"Export Emergence of Differentiated Goods from Developing Countries: Four Argentine Cases"

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Export Emergence of Differentiated Goods from Developing Countries: Four Argentine Cases*

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Abstract

This paper contains case studies documenting the process of export emergence in four sectors producing differentiated goods in Argentina: wines, television programs, motorboats, and wooden furniture. Each case describes the development of Argentine exports, provides a basic history of the sector and shows the types of practices adopted by firms that were able to export to the developed world on a consistent basis. Since in all of the cases except wooden furniture export emergence in the sector is closely tied to the leading role of an export pioneer, the case studies also explain how the background of this export pioneer enabled him to gain the knowledge needed to export consistently. Finally, the cases characterize how the business practices first adopted by the pioneer diffused to other firms in the industry leading to export growth in the sector.[1]

* A companion paper to Artopoulos A., Friel D., and Hallak J.C. (2011) "Lifting the Domestic Veil: Exporting Differentiated Goods across the Development Divide," NBER Working Paper No. 16947. We are especially grateful to Santiago Pérez for his enormous contribution to this paper as a research assistant. We also thank Alejandro Molnar and Gabriela Yu for their excellent research assistance and to Sebastián García Dastugue and Ezequiel Groisman for valuable comments. Juan Carlos Hallak acknowledges support from the NSF (Grant No. SES 0550190) and the ANPCyT (Grant No. 1643).

[1] This paper provides a detailed description of each of the four case studies. We develop a conceptual framework based upon these cases in the companion paper.

Introduction

The recent success of several developing countries in exporting differentiated[2] products to the developed world has been largely tied to the ability of their firms to insert themselves in global value chains. The companies that dominate the international production and distribution of this type of goods generally design their products in the developed world and locate a substantial portion of production activity in developing countries. The primary driver underlying their decisions to locate operations in those countries is the ready availability of inexpensive, unskilled labor (Abernathy et al, 1999; Gereffi, 1999; Humphrey and Schmitz, 2002). In contrast, firms in developing countries like Argentina that do not feature such availability of inexpensive labor are not competitive for participating in unskilled labor-intensive stages of global value chains. Nevertheless, differentiated exports could also be achieved by domestic firms operating independently of international companies. These firms could, in principle, design and develop their own products and sell them to the developed world. The hurdles faced by such firms are clearly significant but what these challenges are and how they can be overcome has gone largely unstudied.

This paper seeks to fill this gap by describing these obstacles and, in some cases, how they were overcome in four sectors producing differentiated goods in Argentina: wines, television programs, motorboats, and wooden furniture. Despite the different nature of these sectors, we find remarkable similarities in the challenges that domestic firms faced to export consistently to developed countries and in the ways in which some of them were able to solve them.

Our findings are based upon case studies conducted for each of these four sectors. In each case study, the first section describes the main features of the industry in the world and in Argentina. It describes the major players in world trade, changing trends in world consumption, and history and export evolution in Argentina. The second section contrasts the way of conducting business of successful exporters – the export business model – with that of firms oriented primarily towards the domestic market – the domestic business model. We divide business models in three components. The product component relates to how firms identify which products to sell and which markets to target, the production component to how they

[2] Differentiated products are characterized by disparities in terms of design, components, functions, durability, or other features that make them imperfect substitutes of one another to the eye of the buyer. This category of products is primarily – though not exclusively – composed of manufactured goods.

design and produce these goods, and the marketing component to how they sell them. For each of these components, we discuss the stark differences that we observe between how export-oriented and domestic-oriented firms conduct their business.

In all the cases except wooden furniture we identify an export pioneer, an individual responsible for first implementing the export business model. The third section of each case describes the history of the export pioneer and his role in the process of export emergence in the sector.[3] In particular, we explain how the pioneer's previous experience enabled him to gain the knowledge needed to export to developed countries on a consistent basis. We find several instances in which the possession of this knowledge constitutes the key factor underlying his export success. The last section describes how the export business model diffuses to other firms in the industry leading to export growth at the sector level.

Our study focuses on the challenges of exporting differentiated goods from developing to developed countries. The selected cases were chosen among sectors that display recent export growth, a large percentage of goods being exported to developed countries, and a non-trivial amount of exports. After this initial filter, we selected our four case studies with the goal of spanning a diverse set of economic activities.[4] Our final selection includes sectors in agriculture-based manufacturing (wines), traditional industrial manufacturing (wooden furniture), non-traditional industrial manufacturing (motorboats), and services (television programs). These industries vary in their stage of export emergence. In wines and television programs, export development is well advanced and features numerous established exporters. In motorboats, export emergence is incipient and involves only a few exporters selling regularly to developed countries. In wooden furniture, export emergence is also incipient but consists largely of firms exporting only sporadically. We present the cases in decreasing order of export development.

First, we describe the case of wines. Export emergence is well established in this industry. A substantial number of firms sell their wines to more than one hundred different destinations. Exports in this sector rose from US$ 25 million in 1993 to US$ 646 million in 2008, making Argentina the tenth largest exporter of the world in terms of value. Until the early 1990s producers of wine in Argentina focused on the production of table wines for consumption in the

[3] In the case of wooden furniture, where there is no export pioneer, we describe the experiences of the individuals and firms that were closest to the implementation of the export business model.
[4] See Artopoulos et al (2011) for futher details on the methodology for choosing the sectors.

domestic market. However, this orientation changed radically with the introduction of new-world techniques for the production of wines. These techniques first emerged in California and were later adopted by different wineries throughout the world. Nicolás Catena Zapata, who lived in California and is the heir of a traditional Argentine winery, was the first producer in Argentina to make wines according to new-world standards and successfully sell them abroad. His export experience provided many firms, particularly international ones, with a benchmark about how to successfully sell wines from Argentina to the developed world.

In the case of television programs, export emergence is also largely consolidated. Although the value of exports from this sector is difficult to calculate due to the fact that these products are not included in our customs dataset, it has been estimated to have grown from US$ 17.5 million in 1996 to US$ 304.7 million in 2007. As well as in the case of wine, export emergence in this sector was associated with major changes occurring in the sector worldwide, namely the emergence of TV formats in world trade of television content. A TV format is essentially the idea, main structure and salient features of a program. This structure is then adapted to the cultural idiosyncrasies of the markets in which the program is intended to be aired. The surge of formats provided Argentine firms the opportunity to take advantage of their resources in new ways. Currently, Argentina is the fourth largest exporter of television formats, only behind the United Kingdom, the United States and the Netherlands. The export pioneer in this sector, Horacio Levin, started his career in the television industry as an importer of TV programs and later turned to the production of formats. He has actively promoted the diffusion of the practices he developed to export formats from Argentina.

In the motorboats sector, export emergence is incipient. Only a few firms sell to the developed world on a consistent basis. Exports of motorboats have grown vigorously since the devaluation of the Argentine currency in 2002, going from less than US$ 3 million in that year to a peak of almost US$ 15 million in 2007. As in the case of TV programs, the export pioneer in this industry is a former importer. During the nineties, Luis López Blanco was a representative of international firms from the naval industry until he decided to produce his own boats with the goal of exporting them. His exposure as an importer to the business practices of leading firms in the sector enabled him to conduct his business in a dramatically different manner than that of traditional producers in the sector. Nevertheless, although López Blanco is a visible agent in the industry, only a few followers have appeared so far and it is still uncertain whether export emergence in this sector will take-off.

Finally, in wooden furniture export emergence is also incipient but is largely accounted for by firms that have not implemented the export business model. Exports from this sector increased from US$ 5 million in 1993 to almost US$ 25 million in 2008. However, most of this growth is due to increased sales to developing countries, especially neighboring MERCOSUR countries. In fact, exports have declined slightly from 2006 to 2008. Unlike the other three sectors we study, the wooden furniture sector does not display an export pioneer who has fully implemented the export business model. In particular, we find that the main difficulties to export consistently in this sector have stemmed from the inability of local firms to establish long term relationships with distributors in the developed world.

The aim of this paper is to document in detail the main features of the process of export emergence in all of the four sectors we studied. Based upon these cases, a companion paper (Artopoulos, Friel, and Hallak, 2011) builds a conceptual framework to interpret these processes. While this conceptual framework guides the organization of the cases we present here and the aspects we choose to emphasize in our description, the accounts of export emergence we document in this paper are self-contained pieces. Nevertheless, previous reading of the companion paper should allow for a richer understanding of the cases.

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CASE I: WINE

Introduction

Until the early 1990s producers of wine in Argentina almost exclusively produced table wines for consumption in the domestic market. By the beginning of the 21st century many wineries had shifted to the production of new-world wines largely for export. These wines are lighter on the palate and made according to quality standards that emerged in California during the 1970s. Wineries throughout the world which adapted these techniques would come to be known as "new-world" producers even when they were located in countries, like Argentina, that were traditional producers of wine. The quality standards that emerged in California during that period had come to challenge the commonly held assumption that quality wines could only be produced in France. After the emergence of new-world wines, drinking habits of consumers of alcoholic beverages began to bifurcate with consumers of traditional table wines either moving toward beer and similar alcoholic beverages or new-world wines. By making the transition to new-world wines many Argentine producers were able to begin to tap into this new market.

The dramatic decline in consumption of traditional table wines in Argentina required wineries in this country to seek to export, whereby the wines they sold abroad had to be adapted to the tastes of foreign markets. Previously, the limited exports that did occur consisted of wines designed for the domestic market. In order to take advantage of the emergence of the international market for new-world wines, wineries would have to understand the general nature of tastes in foreign countries and follow their evolution. At the same time, these firms would have to introduce scientific techniques developed by new-world producers for growing grapes and making wines, while at the same time meeting the particular demands of wine distributors in foreign countries. The latter was particularly important in enabling Argentine wineries to be able to export on a consistent basis. Although a number of wineries were experimenting with new-world techniques during the 1980s, Nicolás Catena is the pioneer in this industry because he was the first to make a new-world wine and sell it abroad on a consistent basis. His winery was also the first to successfully export an icon wine, the highest category for new-world wines. His achievement in selling this wine abroad in 1997 spurred further growth in this industry, causing a number of foreign wineries to begin operations in Argentina.

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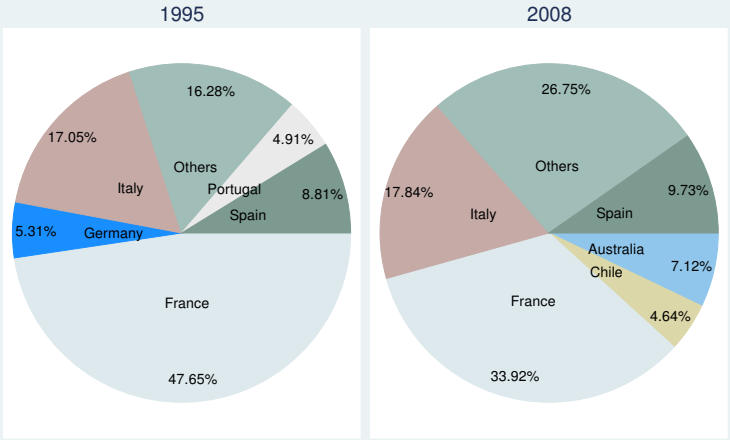
1. The wine industry in the world and in Argentina

i) World production and international trade

For decades France was the world leader and the largest exporter in the wine industry. Other traditional wine producers, such as Italy, Spain, and Portugal, were also among the largest exporters. These countries historically dominated the world wine industry and still enjoy a prominent position in it. However, the world market of wine has recently witnessed a surge of new important actors such as Australia, Chile, South Africa, the United States and Argentina. These countries had previously exported insignificant quantities of wine but are now currently among the largest world exporters.

The increasing preeminence of non-traditional exporters in the world market for wine is related to the significant changes that took place in this industry since the 1970'. when the notion that quality wines could only be produced by French wineries was challenged by a group a countries that made wines in the "new world" style. Figure I.1 compares the market shares of the largest world exporters in 1995 and in 2008. Between those years, the market share of non-traditional exporters of wine such as Australia, Chile, and a set of countries grouped in the figure under the heading "Others" (including South Africa, the U.S., and Argentina), displayed a remarkable increase. This growth was primarily achieved at the expense of France, whose participation declined from almost 48% in 1995 to 34% in 2008. By contrast, the market share of Italy and Spain remained almost unaltered.

FIGURE I.1
Share of world exports by country



Source: COMTRADE

The left panel of table I.1 provides more detailed information about the export value, share in world exports, and export unit value of the ten largest exporters in 2008.[5] At the top of the list are the traditional exporters of wine. France, Italy and Spain are still the three most important exporters with a combined market share of 61.5% of world exports. However, non-traditional exporters currently occupy some of the highest slots on the list. In particular, Australia and Chile are the fourth and fifth largest exporters. Jointly they account for 16.8% of world exports. Other non-traditional exporters in the list are the United States, South Africa and Argentina. Together, they explain 8% of world exports.

Table I.1. Top exporters and top importers of wine (2008)

Top Exporters	Value of exports (US$ million)	Share of world exports	Unit value	Top Importers	Value of imports (US$ million)	Share of world imports	Unit value
France	10061	33.92	7.35	UK	5240	17.66	3.71
Italy	5290	17.84	3.02	USA	4279	14.43	4.86
Spain	2887	9.73	1.78	Germany	3193	10.77	2.33
Australia	2113	7.12	3.01	Belgium	1616	5.45	5.06
Chile	1378	4.64	2.34	Canada	1506	5.08	4.31
Germany	1125	3.79	3.14	Netherlands	1302	4.39	3.15
USA	965	3.25	2.71	Japan	1251	4.22	6.51
Portugal	853	2.87	2.98	Switzerland	1146	3.86	6.29
South Africa	757	2.55	1.75	France	777	2.62	1.4
Argentina	646	2.18	1.51	Russian Fed	747	2.52	1.37
Top ten exporters	26074	87.90	3.31	*Top ten importers*	21057	70.99	3.39
Total exports	29663	100	3.32	Argentina	4	0.01	7.37
				Total imports	29663	100	3.32

Source: COMTRADE. Unit value is the value of exports in U.S. dollars per kilogram.

Although France's participation in world exports of wine has declined in recent years, this country still leads the industry in terms of quality. This leadership is reflected in the average

[5] For statistical purposes, the wine industry is composed of four 6-digit categories of the Harmonized System (HS): HS220410 ("Sparkling wine of fresh grapes"), HS220421 ("Wines other than sparkling in containers of 2 liters or less"), HS220429 ("Wines other than sparkling in containers of more than 2 liters") and HS220430 ("Grape must"). Non-sparkling bottled wine (HS220421) is the most important category in the industry, accounting for 70% of total sales in 2008. Sparkling wine (HS220410) is the second largest category, representing almost 20% of world trade in the industry. Bulk wine (HS220429) accounts for another 10 % and grape must (HS220430) for less than 1%.

unit value of its exports, which is not only the highest among the ten largest exporters but also more than doubles that of any other country in this group (see left panel of table I.1). Part of this salient feature is due to composition. France exhibits almost no exports of bulk wine, a product with a mean unit value below the industry average. However, it displays above average export shares of sparkling wine, the product category with the highest mean unit value in the industry. Despite these compositional issues, when considered separately France still displays the highest export unit value in bottled non-sparkling wine (HS220421) and in sparkling wine (HS220410). Even the limited amount of bulk wine exported by France has a high unit value, second behind Germany (HS220429).[6]

The right panel of table I.1 exhibits the import value, share in world imports and import unit values of the ten largest importers of wine. The United Kingdom and the United States are the largest importers in terms of value, with 17% and 14% of total wine imports, respectively. Germany, Belgium and Canada, are the next three largest importers. These five countries accounted for more than half of total imports of wine in 2008. Although a few countries appear on both the left and the right panel of the table, one distinguishing aspect of this industry is that most of the ten largest world importers are not significant exporters.

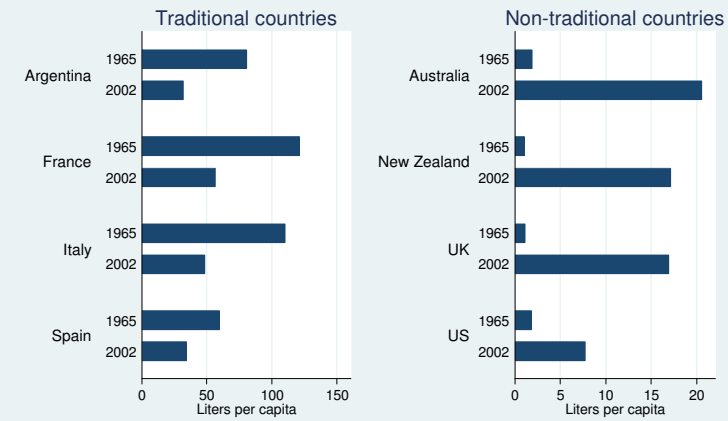
ii) Changes in world consumption patterns

Patterns of alcoholic beverage consumption began a process of deep transformation in the 1970s. On the one hand, in traditional wine-drinking countries such as Argentina, France, Italy, and Spain, consumers of table wines started to shift toward either beer or fine wines made in the new-world style. The decline in the intake of table wines was not fully compensated by the rise in the demand of new-world wines. As a result, overall wine consumption exhibited a dramatic decrease in those countries. On the other hand, wine consumption grew remarkably in countries such as the U.S., the U.K., Australia and New Zealand. Although these countries featured almost negligible levels of wine consumption in the early 1970's, their consumption levels have substantially increased after the introduction of new-world wines.

[6] More generally, unit-value rankings remain virtually unaltered when we consider each category separately (with the exception of grape must). However, differences in unit values tend to be exacerbated by compositional issues.

The stark contrast in consumption trends between "traditional" and "non-traditional" countries is displayed in figure I.2 This figure shows the evolution of wine consumption for selected countries in these two groups. The U.S. and the U.K. stand out as clear examples of the rise in wine consumption that took place among non-traditional countries. In the U.S., consumption grew from 1.1 liters per capita in 1965 to 16.9 liters in 2002, while in the U.K. it grew from 1.8 liters to 7.7 liters over the same period. This change in consumption habits explains the leading role of these countries in world imports (see table I.1). In contrast, traditional countries show a substantial decline in per capita wine consumption. For instance, in Argentina, France and Italy wine consumption in 2002 was only half that of 1965. Nevertheless, consumption in these countries is still considerably higher than in non-traditional countries (note the different scaling in the horizontal axis of figure I.2).

FIGURE I.2
Wine consumption in traditional and non-traditional countries



Source: FAOSTAT

iii) The wine industry in Argentina

The wine industry has a long tradition in Argentina. Its origins can be traced back to colonial times when grape growing was initiated in the provinces of Mendoza and San Juan. By the middle of the XVIII century, the country already had an established internal market for this product.

In the 1940s, the production of fine wines started to be gradually replaced by the production of less expensive table wines. Production in the industry remained focused on table wines for the

internal market until the 1980s, when some firms began experimenting with new-world techniques for making wine. Until that time, few winemakers had ever traveled abroad and apparently little was known about how other world producers had been changing the way in which they were making their wines. The relative lack of imported wines further limited the ability of local firms to change the way they were producing.

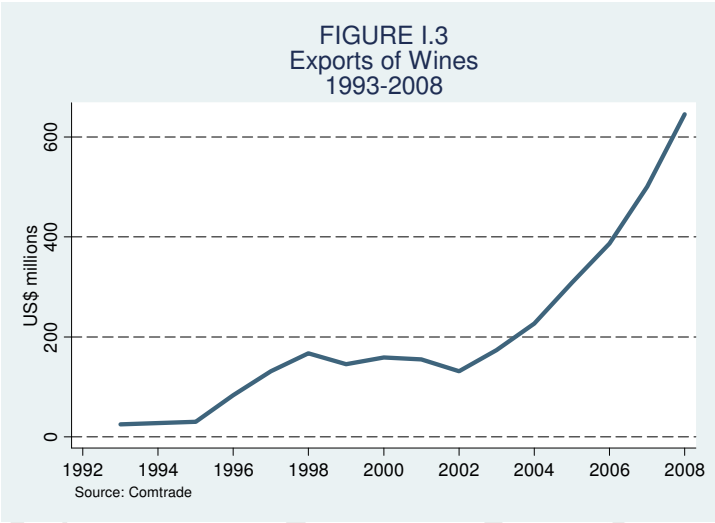
Although the consumption of table wines began to fall in the 1980s, economic conditions and policies designed to support this declining industry discouraged the vast majority of firms in this sector from experimenting with new-world techniques. In a context of high inflation, the government resorted to price controls. At the same time, hundreds of wineries and thousands of small grape producers were being artificially sustained by state-owned wineries. Other policies of the 1980s required producers to dedicate some of their grapes to the production of juice. These conditions led to a substantial reduction in the number of cultivated hectares, which went from more than 230.000 in 1980 to less than 150.000 in 1991 (Neiman, 2007). This situation changed dramatically with the liberalization and privatization policies introduced in the 1990s. These policies removed price controls and curbed inflation. The 1990s were a double-edged sword for producers of wine in Argentina. On the one hand, the appreciation of the Argentine peso brought about by the convertibility plan helped wineries by making imported machinery less expensive. On the other hand, the peso appreciation harmed them by dramatically increasing the relative price of wine produced in Argentina. The devaluation of the Argentine peso after the 2001/2002 economic crisis reversed this scenario causing a dramatic decline in the price of Argentine wines and privileging those wineries that had invested in new technology in the 1990s.

iv) Exports from Argentina

The vast majority of wine production in Argentina was historically oriented towards the domestic market. However, during the 1990s an increasing number of firms started to adopt new-world techniques for producing wine. This process of conversion gained momentum in the early 1990s and became widespread with the entrance of large foreign wineries to this industry toward the end of that decade. Several wines from Argentina also started being reviewed by the *Wine Spectator*, the most prestigious trade magazine in this field in the United States. For instance, an article in the January 1996 edition of this magazine claimed that there were only ten good wineries in South America, nine of them being in Chile and the remaining one in

Argentina. This winery was the export pioneer, Catena Zapata. This article is said to have attracted many foreign wineries to establish operations in Argentina.

Argentina's exports of wine grew substantially since the early 1990s. While in 1993 exports were only US$ 25 million, they rose steadily, reaching US$ 646 million in 2008 (see figure I.3). In that year, Argentina was the fifth largest wine producer – only behind France, Italy, Spain and the United States – and the tenth largest exporter in the world. The export growth that took place after Argentina devalued its currency in 2002 is particularly impressive. From that year until 2008 total exports increased fourfold.



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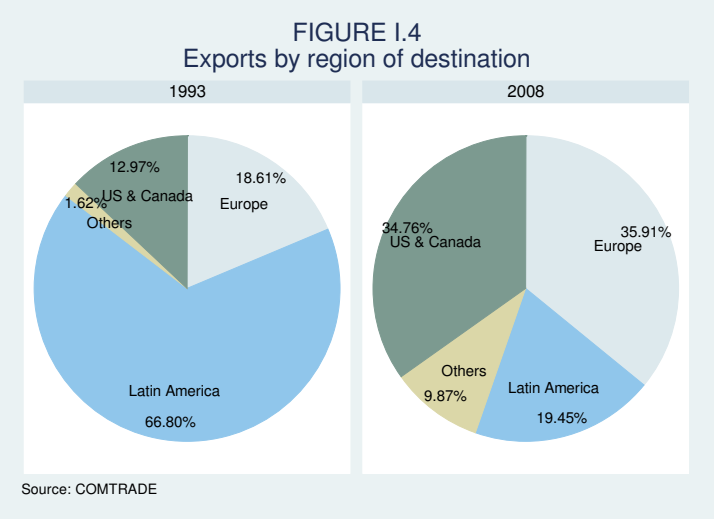
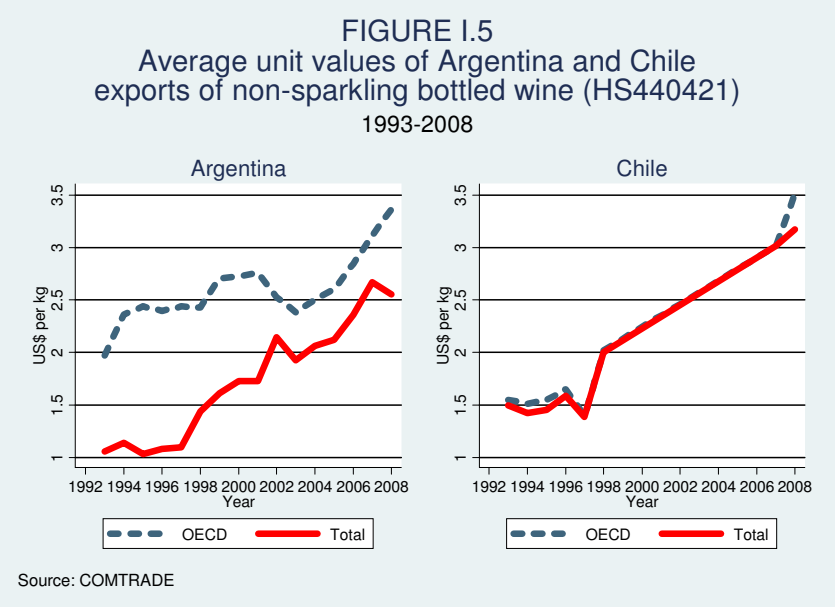
This export growth was accompanied by an important shift in the destination of exports. Until the 1990s, most exports of wine were directed towards neighboring countries. This situation changed drastically during that decade when sales to non-neighboring developed countries became the most important source of export revenue in the industry. This radical change can be observed in figure I.4, which displays Argentina's export destinations by region from 1993 to 2008. While exports to all markets grew, most of this growth was accounted for by exports to the United States and Europe, especially the United Kingdom. Sales to previously unexplored markets such as those in Asia also rose substantially over this period. Moreover, the number of countries to which Argentina sold its wine increased significantly, rising from 45 destinations in 1993 to 115 in 2008. At the same time, the share of exports going to Latin America declined remarkably, decreasing from 70% in 1993 to 22% in 2008.



The average unit value of Argentina's exports of wine is the lowest among the ten largest world exporters (see left panel of table I.1). However, the low relative unit value of Argentina's wine exports is largely explained by compositional issues. First, Argentina, in contrast to France, exports a relatively high share of bulk wine and a relatively low share of sparkling wine. Additionally, Argentina exports a larger fraction of its production to neighboring non-OECD countries, which tend to demand lower quality wines due to their lower incomes. Focusing on sales of bottled non-sparkling wine (HS44021), which is the most relevant product category as it accounts for 80% of Argentine exports, we find that the unit value of Argentine exports to OECD countries is similar to that of most of the other main exporters, except for France, Italy and Portugal.

The left panel of figure I.5 exhibits the evolution of the average price (unit value) of Argentine exports of bottled non-sparkling wine in the last two decades. Argentina has steadily increased the average price at which it sells its wines to the world. It is particularly noteworthy that the average unit value of wines exported from Argentina to OECD countries is considerably higher than the average unit value of all exports. This figure also shows that the average unit value of wines exported from Chile to OECD countries is practically the same as the average unit value of its total exports. The comparison with Chile is relevant because it is the largest exporter of wine in the region and is also the first developing country that transformed its wine industry to export consistently to developed economies. While the unit values of total non-sparkling bottled wine exports are higher for Chile, this is not the case when we consider only exports to OECD countries. When we focus on exports to the OECD, we see that Argentina's export unit values

have been substantially higher than Chile's for most of the period. Furthermore, they have been above those of Chile particularly in the early 1990's, signaling a difference in the marketing approach taken by these two countries.



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2. Export business model versus domestic business model

The transformation of Argentine wineries from producers of predominantly table wines for the domestic market to producers of finer quality new-world wines for consumers around the world required them to undertake a radical transformation in the way they grew grapes, made wines and sold them abroad. The goal of these wineries was to tap into the growing interest of consumers in new-world wines and learn how to follow the changes in their tastes so that they could continue to serve their needs over the years. To produce new types of grapes and make new kinds of wine firms had to abandon traditional, largely artisan, methods and embrace scientific methods imported from other new-world producers. The new-world way of making wines required vineyards to grow skinny grapes with little liquid instead of the large juicy ones used for table wines. This shift caused wineries to focus more on quality and less on quantity. At the same, time, the method in which wines are made was dramatically altered with the introduction of stainless steel tanks, allowing enologists to control the exact temperature at which fermentation occurs. At the same time, they have to understand the intricacies of

differences in tastes across countries and be capable of designing wines with particular customers in mind. Although new-world wines are generally lighter and fruiter than traditional table wines, consumers in some countries prefer more aging in oak barrels and others prefer wines with higher alcohol content. The challenges in this area are complicated by the fact that the intricacies of the tastes of drinkers of new-world wines across the world change over time. Foreign distributors can help local wineries to understand these, often tacit, changes in the countries in which they operate. Moreover, distributors of new-world wines seek to work with wineries that are capable of adapting their production to changing tastes. Many wineries find working with distributors in this way particularly challenging because prior to the introduction of new- world wines, wineries exported almost exclusively table wines, treating their products basically as commodities. Consequently, they did not seek to develop relations with their distributors and made limited investments in export activities, preferring to view foreign markets as additional channels to sell wines designed for the domestic market. In stark contrast, wineries that export new-world wines have to meet the particular needs of individual distributors in terms not only of the specific wines they seek but also in terms of conditions of sale.

i) The product component

Consumers of table wines, even today, focus largely on price and little on the quality of the wine or its specific attributes. Consequently, wineries that make such products do not have to meet the particular needs of their clients, but rather deliver a basic wine that meets very general parameters. These wines are still exported like commodities because they do not have to be adapted to the particular tastes of the consumer. Before the introduction of new-world wines, the number of consumers of high quality wines with distinctive features was limited, whereby the vast majority of these wines were produced in France. The introduction of new-world wines opened up a new market that provided consumers access to sophisticated wines at a price that was higher than that of table wines but lower than that of higher quality fine wines made according to traditional methods.

The appearance of new-world wines is strongly associated with a new attitude toward wine consumption. In particular, middle classes in the developed world started looking for quality

QUAERERE VERUM
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wines that did not cost as much as traditional high quality wines but still fulfilled their aspirational need to distinguish themselves from others.[7] This need was not present in the past for the middle classes and therefore it presented a new challenge to wineries targeting this segment. To meet these needs wineries would have to make subtle changes that were often not directly related to the quality of the product. For instance, wineries had to design labels that engaged consumers' emotions and aspirations by communicating information about the region where the wine was made and the features of the winemaking process that provided it a distinctive flavor.

New-world wines share some common characteristics. They are generally fruiter, more aromatic, lower in alcohol content, and less aggressive on the palette than traditional table wines. Nevertheless, even within this market segment tastes can exhibit substantial variation between countries. Given these differences wineries cannot merely export the same new-world wines that they produce for the domestic market. These wines have to be *designed* with the potential customer in mind. For example, consumers in some countries look for more aging in oak barrels while consumers in other countries prefer fruiter wines with less elaboration. Differences in tastes across countries can be significant. For example, U.S. consumers generally prefer wines with lower alcoholic content than clients of this product in Europe. A new world wine that wins a prize in one country can be seen as being rough by consumers in another. Furthermore, wineries have to continually experiment with new grape vines in order to keep up on trends in the world market and exploit emerging niches. As will be demonstrated below, they have to exercise strict control over how grapes are grown and wine is fermented in order to meet the particular demands of consumers in a given country.

Argentina has a particular capacity to continue to adapt its production of wine to the changing tastes of consumers because its soil can accommodate 28 different types of grapes. By comparison the soil in Chile can only produce quality wines using 5 different types of grapes. Given the wide variety of new-world grapes that can be grown in Argentina, wineries have a wide gambit to choose from when selecting the appropriate market segment(s). The real challenge faced by Argentine producers is determining how to adapt the wide variety of grapes available in this country to the changing demands of international consumers. To meet this

[7] In this regard, new-world wines share common features with other goods classified as "new luxury". New luxury goods are a "new category of products and services that possess higher level of quality, taste and aspiration than other goods in the category but are not so expensive as to be out of reach" (Silverstein and Fiske, 2003).

demand, Argentine wineries are continually conducting experiments to determine exactly what areas, out of the vast stretches of land apt for the production of grapes, are best suit to the production of any one particular grape.

Although such experiments are necessary, Argentine wineries can rely somewhat on traditional grapes to produce new-world wines, albeit applying new techniques to how these grapes are grown. One example is the use of Malbec grapes in Argentina. It became the leading varietal in this country; a varietal is wine that carries the name of a particular grape and eighty percent of it has to come from this grape. Despite the fact that this grape was the most widely used in traditional wines from this country, by 2005 it became the hallmark Argentine wine.

Nevertheless, wineries have to pay careful attention to how trends evolve. They cannot simply focus on producing Malbec wines nor can they even focus solely on the production of varietals. Wineries also have to pay attention to the segment(s) in which they sell their wines as trends differ according to segments. There are four basic categories for wines, namely premium (US$ 5-7), super-premium (US$ 7-14), ultra-premium (US$ 14-50) and icon wines (US$ 50 and above). Beginning in roughly 2010 there was a shift toward blends even within lower segments. Icon wines have always been blends, whereas ultra- and super-premium wines were previously dominated by varietals.

When wineries consider which segment to target they have to be aware not only of the trends in each segment but also the level of rigor that each of them require of their winemakers and agronomists. The higher categories of wines require winemakers and agronomists to meet the rigorous expectations of their clients. However, winemakers in particular have to show their individuality mainly in the upper segments of this market. In the lower categories, consumers expect wines to meet their specific criteria but they generally emphasize consistency and price. In contrast to exporters of fine wine, wineries that seek to sell table wines abroad do not have to change the types of grapes they use, the way in which they grow them or the manner in which they are fermented. They can largely be exported as commodities.

ii) The production component

One of the principle tasks of a new-world enologist is to *design* wines. This process involves making wines that are distinct while still meeting the general parameters outlined above. Only

wines made in this manner enable wineries to differentiate themselves from their competitors. At the same time, consumers expect wineries to continually surprise their clients with new, if subtle, twists in the wines they make. To be able to do so, enologists have to constantly taste each other's wines to try to understand how they are made. Even if an enologist can understand how a wine was made, no winery can produce exactly the same wine as the conditions under which grapes are grown are quite different. Enologists also have to listen to advice provided by foreign sales representatives so that they can try to adapt their wines as much as possible to trends in their target market(s). The ability of an enologist to meet these trends is limited by the types of *terroir* – the combination of soil and climate – available in the region in which they operate. In the end, the job of the enologist is to bridge the gap between what is desired by their winery's clients and what is physically possible given the available raw materials. As mentioned above, the wide variety of *terroir* suitable for planting new-world grape vines in Argentina provides this country's wineries a particular advantage in this regard.

International consultants prove particularly helpful not only in assisting enologists to determine the suitability of grapes for different *terroirs* but also in providing general guidelines about how a particular wine should be elaborated to meet the changing tastes of consumers of new-world wines. Nicolás Catena Zapata, the pioneer in this industry in Argentina, contends that the advice he received from such consultants was critical in helping him produce high quality wines. Some wineries rely on the expertise of such consultants only in the initial stages of developing wines, while others rely on them on a more permanent basis. They are referred to as "flying winemakers" because they travel throughout the world helping wineries to adjust their production to the specific needs of consumers.

Although flying winemakers provide knowledge and specific advice to enologists, the latter still have to adapt what they learn to the particularities of their winery, their vineyards, and the independent vineyards with which they work. Enologist have to oversee the day-to-day operations of the fermentation process, while at the same time cooperating with agronomists to ensure that the vineyards they use will yield the type of grapes desired. For higher quality wines in particular, enologists often work very closely with the agronomists from independent vineyards from which they buy grapes.

In stark contrast to the production of old-world wines, enologists producing new-world wines have to apply a rigorous, scientific approach to how they select not only what grapes they use

but where to grow them. Producers that work according to old world standards base their decisions on tradition rather than a careful, systematic analysis of possibilities. They merely use those grapes that were traditionally grown in a particular region. They do not conduct any experiments with new grapes and have little or no scientific understanding of why a particular grape works in a particular region. The new-world way of growing grapes presents a radical break with tradition as it requires wineries to deal with a vast array of uncertainties about how small differences in *terroir* can affect the tastes of grapes.

New-world enologists work with agronomists to determine what particular *terroir* is suited to the grape they wish to grow. Together they carefully investigate the chemical attributes of soils to understand what types of grapes are best suited to a particular area and to understand how these attributes influence the flavor of the grapes to be grown. This process is complicated by the fact that the chemical differences in two plots of soil located right next to each other can yield substantive differences in the taste of grapes. Unlike their traditional counterparts, new-world agronomists and enologists use a scientific understanding of how variations in rain and solar radiation over the years in the same location influence the quality of grapes. While they cannot control the latter, they often prefer to grow grapes in arid regions close to mountain ranges so that they can control the amount of water that grapes receive. Careful control over how much water grapes receive combined with careful trimming of grape vines enables vineyards to produce smaller grapes with more concentrated flavors, the type needed for the production of new-world wines. Fertilizers can also be used to further alter the flavor of grapes. By combining grapes for different altitudes enologists can create radically different wines. Consequently, many wineries have started conducting experiments of growing wines at ever higher altitudes.

Producers of old-world wines are not interested in applying these techniques to their vineyards. They are primarily interested in volume and less interested in engineering the exact taste of the grapes they use. Grapes for old-world wines do not have concentrated flavors. Consequently, producers of old-world wines heavily irrigate their vineyards rather than carefully controlling how much water they receive. Typically grapes grown in this fashion yield roughly twice as much grape must as those used for new-world wines. Hence, vineyards wishing to make the transition to the production of grapes for new-world wines have to upgrade the way they grow their grapes. If they fail to do so, they can only sell their wines in the general market for table wines.

Given the challenges of producing grapes for new-world wines, it is not surprising that producers that make them prefer to grow their own grapes or work closely with selected vineyards rather than rely on the spot market. This market is found wanting for producers of new-world wines because they seek specific grapes grown under specific conditions. Although new-world wineries generally prefer to produce their own grapes, they are forced to rely on independent vineyards in order to be able to continually make different types of wines that meet shifting trends in the world market. Vineyards cannot simply shift the type of grapes they grow from year to year. At the same time, a new vineyard can only produce grapes suitable for the production of new-world wines five years after it has been planted. By contrast, producers of old-world wines do not face this challenge as they rely on grapes that have a low level of asset specificity. Consequently, they are more likely to rely on the spot market. Traditional wineries wishing to make the transition to the production of new-world wines have to rely less on the spot market and develop close relations with independent vineyards. At the same time, they have to purchase a wide range of new equipment including refrigeration systems, grinding centrifuges, numeric presses, pumps, stainless steel containers, and 225 liter oak barrels. This equipment is necessary for making new-world wines but is not needed to make traditional old-world ones.

In many ways the actual manner in which wine is made has changed little with the introduction of new equipment and techniques. The critical difference lies in the scientific approach to wine making and the ability of enologists to carefully control the process of fermentation. It is nothing more than a chemical process in which the natural sugar of the grapes is turned into alcohol. As fermentation occurs the temperature of grape must naturally rises. Since the temperature in the fermentation process can rise too high and ruin the wine, old-world producers placed the 5,000 liter oak barrels in which formation occurs in a dark, cool location usually situated below ground. By contrast new-world wine producers use stainless steel tanks that enable them to control the exact temperature at which fermentation occurs, thereby enabling them to better control the taste of the final product. Enologists working according to these standards constantly observe the fermentation process, making minor, yet critical, adjustments when necessary. This type of control is unnecessary under the traditional style of making wine as the tastes of those wines are shaped primarily by mixing different types of grapes. Wineries that produce high quality new-world wines have to pay attention not only to how grapes are mixed but also how each type of grape used in a particular blend is grown.

In short, the scientific approach used by new-world wineries in the growing of grapes and the elaboration of wines is what distinguishes them from their old-world counterparts. The use of scientific production methods to control and manipulate the growing of grapes and the production of wine enable wineries to make products that match consumers trends. They can make the needed adjustments in the way they grow grapes and the way they ferment wine to meet changing tastes in the world market. Nevertheless, in order to be able to produce such wines, wineries have to keep up to date on recent trends in consumption.

iii) The marketing component

Even if a winery can keep up to date with recent developments in the evolution of tastes and use scientific rigor to make wines suited to them, they often face difficulties in convincing foreign customers of the quality of their wines and finding distributors that are willing to work with them over the long-term. Before the advent of new-world wines in Argentina during the 1990s, very few Argentine wineries had experience in selling bottled and branded wines abroad. The wineries that did export dedicated limited resources to this activity and generally chose to take advantage of sporadic opportunities rather than seeking a systematic manner for penetrating new markets. This behavior was not surprising as before 1990 Argentina exported limited volumes confined only to the table wines produced for the domestic market. Table wines throughout the world are generally sold as commodities. Consequently, Argentina lacked a reputation for being able to produce high quality wines. At the same time, these wineries had to learn how to create brands that would be readily identifiable in foreign markets. After wineries developed new-world wines, they began to turn their attention to tailoring wines to specific markets, developing relations with distributors and working on the image of Argentine wines abroad.

In order to effectively sell new-world wines in other countries, wineries have to develop long-term relations with their distributors and learn how to meet their particular needs. International wineries that open branches in Argentina have a particular advantage in this area as they can leverage their existing international commercialization channels to sell the wines they produce in Argentina. Wineries that are not owned by foreign companies face the challenge of creating their own network of international distributors. Although some Argentine wineries work directly with large retailers such as supermarkets, this is not common in this sector. The consolidation of distribution channels for alcoholic beverages throughout the world

causes wineries to prefer to develop close relations with specific distributors. Yet, in order to work with large retailers or distributors Argentine wineries have to be able to offer a wide variety of wines. They cannot just focus on the production of a few really high quality wines but rather have to offer a wide array of different ones.

Yet, meeting these demands of distributors is not enough. Wineries also have to develop strict quality controls and efficient back office procedures. The former goes beyond merely controlling the quality of the product. Wineries have to ensure that the labels on their bottles do not peel off and that the boxes containing their wine are not damaged and come with proper markings. As for the latter, wineries have to consolidate orders and payments and ensure that all operations are done according to schedule. These back office procedures and quality control measures help distributors run their operations more smoothly while also serving as signals to distributors that the winery is trustworthy. If a winery is unable to meet these requirements, the distributor will likely look for another winery that can meet their specific demands. Having a well-made wine is not enough. It has to be backed up by an array of services that facilitate the operations of the distributor. Meeting these requirements is particularly challenging for Argentine wineries, as domestic distributors do not hold them to such high standards.

Although Argentine wine producers have always conducted marketing campaigns in the domestic market, marketing wine in international markets is done differently. While advertising in the domestic market is still almost exclusively focused on non-trade specific magazines, such wine advertising in the developed world is less common. The variety of wines available for purchase in Argentina, where consumers drink almost exclusively domestically produced wines, is much more limited than in the developed world. Since consumers in developed countries buy wines from all over the world, the task of differentiating one's product from others proves particularly challenging for Argentine wineries. Consequently, wineries have to undertake different activities to promote their products in the developed world. Although advertizing at the point of sale is just beginning to take hold in Argentina, it is a key element of product differentiation in the developed world.

The bottle is a key element in selling any wine abroad as it attracts the attention of the consumer not only at the point of sale but also when it is put on the table to be drunk. Beverages and some condiments, unlike food, are the only products found on dinner or lunch tables that actually bear a label. The labels of wines are more important than in the case of

other beverages, including other alcoholic beverages, because people often examine a bottle of wine to learn about its origin. Hence, the label has to be attractive and communicate key elements about the wine to the consumer. Consumers pay attention not only to the country but also the region of origin. They expect to find a brief description of the wine that informs about its characteristics and perhaps some details about how it is made. It is critical for a label to mention if the wine is aged in oak barrels as this is a sign of quality. At the same time, wineries have to pay careful attention to the basic mechanics of labeling. They have to ensure, for example, that their labels do not peel off or have any visible defects. In the domestic market consumers are only beginning to pay attention to these details.

Wineries often find it beneficial to develop icon wines as a marketing tool. Although the margins on icon wines are extremely high, the production of such wines does not make sense from a strictly financial perspective as the volume produced is low; sometimes wineries produce as little as a few hundred bottles of these wines. Paradoxically, the average consumer generally does not like icon wines. They are radically different from the fine wines they are accustomed to drinking. Nevertheless, the production of such wines is generally seen by consumers as a signal that a winery is a high-quality wine producer. Hence, the image generated by the creation of such wines can help to improve the sales of relatively lower quality wines. Wineries tend to first produce higher quality wines and then move toward lower quality brackets in order to take advantage of this spill-over effect. The production of icon wines can also help a winery gain exposure in some of the most important wine magazines such as the Wine Spectator. In the domestic market the production of such wines is not as critical for the success of wineries because such specific trade magazines have yet to take hold in this market.

The ability of wineries to convince international consumers to drink their wines is also inherently connected to the reputation of the country in which they are made. While the preferable strategy for wineries is to move from higher quality wines to lower quality ones, the evolution of the taste of an individual consumer of fine wines moves in the opposite direction. They first buy the relatively lower quality wines of the brands or countries with which they are familiar and which they trust. If they like these wines they are likely to move to more expensive wines from the same country or winery. The wide variety of wines that can be purchased in any given store in the developed world causes consumers in these countries to face a high level of uncertainty when making their choice. Hence, they customarily base their choice on what they know about a particular winery and/or a particular country. Consequently, country of origin is

particularly important in this industry. The same is true for the region in which the wine is made. If a customer drinks a bad wine from a particular region, he or she is less likely to drink another wine from that area.

In the end, the real challenges facing Argentine wineries seeking to export new-world wines lie in understanding the evolving needs of their customers and being able to convince them that their winery and their country are able to produce wines that will meet their expectations. Relative to the difficulties that wineries face in the vineyard and the winery, the challenges related to the marketing component of the export business model are perhaps the most difficult as they require wineries to conduct activities in a way that is completely different from their ways of behaving in the domestic market and their traditional ways of exporting. The production component is perhaps the least difficult of all parts of the export business model in this sector because it involves wineries applying a scientific approach to a method with which they are already familiar. The product and marketing components are relatively more important than the production component because a good wine cannot be sold abroad unless it is adapted to the tastes of foreign consumers and sold in a way that accords with general business practices of these countries. The relative importance of these different components could explain why only two of the top ten exporters of wine from this country are actually owned solely by Argentines. Foreign wineries do not face difficulties in either of these components of the export business model as they are already inserted in markets in the developed world. Nevertheless, Argentine firms began to learn how to conduct business in this manner in the early 1980s when Catena Zapata returned from a stay in the United States and established what is widely accepted in this sector as the benchmark to be followed in all of the components outlined above.

QUAERERE VERUM
Universidad de
San Andrés

3. Export Pioneer

Nicolás Catena Zapata was the first person to elaborate a new-world wine in Argentina *and* successfully sell it abroad. In 1992 he sold his first bottles of fine wine in the developed world for a retail price of US$15 dollars a bottle, making him the first wine producer to reach this milestone in Argentina. Shortly thereafter other Argentine wineries followed in his footsteps. Even Chilean producers up until that time had been unable to sell wines at this price in international markets. In the meantime, Catena continued to work on improving the quality of his wines. In 1997 he was the first Argentine wine producer to sell an icon wine, fetching a price

of $80 in the United States. Catena's success was based on his ability to transform his traditional old-world style winery into a producer of new-world wines and establish a new network of foreign distributors. The latter proved particularly difficult, as Argentina had previously not sold higher quality wines abroad. Although he was able to learn about how to elaborate new-world wines from other new-world producers in other countries, his ability to penetrate markets in the developed world and successfully sell his wines in those markets arose from his own efforts. In the 1990s he often traveled to the developed world to convince distributors and leading journalists that his winery was capable of producing high-quality, new-world wines.

Nicolás Catena Zapata has strong roots in the wine industry of Mendoza, Argentina. The Catena family first planted a vineyard in Mendoza in 1902 with the goal of providing wine for the domestic market. Over the years the family was able to increase not only the number of vineyards it owned but also the size of their wineries, making this winery one of the largest and most prosperous in Argentina. Catena took control of the family business in 1963, ushering in an expansion and diversification of the firm. By 1976, Catena's company produced over 20 million bottles of wine, making it one of the world's largest wineries. Bodegas Catena Zapata owns parts of Escorihuela, Sacon, Esmeralda and Rutini wineries. Now Catena's company has 2,000 hectares of vineyards and an annual production of 30 million liters of wine. When Nicolás took over his family's winery, he was studying for his Ph.D. in economics at Columbia University in New York. During his studies, he traveled back and forth from New York to Mendoza on a regular basis. His experience living in the United States provided him intimate knowledge of how to do business in that country.

By 1979 Nicolás had transformed his company into the leader in the Argentine market. At that time, the company was selling 38% of the wines consumed in Argentina. His company led in all categories of wine except the medium-price range. In the beginning of the 1980s Nicolás decided to sell off his lower quality wineries and focus only on the production of high quality wines. When he sold these wineries, he was not thinking about exporting. Like many other old-world producers at that time, he did not believe that it was possible to compete with French fine wines.

In the latter part of 1980 he accepted a position as a visiting professor with the Department of Agriculture and Resource Economics at the University of California, Berkeley. He contends that

his decision to accept this position at Berkeley had nothing to do with the fact that Napa Valley, the region that pioneered new-world wines, is located nearby. Nevertheless, 15 days after arriving at this university he decided to take a tour of wineries in Napa Valley. The first winery he visited was the one owned by Robert Mondavi, one of the firms responsible for revolutionizing how wine was being made in California and a person who happened to have a B.A. in economics from Stanford. They would later become friends. On his trip to Mondavi's winery and his subsequent trips to other wineries in Napa Valley, Nicolás realized that the production methods that he was using in Mendoza were outdated. During his three years as a visiting professor at Berkeley, he would travel back to Argentina roughly once a month to continue running his family winery. Over his three-year stay in California, he would often visit wineries in Napa Valley to improve his understanding of how to make new-world wines.

Although Nicolás Catena Zapata was often traveling back to Mendoza during his stay at Berkeley, the real transformation of his winery to a new-world one occurred in 1984 after he finished his appointment in Berkeley and returned on a permanent basis to Mendoza. His vision was to export a substantial portion of wine produced at his wineries. His decision to transform his winery, according to Nicolás, was not based on a detailed economic analysis of potential markets but rather on a desire to emulate the success he had witnessed in the United States. He realized at that time that producers in the United States were competing directly with French producers in the market for fine wines. His goal was to do the same.

After returning to Mendoza, he began researching the best areas in that province to undertake his experiments, while at the same time importing new grape clones from France and California. He paid careful attention to ensuring that these clones matched the *terroir* of the areas in Mendoza in which he was producing his new wines. During this experimentation phase Nicolás Catena realized that Mendoza was perfectly suited for the cultivation of grapes for high quality wines because rainfall in that region is relatively scarce. He first experimented with Chardonnay and Cabernet Sauvignon grapes. Although these two types of grapes were hardly used to make wine in Argentina, it is perhaps not a coincidence that they were the two grapes used by Californian producers in 1976 to win the blind tasting in Paris that started the new-world revolution in wines. Although the cost of these experiments was relatively high, he realized that even if they were a complete failure he would not have been jeopardizing his entire business.

These first experiments enabled Nicolás to produce his first wine made in accordance with the style of new world producers in 1986. He decided to sell this wine only on the domestic market and not export it because he thought the quality was not good enough to sell it abroad as exporting it could have jeopardized his future business. After producing this wine, he realized that its quality was still far behind those he had seen in Napa Valley. Thus, he continued experimenting in subsequent years. While he was conducting these experiments, he traveled to California on a regular basis to learn how to improve what he was doing.

Despite these trips, Nicolás Catena realized that he would need the help of international consultants in order to successfully produce a new-world wine in Mendoza that could be sold on world markets. To help him reach this goal he contracted top new-world wine consultants from Italy, California and France. The first consultant he hired was Paul Hobbs, one of the most famous consultants responsible for transforming wineries in California. Nicolás believes that his investments in contracting consultants like Paul Hobbs were the key to his success. The help of these consultants enabled Nicolás to make his first sale to the developed world, namely to the United States. His first export to this country was conducted in 1992 and made from Chardonnay and Cabernet Sauvignon grapes harvested in 1990. By being able to sell his wine at $15 dollars a bottle, he set the benchmark for those to come. His wines were given remarkable reviews, enabling him to sell out his entire production of the wines. Now Argentine producers knew that it was possible for them to export new-world wines that were even potentially better than their Chilean counterparts.

To a certain extent, Nicolás Catena Zapata was thinking about the commercial side of his business even before the results of his experiments were clear. He had decided even before the grapes were harvested in 1990 that he would attempt to sell his wines at twice the price of the most expensive wines being sold from Chile. His goal was to demonstrate that Argentine producers could make wines that were better than their Chilean counterparts. At the same time, he knew that he would still have to find ways to promote his wines effectively so that he could create the basis for consistent foreign sales. Before Nicolás had transformed his winery's operations, his firms had exported limited quantities of wines. However, these exports only took advantage of specific opportunities. His firm before the 1990s did not have a specific export strategy. After his success in 1992, Nicolás knew that he would have to relinquish these limited deals and focus on developing relations with distributors that would be interested in selling his wines on a long-term basis.

Universidad de San Andrés

Nicolás Catena Zapata realized when he first started producing wines for the United States that the key to penetrating this market lied in working closely with U.S. wine journalists. This task was particularly difficult at the beginning because Argentine wines were simply not known in that country. Hence, Nicolás had to introduce journalists to his country and demonstrate to them that it was capable of producing quality wines. Consequently, one of the first events he organized for wine journalists in the United States was a show with two of the top tango dancers from Argentina. He traveled with them to seven different cities in the United States to ensure that his winery would become known throughout the country. In general, Nicolás believes that commercialization abroad requires independent producers like him to personally travel to other countries to introduce new products to journalists and potential distributors. Still today he travels assiduously to talk to journalists and distributors because he is convinced that even though his trademark is relatively established, it is the only way that people abroad will respect producers who are not connected to a larger multinational company.

Nicolás Catena's efforts to promote his wines and produce them at a level of quality equal to that of many new-world producers outside of Argentina led the *Wine Spectator* to contend in an article published on January 31, 1996 that there were only ten world class wine producers in South America. Nine of them were said to be in Chile and the other was in Argentina, namely Catena Zapata. Shortly after this article appeared many international wine producers started making wines in Argentina.

QUAERERE VERUM
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4. Diffusion

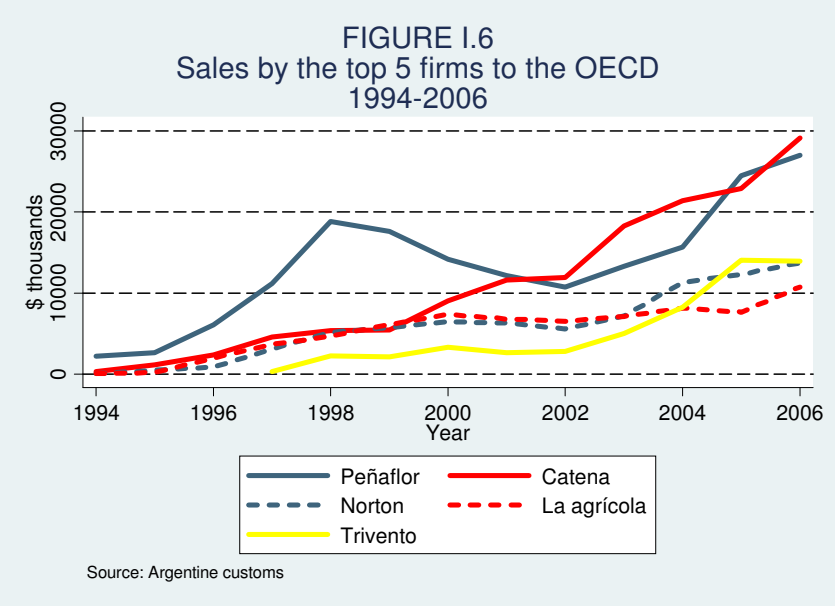
The wine industry's role as a lead export sector in Argentina is currently well established. In 2006, more than 210 thousand hectares of grapes were under cultivation and 462 firms exported their wines to more than one hundred different destinations. The province of Mendoza accounts for slightly over 90% of wine exports while the province of San Juan produces approximately 6% of this total.

To a certain extent the business model that emerged in the Argentine wine industry was a result of the diffusion of emerging techniques for growing grapes and making wine from new-world producers in Australia and the United States. Although developments in Chile showed that South America could produce wines according to new-world standards, there appears to have

been little contact between producers in Argentina and those in Chile. Furthermore, the majority of Argentine producers in the 1990s were setting their sights on producing wines that were of a higher quality than those being exported from Chile (see discussion of figure I.5 later).

As mentioned above Catena initially learned these new techniques largely from his experience in California. Nevertheless, the use of international consultants after his initial stages of experimentation proved critical in helping him to produce the type of wine desired by people in the industrialized world. Although Familia Zuccardi was also conducting experiments with new-world techniques in the early 1980s, Nicolás Catena Zapata was the first person to successfully undertake these experiments and commercialize new-world wines from Argentina. Other wineries were reluctant to undertake similar experiments due to economic instability in Argentina in the 1980s. After the economy stabilized in the 1990s, new-world techniques diffused more readily not only from international consultants traveling to Argentina and enologists from Argentina visiting wineries abroad but also from successful efforts by Catena and Zuccardi.

Figure I.6 displays the evolution of exports to the OECD of the five largest exporters to this group of countries of the period 1994-2006. These five wineries account for 45% of the total exported to the OECD throughout this period and for 43% of the total exported in 2006. In this year, Catena Zapata was the largest exporter to the OECD, accounting for 13% of exports to this group of countries. His winery was also the second largest exporter in general. Moreover, among the largest exporters, Catena is the only winery whose exports to the OECD have grown without interruption from 1994 to 2006. Peñaflor (Trapiche, Finca Las Moras, Michel Torino and Santa Ana wineries) was the second largest exporter to the OECD in 2006, representing 12% of total exports. In the same year it was also the largest exporter in general. Trivento, owned by the Chilean winemaker Concha y Toro, was the third largest exporter, representing 6% of total exports to the OECD. Finally, Bodegas Edmundo Norton and Bodegas La Agricola (Familia Zuccardi) account for 6% and 5% of total exports to the OECD, respectively.



Besides being one of the most traditional and largest producers of wine in Argentina, Peñaflor was also one of the first Argentine wineries to export wines. Its first exports date back to 1965. Also, its most famous wine, Trapiche, was the first Argentine wine to gain any real recognition outside of Argentina. However, exports of wines represented only a small percentage of the total revenue of the company as Peñaflor was a large, diversified firm that practically dominated the market for beverages and juices in Argentina. Moreover, the company did not develop a specific exporting strategy for its wines until Donaldson, Lufkin and Jenrette (DLG), an international investment group, took it over. Until that time, the company exported the same (old-world) wines that it produced for the domestic market. Their lack of a specific export strategy hindered the ability of Peñaflor to sustain its foreign sales to developed countries. Its exports of wine decreased substantially by the end of the nineties (see figure I.6).

Unlike other international investors in the wine industry in Argentina, DLJ did not have any experience in winemaking before buying a 43% stake of Peñaflor in 1997. Although DLJ immediately suggested ways to reorganize this company, real change did not occur until this investment group bought the remaining 57% of the company in 2002. After gaining control of Peñaflor, DLJ focused the company solely on the production of wine, selling off all of the other beverage units and investing the resulting capital in upgrading the grape growing and wine making facilities to resemble new world producers. Peñaflor has exhibited substantial export growth since its acquisition by DLJ in 2002 and is currently the largest exporter in the sector

selling its wines to over 60 countries. The company owns 3,000 hectares spread across Mendoza, San Juan, Salta, Catamarca and La Rioja, and has bottling equipment that can fill up to 52,000 bottles per hour. Together, the seven wineries that make up Peñaflor employ 1,300 people.

Nicolás Catena Zapata was continually setting the benchmark for the quality of new world wines that could be produced in Argentina. Throughout the 1990s he was exporting the most expensive wines from Argentina. Only in the beginning years of the 21st century would other wineries be able to produce wines that could be sold abroad at similar prices. Moreover, many Argentine wineries only achieved this level of success after having been bought by foreign companies. The only two domestically owned wineries beside Catena Zapata that did not take this route were Familia Zuccardi and Dominio del Plata. One of the cofounders of the latter winery, Pedro Marchevsky, was actually the head agronomist for Nicolás Catena Zapata from the early 1980s until he founded his winery in 1999 with Susana Balbo, a person who had worked as an enologist and foreign sales representative for several smaller wineries in Argentina.

In the early 1980s Familia Zuccardi, also known as Bodegas La Agrícola, began converting its vineyards to the production of new-world wines. It began to make this transition and explore the possibilities of exporting because the owner of this winery was convinced that selling their products abroad was the only means for overcoming the decline in domestic consumption. Like Catena, this winery also contracted foreign consultants to improve the implementation of new world techniques for growing grapes and harvesting wines. In contrast to Catena, they first started using such consultants in the 1990s. Unlike the pioneer in this industry, Familia Zuccardi focuses on using grapes traditionally used to make wine in Argentina while growing them with new-world techniques. Some of their most famous wines are made with the tempranillo grape, a fruit that has a long history in Argentina and that was traditionally used only to make low quality wines according to old world techniques. Familia Zuccardi has recently started producing organic wines for export. They currently have 250 hectares that are certified for use in the production of these wines. The goal of this winery is to eventually convert the remaining 400 hectares that they own into certified organic production.

Familia Zuccardi began participating in international trade fairs in 1991. This winery's first wine to be sold abroad was Santa Julia Oak Reserve. It was exported to the United States and fetched a price of US$8, only one dollar more than their Chilean counterparts. It was US$7 less expensive than the wine that Catena had sold to the same country one year earlier. In 1998 this

winery sold its Familia Zuccardi Malbec Mendoza Q for US$20. This sale occurred one year after Catena had sold his icon wine in the same country for US$80. In 2002 Familia Zuccardi still did not fetch a price as high as Catena's. In that year it sold one of its bottles of wine for US$45. Although Familia Zuccardi would continually improve the price and the quality of their wines over the years, it remained behind Catena in terms of quality and price.

The case of Dominio del Plata is an interesting one because it illustrates a clear instance of diffusion. This winery was established in 1999 by Susana Balbo and Pedro Marchevsky, two professionals with strong roots in the Argentine wine industry. Pedro Marchevsky was the lead agronomist for Catena. Susana Balbo is a widely respected enologist who has helped wineries to implement new-world production techniques and sell their wines abroad. Susana and Pedro established their winery with the explicit goal of developing wines for high-end consumers in the United States and the United Kingdom. Before they opened their winery, this couple traveled abroad and took wine-making courses in order to better understand how wines were made in other countries. In particular, they were interested in understanding what consumers in the United States and the United Kingdom were drinking. After they gained this understanding, they attempted to design wines with these tastes in mind. This process involved substantially changing how some of their grapes were grown. Currently, Dominio del Plata exports over 90% of their production, 97% of which is sold in these two countries. The company has exported US$ 2.1 million from 1999 to 2005.

Large foreign producers of wines began investing in Argentina shortly after the publication of the Wine Spectator article in 1996 that placed Catena as one of the best ten producers of fine new-world wines in Latin America. Chandon and Trivento started producing wine from Argentina the year this article was published. Sogrape began its operations in Argentina the following year. Although the international producers of wines that invested in Argentina had already implemented new-world techniques for growing grapes and making wines in other countries, there was a certain level of uncertainty as to how they would have to adapt their wine growing techniques to the particularities of the *terroir* in Argentina. Naturally, their level of uncertainty was reduced by the fact that Catena Zapata had shown that it was possible. Perhaps the most difficult part of exporting wine from Argentina, namely commercialization, did not present a significant problem for international wineries because they could tap into their existing commercialization channels. Thus, they had a distinct advantage over those wineries

that were owned solely by Argentines. First we will turn to the experiences of Chandon before discussing those of other international investors.

Chandon, a French winery, is the closest competitor of Catena Zapata in terms of the price of the wines it exports. In 2006, this winery was the ninth largest exporter to the OECD, representing 2.5% of Argentine exports of wine to these countries. The export manager of this winery contends that Catena Zapata was the benchmark for their wine production in Argentina. Chandon began operating in Argentina in 1961 with the goal of supplying the domestic market with champagne. They continued to produce only champagne for the domestic market until 1996. In that year they created two new products for export, a sparkling wine and a fine wine. While the sparkling wine entered the international market rather rapidly, they would not export their first bottle of new-world wine until 1999. Both of these products were specifically designed with the idea of exporting them to the United States. The company concentrated largely on sparkling wine until 2004 when the success of this product began to cut into the market share of other sparkling wines produced by subsidiaries of this company in other countries. This product was subsequently withdrawn from the market. The canceling of the sparkling wine project caused the subsidiary in Argentina to turn their attention to solely exporting wines. From the beginning Chandon decided to target upper-end consumers with the wines they made in Argentina. The target market was limited in this fashion in order to keep the Argentine subsidiary in line with the general strategy of this company. The wine they produced for export, Terrazas, was sold internationally through the same commercialization channels as their champagnes. Although this distribution strategy presented Chandon with certain advantages, it also proved a challenge as many of their distributors were only accustomed to selling sparkling wines. Consequently, this company had to teach their distributors about the importance of regions and countries in shaping the quality of wine while at the same time providing them information about how wines were actually made.

Sogrape is an example of a larger international winemaker that decided to establish a foothold in Argentina. In 1997 this Portuguese firm bought Finca Flichman, a winery found in 1873 and considered one of the most traditional producers of wine in Mendoza. Sogrape bought this winery with the idea of converting it into a new-world winery. To accomplish this task it imported stainless steel tanks and all of the other equipment needed to make a new world winery, while also upgrading the manner in which grapes were grown to meet new world standards. Sogrape wanted to buy a foreign winery because this company already controlled

45% of the market in their home country and Portuguese law prevents companies from having more than this percentage of any business. Top executives decided to acquire Finca Flichman because they were convinced that buying an Argentine winery would allow them to combine local capabilities for producing wine with their own knowledge about how to sell wines abroad. When Sogrape bought Flichman, the ability of Argentine firms to market their products abroad was limited. One indication of the weakness of Argentine wineries in this area was, according to one of this company's top executives, the inability of Argentines in this business at that time to speak English well. By 2006, Finca Flichman was the tenth largest exporter of the sector and the seventh largest exporter to the OECD.

Trivento is another example of a large foreign winery that decided to begin operations in Argentina in the late 1990s. This company is part of Concha y Toro, one of the most important producers of wine in Chile. Unlike Sogrape, this firm decided to set up its own wineries instead of buying existing ones. By establishing operations in Argentina in 1996, Concha y Toro complemented their range of wines produced in Chile with a greater variety of wines made from the large selection of grapes found in Argentina. At first Trivento exported its wines through the commercialization channels of Concha y Toro in Chile. After discovering that wines made by Trivento were directly competing with wines made by Concha y Toro in Chile, executives at this company decided to have Trivento establish its own commercialization channels. Trivento currently exports to the United Kingdom, Scandinavia, the Netherlands, Canada, Switzerland, Brazil, Germany and the United States and is the third largest exporter to the OECD. The firm has two establishments that are capable of producing 27.9 million liters of wine a year.

Most wineries in Argentina are generally interested in helping the diffusion of new-world techniques for growing grapes and making wines because they believe that the quality of other wineries influences the perception of the quality of their own. Furthermore, given that most consumers begin drinking wines from a country that are relatively inexpensive, it is in the interest of the producers of higher quality wines to ensure that lower quality ones satisfy international customers. Given the potential negative impact that the country of origin bias[8]

[8] Country of origin has been identified in the literature as an important cue that might be used by global marketers to influence consumers' valuation of a given brand. Based on consumer surveys and laboratory experiments, researchers have identified country of origin (COO) as a factor that affects cognitive, affective, and normative dimensions of customer behaviour. COO is a cue for product quality, and has symbolic and emotional value to customers as these hold social and personal norms related to product origin (see Verlegh and Steenkamp (1999) and Agrawal and Kamakura (1999).

can have on consumers of wines, firms in this sector have an interest in working together. In the wine business in Argentina there are three major organizations helping firms. There is one organization that exclusively helps vineyards improve the quality of their grapes, one that helps them improve operations in vineyards and wineries, and one that focuses just on promoting exports.

The Regional Consortium of Agricultural Experimentation (CREA) is an organization dedicated to diffusing information among agricultural producers. It is a non-profit organization that coordinates monthly meetings of small groups made up customarily of 12 medium to large farmers and a coordinator appointed by this organization. Every month they meet at a different farm of one of the groups members to discuss the problems of the farm and diffuse knowledge about potential ways of upgrading its production. In the wine industry these CREA groups help vineyards to introduce new fertilizers and deal better with pests, while also providing information about how to improve the overall quality of their grapes.

The National Institute of Agricultural Technology (INTA), a public organization dedicated to helping farmers improve their operations, also works with vineyards to improve their techniques for growing grapes. Nevertheless, the information provided by INTA is generally more technical in nature than what is normally generated by CREA groups. For example, INTA makes detailed mappings of micro climates in different wine producing regions of Argentina. Unlike CREA, INTA also researches new techniques for elaborating wines. This organization conducts research for many different wineries, including those producing some of the highest quality wines in Argentina. Even Catena Zapata contracts them to do research. Since INTA is dedicated to promoting the industry and not specific wineries, it only agrees to conduct research that will be shared with others in the industry. Diffusion is part of the contract.

The advisory council of INTA in this sector has also served as a general forum for grape producers and wine makers to meet to discuss their concerns. In the 1990s this council began to look for ways to improve the coordination of different organizations in this sector. It discovered that one of the keys to the success of Australian wines was the formation of a strategic plan by the National Wine and Grape Industry Centre. This umbrella organization was created in 1997 as a means of improving the coordination of wineries, vineyards and their related associations. Modeling their activities after this organization in Australia, the advisory council in INTA began to formulate a strategic plan in 1999 and finished it in 2000. Like their Australian

counterparts, this council decided to form an umbrella organization of public and private associations as well as top wine producers. The initial goal of this organization was to benchmark Argentine products and policies against those of competing countries such as Australia and Chile.

The advisory board's specific goal with regards to exports was to increase the worldwide market share of Argentina from 2% to 10% by the year 2020. The producers and associations involved in the formulation of this plan realized that they would have to cooperate on a wide range of issues in order for this goal to be reached. To facilitate the coordination of various institutions in this sector, the advisory council formed a new organization, the Argentina Wine Corporation (COVIAR), in 2003. This public/private organization was charged with implementing the strategic plan developed by the advisory council of INTA. This organization has only one administrative manager, a technical manager, a spokesman, a legal advisor, an administrative assistant and a secretary. The national law that brought about its inception gave this organization the right to fund its operations by a new tax on the sale of wine and grape must. COVIAR was given the exclusive right to determine how these funds are spent. This organization identified three critical areas in which these funds would be invested, namely the promotion of domestic consumption, the promotion of exports and help for lower quality vineyards to improve their grapes.

While the Viniculture Fund administers the funds dedicated by COVIAR to the promotion of internal consumption and INTA is charged with allocating money regarding research for low quality vineyards, Wines of Argentina administers the funds of this organization that are to be used in promoting exports. The latter organization uses the funds provided by COVIAR to supplement what it obtains from its members. Wines of Argentina was widely accepted as the most important entity for promoting wine exports even before receiving the support of COVIAR. They help wineries to establish contacts with potential foreign clients. For example, they organize wine tastings in other countries or in Argentina so that potential clients can sample a variety of wines from this country. Although this organization neither involves itself in direct negotiations between wineries and potential foreign clients nor diffuses best practices regarding how wineries should work with direct clients or distributors, it does provide wineries with information about consumption patterns in foreign countries to help them evaluate whether or not they should target a particular country. In addition, Wines of Argentina also promotes Argentine wines abroad by speaking with journalists and manning stands at international trade

fairs. This organization carefully selects the wineries that it represents at such events. It conducts blind taste tests before every event and selects the top wines from that test to represent at a particular event.

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CASE II: TV PROGRAMS

Introduction

Argentina is currently the fourth largest exporter of television formats, only behind the United Kingdom, the United States and the Netherlands. Unlike traditional television programs, formats are devoid of local cultural content. They can be made either by stripping existing programs of such content or designing them without specific cultural references. The format itself is nothing more than the idea, main structure and salient features of the program. This structure is then adapted to the cultural idiosyncrasies of the target markets abroad.

The increasing importance of formats in world trade of television content provided firms from Argentina an opportunity to take advantage of existing resources in new ways. At the same time, it required them to radically reorganize the manner in which they design, produce, and sell their products. When designing formats, firms have to think in terms of general plots instead of specific cultural situations. Producing a format requires that they coordinate activities of a variety of suppliers in foreign countries. In order to sell their products abroad on a consistent basis, they need to build a solid international reputation and develop long-term relations with distributors.

Horacio Levin, a former importer of television programs, pioneered the export emergence of this industry. He was the first person to fully understand the opportunities opened up by the appearance of formats and to take advantage of them by implementing the "export business model". This new approach to business has diffused to many other companies in the sector, leading to substantial export growth in recent years.

1. The television industry in the world and in Argentina

i) *World production and international trade*

The United States dominated world production and trade of television programs until the 1990s. The products exported until then were essentially "canned" programs. The term "canned" is used to highlight the fact that these programs are generally put in a can and

shipped to the buyer. Once a program is canned, the only possible changes that can be made to it are dubbing in the target country's language or adding subtitles. These activities are customarily done in the country to which the product is shipped. In contrast, formats are made to be adapted.

The creation of formats in the 1990s enabled firms from all over the world to compete in the creation and production of television programs. In this context, European companies emerged as world leaders in exports of television content. In particular, Great Britain is currently the top exporter of formats in terms of volume. In 2008 this country exported 98 different formats, followed by the U.S (56) and the Netherlands (23) (FRAPA, 2009). At the same time, Germany is gradually transforming itself from an importer to an exporter of formats. The number of formats exported from this country increased almost fourfold from 2006 until 2008 while the number of imported formats remained stable. Denmark, Norway and Sweden have also appeared as important actors in the industry (FRAPA, 2009).

Since their emergence in the 1990s, the world production of formats has exhibited consistent growth. For instance, the number of shows using formats increased by almost a third between 2001 and 2004, while the number of hours broadcasted expanded by 22%. From 2004 to 2008, worldwide sales of formats went from 6.4 to 9.3 billion Euros (FRAPA, 2009). The production of formats is mainly concentrated in non-fiction genres: game shows, reality shows, and talk shows. Game shows account for approximately half of global format airtime and reality and talk shows constitute the vast majority of the remaining format hours. Fiction formats are much less widespread and constitute only a negligible portion of the industry (Fey et al., 2005). However, their sales have been growing recently.

In the 1990s the development of formats was associated with deregulation and privatization in the television business worldwide. These changes caused trade in this sector to grow while leading to an increase in the connections between firms across the world. The move from canned programs to formats originated in the United Kingdom and was brought about by the Broadcasting Act of 1990. This act required public broadcasters such as the BBC to source at least 25% of their programming from independent producers. This requirement promoted a new way of organizing the production of television programs. Traditionally, these products were designed and made by vertically integrated companies with their own full-time technical, creative, and production staff. The changes brought about by deregulation and privatization

worldwide created a globalized industry in which broadcasters and production companies cooperate internationally. These connections enable independent companies to tap into the potential of formats by providing them the means for adapting TV programs to local cultures. (Waisbord, 2004).

ii) Changes in world consumption patterns

Formats emerged in the early 1990s as a means to facilitate the export of television programs. These programs are purged of local content or designed without it and licensed to broadcasters that adapt them to a given country by adding features specific to its culture. The format itself is essentially the idea, main structure and other salient features of the program. Each format is typically accompanied by a document commonly referred to in the industry as the "Format Bible". The goal of this document is to "answer every question that a licensee adaptor might have about the program" (Malbon and Moran, 2006). For instance, it may specify a suggested timeslot for the program, its target audience, a budget overview, the profile of its host, the clothing and costumes to be used, the music and graphics, the set design, etc.

Not every TV program is suitable for being a format. For example, a program like *Big Brother* can easily be formatted because it was designed from inception with almost no local references. However, a television program like *Chips* cannot be made into a format as its context is too specific to the U.S. culture. The program is centered on two motorcycle policemen cruising the highways in Los Angeles. This situation may be hard to adapt to a different country where it is uncommon for policemen to regularly patrol highways in motorcycles. Another example of a program that is not suitable for being a format is *Showmatch*. This program has consistently been the most popular Argentine television show since its launch in 2005.[9] However, this program is hard to be codified as a format and sold internationally as it depends almost exclusively on the charisma of its host, Marcelo Tinelli.

One of the first independent companies to take advantage of formats was Planet 24, which was also one of the earliest companies that emerged as a result of the Broadcasting Act. Owned by the Irish artist and entrepreneur Bob Geldof, this company created a format called *Survivor* in

[9] Showmatch replaced Videomatch, another very successful program, when Marcelo Tinelli moved from Telefe to Channel 13 in 2005.

1994. Although this program was initially not successful, it became a resounding hit when it was bought by Strix Television, a Swedish television company, and renamed *Expedition Robinson*. This format was the first highly rated and profitable reality show on broadcast television. Along with ABC's game show *Who Wants to Be a Millionaire?* it sparked a reality-television revolution based on formats. Broadcasters began to replace sitcoms and conventional drama series with reality shows (Malbon and Moran, 2006). Currently, the world leader in the creation of formats is Endemol, a Dutch company established in 1994 that created *Big Brother*.

iii) *The television industry in Argentina*

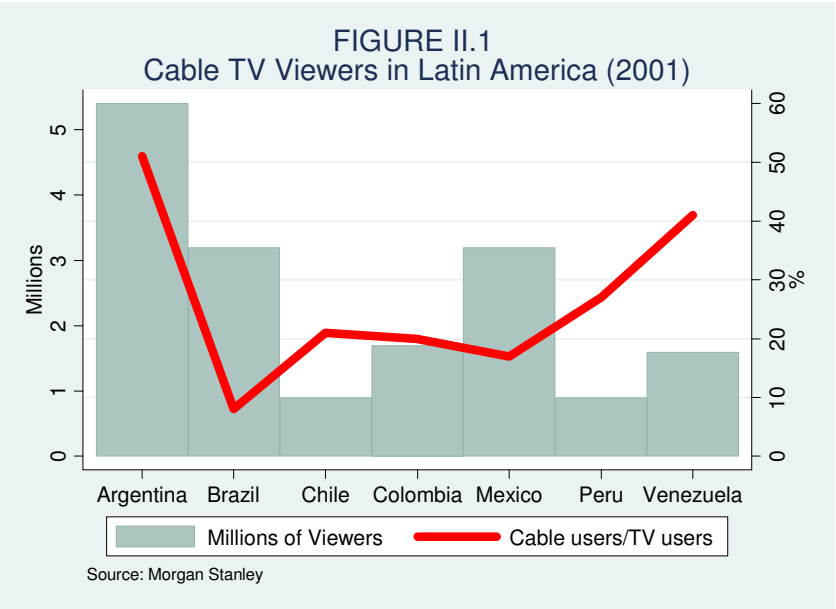
The TV industry in Argentina consists of independent domestic companies, foreign-owned production companies, regional cable broadcasters, national broadcasters and cable companies. Approximately three hundred Argentine firms are active in this industry, employing more than 24,000 workers directly. Although a few of them specialize exclusively in either TV programs or commercials, many companies in this sector produce both types of products. These companies are often producers of movies as well.[10]

Most of the firms that produce formats are small and medium-sized enterprises (SICA, 2006). While some of these companies perform all of the functions related to producing a format, the majority tends to specialize in either the production of inputs or the adaptation of formats. The long history of audio-visual production and the existence of high-quality educational institutions in this country provide Argentine firms in this sector with a large pool of qualified technicians, managers and creative personnel.

Argentina was one of the first countries in Latin America to introduce cable television. As shown in figure II.1, by 2001 Argentina was still the country in Latin America with the greatest number of cable television viewers. It outstripped even Brazil, a country with five times the Argentine population. The size of the domestic market for cable television programs enabled

[10] Out of 1,384 commercials filmed in Argentina during 2005, 712 were made for the domestic market and 672 were exported. Although there are no official statistics for these exports, Eddie Flehner, CEO of Flehner Films (Argentina's largest production company by film-hours), estimates that exports of TV spots in 2005 ranged between US$ 70 and US$ 100 million. In the case of movies, while the Argentine film industry has achieved international recognition with Foreign-Language Oscar Award Winners *La Historia Oficial* (1985) and *El Secreto de sus Ojos* (2010), and four nominations for the same category with *La Tregua* (1974), *Camila* (1984), *Tango* (1998) and *El Hijo de la Novia* (2001), film exports have not reached a substantial volume.

companies in Argentina to develop the necessary scale to produce programs for audiences beyond Latin America. It also gave Argentine television viewers early exposure to international television content of higher quality.



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iv) *Exports from Argentina*

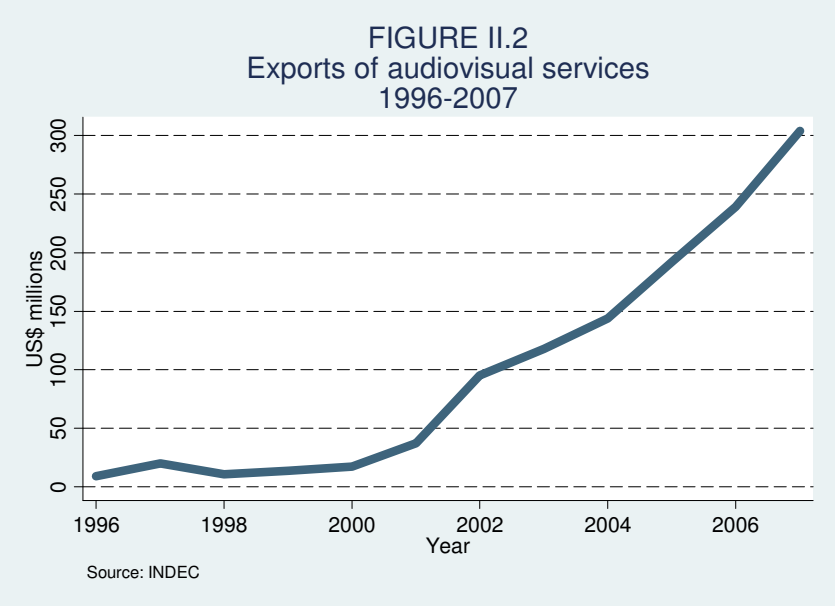
Argentine TV exports span the whole range of related services, from selling format rights to consulting and production services. Depending on the services and the production efforts involved, the current price of purchasing one hour of TV content from an Argentine producer can range from US$ 500 to US$ 100,000. The price also varies depending on whether a firm sells only the format or also the consulting services needed to adapt the program.

Argentina has a long tradition of producing movies. During the first half of the twentieth century, the country was a successful exporter of films, selling them mainly to Spain and Latin America. Despite this early success, exports disappeared almost completely after the 1940s. The experience with films did not spill over to the TV industry. During the 1980s, Argentina only had a small share of Latin American exports of "soap operas", far behind of Mexico and Brazil. Argentina's exports were carried out by the broadcast networks and were oriented to non-traditional markets such as Russia, as the conventional wisdom in the industry was that Latin American viewers did not find the Argentine Spanish accent appealing.

The privatization of the television industry in the early 1990s, one of the first that took place in Latin America, led to greater outsourcing and to the growth of independent production companies. Although many of these new firms started producing programs for the domestic market, they quickly began to develop products for export. While the initial export attempts of domestic firms consisted of canned programs, they soon started exporting formats. As a result, Argentina became one of the first developing countries to sell this kind of product overseas.

Between 2006 and 2008 companies in Argentina exported 59 different versions of 26 original formats. During this period Argentine formats were made in 15 different foreign locations. Although fiction plays a prominent role in Argentina's exports of formats, the most successful format was *El Legado*, a quiz show. By 2008, production of this format reached 986 episodes in three different countries. Of this number, 585 episodes were produced in Italy followed by 210 in Portugal and 170 in France. *Montecristo*, a fiction format made in Argentina, had 882 episodes developed abroad by 2008. These two formats were followed by *12 Corazones* with 800 episodes in the same year (FRAPA, 2009)

Official statistics for exports of television formats are difficult to obtain because this product is not processed through customs. Consequently, the real value of TV format exports can only be estimated. Exports of audiovisual services, the general category in which television formats fall, have increased from US$ 17.5 million in 1996 to US$ 304.7 million in 2007 (see figure II.2). Within this category, data on exports of television content is only available since 2004, when it reached US$ 40.2 million. However, this value underestimates actual exports since a substantial portion of the export revenue generated in this sector derives from consulting services sold to adapt the programs to local markets. This revenue is not captured by the figure cited above. Statistics for these services are included with and impossible to separate from overall statistics on consulting services. Nevertheless, according to the Format Recognition and Protection Association (FRAPA), Argentina is the fourth largest exporter of formats in the world in terms of volume, only behind the U.K., the U.S., and the Netherlands.



2. Export business model versus domestic business model

Exports of television programs were limited until the advent of formats. Canned programs were in general not attractive outside their country of origin due to their cultural specificities. The creation of this new type of television program eliminated this problem, as formats are specifically designed to be adapted to different audiences. At the same time, the emergence of formats required firms in this industry to radically reorganize the manner in which they design, produce, and sell their products. When designing formats firms have to think in terms of general plots instead of specific cultural situations. In producing formats firms have to coordinate activities of a variety of suppliers in foreign countries, whereas in the past canned programs were generally made totally within the four walls of the firm. In selling formats companies have to build a solid international reputation and develop long-term relations with distributors instead of merely taking advantage of sporadic opportunities to sell abroad the same product produced for the domestic market. In short, they need to develop a completely new business model. This section describes how firms in Argentina reoriented their activities to take advantage of this new market.

i) *The product component*

In order to create a format a firm has to develop a basic plot structure that is either devoid of specific cultural content or that can easily be stripped of it. This product is then adapted to different local tastes, sometimes with the help of the firm that designed it. Companies in this sector either create the whole program based on a format and export it to the target country or export just the format and potentially consulting services to help with its production in another country. For instance, the Argentine format *Rebelde Way* has been successful in several Asian and European countries. In Spain, the version of *Rebelde Way* made in Argentina actually competed with the version made in Spain.

Although they can also be used in a firm's domestic market, formats, unlike "canned" programs, are designed to be exported from their inception. In order to export these products, companies have to reconcile two often conflicting goals. On the one hand, they face the difficulty of understanding the expectations of audiences and program managers in different countries. On the other hand, they need to develop formats that are relatively general so that they can be adapted to the idiosyncrasies of different countries. To ensure the ability of a format to meet these demands, companies have to be careful in defining the core story. For instance, when a firm designs a formatted fiction program, it needs to define a plot structure that can be broken down into modules that can easily be modified. The content in these modules has to be sufficiently broad so that it can be changed but specific enough to make the format distinct from others. At the same time, characters have to be flexible enough so that they can be adapted to different contexts. *Desperate Housewives* was a failure in Argentina largely because this country lacks the typical suburban middle class housewife on which this series is based. In contrast, *Montecristo* has been a success worldwide because it has a very clear plot that has neither culturally specific characters nor culturally specific plot components. Moreover, the historical setting is intentionally not defined. The plot of this format describes the adventures of a hero that is betrayed by his friends, accused of being a spy, and imprisoned. During his imprisonment a fellow dying prisoner bequeaths him a hidden treasure. He takes possession of the treasure, returns under another name and spends years plotting his successful revenge against his former friends. The fact that this format deals with universal themes such as death, hope, justice, vengeance, mercy, and forgiveness makes it applicable to different contexts.

Although a format should touch on general themes such as the ones outlined above in the case

of *Montecristo*, firms nevertheless have to consider the general target audience and the genre of the format they wish to produce. Regarding the general audience, formats for young people differ greatly from those for adults, as some themes apply for both of these audiences and some do not. For example, *Survivor* and *Big Brother* are targeted at young people while *Who Wants to be A Millionaire?* is designed to appeal to older audiences. Formats can be divided in two broad genres, non-fiction and fiction. The former includes news programs, talk shows, reality shows, documentary reality shows and game shows, while the latter includes dramas, special features, and sitcoms. Non-fiction programs are easier to format and not surprisingly dominate the TV format market. Key examples in this genre are *Survivor*, *Who Wants to Be a Millionaire?*, *American Idol* and *Big Brother.* Production companies tend to specialize in specific genres that usually correspond to the one in which they started their business.

ii) The production component

The production of television programs based on formats is divided into two distinct parts, the creation of the format and its production for a specific country. The former involves all of the creative activities in designing the plot and the themes to be covered, while the latter encompasses not only producing the actual program, but also adding critical idiosyncratic elements specific to the market to which the format is to be sold. Essentially, formats are designed to be filled with different cultural content. This sector differs from the others discussed in this study because it involves the design of a generic product followed by its customization in the actual production process in the target country.

Normally, firms will try to produce a format for the domestic market before stripping it of its local content and selling it abroad. However, they have to be careful not to design it with too many local attributes that cannot be extracted without undermining the essence of the product. When the program is sold abroad, content specific to the target country is added either by the firm that sold the format or other international consulting agencies specialized in these activities. In general, some consultants specialized in the target market have to be utilized to effectively adapt a format to a particular foreign audience, as the information needed to make such adaptations is tacit by nature. These consultants generally work for production companies rather than for the designers of formats. Nevertheless, the purchaser of a format customarily also contracts its maker to help them understand the intricacies of the plot.

In the case of non-fiction formats such as game and reality shows, adaptation to a local culture often involves modifying simple aspects of the program. For instance, the participants and the host are generally local to the country in which the program is aired so that the audience finds their accent and the themes of their dialogues familiar. Not surprisingly, this adaptation job is more difficult in the case of fiction, as the plots of these programs customarily have a significant quantity of culturally specific features for which equivalents in other cultures are difficult to find. For example, Telefé Contenidos stripped the Argentine version of *Montecristo* of the "disappeared" plot, and replaced it with a kidnapping plot associated with the traffic of babies for the Mexican version of this program because systematic political murders by the national government have not been a salient feature of Mexican recent history[11].

One of the critical differences between world-class exporters and production companies oriented towards the domestic market is the greater capability of the former to adapt their programs to different cultures. The case of Ideas del Sur, an independent producer of Argentina, illustrates the difficulties associated with successfully adapting formats to foreign audiences. With a large portfolio of well-known and successful domestic programs, the company has attempted to emulate the exporting experience of other domestic firms but has failed repeatedly. For instance, it could not effectively adapt its program *Los Roldán* for the Mexican and Colombian markets. Although a domestic success, this program performed poorly in those countries. Following its lack of export success with its own formats, the company has become an importer of formats and limits its business to the provision of production services for the domestic market.

Exports of formats are radically different from those of the vast majority of other products because program managers, those that purchase formats, ultimately decide how to make the final product. He or she decides which production company will make the local version of a format and selects consultants to adapt it to the target audience. Formats are particularly attractive for program managers as they can rely on the past success of a format in other countries to minimize the uncertainties surrounding the launch of a new program. At the same time, program managers that purchase formats seek sellers that offer a wide variety of consulting services related to the adaptation of formats to different markets. Hence, consistent exporters ensure that they can offer these services. In order to sell such services, companies that

[11] The political dictatorship that ruled Argentina from 1976 to 1983 systematically arrested and murdered an estimated number of 30,000 political dissidents. As the government denied those individuals had even been arrested, they became known as the ¨disappeared¨.

design formats need to have a creative team that understands values and ideas that transcend national boundaries. These teams also have to possess intimate knowledge about different cultures. Such consultants customarily have international experience and know how to find and decipher information about idiosyncratic characteristics of different countries.

The actual production of a program based on a format is organized by an executive producer that is usually contracted by its buyer. This executive producer is in charge of coordinating services ranging from casting and location activities to catering and hair dressers. The executive producer can choose to do things within his own organization or outsource these activities. Currently, most people working on a set are free-lance contractors. Before the deregulation of the industry, the vast majority of these activities were carried out by employees of television companies that designed and created their own programs largely within the confines of their own organization.

iii) The marketing component

Companies that develop formats in Argentina export their products in three different ways. They can choose to sell them directly to potential clients through their own sales offices, commercialize them through international brokers or merge with an international company. For instance, Cuatro Cabezas followed the last option by merging with Eyeworks. Older companies tend to work with international brokers, while many of the new generation of companies that produce formats have chosen to follow the first option of conducting their own sales abroad. These companies are generally owned and managed by former production managers that used to work for consistent exporters. Hence, they can rely on established contacts for selling their formats. However, the ability of Argentine firms to penetrate foreign markets is complicated by the fact that most markets are largely dominated by companies from Western Europe, the United States, Australia and New Zealand. Consequently, most small firms prefer either to merge with larger ones or form alliances with them as a means for gaining access to important markets. On the other hand, international production companies that have opened branches in Argentina, such as Endemol, Dori Media, Promofilm and Eyeworks, have the particular advantage of being able to leverage their existing international commercialization channels to sell formats developed in Argentina.

The main trade fairs in this industry are the Cannes Marche International des Films et des

Programmes pour la TV, la video, le Cable et les Satellites (MIPCOM) and the meeting of the National Association of Television Program Executives (NATPE). The former is held in France, while the latter takes place in the United States. These events provide firms with the opportunity to meet potential new clients, develop their relations with existing ones, and encounter associates with whom to build alliances or negotiate mergers. At the same time, they enable firms to gain a deeper understanding of new trends and to identify specific niche markets.

While the trade fairs mentioned above are important arenas for making contacts and sales, merely going to such fairs does not ensure that a firm will be able to sell its formats. At the same time, the ability of a company to successfully air a format in its domestic market does not guarantee success in exporting it. The most difficult part of the process of becoming a consistent exporter in this sector is establishing a solid reputation around the world. Such a reputation is achieved not only by selling this product but also by being able to provide critical consulting services for adapting it to other cultures. In order to effectively sell their formats abroad, firms have to develop long-term relationships with distributors and/or programming directors of networks. Firms can develop such relationships by proving their ability to meet the particular needs of these clients.

QUAERERE VERUM
Universidad de
SanAndrés

3. Export Pioneer

Horacio Levin is the export pioneer in this sector because he was the first to fully understand and implement all of the components of the export business model. The company he founded, Promofilm, began as an advertising firm producing television commercials for the domestic market. Shortly after founding his company, Levin started to sell imported cartoons and animated films as a means to promote his business of making commercials for the toy industry. This experience provided him the contacts in the industry that would later prove essential for his success. Although another company, Cuatro Cabezas, was technically the first to export a format from Argentina, Levin was the critical link for this sale. He was the broker that facilitated the contact and subsequent purchase of the Cuatro Cabezas' format *CQC* (*Caiga Quien Caiga*) by the Spanish company Globomedia in 1996. One year later Promofilm was the first Argentine company to export a format within Latin America. He sold his format *Causa Común* to a Venezuelan company.

Horacio Levin was one of the first to understand the potential of globalization for the television industry after it was privatized in Argentina. "*We were far away from the world (...). In those days nobody (in the TV industry) took notice of what was going on in the world".* [12] His experience in importing television formats made him realize that most of the television programs in Argentina after privatization were not well designed as they relied primarily on celebrities and impromptu comedy. Hence, he sought to develop programs that were designed with a well defined structure and did not rely on the charisma of celebrities or this type of comedy. In doing so, he adapted new features of programs from the United States and Spain. For instance, one of Promofilm's first programs was an "advertainment", an entertainment program funded by a single sponsor. He later introduced the talk show genre to Argentina by creating a show called *Causa Común*, to which he added an Argentine twist by focusing on social issues. Shortly after its launch in 1993 it became a hit in Argentina, providing Levin his reputation as an important producer in this field.

Levin started as an importer of cartoons and animated films. This early experience convinced him of the need to stay in touch with developments in the international television market. Consequently, he adopted as a regular practice to travel to international trade fairs. He traveled twice a year to Cannes, France and twice a year to the United States to attend the most important trade fairs of this industry. This practice was unusual for Argentine producers at this time but Mr. Levin thought it was the only way to be up to date with new developments in the industry. Initially, he built on the contacts he established at such fairs as an importer of television programs. Slowly, he began introducing genres to the local Argentine market that had been created in other parts of the world, such as talk shows in the case of *Causa Común.* However, the majority of the television companies in Argentina were reluctant to buy these programs as they still did not fully understand their potential. For example, in order to sell *Sorpresa y Media* to Channel 13 in Argentina, Levin had to shoulder the vast majority of the initial costs.

Although his initial advances in this industry were tentative, Levin gradually built on his reputation and sold more programs to more channels. One of these programs was *Sorpresa y media.* Levin purchased this format from a Spanish company and added elements that would

[12] Interview with Mr. Levin, our translation from "estábamos mucho más lejos del mundo aquí (...) en aquella época nadie le importaba lo que pasaba afuera".

make it more attractive to an Argentine audience. Despite being aired on Sunday night, a time slot that had largely been neglected in Argentina at the time, the show received high ratings. The success of this program enabled Levin to gain further production experience and enlarge his staff and equipment. This show would turn into his flagship program. However, he was not satisfied with only being successful in the domestic market. Levin was one of the first producers of television programs in Argentina to understand that the opening of markets in Latin America and the process of privatization would enable him to sell his products abroad. He used *Sorpresa y media* to enter the Colombian and Venezuelan markets, taking rapid advantage of the opportunities opened by privatization and deregulation of the television industry in those countries.

Levin developed a close relationship with the owners of Globomedia, an independent Spanish production company. Levin met the owners of Globomedia when they visited Buenos Aires in an attempt to sell the format for a game show. They started cooperating in 1995 by sharing production strategies, logistics and formats, thereby enabling both of these companies to expand in Latin America. For Levin, his initial agreement with Globomedia allowed him to stay in touch with developing trends in the industry. In addition, he understood that international participants in the TV industry would have concerns about making deals with a company from Argentina due to this country's scarce presence in world markets at that time. Therefore, he thought that a partnership with a Spanish company would provide him the international credibility he was lacking. Finally, the two companies merged in 2000.

The first format developed by Promofilm was *Sorpresa y media*. The company adapted this format to Latin America, making their first sale to Venezuela in 1997. Their experience in Venezuela provided the opportunity to learn that they would have to make substantive adaptations to this program for it to be successful in other Latin American countries. They realized that shows for other Latin American countries would have to be less melodramatic and more upbeat than the program that originally aired only in Argentina. The program was subsequently adapted for Brazil, Ecuador, and Colombia.

The merged Promofilm-Globomedia was also the first company to adapt the Swedish version of *Expedition Robinson* to Latin America and Spain. Six months later, CBS bought the rights to produce the show in the United States. This experience was this company's first venture into the game/reality show business. Moreover, *Expedition Robinson* was the first reality show ever

to be aired in Argentina or Spain. The program's production involved a crew of more than 100 people, including producers, scriptwriters, camera and sound technicians, and art directors. Production was made on-location in Panama and required the firm to overcome many logistical challenges involved in setting up production in this country. Despite these challenges, the program was an overwhelming success that taught Promofilm-Globomedia that they would not have to limit their activities to Latin America. It also enabled the firm not only to increase its number of employees, but also to enhance the skills of their existing workforce.

Promofilm-Globomedia used talk and reality shows as a platform to experiment in creating formats for foreign markets. They adapted these shows to the cultural particularities of Colombia, Chile, Ecuador, Mexico and the Hispanic market in the United States. This experience put the company in contact with television networks in various countries, including RCTV and Venevisión in Venezuela, Caracol and RCN in Colombia, Azteca in Mexico, and Telemundo in the United States. Until 2000, the company had never exported a program before airing it in Argentina. However, in that year the company created and produced *Protagonistas de Novela* exclusively for Telemundo in the United States. Although Promofilm-Globomedia never made a version of this program for Argentina, it did export this format to Greece and five Latin American countries.

Since its experience with *Protagonistas de Novela*, Promofilm-Globomedia continued exporting formats without pre-testing them in its home market. In 2004 the company produced *El Conquistador del Fin del Mundo*, a journey through the Argentine Patagonia featuring teams from five countries competing in different games. The show was produced and broadcasted simultaneously on five Latin American networks: TV Azteca (Mexico), Gamavisión (Ecuador), Telemundo (US), UCTV (Chile), and SBT (Brazil). The show was also adapted for Basque TV. Leveraging its earlier experience with the "advertainment" genre, the company also created and produced formats for documentary/reality programs such as *Lo Dejo en tus Manos*, a home renovation program sponsored by Loews, and *Mi Primer Hogar*, a similar program underwritten by Home Depot. These programs were made exclusively for Telemundo. In 2004 Promofilm purchased the format for *Temptation Island*, a game/reality show owned by Fox. It adapted this show to the United States, Hungary and Brazil.

The company's growth enabled it to open offices in the United States and various countries in Latin America. In these countries, the firm employs local professionals to meet the growing

demand for formats and programs. In Argentina, Promofilm-Globomedia has been able to tap into an existing pool of qualified technicians, managers and creative personnel. However, this stock of qualified personnel has also made it possible for competitors to emerge.

In 2005 Promofilm-Globomedia was bought out by Grupo Arbol, a Spanish media conglomerate that has a 40% share in the Mexican cable channel Televisa. Under Grupo Arbol's management the company is currently producing over 3,500 hours of programming per year for broadcast and cable networks around the world. Nevertheless, most of its business is done for a new network in Spain called La Sexta. Horacio Levin decided to leave his executive post at Promofilm-Globomedia in 2004 when it became clear that Grupo Arbol would focus their television division on the broadcast side of the business.

4. Diffusion

The success of *Sorpresa y Media* and the sale of production services to countries such as the United States established Promofilm-Globomedia as the industry leader. Although this company currently lags behind Telefé, Eyeworks and Dori Media, Horacio Levin did not fear the diffusion of his knowledge about how to take advantage of TV formats at the time when his export business was incipient. As we discuss below, he actually promoted the diffusion of TV formats as an export platform in the sector.

As mentioned above, Levin was directly involved in the first export of an Argentine format. He facilitated the sale of *CQC* (*Caiga Quien Caiga*) to his Spanish associates of Globomedia in 1996. *CQC*, a program developed by Cuatro Cabezas, is a comedy-based weekly news roundup program anchored by a trio of Argentine celebrities that uses irony and street reporters asking uncomfortable questions to politicians and celebrities to discuss current events in Argentina. Levin promoted and intermediated the sale of the *CQC* format to Globomedia at a time the owners of *CQC* were not even aware of the possibility of exporting their program as a format. Some former anchors of this program have moved on to star in other programs that have been developed into successful exported formats. The success of *CQC* in the domestic and international markets later convinced Eyeworks to buy this company.

Cuatro Cabezas would eventually reestablish ownership of the *CQC* format, enabling this firm to export it to Chile, France, Israel and Italy. Before being purchased by Eyeworks, Cuatro Cabezas had already established offices in Spain with approximately 100 employees. The company's success with *CQC* enabled it to export formats previously tested on the domestic market such as *El Rayo*, *Puntodoc*, *SuperM*, *Algo habrán hecho*, *La Liga*, *E24*, and *Nos pierde la fama*. The company continued its growth process by producing programs for HBO (*Sexo urbano*), TNT (*Proyecto 48*), The History Channel (*Historia secreta de las ciudades*) and Discovery Travel and Living Channel (*Ciudades y Copas* and *Casas*).

In 2000, Promofilm merged with Globomedia. With this operation, Promofilm was the first company in the sector to show the benefits of merging with potential international competitors as a mean of penetrating foreign markets. Levin showed that this was a viable model that could help domestic firms to resolve the marketing component of the export business model. This general strategy diffused to other firms in the sector. In 2001 Endemol, a Dutch company founded in 1994, acquired a 65% stake in P&P, an Argentine producer of formats. In 2007, Dori Media bought 50% of Central Park Productions. In contrast, Pol-Ka and Ideas del Sur, two important local producers of television programs, were bought by ARTEAR, a domestic company that runs Channel 13 in Argentina.

The growth in the development of formats in Argentina enabled Telefé, a Spanish company that owns a television station in Argentina, to split its production business in two divisions: Telefé Contenidos, in charge of production services and format creation, and Telefé Internacional, in charge of international commercialization. Like other exporters in this sector, Telefé started by importing and adapting formats, focusing primarily on reality shows and sitcoms. Telefé Contenidos produced domestic versions of *Big Brother* in 2001 and 2002 and *The Nanny* in 2004. In 2006 the company started airing a second version of the American sitcom *Married with children* in Argentina. After the success at adapting international formats to Argentina's domestic markets, Telefé Contenidos started to create its own formats and sell them abroad. Additionally, it acts as an international broker for small independent producers such as Ideas del Sur. Telefé International has helped this company to sell programs such as *Los Roldán*, *Disputas*, *Tumberos*, and *Sol Negro*. It has also been involved in brokering sales of formats by RGB, Central Park Productions and ARTEAR.

QUAERERE VERUM
Universidad de
San Andrés

Telefé benefited from Levin's previous experience as an exporter in several ways. Like Levin, the company adopted the practice of testing formats in Argentina before selling them abroad. More importantly, Horacio Levin seems to have been instrumental in helping Telefé to develop its format capabilities. In particular, Promofilm's leasing of Telefé's studios to film *El frijolito* probably helped staff at Telefé Contenidos who witnessed the shooting sessions to acquire a more direct understanding of how to produce a format. This program was a Mexican-style soap opera for the Hispanic market in the United States that was aired on Telemundo. It was set in Mexico even though it was filmed in Argentina and aired in the United States.

Although ARTEAR, the company that owns Channel 13 in Argentina, started later, it followed a path similar to that of Telefé. Until 2003, ARTEAR had developed relationships with independent production companies such as Promofilm, Pol-Ka and Cuatro Cabezas. This policy changed when the network hired Adrian Suar, founder and CEO of formerly independent production company Pol-Ka, as its general manager. Under his leadership ARTEAR took over Pol-Ka and Ideas del Sur. In 2004 ARTEAR produced the mini-series *Epitafios* for HBO. Currently, the company is producing local versions of *Desperate Housewives* for Argentina and six other Latin-American countries and it has plans to sell the formats of other companies. Without the critical help of partnerships with international companies such as HBO and Fox, it is difficult to imagine how ARTEAR would have been able to break into these markets. The uncertainty of such strategy was substantially reduced as Levin had demonstrated three years before that partnerships with international companies were a promising way to penetrate foreign markets.

Endemol was the Dutch company that developed the *Big Brother* format. One year before merging with P&P in Argentina, Endemol was sold to Telefónica, a large Spanish telecommunications and media company that also owns Telefé. By acquiring P&P, Endemol has been able to widen its scope of programs to include fiction, documentary series, news shows and children's programs. The company exported 700 hours of TV programming in 2005, including formats such as *Cuestión de Peso* to Italy and Spain, and *El último pasajero* to Vietnam, Turkey, Indonesia and Chile. The local office of Endemol greatly benefited from the human resources of P&P.

To a large extent, the diffusion of the export business model in the television industry occurred via former managers leaving leading companies and starting their own businesses or via existing

companies appropriating workers of others. For example, the former production managers of Cuatro Cabezas went on to form Tandem Productions, the former managers of Pramer founded Nativa Productions, and the former managers of Telefé Contenidos founded ON TV. Paradoxically, Levin was also a leader in this mode of diffusion. Production companies such as Teleset in Colombia and Magnolia in Italy hired entire groups of technical staff from Promofilm during co-productions. Televisa, the largest TV broadcaster in Mexico, even recruited an entire group of scriptwriters from Promofilm.

QUAERERE VERUM
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CASE III: MOTORBOATS

Introduction

Despite the long history of production of light ships in Argentina, exports in this industry had been rare and sporadic until the end of the 1990s when exports of motorboats began to increase notably. Export growth has been accompanied by an important diversification of export destinations among which European countries account for a substantial share. Establishing a consistent presence in developed countries required exporters to implement a set of business practices that differed radically from the ones that prevail among boatyards oriented to the domestic market. These practices involve conceiving products to address the consumption needs and expectations of clients in foreign countries, introducing substantial changes in the production process and type of materials purchased, and managing the marketing of boats and the relationship with distributors in an entirely new way.

Luis López Blanco, an accountant who was formerly a local representative of foreign brands of motorboats and motorboat engines, was the export pioneer in this industry. The company he founded, Compañia Constructora de Embarcaciones (CCE), was the first firm from this sector to fully implement the export business model. He designed a boat specifically conceived for the European market, ensured production conditions to make that boat, and forged relationships with distributors to market it. By the beginning of the 2000s he had established a consistent presence in Europe. Later, he diversified his exports to other destinations. The business practices first developed by López Blanco in CCE were later emulated by other firms in the industry, leading to the emergence of new exporters in the sector. However, the diffusion of the export business model is incipient and most exports still originate from a small number of firms. There is only one follower who has implemented the export business model and another that is transitioning between business models. Most other new exporters have only adopted partial aspects of the export business model and thus have not yet secured an established presence in foreign markets.

1. The motorboat industry in the world and in Argentina

i) World production and international trade

The leisure boat industry is divided in two main categories, motorboats and sailboats. In 2006, the worldwide market for leisure boats, also known as recreational boats, was estimated to have a size of 24 million units. Most sales were conducted in the United States (16 millions) and in Europe (6 millions). In that year, Europeans bought similar proportions of motorboats (53%) and sailboats (47%), while the U.S. demanded more motorboats (69%) than sailboats (31%) (E-Composites, 2006). In this study, we focus on motorboats since they account for most of Argentina's export growth of leisure boats.[13]

The world industry of leisure motorboats is relatively atomized. In Europe, the three largest groups, Ferreti, Azymut and Rodríguez, have a combined market share slightly above 10%, while the ten largest firms account for one quarter of the market.[14] However, the industry is witnessing a trend towards a consolidation of large business groups driven by either associations of several individual shipyards or vertical integration between banks and engine producers. This trend toward consolidation has implied a larger scale of operation, which has prompted cost reductions in design and engineering expenditures and greater serialization of production. The latter substituted handcrafted work performed by individual artisans with broad sets of boatbuilding skills.

QUAERERE VERUM
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The left panel of table III.1 shows the ten largest exporters of motorboats (Harmonized System 6-digit code 890392) in 2008. Developed countries, in particular European ones, make up the majority of exports in this industry. The largest world exporters are Italy (25% of world exports in 2008), Germany (16%), and the United Kingdom (15%). The United States and Canada are also important actors in the industry, accounting for 12 % and 1.8% of world exports respectively. Turkey is the only developing country among the ten largest exporters,

[13] Although the motorboat and sailboat industries have many common features, such as raw materials, suppliers, and commercialization channels in the domestic market, they also display important differences in production processes, commercialization channels abroad, and features of the final product. Because of these differences, boatyards tend to specialize in the production of either motorboats or sailboats.

[14] In the car industry, for instance, a single company (Volkswagen) accounts for more than 10% of total sales in Europe.

representing 1.5% of total exports. The last column of the panel displays the unit value of exports.[15] Italy concentrates its foreign sales on the high-end segment of the industry. This focus is reflected by the unit value of its exports, which is the highest among the ten largest exporters. The unit value for the U.K. is also relatively high and only slightly below that of Italy. Additionally, these two countries feature exports of motorboats that are on average considerably larger than those of the remaining main exporters.

Table III.1. Top exporters and top importers of motorboats (2008)

Top Exporters	Value of exports (US$ million)	Share of world exports	Unit value	Top Importers	Value of imports (US$ million)	Share of world imports	Unit value
Italy	2792	25.15	77.30	Cayman Isds.	1345	12.12	43.34
Germany	1749	15.76	47.18	USA	647	5.83	43.87
UK	1615	14.55	71.07	Gibraltar	626	5.64	55.38
USA	1333	12.01	36.89	Canada	621	5.60	36.96
Netherlands	797	7.18	36.89	France	613	5.52	42.51
France	754	6.80	36.89	Italy	605	5.45	42.75
Spain	224	2.02	18.44	UK	500	4.51	38.85
Canada	205	1.85	36.89	Oman	456	4.11	46.41
Turkey	166	1.49	28.42	Spain	439	3.95	60.99
Finland	148	1.33	42.29	Br. Virgin Isds.	376	3.39	47.03
Top ten exporters	9783	88.13	46.12	*Top ten importers*	6228	56.11	44.47
Argentina	7	0.06	27.69	Argentina	3	0.03	38.28
Total exports	11101	100	44.88	**Total imports**	11101	100	44.88

Source: COMTRADE. Unit value is the value of exports in U.S. dollars per kilogram.

Developed economies also make up the majority of world imports in this industry (see right panel of table III.1). In particular, six of the ten largest importers are also among the ten largest exporters. However, there are a number of unusual destinations among the main importers: the Cayman Islands, Gibraltar, Oman, and the British Virgin Islands. In addition to their high volume of imports, these economies feature disproportionate imports of very large boats. It is

[15] The COMTRADE data includes information on the value of exports, the number of units exported and their weight. Export unit values are computed as the value of exports divided by weight (rather than number of units) to avoid just capturing compositional differences in the size of exported boats.

important to note that, with the exception of Oman, these territories are listed by the International Monetary Fund as Offshore Financial Centers (OFCs). This fact can be useful to understand the prominent position of these economies in the world market of motorboats, as firms and individuals that register their boats in those locations generally benefit from substantial tax advantages.

ii) Changes in world consumption patterns

During the last two decades an important fraction of the leisure boat market, especially in the United States and Europe, has shifted from a core of elite customers towards a more massive customer base. The latter are part of an upper-middle class with increasing purchasing power. They are differentiated from customers of traditional luxury goods because they look for "new luxury" products, that is, products that are perceived as high quality and stylish without being prohibitively expensive (Silverstein and Fiske, 2003). The growing importance of this kind of consumers has been accompanied by an increasing attention to the interior comfort of the boat, including the number of appliances, the quality of materials, and the decoration.

On the other hand, the industry has witnessed a trend towards larger boats, known as super-yachts. Those yachts feature very large dimensions. In general, they are more than 90 feet long (27 meters) and sometimes reach sizes up to 435 feet (130 meters). The segment of super-yachts was the first to exhibit the previously mentioned upgrades in quality and design, leading the industry to develop capabilities in joinery and interior fittings that later diffused to smaller motorboats.

iii) The motorboat industry in Argentina

The boating industry has a long history in Argentina. Its origins can be traced back to the early twentieth century when European immigrant artisans established the first shipyards to build wooden boats near the River Plate. Those shipyards emerged in response to the demand of a growing population of English managers and engineers of railways and other companies.

The industry in Argentina has traditionally been characterized by small and medium-sized firms (SMEs). Most of them are family businesses. These firms have generally focused on the production of boats for domestic water sports. An average-sized firm employs 20 workers while

the largest firms employ approximately 100 workers. Another distinguishing characteristic of the local industry is that 90% of boat building capacity is currently placed in a single location, an industrial cluster located in Tigre and San Fernando (CEP, 2005). These two counties on the Paraná River delta in the northeastern part of the province of Buenos Aires have a number of features that render them attractive for the production of boats. First, motorboats are required for transport and communication between the islands of the delta. Second, they are densely populated with nautical clubs and are a hub for a number of marine sports, including yachting. Since the economic recovery that followed the devaluation of the Peso in 2002, the growth of nautical sports (yachting, water ski and windsurf) has encouraged the creation of new boatyards and associated industries.

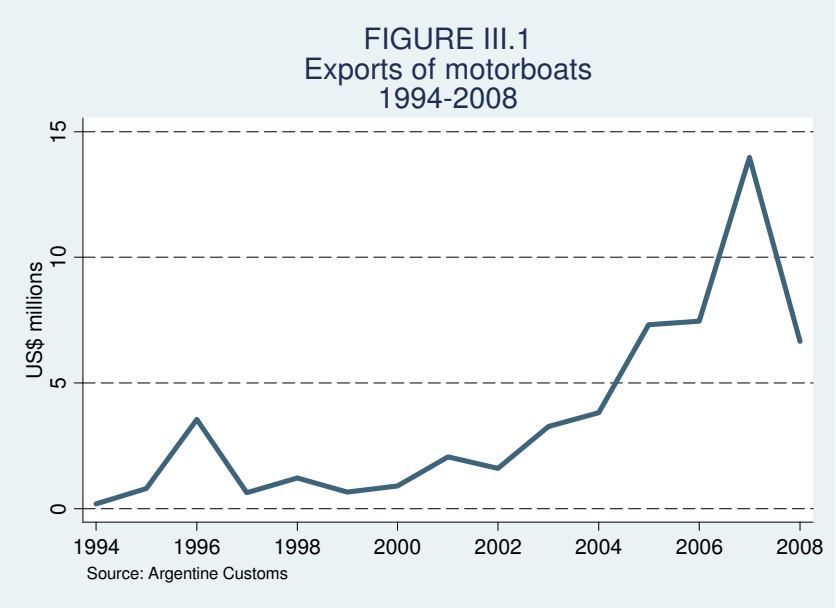
Production techniques in the domestic industry have accompanied, although with lags, technological progress in the industry worldwide. In the 1950s, new materials were introduced in boat manufacturing, including fiberglass and polyester. They largely served as substitutes for wood. These materials allow for lighter boats that reach higher speeds and have a longer life. At the same time, they allow for new production techniques, including the implementation of some features of serial production. The introduction of machine tools with computer numerical control in the 1980s built on this process of technological conversion. Although Argentine firms started to incorporate new materials in the 1970s, for example introducing fiberglass reinforced plastic, their small scale has prevented them from fully implementing serial automated production. In the Argentine boating industry, serial production refers to production that is carried out on the base of standardized models or matrices. Nevertheless, it requires substantial handicraft work. The only real difference is in the finishing details.

In the early 1980s, the industry was composed of 326 firms producing a total of 7800 units. The appreciation of the Argentine Peso that accompanied the convertibility regime of the 1990s and the removal of tariff protection caused a spurt in imports of both final products and technology. The number of units produced increased slightly until 1999 but then declined through the later stages of the economic recession that preceded the collapse of the convertibility regime in 2001. This crisis had a devastating effect on the industry. By 2004, the number of firms had declined to 200 and the units produced to 2300 (INDEC, 2004). However, the devaluation of the local currency in 2002 improved the relative prices for the domestic boating industry, making Argentine boats more competitive in international markets. The gains in competitiveness are nevertheless limited by the fact that an important proportion of total costs in this industry

consists of imported and tradable materials. In particular, motor engines account for the largest share of imported input costs.

iv) Exports from Argentina

Exports of motorboats have displayed a notable increase since the end of the 1990's (see figure III.1). In particular, most of this increase took place after the devaluation of the Argentine currency in 2002. The growth rate since then has been impressive, with total exports rising at an average rate of 32% from 2002 to 2008.[16] In 2008, exports decreased significantly due to the adverse conditions that affected the world economy during that year. Motorboats are an income-elastic "luxury" good, which makes their demand especially sensitive to economic disruptions such as the one registered in 2008.

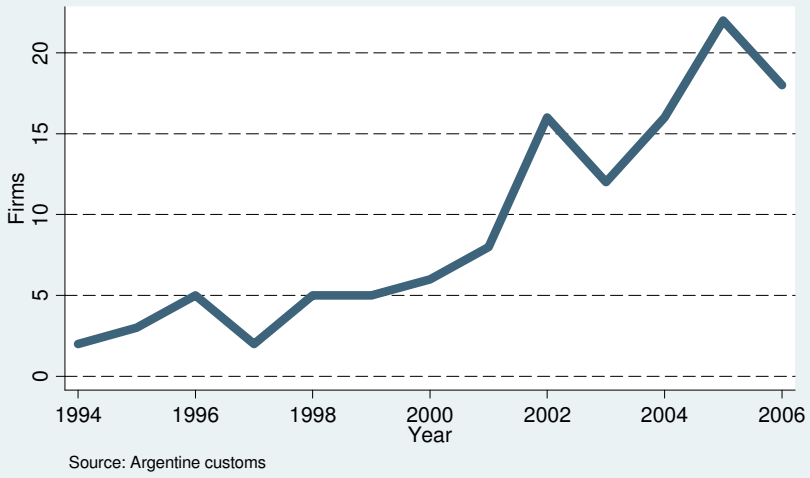


While Argentina's exports of motorboats were initially directed to Latin America and the U.S., they have greatly diversified since the mid 1990's in terms of countries of destination. This process of diversification was mainly based on an increasing presence in European markets. Sales

16 There is one firm which is excluded from our statistical analysis of the sector. This company registers exports of motorboats with weight and unit value considerably above the average of the local industry during part of the 1990s. We excluded it as sources of the industry suggested that those recorded sales did not correspond to regular commercial transactions. Our own interview with the firm did not dissipate those doubts.

to Europe, which showed a steady rise since the mid 1990's, started to increase at a remarkably faster pace after the devaluation of Argentina's currency in 2002. Since that year, this destination has been the main source of export revenue for domestic firms, accounting for 39% of total exports. Notably, three out of the five largest importers from Argentina are OECD countries: Spain (17%), Italy (15%) and the United States (12%). This group of countries has explained more than half of total exports from Argentina since 2002. The remaining two are from Latin America: Venezuela (the largest importer, 19% of total exports) and Brazil (10%). At the same time, Argentine firms are making their way into non-traditional destinations such as the United Arab Emirates (5% of total exports since 2002). From 1994 to 2001, Argentine firms exported to at most five different countries in a given year while the average number of destinations per year was less than four. By contrast, Argentina exported to fourteen different destinations in 2006 including countries in Latin America and the Caribbean, North America, Europe, Africa and the Middle East. The number of different destinations decreased to nine in 2007 and to seven in 2008.[17]

FIGURE III.2
Number of exporters of motorboats
1994-2006



In line with the increase in the volume of exports of the sector, the number of exporting firms has been consistently rising since the mid 1990's (see figure III.2). However, most exports still

[17] Sailboat exports have followed a similar path to the one described for motorboats. Export volumes grew abruptly after 2002, with Europe and the U.S. as the main export destinations. As with motorboats, the share of exports to Latin America has also declined after 2002 despite being the main destination in the previous period.

originate from a small number of firms. In 2006, the two largest exporters accounted for more than 50% percent of total exports from Argentina, while the four largest exporters accounted for approximately 75% of them.

2. Export business model versus domestic business model

The few exporters in the motorboat industry that have already been able to establish a consistent presence in the developing world conceive and conduct business in an entirely different manner from the way this is done by domestically-oriented firms. At the core of those differences is the fact that firms that implement the export business model understand the evolution of consumption patterns in developed countries and the need to conceive, design, and produce boats that address those patterns. Products conceived for the foreign market are not equal to those typically offered domestically. For example, they are generally designed for larger bodies of water and have touches of originality and sophistication, such as platinum control panels, that are absent in boats made for domestic consumption. At the same time, the production techniques used in each case also differ substantially. While firms oriented to the domestic market rely heavily on handicraft methods, export-oriented firms rely on a higher degree of standardization in the production process, which involves a greater degree of professionalization of the management as well as the interaction with suppliers outside the traditional network of suppliers in the motorboat industry. Differences in how boats are marketed are also substantial. While marketing is largely delegated to brokers under the domestic business model, firms with an established presence abroad become directly involved in marketing activities, mainly by working closely with a small number of distributors in the developed countries they target.

i) The product component

Motorboat consumption patterns in Argentina differ along many dimensions from those in the largest world markets. Some of these differences are salient. For example, yachting in Argentina is mostly practiced around Buenos Aires over the expanse of the River Plate, the widest fresh water estuary in the world. Therefore, boats for domestic consumption are designed for fresh water and are not required to be resistant to sea-water corrosion. Although considerable yachting activity in the world occurs in fresh waters, such as the Great Lakes of North America,

most of this activity is performed in maritime environments, where resistance to sea corrosion is critical.

Another important difference is that yachting in the developed world is customarily practiced in larger extensions of water than in Argentina. For example, in Europe there is a growing demand for "express cruisers", slower displacement boats that can be used for multiple-day trips. They generally require greater stability and fuel efficiency. This type of boat is rare in the River Plate estuary because the length of this river, of approximately 250 miles, only allows for shorter trips in waters that do not challenge boat stability.

An additional source of difference between Argentina and many of the largest export markets relates to differences in per-capita income. As described earlier, new consumption trends are salient in the United States and Europe. These new trends are driven in part by the growing importance of a new type of consumer seeking for "new luxury" goods. Although these consumers cannot afford premium brand motorboats, they are willing to pay for well-designed, well-engineered, and well-crafted goods that have some of the artisanal touches of traditional luxury items. In order to satisfy that demand, leading firms usually import design concepts from other industries. For instance, premium sports car manufacturers such as Ferrari, Porsche, and Pagani[18] design large and expressive speed gauges to enhance the perception of speed. This type of design trends rapidly carries over to boatbuilding as customers expect these new design features to be present in boats as well.

The increasing sophistication and demand for originality of consumers in developed markets imposes strong design challenges for domestic producers that wish to export. In contrast to the consumption trends in the developed world, the core of the motorboat market in Argentina still consists of customers who continue to buy traditional boats with a more austere style. Also, new firms from a developing country cannot expect to compete with first-tier brands such as Azymut and Ferreti, as brand reputation is a key element in the purchasing decision of traditional luxury consumers. However, they may succeed in a second-tier segment, where competition comes from smaller and less established firms.

[18] Incidentally, Horacio Pagani, designer of the Zonda Pagani Roadster, is an Argentine car designer that founded his company in Italy.

In addition to understanding broad differences in consumption patterns and trends between the domestic and foreign markets, producers that implement an export business model also need to be able to follow and understand the evolving specificities of foreign tastes over time. Having the latest information about market trends is critical to conceive a modern, up-to-date boat in an industry with very fast product design cycles. For example, consumers in the developed world have recently started to demand furniture made of pale wood and with rounded shapes for the interior of their boats instead of the dark, square furniture that was common in the past. Also, there is a new trend to replace traditional portholes with frameless windows placed over faired surfaces. As a consequence of these frequent changes in tastes, exporters need to systematically monitor world leaders' boat designs and changes in style, for example attending the most prominent international boat show fairs such as those held in Genoa, Venice, and Barcelona. These events are also an opportunity to meet distributors and start new business relationships, which become a key channel to systematically update information about those trends.

While producers who operate under the domestic business model have a good understanding of tastes and needs in the domestic market, they often attempt to export without being aware of the importance of adapting their products to the tastes and needs of foreign customers. For example, even though choosing appropriate materials to endure maritime conditions is a basic requirement for entering foreign markets where boats are primarily given a maritime use, domestic producers have often failed to acknowledge the importance of adapting their products for such requirements. Domestic producers have also failed to address the need to accompany their products with detailed technical information such as standardized plans of the electric circuits of their boats. Although this type of material is not necessary for selling in the domestic market, it is critical for distributors in developed countries.

Exporters that implement the export business model tend to initially target a narrow range of destination markets (sometimes only one). The selection of which markets to target is far from trivial. Exporters need to understand the differences between those markets to make appropriate choices. For example, although the U.S. seems *a priori* to be a reasonable choice because of its much larger import volumes and relative geographic proximity to Argentina relative to Europe, the two largest Argentine exporters to the OECD have found the European market to be a more appealing market to target. Part of the relative appeal of the latter market could be based on the fact that the European market has been growing at a faster pace than the U.S. market. Also, the European market is more atomized than the American one because each European

country has its own distribution network. For Argentine boatyards, which are small, this market atomization constitutes a beneficial factor because they can work with distributors who operate at a more reduced scale. Those distributors are more willing to become involved in an active partnership with them and are less likely to place orders that they might be unable to fulfill.

Having selected the destination country to target, exporters still need to decide the market segment and the product category to choose within that segment. The few firms that have implemented the export business model acknowledge the importance of understanding segmentation patterns in destination markets. Boatyard owners of those firms often hire managers with substantial experience abroad as employees in world-class boatyards. The foreign exposure of those managers allows them to understand the complexity of foreign markets and identify the range of products that can be successfully offered in each market segment. For example, mainstream Italian boatyards have lately shifted their focus towards the increasingly lucrative categories of giant cruisers, leaving the demand for the smallest categories of boats relatively unattended. Ferreti, for instance, no longer produces boats of less than 45 feet and has acquired CRN, a shipyard specialized in mega and super yachts. In response to that strategy, Argentine exporters have chosen to serve those small size categories of boats to avoid competition with the top European boatyards.

ii) The production component

Once boatyards decide which foreign market and which segment in that market to target and choose a category of boats to focus on, they still need to develop specific designs for the boats they will offer abroad and adjust the production process to produce them. Consistent exporters to developed countries need to possess the concrete capability of designing products adapted to the consumption patterns of those countries and upgrade production processes to satisfy their higher quality requirements. This upgrade involves processing new information about detailed engineering of the boat, digitalizing the design process, standardizing and documenting production processes, and developing new buyer-supplier relationships.

Becoming a second-tier brand behind industry leaders such as Azymut and Ferreti is neither an easy position to conquer nor an easy one to maintain. The acceleration of product design cycles in competitive markets demands design capabilities related not only to a firm's ability to follow existing trends but also to its having a strong absorptive capacity that enables it to gain design

autonomy even when a design is limited to imitating trends imposed by the industry leaders (Cohen and Levinthal, 1990). Exporters in Argentina can sustain the pace of product design cycles as second-tier brands based on the advantage of their enrooted Italian design tradition.

Exporters employ detailed information about products in foreign markets supplied by commercial managers. Those managers regularly read European boat magazines and do market intelligence in boat-show fairs. They also use market survey information about demand for specific product attributes in developed markets. The information they gather is later shared with production managers and discussed with the rest of the design team. The flow of information from the marketing division to the design and production division is crucial, as products are tailored for specific countries and market niches. In boatyards that sell in the domestic market this mode of continuous redesign is not as systematic. Such a design capability is less necessary in the local market because the speed of product design cycles is much slower.

Recent years have witnessed the emergence of yacht design as a new profession in Argentina. In the domestic production of boats, design was traditionally carried out by naval engineers, professionals mostly prepared to solve functional and technical problems. With the advent of design professionals, boat conception and boat building are increasingly conceived as two distinct tasks. While the latter is performed by naval engineers the former became a specialized task performed by yacht designers. Argentina seems to be well-equipped with yacht design capabilities. Italian mentors have trained several Argentine boat designers, some of whom have even spent a considerable period of time, often above three years, working in the Italian naval industry. Most of these designers belong to a second generation of European immigrants, especially from Italy and other Mediterranean countries. Some Argentine designers have even taken a prominent place among the elite of world yacht designers; among the most renowned ones are Germán Frers, Germán Frers Jr., Juan Kouyoumdjian and Santiago Lange. Design offices of Argentine designers based both in Europe and in Argentina are contracted worldwide for design projects involving racing yachts and leisure motorboats. For example, Ukrainian boatyards have hired designers located in Argentina because they want to enter the European market but lack design capabilities. The Italian influence in the Argentine motorboat industry is manifest in the population of boatyard owners, most of them with Italian and Mediterranean roots and last names such as Regnicolli, Canestrari, Zazzali, Russo, Campanigli, Gagiofato, Paglietini, and Giandino. This influence has helped domestic firms to position their products in markets where Italian design is highly valued.

Technological design problems are increasingly solved using publicly accessed information or purchasing patents. Both the design of the exterior appearance of the motorboat and the design of the interior spaces have become central to boatbuilding as they are key factors of differentiation. The industrial design of a ship, while still important, is now secondary to its architectural design. Increasing emphasis is placed on the boat's living space and the experimentation with new materials and appliances in the deck and interiors. For example, it has become frequent to use stainless steel fenders instead of plastic ones, or to engrave the brand's name in steel rather than simply painting it on the deck.

In addition to design, many other aspects of the production process need to be changed to ensure that a boat can successfully compete in foreign markets. One key feature that distinguishes the production components of the export business model from those of the domestic business models is the precision of the production process. In the most advanced countries, serial production of motorboats is carried out using standardized models or matrices made with structures of fiberglass supported by steel. These matrices are used to mould the hull of the boats and deliver finished products with standard features and consistent quality. In the domestic market, standardization is not a valued feature as imperfections are tolerated to a much larger extent. Moreover, domestically oriented firms often do not achieve sufficient scale to justify more serialization because they produce a wide portfolio of products.

Firms that attempt to export to developed countries construct new matrices from scratch and engineer them to produce high quality parts with extremely detailed corners and junctions. Thus, they avoid spending a large amount of labor hours polishing a boat that might nevertheless fail to meet international standards. Even though they do not reach a scale sufficiently large to fully implement serial automated production using machine tools with computer numerical control (CNC), they can still integrate computer aided design (CAD) into the design process. They use CAD for key parts of the boat hull such as bows and sterns, and outsource the "cutting" of these parts to third parties that offer computer aided manufacturing (CAM) services.

Producers who implement an export business model introduce changes to ensure that their sourced parts meet the quality standards of their own products. Since it is often the case that traditional suppliers of boatbuilding parts, such as propellers, axles and rigging, are not responsive to demands for quality upgrading, boat exporters sometimes prefer to work with non-

traditional suppliers, such as producers of windshields, aluminum, and CAD/CAM services. These suppliers work with a variety of other industries and are not necessarily familiar with the boatbuilding sector. In fact, exporters often apply a strategy of developing suppliers outside the network of part manufacturers in the traditional boatbuilding community, which includes sharing tacit knowledge with those suppliers and working collaboratively in the design of the parts.

In addition to working with non-traditional suppliers, exporters that seek to upgrade the quality of their products benefit from easier access to publicly available technical information from the internet, manuals, and industry publications. Even though this information is increasingly public, a firm's access to it depends on its absorption capacity. As a basic example, it requires the ability to read technical material in English. Although this appears to be a trivial requirement, most producers oriented to the domestic market are not capable of taking advantage of available public information because they lack a team of capable managers who dominate both English and technical content.

A key distinguishing characteristic of export-oriented boatyards relative to those oriented to the domestic market is the professionalization of management. In addition to hiring professional managers, this process involves the formal separation of the production and marketing areas. Specialization and professionalization of management result in a more complex organization, with greater capacity to incorporate technology and market information into the design and production of goods. For instance, boats for foreign markets have to be fully documented to enable technical support abroad. In the case of electric circuitry, electric circuits need to be standardized and accompanied by detailed technical information to allow servicing to be carried out by brokers and representatives in foreign markets. Such a pressure for standardization is not present in the domestic market since boatyards can provide their own technical support for the boats they make.

Owners of traditional boatyards with domestic orientation are not aware of the importance of such changes. Typically, they are also chief executives of their firms. Family members such as sons, daughters or sons-in-law, may be in charge of commercial and accounting tasks. Production – performed on an artisan basis – is the core of their know-how, and they are reluctant to change the way they do things. Skills in production management, finance, commercialization and marketing are underdeveloped in these firms. They sell abroad

sporadically, mostly to neighboring Uruguay and Brazil. Those exports are rare and limited to utilizing idle production capacity when domestic demand is low.

iii) The marketing component

In addition to conceiving and producing their boats, exporters need to face the challenge of marketing their products on the international market. Boatyards that implement the export business model acknowledge the crucial importance of having direct access to the foreign market environment in order to capture tacit information that is critical for understanding its operation and subtleties. As a consequence, they generally do not delegate the marketing function entirely to brokers. They understand that it is important to be involved in key marketing decisions about the representation of their boats abroad, such as which specific information should be provided to specialized magazines. For example, each time they communicate the launch of a product they have to decide on the tone of the message in order to assure an image of prestige. Therefore, while they work closely with a reduced number of foreign distributors who manage the image of their products in their direct relationship with clients, they retain the relationship with journalists.

An integral marketing strategy for an exporting firm involves various fundamental decisions. First, it must be the guiding framework for making the choices we discussed in the Product section: the target market, the particular segment within that market, and the specific product category within that segment. Second, the marketing strategy must address the need to develop a distribution network, the implementation of a communication strategy oriented to the media and to foreign consumers, as well as the provision of high-quality technical support services.

At the same time, the competitive environment that exporting firms face in international markets requires them to build up an international commercial network. As they have limited resources to invest in market penetration strategies, reaching foreign customers depends crucially on the marketing efforts of foreign distributors. Thus, the establishment of permanent commercial representations of third party distributors in key foreign markets is an important element of an export marketing strategy. Since success in foreign markets is closely tied to the performance of distributors, understanding their requirements and conforming to their business practices is critical.

Gaining access to proper commercialization channels is only possible through a conscious strategy of meeting the specific needs of foreign distributors. Therefore, commercial managers of exporting firms spend a significant amount of time looking for the right match between the company's needs and distributors' expectations. For instance, exporters' regular participation in the most prominent international boat shows facilitates the development of a qualified network of distributors. Exporting boatyards assign the demanding task of developing relationships with foreign distributors to an English-speaking or Italian-speaking professional commercial manager with international marketing skills. This manager attends boat shows abroad on a regular basis and takes care of the commercial network and demands of distributors. Commercial managers are continuously working on expanding and maintaining distribution networks.

Boatyards that attempt to export without changing their business model conduct their commercial activities under a completely different logic. In particular, they do not invest in developing long-term relationships with foreign distributors because they are not aware of the critical role that those distributors could play in helping them to achieve sustained exports. Since they often control the small commercial distribution network in their domestic market, they think that they can conduct the marketing function in a similar manner overseas. In the domestic market, the sales function is usually delegated to third parties such as distributors or brokers under annual representation contracts. Domestic producers usually do not get directly involved in selling their products because commercial tasks are seen as secondary vis-à-vis production activities. Furthermore, the owners of domestic boatyards consider that distributors simply play the role of a shop window; distributors' shops are simply a place where their goods can be elegantly displayed. Once a final customer is attracted to their boatyard they prefer to develop close relationships with him or her directly. Part of the reason they prefer a direct relationship with final customers is associated with how they finance their activities. A standard commercial practice among domestically oriented boat builders is to rely on customers to finance the manufacturing of their products with anticipated payments (CEP, 2005).

Regarding the communication strategy, domestically oriented boatyards rely almost exclusively on the reputation of their family-name brands. While this approach has proved successful in the domestic market, exporters need to develop a more sophisticated communication strategy when they seek to export on a continual basis to the developed world. This entails choosing the right brand name, producing high-quality marketing materials and websites as well as advertising their products in the world's mainstream boating magazines. Exporters have to create a new

identity for their products almost from scratch.

In their attempt to achieve brand recognition in foreign markets, motorboat exporters faced the additional difficulty of overcoming country-of-origin bias. Since Argentina is not widely recognized as a producer of motorboats, exporters developed a marketing strategy focused on improving the image of Argentine boats. Marketing campaigns were targeted accordingly, and have been successful in influencing the specialized press to recognize Argentine origin as a valuable asset. Argentine boats are also attaining international recognition due to their increasing presence in foreign markets, the prestige acquired by certain designers, and the performance of Argentine nautical sportsmen and sportswomen in international competitions.

Country-of-origin bias deeply undermines the commercial performance of boatyards from developing countries. For instance, a serious obstacle faced by this industry when it started to export was the resale value of Argentine boats, which was significantly lower than those with brand-name recognition. Although potential clients appreciate that Argentine boats cost roughly 20% less than equivalent products from major international competitors, many are reluctant to buy Argentine boats due to their lower resale value. These perceptions may change in the future once used Argentine boats leave a track record of successful acceptance in the secondhand boat market.

Finally, the upgrade in marketing practices that exporters need to attain in order to establish a long-run presence in foreign markets also entails assuring high-quality technical support services. Since assuring access to maintenance and repair service providers is a key factor for competing in foreign markets, boat builders, following the steps of leading boatyards such as Ferreti, do not delegate this function completely to distributors. In some cases, boat builders leverage an existing network of service providers in each target market but maintain a role as a last layer of service provision. In these cases, they provide detailed manuals and support material. In other cases, their involvement is more direct. For example, they sometimes deliver their own technical support service in order to satisfy the most demanding customers, even including overnight flights of specialized technicians to overseas locations.

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3. Export Pioneer

Luis López Blanco is the export pioneer in this sector. The company he founded, Compañía Constructora de Embarcaciones (CCE) was the first firm from Argentina to export on a consistent basis to the developed world. In particular, López Blanco's firm was the first to export to the OECD during three consecutive years, from 2002 to 2004. CCE has been the second largest exporter of the industry since 2000 and it is the largest in terms of sales to the OECD.

López Blanco started his career during the late seventies working as an accountant and business administrator for shipyards and other firms in the nautical industry. During these years, López Blanco gained a deep understanding of the commercial aspects of the business. He was also a visible agent in the industry. He served as the president of its business chamber on two occasions, from 1988 until 1991 and from 1997 until 2001.

After working by contract for shipyards until the mid-1990s, he decided to start his own company. In the beginning Lopez Blanco´s main business was the commercialization of new and used boats. He represented Ferreti, a premium world-class Italian brand of motorboats, and Cummins, a US engine producer, as well as many domestic brands. As a representative for these firms, he frequently assisted international boat shows. These trips allowed him to get first-hand knowledge about the world market of motorboats and the business practices of leading firms in this industry.

After two years of limited sales on the domestic market, in 2000 López Blanco decided to start producing his own boats with the goal of exporting them. López Blanco thought of the export market as a way of shielding his earnings from the wide economic fluctuations that have characterized the Argentine economy in the last decades. At the same time, due to his knowledge of the industry, he was aware of the fact that the main Italian boatyards had shifted their attention towards super-yachts, leaving the demand for the smallest categories of boats relatively unattended. Therefore, he decided to compete in that segment of the European market. He chose to focus on a particularly unexploited category, ships with a length of 10 to 11 meters that had a double command.

Although López Blanco had experience as a commercialization agent in the industry, he was

clearly a newcomer to the production side of the business. However, as an importer and distributor of leading foreign brands, he was acquainted with the product features and the marketing practices of the firms for which he acted as a representative. Therefore, he made use of this knowledge in order to develop a high quality, exportable product. Instead of applying the standard, handicraft building practices of other domestic producers, he employed state-of-the-art molding techniques from world-class boatyards that required higher engineering and design inputs. Although he did not fully implement serial production, he incorporated computer-aided design (CAD) into the design process of key parts of the boat. These techniques required the use of materials which had been rarely applied in Argentine boatbuilding in the past and that had to be acquired from suppliers outside the traditional motorboat community, such as windshield and aluminum producers. At the same time, although Lopez Blanco kept the marketing aspects of the business under his direct control, he delegated design and production to highly qualified workers such as industrial designers, naval engineers and yacht designers. For instance, he hired a yacht designer with experience in the Italian motorboat industry as the general manager of the firm.

His first model, named Aqualum 35, was developed in 2000 with the aim of emulating industry leaders such as Azymuth and Ferreti. Unlike the boats produced by other domestic firms, the Aqualum 35 was equipped with Italian appliances. The rationale behind the use of imported rather than domestic appliances was not only to employ premium brands, but also to set foreign customers at ease by providing appliances that they already recognized and trusted and that could be easily replaced.

The election of Aqualum as the name for his brand is another example of López Blanco's understanding of the international motorboat market. His intention was to use a Latin word in order to have a brand with universal appeal across all European countries. He also thought Aqualum would be a friendly brand to Italian customers, the first market he wanted to target. However, due to a suggestion of a distributor, he changed this name to AQVA for the Italian market because Aqualum is not easy to pronounce in Italian. In addition, the word AQVA resembles the ancient Roman contraction SPQR[19], the official signature of the government of the Roman Empire and one of the most well-known brands for Italians.

[19] SPQR is the acronym of "Senatus Populus Que Romanus", Senate and People of Rome.

In order to contact foreign buyers for his Aqualum 35, López Blanco started to attend the Genoa and Venice International Boat Shows. By his own account, colleagues in the industry considered that he was wasting too much time and money on boat shows. This general perception was probably driven by the fact that no serious attempts to export to the developed world had been made in the past. His efforts to export included producing high quality marketing materials and publishing advertisements in some of the world's main boating magazines, as well as establishing permanent commercial representations in several foreign markets. In the end, his marketing efforts yielded positive results. He was able to sell his first boat to Italy in 2002. In order to open up new export markets, López Blanco decided to temporarily sell his boats abroad below cost and to add quality assurance services that were new to Argentina's industry. For instance, on one occasion he decided to send a technician to the United Arab Emirates to rework an instrument panel for a client who was unsatisfied with that part of his new boat. In the following years, López Blanco set up a qualified distribution network for his products. He was able to obtain representation deals all over Europe with companies that represented other renowned brands. Since then, CCE's products have been exported to Germany, France, Italy, Spain, Norway, Greece and Venezuela. Sharing distributors with top brands is crucial for domestic producers as it allows them to benefit from the international reputation of industry leaders.

López Blanco considers that country-of-origin bias is particularly important for motorboats due to its impact on the boats' resale value – as explained above. Therefore, he set out to improve the image of Argentine boats abroad by targeting his marketing campaigns accordingly. In addition, CCE focused on building international brand recognition for Aqualum. In order to fulfill this goal, CCE obtained quality certification from the European Economic Community (EEC) and the Registro Italiano Navale (RINA), a practice that has now become standard in the industry even for firms oriented to the domestic market. Starting in 2003, López Blanco perceived that the Argentine origin of his boats was becoming increasingly accepted. Specialized yacht journalists confirmed Lopez Blanco's perception as they started to positively recognize Argentine boats and certain local designers.

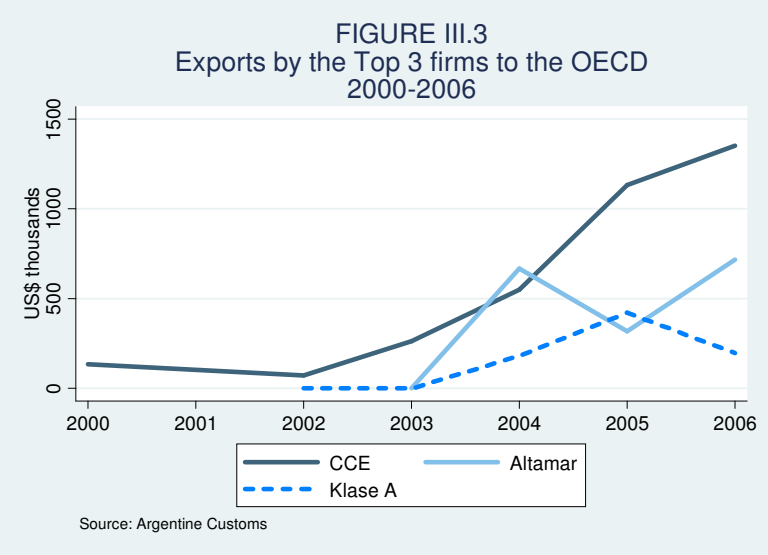
After his initial success with the Aqualum 35, López Blanco continued making efforts in terms of improving quality, design, and technical support. Investments in those capabilities allowed CCE to expand its product line by developing a larger boat (between 40 and 43 feet) entirely designed by computer and CAD systems. He also forged new partnerships with distributors that

allowed him to enter new countries in Europe and in Latin America.

4. Diffusion

While producers in the community of motorboat builders viewed López Blanco as eccentric for pursuing foreign markets prior to the devaluation of the Peso, CCE's experience set a benchmark of how to export successfully to the developed world. Nevertheless, the diffusion of the export business model in this industry is still limited. Only one firm has fully adopted the export business model, while another one is in the process of transitioning between models. A few other firms have only adopted partial aspects of it and have not yet achieved a consistent presence in markets in the developed world. Hence, it is hard to ascertain whether exports to the developed world in this industry will achieve a significant size in the future.

It is possible to distinguish two main followers: Altamar Yachts and Klase A. Altamar has followed the export business model more closely, adopting the management and marketing practices developed by López Blanco, while possibly benefiting from greater financial resources. Klase A is transitioning from the domestic to the exports business model and still conducts most of its sales in the domestic market. These two firms, along with CCE, are the three largest exporters of motorboats in terms of value since 2000 and jointly account for 28% of the total exported in the industry since that year. Figure III.3 displays the evolution of their exports from 2000 to 2006.



As well as CCE, Altamar Yachts was founded with the explicit purpose of focusing on the export market. Consequently, the owner of the company – who comes from the retailing industry and had no previous experience in boat building – decided to acquire the services of professionals with relevant experience in the international motorboat industry. First, he hired a business manager who lived in the United States and had work experience in the motorboat industry of that country. Additionally, he hired the services of Gino Giandino, an Argentine yacht designer with previous work experience in Italy. Giandino worked in Italy for Germán Frers, another Argentine yacht designer who is internationally renowned for his successful designs of racing yachts. The company initially attempted to export its product line to the United States focusing on Miami. As this venture failed the company decided to focus on smaller markets. Finally, Altamar Yatchs started to export successfully in 2003. In that year, the firm sold exclusively to Mercosur countries. Starting in 2004, it reoriented its marketing efforts towards Europe, where it has sold mainly to Spain and the Netherlands. In recent years, the firm has expanded its scope with exports to Chile, Trinidad and Tobago, Venezuela, and the United Arab Emirates. By 2006, Altamar Yachts had achieved US$ 2.7 million in export revenues and was the largest exporter of the industry (see figure III.3), although it lagged CCE in terms of exports to the OECD.

Klase A started exporting a small number of units in 2002. It began by selling boats exclusively to Mercosur countries and later turned to the European market, following CCE and Altamar Yachts. In 2004, the company conducted its first sale to the OECD by selling a boat to Italy. Since then, the company has greatly increased its international presence. However, most of its sales are still in Argentina, and the firm is transitioning from the domestic to the export business model. For instance, though Klase A has made important changes to its boats such as substituting stainless steel for plastic in its fenders, the firm still produces its boats by renting matrices from other firms.

A factor that may contribute to the diffusion of the export business model in this sector is the fact that López Blanco is a visible agent. As mentioned earlier, he was twice the president of the industry's business chamber (1988 to 1991 and 1997 to 2001) and he is widely regarded as the industry leader in terms of production and marketing practices, many of which are observable to other firms in the industry. Those firms also know which markets he targets. For instance, CCE was the first firm to export to Italy and to the United Arab Emirates. Altamar Yachts and Klase A later exported to those same markets.

The incipient diffusion process in this industry has primarily involved word of mouth around the small community of motorboat builders. Specific actors promote the diffusion of the export business model. Designers, for instance, are key transmitters of knowledge about foreign customers' preferences. Commercialization agents also contribute to the diffusion process by providing firms with relevant information about international markets. The business chamber of the industry also constitutes a channel for diffusion by enabling contacts between shipyards. In contrast, the government has not played an important role in promoting diffusion. For instance, the government has not taken advantage of the existing industrial concentration in the areas of Tigre and San Fernando to better promote the sector.

Notably, the three main exporters in this industry, namely CCE, Altamar, and Klase A, regard diffusion to be a positive mechanism insofar as it can expand the presence of Argentine firms, and thereby the recognition of this country as a reliable producer of motorboats in international markets. Diffusion would promote an improvement in the image of Argentine boats if more domestic firms were able to successfully export boats that satisfy quality standards of international markets. Cooperation among shipyards is facilitated by the fact that the size of the international market largely exceeds their current export capacity, reducing their potential rivalry.

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CASE IV: WOODEN FURNITURE

Introduction

Exports of wooden furniture from Argentina have grown substantially since the economic crises that affected this country in 2001/2002. This growth, however, has been mainly driven by sales to other Latin American countries. Exports to developed countries have remained relatively stagnant, despite the favorable conditions brought about by the devaluation of the peso. In contrast to the other three industries analyzed in this study, this sector does not have an export pioneer who has fully implemented all components of the export business model. The absence of an export pioneer does not facilitate, as in the other industries, the diffusion of the idea that a different way of doing business is even possible. It also provides a potential explanation why in recent years exports from Argentina to the developed world have remained relatively stagnant despite soaring exports to Latin America.

Some firms in this sector understand what changes they have to make to their furniture in order to make them appealing to foreign customers. These firms have also been able to make the minor changes necessary to their production processes to make the products such customers desire. However, they have faced difficulties in establishing long-term relationships with distributors in the developed world. The lack of such relationships constitutes the main obstacle for firms in this sector to implement the export business model.

1. The wooden furniture industry in the world and in Argentina

i) World production and international trade

The wooden furniture industry[20] is characterized by the coexistence of two alternative production models: one which is oriented towards the production of high-end furniture and

[20] The wooden furniture sector is defined by combining six 6-digit positions: HS 940330 ("Office furniture"), HS 940340 ("Kitchen furniture"), HS 940350 ("Bedroom furniture") and HS 940360 ("Other furniture") from the 4-digit category for furniture (HS 9403) and HS 940161 ("Seats, upholstered") and HS 940169 ("Seats, not upholstered") from the 4-digit category for seats (HS 9401). Although metal furniture is included in the same 4-digit category as wooden furniture, it is excluded from our analysis as this industry has a very different production process and substantially more concentration. Furthermore, the metal furniture industry exports primarily to countries in Mercosur and other regional markets. The sector was also defined to include wooden seats because they are often produced by the same companies that produce other types of wooden furniture.

another that focuses on less expensive, mass-produced goods. Italy is the undisputed leader in the former segment. Firms in this segment are generally small and medium enterprises that have a high degree of horizontal integration and work in networks. This structure enables them to quickly alter their production processes in order to produce different styles of furniture. On the other hand, the mass-production of wooden furniture is mainly located in China, Germany and Poland. Firms in these countries are customarily vertically integrated. This feature limits their ability to quickly adapt their production to changes in consumer tastes.

Despite its prominent position in the high-end segment, since 2004 Italy has lost its leadership in terms of total exports to China. As can be seen in the left panel of table IV.1, in 2008 China accounts for almost 20% of world exports, followed by Italy with 13%. The list of the ten largest exporters also includes both developed nations such as Germany, Denmark, the U.S., and Canada as well as countries featuring relatively low wages such as Vietnam.

Italy's focus on the high-end segment is clearly manifest in the unit value of its exports, which is the highest among the ten largest exporters (see left panel of table IV.1). It is important to note that compositional issues do not drive this leadership position. In fact, when we consider each category separately, the mean unit value of Italy is the highest in four out of the six categories included in the industry (HS 940330, HS 940340, HS 940350, HS 940360) and the second highest in the remaining two (HS 940161, HS 940169). These last two categories belong to the 4-digit category corresponding to seats.

The right panel of table IV.1 displays the ten largest world importers of wooden furniture in terms of value. The U.S. is the largest importer of this industry. It has almost 20% of total world imports, more than double the import share of any other country. The remaining main importers are almost exclusively developed economies. In particular, Germany is both the second largest importer and the third largest exporter in this industry.

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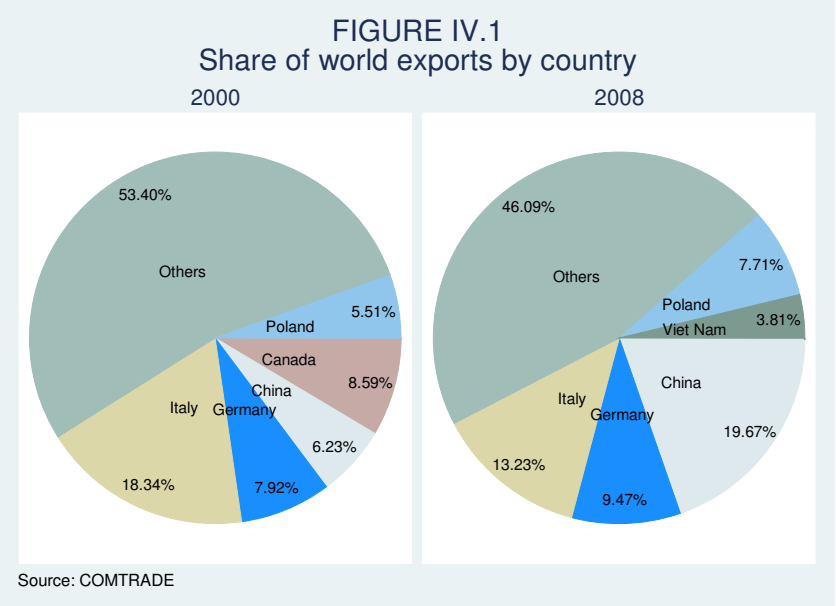
Table IV.1. Top exporters and top importers of wooden furniture (2008)

Top Exporters	Value of exports (US$ million)	Share of world exports	Unit value	Top Importers	Value of imports (US$ million)	Share of world imports	Unit value
China	11019	19.67	4.38	USA	10865	19.40	4.11
Italy	7412	13.23	9.20	Germany	4738	8.46	3.69
Germany	5306	9.47	4.90	France	4497	8.03	3.79
Poland	4320	7.71	2.67	UK	3606	6.44	4.48
Viet Nam	2134	3.81	3.60	Netherlands	2499	4.46	4.59
Malaysia	2074	3.70	4.05	Canada	2043	3.65	4.50
Denmark	1733	3.09	3.18	Russian Fed	1968	3.51	6.56
USA	1715	3.06	4.61	Japan	1756	3.14	3.76
Canada	1697	3.03	4.35	Switzerland	1675	2.99	5.86
France	1489	2.66	4.65	Belgium	1618	2.89	4.58
Top ten exporters	38897	69.45	4.44	*Top ten importers*	35264	62.97	4.24
Argentina	25	0.04	4.07	Argentina	70	0.12	1.84
Total exports	56005	100	4.08	**Total imports**	56005	100	4.08

Source: COMTRADE. Unit value is the value of exports in U.S. dollars per kilogram.

Industrialized countries face difficulties protecting their firms from competition originating in Asian countries. The use of world-class, highly mechanized machinery in countries such as Canada and Belgium does not shelter companies in these economies from competitors abroad with lower labor costs as labor accounts for 40% of production costs in this industry worldwide. China's impressive export performance is a clear manifestation of the shifts that were produced by the pursuit of lower labor costs. China specializes in unassembled furniture made of pressed wood and its products are both relatively inexpensive and relatively less elaborate in terms of design. Its growing importance in the world market of wooden furniture is evident in figure IV.1. This figure shows the five largest exporters in 2000 and 2008. Recently, part of the world production has begun shifting from China and Indonesia to Vietnam, where labor costs are even lower. This last country has reached a market share of almost 4% and is currently among the five largest exporters (see figure IV.1).



Asian countries that have increased their participation in the world market use the latest machinery to mass-produce furniture with unskilled labor. Economies featuring relatively higher wages such as Argentina are thus forced to specialize in middle range products that can be easily adapted to changes in consumer tastes. Not surprisingly, the majority of wooden furniture producers in Argentina have chosen to focus on this segment for their exports.

ii) Changes in world consumption patterns

During the 1980's, the middle class in developed countries started to look for relatively low-cost furniture that nevertheless had some elements of style and distinction. While these consumers cannot afford Italian furniture, they demand products with a higher level of quality and design than what is commonly produced by firms in low-wage countries. These consumers have constituted a new market segment that demands middle-range products that are perceived as high quality and stylish but without being prohibitively expensive. Because this market segment shares basic elements with similar market segments in other industries analyzed in our study, as in those cases we denote this segment "new luxury" throughout this case study.[21]

[21] See Siverstein and Fiske (2003), Stern and Deimler (2006) for a discussion on "new luxury" goods.

Consumers of this kind of good are prone to changing their furniture with relative frequency in order to demonstrate their ability to follow trends in the market. Consequently, firms seeking to gain market share in this new segment have to quickly design new products to meet changing needs and possess a flexible production system that can be quickly altered to make new products. Wooden furniture manufacturers in Argentina seem to be well positioned to take advantage of this new segment. They possess both the flexible machines to quickly alter their production and the access to relatively qualified local designers.

iii) The wooden furniture industry in Argentina

The structure of the wooden furniture industry in Argentina mirrors that of the worldwide sector as a whole. Globally, 90% of firms in this sector are SMEs with less than 20 workers (Subsecretaría de la Pequeña y Mediana Empresa y Desarrollo Regional, 2005). In Argentina, there are 2640 companies in this sector, 90% of which are SMEs. On average these firms have 7.1 employees. Regarding the geographic spread of firms, 50% are located in the Province of Buenos Aires, 16% in Santa Fe, 12% in Cordoba, 9% in Misiones, 5% in Mendoza and the rest are scattered over the remaining provinces (INDEC, 2004). Out of the ten largest exporters identified for our study, one was partially owned by a Swedish company and another by a U.S. firm. One distinguishing aspect of the industry in Argentina is that, unlike most exporting firms in other parts of the world, companies in this country do not have to import wood in order to make their products.

Although the convertibility plan in the 1990s enabled firms to import new machinery at relatively low costs, it also exposed them to increased competition from foreign producers. Imports from Brazil, in particular, undercut the sales of many Argentine producers causing some to go bankrupt. Brazil has become an important actor in the world market of wooden furniture and is currently the largest exporter at the regional level and the seventeenth largest exporter worldwide. The decline of the Argentine economy in the late 1990s presented an important challenge to firms in this sector. The firms that survived this period were only able to do so because they were exporting. Companies that took advantage of the real appreciation of the Argentine peso to the U.S. dollar in the 1990s to buy new machinery were particularly well positioned to export after the devaluation of the Argentine peso in 2002.

iv) Exports from Argentina

Exports of the wooden furniture industry in Argentina are dominated by small and medium sized enterprises (SMEs) that focus on the production of middle-range products. These firms do not directly compete either with high-end producers from countries like Italy or low-end producers from China or Vietnam. Most SMEs that export from Argentina possess flexible production systems with relatively advanced machinery that was mostly acquired in the 1990s when the exchange rate of the Argentine peso made such purchases relatively accessible.

Although the manufacturing of wooden furniture has a long tradition in Argentina, it has not been an important exporting sector in this country. Until the crisis in 2001/2002, the majority of firms in this industry viewed export markets as secondary to the domestic one. During periods of economic disturbances, many firms concentrated on exporting until the economy recovered and then turned their attention again to the internal market. Consequently, they generally did not tailor their products to foreign tastes. Moreover, in the cases in which they did, this adaptation seemed to arise out of sporadic opportunities and not as the consequence of a long- term strategy. As a result, firms tended to export the excess stock of goods originally made for the domestic market. Nonetheless, the turmoil of 2001/2002 was apparently a turning point for some companies in this sector. The favorable conditions brought about by the devaluation of the Argentina currency provided them with the opportunity to export on a more consistent basis.

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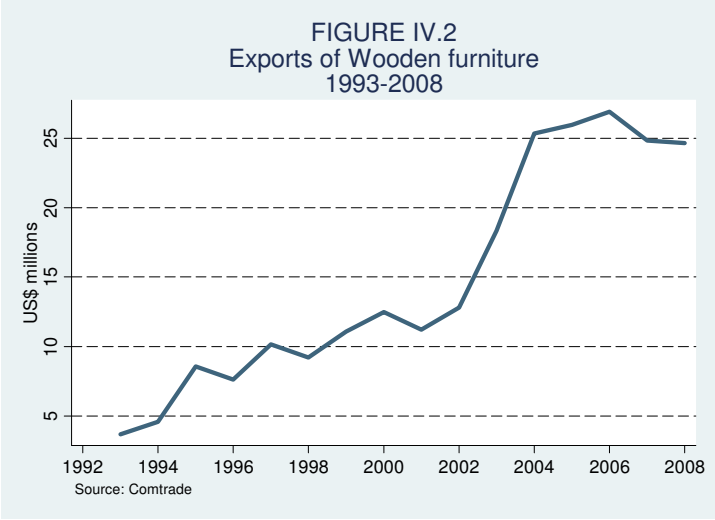
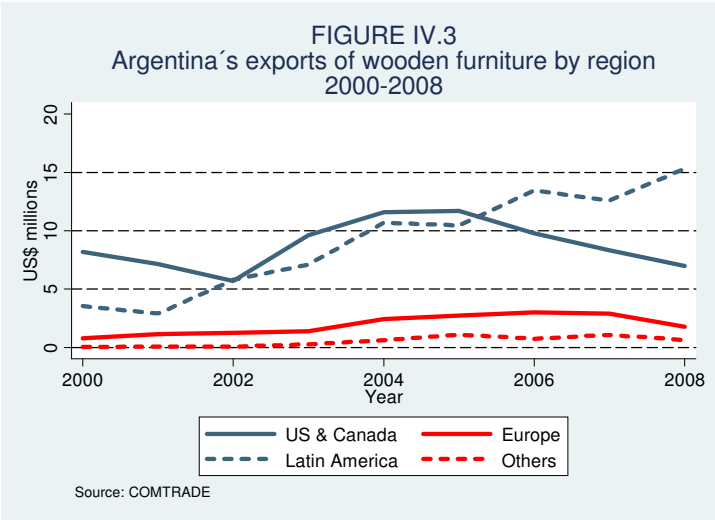
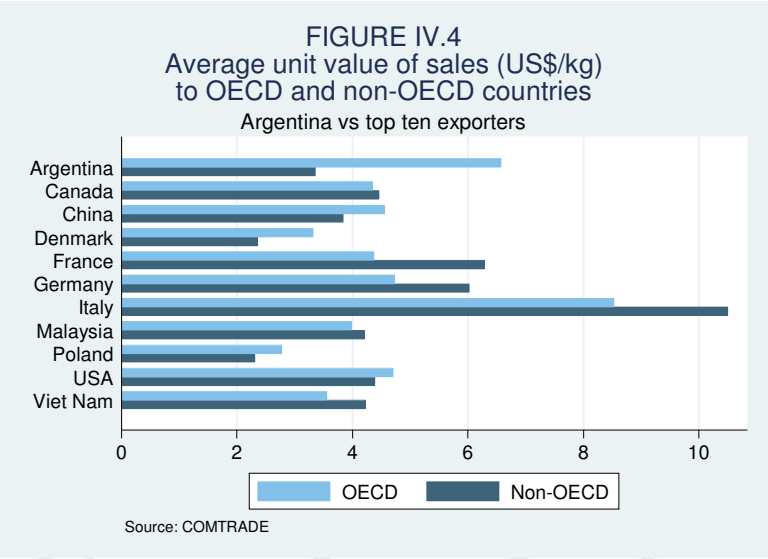
Figure IV.2 displays the evolution of total exports of wooden furniture from 1993 to 2008. While Argentina´s exports grew relatively steadily from 1993 until 2001, the boom in exports in this sector started after the devaluation of the Argentine currency in 2002. Total exports, which were less than $5 million in 1993, went from US$ 11.2 million in 2001 to US$ 26.9 million in 2006. The rate of export growth between 2001 and 2004 was particularly impressive, averaging approximately 40% per year. Since 2004, this growth rate has been much more modest and total exports have in fact decreased from 2006 to 2008. This decline may indicate that the favorable conditions generated by the devaluation of the Argentina currency in 2002 have dissipated. However, the level of total exports is still significantly higher than in 2000.



The growth of exports since 2000 was accompanied by substantial changes in their destination. This transformation can be observed in figure IV.3, which displays Argentina's exports of wooden furniture by region of destination from 2000 to 2008. The share of exports going to the U.S. and Canada declined remarkably, decreasing from 65% in 2000 to 28% in 2008. On the other hand, Latin America – mainly Chile, Mexico and Uruguay – increased its relative importance, reaching 62% of total exports in 2008 and becoming the main destination for Argentine firms. In fact, 96% of the registered export growth since 2000 is accounted for by increased sales to Latin America. Sales to the U.S and Europe, on the other hand, are at a level similar to that of 2000. The fact that the sales to the developed world have remained relatively stagnant is in line with the absence of firms that have fully implemented the export business model that we describe below.



The mean unit value of Argentina's exports is below that of the average of the top ten exporters (see left panel of table IV.1). However, when we consider sales only to the OECD, the average unit value of Argentina is higher than that of any of the ten largest exporters with the exception of Italy (see figure IV.4). Moreover, this relatively high unit value of Argentina's sales to OECD countries is also observed when each product category is analyzed separately. For instance, it is the highest in kitchen furniture and the second highest in "other furniture". These figures confirm that Argentine firms have concentrated their sales to developed countries mainly in the segment of "new luxury" goods.



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2. Export business model versus domestic business model

Although an important number of the wooden furniture manufacturers that export from Argentina are well versed in the technical aspects of production and have the necessary flexible machinery to produce a great variety of relatively similar products, their skills in designing, marketing, and selling new furniture in foreign markets are generally lacking. The vast majority of firms in this sector fail to adapt their products to the particular tastes of specific foreign markets. Part of the problems they face are related to difficulties in the marketing aspects of the export business model, as the vast majority of firms in this sector have failed to tap into their distributors as a source for keeping up on changing trends. At the same time, firms that are able to continually change the designs of their furniture to meet the changing tastes of

foreign customers often fail to adjust their production techniques to avoid small errors in the final product. Such mistakes are generally not tolerated by customers in developed countries. Consequently, firms face difficulties in moving beyond sporadic exports to distributors that sell low-end furniture like commodities.

i) The product component

Companies that are willing to establish a sustained presence in the developed world face the difficulty of understanding how tastes of consumers in such countries differ from those in Argentina. For example, pieces of furniture bought by consumers of new luxury goods in the United States tend to be larger than those found in Argentina because houses, and therefore rooms, are also larger. In contrast, furniture in Japan for this same market segment is smaller than what is commonly found in Argentina because the apartments and houses of consumers in this market segment are smaller. At the same time, tastes can even vary within the same country. For instance, the same large chair sold on the West Coast of the United States would have to be heavier and darker than ones sold on the East Coast. These differences in tastes imply that firms that try to sell abroad the same products that they produce for the domestic market will face difficulties in exporting on a consistent basis.

Although Argentine universities produce qualified wooden furniture designers, only recently have producers started to demand professionals who know how to design furniture for other countries. Designers that have the proper training in how to adapt furniture to the tastes of other countries are those that keep up to date with the changes that are occurring in the living habits of people abroad. One example is how the introduction of LCD televisions in the United States – a product which is just starting to significantly penetrate the Argentina market – impacted the production of living room furniture. When these televisions were introduced in the late 1990s, firms had to create furniture to fit them. They also had to find ways to highlight the size of the television in the furniture designed to hold it. As the market for these televisions became relatively saturated in the new luxury market, consumers changed their behavior and started opting for furniture that would hide these televisions behind large doors. Hence, wooden furniture producers were forced to adapt their designs of such furniture to meet this new need.

Another example is the recent trend for people in the United States to buy furniture that looks like antiques. In order to transform new furniture into pseudo antiques firms do not have to

change anything in their production process. Instead, they just need a worker to strike the furniture with a sharp object before it is stained. Other consumers in the United States are looking for dining room tables that reach up to three meters in length. Making such a table does not require firms in Argentina to use different machines but rather to calibrate their existing machines differently. Nevertheless, it does require firms to find ways of designing such tables so that they do not warp over time. The problem resides in the design, not in production.

In order to successfully adapt their products, many firms in this sector work closely with foreign designers or intermediaries familiar with the particularities of tastes in a certain foreign country. In some cases, local designers merely put finishing touches on the designs they receive from other countries. For instance, Ivope, one of the leading firms in this sector, designs its furniture at the headquarters of its parent company in the United States and then sends the designs to Argentina to be adapted. Jorge Etchebehere, a broker in this industry that facilitates sales of Argentine furniture to the United States, regularly brings his sales representative from that country to Argentina to provide local producers with general advice about styles and trends in that country. Local designers then use this information to develop specific products to be sold in the United States. Mehring, one of the leading exporters in this sector, is the only firm that relies on a local, independent designer to create the designs of their furniture to be sold abroad. This designer studied in Italy, where she was exposed to the practice of continuously adapting designs for specific markets.

Besides being different than in the domestic market, tastes in the developed world change at a faster pace. While customers in practically all market niches in Argentina tend to change their furnishings every 30 years – even passing them down through generations – consumers of new luxury furniture in the United States change them every five years on average. However, this fact does not mean that they buy furniture of lower quality. On the contrary, consumers in this segment in the developed world demand products of higher quality than their Argentine counterparts despite disposing of their furniture much more rapidly.

While the changes in tastes in the developed world can be subtle, firms that wish to export to these countries have to adapt their products in order to meet these changes. Recently, for example, consumers in the United States have been demanding tables made of wood but with metal legs. They have also started demanding chairs covered in leather rather than traditional

fabrics. Although these changes are not substantial, firms that do not follow them can find it difficult to find interested buyers.

Many of these producers also fail to understand that market segments in these countries are different than those in the domestic market. While many exporters of wooden furniture sell to the high-end segment in Argentina, their possibilities of success in this segment in the developed world are limited by the strong competition of traditional Italian producers. Therefore, firms from Argentina seem to be more likely to succeed if they focus their efforts on middle-range, new luxury products. In particular, one of the most suitable niches for Argentine producers in this segment would seem to be contemporary furniture, as it enables designers to add modern touches to the classical style to which Argentina had been accustomed.

In summary, Argentine firms that seek to successfully export their products to the developed world have to understand the nature of tastes in other countries, keep up with changes in these tastes, and target the proper segment. Per se, firms do not have to develop new products but rather make the proper alterations to existing ones. The differences may appear subtle but they are nonetheless critical to a firm being able to consistently export to the developed world.

ii) The production component

In order to be able to consistently export furniture to the developed world, producers in Argentina need both to design them according to the tastes of consumers in those countries and to introduce practices in the production process to meet more stringent quality requirements. Fulfilling these quality requirements often does not mean having to invest in new machinery, as the vast majority of firms in this sector already have the type of flexible machines required to produce a wide variety of high quality furniture. Rather, the key for firms is to understand how to take advantage of the flexible nature of the production capacities that they already have. The settings on their machines can easily be changed to produce furniture in different sizes and shapes. Furthermore, their suppliers of matrixes are more than capable of producing the wide variety of inputs needed to make different goods. New parts are easily produced by workers that simply cut or mill along the pattern of the matrix. In fact, neither the machine nor the actual work of the machine operator needs to change.

Workers need to pay careful attention to how they produce components and put them together. This proves particularly arduous for companies and their workers as neither is accustomed to the careful attention to details that characterizes consumers in the developed world. For example, workers in Argentina are not accustomed to paying particular attention to the exact size of the pieces of wood they are cutting. Although consumers in the domestic market generally accept products with small differences in the size of their pieces, a foreign distributor in a developed country will most likely reject them. The same is true for staining, as even minor variations in color are not tolerated by these distributors. Additionally, in assembling furniture workers also have to make sure that screws go in straight and are put in the exact place indicated by the design. Screws that are not put in correctly can lead to a piece of furniture being slightly warped. Although workers have to be trained to pay attention to such details, they also have to work in a physical environment that enables them to do so. For example, many of the factories in this sector are poorly lighted. Hence, workers find it difficult to see the exact manner in which their work is being done.

Although packaging is not customarily believed to be important for products such as wooden furniture, it proves to be an important aspect for exports. In the domestic market, firms do not have to worry about how their products are boxed. However, they need to be especially careful with the packaging of their exports. The client expects nice, clean boxes as boxes with any type of marks are thought to indicate that the furniture has been thrown about.

In general, wooden furniture manufacturers neither possess a significant level of economies of scale nor of vertical integration. Therefore, they customarily need to rely on suppliers to make their products. This dependence implies that firms that want to export on a consistent basis have to ensure that their suppliers are producing parts that meet the quality characteristics demanded by foreign customers. Even for these suppliers their actual work varies little. It just involves a person programming the machine to perform a particular operation. The main problem lies not in assisting suppliers to understand technical specifications but rather in ensuring that the workers in these factories have the quality habits outlined above.

Even people who have been working in this industry in Argentina for some time do not generally detect minor flaws that are obvious to consumers in countries like the United States. Hence, it is often crucial for firms to have some feedback from consultants familiar with these issues before attempting to export to developed countries. All of these details need to be taken

into account for a distributor to consider buying a piece of furniture from an Argentine producer. While these problems are relatively small, not addressing them can result in severe difficulties to export consistently.

iii) The marketing component

The vast majority of wooden furniture producers in Argentina have not altered the manner in which they sell their products abroad. In particular, these producers generally fail to seek out a reduced number of distributors with whom they can build long-term relations. Traditionally, firms in this sector were accustomed to simply taking advantage of sporadic, one-time export opportunities. This approach to exporting was influenced by the general perception in this industry that exporting was just a mechanism to find alternative sources of income during periods of disturbances in the domestic economy. Firms would concentrate on exporting simply until the crisis passed and then they would turn their focus back to the domestic market. This behavior undermines the possibility that the distributor involved will work with the company in the future. Instead of adapting their furniture to meet the specific needs of a particular market firms tend to simply export what they sell on the domestic market. In some cases, firms take advantage of an opportunity to produce furniture designed by a specific client. Nevertheless, the vast majority of these companies fail to leverage this opportunity to generate further exports by either actively seeking more clients or diversifying their products.

Although trade fairs in this sector were traditionally instances for wooden furniture manufactures to actually sell their products, now they are more oriented to providing firms opportunities to learn about recent shifts in tastes and to become acquainted with distributors. Deals are still made at such events but they are often made between firms and distributors that already have established relationships. Firms that do not understand this change in the nature of trade fairs often falter as they look to make one-time, spot deals and fail to grasp the need to develop long-term relations with distributors. On the other hand, companies that understand the new nature of fairs are aware of the need to design new products to demonstrate at the world most renowned fairs. In particular, manufacturers and buyers from countries around the world travel to High Point, North Carolina, twice a year to learn about new developments in the industry and make commercial contacts. For instance, Ivope and Mehring try to have a new product ready every six months to show at this biannual trade fair.

Companies that know how to take advantage of trade fairs seek to develop strategic partnerships with a limited number of distributors rather than merely seeking companies with whom they can make one-time deals. At the same time, distributors generally prefer to establish relationships with wooden furniture producers that are capable of continuously meeting their specific needs. Distributors look for potential partners that can build products that they are seeking rather than looking at the finished products the market offers. If the firm is unable to prove that it can meet these specific needs, the distributor is likely to look for another partner. On the other hand, if a company can meet them, it may be able to form a long-term alliance with this distributor and thereby gain critical information in the future about changes in consumer tastes.

Additionally, companies that understand the importance of distributors know that changing the way in which they fulfill their contracts is often crucial. In the domestic market, delivery and payment times are often renegotiated after a contract is signed, as it is understood that there is some implicit flexibility in the terms and conditions established. Therefore, a manufacturer can delay shipping products and buyers can delay paying without severe repercussions. However, such behavior is hardly tolerable in the developed world. Hence, firms that are willing to become consistent exporters need to adapt to this different way of doing business. While these could appear to be minor issues, they can be determinant in the success or failure of a company's foreign insertion.

Once an Argentine firm starts working closely with its distributors, it often finds that these distributors are demanding volumes and variety beyond its capacity. If the manufacturer is unable to deliver the quantity or variety desired, the distributor is likely to look for a different supplier. Even firms that have the resources or can potentially obtain them are reluctant to increase the size of their operations due to fears that foreign demand may not be stable or that macroeconomic conditions might change. In order to deal with this difficulty, leading firms in this sector often turn to other manufacturers to help them meet the demands for quantity and variety required by distributors. This strategy proves problematic as many of these companies either simply do not fulfill their obligations or they send products that do not meet the quality standards required for exports. For instance, the export manager of Mehring works closely with the companies he contracts for foreign orders to ensure that they are making products that meet these quality requirements. He often tests firms with small orders to see if they can meet their

quality requirements. He monitors their operations closely to prevent a defective product from damaging his reputation.

Many firms are unwilling to make the long-term commitments and investments needed to develop on-going relations with foreign distributors. After a company has developed products to meet the tastes and styles of a particular country and has made the necessary changes in the quality habits of its workers, it customarily takes over a year before it can sell its first container of furniture. Many companies try once or twice to export and then relinquish if they are not immediately successful. Others stop exporting after their initial success once they realize the amount of work required to meet the specific demands of foreign distributors. In essence, they abandon the implementation of an export business model because they doubt that the investment is worth the cost.

Although firms in this sector need to build solid reputations abroad, advertising is really not an issue for the majority of furniture producers in Argentina because brands are not important for consumers of new luxury furniture. The final customer is usually not aware of the name of the company that produced a particular piece of furniture. Nevertheless, it is important for firms to develop a brand name in order to attract potential distributors. While the largest producers of furniture in Argentina already have a reputation in the domestic market, they have to make a more conscious effort to build their brand name among foreign distributors. The generation of a brand name in this context is largely done by winning prizes at international trade fairs for innovative designs and appearing in prestigious specialized magazines. In contrast, direct publicity to the customer does not play an important role in generating reputation for the brand.

Despite the fact that brand names are not important for this industry in Argentina, the idea of having a country trademark is appealing to most companies in this sector. If Argentina were to become known as a producer of high quality furniture tailored to the tastes of specific clients with firms that are able to meet the demands of distributors, more firms could potentially export and those that are currently exporting could sell more of their products abroad. Firms that are in the process of implementing an export business model in this sector sometimes are forced to make what would otherwise be unnecessary investments in order to compensate for the uncertainties surrounding Argentine firms. For example, Reno had to open a warehouse in Los

Angeles in order to ensure his distributors that it would be able to deliver the quantity and quality of furniture on time and in good condition.

3. Export Pioneer

No firm can be considered to be the export pioneer in this sector. While some firms have changed some aspects of their way of doing business, none of them has successfully implemented all the components of the export business model. The implementation of the marketing component has proven to be the most elusive for firms seeking to consistently export their products from Argentina. Many of these firms have simply failed to develop long-term relations with distributors. In turn, the lack of such relations hinders their ability to export on a consistent basis to the developed world. In 2006, the eight largest exporters accounted for more than 40% of the total exports of the sector.

Jorge Etchebehere, a commercial agent in this sector, is the only one who has a vision of how to put all of the pieces of the export business model together. Nevertheless, he has not established himself as the export pioneer in this sector because he has not been able to establish long-term relations with distributors in the developed world. Part of his problem with distributors derives from his inability to ensure that the companies he represents produce furniture that meets the quality standards of distributors in the developed world.

Mehring and Ivope are two other companies that have partially implemented the export business model. Mehring has made significant changes to the way in which their products for export are designed and produced but has failed to establish solid contacts with distributors. Although Ivope has been the leader in exports to the OECD since 1999, it cannot be considered an export pioneer because its products are designed by its corporate headquarters in the United States and they are commercialized only through the head office of this company in that country. At the same time, their business model is not replicable because it was constructed serendipitously. Unlike Etchebehere, neither of these firms has the vision of how to put together all the parts of the export business model. Each of these firms is discussed in turn in this section. Nevertheless, the section begins with the case of Jorge Etchebehere, as he is the person who has come closest to implementing the export business model as a whole.

i) Etchebehere

Jorge Etchebehere is widely referred by other leaders in this industry as the person with the greatest knowledge about exporting wooden furniture to developed countries. He is a commercial agent who not only fully understands the export business model but also helps firms to implement it by directly working with them to improve the quality of their production and how they market their products abroad.

His personal experience exporting furniture for a number of Argentine manufacturers of wooden furniture provided Etchebehere the vision of what companies need to do to compete effectively on the global market. At the same time, his first experience selling furniture in the United States provided him the opportunity to learn that wooden furniture manufacturers need to pay attention to small details in their production processes in order to be able to effectively export their products to developed countries. Additionally, his interest in the U.S. culture and contacts with people from that country made him familiar with this country's careful attention to the quality of products and the services that back them up. His experience with a designer he hired to evaluate the prototypes of his clients allowed him to understand that small details in a design can be critical in determining the successful export of a product. Finally, his work with sales representatives he hired from the United States to help manufacturers adapt their furniture to the tastes of new luxury consumers of wooden furniture in the United States enabled him to begin training Argentine designers to adapt furniture to the tastes of consumers in that country.

Although he is technically a commercial agent that exports wooden furniture, Jorge Etchebehere is in fact more like a consultant. Nevertheless, his only direct source of income from this activity is the commission on the sales that he makes in the United States. He offers his "consulting" services to his potential clients because he believes that if these firms do not adapt the export business model, he will not be able to export any of their furniture. In this sense, he is acting to diffuse knowledge about the export business model while at the same time trying to benefit from the diffusion of this knowledge. He often visits the factories of his clients to help them understand how small mistakes in the production process can undermine the quality of wooden furniture and make it unaccepted to clients in developed markets. He also brings his sales representatives from the United States to show his clients how to adapt their products to the tastes of consumers in that country. As for the marketing component of the export business

model, he works directly with the owners of these companies to convince them to commit themselves to an export project and to fulfill their promises.

The fact that he is a commercial agent and not a producer is key to understand the reasons behind his failure to fully implement the export business model. In this regard, Etchebehere would seem to have difficulties establishing long-term relations with distributors in the United States mainly because he is unable to ensure that the wooden furniture producers he represents consistently produce high quality furniture. Although Jorge Etchebehere represents a number of different companies in this industry, his total sales for any particular year would not equal more than that of the 10th largest exporter in this sector.

Jorge Etchebehere's experience in dealing with people from the United States began in 1969 when at the age of 16 he was an exchange student in New Jersey for three months. He used his knowledge about the U.S. culture in a job working for an Argentine company that sold seeds and fertilizers provided to them by Monsanto. Although he did not work directly for Monsanto, this company provided him training in sales and marketing on a regular basis by their own representatives that traveled to Argentina from the United States for that purpose. He also helped these representatives with presentations they made in Argentina and interacted with them on a social basis as well.

In 1991 he began working as a sales assistant for Genoud, an important manufacturer of furniture in Argentina. In the first two years he worked with this company he traveled around Argentina selling furniture. Two years later the president of Genoud decided to send Jorge Etchebehere abroad to sell furniture for his company. Even though he had not had any previous experience in exports, he soon found himself taking a 6-month course from a local university and leaving for his first trip to the United States as a sales representative for this firm. On that trip he realized that the products he was attempting to export would not sell themselves. His potential distributors were asking for a lot of technical information that he did not have. Although Genoud had this information, they did not share it with Etchebehere before sending him on this sales trip to the United States because they did not think it would be necessary. Jorge did not sell anything on this initial trip. While other Argentine salesmen in this sector may have attributed this failure to other causes, such as these potential distributors not liking the products being offered, Jorge understood that his failure was due to his lack of answers to the technical questions. Consequently, Jorge Etchebehere returned to Genoud's

Universidad de San Andrés

factory to familiarize himself with every step in the production process. Six months later he returned to the United States and achieved a more successful selling performance.

As a result of his experience selling furniture for Genoud in the United States, he realized that he could sell furniture for more than just one Argentine company in that country. Hence, in 1997 he decided to create his own company and moved from Pergamino, where Genoud is located, to Buenos Aires. Shortly thereafter he put an advertisement in a trade magazine in the United States indicating that he was looking for sales representatives. He sent pictures of the furniture being produced by various Argentine companies to the twenty people who responded to his advertisement and one of them, a designer, wrote him back contending that none of these products could be sold in the United States. He told Etchebehere that the furniture was well made but their designs would not be appealing to consumers in the United States. Etchebehere contracted this person to come to Argentina to help companies adapt their products to the styles and tastes of the United States. While he was undertaking this activity he also managed to help Fontenla, one of the leaders in this industry, to sell its first shipment of furniture to that country. At the same time, he made commercial contacts in the United States for Mehring.

In 2001, he developed a project with the Federal Council on Investments (CFI), a federal government agency charged with promoting economic development, to start helping manufacturers to learn how to improve the design of their products so that they could export. He organized meetings with groups of companies and two specialists on U.S. furniture to teach Argentine manufacturers of wooden furniture how to make products suited to the tastes of people in that country. In 2003, Etchebehere contracted two sales representatives in the United States with more than 30 years of experience in the industry. Together they formed a company, Argentine Resource Goods (ARG), to sell furniture in the United States. This company represented eight Argentine firms and operated a warehouse in Washington DC. This showroom enabled potential buyers to purchase merchandise from different Argentine companies without having to wait for their delivery from Argentina. ARG also had a 300 square meter showroom that distributors could visit to see the furniture of the eight Argentine companies they represented. His partners in ARG in the United States worked on commission. Even when his partners came to Argentina to provide advice to potential clients, they did not charge them. They worked with them with the hope of being able to sell the manufacturers' products in the United States.

The representatives that worked with Etchebehere gave the companies they represented general advice about how they could improve the quality, packaging and even the pricing of their products. They also provided detailed advice about styles and tastes in the United States. Although they gave these producers advice on measurements, dimensions, sizes, weights and general appearance, their help went beyond these technical issues. Their assistance was critical in detecting the type of quality errors outlined above. At the same time, these representatives provided local designers an understanding of how their potential clients live, what criteria they have for choosing furniture, what colors they like, etc. They even worked with firms to help them understand how people in the United States eat and place furniture in their homes. These details helped designers to properly understand the particular tastes of the end-client in the target market. With the help of Etchebehere and these representatives, these firms were able to produce unique pieces of furniture that they positioned well in the market. Etchebehere contends that it was important to start the process by thinking about what design and quality characteristics clients abroad were seeking and then going back to the design and production process to see how these issues could be addressed. Etchebehere believes that it was critical to involve managers from every part of the production process in their meetings.

However, only a few years after it was formed, ARG was dissolved. The major reason why it failed was the fact that many of the companies they represented simply did not pay attention to the details outlined above. Quality often faltered. They would fulfill some requirements but not all of them and consequently many potential foreign buyers refused to purchase their furniture. Etchebehere found it difficult to control the shipment of all the clients he represented as they were widely dispersed throughout the country. Some of the companies he represented failed to understand that selling their products abroad was a long-term investment that could take years to yield results. The fact that Etchebehere was not in charge of production was crucial.

ii) Mehring

Gerardo Mehring founded his company in 1953. In 1980 he went to Italy to buy machinery to upgrade his factory to start exporting. Although he did not have any international clients at that time, he knew that he would have to upgrade his facilities to be able to export in the future. Shortly before his trip to Italy he recognized that the buying power of the Argentine consumer was declining while at the same time the exchange rate of the Argentine peso made the purchase of machinery abroad relatively inexpensive. With the machinery bought in Italy

he created the first production line in this industry in the province of Santa Fe. Previously, all the producers in that province were organized like traditional artisan shops.

Gerardo Mehring is widely acknowledged as an industry leader in the business community of wooden manufacturers in Santa Fe. Not only did he pioneer new production methods, he also was the first to make substantial efforts to export. By the late 1980s Gerardo Mehring tried to gain access to foreign markets by taking some of his chairs to foreign embassies with a hand-written letter explaining what his company was producing. His idea was that the embassies would send the furniture back to their home countries and hopefully make some contacts for his business. However, the first real experience with exporting for this company did not come until 1988 when it sent its first shipment to Uruguay. Gerardo had realized that some wholesalers from Uruguay had been buying his furniture from shops in Buenos Aires and shipping it to their country. Hence, he decided to try to ship his furniture directly. As in the case of the production line, Mehring was also a pioneer within his business community as he was the first to ever directly export furniture from the province of Santa Fe. He stopped exporting to Uruguay shortly thereafter due to high tariffs and the bureaucratic difficulties imposed by Argentine customs.

In 1990 Mehring was contacted by Reno, an Argentine producer of kitchen furniture, to produce a futon sofa for a foreign client in the United States. Since Mehring had never made such a product in the past, this foreign distributor sent a designer to help him to make it. Although Mehring still exports these futons, their market share for this product in the United States declined significantly in the late 1990s due to competition from companies in Asia. Despite the fact that this product was unknown in the domestic market before they started exporting it, the company actually sells more of it domestically. Up until this point, Mehring had not made the transition to specializing in contemporary furniture, an important niche in the advanced industrialized world.

During the mid 1990s Mehring started to learn about the U.S. market by attending the internationally renowned wooden furniture trade fair in High Point, North Carolina. At this trade fair Mehring met some potential clients that showed him how to adapt their products to meet the particularities of that market. For instance, upon receiving a contract to make folding directors chairs, they learned that people in the United States like to assemble their own chairs. Hence, they wrote instructions for assembling their chairs, made drawings illustrating how to

put them together and separated different parts into different types of bags. Although this type of work was new for the company, it gave this manufacturer a flavor of what they would have to change in order to continue to export. The clients that Mehring contacted in the mid 1990s, including the one for the directors chairs, made prototypes and worked with Mehring to adapt them to the particularities of their production process. At this time, they were still not designing their own products for foreign markets.

Mehring discovered the importance of integrating design into its export business model after a trip its export manager made to Puerto Rico in 1997. After having sent some designs to Mehring, the client told them that their quote was too expensive. He claimed that he could have someone producing it in Brazil at a much lower price. However, the client was willing to buy products that Mehring itself would design. The company hired two designers to work on these projects and in 2000, three years after this initial contact, Mehring started exporting chairs designed by the company to this client in Puerto Rico. These shipments were soon followed by tables and bedroom units. Mehring also contracted other producers in their area to produce these tables and bedroom units as the production facilities of the company are specialized in the production of chairs. This experience showed the firm that the actual designing of furniture was a suitable way of competing in foreign markets. By designing their own products, they were able to shelter from competition of lower cost producers.

At the High Point trade fair in October of 2000, the Association of North American Furniture designers awarded Mehring and Saloon, a U.S. manufacturer of tables to which Mehring had sold chairs since 1998, their highest award for their Dynasty Collection. The chairs that Mehring sent to be part of this collection were the same that they were selling in the domestic market. Nevertheless, winning this prize motivated Mehring to start to work with Saloon to develop new models every year for the stand that Saloon had at this trade fair.

The greatest problem Mehring faced during the 1990s, and to some extent still today, is the volume of furniture demanded by clients in the United States. This problem is further exacerbated by the fact that the company has still not developed long term relationships with distributors and is therefore reluctant to make long horizon investments. This company has actually lost U.S. clients because their factory was unable to meet the volume demanded by them. Gerardo Mehring felt he needed time to grow but the orders were coming in too fast and he knew that with his existing capacity he could not meet this demand. In the late 1990s

Mehring would start tapping into the resources of other local firms as a means for providing foreign clients with a greater diversity of products. This strategy proved rather problematic, as like in the case of Etchebehere, it is difficult for Mehring to ensure that these firms produce at the level of quality required for export. At this time, Mehring continued to export even though it was losing money. Gerardo recognized that exporting was a long-term investment.

In 1998 Mehring began working with a local designer, Elisabet Arn, to adapt their products to the tastes and changing styles of people in foreign countries. She had been trained in Italy and was therefore more than capable of designing products for customers in the developed world. She contends that it is necessary for designers to be involved in every part of the production process. She has worked for FAIMA, the Argentine Wood Industry Federation, and CFI, the Federal Council on Investments, on projects with Jorge Etchebehere to diffuse information about how to adapt furniture to the styles of other countries. Shortly after hiring her services, Mehring sent Elisabet Arn to Italy to learn about Italian industrial districts. They had attracted the attention of Enrique Mehring, the son of Gerardo and the current production manager, when he went to Italy in 1992 to buy new machinery. Mehring believed that the creation of an industrial district would help his firm to increase the volume and variety of its products. Therefore, he looked for the assistance of the Italian embassy to reproduce an industrial district in Santa Fe. Recently, eight Italian experts have visited the province to help Mehring to construct it. The district began with just five companies and now its number has reached 28. Furniture produced in the district is then sold under the Mehring name.

Despite having addressed some of the problems with scale by developing an industrial district, Mehring still has not been able to forge the type of long-term relations with distributors that would enable his company to export products to developed countries on a consistent basis. Their relationships with distributors focus on the development and export of specific products and not on their long-term needs. The lack of a long-term relationship hinders the company's ability to keep updated about evolving patterns of demand in countries like the United States.

iii) Ivope

The business model of Ivope is distinct from what other firms are doing in this sector and would seem to be the result of pure happenstance rather than of a careful analysis of markets and production capabilities. In fact, Ivope never successfully exported furniture on its own. All of

their exports were funneled through their business partner in the United States. The company never developed other channels of commercialization. Nevertheless, the success of this partnership enabled Ivope to discontinue selling their furniture in the domestic market. Since 1999, Ivope is the largest exporter to the OECD in the sector, almost exclusively to the United States. In 2006, its sales to the OECD accounted for 15% of Argentine exports to this group of countries. Although Ivope had to improve the quality of their products to meet the specific demands of their U.S. partner, it never became involved in either the product or marketing component of the export business model. Although this may well be a viable business model for this company, the serendipitous manner in which it emerged limits the possibility that this model could diffuse in this sector and become the cause of significant growth in exports.

Ivope started as a small carpentry shop in 1985 when the domestic demand for furniture made with carob wood was just beginning. Although their shop was using this wood, they quickly found that consumers in the domestic market were generally not interested in the high level of quality of their products. Consequently, they decided to try to export and the company made its first shipment to the United States in 1990. However, the buyer of this container stopped payment on the $30,000 check she had sent as payment for this furniture. In attempting to recover their container, they met their future U.S. partner, Gerry Cooklin. Gerry Cooklin is a person of Peruvian descent who owns Southcone, a distributor of furniture for a Peruvian company named Exportimo. In 1991 Mr. Cooklin invited Ivope to share a stand with his company at the trade fair in High Point. After successfully selling some of the furniture Ivope had sent to this fair, Southcone agreed to become the distributor for Ivope in the United States. In 1995 Mr. Cooklin bought 20% of Ivope after one of the three founding partners decided to leave the company. The remaining 13% was split between the two other owners. Two years later Mr. Cooklin bought another 40% of the company, making him the majority shareholder.

Ivope produces chairs and tables for dining rooms, while Exportimo produces bedroom sets. Ninety-five percent of the chairs sold by Southcone are manufactured by Ivope. Although the factory in Peru does produce some tables, the vast majority of them are made in Argentina. Ivope produces some lines of furniture for bedrooms and dining rooms with Exportimo. However, the scope of these joint projects is limited as coordination between these two plants is difficult. These coordination problems arise even from small details such as the type of wood used by each factory. In general, it is difficult to produce two pieces of furniture that have the same consistency in factories located in different countries.

Southcone has one showroom in Los Angeles and another in San Francisco. They had to close a showroom in New York shortly after opening it because of the lack of sales in that region. Southcone's lack of success in New York is related to the type of furniture they produce. The style of their furniture is dark, heavy and very large with hints of an American Indian style. These traits are not highly valued on the east coast where consumers generally look for lighter furniture with more modern styling. Ivope tries to produce a new product every six months for the trade fair in High Point. One year, for example, it introduced a new table that had the same basic design as one of the tables they had previously produced. The critical difference between these two tables was that the traditional wooden legs were replaced with metal ones.

Since its beginning, Ivope never developed the product or marketing component of the export business model. Southcone collected and analyzed data on market trends and controlled the marketing aspects of the exports for Ivope. At the same time, the changes made to Ivope's production processes were essentially dictated by their partner. Ivope has always been seen as an outsider in the wooden furniture industry in Argentina. In fact, many of the owners of other factories in this sector believe that Ivope was always owned by a foreign company even though this was not the case. Given the serendipitous nature in which his partnership with Southcone arose and the dependence of Ivope on this firm, it is difficult to imagine how this export model could serve as an example that could diffuse in this sector.

Universidad de SanAndrés

4. Diffusion

The possibility for further export growth in this sector seems to be limited by the fact that no firm has fully implemented the export business model. Consequently, firms lack an observable benchmark of how things could be done differently and to successfully export to the developed world.

Three specific institutions in this sector have diffused some components of the export business model. However, none of these institutions has sought to diffuse the export business model as a new, coherent way of doing business. At the same time, the lack of a pioneer in this sector complicates the ability of any individual firm or institution to understand exactly what is to be diffused.

The government is indirectly involved in promoting exports from this sector through institutions such as CFI and ExportAR. While ExportAR, the most important export promotion agency in Argentina, seems to concentrate on the commercialization of products abroad, the former is directly involved in diffusing production and design knowledge throughout the industry. At the same time, FAIMA, the Argentine Wood Industry Federation, is also an important non-governmental association that helps firms with developing what could be considered components of the export business model. Although these three organizations provide support for firms to develop the marketing component of the export business model, none of them seems to go beyond simply helping firms attend trade fairs. In particular, none of these organizations provides firms specific advice about how to work with distributors. Each of these institutions is discussed below.

The Federal Council on Investments (CFI) is an organization born out of an agreement between the provinces of Argentina to work together to promote research and recommend measures for improving investment and development. The main goals of this council are to bring technology and knowledge to groups that normally do not have access to them and to foster the development of social networks that diffuse technology and knowledge. In the wooden furniture sector this organization has helped to diffuse knowledge about how firms can improve the designs of their products. This organization tapped into the expertise of Jorge Etchebehere and one of Mehring's designers, Elisabet Arn, to demonstrate to six groups of wooden furniture producers from five different provinces how they could adapt their furniture to the tastes of potential clients in the United States. Then, they brought buyers from the United States to view these products and helped these firms to develop prototypes. The success of this program motivated the CFI to support a trip by these companies to the international trade fair in High Point, North Carolina. CFI rented 300 square meters of floor space at this trade fair to demonstrate the products developed with the help of a U.S. designer.

The CFI is forbidden by its statute from repeating such programs over the long term. Recognizing the value of this program, FAIMA decided to repeat this activity. FAIMA put firms in contact with designers to help them adapt their products to foreign markets. These firms, working with FAIMA, developed designs with an expert in the area, and prototypes on their own and then returned them to this expert to evaluate them. As well as the plan developed by CFI, the goal of this project is to help firms go to the trade fair in High Point. About 15 companies participated in this program. FAIMA was also working closely with Jorge

Etchebehere and Elisabet Arn, Mehring's designer, to train Argentine designers in this industry to adapt their designs to international markets.

In addition to helping firms gain access to designers and developing a program to train designers, FAIMA also worked to assist firms to update their machinery and form export consortiums. These export groups enable firms to join together to travel to trade fairs such as High Point. FAIMA also had a program to help firms to share consultants who addressed a range of common issues. Additionally, this organization made an agreement with two Italian companies to recondition numerically-controlled machines in Italy that were no longer being used by Italian producers so that they could be sold to Argentine manufactures in this sector. The two Italian firms that sold these machines also provided firms training on how to use them.

While FAIMA and CFI seem to be primarily concerned with issues of design and production, ExportAR deals exclusively with commercialization. It is a semi-private organization that promotes exports for practically every industry in Argentina. It helps firms make commercial contacts with foreign clients. ExportAR provides firms with detailed reports on international markets and financial assistance for firms to travel to international trade shows, thereby not only diffusing knowledge about the sector but also helping firms to build commercial contacts. They also help firms to form export consortiums, for which they cover the full salary of a coordinator for the first six months. Their contribution to this person's salary declines by 25% every six months so that by the end of the first two years these groups are self-financing. However, their export group for wooden furniture does not appear to be very active in this industry. The coordinator of this group actually believes that it is impossible for wooden furniture manufacturers in Argentina to sell their products in the United States. He concentrates on selling furniture directly to retailers in Chile, Ecuador, Guatemala, Panama and South Africa. This export group would seem to focus on smaller producers. In fact, none of the top exporters participate in it.

Programs designed merely to support firms attending trade fairs have a number of potential drawbacks. If associations choose to provide subsidies for any firm that wishes to participate in trade fairs, they run the risk that low quality producers will display their products and thereby create the image that Argentina is a producer of low quality goods. This problem is particularly acute for countries like Argentina that tend to display products from different firms together at such trade fairs. At the same time, subsidizing the participation of low quality producers is also

a rather expensive way for them to learn basic ways to improve the quality of their products. They could learn about basic facts through consultants such as Etchebehere.

In order to improve the image of producers in this industry, FAIMA is working with a group of Italian consultants to develop some type of quality certification for furniture exported from this country. The most important intermediary in this industry contends that firms which do not meet the level of quality demanded by international markets should not receive assistance from public or private institutions to attend trade fairs such as the one in High Point, North Carolina. He claims that if any firm is allowed to participate in such a trade fair, it can undermine the overall image of producers from this country. Firms that attend such fairs should have to prove that they know how to produce furniture to meet the demands of such markets.

Arguably no organization has promoted the importance of working with distributors. The lack of an export pioneer with solid connections to distributors in developed countries has prevented firms in this sector and the associations that support them to recognize the importance of this issue. Hence, the vast majority of the wooden furniture producers rely primarily on sporadic sales that do not generate incentives to sufficiently improve their products. At the same time, the possibility for a pioneer to emerge in this sector is complicated by the country of origin bias. Those firms that obtain contracts to export to foreign countries and do not fulfill them undermine the possibility that these distributors will work with Argentine companies in the future.

QUAERERE VERUM
Universidad de
San Andrés

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Universidad de SanAndrés

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