

# Catching up Trajectories in the Wine Sector: A Comparative Study of Chile, Italy and South Africa



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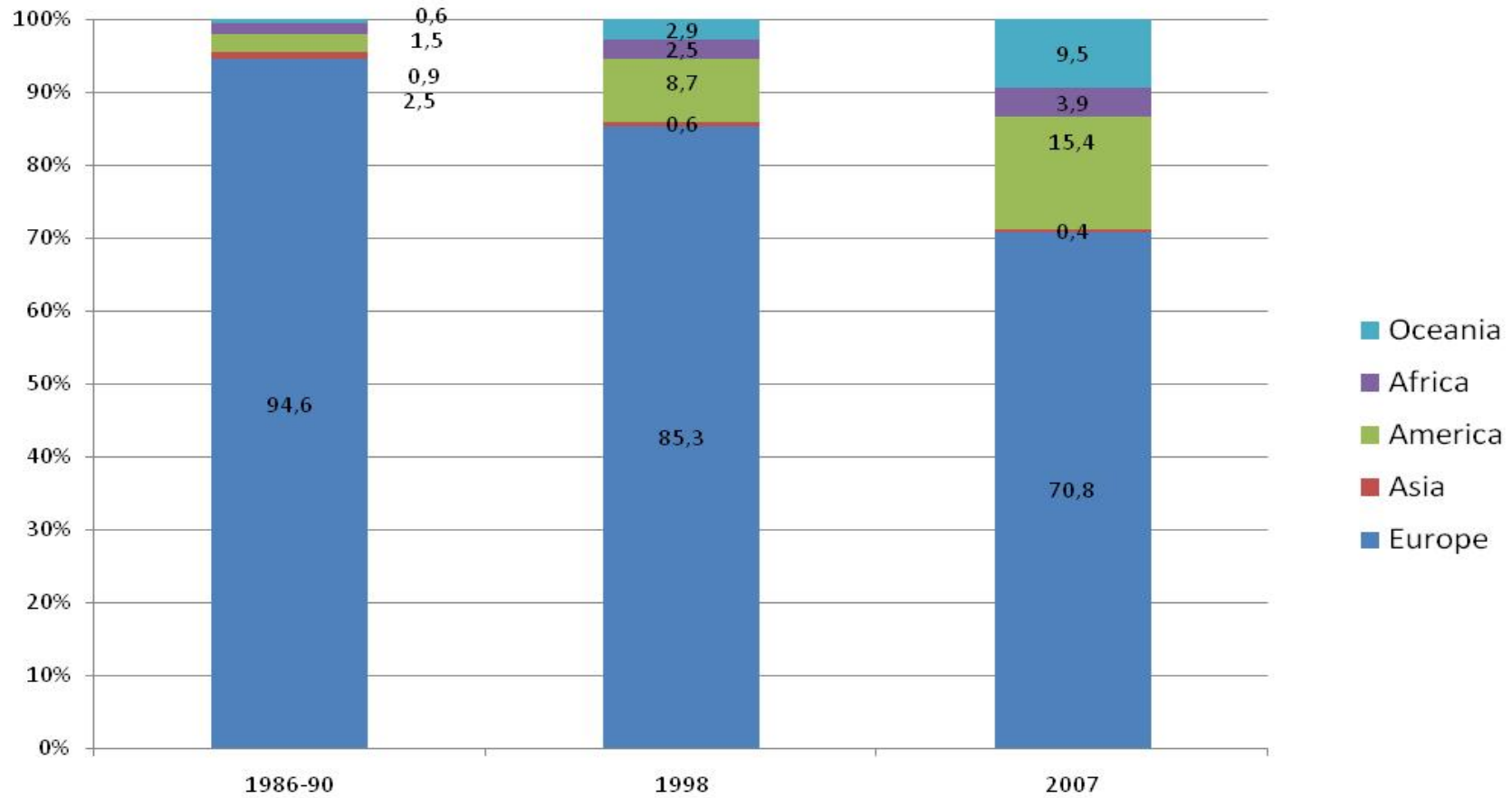


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# Some stylised facts

- **Wine is an increasingly internationally traded good:** rapid *growth of export* volumes and values explained by
  - **consumption falling in the traditional producing countries**, especially France and Italy;
  - **consumption expanding in non-producing countries** in Europe (UK, Netherlands, Sweden,...) and Asia (Japan, and very recently Korea, China, India);
- **Emergence of New World producers:** volume expansion and quality upgrading;
- **Old World producers** facing serious challenges in an increasingly competitive market.

# Wine World Export



# The traditional theory of catching up

- Emergence of New World wine producers can be hardly explained by conventional theories of catching up:
  - Adoption and adaptation of technologies from advanced economies;
  - Relative speed along a fixed track;
  - Niche strategies and market segmentation by followers;
- **Windows of opportunities** have been opened up by relevant discontinuities on the demand and supply side;
- Process of technological and organizational modernisation driven by newcomers.

# The Sectoral Systems of Innovation

- Our analysis is based on the four constituent dimensions of a **sectoral system** (Malerba, 2004; Malerba & Nelson, 2007; Malerba & Mani, 2009):
  - *Market;*
  - *Knowledge and technology;*
  - *Key actors and networks;*
  - *Institutions.*

# Market

Relevant discontinuities in wine consumption habits since the late 1970s

a) **Traditional wine countries**

- Decline or stagnating consumption;
- Wine drinking as a “cultural experience”;

b) **Emergent markets** (Northern Europe, US, Australia, lately Russia and China) – inexperienced consumers

- Increasing popularity of wine as a “beverage;”
- Preference for easy drinking and pleasant tasting varietal wines (Sauvignon, Cabernet, etc.):

Quality is no longer the exclusive domain of producers, it is increasingly the value *perceived* by the market

# NW vs. OW response to market opportunity

## New World:

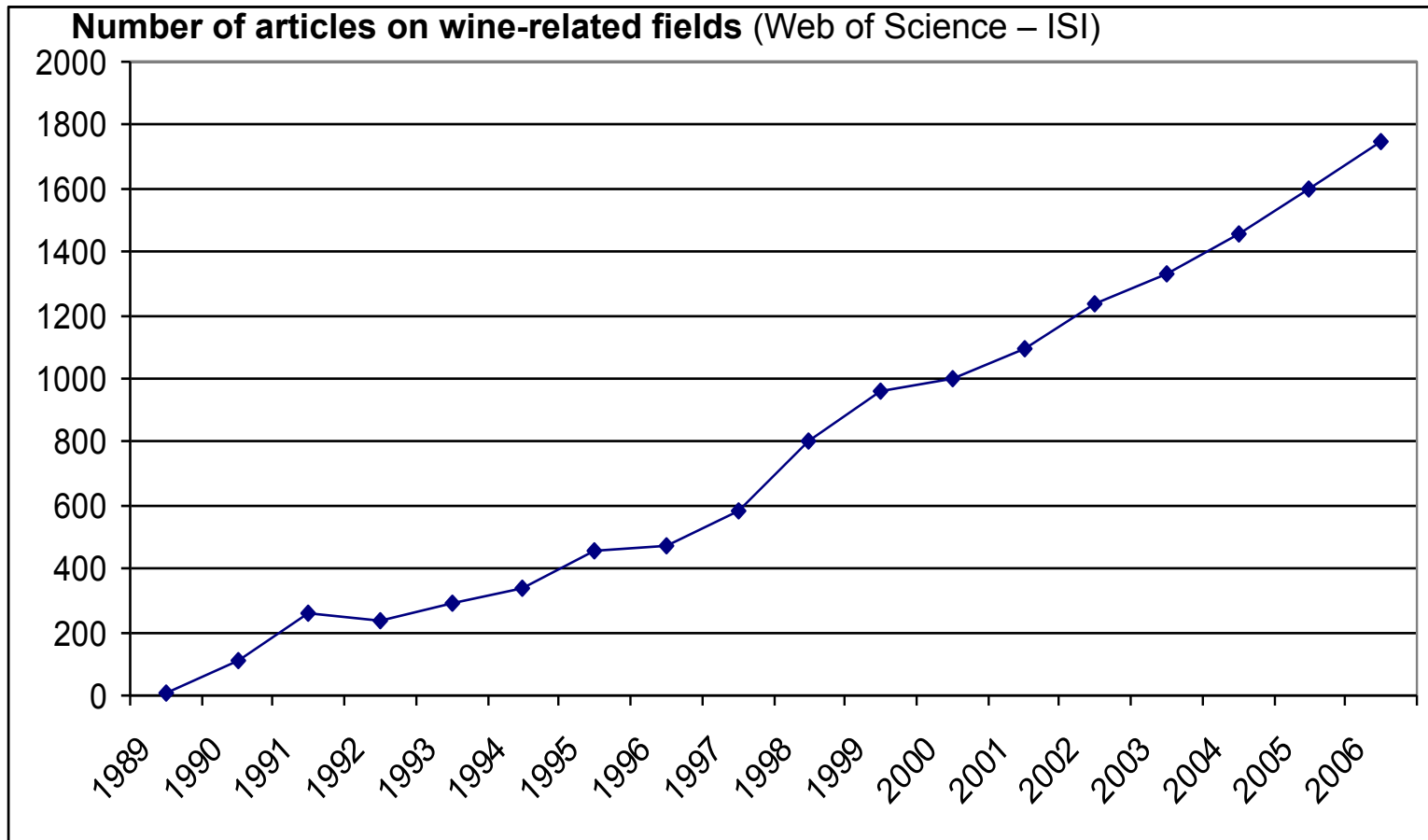
Demand changes embraced & favoured by California and Australia, followed by Chile, South Africa, Argentina,..., through:

- **Knowledge and technology:**
  - Investments in science;
  - Access to foreign knowledge;
  - Market-driven research to build up products satisfying new international tastes;
- **Market:** Aggressive marketing strategies, branding, large scale retailing;
- **Institutions:** Setting up of an efficient institutional framework.

**Old World:** Initially, inertial response (strengthening the concept of *terroir* and maintaining a producer-driven approach).

# Knowledge

Intense process of knowledge codification and formal investigation





# Technology

## NW: Market driven approach

- Research oriented towards responding to (and further strengthening) the changes in demand
  - Introduction of new grapes varieties;
  - Reduction of the variability of output in order to obtain wines with regular taste and quality.
- Large investments in human resources, marketing and branding;
- Access to external sources of knowledge (external consultants).

## OW: Producer driven approach

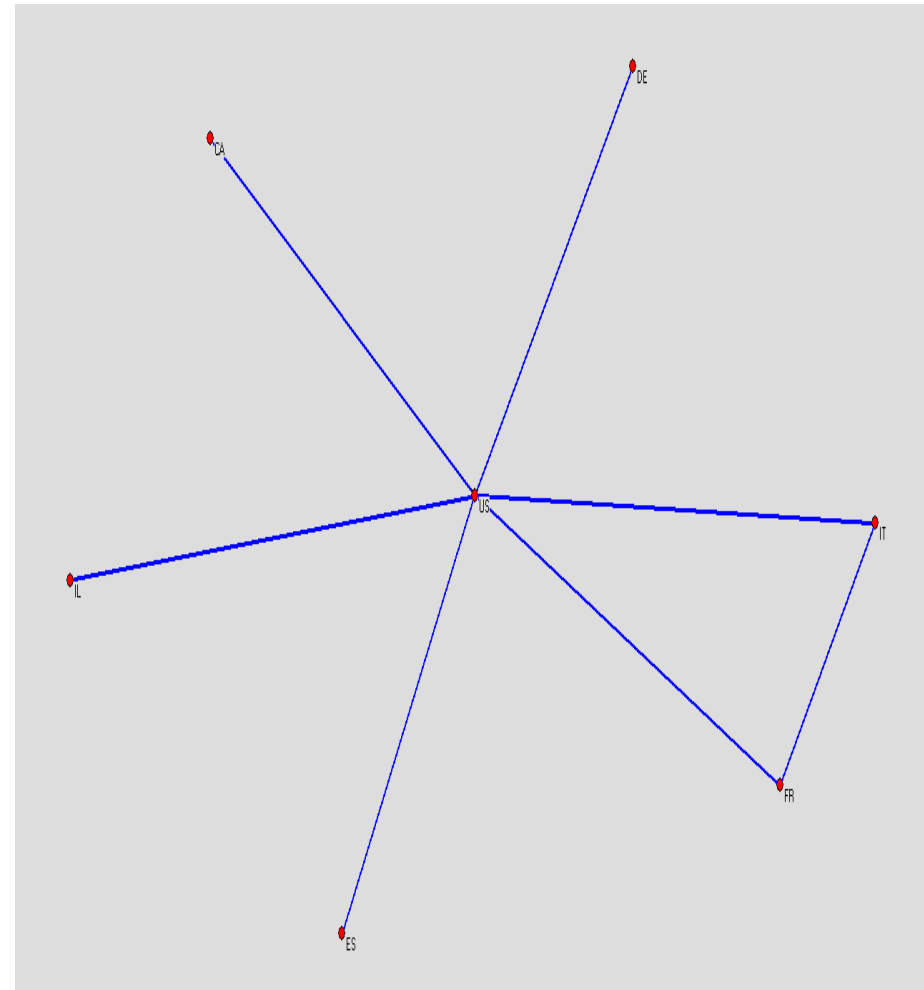
- Strengthening of traditional varieties;
- Process-related investments;
- In-house competences and local research networks
  - context-specific and cumulative learning.

# The importance of external knowledge

- Almost all the **Chilean firms** interviewed rely on external consultants as agronomists or oenologists (*the flying winemakers*);
- **Piedmont producers** rely exclusively on experts from the same region and on internal competences;
- **Experimental activity**: 85% of the Chilean and 67% of the South African firms do undertake this activity in collaboration with some external partners, while in Piedmont this happens only in 48% of the firms.

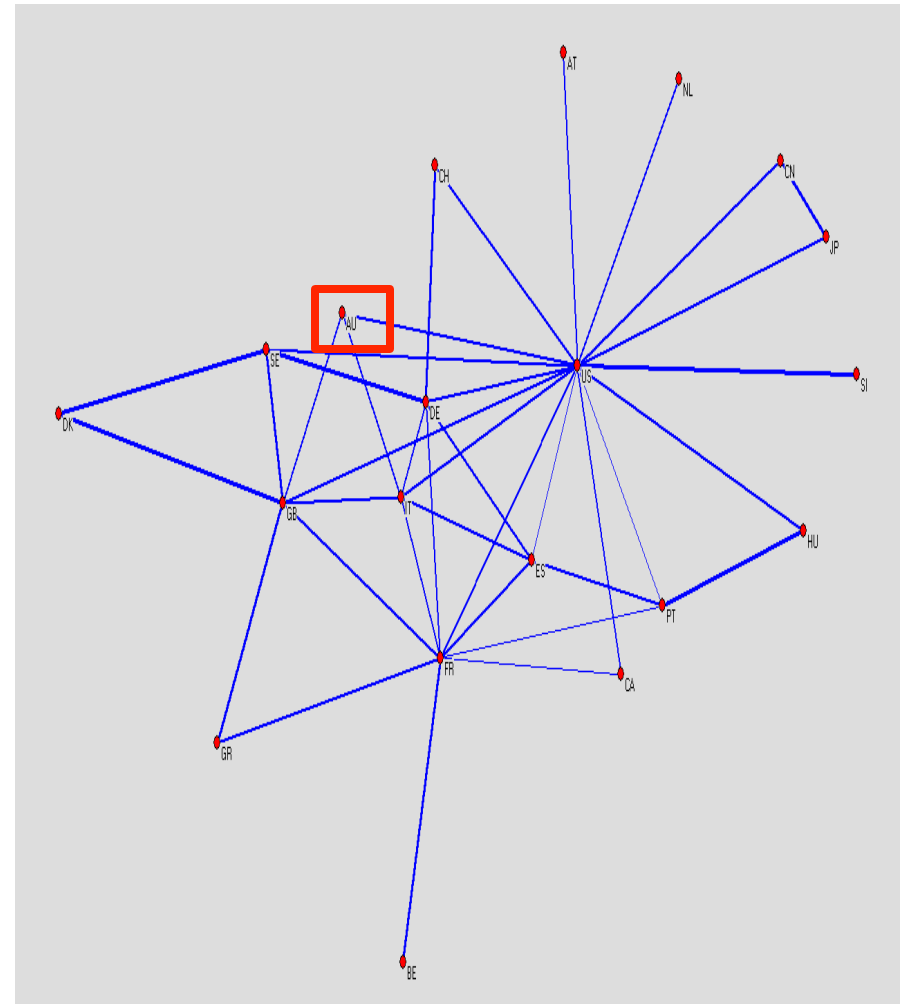
# Network of research collaborations between countries: 1992 – 1996

- Only European (France, Germany, Italy and Spain) and North-American countries, with the exception of Israel, are involved in international collaborations;
- The network is fully centred around the USA, with which all the other countries are connected



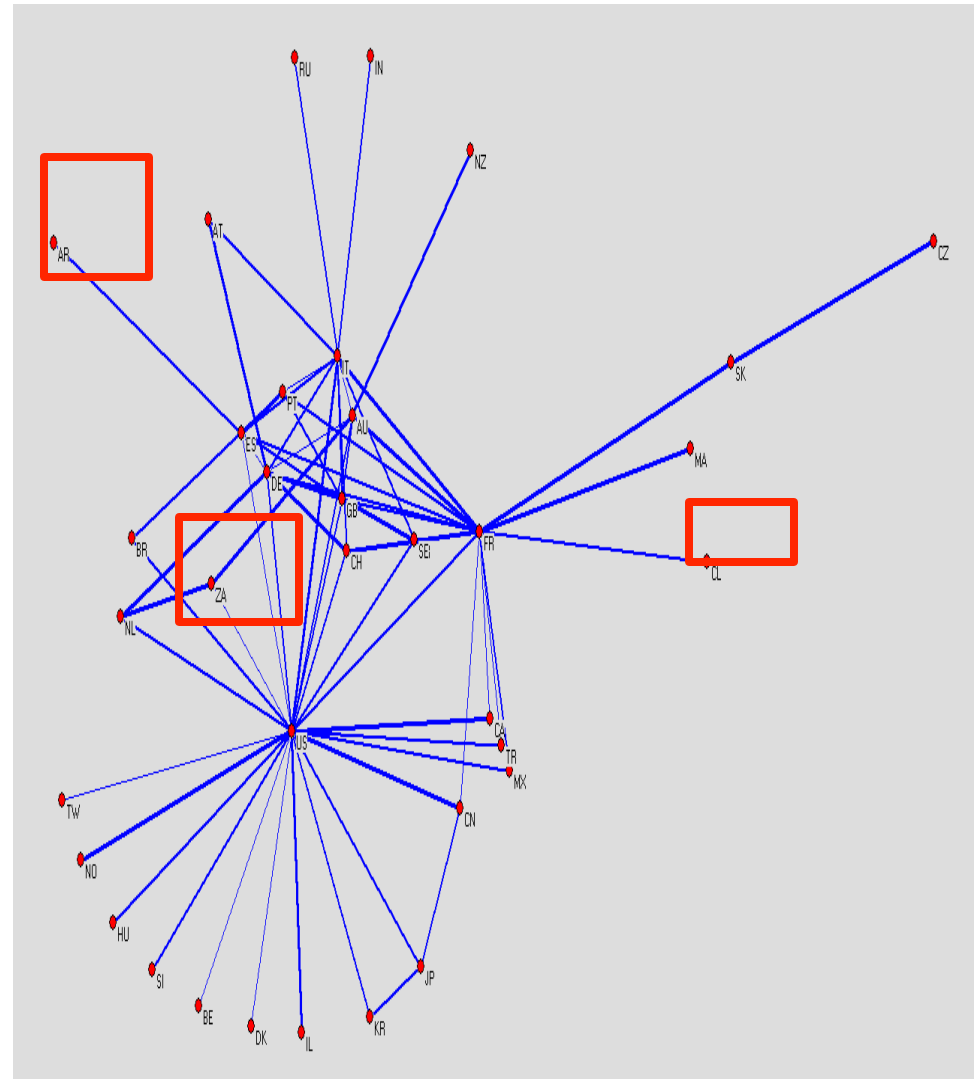
# Network of research collaborations between countries: 1997 – 2001

- The number of countries involved increases significantly from 7 in the previous period to 20;
- The USA is still the central player, being the country with most linkages;
- Among the new players, there are Australia, some Asian countries and some other European countries,



# Network of research collaborations between countries: 2002 - 2006

- The network increases its complexity with the participation of 36 countries;
- Among the new countries entering into the international research community by the time considered there are Argentina, Chile and South Africa.



# U-I networks in Chile and SA

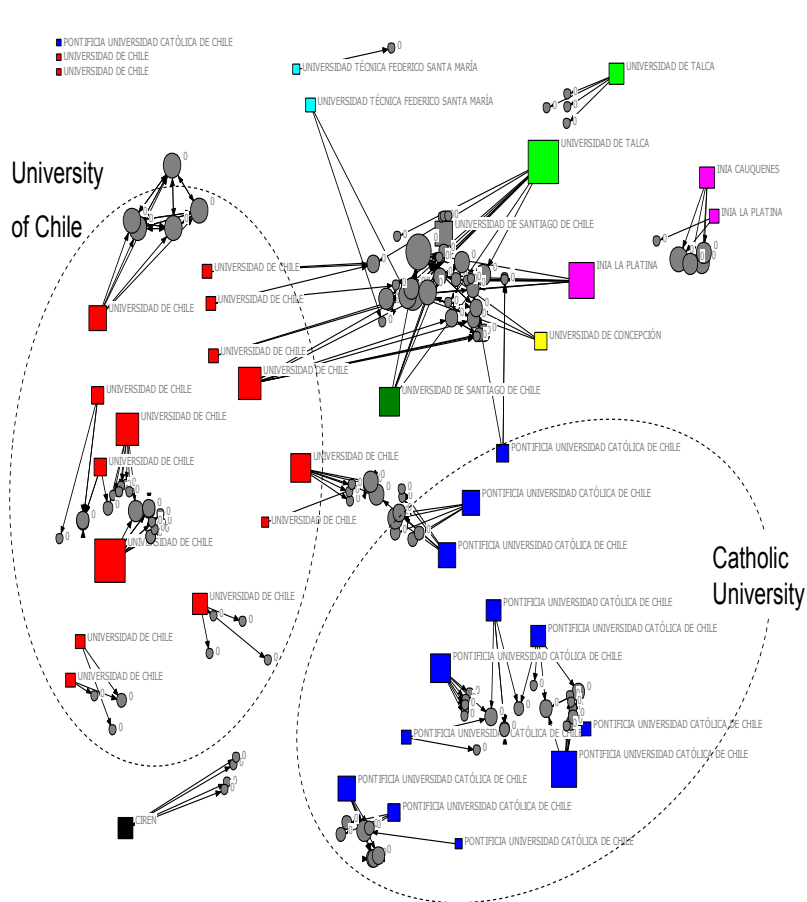


Figure 6 University-Industry network in Chile

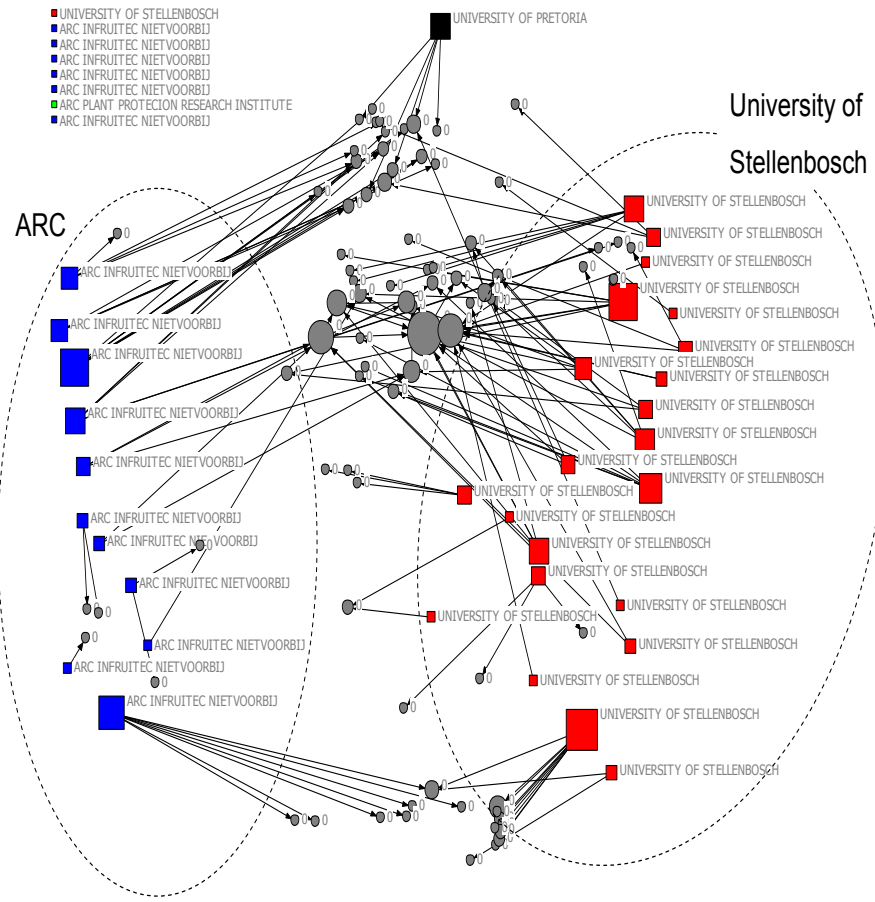


Figure 7 University-Industry network in South Africa

# Main Actors

- Remarkable process of consolidation across the NW, vertical integration, foreign capital participation;
- Italy is dominated by very small wineries;
- The sum of the total sales of the top 5 Italian wine producers is only €1 bln, much less than world leaders as *Constellation Brands* which almost reached €4 bln.

Rank	Company	Headquarter	Volume of sales (mln 9-lt cases)	World share (%)
1	Constellations Brands	USA	104.0	3.9
2	E&J Gallo Winery	USA	72.0	2.7
3	The Wine Group	USA	41.9	1.6
4	Foster's Wine Estate	AUSTRALIA	39.7	1.5
5	Pernod Ricard	FRANCE	37.5	1.4
6	Castel Freres	FRANCE	36.0	1.4
7	Bacardi	BERMUDA	25.7	1.0
8	Le Grand Chais de France	France	22.0	0.8
9	Vina Concha y Toro	CHILE	21.4	0.8
10	Distell Group	SOUTH AFRICA	20.5	0.8

## Institutions

- Following the early successful Australian experience, a ***top-down planning approach*** has been followed by South Africa and more recently by Chile;
- Industry-level umbrella institutions (one single organisation with different branches) are created with the aim of co-ordinating export oriented priorities and targets, promoting and socialising a vision for the industry at large;
- Italy: fragmentation and redundancy.



# Concluding remarks and some recent trends

- The wine industry represents an extremely interesting case in point of technological renovation driven by emerging countries that, following different trajectories, have been moving the competitive game on new playgrounds;
- Incumbents' response: inertia and then awareness of the new playground;
- Recently, the Old World has begun to respond through strategies of diversification and experimentation for upgrading. These strategies address the demand side evolutions, mainly the diffusion of a gourmet culture, in which wine drinking is perceived as contributing to a richer cultural experience, and variety and specificity are positive attributes;
- In this perspective, highly centralized R&D policies, such as those implemented by New World countries, may become increasingly inappropriate to tackle the emerging pattern of diversified demand?

**Forthcoming in 2010**

**Innovation and Technological Catch-Up:  
The Changing Geography  
of Wine Production**

Elisa Giuliani, Andrea Morrison &  
Roberta Rabelotti (Eds.)

Edward Elgar

**THANK YOU**