

Vertical integration and the development of commercial wine production in Argentina, Australia and California, c1870-1914.¹

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Despite the interest by the early European settlers, commercial wine production in the New World only developed in the late nineteenth century in response to growing urban demand, improved transportation and new wine-making technologies. By 1914 the industry was well established in a number of countries, and contemporaries noted that it had developed in very different ways to that in the Old World. In particular, the new large-scale wineries were dependent in a way they were not in Europe on specialist grape producers; wine producers were much more involved in marketing; and wines were often sold under brand names. Important differences also existed among New World producers themselves, especially with respect to the marketing and distribution of wine. In California a handful of merchants created a hierarchical organization, integrating horizontally and vertically, and investing heavily in advertising and brands to sell to distant consumers. This producer's organization, the California Wine Association, controlled at one time about 80 per cent of the State's wine sales, making it one of the world's largest wine businesses. By contrast a British importer, Peter Burgoyne, created a buyer's organization that distributed two thirds of Australian exports. Finally the Argentine industry was dominated by a dozen or so wine-makers which had only limited success at creating brands and integrating forwards into marketing. These firms, however, sold huge quantities of wine in a market where annual per capita consumption reached 60 liters by 1914, compared to just two in the United States and five in Australia.

This paper explains why these organizational differences appeared. Section one looks at some of the different theories to explain why firms integrate vertically rather than rely on market transactions. It looks at the nature and degree of asset specificity found in the wine industry, and discusses the differences between producer-driven and buyer-driven commodity chains. Section two begins by outlining the nature of traditional viti-viniculture, and the exogenous changes that occurred over the period between 1870 and 1914 which encouraged the rapid growth of the New World industry. The appearance of specialist growers in the region can be linked to the excellent growing conditions for grapes, which allowed for better quality fruit that kept longer,

¹ A working paper will be available in early March.

and the possibility to harvest over longer periods of time. This, together with the growing economies of scale found in wine-making, changed the relative asset specificity of the vineyard and winery, thereby allowing for specialist growers.

Sections three and four look at California and Australia, two economies that combined New World production characteristics, but where beer and spirits were consumers' alcoholic beverages of first choice rather than wine. One consequence of the new wine-making technologies was that large quantities of homogenous, good quality table wines could be produced, - an essential first step if they were to be marked under a brand name, rather than just *vin común*. The large San Francisco merchants cornered the market and became virtually the sole suppliers of table wines when they successfully frustrated attempts by the smaller wine-makers to create a trust themselves, and supply the East Coast merchants directly. By contrast Australian producers failed in their efforts to remain independent of British importers, and Burgoyne in particular. The South Australian government sponsored wine depot in London had only limited success, while the Victorian government's proposals to establish one came to nothing. Finally, producers in Mendoza, who accounted for over 70 per cent of Argentina's output in 1914, benefitted from strong domestic market demand created by an immigrant population that came mostly from wine producing counties (essentially Italy, Spain and France). However, these consumers were much less interested in quality than price, making it difficult to brand wines. As a result, firms such as Tomba or Giol y Gargantini, which each produced the equivalent of all Australia's exports, had weak brand loyalty. The paper concludes that the nature of market demand was crucial in explaining the organization of the commodity chain, and in particular the nature of co-ordination between grape produces and wine-makers, and wine-makers and merchants. Import substitution was crucial to explain growth from the late nineteenth century, but only Australia looked to export.