005. The sample is formed by all the wineries (30) in the Colchagua Valley, possibly the most dynamic wine-producing area in the country, and Wine Enthusiast’s ‘Wine Region of the Year’ in 2005. In addition to two variables representing diversity and quality of domestic activity (the first stage in the Uppsala model), several other possible explanatory variables were tested, including winemaking experts’ skills and motivation, and export value. Special tests were carried out to control for possible export endogeneity.

The main conclusions are that award-winning success in IWC depended positively on human capital intensity and motivation, and scale and scope economies related to export value. Domestic presence (defined as domestic quality multiplied by domestic product range) had a negative impact on most companies, including all the small and medium-sized ones. Moreover, activity in many domestic wine-producing regions had a negative impact regardless of firm size. Spreading yourself too thinly as a
producer, either geographically or in terms of number of product lines, was the wrong strategy.

For new entrants, domestic expansion was not the first stage to international success, but precisely the opposite: a road to failure. The home market is small, competition is fierce, and large, established firms have access to cheaper finance and most of the best winemakers. Domestic expansion also generates management inertias and path dependencies pushing the firm in the wrong directions.

For new entrants, optimality meant to be born global. Following the Uppsala model was impossible.