Discussion of Macchiavello (2011):

Development Uncorked: Learning About New Chilean Wine Exporters in the UK

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The paper

Objective
- Explore the empirical relevance of reputation as a determinant of export success

Strategy
- Develop theoretical model of learning about firms and matching
- Test predictions using data on relationships between Chilean wineries and distributors in UK

Results
- Reputation matters – effects on FOB prices and matching patterns

Implications
- Importance of access to finance; externalities
The evidence

Relationships between Chilean wineries and UK distributors:

- FOB prices increase with relationship’s age
  - Robust across various specifications
  - Effect is quantitatively significant (about 3% per year), decreasing with age, and more pronounced in first relationship

- Probability of breakup increases with relationship’s age

- Distributor in second relationship has longer lasting relationships and pays higher prices
The story

- There are good (low variable cost; high opportunity cost) and bad distributors – observable

- There are reliable and unreliable wineries – unobservable

- Success of transaction depends on winery’s reliability – learn about winery from past history

- Over course of relationship, belief that winery is reliable (i.e., reputation) is increasing
  \[\Rightarrow\] Price paid to winery increases
  \[\Rightarrow\] Winery eventually switches to good distributor
My comments

Important question

Great data

Rich and thoughtful analysis

Relevant and interesting results

But...
My comments

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My comments: Reputation story?

- Is this about the market learning about the winery’s reliability?

- Model implies:
  - Unsuccessful transaction reveals winery is unreliable
  - Relationship with distributor then ends and winery exits market
  - Probability of breakup due to unreliability falls with relationship’s age

- Data shows:
  - Very little exit of wineries
  - Exit concentrated in a few years and hence likely to be caused by common factors (Argentine competition after devaluation?)
  - Probability of breakup? Model implies could go either way!
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Figure 1 reports the number of Chilean wineries entering, exiting and exporting to the UK market in any given year (Source: author's calculations from Harpers Directory and other sources).

![Number of Chilean wineries entering, exiting, and exporting to UK](image)
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Can show evidence—exit, prices, volumes, or maybe anecdotal evidence—that some wineries are revealed to be unreliable?
My comments: Other stories?

Age effects on prices not accounted by/consistent with other stories:

- Learning about the match? Or declining distributor’s costs?
  - No: probability of breakup should go down with relationship’s age

- Learning about distributor?
  - No: should observe no effect for distributors established long ago

- Learning about winery’s product in retail market?
  - No: effect stronger for branded wines but age effects still significant

- Upward shifts in supply?
  - No: export volumes should go down with relationship’s age

- Improvements in product quality?
  - No: positive effect on prices but age effects still significant
My comments: Other stories?

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- ...maybe wineries learning to be reliable over course of relationship?

- Consistent with
  - FOB prices increasing with relationship’s age
  - Increase in prices getting weaker over time and in second relationship
  - Breakup and re-matching with distributors
  - Export volumes increasing with relationship’s age
  - No unreliable wineries
More comments

- Can we better understand why relationships break down?
  - E.g., are breakups in first year of the relationship mostly due to exogenous reasons, unreliability, or re-matching to better distributor?
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- Why Chilean wines and not Argentine wines?
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Why Chilean wines and not Argentine wines?
  • Oh, got it: wanted quality heterogeneity – Argentine wines are consistently good :-}


Thank you!