Brands and the Evolution of Multinationals in Alcoholic Beverages

1.4 European Multinationals – from national champions to international competitors

Competitive paper

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A vast body of literature considers ownership specific advantages of the multinational corporation such as technological and marketing skills to be fundamental for its successful foreign market entry and long term survival. However, these studies do not analyse systematically differences between brands and technology.

This paper argues that brands and marketing knowledge may also provide a fundamental understanding on the entry strategies of firms in foreign markets and on their international evolution as a whole. Drawing on historical evidence collected on a group of the largest alcoholic beverage firms worldwide between 1960 and 2000, and on a schematic representation created to explain the role of brands in their international expansion, it addresses entry in foreign markets through globalisation of brands, and analyses the patterns of knowledge transfer within the multinational corporation.

Key words: brands, multinationals, alcoholic beverages, marketing knowledge.

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INTRODUCTION

There is a vast body of literature on the growth and internationalisation of the multinational corporation, which considers ownership specific advantages such as technological and marketing skills to be fundamental for its successful foreign market entry and long term survival (Casson, 1986; Caves, 1971; Chandler, 1990; Dunning, 1981, 1995; Hirsh, 1976; Horst, 1972; Rugman, 1981; Penrose, 1959). These studies pay a lot of attention to technological leadership and knowledge, while brands and marketing knowledge are only discussed within the context of ownership advantages of firms. As a result, differences between brands and technology such as those relating to the patterns of knowledge transfer within the firm, have not been systematically analysed.

The argument of this paper is that brands and marketing knowledge (i.e. the capability to manage brands and distribution networks) may also provide a fundamental understanding on the entry strategies of firms in foreign markets and on their international evolution as a whole. For that purpose, it draws on some concepts from Penrose's (1959) *Theory of the Growth of the Firm* and Johanson and Vahlne (1977) stages model on the internationalisation of the firm. Whilst Johanson and Vahlne's (1977) framework does not address directly entry in foreign

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markets through globalisation of brands, there are distinguishing features in that process. This paper addresses those features drawing on historical evidence collected on a group of the largest alcoholic beverages firms worldwide between 1960 and 2000, and on a schematic representation created to explain the role of brands in their international evolution. This evolution is considered to have occurred in stages, corresponding to the waves of mergers and acquisitions in the industry.

This paper is structured in five sections. Following the introduction, the second section analyses the changing patterns of demand, supply and institutional environment which impacted on the evolution of firms from the 1960s. The third section provides a review of the major acquisitions by the largest alcoholic beverages firms which resulted in merger and acquisition waves. The fourth section analyses and presents a schematic representation on the role of successful brands in the evolution of a standard large multinational in alcoholic beverages and shows the increased importance they played in that process. Finally, there is an assessment of the major implications of this study.

The role of brands and technology

The concept of brand can be interpreted in many ways (Chernatony and McWilliam, 1989). In this study it is considered as a fundamental resource of firms and not just as synonymous with trademarks, and is defined as a legally defensible proprietary name, recognised by some categories of consumers as signifying a product with specific characteristics. As such a brand may be regarded as an intangible asset, unique to the firm at any one moment of time, with its own personality, built over time, which can be embedded in a particular culture or associated with a particular set of values, and with an economic value associated with the investments made to build its reputation (Aaker, 1996; Balasubramanyam and Salisu, 1994; Casson, 1994: 56; Wernerfelt, 1984).

A successful brand is perceived by the buyer or user as having unique value added which matches his needs most closely (Aaker, 1996). Furthermore its success results from being able to sustain this value added in the face of competition, even in those cases where the product to which it refers is in fact similar (such as the case for whiskies with similar blends although with different brands).

This phenomenon of the relevance of brands in the evolution of firms can also be analysed in other industries from those where they are normally regarded by business and management literature as central such as cosmetics, bottled water, tea or alcoholic beverages, to those such as consumer electronics where technological innovation is usually considered to be more relevant (Jones and Morgan, 1994; Tedlow and Jones, 1993; Ward *et al,* 1999; and Wilkins, 1992).

The advantage of analysing brands within the context of the alcoholic beverages industry is that it highlights their role in a particularly pure form because of the relatively low level of technological innovation of products (Kay, 1993: 299), the extended life cycles they may have (Feldwick, 1991: 19) and their early internationalisation. Some brands developed as international since their creation (whisky, gin, port wine and champagne, for example, were sold in the British colonies from the nineteenth century), but most only became global from the 1980s, with their acquisition by the largest multinationals.

Although brands have exercised a major influence in the evolution of firms in alcoholic beverages, they have not been completely devoid from innovations in technology. Following the Second World War, and particularly since the 1960s, a wide range of technological innovations in the production of wines, spirits and beer, impacted on the growth of firms (Unwin, 1991: 344). One example was the influence the development of pasteurised keg beers had on the evolution of the brewing industry (Gourvish and Wilson, 1994; Reader and Slinn, 1992). This gave brewers a product that lasted longer and permitted therefore a wider geographical distribution, as well as additional economies of scale which had not been possible previously. Another example is the expansion in international demand for wines from the New World, which had started in the interwar years and had boomed from the mid-1980s (Merrett and Whitwell, 1994). Unlike in the Old World, firms in the New World developed technologies which allowed them to control the taste and quality of wines, as well as offer very similar tastes for the same brands every year irrespective of climatic conditions.

The sample of firms and the sources of information

This paper uses a sample of multinationals which ranked as the largest industrial firms worldwide in alcoholic beverages after 1960. In order to select the sample of firms and apply the financial and economic indicators described below, five benchmark dates were used – 1960, 1970, 1980, 1990 and 1999 (Lopes, 1999a).

The firms were selected according to two criteria: size, as measured by sales, capital employed, net earnings, number of employees and market capitalisation; and international activity, as measured by value of foreign assets – used as a proxy for FDI - and percentage of foreign to total sales. This has a number of implications. The criteria relating to the internationalisation of firms eliminated from the sample some very large companies which served primarily their domestic markets. There is, in other words, a bias against firms from large economies such as the US and Japan because they are likely to have disproportionally smaller international businesses. These firms make an interesting contrast which will be explored in a forthcoming paper (Lopes, 2000). Examples of such situation include Anheuser-Busch, the leading North American producer of beer, owner of the famous brand Budweiser, and Kirin Breweries, the Japanese firm founded in 1907 and leader in the domestic beer market since 1954 (Kirin – *Annual Reports and Accounts,* 1966, 1999). In addition, brewing has been and largely remains a regionalised business, so large European brewers such as Bass and Whitbread are excluded.

According to these criteria, the multinationals with global activity that emerged as the largest within the alcoholic beverages industry during this period were Allied Domecq, Distillers Company (Distillers hereafter), Grand Metropolitan, Guinness, Hiram Walker, Moët-Hennessy Louis Vuitton (hereafter Moët-Hennessy) and Seagram. Although they had extremely diverse product origins in, respectively, beer, sherry and brandy, Scotch whisky and gin, hotels and real estate, Irish beer, Canadian whiskey, champagne and cognac, and again Canadian whiskey, this study focuses essentially on related product diversification across different business segments (Vachani, 1991) within the international alcoholic beverages industry. By 2000 only two of these firms existed in their original forms, although the remainder formed components of other firms, while Seagram having been acquired by the French water and media firm Vivendi was in the process of being dismembered.

These firms, especially those from the UK, France, the US and Canada, led the four waves of mergers and acquisitions which to a great extent coincided with the merger waves in the world economy. These waves which transformed the world alcoholic beverages industry from the late 1950s are identified in Table 1, as well as the firms that participated in them.

Some caution should be exercised regarding the financial data in Table 1. The amounts given include the acquisitions of all the businesses in which the companies were involved at the time. Thus Vivendi's acquisition of Seagram in 2000 for £22,7 billion includes the entertainment and media businesses as well as wines and spirits, estimated to be worth £4-£6,7 billion (Voyle, 2000; Owen and Harding, 2000). Nevertheless the increase in the volume of the transactions in real terms (1990=100) may provide a reasonable indicator of concentration in the alcoholic beverages industry in the absence of satisfactory quantitative means of measuring concentration (Lopes, 1999b).

TABLE 1 – MAJOR MERGERS AND ACQUISITIONS IN THE ALCOHOLIC BEVERAGES INDUSTRY, 1960-2000
(amounts stated in million current pounds, and constant (1990=100) pounds)

Merger wave	Year	Companies involved	Amount (current)	Amount (1990=100)
1958-1962	1958	Watney Mann - merger between Watney Combe Reid and Mann, Crossman & Paulin	n/a	n/a
	1961	Allied Breweries - merger between Ind Coope Tetley Walker and Ansells Brewery (*)	n/a	n/a
	1961	Showerings,Vine Products & Whiteways - merger of the three companies	n/a	n/a
	1962	IDV - merger between Gilbey with United Wine Traders	n/a	n/a
1968 -1972	1968	Allied Breweries acquires Showerings (*)	100	763
	1971	Grand Met acquires Truman	39	242
	1971	Moet-Hennessy - merger between Moet & Chandon with Hennessy	n/a	n/a
	1972	Watney Mann acquires IDV	77	448
	1972	Grand Met acquires Watney Mann	378	2.198
1985-1988	1985	Guinness acquires Bell's	332	443
	1986	Guinness acquires United Distillers	1.464	1.887
	1986	Allied Lyons acquires Hiram Walker (*)	1.200	1.546
	1988	Seagram acquired Martell	20	24
	(1994)	Allied Lyons acquires Pedro Domecq (*)	825	722
1997-2000	1997	Diageo - merger between Guinness and Grand Met	n/a	n/a
	2000	Vivendi acquires Seagram	22.700	16.865

Source: *The Times 1000* (various issues). For the UK price index (1990=100) – IMF (1988, 1998); European Economy (1999).
n/a – not applicable

This paper draws on confidential business archives, interviews with executives and a wide range of secondary sources.

THE CHANGING PATTERNS OF DEMAND, SUPPLY AND THE INSTITUTIONAL ENVIRONMENT IN ALCOHOLIC BEVERAGES

The merger waves that occurred in the alcoholic beverages industry, especially in the United States and the United Kingdom, were in particular influenced by the changing patterns of supply, demand and the institutional environment.

The United Kingdom, although not one of the countries with the highest per-capita consumption of alcohol, has been the origin of many of the world's largest alcoholic beverages firms during the twentieth century including United Distillers, Allied Domecq, Grand Metropolitan, International Distillers and Vintners, Showerings, Gilbeys and Harveys. The reasons why British firms have such sustained competitive advantage in the industry can be speculated, but include the country's large domestic resource base in the production of beer and spirits, its home to the whisky and gin industries which turned out to be two of the most ‘globalised’ spirits (Brazier, 1999), and the country’s colonial heritage which means that many of its firms had early and extensive experience with exporting and direct investment. abroad.

The United States, though neither a historically important consumer of alcohol in per-capita terms nor the home of the largest multinationals of alcoholic beverages, has always ranked as an important market in absolute terms due to its large size. It has served as the basis for the growth of large foreign multinational companies such as Bacardi, Seagram and Hiram Walker, the first one originally from Cuba and the last two from Canada. US-owned firms were probably handicapped in developing large international businesses by Prohibition and its legacy, which provided so many opportunities for the Canadian firms in particular.

Consumption

After the Second World War rising disposable incomes, the increase in the number of young people with a higher level of education, and the changes in the lifestyles of the population in the Western World, affected the patterns of alcohol consumption in several ways. As consumers became wealthier they did not simply increase their spending in like proportions but turned to new areas of expenditure, thus leading to a relative decline in some industries and a rapid growth in others (Channon, 1973: 23). Among other habits, they valued leisure time, travel and alcohol consumption.

Before the 1960s habits of alcohol consumption were culture-specific. Each country consumed predominantly one type of alcoholic beverage (wine, beer, or spirits), usually domestically produced. This was particularly true in the wine-producing nations such as France, Italy and Portugal, and in the beer producing countries such as Germany and Holland, where habits of alcohol consumption dated back to centuries (Unwin, 1996). However the creation or re-creation of the global economy from the end of the 1960s (Jones, 1996), helped to boost consumption of alcoholic beverages in the Western World by diversifying products, geographical markets and types of customers (with different age, sex and level of income) (Wilkins, 1994: 33; Gourvish and Wilson, 1994: 455). There was a marked homogenisation in markets as wine-producing countries drank more beer and beer producing countries drank more wine (Lopes, 1999a).

The increase in the availability of different types of alcoholic beverages led consumers to shift to new types of products, believed to be more appropriate to their lifestyles, at least as projected in the advertising and marketing strategies of the beverages firms. For example in the UK, the once very large imports of Guinness from the Irish Republic, started slipping steadily over time as imports of lager beer increased, especially Heineken and Carlsberg lager, which were later brewed under licence at breweries in the UK (Gourvish and Wilson, 1994: 453-54). This shift in consumer tastes towards light ales caused Guinness to introduce new types of beers and to diversify geographically and into unrelated businesses (Gourvish and Wilson, 1994: 458; Guinness – *Annual Reports and Accounts*, 1961-1970).

There was also a change in the age profile of the population, as the 'babyboomers' reached drinking age (Gourvish and Wilson, 1994: 455; Street, 1991), and sought to sample new products, different from what their parents had been drinking. An example was Harveys Bristol Cream, a brand created in 1882, which until the 1960s was drunk by adults in Britain after meals on special occasions. After the acquisition of Harvey's by Showerings in 1966, a more aggressive marketing strategy successfully positioned the brand as something to be drunk by younger generations in pubs (Unwin, 1996: 330; Briggs, 1985: 130-132; Interview with Mark Casson, Reading, 29-6-2000). This proved a temporary phenomenon as the subsequent acquisition of Showering by Allied Breweries in 1968, which had competing products, led to the collapse of the sales of this brand (Interview with Michael Jackaman, Sussex, 19-6-2000).

More significantly, in Britain supermarkets played a key role in stimulating wine consumption by overcoming the elite image of wine, not only by providing cheaper wines to consumers, but more crucially by providing information about wine and its appropriateness to particular types of food. Later specialist distributors such as Oddbins, acquired by Seagram in 1984, weaned middle class British consumers off consumption of French and German wines by introducing them to New World and other wines.

The increase of consumption by women was also an important phenomenon, which affected the character of competition in many product segments. This was the period of liberation for women, symbolised by the birth control pill, but also by the growing number pursuing careers their homes and consequently having greater access to financial resources. While traditionally only men (or at least, no 'ladies') had gone to pubs or their equivalents in many countries (or not respectable ladies), from this period it became usual for women to be seen in pubs socialising (although the type of drinks they had were different from those of men). In Britain pubs retained a predominately 'male macho' image, but there was a spread of more female-friendly 'wine bars' beginning in the wealthy Southeast region of that country. Babycham, a cider made of pear which was created in 1953 (Briggs, 1985: 130-31), became the popular new drink of the 1950s due to its television advertising and to the way the product was positioned: 'mill girls champagne' (Interview with Valerie Jackaman, Sussex 19-6-2000). It was distributed essentially within the UK and sold in pubs to young ladies. For drinking Babycham, Showerings also provided special glasses which looked like champagne glasses and made women feel very distinct. Its consumption decreased sharply from the 1970s due to the changes in consumer fashions and to the widespread consumption of other drinks by women, such as Martini and beer with lime (Interview with Michael Jackaman, Sussex 19-6-2000).

From the 1980s absolute consumption continued to grow, but in per-capita terms it stagnated. This was evident in the biggest markets in per-capita terms - the wine producing countries of southern Europe, such as France and Portugal, and the northern European beer producers such as Denmark and Belgium.[i] This stagnation was in part related with the higher levels of education by consumers who became more concerned with quality of wines, and also with health issues. However along with this maturing of consumption in the Western World, there was a dispersion in the consumption of alcohol into the emerging markets of Southeast Asia, Africa and Latin America. For example, in Thailand, where either water or beer was normally consumed with meals, the economic boom of the early 1990s led to a very fast growth of wine consumption, although this fell away following the financial crisis beginning in 1997. This spread of Western-style alcohol consumption patterns was greatly facilitated by firm strategies designed to compensate for the maturing markets of the West.

This period from the 1980s was also characterised by a growing homogenisation in terms of the mix of alcoholic beverages consumed worldwide, in terms of wine, beer and spirits.

Competition

If it is true that multinational investment influenced the patterns of alcohol consumption worldwide (Lopes, 1999b), it is also true that changes in demand affected the level of competition in the industry and the strategy of firms.

The merger and acquisition waves which started in the late 1950s were characterised by the creation of large publicly quoted companies in Britain and France competing essentially at a domestic level and produced a single type of product (beer, wine or spirits) but had a portfolio of successful brands. Until the early 1980s competition was essentially played at a domestic level or between countries that were culturally and geographically close. For Allied Breweries, formed in 1961 in the UK as a result of the amalgamation of three brewers, its main competitors were other British breweries like Bass, Scottish Newcastle, Whitbread and Watney Mann. Similarly, for the two French companies Moët & Chandon (a champagne house), which merged with Hennessy (a cognac house) in 1971, had as their main competitors other champagne houses like Perrier Jouët or G. H. Mumm and cognac houses like Martell and Courvoisier.

During the 1980s, with the globalisation of markets and the stagnation of per-capita consumption, competition started to be played at a multimarket level. Mergers and acquisitions of firms which owned successful brands became key strategies aimed at achieving success in this new situation. The larger firms tried to reach more customers in markets culturally and geographically distant, and appropriate more value added, by acquiring firms which would increase the availability and diversity of their portfolio of branded drinks, and also aimed at acquiring firms with distribution channels which would allow a penetration in those markets.

The smaller firms, which did not merge with nor were acquired by other firms, specialised in specific niche markets with usually a single brand, relying on other companies to distribute their products. The case of Absolut, a vodka brand produced since 1879 in Sweden by Vin & Sprit, is a classic example of that strategy. The introduction of Absolut in the USA in 1979 by its distributor Carillon Importers Limited, changed the fate of this brand, originally from a country lacking in perceived vodka heritage (Hart and Murphy, 1998: 129), and which had previously only been sold in its home country (Troester, 1994: 4-7; Hamilton, 2000). This success can be attributed especially to a strong marketing campaign by its US distributor, as well as to the political context of the Cold War between the United States and the Soviet Union, which limited the potential sales of Russian vodka (Interview with James Espey, Wimbledon, 3-12-1999). By 1986 Absolut was the top seller in the imported vodka category in the United States (Troester, 1994: 4-7).

During the 1990s, despite the intensification of competition as a result of the concentration in the industry, there was simultaneously a movement towards alliances of competing firms, paralleling developments in other industries. This trend was visible with the increase in the number of joint ventures created to spread distribution costs in some markets. These joint ventures which developed essentially from the mid 1980s involved big multinationals such as Allied Domecq with taking local companies such as Suntory as partners, and also spread into competing firms such as the cases of Guinness with Moët Hennessy in some markets; where by marketing complementary brands they shared distribution costs (Interview with Colin Campbell, Paris, 22-11-1999).

Institutional environment

There were two groups of forces in the institutional environment which, from the 1960s, affected the alcoholic beverages industry. One group facilitated its growth, the other inhibited it. Among the first group were the developments in technologies that improved the capturing of scale economies which translated into more effective distribution of some alcoholic beverages (Gourvish, 1994: 255), in information systems (which enhanced communications and decision taking by firms), in basic infrastructures such as highways (which helped reduce transport costs), and in logistics associated with the distribution of products and their availability to consumers. The main inhibitors were the changes in legislation and the fiscal policies in most Western countries.

Logistics and distribution were the factors which experienced more radical changes during the period of analysis. At the heart of these changes was the concentration in distribution and the revolution in wholesaling. In many countries, the major intermediary between the producer and the retailer was traditionally the wholesaler, who made bulk purchases from producers and distributed them to retailers. From the 1960s the wholesaling sector became progressively more concentrated at a regional or state level in some countries such as the United States, while in Europe the role of the wholesaler was increasingly bypassed by the retailers who entered into direct marketing relationships with producers. This small group of large retailers, such as Sainsbury (UK) and Carrefour (France), developed very fast, selling a wide range of consumer products straight from the racks, frequently used their own private labels, operated directly with the producers (thus eliminating the role of the wholesaler), and sold products at great discount.

Beyond supermarkets, another development which occurred at the retail level during this period was the widespread growth of specialist outlets selling only alcoholic beverages (such as the UK's 'off-licenses' and their counterparts elsewhere), either owned by local entrepreneurs, state monopolies (as in the case of the Scandinavian countries) or multinational producers of alcoholic beverages that wanted an outlet for their own brands.

In the UK the revolution in distribution was in part related to the decrease in importance of pubs as means of distribution of alcoholic beverages, due to the Licensing Act of 1961, which enabled off-licence shops to open during normal shop hours (not just during 'permitted hours' determined by local justices); and to the end of resale price maintenance, which in 1965 increased competition between the different retail outlets (Briggs, 1985: 160).

In France the concentration of the retailing industry which also took place from the 1960s, greatly reduced the number of players in the industry, characterised until then by a high level of fragmentation (Clairmonte and Cavanagh, 1988: 176).

The most important changes in legislation which inhibited alcohol drinking were those related with drinking and driving, and the fiscal policies established to restrict its consumption in order to minimise its harmful effects and to shift consumption away from higher to lower alcohol content beverages (Dewar and Collins, 1992). Within the European Union, however, a counter-trend was the movement to harmonise prices and taxes on alcoholic beverages between member states, which had the effect of dramatically reducing the prices of wines in particular in northern Europe in line with the lower prices in the south.

CONSOLIDATION PERIODS IN ALCOHOLIC BEVERAGES

During the period of analysis the configuration of the industry changed significantly. Traditionally it was formed by a large group of small and medium sized firms, family owned, which usually had a single product and a small portfolio of brands, and operated in restricted geographical regions. From the 1960s the industry became increasingly concentrated as a result of several waves of mergers and acquisitions and sought scale economies in at a plant level, in marketing and in distribution. Concentration in this study is defined as the degree to which a relatively small number of firms account for a significant proportion of output in the alcoholic beverages industry.

Concentration was also closely associated with a search for access to a greater number of markets by formerly domestic-oriented firms, and resources, particularly additional marketing knowledge with the acquisition of firms owners of successful brands. Naturally, different variables were more important in some time periods than others. Moreover, different parts of the alcoholic beverages industry were affected by concentration at different times. The process began in brewing, was then followed by spirits and wines, and subsequently there was a convergence between all sectors. However, throughout the period of analysis brands always played a prominent role.[ii]

In this evolutionary process many firms disappeared, being substituted by a group of large multinationals managing a wide portfolio of brands from different types of alcoholic beverages, and with a global spread of their geographical operations.

Given the pre-eminence of UK-based firms in alcoholic beverages, it was natural that they would follow the general patterns in the market for corporate control seen in that country (Bishop and Kay, 1993). However there were also industry and product-specific factors at work.

The first period of concentration in the alcoholic beverages industry took place between 1958 and 1962 (see Table 1). It almost entirely concerned the British brewing industry (Channon, 1973; Hannah, 1983; Jones and Bostock, 1996), but there were echoes in other countries such as the Netherlands, involving smaller size firms (Sluyterman and Vleesenbeek, 1995: 63). During this period in Britain there was a series of major brewing mergers involving regional firms and also some wine importers. The most important creations of this period included Allied Breweries, a holding company formed to acquire the capital of Ind Coope, Tetley Walker and Ansells Brewery, produce three brands of beer (Double Diamond, Skol and Long Life), and distribute beer as well as wines and spirits, thus becoming Britain's second largest brewer (Ind. Coope Tetley Ansell Limited – *Annual Report and Accounts*, 1961). In addition, in 1962, a merger of spirits and wine merchants (United Wine Traders Limited) with a vodka and gin distiller (Gilbey's Limited) formed International Distillers and Vintners (hereafter IDV), producer and distributor of the famous Gilbey's gin, J&B Rare Scotch Whisky and Croft Port (International Distillers and Vintners Limited – *Annual Report and Accounts,* 1962), emerging as a major UK-based wines and spirits company. Apart from their strategic reasons of wanting to own successful brands, the other key influences on mergers between brewers in this period were external to the firms, and included the stagnation in per capita consumption of beer in Britain, technological developments in brewing which facilitated distribution across the different regions, the threat to the security of brewing firms from outside interests, and the scarcity of resources by some small firms to re-equip their plants and refurbish their outlets. IDV's creation had a different rational, which basically was to 'provide and strengthen organisation for the distribution of its brands' (IDV– *Annual Report and Accounts,* 1962). In the Netherlands, concentration was also due to rising production costs, resulting from (among other things) increases in wages, and the desire among a variety of firms to diversify their activities (Sluyterman and Vleesenbeek, 1995: 63).

The second period of consolidation followed in 1968-1972. Influences which affected mergers and acquisitions in this era included the worldwide growth in spirits consumption, and liberalisation of retail prices in a number of countries including Britain. In this country, Allied Breweries acquired a number of UK-based spirits firms which owned successful brands, including Showerings (owner of Babycham, Cockburn's Port and Harveys Bristol Cream), while Grand Metropolitan, formerly a hotel and leisure services firm, acquired a small regional brewer - Truman - in 1971 followed one year later by Watney Mann which had just acquired IDV. These acquisitions which had targeted the real estate and the catering business associated with the management of pubs in the case of Truman, and the expansion of the retail and distribution networks in the case of Watney Mann, changed the nature of Grand Metropolitan's business forever (Reader and Slinn, 1992: 51, 62). Although the original intention with the acquisition of Watney Mann had been the disposal of the IDV since it was not part of Grand Metropolitan's strategy at that time to be involved in the brands business, several circumstances led to a change of strategy (Reader and Slinn, 1992: 62). The promising prospects that the wines and spirits businesses were showing in the beginning of the 1970s in relation to beer, the collapse of the property market and the hotel industry, and the stagnation of tourism in the beginning of the 1970s, changed Grand Metropolitan's business activities, from hotels into wines and spirits (Reader and Slinn, 1992: 73, 76).

In France, the previously mentioned merger between Moët & Chandon (owner of a brand with the same name as well as two other champagne brands Mercier and Ruinart) with Hennessy, united France's biggest exporters of champagne and cognac respectively, allowing the two companies to take advantage of their similarities in terms of the 'personalities' of their successful brands and their geographical scope of operations, as well as to spread costs in distribution (*Records of Moët et Chandon, 1971*; Moët-Hennessy – *Annual Report and Accounts,* 1971; Refait, 1998: 172).

A striking merger attempt was between Allied Breweries and Unilever, Europe's largest consumer goods company, in 1968. Unilever, which already had investments in brewing through its joint venture (United Africa Company) in Nigeria with Heineken since 1945 (G. Jones, 2000: 316), at that time was considering entering brewing and also undertook several projects to develop branded wine products. However the merger proposal was unexpectedly referred to the UK's Monopolies Commission because of its size and potential impact on industrial concentration. By the time regulatory approval was gained, Unilever's share price had fallen sufficiently for the merger to be no longer considered commercially viable (Monopolies Commission, 1969).

The third period was 1985 to 1987. In 1985 Guinness, a specialist brewer, after having disposed all its non related businesses, acquired Bell's, a leading Scotch whisky company, followed by United Distillers (the world's largest Scotch Whisky and gin company, owner of various successful brands such as Johnie Walker, Dewar's, White Label and White Horse) in a celebrated case of corporate scandal in 1986 ('Letter from the Chief Executive of Guinness Ernest Saunders to the stockholders of Guinness and Distillers', 25-2-1986; S. Jones, 2000; Weir, 1994: 154; 'Distillers Company', 1988). With these acquisitions Guinness gained the dimension necessary to compete with the largest alcoholic beverages firms such as Seagram, Grand Metropolitan and Allied Lyons.

Also in 1986 Allied Lyons, the successor to Allied Breweries following the acquisition of the foods and retailing company J. Lyons in 1972, acquired Hiram Walker, a major Canadian spirits firm owner of several successful brands such as Canadian Club, Ballantines, Courvoisier and Kahlua, and well networked in terms of distribution in the North American market. Subsequently, in 1994, the Lyons business was sold and the proceeds used to buy Pedro Domecq, a Spanish brandy and tequila family firm which had a long-standing joint venture with Hiram Walker, with a large market share in Latin and owner of the brands Don Pedro, Presidente, Fundador and Sauza. The rationale for this acquisition was the interest Allied had in Domecq's brandy and tequilla brands and business in South America, and the need to appropriate the rest of the joint-venture network in Spain as a result of tax inefficiencies, which did not allow the procceding from their activity to be plough back to Britain (Interview with Michael Jackaman, Sussex 19-6-2000). This deal, which had found resistance from the Domecq family for some time, was finally agreed by the widely dispersed shareholders (Interview with José Isasi-Isasmendi y Adario, Madrid, 18-7-2000).

In 1987 Grand Metropolitan acquired Heublein, the US-based spirits firm. The main purpose for that acquisition was to get hold of the rights to the US for the very successful vodka brand Smirnoff (Reader and Slinn, 1992; interview with Tim Ambler, London, 12-7-

2000). In the same year, Seagram which after its many acquisitions of small firms before 1960 had, largely stood aside from major acquisitions of producers, acquired Martell, the French cognac firm which had a significant market share in the Far East. With this acquisition Seagram was able to globalise some of its successful brands which until then had only been sold in North America and Europe.

This wave of consolidation reversed the earlier trend in the 1970s for firms to diversify beyond alcoholic beverages, and was related to the general tendency in all industries to build scale in 'core' businesses. Access to foreign markets was also a major determinant as globalisation affected this industry along with many others.

Finally the years since 1997 have seen a further wave of consolidation. In 1997 Diageo was created by the merger of Guinness and Grand Metropolitan to form the world's biggest drinks company. The key factors here where not only the ownership of successful brands but also the rationalisation of costs in the context of maturing markets (Smith, 1997: 2). In 2000 Interbrew of Belgium acquired the brewing interests of the two British brewing firms - Whitbread and Bass – which together held 32 per cent of the British beer market and emerged as the second largest in the world after Anheuser-Busch. The British firms, under the relentless pressure of the British capital markets, preferred the higher returns available from hotels and leisure, leaving the family-owned Belgium firm to consolidate its position as Europe's largest brewer.

THE ROLE OF BRANDS IN THE EVOLUTION OF MULTINATIONALS OF ALCOHOLIC BEVERAGES

Drawing on the empirical evidence discussed above, this section presents a schematic representation on the evolution of the largest alcoholic beverages firms until 2000. Figure 1 is meant to illustrate the different patterns of ownership of large alcoholic beverages firms over time, which appear symbolised in several stages followed by a standard alcoholic beverages firm P_1. For that reason, this schematic representation does not aim to suggest or show that the industry evolved overtime into a monopoly, but rather at P_1 it grew from the leader in its domestic market to a globalised multinational.

This schematic representation focuses in particular on one type of growth strategy of firms – acquisitions. As in other industries in developed economies (Stopford and Wells, 1972; Wilson, 1980; Hennart and Park, 1993), this mode of entry was the predominant form of international expansion of alcoholic beverages firms from the 1960s. The use of mergers rather than acquisitions in this schematic representation would have led to similar patterns of ownership in the evolution of firms, since its aim is to explain 'what happened' to firms that became large multinationals and not 'how did it happen'.

Figure 1, which spreads in two pages, employs the conventions introduced in Buckley and Casson (1988) and refined in Casson (1995, 1996) and Buckley and Casson (1998), there are four columns, each one representing a different country. The two middle columns change with the evolution of firm P_1 (in stages). There are n countries, each one dominated by an alcoholic beverages firm. Countries from 1 to n-1 are culturally similar and geographically close. Country n is culturally and geographically distant from the other countries.

Production and retailing operations are symbolised by squares, general marketing knowledge by a circle, and specific marketing knowledge by triangles. Ownership of production or retailing is indicated by shading, otherwise these activities appear unshaded or with stripes. When ownership is shared in an alliance the square appears half shaded.

Flows of marketing knowledge are represented by single arrows and refer to two different types of knowledge. When they connect the unit in the firm which accumulates general marketing knowledge (M) with the unit which centralises the specific market knowledge about the brands and markets (*b*) they represent flows of general marketing knowledge. When they connect the unit with specific market expertise (*b*) with production operations (P) and with retail distribution units (R) (wholly or partially owned), they relate to flows of specific marketing knowledge.

FIGURE 1 – THE ROLE OF BRANDS IN THE EVOLUTION OF ALCOHOLIC BEVERAGES FIRMS

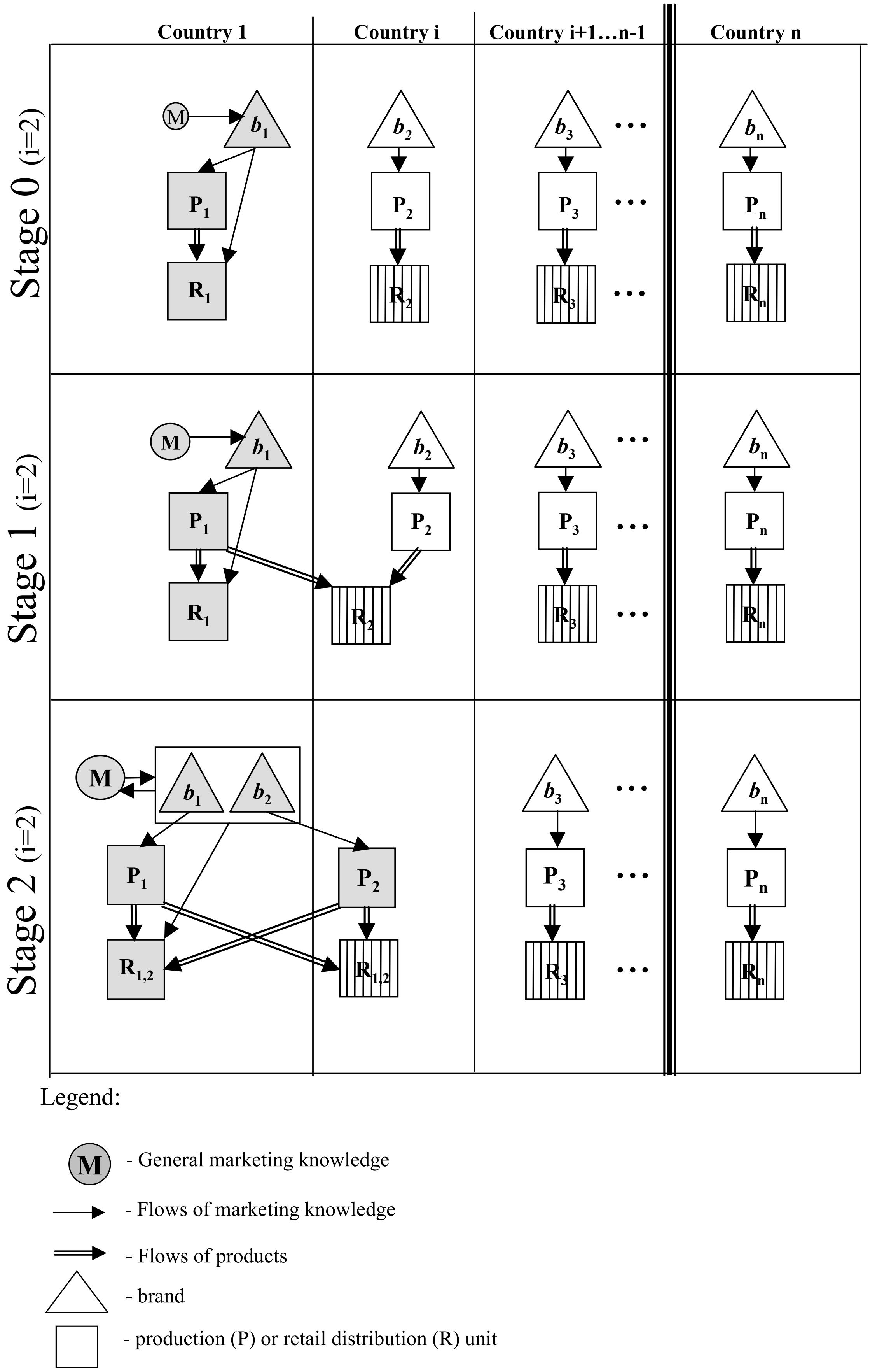
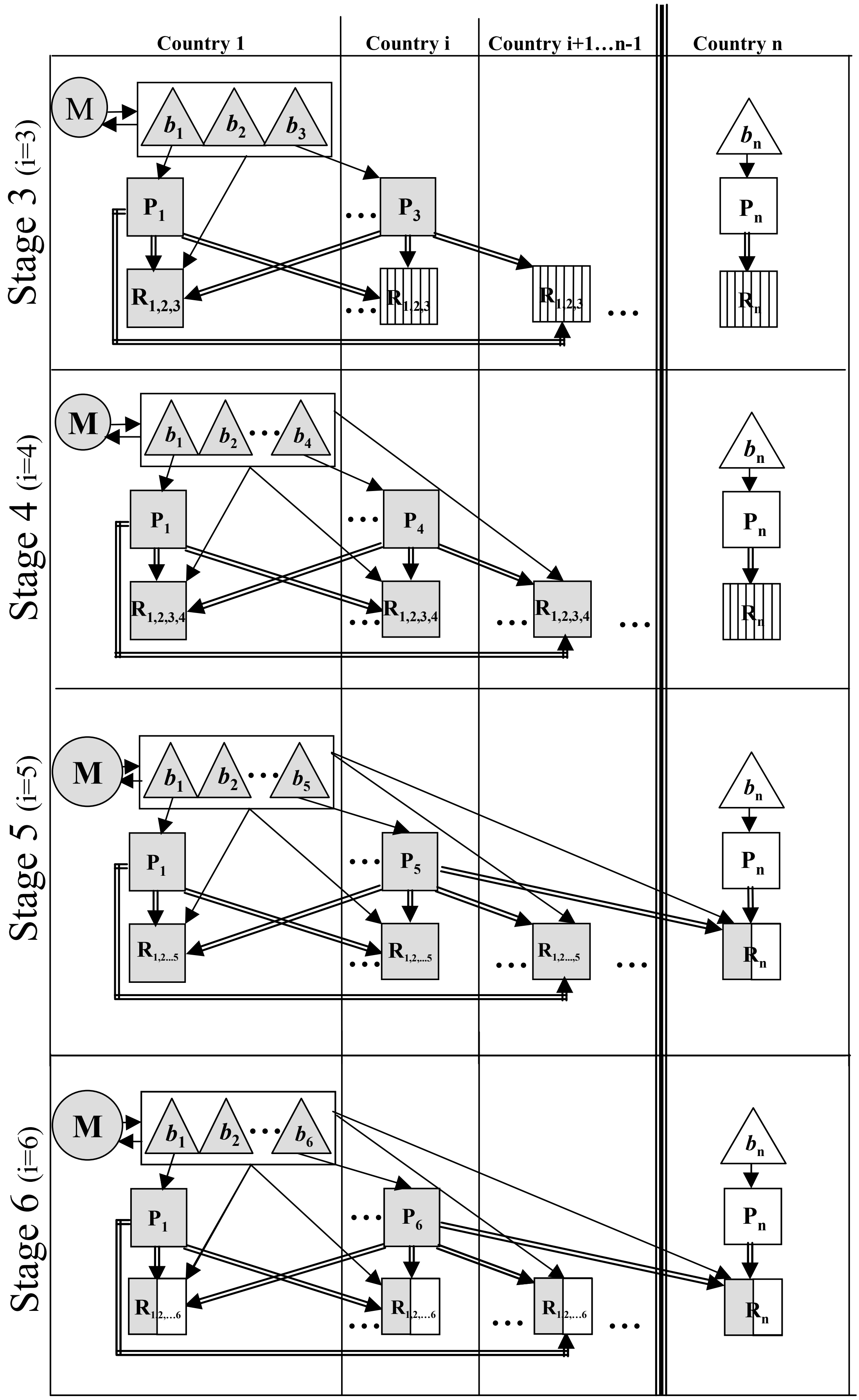


FIG 1 (CONT.) – THE ROLE OF BRANDS IN THE EVOLUTION



Flows of products are represented by double arrows and connect production with retail distribution which can either be wholly owned (represented by a shaded square), partially owned through an alliance (represented by a half shaded square) or owned by a third party (represented by a square with stripes). The direction of the double arrows represents the flow of products. The direction of the arrows represents the direction of the flows of knowledge.

Assumptions

The construction of Figure 1 relied on seven sets of assumptions. First, that the long term goal of the largest firms of alcoholic beverages is survival and maximization of shareholders wealth, or at least the maintenance of a level of market capitalisation which prevents them from becoming targets for takeovers, within a context of modern global capital markets.

Second, there is one large firm P_1, producer of brand 1, which from 1960 until 2000, grows in evolutionary stages (correlated with the waves of mergers and acquisitions that occurred in the industry), by merging and acquiring other large firms in distinct markets, and constantly changing its boundaries. In its international strategy P_1 first acquires firms in those markets to where it was already exporting and which are culturally and geographically closer, and only later enters markets geographically and culturally distant.

Third, all the firms from P_1 to P_n rank among the largest firms worldwide, but only P_1's evolution and survival is analysed. Firms P_2 to P_n are close followers of P_1.

Fourth, P_1 has an ownership advantage over its competitors (Dunning, 1995) which refers to its superior capacity in terms of marketing methods, management of brands and distribution channels, irrespective of their geographical origin. This advantage is defined in this study as general marketing knowledge and is represented in Figure 1 by a circle (M).

Fifth, with each acquisition P_1 accumulates two types of knowledge. One is the above mentioned 'general marketing knowledge', and the other is 'market specific knowledge' defined as knowledge about the characteristics of a specific brand and national market (including its business climate, cultural patterns, structure of the market system, and characteristics of the individual customer). Market specific knowledge is assumed to be related with the type of knowledge defined by Penrose (1959/1997: 53) as 'objective knowledge', which can be taught and accessed by the firm in the short run through acquisitions, and general marketing knowledge is assumed to be related with 'experimental knowledge', which can only be learned through personal experience.

Sixth, all firms acquired own successful brands; brands can only be acquired with the firms that produce them; search for brands is rational and there are no costs associated with information asymmetry and opportunism in their acquisition. In the real world, the process of growth involved both decisions to grow a handful of local and regional brands into global brands, and to eliminate the majority of other brands which were considered lacking in growth potential. However, it is assumed that all brands are successful and remain as such during the period of analysis. It also does not discuss whether and how the definition of a 'successful brand' changes overtime and does not concern itself with the decision to divest brands.

Seventh, only the retailing activity is considered in the distribution phase. It links production to final demand and includes to distribution subsidiaries (which have their own salesforce) and also retail outlets such as pubs/inns and speciality shops. In alcoholic beverages like in most consumer products where the management of brands is crucial for the success of the firms, the control of retailing distribution becomes more important than wholesaling.

Strategy and stages of evolution

Since the beginning of the 1960s all large firms of alcoholic beverages pursued one long term strategy which was to merge and acquire firms that owned successful brands that had the potential to become global. For that purpose they followed several stages in their evolution first by exporting into countries culturally and geographically close, then acquiring production firms and distribution channels in those markets, and only subsequently entering markets with a high cultural and geographic distance.

Figure 1 considers that the evolution of the largest firms in alcoholic beverages took place in several stages. Stages 0 and 1 do not relate to the empirical evidence offered in previous sections, but help the understanding of the evolution of P_1. Stages 2 to 6, rely on the empirical evidence presented in previous sections, and relate to the period from 1960 until 2000.

Before the 1960s the world alcoholic beverages industry was fragmented, had a restricted regional scope, organic growth was very common, and few firms got involved in international mergers and acquisitions. As a result general marketing knowledge was small.

Stage 0 shows the starting point for firms that became the largest worldwide. There is one leading firm in each country and no trade takes place between countries.

In stage 1 P_1 from country 1 becomes more entrepreneurial and decides to start exporting to country 2 using an independent distributor, and developing an ownership specific advantage over the local competitor P_2. In this stage P_1 obtains the necessary information about the market and competition, which facilitates the acquisition of P_2 in the subsequent stage.

In stage 2 with the acquisition of P_2, P_1 is able to obtain economies of scale and scope in distribution, and also to import brand b_2 into its home market. In this process P_1 accumulates general market knowledge, represented in Figure 1 by an arrow pointing at the unit within the firm which manages general marketing knowledge (symbolised by M). An example is Seagram's acquisitions in the UK (with Chivas Brothers and Strathisla-Glenlivet Malt Distillers), France (with G.H. Mumm) and Latin America (with Jamaica and Puerto Rico among other countries), during the late 1940s and early 1950s, when it increased its presence in those markets and widened the portfolio of products (Scotch and Canadian whisky, champagne, tequila and rum) sold in the US and Canadian markets.[iii]

From the 1960s there was a clear change in the strategies of firms when merging or acquiring other firms. Their purpose was always to acquire successful brands which were already internationalised but had the potential to become global.

Between 1960 and 1980 this strategy was achieved through merging and acquiring firms that were geographically and culturally close. In stage 3 P_1 acquires P_3, a close competitor, owner of b_3, which also has an established international activity. Some examples of acquisitions at this stage are those of Showerings (which owned Babycham) by Allied Breweries in 1968, of Mercier by Moët & Chandon in 1970, of the merger between Moët & Chandon and Hennessy in 1971, and the acquisitions of Truman (which owned Truman beer) and Watney Mann (which owned Red Barrel beer) by Grand Metropolitan in 1971 and 1972, respectively. This stage coincided with the two merger waves of 1958-1962 and 1968-1972.

During the 1970s, vertical integration into distribution with the aim to control brands was the main driver for mergers and acquisitions. This is illustrated by stage 4, where P_1 acquires P_4, and also integrates vertically by acquiring its former distributors in foreign markets. These independent distributors which had served as facilitators for the firm to enter new markets while it was globalising, had become less important once the industry had developed an oligopolistic structure. There was no equivalent merger wave corresponding to this stage, since the target distribution firms were relatively small, in the majority of the cases family owned, with operations in restricted geographical regions.

From the 1980s firms started to enter markets culturally and geographically distant. This is illustrated in Figure 1 by stages 5 and 6. Entry in distant markets becomes possible because P_1 has superior general marketing knowledge which provides the ability to value a brand and see its potential. In stage 5 P_1 also has a high level of experience in entering international markets (market specific knowledge) and a wide portfolio of complementary brands. Apart from continuing to buy successful brands and distributing them through wholly owned distribution channels in markets culturally and geographically close, P_1 also enters in markets culturally and geographically distant, using distribution channels created by alliances with local partners or other large competitors. Examples of these alliances are those formed between Allied Lyons and Suntory in 1988 and Möet-Hennessy, Guinness and Jardines Wines & Spirits (a subsidiary of the trading company Jardine Matheson) in 1987, both in Japan. The merger wave corresponding to this stage occurred between 1985-1988.

In the 1990s, when the threat of new entries into the industry had diminished as a result of its high concentration, rationalisation of costs became another prime goal of large firms. Internalisation of intermediate product markets implied higher transaction costs than using the external market (Buckley and Casson, 1976). So firms continued to merge and acquire close competitors and started to disintegrate vertically, even in markets culturally and geographically close. The merger between Guinness and Grand Metropolitan which formed Diageo in 1997 is a good example of a merger between leading firms. Seagram's sale of its wholly owned distribution channels in Austria, Scandinavia and Australia in, respectively, 1997, 1998 and 1999, which were subsequently substituted by alliances with local partners, confirms the trend towards vertical disintegration of distribution in the industry. Stage 6 in Figure 1 illustrates this situation. This period is related with the merger wave that occurred between 1997 and 2000.

CONCLUSION

In this paper it is argued and demonstrated that brands, and not just technology, may exercise a decisive role in the evolution of multinational corporations. This study of the largest alcoholic beverages firms worldwide between 1960 and 2000 shows that although they evolved in small steps, reacting to problems and changing circumstances in the short run as in Johanson and Vahlne (1977), each step was just part of a sequence of moves which, in the long run, led firms to become global multinationals, owners of successful global brands. These stages, analysed and explained using empirical historical evidence collected on a group of large firms and through a schematic representation, were related with the waves of consolidation that occurred in the industry, due to their size and their high frequency in specific periods of time.

In their internationalisation strategies, firms tended to enter first in countries that were culturally and geographically close and subsequently invested in distant markets. Apart from the impact the changes in the patterns of demand, supply and the institutional environment had on the evolution of firms, there were three main motives, related with the strategy of firms of wanting to own successful global brands, which impacted on this process. These were the need to accumulate general marketing knowledge, to control retail distribution, and to enlarge and complement the portfolio of brands. While firms possessed little specific market knowledge and general marketing knowledge, they entered in markets which were culturally and geographically close. Once they had accumulated enough general marketing knowledge about the management of brands and markets, and market specific knowledge was not a restriction to internationalisation anymore due to their high level of international commitment, brands then became global. Vertical integration into distribution was not only related with efficiency gains, reduction of transaction costs (Williamson, 1975) and need to control brands, but also aimed at stopping competitors from coming into the market. By enlarging their portfolio of brands firms could obtain economies of scale and scope in distribution and apply their accumulated general marketing knowledge to the management of other brands. These motives which varied in their level of importance over time, determined the structure of the industry, the level of internationalisation of firms, their mode of entry into markets, their level of vertical integration, and their worldwide geographical spread of operations.

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[i] For example in 1997 the countries with the highest level of alcohol consumption in the world were Portugal, Luxembourg and France, respectively with 11.3, 11.2 and 10.9 litres, whereas the UK, the US and Japan had average consumption levels of 7.7, 6.6 and 6.6 litres, ranking on the nineteenth, twenty seventh and twenty eighth position respectively (*World Drink Trends, 1998*).

[ii] See, for example, for the acquisition of Showerings: *Allied Breweries Limited, Annual Report and Accounts,* 1968: 7; for the acquisition of Martell: Seagram - *Annual Report and Accounts,* 1987; and for the acquisition of Hiram Walker, Allied Lyons - *Annual Report and Accounts,* 1986.

[iii] The Distillers Corporation – Seagram*, Annual Report and Accounts,* 1971; 'Corporate Documentation by Company', *Records of the Seagram Collection*, Box 20.