Learning to Cooperate: Internationalization of the Serra Gaúcha Wine Cluster

Abstract

The study investigates the development of a wine cluster in Brazil in order to analyze how the internationalization process unfolded and to what extent the cooperation among firms within the cluster was crucial to the process. The study uses the case study method of investigation. Data collection was based on secondary data from various sources, including personal interviews conducted with 25 business leaders and industry experts. In addition, documentary research was undertaken in local libraries and archives, and follow-up consultations done by phone and email. The findings showed that cooperation played a crucial role in the internationalization of the cluster. Such cooperation was, to a great extent, a result of external factors. From a previous stance of competition, companies within the cluster have learned to cooperate, initially in their efforts to export, and later in other local initiatives.

Cluster, internationalization, wine, cooperation, competition, exporting

Introduction

A growing body of literature provides evidence that the process of global integration has been accompanied by regional concentration of economic activity (e.g., Porter, 1998; Scott, 1996). This somewhat counter-intuitive pattern is explained by the quality of the local business environment – with its concentration of highly specialized skills, institutions, rivals, related businesses, suppliers, relationships, etc. and the continuous flow of knowledge among them – that cannot be matched by autonomous competitors. Studies on the subject have upheld the cluster as a dynamic agent of regional development inasmuch as the cluster creates competitive advantages for member firms. Thanks to this dynamism and the internal processes that generate competitive advantages, internationalization in clusters can occur faster and with broader scope than if companies operate in isolation. Among the factors associated with this phenomenon is the cooperation among companies based in the cluster (Ferreira, Tavares, and Hesterly, 2006; Iglori, 2001; Schmitz, 1999b).

This study focuses on the formation and development of a wine cluster in Brazil, investigating its internationalization process and the extent to which cooperation among firms in the cluster was crucial to the process.

Cooperation in the Process of Internationalization of Clusters

Beccattini (1990, p. 38) defined a cluster as “a socioterritorial entity which is characterized by the presence of both a community of people and a population of firms." In his view, “community and firms tend to merge”. Porter (1998) adds the frequent presence of institutions and inter-relationships established between the various actors clustered geographically, conceiving of clusters as "geographic concentrations of interconnected companies and institutions in a particular field" (p.78).

There are several explanations for the emergence of a cluster. Its origins may lie, for example, in natural geographical/climatic/geological conjunctures; specific historical developments; particular cultural conditions; local demands; based on the existence of supplier or related industries; other already established clusters; an unusual entrepreneurial dynamism; one or several innovative companies that stimulate the growth of many others; or at random – although this is usually associated with other drivers (Iglori, 2001; Porter, 1998; Ferreira, Tavares and Hesterly, 2006).

Clusters develop where there is some basis for locational advantage, and their formation is often spontaneous (Becattini, 1991), differing with regard to the set of firms in each cluster, which may present quite particular characteristics, reflecting their respective process of formation (Igliori, 2001). Geographical proximity is often associated with a cultural and social affinity that fosters trust between the parties involved, thereby facilitating the exchange of knowledge (Maskell and Malmberg, 1999; Zucchelli and Servais, 2006). Because of the ease of interaction and socio-cultural similarity, geographic proximity eventually leads to the building of knowledge – tacit knowledge especially – which is ingrained not only in individual skills and in organizational routines/procedures, but also in the cluster itself – particularly in the interrelations that link different firms and the larger institutional context, thus benefiting cluster businesses and attracting additional firms to the locale. Lazerson and Lorenzoni (1999) and Zucchelli and Servais (2006) emphasize that it is essential to develop trust for business relationships to endure. The expectation of reciprocity in time-tested relationships can even transcend the pursue of self-interest by firms in a cluster.

Contradictory as it may seem, cooperation and competition play a fundamental role in the development of clusters (Porter, 1998; Schmitz, 1999; Iglori, 2001). The intense relationship between firms in a cluster makes the oscillation from situations of competition to cooperation and vice versa inevitable. This state of affairs only benefits the clusters, since it leverages their competitive advantages (Scott, 1996).

Cooperation in a cluster may manifest in myriad ways, including development of vertical relationships with suppliers; subcontracting; sharing of new technologies; collective actions for lobbying for a more favorable business environment; exchange and mobility of staff; contracting of technical assistance; joint participation in large/special projects; sharing of orders; contributions to trade fairs; formation of institutions; broadening of business scope (Ferreira, Tavares and Hesterly, 2006; Iglori, 2001; Meyer-Stamer, 1998). Horizontal externalities occur when firms imitate each other, developing partnerships in projects of common interest (Johansson & Forslund, 2008).

Cooperation among competitors and collective action only materialize because of the trust that binds the actors involved (Markusen, 1995), a trust based largely on shared cultural identity. Becattini (1991) reinforces the existence of a certain symbiosis between productive activity and community life, given the alignment between the type of production process and the socio-cultural characteristics of the local community.

Cooperation appears often to result from cultural homogeneity and relationships built over time rather than some feature inherent to the cluster (Lazerson and Lorenzoni, 1999). The social sphere, with its personal and family histories, makes cooperation more likely in clusters than in other types of social organization without such density. However, for relationships to translate into concrete economic actions, entrepreneurs must act. Moreover, certain circumstances stimulate firms to cooperate, even when the previous business culture has been predominantly one of non-cooperation. Such circumstances include crises that threaten the survival of the business, the presence of change agents, or the availability of a model that offers an alternative path (Meyer-Stamer, 1998).

However, Porter (1998) and Albors (2002) argue that robust competition among firms is also essential to cluster success. Rivalry can promote greater mobility of specialists, facilitating development of the cluster and exchange of tacit knowledge. Too, competition can actually shorten product development time as well as the time to incorporate innovation through learning by imitation. Maskell and Malmberg (1999) and Ferreira, Tavares and Hesterly (2006) also concur that the success of a company with new technology deployed generates a wave of imitation in which other firms in the cluster gradually adopt the innovation in a kind of isomorphic behavior. Porter (2998, p.79) suggested, however, that competition and cooperation coexist "because they occur on different dimensions and among different players". On the other side, that cooperation involves occasional conflicts is a natural corollary; however, while not perfect, cooperation is crucial to the development of clusters (Meyer-Stamer, 1998).

Since clusters are, to a large extent, shaped by individual entrepreneurial action (Guerrieri and Pietrobelli, 2004), many researchers emphasize the role of the different agents of which they are comprised (e.g. Markusen,1995; Lazerson and Lorenzoni,1999; Ferreira, Tavares and Hesterly, 2006), such as the presence of large companies (domestic or foreign) for the development of clusters. Large firms tend to invest in R&D, initiate transfers of technology, knowledge, skills and new business models for the region, and demand subcontracting and the opening of distribution channels for local producers. In general, since they maintain ties with firms outside the cluster, they assume a strategic position to quickly identify external trends, respond to them and guide other companies in realigning to the status quo. Thus they contribute to the persistence and expansion of small businesses, as well as to attracting new businesses to the region (Markusen, 1995). Multinationals can act as flagships, which is of particular interest to clusters where a consolidated industrial base is absent (Ferreira, Tavares and Hesterly, 2006). Other researchers point to the importance of private and public institutions, such as government agencies, universities, or research institutes, for the development of clusters (Albors, 2002; Schmitz, 2007). Successful public interventions are intended to fill gaps and eliminate bottlenecks in contexts that are already operating, thus complementing preexisting structures and practices (Iglori, 2001). The synergy between institutions is essential to promoting the cluster's growth and competitiveness.

The literature on internationalization of firms within clusters is fairly recent and still somewhat scarce. In general, the studies have sought to investigate whether belonging to a cluster stimulates the internationalization process, making it happen earlier, more quickly or more strongly, in terms of participation in total sales, geographic scope, or mode of action (Becchetti, Panizza and Oropallo, 2007; Bonaccorsi, 1992; Maccarini, Scabini, and Zucchelli, 2004). Several authors have found that the previous experience of neighboring businesses in the cluster influences the internationalization process of the others, who use the accumulated knowledge of the cluster (Bonaccorsi, 1992; Becchetti and Rossi, 2000; Maccarini, Scabin and Zucchelli, 2004). Such learning would occur through direct interpersonal exchange of information and the imitation of successful past dealings, helping to reduce the perceived risk of international activities. According to Bonaccorsi (1992), in clusters with substantial export experience, new businesses tend to start exporting early in their life cycle or even at inception. Becchetti and Rossi (2000) also identified that formal cooperation among firms positively affects export intensity. Similarly, the study by Maccarini, Scabin and Zucchelli (2004) suggests that membership in a cluster can a) pave the way to quick internationalization of firms, engendering an international focus from inception; b) broaden the geographical scope of action; c) increase the propensity to use other modes of international action beyond the exports, including alliances, joint ventures and direct foreign investment. Zucchelli and Servais (2006) argue that local networks are an important platform for the early and rapid international expansion of small businesses, but that their long-term international performance would depend on their ability to forge international networks.

Methodology

The paper uses the case study method of research. The unit of analysis is the Serra Gaúcha wine cluster in Rio Grande do Sul, Brazil, following the tradition of empirical studies of Italian industrial districts, where the cluster is seen as a definite entity.

The study used both primary and secondary data. Secondary sources were government agencies, general industry publications, corporate/institutional sites, and other sources available on the Internet. Twenty-five interviews were conducted with company owners and managers of firms and business associations, and industry experts. All interviews were taped and transcribed. After the content of the interviews and all secondary data had been compiled, additional information was sought via telephone calls and e-mail.

The analysis began with a draft report of the history of the cluster and the major companies involved. The analysis, as suggested by Yin (2001, p.54), was performed using the analytic generalization method "in which a previously developed theory is used as a template against which to compare the empirical results of the case study." Thus, the review of the literature has become the main vehicle for making analogies, with the situations surveyed being faced off with theories, models and other cases of clusters.

The Serra Gaúcha Wine Cluster

Wine production began to develop in the Serra Gaúcha with the flow of Italian immigrant starting in 1875. With grape growing and winemaking expertise, the Italian immigrants quickly set themselves the task of producing wine for their own consumption. The wine soon became a lucrative business, building up the local trade. Between the late nineteenth and early twentieth centuries, the state and federal governments conducted several initiatives to improve the region's wine production, promoting the planting of new cultivars and sponsoring the arrival of renowned wine experts to disseminate the most up-to-day grape growing and winemaking techniques. In this context, several wineries began to appear, including Dreher (acquired by the multinational Heublein in 1973), Salton in 1910, and Perterlongo in 1913 (Cenni, 1975; Kirschbaum et al., 2007). Wine production grew to the point where the local and regional markets were unable to absorb the supply, paving the way to the expansion of sales to the rest of the country.

From 1929 on, 26 wine cooperatives were founded, some of which are still in business today, such as Aliança, Aurora, and Garibaldi. Banding together, the wine producers sought to eliminate the middlemen, who traditionally kept most of the profit, and imposed a series of conditions. In the 1920s, producers also began bottling their own wines, a move which prevented tampering and built brand awareness. In the 1940s the first exports were made. In 1967, Brazil's first National Wine Festival was held in the city of Bento Gonçalves, an event that played a central role in projecting Serra Gaúcha wines nationwide.

The 1970s was a period of great transformation for the cluster. The progressive arrival of beverage multinationals in the region, who would buy up existing vineyards or set up their own operations, brought about significant improvements to the wines. Companies such as Martini & Rossi (which became Bacardi Martini, to be later acquired by Vinícola Perini), Möet & Chandon (which now belongs to the French group LVMH), Heublein, Cinzano (both now owned by the Campari Group), Seagram, Domecq (both now owned by Pernod Ricard) and Maison Forestier all promoted large-scale technological modernization of viticulture. The foreign companies also contributed to the expansion of growing European vinifera varieties. Until the arrival of multinationals the production of noble grapes was infinitesimal, if only because the occasional winery, such as Granja União, produced fine wine. Multinationals saw in Brazil a potential to produce sparkling and fine wines, mainly whites, which at the time were the most popular. As such, they brought in foreign winemakers and agronomists - from France, Italy, Argentina, and Chile - to enable their production.

The arrival of the multinationals also spurred the Serra Gaúcha companies to improve the quality of their own products in order to gain competitiveness. Investments were made in modernizing production systems, importing cuttings of wine grape cultivars, buying imported equipment, hiring foreign winemakers and sending winery owners' sons and daughters abroad to study oenology, especially in Argentina.

In 1989, a downturn in the domestic market for wine caused stocks of wine stored in Serra Gaúcha wineries to balloon. Consequently, winemakers cut back their grape buying sharply, pushing down the price of grapes and causing the harvest to go unpicked. However, the wine production crisis provoked a major transformation in the Serra Gaúcha. Due to the collapse in prices, many small family farmers, mostly descended from Italian immigrants, stopped selling grapes to large wineries and turned to wine production as their core business in search of better margins.

The economic opening of the 1990s was also to profoundly impact the competitiveness of Serra Gaúcha wines. The imported wines began to arrive with very competitive pricing – German wines at first, and Chilean and Argentine soon thereafter. The creation of Mercosur also contributed to the expansion of imported wines, given the lower business taxes of the other Mercosur countries, compared to Brazil. Additionally, the Brazilian consumer's bias in favor of imported products – assuming them to be of higher quality – and illegal entry of wine along the border with Paraguay, Argentina and Uruguay also contributed to this unfavorable scenario (Kirschbaum et al., 2007).

Given this context, wineries Casa Valduga, Miolo, Don Cândido, Don Laurindo, Cordelier and Casa Graciema joined together to form Aprovale (Vale dos Vinhedos Fine Wine Producers Association) in 1995, with the intent of increasing the competitiveness of the region's companies. The area of Vale dos Vinhedos – the Valley of Wineries – was a sub-region of Serra Gaúcha, and the one which had the best terroir for wines in the country. All were small wineries, with Casa Valduga being the largest and oldest. According to Juarez Valduga, one of Casa Valduga's owners, the initiative was the result of a conversation between him and Adriano Miolo, one of the owners of Vinícola Miolo. The two agreed it was necessary to improve the quality of the wines and to develop the wine-tourism potential of Vale dos Vinhedos; however, they also realized investments in their individual wineries would not suffice: what was needed was an initiative by the vale dos Vinhedos as a whole. So they set off in search of other entrepreneurs around the area who might be interested in working together. Juciane Casagrande, sales manager of Casa Valduga remembers it thus: "The idea, when they started Aprovale, was precisely this: let's set it up so surrounding businesses can grow with us ... By giving greater visibility to everyone, we can all grow together."

Since 1996, Cooperativa Vinícola Aurora, one of the largest companies in the region, had to face a serious crisis, with loss of contracts, including its main export contract. This difficult time for Aurora eventually opened up the market to the benefit of small family wineries, such as Miolo, Casa Valduga, Don Laurindo, Dal Pizzol, Marson and Pizzato (Kirschbaum et al., 2007; Naiditch, 2003). For Jaime Milan, director of Aprovale, "it was the moment that producers from Vale do Vinhedo managed to penetrate many points of sale."

In the late 1990s, some wineries, such as Miolo and Salton, made large investments in technological modernization. The companies organized themselves to export through a consortium and developed several joint initiatives with a view to international expansion and, more importantly, strengthening the internal market.

<u>Geographical indication</u>

Aprovale's first activities included joint negotiation to acquire inputs and equipment, penetration of national distribution channels, and sharing of information and technical support. It was in this context that interest in designation of the geographical origin appeared. Brazilian law recognizes two types of geographical indication labeling: *Indicação de Procedência* (*IP*), which recognizes the good reputation of a producer region, and *Denominação de Origem* (*DO*), which means the geographical region, due to natural and human factors, exclusively or essentially determines the characteristics of the product.

> When I realized that all of Europe defended designation-of-origin labeling, I said “I want to form a geographic denomination right here." Luckily, I had a colleague, Adriano Miolo, who used to help me out at Casa Valduga as a consultant. Our conversations went along the lines of "Let's create a denomination." The very next day, we got started ... (Juarez Valduga)

> Aprovale's first president was my brother, Adriano Miolo. He and Juarez Valduga decided to start the association. [...] This was taken so seriously that several wineries took interest. (Alexandre Miolo)

The Brazilian Agricultural Research Enterprise (Embrapa) also played a significant role in the process. In 1997, Aprovale filed an application at INPI (Brazil's National Industrial Property Institute) to create the IPVV (Vale dos Vinhedos Geographical Indication); the application was approved in 2002. With IPVV certification, all Aprovale member wineries were then able to differentiate themselves with the *Selo de Controle Vale dos Vinhedos* (control label). Moreover, in 2007, IPVV became the second region outside Europe to be recognized by the European Union, whereby Brazilian wines can enter member countries without import duties being levied. The impact of IP on domestic sales is controversial, but there is unanimity as to its importance in the international market, where consumers value the label when making a purchase decision.

<u>The Wines from Brazil project</u>

In 2002, the Wines from Brazil project was rolled out in the form of an export consortium under the auspices of *FIERGS* (a Rio Grande do Sul industry federation). Initially, several wineries were interested in the idea, but over the course of the initial meetings, most dropped out. In the end, the only case of Brazilian wine exports considered successful was Aurora's experience with Marcus James; however, that deal met a "tragic" demise. Only six wineries believed in the export potential of Brazilian wine and banded together to form the consortium: Aurora, Bacardi Martini do Brasil, Casa Valduga, Lovara, Miolo and Salton. In 2004, Wines from Brazil established itself as a *Projeto Setorial Integrado*, (PSI) or "Integrated Sector Project," receiving support from *Apex*, the Brazilian agency for the promotion of exports and investments.

Since then, the *Projeto Setorial Integrado* has sought to increase exports of Brazilian fine wines, position value-added products, increase export volumes, open new markets and consolidate those that already existed. A strategy was adopted of building a positive image for the Brazilian product, presenting wines with the Wines from Brazil brand as an interesting and quality alternative within the scope of "New World" products. This was done because wine producers tend to present themselves by country; and consumers tend to use a wine's country or region of origin as a proxy for quality. Thus, Wines from Brazil promotional activities included participation in international fairs and exibitions; tastings; roadshows; seminars and workshops; projects to attract new importers; international media initiatives to showcase Brazil's wine potential; financial support for foreign activities to increase exports; institutional/financial support for actions to promote exports; providing assistance in foreign trade; adapting products and processes for the development of exports; facilitating access to agreements with service providers; maintaining a communications consultancy. The following statements, taken from interviews, underscore the relevance of the initiative to the cluster:

> The companies – not Miolo, or even Aurora – would never be able to do independently what they're managing to do. [...] Even if we could go it alone financially, it still wouldn't be worthwhile, because we would still have to instill the Brazilian wine concept. The concept is more important than the Miolo brand per se. (Adriano Miolo)

> The project aims to enable the presence of Aurora or the other firms at any wine fair in the international market. Fairs are expensive to attend and therefore impractical in terms of individual participation. The second point is that a single firm at a fair doesn’t amount to anything. However, the block of Brazilian wineries, although small, in a stand that is

> not like France’s or like Chile’s, stands out. This is the great contribution of the initiative for companies. (Lourdes Conci, Aurora Marketing Manager)

The Wines from Brazil project grew beyond the Serra Gaúcha cluster and spread to other regions in Brazil. According to Apex, with Wines from Brazil activities from 2002 to 2007, the number of destination countries of Brazilian exports increased from two to twenty, and the volume exported under the project rose from $165,400 in 2002 to approximately $2.2 million in 2007. The wineries that were interviewed assessed the project positively:

> I think Wines from Brazil is the best thing that has happened in the entire history of the wine industry in Brazil – at least since I've lived and been involved in it. Because those at work are true professionals - it's not about everyone being out for himself. (Adriano Miolo)

> [The success is due to] capital and people because there is financial support from Apex. But perhaps, even with money, we could have failed. Things went right this time because we have a group of much younger people who understand how business is done abroad, how things work. They have another view of business. (Além Guerra, Aurora CEO)

The interviewees were keen to point out that the project was successful also because it encouraged cooperation between the wineries. Since Brazil had no image as wine producer in the international market, its wineries realized they needed to act together to create that image – before working on promoting their own brands. The uncertainties and perceived risks in working abroad also motivated companies to cooperate. These sentiments are expressed in the following testimonials:

> Although here in Brazil the wineries feel like competitors, when they approach foreign markets they are sisters (Juciane Casagrande, Casa Valduga sales manager).

> We are all competitors, but abroad everyone helps each other. We have to create the image of Brazilian wine. Miolo, Valduga and Aurora – they all have an interest in more quality producers getting into exports. (Adriano Miolo, Miolo owner)

> It's easier if I help Miolo, and Miolo helps Valduga, and for all of us to sell – because we can sell much more than we would do individually: 'No, don't buy from him; buy just from me.' The ideal is to buy from everyone, because then we get more space in the supermarket [...]. Then you have to start putting the idea in people's heads: 'Look, Brazil makes wine.' And so it goes, to begin selling wine abroad. (Fabrício de Almeida, Salton Export Manager)

> I think the motivation for the Wines from Brazil project was wanting to export and being aware of the difficulties of approaching the international market alone. Imagine a company that's going to get into the international market. It doesn't know where to start, how to start, which partner to choose, what to do, etc. So, from the moment the firm has support, even just in terms of advice: 'Look, you already export to that country; how is it? Is it hard? Is it easy? How are prices? Is it complicated? What channel do you work through?' The person who made a mistake says, 'No, don't go down that road. We have to do it some other way.' (Andreia Milan, Manager of Wines from Brazil)

Such cooperation has occurred not only through the joint use of the Wines from Brazil brand, but also with sharing of information, particularly with less experienced winemakers. According to Andreia Milan, PSI manager, when firms joined the project, they received training and advisories concerning Wines from Brazil perspectives and to prepare to act abroad. The wineries that already had experience in the international market transmitted their knowledge both formally (through the Ibravin fortnightly meetings, seminars and booklets produced by the project management) and informally. PSI has provided member wineries with various types of training in production technology, marketing, etc.

> One Wines from Brazil initiative seeks to help and train the new businesses so they can get up to speed immediately. We're out there representing a country, as a block. For example, if you have a rotten apple in the basket, it can contaminate and spoil all the others. Therefore, the firms joining Wines from Brazil must immediately embark on an intensive learning process. (Carlos Nogueira, International Relations Manager for Miolo)

> The training is mainly because all promotion of Brazilian wine takes place abroad. You have to go there to taste, talk, visit, and become familiar. Then you get to know the requirements of this buyer market, whether buyer agents, whether consumers – both in regard to the product as well as presentation – with respect to safety standards." (Pizzol Dal Rinaldo, Dal Pizzol Owner)

Wines from Brazil provided wineries with a lesson in cooperation, but at the same time they cooperated abroad, they competed intensely in the domestic market, as indicated by Andreia Milan: "In the foreign market, no one sees himself as a competitor. But everyone thinks they know the Brazilian market; as such, nobody wants to share it." It was believed by some interviewees, however, that the loss of ground domestically in fine wines to the imports was forcing wineries to consider more cooperation in the domestic market too.

<u>Internationalization of the cluster</u>

The internationalization of the cluster started in 1940, with the first export markets being the US and Venezuela in 1941. According to Kirschbaum et al. (2007), Peterlongo had an export deal with the US Macy's chain in 1942. In 1958, the Aurora cooperative winery began selling bulk wine to a buyer in France. Following is a brief summary of the internationalization of the three main companies in the cluster: Aurora, Miolo and Casa Valduga.

Aurora

With the first exports in 1958, Aurora became the largest Brazilian exporter. In the 1970s, the firm received significant orders from Angola and Mozambique, which replaced the Portuguese supply in both countries for about six months. In 1985, Aurora began to provide fine white wine to be bottled under the American brand Marcus James, in addition to acquiring the Brazilian distribution rights to the brand (Luxner, 1996). To accommodate the project, in the late 1980s Aurora structured an export department. The James Marcus contract gave Aurora access to the sale of large volumes of fine wines as well as major technological advances to comply with US requirements. The deal was so successful that James Marcus jockeyed with Concha y Toro for first and second place of top-selling Latin American brand in the US. In 1992, Aurora received the Wine of the Year award in America.

By the early 1990s, Aurora had captured about 10% of the Paraguayan wine market. The firm also got a contract to supply fine white wine to the Tesco supermarket chain in England. However, the crisis experienced by Aurora mid-decade was accompanied by the loss of contracts, including Marcus James exports in 1998. That same year, to overcome the serious crisis it was experiencing, Aurora opened a foreign office in order to buy wine produced in Uruguay, bottle it, and export it back to the Brazilian market. Although the winery's focus was the domestic market, the loss of these customers had a major negative impact on the company. Nevertheless, Aurora's export experience provided much knowledge, both for the winery itself as well as other local companies.

In 2002, Aurora was instrumental in starting Wines from Brazil. Regarding the geographical indication delineation conquered by Aprovale, however, Aurora cannot take advantage of it because its bottling plant for fine wines is not located in Vale dos Vinhedos. The company began using the Uruguayan subsidiary to export fine wines to Brazil under the brands Aurora Del Sur and Marcus James Tannat and Cabernet Sauvignon. In 2009, Cooperativa Vinícola Aurora was the largest Brazilian exporter of fine wines in terms of volume, although exports of table wines, mainly to Russia, Japan and the United States, constitute a significant portion of overseas sales.

Miolo

According to Carlos Nogueira, Miolo's manager of international relations, Aurora winery's export activities in previous decades were regarded as a point of reference for Miolo to believe that exporting Brazilian wine was viable. Although since 1994 Miolo was involved in passive exports, it received its first significant overseas order in 2002 with a proposal for a US sale through Brazilian steakhouses. The initiative was successful, since the steak houses functioned as Miolo's distribution channel platform, reducing the risk perception of US importers while building product awareness with American consumers. Also this year, Miolo drafted a strategic plan to guide growth over the next ten years, including the structuring of an export department, aiming to actively internationalize the company. Carlos Nogueira explains "we could see foreign competition banging on our door after Brazil opened up to imports, and that it was useless to battle only for the domestic market. We had to know our enemy and fight him outside of our borders in order to know how fight him inside Brazil."

The company increased its international presence through strategic alliances. In 2004, Miolo joined forces with the Spanish company Osborne to produce brandy in Vale do São Francisco. This association also afforded Miolo the opportunity to distribute Osborne's Spanish and Portuguese wines in Brazil (complementing its Brazilian portfolio with imported wines), and to have its own products distributed abroad by the multinational. In 2005, after an active search for a partner in Chile, Miolo signed an equal joint venture with Chile's Via Wines, forming Via Sul to coordinate joint production, in Brazil under the Oveja Negra and Sesmarias brands, and in Chile under the shared brands Costa Pacífico and DO. The venture also builds distribution alliances in both countries. Also in 2005, Miolo increased its penetration in the United States, selling its wines in typical American restaurants, bars and pubs, and in France by pushing into supermarkets. In 2008, Miolo signed an agreement to produce wine in Argentina, using outsourced production at Bodega Séptima of the Codorniu group. The intention was to invest in own production in the future, acquiring vineyards and building a winery. The wines produced in Argentina were sold under the Los Nevados brand. In Brazil, Miolo handled distribution. In Argentina and other countries, including England and Germany, the brand was marketed by Vitis Dei. Finally, in 2009, the company partnered with French producer Henry Marionnet to produce Gamay-based wines in Brazil; sales would be handled by Miolo in Brazil and by Domaine de la Charmoise elsewhere.

To encompass all projects in different regions of Brazil and alliances with national and international companies, Miolo Wine Group was created. The organization consolidates administrative and commercial structures and as of 2009, had representatives in Germany, Australia, Canada, Chile, Denmark, USA , Estonia, France, Holland, Italy, Luxembourg, Czech Republic, Norway, Singapore, Sweden and Switzerland. The company has been Brazil's leading exporter of fine wines in terms sales since 2003, and by 2007, accounted for 65% of exports. Revenues from export activities have clearly been growing significantly. PSI Wines from Brazil has turned out to be an important tool for Miolo to turn around the issue prospective importers, especially with regard to polishing Brazil's image as a wine producer.

Miolo has not only provided an example of internationalization for other wineries in the region, but has also sought to share the expertise gained in international activities with other wineries interested in exporting. According to several players in the cluster, "Miolo is a model;" "an example of a company to be followed;" "a reference winery with bold management;" "a case we watch closely." Their managers "treat internationalization as an inherent part of the company," and have "an all-encompassing view of business."

Casa Valduga

The internationalization of Casa Valduga started in 2000: after winning several international awards, the winery began to receive requests from overseas customers. Also in 2000, Casa Valduga became the first winery in Brazil to produce abroad. The Mundvs label was launched to provide Brazilian consumers with Casa Valduga wines produced from terroirs other than Brazilian. The company acquired vineyards in Argentina and leased the Argentinian Bodega Sottana to produce Malbec under the Mundvs label (Bueno, 2008) Technical supervision was provided by Casa Valduga. According Juarez Valduga, the main reasons to start producing wines abroad were to gain access to terroirs that would provide continuous production of quality red wines, and Casa Valduga's need to have its own imported wine to compete in this segment of the domestic market.

According sales manager Juciane Casagrande, the first significant export deal was signed in 2002. The winery also set up an export department the same year. In parallel, the Casa Valduga participated in the formation of an export consortia under the auspices of FIERGS (the Rio Grande do Sul industrial federation). In 2004, the consortia assumed the integrated sector project format of an integrated sector project under Apex-Brasil: Wines from Brazil. The winery decided to participate in the export project from its inception, since it realized that wineries present themselves collectively to the international market, as a function of the importance attributed by the consumer to a wine's country/region of origin. Casa Valduga managers believed the relevance of Wines from Brazil lay in a) making foreign activities financially viable abroad; b) fostering cooperation among winemakers, in order to form an image of Brazil on the international market as a producer of fine wines. In the second phase of its evolution, Wines from Brazil made space available at trade shows for its importers. Wine industry events then began to assume the role of another channel to network and close deals with customers. But although Wines from Brazil has had an important role as facilitator of access to importers, many Casa Valduga foreign representatives, such as in Germany, were established by other means. Visits to the Serra Gaúcha, internet searches, and recommendations led many importers to get in contact with the winery.

In 2005, Casa Valduga entered into an agreement with Chile's Antipod to produce wine under the Mundvs label in that country. In 2008, the Mundvs label was launched in Portugal in partnership with Enoport (Bueno, 2008). Mundvs products were intended primarily for the Brazilian market, (although some of the label's wines have been exported to Switzerland) but Casa Valduga planned to expand sales to other countries. In 2009, Casa Valduga had its own vineyards in Vale dos Vinhedos (Encruzilhada do Sul) as well as in Argentina. A significant part of Casa Valduga's income was derived from Villa Valduga, the wine complex they built in Vale dos Vinhedos. With respect to distribution in foreign markets, Casa Valduga acted through representatives in Germany, the United States, Luxembourg and the Czech Republic.

Discussion

In many respects, the Serra Gaúcha cluster resembles an Italian industrial district. Its origin lies in specific historical developments, in unique cultural conditions and in a climate suitable for the cultivation of grapes. In this cluster, in line with the descriptions of Becattini (1991), Markusen (1995) and Pickernell et al. (2007), there is, among other things, a co-occurrence of the clustering of small and medium firms of local origin; a dense network of vertical and horizontal transactions; auxiliary industries; an arrangement of geographical proximity that facilitates face-to-face contact, in which exchanges of knowledge can take place and combinations of original ideas can arise; a local community with shared history and relatively homogeneous value system, which creates a sense of belonging to the cluster; bonds of trust; the formation of networks; the exchange of tacit knowledge through interaction; cooperation among competitors; the emergence of supporting institutions; government involvement in regulation and development of key industries. These characteristics favor the internationalization process of the cluster.

Specific conditions, however, were required to get local companies to internationalize. Aside from the exceptional (albeit isolated) performance of the Aurora Cooperative, which lasted almost until the end of the 1990s, companies in the cluster had virtually no international presence until the early 2000s. In fact, only after almost fifty years of Aurora being involved in international activities, did other companies in the cluster make their first significant exports, in the midst of structural changes in the Brazilian economy and increasing international competition. During this period, efforts took off to form Wines from Brazil, aiming to facilitate the development of international activities.

Also in the 1990s, a few companies initiated strategic alliances, joint ventures and direct foreign investment. These activities, rather than demonstrating the conquest of foreign markets, were the result of the need to compete in the domestic market with imports (since the wines are exported to Brazil). However, although some companies do make wine abroad, none of them had, in 2009, their own winery located in a foreign country. The vinification process was handled abroad through leasing arrangements or partnerships with already operating foreign wineries.

Lazerson and Lorenzoni (1999), Camuffo (2003) and Guerrieri and Pietrobelli (2004), among others, highlight the role of leading companies in clusters, which inspired the internationalization of the others. In analyzing the internationalization trend of Serra Gaúcha wine cluster companies, two distinct leaders can be identified. Cooperativa Vinícola Aurora was the first winery to export Brazilian wine, thus demonstrating the existence of a market. At the turn of the century, Miolo – while taking a different approach from that previously conducted by Aurora – made significant efforts to internationalize, and this also had a strong influence on the cluster. Casa Valduga can be characterized as a follower, even though it did undertake some important actions that served as inspiration to other companies in the cluster. Each of these three companies acted as a flagship firm at different times during the history of the cluster. While Aurora, with its solitary international trajectory, provided indicators of a possible path to internationalization, Miolo, and to a lesser extent, Casa Valduga, exemplified leadership and cooperation, showing a new potential trajectory to conquer foreign markets.

Aurora's contribution can be analyzed from various angles. On one hand, Aurora showed the cluster not only that it was possible to export, but that exporting could be performed in large volumes to developed markets like the United States and England. On the other, the canceling of export orders amidst the financial crisis seems to have engendered important managerial knowledge, not only for Aurora, but for all companies in the cluster. The result of this experiment made other companies realize the seriousness of the problems that international exposure can cause when development of overseas markets is not undertaken in a structured way. There is also evidence that the disaster experienced by Aurora has increased the perceived risk of local entrepreneurs with respect to international activities.

With respect to Miolo, the company sought to develop not only itself, but also to stimulate the development of other wineries in the cluster. Although initially a follower, Miolo showed the cluster a new model, different from the trajectory followed by Aurora. During this process, Adriano Miolo played a key leadership role in the reconfiguration of the cluster. For example, between 1995 and 2002, he gave technical advice to Serra Gaúcha, Casa Valduga, Don Laurindo, Dom Cândido and Dal Pizzol, through his brother Fabio's consulting business. Additionally, he joined Juarez Valduga in the setting up of Aprovale, in an initiative to build up the region's competitiveness by improving the quality of local wines and investing in the region's wine-tourism potential. It is possible that Miolo's greatest contribution to the cluster, as current leader of its development and internationalization, lies in offering a new paradigm, replacing the previous one, unveiling a new path to internationalization to be followed by other companies in the cluster. This contribution enabled the cluster to escape a possible path dependence, showing, as indicated by Ferreira, Tavares and Hesterly (2006), that there is room for innovation and adaptation to change.

It turned out that the cluster wineries were able to learn from the international experience of other firms, as noted by Bonaccorsi (1992), Gemser, Brand and Sorge (2004) and De Beule, Van den Bulcke and Zhang (2008). This learning occurred in two distinct ways, through which the wineries shaped their expectations and aspirations regarding international activities and managed to overcome the perceived risk in internationalization. The first, made possible by geographic proximity, was based on the direct interpersonal exchange of information on opportunities in foreign markets, consumer trends, modes of entry barriers to export etc. with other wineries, particularly those with more international experience. In this sense, the formal and informal exchanges of information within the ambit of Wines from Brazil have played a key role. In fact, the project sought to stimulate this learning through the sharing of the experiences of certain wineries in the cluster, such as Miolo and Aurora. Such experiences could have been seen as a strategic resource to be protected; however, sharing was favored instead due to the relationships of trust in the cluster, as noted by Iglori (2001), and the perception that only by uniting could they develop the Wines of Brazil brand internationally. These efforts sought to position Brazil as a winemaking country, projecting a common image. Go-it-alone strategies, according to the perceptions of business leaders who formed the consortium, simply did not constitute a viable form of internationalization for the small Serra Gaúcha wineries. The adoption of this strategy, it should be noted, was not mandatory. As Hickton and Padmore (2005) noted, in their analysis of two Canadian wine clusters, while one chose to build a nation-based image, the adopted strategies based on projecting local brands.

It should be added that other circumstances also encouraged the wineries to cooperate, as proposed by Meyer-Stamer (1998). Also driving the cooperation was the then unfavorable context, i.e., large stocks of fine wines, competition from imports, high taxation on domestic wines, etc. In line with Lazerson and Lorenzoni (1999), cooperation also seems to be a function of cultural homogeneity and the relationships developed over time; however, for relationships to turn into economic actions, the involvement of entrepreneurs such as Juarez Valduga and Adriano Miolo was required.

Finally, we cannot overlook the timely work of government agencies and business associations in support of existing structures and leaders, thereby providing a subsidiary support – but one recognized by cluster members as being important, nonetheless.

The Serra Gaúcha wine cluster bears out the view of Iglori (2001) that the strong relationships between firms in a cluster makes the alternation of situations of competition and cooperation inevitable. It was confirmed that the national wine market is traditionally marked by competition, although there may be an initial move in the cluster toward promoting cooperation in the domestic market. Competition in the industry favored the adoption of innovations by cluster firms, in a kind of isomorphic behavior, as noted by Maskell and Malmberg (1999), Iglori (2001) and Ferreira, Tavares and Hesterly (2006). As pointed out by Porter (1998), competition and cooperation occurred simultaneously, but along different dimensions (the domestic and the international markets). However, competition in the domestic market did not always prove beneficial to the cluster. For example, it hindered the articulation of national firms in battling against the competition from imported wines in the domestic market.

Concluding Remarks

The case study method does not allow generalization of results beyond the case studied. Thus, the results of this study are limited to the case of Serra Gaúcha wine cluster and cannot be extrapolated to other clusters. They may, however, aid in the understanding of other cluster developments and serve as a comparative reference to other studies.

Cooperation played a key role in the internationalization of the cluster studied. The case of the Serra Gaúcha wine cluster is thus paradigmatic, since it clearly shows the impact of cooperation in the internationalization of firms in a cluster. Without cooperation, the firms probably would not have achieved the recognition and penetration already achieved in foreign markets.

The internationalization of firms in the cluster studied is still underway. There is still much growth potential that can be exploited in the future. In particular, direct foreign investment has just begun. At first, companies looked to foreign investment to protect their share of the domestic market, exporting wines produced abroad to Brazil. However, these first steps of international production can either hit a ceiling, limiting the firms to defensive strategies to maintain market share, or be the seed that fuels soaring growth. Pros of the first scenario include the potential expansion of the Brazilian market – still very attractive – and the fact that most of the firms in the industry are small or medium-sized family businesses. In favor of the second alternative, however, arguments include the finite area of terroir suitable for growing fine wine grapes in Brazil, and the development of an international mind-set, as companies move forward in their internationalization process. The existence of alternative models of internationalization in the cluster, encompassing a variety of modes of entry, operation and ownership, suggests, furthermore, that companies are not locked into a single path to internationalization (path dependence) as a function of isomorphic behaviors, which could cause the cluster to flounder, or even fail.

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