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Using theoretical models to examine the internationalization of company Viña Concha y Toro

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Abstract

Viña Concha y Toro, a successful international winery based in Santiago, Chile and ranked second worldwide by Power Brand 2011, has vineyards, production, sales, acquisition and distribution in 135 countries worldwide. The company, founded in 1883, is known as a leader in Chilean wine making and produces a wide-ranging brand portfolio with its varietal categories priced from US \$4.99 all the way up to its ultra premium wine priced at US \$40 per bottle. This paper looks at a variety of research theories of firm internationalization dating from 1966 up to 2009, and explains and parallels those theories in terms of the firm's successes and challenges. The paper concludes with a reflection of the company's current international leadership position and provides insights into the winery's future.

Resumen

Viña Concha y Toro, una compañía internacional de éxito, basado en Santiago, Chile y clasificado segundo mundial por la publicación Power Brand 2011, tiene los viñedos, la producción, las ventas, la adquisición y la distribución en 135 países mundial. La compañía, fundada en 1883, es conocido como un líder en la toma de vino chileno y produce una variada cartera con su categoría varietal a un precio de US \$4.99 todo el camino hasta su categoría ultra premium a un precio de US \$40 por botella. Este trabajo examina una variedad de teorías de investigación de

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la empresa desde 1966 hacia 2009. En él se explica y es paralelo a esas teorías en términos de éxitos de la empresa y los desafíos. Este trabajo concluye con una reflexión de la posición actual de liderazgo internacional de la compañía y proporciona información detallada sobre el futuro de la empresa.

Key words

Internationalization; foreign direct investment (FDI); Multi-Latinas; acquisition; distribution; subsidiary; oligopolistic; product life cycle; aggressive and defensive investment; horizontal and vertical integration; objective and experiential knowledge.

Palabras clave

Internacionalización; Inversión Extranjera Directa (IED); Multilatinas; Adquisiciones; Subsidiarias; Oligopolios; Ciclo del Producto; Inversión agresiva y defensiva; Integración vertical y horizontal; Conocimiento objetivo y basado en experiencia.

Introduction

The modern multinational or transnational company has been studied, particularly after the period of World War II, using diverse theoretical models written by a variety of researchers in academic settings. Starting as far back as 1960 with Stephen Hymer's Ph.D. dissertation at MIT and as recently as 2009 with Jan Johanson's updated reflections of his work with The Uppsala Model, theorists have provided valuable insights into the successes, failures, trends and evolutions of the contemporary multinational firm. Many of these international success stories have their roots in Latin American countries, referred to as Multi-Latinas. Examples of their diversity of products and services including the building materials company Cemex, fast food chicken chain Pollos Campero, automotive parts maker Sabó and wine maker Viña Concha y Toro (Gonzalez-Perez, 2012). The latter is the subject of this paper.

Viña Concha y Toro today is one of the world's largest wine companies with consolidated sales in 2012 of US\$735 million and more than 29 million cases sold globally. Through both sales subsidiaries, vineyards and outright acquisitions of other wineries and brands, Concha y Toro has a presence in over 135 countries. The firm has received worldwide recognition for its wines (Surman, 1996) with numerous awards and articles being written in such publications as *Wine & Spirits*, *The Wine Spectator* and *The Wine Advocate* (Concha y Toro, 2012a).

Process of internationalization

The company has enjoyed sustained growth, particularly after the period 2006, and is a world leader in wine exports with international sales focused in Europe, United States, Canada, Latin America, Asia and Africa. Key to the company's sales and exports strategy is stratification of brands and price portfolio, targeting different segments of the market with its lowest end referred to as varietal with a selling price of US\$4.99 to its highest end target known as ultra premium selling for as much as US\$40. The categories filling in the middle of the spectrum are referred to as premium and super premium. An example of a brand in each of these four tiers, from lowest to highest include: Fronterra, Casillero del Diablo, Marques de Concha Toro and Don Melchor (Desehpandé, 2010).

Another strategy for market growth and internationalization is the growth of distribution channels and agreements with other wineries. These include: Trivento Bodegas which operates in Argentina and a joint venture agreement with the French winery Baron Philippe de Rothschild which in 1997 gave birth to Viña Almaviva, a label which enabled the company to make inroads into well established, international wine circuits (Brown, 2000). Most recently, the company acquired Fetzer Vineyards in the United States. Fetzer is one of the top ten brands by volume in the United States with sales of 2.2 million cases. This was important for Concha y Toro strategically, as Fetzer is also recognized as an environmental leader, allowing the company to capitalize on a corporate image highlighting the firm's desire to mitigate such issues as climate change, energy efficiency, responsible water management and waste management (Concha y Toro, 2012a).

Description of the process of internationalization

In recent years, particularly from the period 2009 to 2012, the company has focused on building a broad reaching distribution network with long term relations in countries around the world including proprietary sales offices in the United Kingdom, Brazil, Sweden, Finland, Norway, Singapore and more recently in the United with the creation of Excelsior Wine Company, a marketing and sales partnership between Concha y Toro and Banfi Vintners, the winery's exclusive US importer for Concha y Toro and Trivento, dedicated exclusively to the US market (Concha y Toro, 2012b).

Concha y Toro has also expanded its internationalization presence by making long term investments in strengthening the company's production capacity. It has expanded the number of its own vineyards in Chile and Argentina to include the production of high quality grapes for a total of 9500 hectares, making Concha y Toro the third largest winery in the world in terms of hectares planted. In terms of

wine production capacity in Chile, the company has reached 355 million liters and 50 thousand casks (Concha y Toro, 2012c).

The following timeline provides a brief overview spanning the company's inception in 1883 to the year 2011, noting significant internationalization gains in the past 15 years (Concha y Toro, 2012d).

1883	Foundation of Viña Concha y Toro.
1933	The family business was first quoted on the Santiago Stock Exchange. This same year marked an early export vision with the first bottles being shipped to Holland.
1990	Starts intensive investment program, still in force today, involving vineyard expansion and operating capacity.
1994	First winery in the world to be listed on the NYSE. Fresh resources financed new developments.
1996	Trivento Bodegas y Viñedos founded in Mendoza, Argentina.
1997	Joint venture between Concha y Toro and Baron Philippe de Rothschild of France. Almaviva winery is created.
2000 - 2010	Expansion of vineyards, developing new sources and innovation. Brand building, integration of distribution and strengthening of global reach.
2010	Strategic partnership with Manchester United (Panja, 2011).
2011	Acquisition of Fetzer Vineyards in California.

Source: <http://www.conchaytoro.com/investor-relations/> (2012).

Oligopolistic theory

While Knickerbocker's 1973 theories were articulated and inspired by Vernon (Vernon, 1966) more than 40 years ago, and describe market dominance and oligopolistic structures primarily as they related to US firms, there are surprising similarities to some of the tenants and business models for the Concha y Toro company that exist as recently as 2010. These linkages are well spelled out in the trade and business press (Kiley, 2006) and are highlighted in recent corporate presentations made by Concha y Toro executives. For example, Knickerbocker describes the evolution of his thinking of Vernon's Product Life cycle (Knickerbocker, 1973) with three points, each with contemporary examples of the Concha y Toro Multi-Latina, in the table below.

Knickerbocker Life Cycle Tenant	Linkage with Concha y Toro
Developing a stream of new products and managing R&D efforts;	Since 1996 purchased vineyards in Argentina and California and established agreements in France to continually develop new wines, modify grape varieties and capitalize on R&D efforts in viticulture.
Producing these new products for large markets and managing the organization and ongoing adaptation in the first stage of the life cycle;	Focused and has grown exponentially in large overseas markets such as Europe, US, Canada, Latin America, Asia and Africa.
Selling the products by vigorously using sophisticated marketing techniques and organizational skills.	Dynamic and aggressive marketing techniques including strategic partnership with being official sponsor of Manchester United.

Knickerbocker referred to the “bunching up” of countries, industries and timing as he described the bandwagon effect of the evolution of the Product Life Cycle and foreign direct investment (FDI). According to a report known as Power Brand 2011 (Concha y Toro, 2012e) the contemporary wine industry shows a similar trend today as illustrated by the table below. We can observe that with the vast and diverse international wine market, only three countries and less than ten brands dominate the world market. Concha y Toro is noted in the #2 position (Concha y Toro, 2011c).

BRAND	COUNTRY	RANKING WINE BRAND
Gallo	USA	1
Concha y Toro	Chile	2
Robert Mondavi	USA	3
Yellow Tail	Australia	4
Hardy's	Australia	5
Beringer	USA	6
Sutter Home	USA	7
Jacob's Creek	Australia	8
Lindemans	Australia	9
Blossom Hill	USA	10

Finally, in discussing FDI and also referring to the Dunning model, Knickerbocker defines the posture of US firms establishing oligopolistic structures with what he terms aggressive investment and defensive investment. In the aggressive and dynamic nature of the Concha y Toro company, one could make a strong argument (Dunning, 1980) that the winery followed this pattern by being the first (aggressive investment) Chilean winery to expand its subsidiary overseas, and went on to implement an aggressive campaign of (defensive investment) by establishing additional subsidiary investments overseas. This could certainly be described as consistent with the Knickerbocker oligopolistic structures model, as excerpted by the firm's milestone timeline below:

- 1996 Trivento Bodegasy Viñedos founded in Mendoza, Argentina.
- 1997 Joint venture between Concha y Toro and Baron Phillippe de Rothschild (France). Almaviva winery is created.
- 2010 Strategic partnership with Manchester United.
- 2011 Acquisition of Fetzer Vineyards in California.

Internationalization/Organizational theory

Concha y Toro has experienced tremendous growth, particularly in the past five years from 2005 to 2010. Each year it has achieved an annual growth rate of 12%, combining its exports between Chilean and Argentine wine production. Corporate executives, during a recent presentation to investors, explained this tremendous success based on six simplified business strategies (Concha y Toro, 2011c). Is it possible that among these strategies, one could draw parallels between R.H. Coase in his 1937 paper, *The Nature of the Firm*, and pillars of success attributed to the Concha y Toro company (Coase, 1937). There does appear to be some contemporary parallels, particularly in regards to the company's focus on innovation, export orientation and international recognition. This may also be reflected further on with a more contemporary reflection of Coase's early work by Teece (Teece, 1977) and allow one to draw parallels to the multinational corporation of today, and particularly to that of Concha y Toro. In the table below, Coase's tenets are compared to their possible current day parallels with the Concha y Toro company.

<p>The less the costs of organizing and the slower these costs rise with an increase in the transactions organized.</p>	<p>Concha y Toro has organized its wine production and vineyards into three countries: Chile, Argentina and the US. This has limited production costs while increasing the number of transactions (sales).</p>
<p>The less likely the entrepreneur is to make mistakes and the smaller the increase in mistakes with an increase in the transactions organized.</p>	<p>Concha y Toro, for a multinational firm, has stayed remarkably focused and sells wine as its sole product with no other product diversification. One could say that this exclusive focus on wine, an industry it knows well, has limited its mistakes while growing exponentially.</p>
<p>The greater the lowering (or the less the rise) in the supply price of factors of production to firms of larger size.</p>	<p>Concha y Toro has limited its supply price of wine production by shifting from expensive, "old world" time intensive methods of production to the incorporation of modern technology in wine production with a more industrial approach with new facilities.</p>

As mentioned in parallel number two, Concha y Toro has focused only on wine, never even straying into the soft drinks or beer markets as some of its competitors have. (Harris, 2005). As such, one could surmise that it fits well into Coase's Horizontal and Vertical Integration Across Borders (1971) descriptions of types of firms, i.e., 1) produces the same type of product 2) outputs and some firms serve as inputs for others, and 3) outputs are neither vertically nor horizontally related to each other. Here we see, that his description of #1, clearly describes the Concha y Toro business production model.

Finally, around the time of 2006, Concha y Toro, and the country of Chile in general was at the point of trying to compete with what have been identified as "Old World" wine countries which include France, Italy and Spain (Desehpandé, 2010). Chile did not have what the wine writer Catherine Loshini (Loshini, 2004) described that it needed in terms of its image. It was certainly not "chic, nor classy and was not associated with romance and champagne." And so, it could be argued, that Concha y Toro had to win the hearts, minds and palates of Old World countries by utilizing what Forsgren describes as cognitive legitimacy or the adaptation of behavior to conform to a norm that is taken for granted in the society (Forsgren, 2008). While Concha y Toro may not have had to battle trade unions or regulatory laws, it did have to win over the media and the dining public and to drastically change the public perception of who was considered an international player and who was not (Ecock, 2011). Five years later, Concha y Toro has demonstrated expertise in the theory of internationalization as it has changed the way traditional markets, such as those in Europe, have come to view or critique a premium glass of Chilean wine.

Eclectic theory

In previous parts of this paper, and in looking at recent sales and profit trends for Concha y Toro, one could realistically assume that the evolution of this company was always taking an upward climb, and that things were always rosy. However, this is not the case. In February of 2006, the company's operating profits plunged 20.9%. It was theorized that this was due to two key factors: a glut and oversupply of wine in the world market and the weak condition of the Chilean peso in relation to the U.S dollar (Desehpandé, 2010). At this juncture, and fortunately for the company, things did begin to turn around for the better, and studying the initiatives that the company began to undertake, one could theorize that they may have paralleled the ownership advantages that Dunning explains in his research from the late 1970's (Dunning, 1970). It is not known whether the executive leadership at the time was contemplating Dunning's theories, nor do we know if they even ever read them, but what we can see is that Dunning's categorization of what he refers to as ownership advantages, must have some universal application to contemporary Multi-Latinas such as the Concha y Toro firm (Dunning, 1977).

In the following explanation, Dunning's 1977 generic description of his three types of ownership advantages are summarized, followed by a specific advantage to Concha y Toro, attributes, which could possibly be partially linked to its post 2006 turnaround, and specifically to its dominant position within the global wine market. Ownership Advantages: specific to an enterprise, which include competitive advantages towards rivals and enable the company to take advantage of investment opportunities when they arise.

From the period 200-2011 the company took advantage of winery purchases in Chile, collaborative agreements in France and an outright acquisition in California, USA to uniquely position itself in an ownership advantage with other rivals, particularly in Chile. It used its ownership advantage over the years to take advantage of these investment opportunities as they presented themselves.

Locational Advantages: those specific to a country which are likely to make it attractive to foreign investors.

At the current time, just in Chile alone, Concha y Toro has vineyards in every wine producing region in the country including Limarí, Casa Blanca, San Antonio, Maipo, Cachapoal, Colchagua, Curicó and Maule. In addition, it has 1,068 vineyards in Argentina and recently acquired Fetzer Vineyards of California. These vast holdings, spanning great distances and highly fertile lands, represent a tremendous locational advantage for the company and place it in a leading sales and export position worldwide (Concha y Toro, 2012a).

Internalization Advantages: benefits derived from producing internally to the firm, allowing it to bypass external markets and the transactional costs associated with them. Essentially benefits operating within hierarchies rather than markets.

Since its founding in 1883, the company has expanded its holding of vineyards and with the exception of its holdings in California, (outright acquisition) has basically grown its own grapes and expanded its sophisticated knowledge of oenology to produce exceptional wines. To the untrained wine consumer, this would not seem unusual, however it should be noted that in many parts of the world, particularly in France and the United States, it is very common for large and smaller wine producers to simply purchase their grapes from other existing vineyards, or at the very least, augment their own vineyards with outside grape purchases. Thus, producing wine from grapes grown internally to the company is a significant act of internalization advantage and one which separates the practices of competing wine companies. Other internalization activities know to Concha y Toro includes:

- The company maintains its own tasting center in Santiago as opposed to outside services;
- Designed, constructed and maintained its own, internal aging cellars;
- Maintains its own bottling plant;
- Maintains its own distribution subsidiaries in 135 countries worldwide;
- Coordinates communications efforts with internal public relations and marketing departments.

Uppsala Model

Concha y Toro, like many Multilatinas, did not become successful overnight, nor did it begin its evolution as a born global company. Rather, it has had a long history of evolution, dating back to 1883 when the vineyard was first started by Chilean nobility (Concha y Toro, 2011a). In fact, as noted by Harvard researcher Rohit Deshpandé (2010), Concha y Toro faced a very tough road as recently as 2006. As previously mentioned, a worldwide glut of wine coupled with an unfavorable exchange rate with the US dollar, meant Concha y Toro was in trouble (Deshpandé, 2010). Furthermore, Chile worldwide had a tough road to face in terms of trying to sell its image as a reputable player in the prestigious, and some might say snob-ridden wine culture of Europe and North America. Stated simply, in 2006, Chile was a tough sell to the world. Chile, even though it was located in South America, did not conjure of the romantic pictures of its Latin colleagues. It wasn't sexy like Spain and had no tapas culture to which it could connect. It had no identifiable cuisine like Mexico, no musical rhythms associated with it like Brazil, (Platt., 2010) and couldn't even be associated with its beef (a natural with wine) like Argentina. Sure, people knew

about Chilean fruit and farm raised salmon, but not wine. Even sunny Australia (a competing New World wine country) seemed to conjure up a more positive, festive image (Desehpandé, 2010).

And yet as Johanson and Vahlne surmised in their now famous 1977 article on internationalization and the Uppsala model, success came about slowly, incrementally, and over time. This success, no doubt, was what the authors describe as a combination of (Penrose, 1959) objective knowledge and experiential knowledge. Few international firms, the authors reflected, survive without a combination of the two (Johanson, 1975, 1977).

The table below illustrates this incremental internationalization, and highlights specific examples of both objective and experiential knowledge, as described by Johanson.

INITIATIVE	OBJECTIVE KNOWLEDGE	EXPERIENTIAL KNOWLEDGE JUSTIFICATION/ EXPLANATION
Successful, strategic sponsorship of the annual Manchester United football team.	Justification/Explanation	Company leaders used marketing savvy and experience gleaned over many years, reflecting trials and errors within the firm.
Developed stratified wine portfolio with four tiers of wines, ranging from varietal to ultra premium		Business executives including the Vice Chairman Rafael Guilisati studied case models of other brand segments including BMW and Mercedes.
Focus on Sustainable Development Commitment: Climate Change; Energy Efficiency; Responsible Water Management; Waste Management.	Outright acquisition of Fetzer Winery in California, a one-time financial purchase, further propelled the company into the world of environmental awareness by having Fetzer join the corporate team while injecting its image within the corporate culture.	
Developed modern “New World” production model of wines in ultra modern cellaring facilities focusing the middle tier wines to be easy to drink for a younger clientele.	Augmented talent team with highly trained, technically expert wine makers with talents such as Enrique Tirado who joined the company in 1993.	

Conclusion

In 2009, Johanson updated and reflected on his earlier work based on the 1975 and 1977 research of the Uppsala model, a study of four exemplary Swedish firms engaged in the processes of internationalization at varying levels. In his more contemporary words, which incorporated much of what has become known as Network Theory (Johanson, 2009) Johanson made a simple yet direct statement: “The ways in which human beings learn and make decision have not drastically changed in 50 years” (Johanson, 2009: 1421).

He also went on to defend his earlier work by stressing that the internationalization process is a continual, incremental process based on the interplay of interaction between attitudes and behavior. In further reflecting on his description of objective vs. experiential knowledge, he stated that “experience itself, can never be transmitted, it produces a change – frequently a subtle change in individuals, and it cannot be separated from them” (Johanson, 2009: 28).

Perhaps the successes and worldwide sales and leadership position that Viña Concha y Toro has enjoyed have been largely based on noted parallels in the theories outlined, by the likes of Coase, Dunning, Forsgren, Knickerbocker and others. And perhaps as Johanson suggests, that success has been helped with a healthy dose of common sense, leadership and life changing experiences.

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