Global Management and the Strategic Role of Brands


Teresa da Silva Lopes

Abstract

This study analyses the strategic role of brands, in explaining the management of business in the global alcoholic beverages industry and also the techniques used by firms to exploit economies of scale and scope in the international marketplace. It explains the different ways in which brands have been traded, what were the strategies of enterprises behind the creation of global brands, and how their operations have been affected by this increased importance of brands in firms’ everyday lives. It argues that the increase in the trade of brands has been led by the need for brands to be managed by entrepreneurs and firms with different levels and kinds of knowledge, and that this knowledge is greatly determined by the stages in the lives of brands, and the types of markets in which the brand is sold.

Keywords: global brands, alcoholic beverages industry

JEL Classification: M31, M37

Contact details: Teresa da Silva Lopes (Queen Mary, University of London) t.lopes@qmul.ac.uk

http://www.busman.qmul.ac.uk/cgr
Global Management and the Strategic Role of Brands

Teresa da Silva Lopes

Introduction

Many of the world’s top brands changed ownership more than once in their lives. This study analyzes the strategies behind the management of these brands over the last fifty years, which often led to their trade. Research in marketing has looked at the role of brands as part of firms’ successful growth strategies (Doyle, 1989; Kapferer, 1992; Aaker, 1996; Keller, 1998; Chernatony and McDonald, 1998; Hart and Murphy, 1998; Feldwick, 1991; Michel and Ambler, 1999). Yet, these studies have not looked systematically at why, at a specific moment in time some brands need to be traded, and why some firms and entrepreneurs are better suited for owning and managing those brands than others. This study draws on historical analysis, to trace the paths a group of successful global brands in the alcoholic beverages industry (in wines, spirits and beer), followed throughout their lives. This is a particularly useful industry for analyzing the lives of brands, as firms rely principally on promotion (brand image and other intangible assets) rather than on product performance (attributable to tangible assets such as high quality production plant). Here too, conventional forms of invention associated with patenting are minimal. Furthermore, this is an industry where very, old established brands are leaders in their product categories, ranking among the world’s leading brands in terms of their market value.

The period analyzed in this study begins around the 1960s and extends to the present day. This is a period when radical changes occurred in markets - globalization process of economies accelerated and competition increased. These greatly influenced the evolution of industries in general, and in particular in the lives of alcoholic beverage firms and their brands. While markets were fragmented, brands could grow and flourish as long as they had some distinctive niches and particular characteristics, such as original recipes or innovative modes of distribution. From the 1960s, the increase in global competition, the professionalisation of management, and the pressure for firms to obtain short-term results either for shareholders interests or for performance-related pay changed the success rate
and the life expectancy of firms and brands. New brand launchings became riskier strategies than the management of existing brands and therefore less frequent. Firms found it easier to buy existing brands than to launch new ones. Consequently, trade in brands and the development of brand and line extensions proliferated.

The study focuses essentially on a sample of brands owned at some point in time by the world’s leading multinational in alcoholic beverages - Diageo - and its main predecessors (in particular, Grand Metropolitan, Guinness, and Heublein). The brands selected were ranked or are still ranked or still rank as top in their product categories. A few successful brands owned by other leading multinationals, such as Allied Domecq, Brown Forman, Inbev, Kirin, Pernod Ricard, Scottish & Newcastle, and Seagram, are also selected in order to enable comparative analysis and illustrate relevant points about the lives of brands and the different ways in which they can be traded.

There are multiple definitions of brands, some of which rely more on their tangible aspects, which help to simplify decision taking by the consumer; others rely more on emotional characteristics that appeal to the self-image of consumers and their aspirations and fantasies. This study defines a brand as a legally defensible proprietary name, recognised by some categories of consumers as signifying a product with added dimensions that differentiate it in some way from other products designed to satisfy the same need (Chernatony and Riley, 1998). Again, there are multiple definitions of global brands, relying either on more qualitative criteria (such as the level of adaptation/standardisation of marketing), or on more quantitative criteria such as the volume of sales generated outside the home country. Global brands are here defined as those brands that are available in a multitude of markets, even if sales originate from a relatively small number of markets (Aaker et al, 1999; Rosen et al, 1989; Hankinson and Cowking, 1996).

The study first explains the motivations and the different ways in which brands in alcoholic beverages can be traded globally. Then, it discusses the strategies used by firms to build global brands. Next, it illustrates the increasing importance that brands have in everyday lives of firms, reflected at different levels of their operations and organisational structures. It also provides a schematic model which associates the type of environment in which the brand operates with the type of knowledge that the managers and firms that
own/manage the brands need to have. Finally, the study argues that, the increase in the trade of brands over the last fifty years has been led by the need for brands to be managed by entrepreneurs and firms with different levels and kinds of knowledge. This knowledge is greatly determined by the stages in the lives of brands and types of markets in which it is sold.
TRADING BRANDS

The number of brands in the portfolios of the world’s largest multinationals in alcoholic beverages varied substantially over time as a result of an increase in international trade in brands. This trade, which can increase the size of firms’ portfolios or rationalise them, may take various forms: mergers and acquisitions of brands together with the firms that owned them, partial sale of the brands through alliances with competitors, sale of brands independently as if they were pieces of intellectual property, or the sale of parts of the brands, split according to some criteria such as product categories.

Brands in Mergers and Acquisitions

Mergers and acquisitions of firms together with brands have been historically the most frequent forms through which brands have been traded, changing their ownership and management (Lopes, 2002). This form of trading was very common from the early 1960s to the late 1980s, when firms aimed at enlarging their portfolios of brands. The targeted firms tended to own local or regional successful brands and cover types of alcoholic beverages in which the acquiring firm had yet no presence. Mergers and acquisitions could also involve competing brands in the same product category, which were successful in different market segments. An illustration of this is the merger between the British firms Gilbey’s and United Wine Traders in 1962, which led to the creation of International Distillers and Vintners (IDV). The newly formed firm became then owner of small number of very successful brands with potential to be sold in different markets - Gilbey’s gin, J&B Rare Scotch whisky and Croft port.6

From the 1980s while trade of brands through mergers and acquisitions of firms remained very common, there were new motivations for firms to engage in such activities. Firms often felt the need to acquire knowledge in marketing which their management lacked, such as ways to access new distribution channels, or to gain a quick presence in foreign markets where they were expanding. The acquisition of the firm Martini by the multinational Bacardi in 1993 is an illustration of that. Martini was a family firm from Italy whose sales relied essentially on a single successful product and brand - Martini
vermouth. Additionally, the firm also had good distribution networks in Europe, which was a market where Bacardi wanted to expand its activity.7

**Brands in Alliances**

Some brands can also be partially traded when their owners form alliances often, remarkably, with direct competitors, for the production and/or distribution of the brands in particular markets during fixed periods of time. By forming these types of alliances, firms are often able to spread risk involved with innovation or distribution and entry into new markets, while enabling the parties involved to enlarge their portfolios of brands in the short-term, and also to have higher bargaining power with third parties such as retailers. In alcoholic beverages, alliances in all types of activities such as production, distribution and marketing, are very common. The depth and length of these alliances may, however, vary. They are dependent, on the one hand, on the type of product - wine, beer or spirits -, and on the other hand on the type of activities being shared.

Alliances which involve production activities are much more common in brewing than in wine, as beer is not so dependent on factors that are specific to a particular region, such as the soil and climate are for wine. For example, in the beginning of the twenty first century the global brand Guinness, while part of Diageo, was distributed either through wholly owned channels, or through alliances with direct competitors, depending on the strategic importance of the market.8 Some of the direct competitors it had distribution alliances with were the Belgium multinational brewer Interbrew (later renamed Inbev) to cover the French market, Carlton-United Breweries in Australia, and Lion Nathan in New Zealand.9

The alliance formed in 1990 between the British brewer Scottish & Newcastle and the Australian brewer Elders/Fosters through which the latter licensed the former the rights to produce and distribute Foster brand beer in Europe for an indefinite period of time, is another example. However, in this case, the alliance meant almost transfer of ownership of the brand. The economic difficulties of Elders/Fosters in the late 1980s were behind the creation of this long-term agreement, where they lost the rights to their main brand in such a large market in terms of per-capita alcohol consumption.10
Long-term alliances often result in the merger of firms or the acquisition of one company by another. An example is the alliance formed in 1956 between the American spirits firm Heublein and Grand Metropolitan from Britain, for the production and distribution of Smirnoff vodka in Ireland and Great Britain. The success Grand Metropolitan achieved with this brand in Europe was certainly an important factor which contributed to its acquisition of Heublein in 1987.11

**Brands as Pieces of Intellectual Property**

In the 1990s, the increasing concentration of the alcoholic beverages industry involved a tighter control by the anti-trust authorities in different countries, which, in concert with the mergers and acquisitions underway, indirectly encouraged the trade of independent brands. Strategies for the rationalisation of portfolios played a major role in this period and led brands to have more independent lives. Some successful brands with potential to be global became targets for acquisition by large multinationals without involving the firms that owned them. Others, even when successful within particular markets, were disposed to smaller firms, because they did not fit with the owner’s new strategies for focusing on global brands.

Strategies for the rationalisation of portfolios, subsequent to mergers and acquisitions of already large firms, also became very common. The merger between Guinness and Grand Metropolitan that formed Diageo in 1997 is a case in which it was necessary for the newly formed firm to rationalise the number of brands its portfolio, and also to deal with important anti-trust concerns raised by different kinds of authorities.

The high number of similar brands in terms of product category and target market that came under the ownership of Diageo, and also the need to obtain economies of scale and scope at various levels of the value added chain, including advertising and distribution, led the firm to dispose of some of the non-strategic brands in terms of global potential. This involved essentially the sale of brands which were successful within particular markets. Additionally, some leading brands were also disposed of. The European Office of Fair Trade ruled that the newly merged firm - Diageo - had to sell some of its most successful brands because the combined company had too high a share in some product categories
and in some markets. For example, in Scotch whisky they ruled that J&B and Dewars jointly had too large a share of the market in the United States and in some European countries. This led to the sale of Dewars to the multinational Bacardi in 1998. Diageo kept J&B as it had a broader international presence and was number one in Spain where Scotch whisky was growing strongly.\textsuperscript{12}

Another example is the sale of Bombay Sapphire by Diageo to Bacardi, which resembled the sale of a piece of intellectual property as it involved only transfer of stocks, the recipe, and the trademark. There were no physical production facilities involved - while the brand was owned by Grand Metropolitan it was distilled by a third party, G. and J. Greenall in Lancashire. After its acquisition, Bacardi maintained the essential components of the brand: the very distinctive bottle (made of blue glass), the recipe, and the ingredients. However, major changes were introduced by the acquiring firm, such as, the increase in speed of distribution, additional investments in advertising, and the raise in prices to match the premium image of the brand.\textsuperscript{13} Sales of Bombay grew from 0.5 million bottles in 1998 to 1.4 million bottles in 2004.\textsuperscript{14}

The acquisition by the Belgium multinational Interbrew of the British beer brands Whitbread and Bass in 2000 and 2001 was another case contested by the European Monopolies Commission. After the failure of several appeals by Interbrew, this Belgium multinational had to sell the brand Carling, Britain’s largest selling beer, to Coors in the beginning of 2002 for £1,2 billion (U.S.$1.7 billion).\textsuperscript{15}

The acquisition of the Canadian multinational Seagram by Vivendi in 2001, caused more brands to take on an independent life. The French firm Vivendi was principally concerned with Seagram’s media companies. Consequently, it sold the alcoholic beverage business of Seagram to Diageo and Pernod Ricard. The break up of Seagram became an important moment in the trade of independent brands in the alcoholic beverages industry. Due to the scale of the sale of Seagram and the size of the acquiring companies, this transaction raised once more anti-trust concerns in several countries. Diageo was not allowed to buy Chivas Regal as it would have a too high share of the market of Scotch whisky. The transaction also raised issues with third parties with whom Seagram had long-term agreements and alliances. One, for instance, concerned the transfer of ownership of the brand Captain Morgan to Diageo. This was contested by Destileria
Serralves from Jamaica, the exclusive producer of the brand since its launch. Destileria Serralves claimed it had first rights of refusal in the case of changes in the ownership of the brand. They did not, however, want to exercise their right to purchase, but rather wanted the brand to go to Allied Domecq, with whom Serralves had an alliance. This dispute was settled with the acquisition of Captain Morgan by Diageo and the sale of Malibu to Allied Domecq for £560 million (U.S.$796 million) at the beginning of 2002.\(^{16}\)

**Splitting Brands**

The increasing independence of brands has also led to the emergence of a new phenomena in the trade of brands, which is the capacity for brands to be divided. For example, the old established Croft brand was sold by Diageo in 2001 to two firms - the port business to the Portuguese port wine group Taylor (later renamed Quinta Vineyards Bottlers) and the sherry business to the Spanish sherry firm Gonzalez Byass. This splitting up of the ownership and management of a global brand was quite an innovation. Previously such divisions had only occurred when brands were sold in different geographical markets, and where having different brand strategies could not be so easily detected by consumers, as in practice they worked in a similar way as did trade in alcoholic beverages where distribution agreements gave autonomy to local distributors.
BUILDING GLOBAL BRANDS

Over time there is a clear trend for multinational firms in alcoholic beverages to focus on those brands that are most successful and easiest to turn into global brands, to rationalise brand portfolios, to refine segmentation strategies, and to standardize the marketing strategies around the world. This concept of global brands is, however, relative if we take into account the importance of each market individually. By the beginning of the twenty-first century, the most successful brands owned by the world’s leading multinationals were sold in many geographical markets. Nonetheless, most of the sales of these brands were, in fact, in a small number of markets. For example in 2002, Jack Daniels owned by Brown Forman, was sold in 142 markets but the sales were essentially generated in 3 markets, the United States being the most important one. Even Johnnie Walker Red, considered to be a good illustration of a global brand, had its sales concentrated in about 27 markets, despite being sold in 169.17

Rationalization of portfolios

From the 1990s, the average number of brands in firms’ portfolios stagnated if not decreased. Rationalisation of brand portfolios of brands became part of most companies’ growth and survival strategies. Firms started to concentrate on those brands that were most successful and offered the highest economic profit. With these brands, firms widened further the geographical scope of their operations, using global marketing strategies.

In 1993, the British multinational Allied-Lyons (acquired by Pernod Ricard in 2005) sold several brands that had come to its domain through the acquisition of Harveys in 1966. These brands included Tio Mateo sherry, Eminence and Catador brandies, and were sold to Estevez Group in Spain for 500 million pesetas (U.S.$ 3.9 million).18

In 1999, after its creation, Diageo sold several brands including Cinzano to Campari of Italy for an undisclosed amount, and also sold Asbach of Germany and Metaxa of Greece to Bols, the Dutch group, for U.S.$200 million. Vecchia Romagna, the leading Italian brandy, was sold to Montenegro, a Bologna-based private company. In the same year, the
firm also sold eight Canadian whiskeys to Canandaigua (later re-named Constellation Brands) and four bourbons and other U.S. drinks to a consortium of three companies, the two sales raising £218 million (U.S.$353 million).

The French multinational Pernod Ricard only became truly global with the acquisition of part of Seagram brands in 2001 (jointly with Diageo), marking this achievement by saying: “local roots-global reach.” In this process, it disposed of many brands that were not considered a strategic priority. In some cases, the sales involved no future connection of the brand with Pernod Ricard. One example is the sale of Four Roses (bourbon) to the Japanese firm Kirin. In other cases, Pernod Ricard created alliances for the distribution of the brands disposed, becoming their distributor in major international markets. The alliance formed with the Portuguese leader in wines, Sogrape, where Pernod kept the exclusive rights for the distribution of Sandeman Port worldwide, is an illustration of that. There were yet other small brands that were sold in groups and through auction by Pernod Ricard, also as a result of its partial acquisition of Seagram. René Briand and Piave Grappa were two trademarks previously owned by Seagram, although the company neither produced nor distributed the beverages. Pernod Ricard later sold the trademarks to the actual producer and distributor of these beverages.

**Refining segmentation strategies**

Despite rationalising their portfolios in recent years, several multinationals still have competing brands in their portfolios. In some cases this might be an indicator of a certain fragmentation of markets, which enables firms to obtain economic profits despite selling apparently competing brands in distinct markets. In other cases, where heavy competition and relatively high concentration prevail, competing brands within a firm’s portfolio might either be an indicator of weak management or, instead, that the firm is pursuing sophisticated segmentation and marketing strategies targeting different niches.

In the alcoholic beverages industry, at early stages in the development of markets, preferences tend to be quite similar, and segmentation strategies tend to focus on the functional and economic benefits (such as value for money) and characteristics of consumers. As consumption and competition grows, tastes become more refined and differentiated and segmentation strategies based on emotional benefits and motivations
become more significant. For example, when a market first develops in the Scotch whisky category, the main motivation for consumers to drink this beverage is status. As new brands enter the Scotch whisky category, consumers start to want to look different. New status categories emerge. Brand management then has to appeal to different interests in order to differentiate brands from those of competitors.\textsuperscript{21} For instance, after the absorption of several of Seagram’s brands, Diageo had four different whisky brands in South Korea: Johnnie Walker Black Label directed towards the idea of sophistication, J&B to young consumers in Western bars, Dimple to slightly older consumers and professionals who go to hostess bars, and Windsor to a concept of boldness. Nonetheless the four brands were considered to target different market segments, and its marketing strategies complied with Diageo’s global segmentation studies, which mapped brands’ appeal to consumers according to functional benefits and consumer preferences.\textsuperscript{22}

Another example, more historical, which shows this trend for firms to refine segmentation strategies over time, is the vodka brand, Smirnoff. When first sold in the United States before World War II, it was advertised as a product with no taste or smell, difficult to detect on the breath. In the early 1950s, the advertisements of Smirnoff still emphasised these features. However, a new feature of excitement was added by the slogan “it leaves you breathless.” Not only did the slogan hint that the drink was so fantastic you lost your breath, it also taunted whisky lovers for the strong smell of their drink. The fact that the beverage was mixable with others was also emphasised. Smirnoff began running a famous series of surrealist advertisements, shot in Egypt, the Mojave Desert, and other unusual locations. The advertisements focused on the vodka and emphasised the fact that the spirit was the “driest of the dry.”\textsuperscript{23} In the 1960s, realizing that they needed to create an image for the brand beyond its functionality and (“tasteless, odourless and you can mix it with your favourite drink”), Heublein hired famous personalities such as Woody Allen, Marcel Marceau, Joan Fontaine, and Zsa Zsa Gabor to build an image connoting lifestyle and sociability. They also started using women in their ads despite the fact that this was considered inappropriate by the Distilled Spirits Institute. In the 1980s, as other vodkas such as Absolut entered the market presenting themselves in very imaginative ways (Hamilton, 2000), Smirnoff became more conservative, emphasising in its advertisements its long history and status as the drink of the Russian royalty. While in the early 1990s,
Smirnoff’s advertisements had different proposition statements depending on the market, from the late 1990s the firm developed an aggressive campaign with a global proposition: “pure thrill.” The aim was to create a compelling idea that could travel across time and borders and yet be perceived as promoting an intelligent, unexpected and audacious brand.

**From Adaptation to Standardization**

Over time, the way multinationals managed their portfolios of brands has also varied widely. At early stages in the life of firms, they have tended to use different marketing and, in particular branding, strategies, adapted to each geographical market. Later, they used standardized marketing strategies targeting the global marketplace. However, the timing for such changes has varied according to the characteristics of the product, its image, and the similarities of consumers across countries.

Using standardized and global marketing strategies has several advantages, such as obtaining economies of scale and scope at various levels of activity, including marketing and branding, minimizing problems associated with the presence of grey markets, where suppliers go to other countries to buy the beverages rather than using the domestic distributors. They can also lead to a remarkably stable imagery for the brand over time and across countries, as can often be visualised in firms’ advertisements. After Jack Daniel’s whisky was acquired by Brown Forman in 1956, the company used a standardized marketing strategy building the pivot of its brand globally, relying on its distillery and tradition. Even though Brown Forman works with different agencies in distinct countries, its commercials are similar in terms of the message they aim to convey.

Other brands, such as Ballantines and Johnnie Walker, only started to be advertised globally at the end of the twentieth century. Until the mid-1980s, Johnnie Walker’s imagery was very different across markets, reflecting distinct power groups within the company, on the one hand, and the character of the local managers and distributors, on the other. For example, before the creation of Diageo, Johnnie Walker Red Label projected a very status enhancing and quite passionate image in Latin America. In contrast, in the United States it had a very serious and “Wall Street” like image. In European countries
such as Greece, the brand was viewed as a cool drink, seen as a tasteful reward at the end of the day.\textsuperscript{24}

The fast globalisation of economies from the 1980s led to an increasing risk by firms from of pursuing different marketing strategies, and in particular for creating distinct imageries for their brands. Glenfiddich, Scotch whisky which dates back to 1887 is an illustration of a successful brand which had to change it branding strategy worldwide as a result of globalisation and liberalisation of markets. When the brand was relaunched in England and continental Europe in the late 1950s, it targeted different types of customers in distinct markets. In England, it first targeted consumers who had already tried the beverages when they were in Scotland. Thus, it was perceived as a very Scottish drink, appealing to values of authenticity and tradition. In continental Europe, in countries such as France and Italy where whiskies were seen as deluxe beverages, the image of Glenfiddich was one of luxury in the jet set. Over time, some common trends emerged in those markets where it was most successful, driven by consumers’ preferences. By 1969, feeling the strain that comes when a brand is perceived differently in distinct markets, the company began to create a global standardized image for the brand. The imagery was redefined to appeal to younger generations.\textsuperscript{25}

In extreme cases, conditions of consumption and the characteristics of consumers of a beverage may prevent standardization. Ricard, one of the most popular anis/pastis worldwide, generated 87 per cent of its sales in its domestic market in 1997, despite relentless efforts by the firm to standardize the brand. The other two markets with some significance were Spain and Belgium, corresponding respectively to 9 per cent and 2 per cent of total sales. In Spain, Ricard was drunk essentially by Algerian-born French who emigrated to Spain. Indeed, among most Spanish consumers, cocktail-type drinks are traditionally not very common. This created a structural problem for Ricard, as consumers did not know when to drink it. Moreover, Ricard is drunk with five parts pastis and one part water, and water does not have a good image in Spain as it is considered to alter the flavour of the beverage. The drink also suffers from association with French tourists spending their summer holidays in Spain. In France, however, the brand is strongly associated with Provence and holidays. There the brand is designed to project optimism, “the sun in a bottle.” The same structural difficulty prevented the penetration of Ricard in
the United States. Like the Spanish, Americans do not mix water with alcohol. They drink their whisky or bourbon on the rocks, a drinking habit that is hardly favourable to Ricard. Consumer worries about the safety of what they eat and drink (and the related reluctance to mix unbranded beverages with branded ones) has certainly contributed to the persistence of this habit.  

**Combining Strategies**

Despite these advantages and disadvantages associated with adaptation and standardization strategies, some firms combine the two strategies, standardizing branding imagery worldwide, thus taking advantage of the synergies associated with economies of scale and scope and cost efficiencies, and yet adapting to local markets preferences. One common form is through the creation of line extensions. An example is Bacardi-Breezer which is the result of the trend for consumers to drink beverages with lower alcohol content. The rum brand, Bacardi had known uninterrupted growth from the 1950s until the 1980s. It had targeted young consumers in the United States, who drank rum and cola as an easy, fun, alternative to the bourbons, martinis and scotches drunk by their parents. During the 1980s, there was an onset of “cola fatigue,” and juice-based drinks grew in popularity. The “mixable” crown had been lost to vodka, and Bacardi faced stiff competition in its own market. The launch in 1990 of Bacardi Breezer was a successful response to these changes in the environment and in consumer needs.

This trend is also visible in the U.S. brewing industry where innovations aimed at extending beer brands into light beer started in the 1960s. However, the early light beer brands failed (Tremblay and Tremblay, 2005). The success of light beer is attributed to Miller Light beer, first introduced in the market in 1972, and its dissemination in the American market only took place from the 1980s, when consumption of alcoholic beverages, especially of beverages with high level of alcohol content, started to stagnate.

**BRANDS IN FIRMS’ EVERYDAY LIVES**


The strategic importance of brands in non-technology-based industries led many firms to start including the market value of these brands in their financial statements, to change their organizational structures, acquire additional resources, in particular marketing knowledge, and constantly adapt their strategies and operations to changing market conditions.

Grand Metropolitan was the first multinational in the industry to include the value of its North American drinks brands. The enhanced strength of the company’s balance sheet made it easier to finance the takeover of the food manufacturer and retailer Pillsbury in 1988. Later in the same decade, after the acquisition of the two Scotch whisky firms Arthur Bells and Distillers Company, Guinness also included the market value of its new spirits brands in its financial statements.29 Soon after the acquisition of Heublein and the US rights to Smirnoff, the brand was valued in Grand Metropolitan’s balance sheet at £588 million (U.S. $1,047 million).30

Brands and Firms’ Organizational structures

Confirming the work of Chandler on management structures and strategies (Chandler, 1962), the strategic changes in the management of brands also led to important transformations in the organizational structure of firms. In the early 1960s, firms either managed brands almost as if they were separate businesses, or organised them geographically, giving each subsidiary complete autonomy for the management of its brands. Over time, brand management changed substantially, becoming centralised. Organizational structures based on geographic regions were substituted by organizational structures based on product category or branding (grouped according to their strategic importance). In the 1980s, companies started prioritising brands. Grand Metropolitan positioned Smirnoff, J&B, and Baileys as global brands. Other brands, such as Malibu, were considered regional or local, even though they later became global. This strategy was refined after the creation of Diageo in 1997 when brands were classified according to three categories: global priority brands, local priority brands and category brands. Global priority brands were those considered to have the greatest current and future earnings potential. They were marketed consistently around the world and included leading spirits brands such as Smirnoff, Johnnie Walker, Baileys, and Guinness beer. Each global brand
was managed by a different team of managers with their own strategy for the brands. Local priority brands were those in which a great deal of the economic profit was generated in one or two countries. Investment decisions and management of these brands took place on a market by market basis. Unlike the global priority brands, they did not always have a common marketing strategy around the world. They included brands such as Bell’s Extra Special whisky in the United Kingdom. This category also included brands not owned by Diageo such as Budweiser and Carlsberg, which were considered local priority brands in the Irish market. Apart from meeting the preferences of Irish consumers (considered to be very sophisticated), this also helped the local subsidiary of Diageo to achieve critical mass. Category brands were those that were neither global nor local, being sold in particular markets. For example, Black & White was sold in France and Venezuela, and Gilbey’s gin in the United Kingdom. Any brands that did not fit in these three categories were sold off.

**Acquiring Marketing Knowledge**

Another way in which the activities of firms have been affected by brands relates to the amount of resources and the type of management that are necessary for the firm to make or sustain a successful global brand. A very important resource in this process is knowledge, in particular marketing knowledge. It refers to the knowledge within firms about marketing methods and the management of brands and distribution channels. It comprises the ‘intelligence’ and the skills that are behind the management of firms’ activities.

This definition combines concepts of evolutionary economics with the theory of the entrepreneur (Penrose, 1959; Schumpeter, 1954; Casson, 1982), and considers that knowledge is comprised by two different parts. One part is ‘sticky’ to the firm and another is ‘smooth’. The sticky part is path dependent, being accumulated within the firm over time. This type of knowledge involves the routines and procedures within the firm designed to harmonize decision taking and to carry out organisational action (Nelson and Winter, 1982; Raadschelders, 1998). It can only be learned through personal experience, in the long-term. It is embedded in the firm’s routines and structure, and is comparable to
Penrose’s and Polanyi’s definition of implied knowledge, that is ‘tacit’ and acquired through operating in the market (Penrose, 1957; Polany, 1991).

The smooth type of knowledge, is of more broad application as it can be applied to the management of different brands and firms and distinct industries (Arrow, 1969; Brown and Duguid, 2001). It can be accessed by the firm in the short-run, either directly through acquisitions, alliances, the hiring of consultants, or through the appointment of managers with professional experience, training and marketing skills. These managers are hired to focus on enhancing the profitability of the firm, by for example rejuvenating brands, turning local brands into global brands and forming strategic alliances in distribution. Indirectly, published studies, and academic courses, especially in more recent times, may also provide some of this knowledge about specific countries and the industry required to manage a brand successfully (Cavusgil, 1998).

**Brands and the Markets**

The stage of development of the brands in terms of its volume of sales and types of markets covered, explain to a great extent the level of marketing knowledge required for those brands to grow and remain successful. In benign markets, characterised by fragmented markets and low competition, it is possible for brands to grow and become successful relying solely on sticky marketing knowledge. Once those markets becomes hostile (for example as a result of the increase in competition), in order to survive brands often have to be traded, to be owned by firms that have high levels of smooth marketing knowledge. These acquiring firms are usually managed by professional hired managers rather than family members, who are able, if necessary, to break from old ways of doing business and managing brands (Lopes, 2004).

**Why and When to Trade Brands?**

Several researchers in marketing, international business and strategy, have analysed and linked the stages in the life of products and industries, to the strategies firms might follow at a particular moment in time. However, these studies do not address the particular issue of how to rejuvenate brands at different stages in their lives, and which entrepreneurial managers and firms are better suited to own and manage these brands.
Relying on the evidence from previous sections and on the concepts of marketing knowledge and global brands, Figure 1 systematizes graphically the general trends in the lives of successful global brands, which determine why and when they might have to be traded. ‘i*’ symbolizes the presence of radical changes in the markets, the moment when brand (b_i) needs to adapt in order to become globally successful, requiring additional resources such as marketing knowledge, essentially of smooth type. M_k is the marketing knowledge curve where brand b_i has to move throughout its life in order to remain successful. With the new market conditions the brand might be able to remain under the same ownership or be traded, depending on the capacity of the entrepreneurs that manage that brand and the resources of the firm to acquire smooth marketing knowledge.

Figure 1 also illustrates the apparent relationship between the life of firms and the life of brands. At early stages in the life of brand b_i, up to point i*, it requires marketing knowledge, which is essentially sticky, of a pragmatic nature, relying essentially on the ideas of the entrepreneur who created it. The firm can also hire more staff who are taught about the routines and procedures created by the entrepreneur. At that stage brand b_i is essentially a local brand, having internationalized to a few markets that are culturally and geographically close. Above point i*, the natural growth process for the brand, in a market affected by radical changes, that implies that it needs to become global, being sold in multiple markets around the world. This requires acquiring additional marketing knowledge, of smooth type, which allows the brand to remain successful, moving along the M_k curve. Basically, radical changes in markets might mean hiring new professional marketing managers with entrepreneurial skills, using the services of external consultants, forming alliances with large multinationals where the firm is able to learn or use the skills of the large multinational in the international management of its brands, or even the trade of the brand. In all the cases it is important that the brand is able to move along M_k, and remain successful. Often multinational firms with smooth marketing knowledge find they have excess resources which they can apply in the management of wider portfolios of different brands. These are the firms that tend to be the active partners in the international trade of brands, searching for new brands with potential to become global, that they can add to their portfolios.
CONCLUSION

This study has analysed the strategies of firms, over the last fifty years, which often led to the trade of successful brands globally, and explained how and why the firms that owned those brands adapted their strategies and structures, and changed their portfolios of brands accordingly. The markets in which they operated and the resources and levels of marketing knowledge firm have, we show to greatly have determined such strategic moves. Looking at a sample of brands in the global alcoholic beverages industry, most of which were owned, at some point in time by the world’s largest multinational Diageo and its predecessors, and also at other leading global players, this study has shown that there has been an increase in the trade of brands over time, and the ways in which those brands have been traded have also changed – moving from mergers and acquisitions of brands as part of the firms that own them, to brands being traded independently, almost as pieces of intellectual property.

The study has also revealed that the increase in the trade of brands over the years is associated with the liberalisation of markets, which radically changed the type of markets in which firms operate. More hostile markets, characterised by high competition and uncertainty, led managers to acquire new skills, which in this industry involve to a large extent the acquisition of new types of marketing knowledge, which is of broad application in the management of brands and distribution channels. In order to acquire this additional knowledge, firms usually hire professional managers or external consultants for advice and transfer of new management practices. Instead of following old routines and nurturing brands, entrepreneurial, hired managers are able to apply smooth marketing knowledge relevant in the management of particular categories of brands, which helps deal with the hostile environment and transform them into global successful brands. Other times, firms choose or are compelled to trade their brands, so that these are managed by firms that already have those required resources, and are able to manage successfully additional brands in their portfolios. There are, however, cases where the traded brands do not require additional resources. Trade in brands can also involve brands which are successful,
but only within a limited geographical area. In such cases the selling firms often consider that their resources and marketing knowledge can better be applied in the management of other brands with potential to become global, whereas the brands they are selling can remain successful within the markets and the segments where they operate, by relying essentially on sticky marketing knowledge.

The generalisations provided here might also be applied to the analysis of the trade in brands in other industries, in particular in other consumer goods, such as cosmetics, bottled water, tea and coffee. The trend in such industries is for trade in brands to increase. There are, however, some differences between brands from distinct industries, or businesses within the same industry. For instance in alcoholic beverages, wine brands are less independent than beer and spirits brands. Emphasising the region of origin of the brand rather than the name of the firm made wine brands dependent on the specificity of the locations. Consequently, it has become more difficult to achieve a scale that made them global and independent. If the trend of brands to be increasingly traded as pieces of intellectual property is confirmed, it might very likely induce changes in the dynamic evolution of industries, including further rationalisation of portfolios of brands; and the widening of the geographical scope of the surviving brands, through strategies of standardization of their marketing mix and rejuvenation of existing brands through line extensions.
Figure 1 – Schematic Representation of the Lives of Global Successful Brands

Endnotes

2  In order to place a particular brand and the industry where it operates in this spectrum of alternatives it is possible to use a proxy – number of patents registered each year weighted by the size of the industry. See for example United States Patent and Trademark Office, *Patent Counts by Class by Year, Jan. 1977- Dec. 31, 2001*.
For a definition of line extensions, see for example Aaker and Keller (1990), Reddy et al (1994).

For a review of these different definitions see for example Chernatony and O’Riley (1998).


Interview with José Luis Martin, President Bacardi-Martini Spain, and with Xavier Serra, General Manager Bacardi-Martini, Barcelona, 22 July 1999.


Interview with Jack Keenan, former CEO of Diageo and former Deputy Chief Executive of Guinness/UDV, Cambridge, 14 May 2003.


*Impact International* - Database.


Diageo talks with FTC likely to focus on Malibu’ and ‘Seagram bidders hit by rum hangover’, *Financial Times* (24 October, 2001); ‘Malibu auction attracts drinks companies’, *Financial Times* (18 February, 2002).

*Impact International* – Database.


‘Cinzano sale completes Diageo disposals’, *Financial Times* (30 September 1999);

‘Diageo close to $200 deal with Bols’, *Financial Times* (27 September 1999);


‘White Whiskey’ advertisements 1940s, Heublein Archive, Diageo.


Interview with David Grant, family member of William Grant and Marketing Director, London, 7 January 2004; Collison (1979).


Firms also created brand extensions, which use an established brand name to enter a new product category. Brand extensions are seen as a more cost efficient and lower risk method of launching new products. Examples of brand extensions include Hiram Walker ice cream and Bacardi rum cakes.

Interview with Xavier Serra, General Manager Bacardi-Martini Spain, Barcelona, 22 July 1999.


Economic profit is defined as the profit after tax and investment in the balance sheet (eg. maturing stock).


See for example Vernon (1966).

**REFERENCES**

**Primary Sources (Archives and Interviews)**

‘List of Trade Marks registered from 27 July to 2nd August 1877’, *Trade Mark Journal* (8 August 1877), Public Record Office.
Heublein Archive, Diageo.


Interview with David Grant, family member of the firm William Grant and Marketing Director, London, 7 January 2004.

Interview with Jack Keenan, former CEO of Diageo and former Deputy Chief Executive of Guinness/UDV, Cambridge, 14 May 2003.


Interview with Xavier Serra, General Manager Bacardi-Martini Spain, Barcelona, 22 July 1999.

United Distillers (UD) Archive, Diageo.

Secondary Sources


Brand Finance. 2007. ‘The annual report on the world’s most valuable brands’.


*Financial Times*, various issues.

Grand Metropolitan, *Annual reports and accounts*. Various Years.


*Impact International* – Database.

Interbrand/Business Week, 2007 *The 2006 best global brands – a ranking by brand value*


Millward Brown. 2007. BRANDZ – Top 100 most powerful brands.


