Internationalization of clustered firms:

Lessons from Small Countries of the South

Track - Marketing Management

Abstract

This paper reports on a three country study examining the internationalization of firms in three wine clusters in Argentina, Chile and New Zealand. In depth interviews were conducted to document demographics and issues of trust, cooperation and sharing of objectives between the firms in each cluster. Key findings show that size and age is not a determinant of ability or propensity to export and that the establishment of a NGO or independent industry body greatly speeds up time to market and is a more effective and efficient route for SMEs to establish their brand in foreign markets.

Introduction

The last twenty years have seen increased interest in the nature, structure and functioning of clusters from academics, business owners, development agencies, NGOs & governments (De Propris and Lazzeretti, 2009). The wine industry is an interesting example of a product that relies on many different companies, regional recognition or branding and therefore a high level of cooperation to achieve maximum potential, particularly in foreign markets. The purpose of this paper is to report on the internationalization activities of three international wine clusters, all with different characteristics, profiles, age and complexity. The sample clusters were committed to exporting their product and drawn from established wine regions in three small southern hemisphere countries: Argentina, Chile and New Zealand. Key issues for cluster member firms include company size, volume & value of export sales, market selection, risk(s), branding and positioning strategies, export enablers e.g. cooperative initiatives and support from government and/or NGOs and export barriers. In keeping with the conference theme, all three clusters are differentially exposed to current economic turbulence, exchange rate fluctuations and local initiatives to assist their internationalization.

We define a cluster as a concentration of companies connected to and by an industry in a particular geographic location (Felzensztein et al., 2014). Thus a typical cluster would include producers, suppliers, intermediaries, contract service providers, 3PL companies and in some cases an industry body. Clusters arise and endure because firms that may be competing also share similar market ambitions and are able to leverage the cluster members' shared goals and aspirations. The encouragement of, and support for, clusters is an increasingly important matter for governments and local authorities (Felzensztein et al., 2010). However to be sustainable there needs to be a balance between cooperation, cluster development & support initiatives and competitive rivalry and differentiation. Cluster incentives and initiatives are becoming increasingly prevalent in national and local economic policies. To succeed, clusters must rely on heightened levels of sharing, trust and cooperation that are not found in 'normal' industry groupings. The extant literature on the merits and drawbacks of coopetition or cooperative competition demonstrates that such behaviors typically arise when industry linked companies, or a cluster, sense a partial congruence of interests and that by taking a more holistic perspective the value created by the cluster can be greater than the sum of individual firms' value creating processes. Such coopetition can take many forms; sharing of market knowledge, sharing of technical skills and/or capability and jointly shared marketing initiatives such as regional branding and international or domestic trade fairs (Felzensztein et al., 2013).

This paper considers the size, export activity and age of companies and the issues (enablers and inhibitors) they face in the three regional wine clusters. The qualitative data gathered allowed comparisons to be made between the clusters noting the challenges and opportunities that exist and the implications for international growth in similar sized clusters in similar sized economies.

Theory and Hypotheses

The literature states that companies which co-locate and display cooperative inter-firm links, achieve benefits as a group through a common understanding of their shared business environment. Bathelt (2005) argues that this process does not always occur in every agglomeration; rather, it occurs in well-managed and mature firms that participate in well-ordered clusters. The benefit(s) that firms accrue from cooperative strategies has also been well researched within the networks literature and more specifically within the Industrial Marketing and Purchasing Group (IMP) (cf. Hakansson et. al., 2006).

Business to business marketing relationships (Matthyssens at al., 2008) that lead to more meaningful interactions between firms and then to cooperation, are defined as "complementary actions taken by firms in inter-dependent relationships to achieve mutual outcomes over time" (Anderson and Narus, 1990 p. 42). Such interactions require a proactive attitude towards cooperation, building of trust and commitment (Morgan and Hunt, 1994; Nielson, 1998; Huemer et al., 2009), and the construction of social capital among the firms (Gulati et al., 2000; Gulati, 2007; Felzensztein et al., 2014b).

Brown et al (2010) argued that the co-location of firms in a particular region may have had as much to do with historical accident as anything else. The subsequent attraction of additional foreign and local firms usually depends on the likely or perceived economies of scale and the opportunities for all to function cooperatively to each member's individual advantage (Perry and May, 2007). However, these issues may be less important as drivers in natural resource-based and export-oriented industries. The location of the natural resources in specific areas is often the main reason companies co-locate. Gulati (2007) called this ´positional embeddedness´, noting that the network may be limited by availability of resources (e.g land, minerals, suitable terrain, skilled labor) and regional "lock-in" can occur leading to the decline of the entire network. Export oriented cooperation results through a shared understanding of the issues and the benefits, often initiated or facilitated by a NGO or Association (Felzensztein and Deans, 2013). Maskell (2001) suggests that the social process of inter-firm learning and innovation works best when the partners involved are located sufficiently close to each other to allow frequent interaction and effective exchange of information and ideas. The social processes embedded in regional communities that share a common knowledge base and culture, may be the best facilitator for inter-firm collaboration (McKelvey et al., 2002). Close proximity at a regional level facilitates frequent face-to-face interaction in both formal and informal settings. This process creates a common language or code of communication, referred to as tacit knowledge, through repeated interaction over time. This in turn leads to the creation of regional institutions that help reinforce an environment for inter-firm interaction (Salazar and Holbrook, 2007).

Social networks are key elements in both organizational and personal relationships in embedded local firms (Johannisson, 1995). These networks can also facilitate rich information exchanges that enable firms to learn about new international alliances and market opportunities with reliable partners (Ahuja, 2000). The literature identifies three broad types of networks (Mackinnon et al., 2004): exchange, communication and social. Exchange networks are commercial relationships between producers, suppliers, distributors and customers. Communication networks are groups or individuals who provide the firms with contacts and knowledge about business activities, e.g. industry bodies. Social networks are friendships and other connections (including formal and informal relationships) that provide support to owner-managers and have a broader scope of development and socially embedded norms and expectations. Informal contacts play an important role in building social networks, facilitating cooperation and the development of entrepreneurial SME export markets - especially those located in small export-dependent countries like New Zealand or Chile (Agndal et al., 2008; Evers and Knight, 2008). Additionally, informal relations and the interactions between firms and their local environment are key drivers for the development of trust and co-operation (Varamaki and Vesalainen, 2003).

Building inter-firm cooperation is not always straightforward and one of the fundamental problems, especially when multiple partners are involved, is the inherent conflict of cooperation and competition between firms. Researchers of the IMP Group argued that both cooperation and competition are needed for business relationships to be efficient (cf. Gadde and Hakansson, 1993; Ford, 2009). Zeng and Chen (2003) called the tension that this conflict generates, a 'social dilemma' as partners have to balance competitive and cooperative agendas.

Firms are motivated to cooperate if each potential partner has complementary goals and objectives, as well as similar corporate cultures and values. Several industry level factors may affect inter-firm cooperation including the stage of market development, as well as competitive uncertainty of firms (Eisenhardt and Schoonhoven, 1996). Following these assumptions, Ford (2009) suggested a challenging proposition for research, "that the extent of competition in networks will tend to decrease over time, unless this tendency is disrupted". The gap in the literature this study seeks to fill falls into three parts as articulated by our three hypotheses;

H1: A company is more likely it is to seek international market opportunities after considerable experience in its domestic market.

H2: A local dedicated industry organisation will facilitate and speed up internationalization of a cluster faster than companies working on their own if there are heightened levels of trust, cooperation and shared objectives.

Methodology and fieldwork

In order to explore these three hypotheses about the internationalization of cluster firms, field research using a multiple case study approach was conducted and then expanded using inductive reasoning (Yin, 1994).We selected three countries to enhance the validity of the results: Argentina, Chile and New Zealand, all of which are leading producers and exporters of wine located in the southern hemisphere.

Although the use of case studies raises issues of external validity and generalizability of results, this approach has many advantages, particularly for exploratory research, such as the current project. The study was based on a sample of 31 entrepreneurial large and SMEs in one valley in Argentina (Mendoza), two valleys in Chile (Maule and Cachapoal) and one region (Central Otago) in New Zealand. All but one of the firms were founded by family entrepreneurs, businessmen and professionals (with varying levels of secondary and tertiary education), many of whom still own the firm or are now the firms' managing or export director. A summary of the sample characteristics is presented in Table 1.

Insert Table 1 about here please

The interview process

The personal interviews were conducted in the main offices and vineyards where managing directors, sales directors or export managers worked. In Argentina this was in Mendoza, one of the main cities on the west side of Argentina. In Chile, the interviews took place in the cities of Talca, Curico and Santiago. The New Zealand interviews were conducted in the Central Otago sub-regions of Cromwell, Bannockburn and Gibbston Valley. Managing directors and export directors were found to be the most appropriate contact for the interviews as they had a "total picture" of the importance of their firms' internationalization process. However, in some cases, vineyard administrators and marketing managers provided appropriate and valuable information.

The use of managing directors/owner-managers as key informants in this kind of study is a convention of small firms' research (Tzokas, *et al*., 2001). Interviews were conducted in the local language, Spanish in Argentina and Chile and English in New Zealand, lasted for at least one hour with the Spanish interviews being translated into English.

The aim of the interviews was to collect pertinent data that would assist in understanding the make-up/demographic of the cluster, the prevalence and role of local/national associations, the cluster's relationships in the support of internationalization. Content analysis of the interviews was performed to understand how firms in each cluster internationalize. Data for the study was collected using semi-structured personal interviews as per the interview protocol shown in Appendix 1.

Industry selection

The selected companies were drawn from firms participating in the value chain activities of wine, a primary industry that makes a substantial contribution to the regional economies in all three countries. This particular industry was chosen for four main reasons. First, it possesses similar characteristics across all three countries. Argentina and Chile have similar cultures but are subject to different political and economic fluctuations. There are similarities between all three countries as well as interesting differences. Second, the industry is located or clustered in specific geographical regions in all three countries and contributes directly to the local economic development of the three rural areas. Third, all three countries are

‘New World Wine Producers’. Lastly, Argentina, Chile and New Zealand are significant world producers of wine, (6th, 8th and 18th respectively), with France, Italy and Spain combined accounting for 50% (14.6M metric tonnes) of world production (Felzensztein and Deans, 2013). New Zealand, whilst a smaller exporter by comparison is still a well-known and competitive ‘world player’. These four characteristics suggested that this industry sector would provide useful comparative data.

From a marketing and sales point of view, the wine industry in Argentina, Chile and New Zealand are different. Both the Argentinian and Chilean industries achieve 68% and 79% respectively of their sales in foreign markets (Felzensztein, 2011). New Zealand (Central Otago) exports by comparison average only 36% of sales.

The ‘‘cluster strategy’’ is different in the three countries. Argentina has a clear ‘‘top-down’’ approach, the industry being an integral part of the “Mendoza Wine cluster”. Chile has a ‘‘bottom-up’’ approach, led by the local companies with minimum government or external intervention. New Zealand has a different “bottom-up” strategy that is formed, controlled and managed by the cluster with pump-priming funding from the government. The cluster used those monies (several hundred thousand dollars) to form the ‘Central Otago Wine Association’ or ‘COWA’. The premium wine in the region is a Pinot Noir and all major vineyards grow Pinot Noir grapes. The reputation and success of Central Otago wines in world markets is largely due to the efforts of a COWA wholly-owned company ‘Central Otago Pinot Noir Limited or ‘COPNL’ Both these organizations have play critical roles in the marketing, branding and positioning of Central Otago wines and in the case of COPNL, Central Otago Pinot Noirs.

Argentina Results

Thirteen interviews were conducted in Mendoza, Argentina with respondents being referred to as (A1), (A2) etc. Fuller results (see Appendix 1 for questionnaire) will be presented at conference as the paper page limit permits only summary results here. These are presented in Table 2 and Table 3.

Results show that Argentina has started to work more consistently in new and more diversified export markets since the beginning of 2012. Some of the companies interviewed already export to countries such as the UK, Mexico, China and Brazil. The majority of the firms (eleven) are exporting over 50% of their total production, which is surprising as this is mostly from relatively young companies, eight of them have been operating in the wine market for less than 10 years and five of them began exporting around the time of their first vintage.

However, difficulties identified by managers included fluctuations in the Argentinean economy caused by inflation, taxing of exports and imports, currency exchange rate problems and the consequent loss of international competitiveness, a persistent structural deficit, commercial organization of the country and finally new government restrictions. The economic instability of Argentina has been compensated by regional cluster policies in the Mendoza valley, which are intended to facilitate companies' internationalization and to perform better in foreign markets.

Managers explained that the main decisions to begin the process of internationalization were import and export networks and the "*entry mode*" (A11). The majority of the firms agreed that it is essential to spread their internationalization efforts on a broad portfolio of potential new markets (especially new emerging markets) as this helps their export diversification process and minimizes their exposure to the economic crises in the more traditional European markets. This is exemplified by comments (A11) such as, *"companies learn in situ from consumers about their wine preferences. Companies are also maximizing their success by tailoring their strategies according to realities on the ground – a one-size fits all policy won't work. Accurate information of market trends and also economic and consumer drivers is critical"* (A6). Another important point is the geographic proximity of the markets as (A1) and (A6) explained: *"having a sales person or a commercial office in key markets is part of our internationalization strategy".* Additionally, (A1) highlighted that *"first of all, we needed to face the fluctuations of the Argentinean economy and the best way to do it was through an assertive company decision making process related to the key international markets the company would like to target"*. There were a couple of Argentinean companies with commercial offices abroad. For example, (A4) established an office in Brazil and the manager (A6) stated that they have an office through the government in Shanghai. Interestingly, none of the interviewed companies have explicit Joint Ventures with foreign firms.

Most of the Argentinean wine companies interviewed did not operate on-line sales, with the exemption of (A1), where internet sales account for about 1% of total sales. The Internet was utilized more for distribution, communication and promotional activity, e.g. informing consumers about their products, awards and up and coming events. Whilst the Internet and on-line social networks such as Facebook and Twitter, may help firms in their internationalization process, Argentinean firms do not see value in this channel and are not using, these tools. Results also showed that Argentinean firms focus their attention on *"good value for money"* as differentiation and competitive strategies in international markets. Interestingly, (A8) is using country image and region of origin *"from Patagonia"*, as elements of its differentiation strategy. (A3) is also using new labeling design for new markets as part of its new international positioning strategy. In terms of new product development for international markets, a few Argentinean managers specified that their firms are working on *"sparkling and organic wines"*.

The international competition faced by Argentinean wines seemed to be concentrated on local and Chilean wines although (A1) expressed that *"Australian and New Zealand wines are our main competitors"* While manager of (A5) mentioned *"Chilean, South African, American, Spanish and French wines are our main competitors in foreign markets"*.

Ten of the thirteen Argentinean firms were founded as family businesses.

Chile Results

Nine interviews were conducted in Chile and summary results are contained in Table 2 and Table 3. Six companies were interviewed in the Maule Region (C1 to C4, C6 and C7) and three companies (C5, C8 and C9) in the Chile VI region*: Región del Libertador General Bernardo O'Higgins*.

Results show that the majority of companies considered the main difficulties for exporting wines to other countries were *"the requirements to entry"* as they impacted on market access and *"barriers"* presented by prevailing political conditions. This was especially true in the case of emerging Latin America markets. Some managers pointed to the importance of satisfying foreign clients in terms of quality, grape and wine variety (organic, sparkling, premium or fruity wines). (C5) for example, noted that whilst exports is not an issue for their company, it could be for others: *"…exports can become a problem if your clients are not satisfied with the batch of products that you sent to them or if you don't present what foreign companies require you to achieve before entering in their market…in both cases they will send your batch back or simply don't accept your product…."*. Managers noted other complexities to exporting, as (C7) explained: *"…Some of our main problems with exporting products are the bad exchange rate against the Chilean peso which is now very strong while the dollar fluctuates'*. Other difficulties are related to the competitive Chilean market, (C1) *"We are a small company and have been in the market for more than 15 years but we are just starting to think about exporting products, which requires an incredible effort! It was impossible to do it before because of our competitors' low prices…"*.

Country image, political and economic situation were mentioned by one of the export managers during the interview as an issue when you export products, (C8) *"…as an Export Manager, I'm going to care about where I'm selling my products, so I won't send them where the economy presents fluctuations and economic crisis nor to countries where their governments are having problems with foreign companies…"*.

Chilean wine companies depend on *Export Managers* rather than foreign offices to export their products. There was only one firm (C5) which had Joint Venture (JV) with a company in Argentina. Several of the export managers explained some of the main decisions in terms of internationalization; *"First of all, we study the wine consumption per capita of wine products and then we study the market in-situ, participating in industry events and fairs. We make long-term commitment relationships with clients...", "We believe it's not the best strategy to have offices abroad and prefer agents in different part of the world and/or agents who speak local language in order to understand the culture and business..."*

It is well known that there is strong competitive rivalry within this industry as well as a highly individualistic business culture in Chile (Felzensztein, et al., 2010). Notwithstanding this, results show that Chilean *wine* companies are even more individualistic and there is fierce competition between them. Interviewees explained that there are plenty of small vineyards in Chile that are owned by some of the largest Chilean firms and that most of these small firms were founded many years ago as independent wineries. However, they are currently focused on providing different grape varieties, wine cellaring and supplies to the large parent firms. This is explained by (C4) *"…we used to produce our own bottles of wine and sell it, we used to export wine too, but we don't anymore, it is not worth it. We do not have the conditions, technology or facilities to compete with the largest Chilean firms. The best option for us is to sale them our grapes. They have won many awards with products that have been made using our grapes…"* In some cases, local vineyards used to produce wine for the large companies. As (C6) mentioned, *"We used to produce wine for some of the biggest Chilean wine companies and kept it in our own wineries...it's different nowadays…we only sale our grapes to them, we don't have a marketing department, not even an intention to grow a little bit more as a company…"*. (C4) and (C6) are indicative of the problems facing SMEs in their internationalization process, positioning and survival strategy, as strong rivalry between all sizes of firms is part of the competitive environment of this industry.

Collaborative marketing effort among Chilean producers is almost non-existent although recently the specific geographic location of key wine valleys has started to have an impact. Chilean wines are produced in 13 valleys up and down the country. As a marketing strategy, the closest valleys geographically have been grouped to become a valley region called "*Ruta del vino*". Examples within the region are '*Ruta del vino region del Maule', 'Ruta del vino de Colchagua',* and *Ruta del vino del Maipo Alto,* etc. Chile also relies heavily on co-operation through alliances with foreign wineries for communicating information about the upgrading of production facilities, wine making and wine marketing (Kunc, 2008). Another example of co-operation is the link between domestic firms and importers or distributors. Since small and medium size firms rely on the marketing knowledge and capacity of overseas distributors, as well as importers to manage their wineries' wine brand(s), lessons learned from foreign firms about successful co-operation between importers and distributors with small and medium size wineries was important in the development of the Chilean wine industry (Felzensztein & Deans, 2013).

Managers highlighted the long history and tradition of the vineyards, especially the ones that were started as a family business. Also the variety of awards that many vineyards have received and the number of foreign markets where Chilean wines are sold demonstrates the hard work by these firms. The market is however led by the three large Chilean companies and as (C8) manager pointed out, *"Even if we are the oldest Chilean wine company, we are exporting our products to many markets abroad and we have won many important awards, we have to discard the three biggest Chilean wine firms to compete in equal conditions against the rest of the firms and mostly to be realistic in terms of our goals every year…"*

One company (C2) expressed a preference to co-ordinate its own marketing activities without the interference from a third party. This is a company which was founded as a family-owned business and 100% of its sales are on the Internet. These examples demonstrate some of the characteristics present in individualistic business societies like Chile, which differ to some extent from those ideas expressed by the firms located in smaller communities, such as the regional cluster of Mendoza, Argentina or the cluster in Central Otago, New Zealand.

Respondents were keen to point out that small Chilean companies do not rely on the 'Trade Association Wines of Chile' to assist in the development of their collaborative marketing initiatives to gain an international competitive advantage in overseas markets. Rather, Chilean companies focused on using the country and region of origin, highlighting good weather conditions for wine production. As (C3) stated, *"Our wines differentiate themselves from others because of the special micro-climate produced by the mountains and the coast, as the vineyard is situated in the middle of them…I assure you these wines possess an unique taste and there isn't another wine anywhere around the globe with the same characteristics".* Apart from the design and labeling of their bottles they promote their history and tradition. In addition, all of the interviewees agreed that awards are very significant and positive to internationalize products (C5) *"We have built a strong identity, we have a reputation and a long history in the market, but our awards are most important because they help the company to be well-known abroad".*

Finally, Chilean firms are increasing their new product development activity. Companies are monitoring, analyzing and evaluating emerging consumer trends for products such as organic wine, fruity and sparkling wine. New products are being developed by marketing departments working with enologists and combining innovation and technology. As (C9) explained, *"We are a vanguard company which began the sparkling wine business in the country. We innovate with our solid marketing investment in foreign markets".*

New Zealand Results

Nine interviews were conducted in the Central Otago winegrowing region of New Zealand and Table 2 and Table 3 have some interesting summary results.

Results show that the New Zealand vineyards are considerably younger than their Latin American counterparts, the oldest being 26 years (NZ4) and the youngest only 5 years (NZ2). Interestingly almost all the vineyards have been exporting since their first vintage. This is in contrast to the South American clusters who tended to gain more domestic experience before venturing internationally. The percentage exported ranged from 5% (NZ2) to 60% (NZ8). Very few have international offices or JVs although two respondents do have warehousing facilities in their two top markets. This allows them to ship in quantity and deliver/on-sell on more of a JIT basis than the usual more protracted export-import timeline.

New Zealand enjoys a 'clean green' image and this along with regional factors, family history, terroir and the premium nature of the product was heavily emphasized when positioning wines at the premium end of the market.

One of the main barriers for the New Zealand companies to export is international exchange rate fluctuations coupled to a strong NZ dollar. This has had particularly strong negative impacts in the three key markets; Australia, USA and UK. The effects have been felt differentially by all the vineyards exporting to those markets. There is also the uncertainty of the WET (Wine Equalization Tax) rebate in Australia (NZ1 – NZ9). This is as system that was set up by the Australian government to benefit small Australian vineyards. WET applies at 29% of the value of the wine at the last wholesale sale (before adding GST). As New Zealand enjoys CER (close economic relations) with Australia, the system also applies to NZ companies exporting to Australia. Since Australia's recent general election the new Liberal leader Tony Abbott has not indicated his plans, if any for change(s) to the "wet tax" system. A third concern (NZ1, NZ3, NZ4, NZ6, NZ7 & NZ8,) to exporting is the activity of non-Central Otago wine companies (usually large corporates) buying grapes or juice from the region, shipping it north and 'creating' a label for their own Central Otago 'Pinot Noir', the flagship wine of the region. The success of Central Otago in branding the region and positioning its premium product (Pinot Noir) at the top of the market has meant that when the large wine companies are seeking to appoint distributors in international markets they 'need' a 'Central Otago Pinot Noir' in their portfolio. They also have the cash reserves to sell it at a loss and therefore dilute the 'Central Otago' brand.

Few Central Otago vineyards have the financial resources to undertake expansive international marketing activity. Coupled with their production costs, Central Otago is the most expensive wine growing areas in New Zealand due to the low yields and production capacity/growth as land is at a premium, so going it alone is rarely a viable strategy.

Current export markets were established and developed either for historical reasons, i.e. because they were English speaking (NZ4 & NZ5) or because of personal networks and contacts (NZ1 & NZ7). Few companies have strict market analysis, customer analysis and forecasting systems in place. Most differentiate between their *"key markets"* and their *"second tier markets"*. Key markets are often served by visits or better still, by bringing distributors to Central Otago. As (NZ4) stated *"we like to show them the snow, the slopes, and life on the edge"*. Second tier markets are serviced electronically or by visits arranged en route to a key market.

New Zealand cooperation through shared resources and initiatives managed by both COWA and COPNL has given small vineyards access to global events e.g. trade fairs under the umbrella organisation with or without having a physical presence. Options range from user pays stand space at international wine fairs as part of a COPNL stand or bottles of wine presented at special importer/sommelier events in potential markets without the winemaker needing to be present.

New product development and differentiation strategies were more common that might have been expected given the time from planting a new grape variety to achieving a marketable wine of sufficient volume. However most development was around single vineyard releases (NZ3), organic and/or sustainable certification (NZ5), adding a Rosé to the portfolio using exiting grapes (NZ8), offering different bottle sizes (e.g. 375ml) (NZ7) or a new label for existing wine for an export market (NZ4). All respondents promoted their wines in a manner that reflected either their beginnings (family owned) the scarcity of the release, the region, sub-region or 'Block' the wine came from and always the premium quality of the wine.

When considering the domestic market, all respondents considered each other to be among their main competitors. As (NZ5) stated, *"every time a bottle of Central Otago wine is sold, one less bottle of mine is sold"*. Internationally, their main markets had a mix of domestic wines and imported wines. Recently, Australia has shifted from 90% domestic wine consumption: 10% imported wine consumption to approximately 70% domestic: 30% imported with their biggest selling white wine being NZ Sauvignon Blanc. On the other hand, the UK as a market has many (small) domestic vineyards but still imports around 99% of its wine from all over the world.

Whilst every vineyard has a website, their online sales were minimal on both domestic and international markets. The highest percentage of total sales online was 2% with most recording less than 0.01%. The online sales that did occur tended to be from existing customers who may have visited the vineyard while on vacation. All the websites were professional, up to date and informative, their main purpose is to inform and communicate brand values.

Insert Tables 2 & 3 about here

H1 was only partially supported; the results from Argentina and Chile showed firms had been exporting for around 50% and 30% of their company history and did support it. The New Zealand results did not as the average time for exporting was almost 70% of their company history. The reasons and implications will be discussed in the next section.

Looking at *H2* the existence of local, designated industry organisation, this hypothesis was supported. The Chilean results showed no such organisation and so little cooperation and a longer time to internationalize. Argentina had one such initiative and a history of exporting faster than Chilean companies. In the case of NZ, two such organizations were well established and had had a significant impact on all companies speed and success in internationalization, thus *H2* was supported.

Discussion

Considering the results in relation to *H1*, the majority of the wine companies which were interviewed have their products in foreign markets. Results demonstrated that on average it took longer for Chilean firms to internationalize than Argentinian firms and Argentinian firms took longer the New Zealand firms. The New Zealand firms almost always sought international markets from the first vintage and neither size nor age of company influenced their propensity to export. Three of Chilean firms do not export as it is more profitable for them to sell their grapes to other large wine companies and because it is too difficult to compete against these larger companies. All of the firms from Mendoza valley export their products, including small to medium firms less than 10 years old. Historically Argentina and Chile have had a more European history of wine consumption thus domestic demand was met by domestic production and little need to export. New Zealand on the other hand was more UK culturally orientated and only became more wine focused in the early 1990s. Thus firms were inclined to export an early stage as supply exceeded demand. There is also a trend in all three countries of having *Export Managers* instead of offices or joint ventures in foreign markets though some NZ companies leased or co-owned warehousing facilities in the USA and Australia. In summary, there does not seem to be any natural inhibitors to SMEs exporting early in their development. Barriers are more historical, cultural or (business) environmental. On that basis, SMEs should leverage the cluster's collective knowledge and experience and seek market opportunities to smooth out demand, economic fluctuations and other macro-environmental forces.

Turning to the results in relation to *H2*, there are again differences in behavior directly related to the existence or otherwise of a cluster organization and the associated trust, cooperation and shared objectives. When considering *H2* it is worth doing so against the individual countries' historical background.

Argentina has endured economic and political fluctuations over the last decade and this has been a key driver for increased co-operation within their wine sector. There has been a shared recognition that export activity is required to offset domestic currency volatility. This is one of the main reasons for increased co-operation within their wine sector. To achieve this, Argentina has implemented regional cluster policies in the region of Mendoza valley and a collective marketing campaign is being used in order to accelerate the process and scope of internationalization. Respondents feel there has been some level of cooperation and associated market success but also recognize that it is not a "*quick fix*" and that such initiatives can take several years to fully benefit members of the cluster.

Chile is in a more established economic and political period and is considered one of South America's most stable and prosperous nations. Perhaps as a consequence of this and their individualistic and highly competitive business culture (Felzensztein, et al., 2010) Chilean companies were more focused on their own sales and production and respondents did not mention the importance of collective international marketing strategies in order to internationalize their firms, preferring to compete individually foreign markets. Interestingly, some wine companies have started to work in their associated regional valleys where they belong, through the *"Ruta del Vino"*. However, much more coordination and cooperation between firms and the introduction of regional public policies are needed.

New Zealand has had a stable economic and political landscape for some time and as a result of it specific natural resources and lack of indigenous industry it has a market economy that depends greatly on export activity. The Central Otago region in New Zealand has a history and culture of cooperation, sharing and openness collaborative initiatives. Vineyard owners from 30+ years ago were very much pioneers as the region was not considered wine producing country given the prevailing weather conditions and topography. The formation of COWA, to which almost every single vineyard joined, was critical. Initial COWA seed funding, of several hundred thousand dollars, came from the NZ Government's *Trade & Enterprise* department. COWA was responsible for the marketing of the region. With very small productions in the early years, individual vineyards could not afford to market themselves or the region overseas. COWA was very successful at that. When the number of vineyards growing pinot noir grapes and producing high quality wines kept increasing, COWA set up COPNL (Central Otago Pinot Noir Limited) to market that variety alone. COPNL is owned by COWA as a separate stand-alone company. Events organized by COPNL are strictly on a ‘user pay’ basis. International events are more affordable when this umbrella organization manages a presence and individual vineyards have stands side by side. If an event is too small to merit a personal presence, e.g. a Sommeliers’ tasting in a distant and attractive market, a vineyard can make a contribution to the cost and have their wine(s) presented.

The overall Argentinian experience may be explained by economic drivers and the Chilean experience may be cultural and historical in nature. In New Zealand, associations were seen as pivotal to internationalization and marketing of the region. Whilst there is some achievement in Argentinian and optimism in Chile, the New Zealand clear success can be largely explained by the cluster’s trust, cooperation, sharing and almost unanimous support of ‘COWA’ and ‘COPNL’.

Conclusions and Contribution

Much has been researched and written on cluster behavior, drivers and measures of success.

This study has shown that when SMEs in clusters located in small countries seek to internationalize, there are two key issues they should take into account. The age, size and experience of the company should not be an inhibitor to internationalization. We have shown that very young clusters can have just as many export markets but much earlier in the companies’ and clusters’ life than was otherwise thought to be the case. Additionally we have shown that clusters find it easier and quicker to internationalize if there is a NGO body responsible for the overarching promotion and branding of the regional cluster. That body needs to full trust and support of all the cluster members. Equally the cluster members must display trust, cooperation and a shared vision for their collective future.

Managerial implications

The results of this study support the argument that SMEs within a cluster located in a small to medium economy should consider exporting as soon as sufficient product is available. The notion that domestic experience is a necessary precursor to international activity may have less meaning for firms keen to spread the economic and demand fluctuations that a single (domestic) market presents. A cluster policy that leads to a cluster-owned Association/Organisation can be beneficial for SMEs internationalization. Managers need to cooperate with each other, trust each other with their plans and visions and be prepared to fund the Association/ Organisation.

An addition, managerial lessons for emerging countries, such as Chile, shows an urgent necessity to create a new Trade Association that represents SMEs. This will allow more social and informal interaction between firms, enhancing the possibility of further inter-firm co-operation and thereafter a more effective internationalization process. This suggestion is also applicable for public policies aiming for more local and international competitiveness of SMEs in the emerging economies of Latin-America.

Limitations and directions for future research

Findings and conclusions based on this study need validation due to their limitations. The rather small number of cases (31) in three countries cannot be said to be representative in a statistical sense. There were some difficulties in collecting the data through interviews due to the lack of access and collaboration of managers especially in the case of Chile, where a more individualistic behavior and attitude prevails.

A recommendation would be to interview other wine companies from other regions in the three countries and conduct further analyses to support and confirm the conclusions of this study. In the case of Argentina, it would be interesting to return and record measures of success as attributed to the Mendoza Valley cluster initiative. In the case of Chile, it is recommended to conduct a qualitative study involving the main managers of each *"Ruta del Vino"* and analyze futures plans and polices regarding internationalization either of the valley or firms. In the case of New Zealand, it would be interesting to explore other sub-regions of Central Otago as well as other wine regions in the country. In all three countries a longitudinal study would offer some interesting insights to behavior and performance over time asas result of the different political, economic and cultural differences between the three countries.

Future research may also consider that in 2013, emerging markets continue to drive global economic and consumer market growth. Firms are overcoming the many challenges of operating in emerging markets by tailoring their strategies accordingly. The key to success is a thorough understanding of the operating environment and consumer trends in these markets. Companies are looking beyond the traditional BRIC markets, onto second tier markets such as the Future 7 (Argentina, Egypt, Indonesia, Mexico, South Africa, Turkey and Vietnam) and beyond to frontier markets, which are experiencing the fastest growth.

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Table 1: Sample characteristics

Country	**Nº of SMEs**	**Geographical location**	**Nº of firms that export**	**Nº of firms that are family owned**
Argentina	13	Mendoza valley: 13	13	13 (100%)
Chile	9	Maule valley: 6 Cachapoal valley: 3	6	8 (89%)
New Zealand	9	Central Otago: 9	8	9 (100%)
Total (n)	**31**	**31**	**27**	**30 (97%)**

Table 2 Company Size and Export Overview

	Argentina	**Chile**	**New Zealand**
Average age of company.	23	64	13
Average number employees.	76	80	8
Average number of years exporting.	11	19	9
Years exporting as percentage of company age.	48%	30%	69%
Average number of export markets.	17	25	10
Average percentage of sales	68	79	36

that are exports.

Table 3 Company Size and Export Overview

	Argentina	Chile	New Zealand
Top 5 export markets	Brazil, Canada, China, Germany, Japan, Netherlands, Spain, UK, USA.	Belgium, Brazil, Canada, China, Colombia, Ecuador Netherlands, UK, USA, Venezuela.	Australia, Canada, China, HK, Japan, Malaysia, S. Korea, Singapore, Sweden, UK, USA.
Market selection criteria	1. Sales 2. Distributor performance 3. Proximity	1. Sales 2. Culture 3. Dynamics (PEST)	1. Brand fit 2. Distributor performance 3. Accessibility 4. Culture 5. Language
Key export enablers	1. Medals and Awards 2. Sparkling Wine NPD	1. Medals and Awards 2. Organic Wine NPD	1. Coopetition 2. COPNL 3. COWA 4. Premium product 5. High cluster trust & cooperation
Key Export impediments, inhibitors & concerns	1. Exchange Rates. 2. Reduced 'cluster 'trust' 3. Argentinian economy (esp. taxes, inflation) 4. Government restrictions	1. Exchange Rates 2. Organic Wine NPD 3. Reduced 'cluster 'trust' 4. Political conditions	1. Exchange Rates 2. "Central Otago Wine" from out of the region leading to brand dilution 3. WET rebate uncertainty
Role of the Internet	Communication 0% to 1% Sales	Communication 0% to100% Sales	Communication <1% Sales

Appendix 1: Interview Protocol

Company: ___________________________

Interviewee: ___________________________

1. How old is the company?

2. How many FTE employees?

3. What sector of the industry do you operate in - winery, supplier, producer?

4. How did the founders meet each other? How many were they?

5. Level of education, years of education & years of international work experience:
   • Founder?
   • Manager?

6. How long have you been exporting to international markets?

7. How many markets do you export to?

8. What %'age of your total sales are exports?

9. What were your first five export markets?

10. What are your top five export markets?

11. With reference to your most important market, what is the %'age of imported versus local in each?

12. What are the key drivers of internationalisation entry mode, marketing and management decisions and market selection?

13. Do you have foreign offices?
    • If ***yes***, where?

14. Does the company have Joint Ventures (JVs) with foreign companies?
    • If ***yes***, who with?

15. What are the current barriers to exporting or forming a JV?

16. Role of the Internet in sales.
    • Domestic on-line sales as % 'age of sales
    • International on-line sales as % 'age of sales

17. Has the company:
    • Ever won any export and business excellence awards?
    • If ***yes***, have they helped to the company and/or products to achieve a better international market position?

18. Does the company have:
    • NDP Strategies?
    • Differentiation Strategies?

19. Who are the main competitors for the company?
    • Domestic
    • International

20. Which company features:
    • ***Currently*** differentiate you from your competitors in international markets?
    • ***Could*** differentiate you from your competitors in international markets?