

# Institutions, Leadership and Long-Term Survival

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## 1. Multinationals and the wealth of nations

There is a vast literature on the factors that contribute to the wealth of nations. Since Adam Smith until the present day, a large variety of such factors has been considered. They include the division of labour, technological progress, the development of free markets, the intervention of governments, the supply of national resources, the accumulation of physical and human capital, the contributions of foreign trade and foreign investment, the geographical position and the institutional framework. This study combines the views that relate the wealth of nations to trade and different kinds of institutions and organizations – the creators of the ‘rules of the game and the players’<sup>1</sup> – to explain the development or lack of development of multinational firms, in marketing based industries such as the alcoholic beverages industry.

Among the pioneers who studied the impact of international relations are Adam Smith in *The Wealth of Nations* and David Ricardo in *The Principles of Political Economy and Taxation*. Adam Smith argued that industry and the wealth of nations relied on free trade and international competition. Ricardo developed Adam Smith’s analysis of absolute advantage by exploring the concept of comparative advantage. According to him, even if one country is better at producing everything than another, there are still benefits from trade. Ricardo used Britain and Portugal to show that the overall wealth of the two nations increases if they specialize in those industries in which each has comparative advantage, such as textiles in the case of Britain and wine in the case of Portugal.<sup>2</sup>

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<sup>1</sup> Douglas C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

<sup>2</sup> Adam Smith, *An Enquiry into the Nature and Causes of the Wealth of Nations* (1776), Book IV, chapter 3, paragraph 31; David Ricardo, *On the Principles of Political Economy and Taxation* (1817), chapter 7, paragraph 16.

In both Smith and Ricardo's time, of course, Anglo-Portuguese trade was circumscribed by the Methuen Treaty. This paper, however, looks beyond the mercantilist world in which that treaty was formed to consider the challenges to wine and similar 'national' products in a globalised world where government intervention is more limited and international competition constantly heightened.

Looking beyond the trade-centered views, there is a large stream of literature which associates the wealth of nations with the development of different kinds of institutions and organizations. Douglas North, for instance, emphasizes that economic growth results from the development of stable institutions and organizations, such as firms.<sup>3</sup> The doyen of business historians Alfred Chandler also acknowledges the importance of 'economic, political and social settings' in explaining the wealth of nations in his work on the emergence of big business in the US and subsequently on his work on the UK and Germany. Chandler considers firms to be central in his explanation for the wealth of nations.<sup>4</sup>

As part of his explanation for the development of big business, Chandler uses the concept of organisational capabilities, referring to the ability of one firm to add more value than competitors. In a similar vein Chamberlain and Stephen Hymer used the concept of monopolistic advantages, John Dunning considered ownership advantages, and in more recent years Michael Porter created a similar concept of competitive advantages.<sup>5</sup>

Even though Chandler acknowledged the role of institutions in the development of big business he did not place much emphasis on them, and overlooked, in

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<sup>3</sup> North, *Institutions, Institutional Change and Economic Performance*.

<sup>4</sup> Alfred D. Chandler, Jr., *Strategy and Structure* (Cambridge, Mass: The MIT Press, 1962); idem, *The Visible Hand* (Cambridge, Mass: The MIT Press, 1977); idem, *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass: The MIT Press, 1990).

<sup>5</sup> E. H. Chamberlain, *The Theory of Monopolistic Competition* (Cambridge Mass.: Harvard University Press, 1962); Stephen Hymer, 'On Multinational Corporations and Foreign Direct Investment', selected by John H. Dunning from 'The International Operations of National Firms: A Study of Foreign Direct Investment' (MIT Ph.D., 1960), in John H. Dunning (ed.), *The Theory of Transnational Corporations*, UNCTC Library of Transnational Corporations (London: Routledge, 1992); John H. Dunning, 'Trade Location of Economic Activity and the MNE: A search for an Eclectic Approach', in B. Ohlin, P. O. Hesselborn and P. M. Wijkman (eds.), *The International Allocation of Economic Activity* (London: Macmillan, 1977); M. Porter, *Competitive Advantage of Nations* (New York, 1990).

particular, the contribution of government. However, some of his followers such as Lou Galambos and Tom McCraw, have since acknowledged its significance in explaining the wealth of nations in general and the growth of the US economy in particular.<sup>6</sup>

The role of other kinds of institutions has also been emphasised by business historians such as Richard Sylla who considers that for economic development to take place it is necessary that financial markets develop first.<sup>7</sup> Mira Wilkins explains the development of the US economy by focusing on the role of multinational enterprises.<sup>8</sup> Multinationals are distinct from domestic firms as they tend to develop as a result of a combination of ownership, location and internalization advantages and generate economic activity in more than one country.<sup>9</sup>

This paper aims to explain why a nation such as Portugal did not create multinationals in alcoholic beverages, although the 'rules of the game' were apparently favourable for this. Portugal is a small country where wine always had an important contribution in foreign trade, reaching levels near 50 per cent in the nineteenth century. The production of wine had historically a very significant contribution to the GDP; per-capita consumption of alcoholic beverages has always

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<sup>6</sup> Louis Galambos and Joseph Pratt, *The Rise of the Corporate Commonwealth* (New York: Basic Books, 1988).

<sup>7</sup> Richard Sylla and Robert E. Wright, 'Networks and History's Generalizations: Comparing the Financial Systems of Germany, Japan, Great Britain and the United States', paper presented at the BHC Conference (Le Creusot, France, 17-19 June 2004); see also Sidney Pollard, *Typology of Industrialization Processes in the Nineteenth Century* (London: Routledge, 1990); and David S. Landes *The Wealth and Poverty of Nations* (New York: W. W. Norton, 1998).

<sup>8</sup> Mira Wilkins, *The Emergence of the Multinational Enterprise: American Business Abroad from the Colonial era to 1914* (Cambridge, Mass: Harvard University Press, 1970); idem, *The Maturing of the Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass: Harvard University Press, 1970). She also looks at the role of brands in the development of firms. See Mira Wilkins, 'The Neglected intangible Asset: The Influence of the Trade Mark on the Rise of the Modern Corporation', *Business History*, 1 (1992), 66-95.

<sup>9</sup> John Dunning's Eclectic Paradigm has been explored in many of his publications. See for example John H. Dunning, 'Reappraising the Eclectic Paradigm in an Age of Alliance Capitalism', *Journal of International Business Studies*, Vol.26, No.3 (1995), 461-91.

been among the highest in the world; and alcoholic beverages firms have very long lives.<sup>10</sup>

The paper aims to show how institutions can create rules of the game which not only act as incentives, but also create inhibitions for the development of global multinationals in marketing-based industries such as alcoholic beverages.<sup>11</sup> It compares the case of Portugal with the UK, France and the Netherlands, countries where the evolution of the alcoholic beverages industries shows many similarities with Portugal and yet who, unlike Portugal, successfully developed leading multinationals. It is organised in five sections. For the four countries selected, section 2 offers an overview of the alcoholic beverages industry from the 1960s until the present day. Section 3 looks at the evolution of the ownership of firms, with particular emphasis for the case of Portuguese firms. Section 4 compares the processes of growth and diversification of leading alcoholic beverages firms from different countries. Finally section 5 offers some conclusions, providing a critical analysis of why Portugal did not generate world leaders in alcoholic beverages and highlighting the role of nationality in explaining the development of multinational firms in marketing based industries.

## 2. National industries

By the beginning of the twenty first century, while the UK, France and the Netherlands had leading multinationals in alcoholic beverages, that ranked among the world's largest industrial firms, Portugal did not.<sup>12</sup> However, there were several parallels and differences between the 'rules of the game' that governed the alcoholic beverages firms from these nations. All had had colonial empires, were international

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<sup>10</sup> See for example José da Silva Lopes, *A Economia Portuguesa desde 1960* (Lisboa: Gradiva, 2002); *Conceição Andrade Martins, Memória do Vinho do Porto* (Lisboa: ICS, Univ. Lisboa, 1990).

<sup>11</sup> Marketing based industries are those where the growth and survival of firms relies on the development of brands and distribution networks rather than on technology and R&D, and where governance of firms tends to rely on concentrated ownership and managerial control. Teresa da Silva Lopes, *Global Brands* (Cambridge: Cambridge University Press, *forthcoming*).

<sup>12</sup> See for example *Fortune – 2004 Global* (July 2004).

traders, had domestic markets characterised by high levels of consumption, and had governments which had strongly intervened in this industry.

## 2.1 Major parallels and differences in the evolution of industries

The UK, France, the Netherlands and Portugal are all nations which built international alcoholic beverages businesses since very early. Many firms from these nations started by exporting and then formed distribution alliances, acquired foreign firms, or set up greenfield operations abroad.<sup>13</sup> For instance, Distillers, which was one of the predecessors of Diageo (currently the world's leading multinational in alcoholic beverages), used independent distributors such as trading companies to sell its whisky internationally, in particular in Britain's colonies and former colonies. It also set up gin operations in different continents of the world (for example in France, Australia, Brazil, Canada, USA and South Africa).<sup>14</sup> Gilbey's, another predecessor of Diageo, not only began by importing wine from the British 'Cape Colony' in South Africa, but also internationalized as early as 1875, when it set up production and wholesale operations in France.<sup>15</sup>

For Portuguese based firms the situation was quite distinct. They also started exporting in significant volume from the late seventeenth century, but subsequently very few made investments abroad, which involved more capital and a higher risk than that incurred when exporting through third parties.<sup>16</sup> The asset specificity associated with producing wines in other climates and lands, in part explain in part why Portuguese firms did not invest in setting up foreign operations. International trade also did not serve as a learning experience for more risky investments abroad. Portuguese wines (especially port) was directed to two main markets: the UK and Brazil. The former remained the number one destination until the Second World War, and the latter was an important destination for Portuguese wine while Brazil was still

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<sup>13</sup> There are however some exceptions such as Anheuser Busch, the world's leading brewer, which only started to internationalize in the late 1990s.

<sup>14</sup> *D.C.L. Gazette*, Winter (1967), 209-11; Geoffrey Jones, *Merchants to Multinationals* (Oxford: Oxford University Press, 2000); R. B. Weir, *The History of the Distillers Company* (Oxford: Oxford University Press, 1995).

<sup>15</sup> Alec Waugh, *Merchants of Wine* (London: Cassell and Company Ltd, 1957), 33-35.

<sup>16</sup> Martins, *Memória do Vinho do Porto*.

a Portuguese colony. The trade to the UK was controlled by British merchants, often organized as family networks.<sup>17</sup>

Sales to Brazil were controlled for a long time by the Companhia Geral da Agricultura dos Vinhos do Alto Douro, which was all but a state monopoly.<sup>18</sup> Once Brazil became an independent nation and the market became liberalized, a number of Portuguese firms such as Ramos Pinto developed larger businesses activities in that market.<sup>19</sup>

Another parallel between the above mentioned four nations concerns the characteristics of their domestic markets. They are all traditionally important consumers of alcoholic beverages, even though there are differences in terms of their total consumption levels and the type of beverages they drink. The UK and France have a large population compared to the Netherlands and Portugal, and therefore have higher levels of total alcohol consumption and thus very lucrative internal markets. The UK and the Netherlands consume principally beer and spirits, while France and Portugal consume mostly wine.<sup>20</sup>

A major difference concerning the evolution of the industries between these nations relates to the role played by institutions, in particular the government and the

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<sup>17</sup> Paul Duguid research on the origins of brands, claims that alcoholic beverages such as port had a very important role in their development. However, as he argues, that development took place at the level of the wine merchants which were usually British based, and independent from the Portuguese port wine firms. Even though these wines used the names of the farmers as their brand names, most farmers had little control over the process through which they were sold. Paul Duguid, 'Developing the Brand: The case of alcohol, 1800-1880', *Enterprise and Society*, Vol.4, No.3 (2003), 405-41; Paul Duguid and Teresa da Silva Lopes, 'Institutions and organizations in the Port-wine trade, 1814-1834', *Scandinavian Economic History Review*, Vol.47, No.1 (1999), 84-102.

<sup>18</sup> Gaspar Martins Pereira, *O Douro e o Vinho do Porto de Pombal a João Franco* (Porto, Afrontamento, 1991).

<sup>19</sup> The barriers created to imports (as a way to protect domestic production) from the 1930s, and the expansion of production of other domestic alcoholic beverages made out of various fruits and beer, which had low alcohol content, and were more adapted to the requirements of consumers living in tropical climates and were cheaper, led to the collapse of trade to this market. Teresa da Silva Lopes, 'Os mercados do vinho do Porto', in Gaspar Martins Pereira (ed.), *O Vinho do Porto* (Porto: IVP, 2003).

<sup>20</sup> *World Drink Trends* (Henley-on-Thames: NTC Publications, 1960-2004).

financial markets.<sup>21</sup> In the UK and the Netherlands intervention by the governments has focused on controlling the sale of alcoholic beverages. This originated from these nations' tradition of forbearance in the face of conflicting moral and social values. This intervention translated mainly on restrictions on trade and consumption. For instance in the UK, the Gladstone Act of 1861, changed the duties on wine and oversaw which premises (such as off-licences) were allowed to sell alcoholic beverages and at what time.<sup>22</sup> In contrast, in France and Portugal, the sale and distribution of alcoholic beverages have always been much freer, while the production and trade in wine have been very controlled through different agencies. The government also had an important role in protecting existing firms. Legislation, such as the 'Lei do Condicionamento Industrial' which existed in Portugal from 1931 until 1969, set up huge barriers to entry for new competitors both from Portugal and abroad. This had an impact on the level of sophistication of consumers in terms of taste.<sup>23</sup> In the long term, this protection, even though it allowed a large number of very small firms to survive, limited the incentives for these firms to grow and innovate in areas such as marketing, branding and distribution, which became a problem once Portugal became a member of the European Union, when the government could no longer protect its national industries so easily.

Financial markets also developed quite differently on these four nations. In the UK, most large firms to became publicly quoted after the Second World War. In France, the Netherlands and Portugal, modern capital markets developed much later,

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<sup>21</sup> Wendy Hurst, Ed Gregory and Thomas Gussman, *Alcoholic Beverages Taxation and Control Policies* (Ottawa, Brewers Association of Canada, 1997).

<sup>22</sup> Tim Unwin, *Wine and the Vine – An Historical Geography of Viticulture and the Wine Trade* (Routledge, 1991); Richard McGowan, *Government Regulation of the Alcohol Industry* (London: Quorum Books, 1997).

<sup>23</sup> António Barreto, 'O Vinho do Porto e a Intervenção do Estado', *Análise Social*, Vol.24 (100), 1988, 373-390; Vital Moreira, *O Governo de Baco: A Organização Institucional do Vinho do Porto* (Porto: Afrontamento, 1998); Jaime Reis, *O Atraso Económico Português, 1850-1930* (Lisboa: Imprensa Nacional/Casa da Moeda, 1993), 9-32; Vital Moreira, *O Governo de Baco* (Porto: Afrontamento, 1998).

allowing family firms to adapt to institutional changes and to survive by keeping control of their shares.<sup>24</sup>

The way in which the relation between control and ownership of firms evolved was also quite distinct between nations. In the UK, as firms became publicly quoted, they hired professional managers to look after the interests of a large number of shareholders. In France and the Netherlands, where alcoholic beverages firms remained family owned, their control also evolved from having family members as top managers to having hired professionals. The French firm Pernod Ricard illustrates this situation. Although the chairman and CEO is a family member - Patrick Ricard – its executive managers are hired professionals. In 2000 Thierry Jacquillat, who was also a family member, and had been president of the firm since 1978 became vice chairman and appointed two joint managing directors - Richard Burrows and Pierre Pringuet. Neither was a family member. Richard Burrows had previously been chairman of Irish Distillers, and Pierre Pringuet had previously been chairman of Pernod Europe.<sup>25</sup> In contrast, in Portugal, by the beginning of the twenty first century families controlled both the shares and the management of the firms. For instance all the three sons of the president of Sogrape Fernando Guedes were involved in the top management of the firm at the beginning of the twenty first century.<sup>26</sup>

## 2.2 Leading firms and their brands

The leading multinationals in alcoholic beverages from the UK, France and the Netherlands were Diageo, Allied Domecq, Scottish & Newcastle and Heineken. There were no Portuguese multinationals on these rankings.<sup>27</sup> Table 1 below illustrates, for each, the leading alcoholic beverages firms, their volume of sales (in constant US\$), their dates of foundation, their main brands and their main types of beverages.

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<sup>24</sup> Richard Whitley (ed.), *European Business Systems: Firms and Markets in their National Contexts* (London: SAGE Publications, 1992); Michael Mayer and Richard Whittington, 'National Institutions and Corporate Change: Strategy, Structure and 'Systemness' in France, Germany and the United Kingdom, 1950-1993', *Industrial and Corporate Change*, Vol.8, No.3 (1999), 519-51.

<sup>25</sup> Pernod-Ricard, *Annual Report and Accounts* (2000); interview with Thierry Jacquillat, former CEO of Pernod-Ricard, London, 20 January 2004.

<sup>26</sup> Gaspar Martins Pereira, *Sogrape – Uma História Vivida* (Porto: Sogrape/Campo de Letras, 2003).

<sup>27</sup> See for example *Fortune*, 2003.

Additionally, it includes some of the leading Portuguese alcoholic beverages firms, which could have developed as leading multinationals but did not. These firms are Unicer, Centralcer, Sogrape and José Maria da Fonseca.

This table illustrates the very large difference in size between the French, Dutch and British firms and the Portuguese firms. While the leading Portuguese firm in wines and spirits Sogrape was around 145 times smaller than Diageo, Unicer, the leading Portuguese brewer was thirty two times smaller than Heineken.

It also shows that all the firms were old, established, and most were the result of mergers which took place from the 1960s. The wines and spirits firms tend to be diversified within those two businesses. The brewers tend to be concentrated on brewing, as illustrated by their main brands, even though they often also have investments in water, soft drinks, coffee and wine. However, the brands owned by large multinationals tended to be sold in more markets than those owned by Portuguese firms. For instance in 1998, the two leading brands owned by Diageo Smirnoff and Johnnie Walker were sold in 54 and 53 markets respectively. Sogrape's two leading brands Mateus and Sandeman were sold in 33 and 36 markets respectively. However, in all the cases the actual sales were still concentrated in a small number of markets: Smirnoff was sold in what corresponds to 5.5 markets, Johnnie Walker in 12.13 markets, and Sandeman in 5.5 markets.<sup>28</sup>

The investments by brewers in soft drinks and water are related to the fact that these beverages are usually considered to be important platforms for firms to sell beer in on-trade distribution channels.<sup>29</sup> Apart from their own brands, brewers often distribute other companies' brands. For instance the Portuguese brewer Centralcer also has licensing agreements of foreign beer brands such as Budweiser owned by the leading American brewer Anheuser-Busch.

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<sup>28</sup> Calculations based on data from *Company Watch* (London: Canadean, 2003). The number of equivalent markets ( $1/H$ ) is the inverse of ( $H$ ) the Herfindahl Index, frequently used in industrial economies to measure the concentration of industries. In this case this index is adapted to measure the concentration of sales in terms of markets of destination by each firm.

<sup>29</sup> Interview with Tony Froggatt, CEO da Scottish & Newcastle (Edinburgh 11 July 2003).

**Table 1 - Leading alcoholic beverages firms by country, 2000**  
(Amounts stated in US\$)

<b>COUNTRY</b> <b>Firm</b> <b>(largest predecessor)</b>	<b>Foundation/ last merger</b>	<b>Sales 2000</b>	<b>Main products</b>	<b>Main brands</b>  (by 2000)
<b>FRANCE</b>				
LVMH (Moët Chandon, Moët Hennessy)	1743/1971/ 1987	10670	champagne cognac table wine	Moët & Chandon Hennessy Chandon Veuve Clicquot Mercier
Pernod Ricard	1805/1975	4074	anis/pastis bitter/aperitif whisky	Ricard Larios Pastis Suze Clan Campbell
Remy Cointreau	1724/1991	792	cognac liqueur rum vodka champagne	Remy Martin Cointreau Mount Gay Rum Bols Piper Heidsieck
<b>PORTUGAL</b>				
Unicer	1890/1977	354	beer water soft drinks coffee	Superbock, Cheers, Cristal Vitalis, Castelo de Vide Snappy, Frutea Iced Tea
Centralcer	1836/1934	243	beer water soft drinks	Sagres Topázio Cergal Luso Joi
Sogrape	1737/1924	163	Table wine port wine brandy	Mateus Sandeman Offley Ferreira Finca Flinchman
José Maria da Fonseca	1834	33	Wine Fortified wine	Lancers Periquita Moscatel Setúbal Terras Altas
<b>THE NETHERLANDS</b>				
Heineken	1864	8776	beer	Heineken Amstel
<b>UK</b>				
Diageo (Distillers)	1877/1997	17996	vodka whisky gin liqueur	Smirnoff Johnnie Walker J&B Rare Gordon's Baileys Original
Scottish Newcastle	1749/1960	5431	beer water	Kronenbourg John Smith's Foster's
Allied Domecq	1799/1961	3945	brandy whisky tequila liqueur	Ballantine's Presidente Canadian Club Kahlua Sauza

Source: Database

Notes: 'na' – not available or not applicable

Even though the leading brewers from the UK and the Netherlands were not diversified into wines, this was a trend in the industry. For instance the leading South African and Australian brewers, SABMiller (former South African Breweries) and Fosters had diversified into wines during the 1990s. In 2001 Unicer acquired Vimopor, a producer of Alvarinho wine, and had minority stakes in other producers of wine Univin, Quinta do Minho and Vipol. This diversification into other business by Portuguese brewers, explains to a great extent their larger size in the beginning of the twenty first century.

While most global brands owned by the leading UK multinationals changed ownership multiple times, the global brands owned by leading family firms in alcoholic beverages had more stable lives. However, even family firms rejuvenated their brands many times through brand and line extensions. For instance in 2003, while Moët & Chandon had fourteen range or line extensions (champagne brand extensions, other sparkling wines, still light wines and grappa), Mateus Rosé only had two.<sup>30</sup>

In contrast, Portuguese brands had much less rejuvenation in their lives. In table wines, the global brands from Portugal are Mateus Rosé owned by Sogrape and Lancers owned by José Maria da Fonseca. They were both rosé wine brands, slightly sparkling, which used since their launching bottles with a differentiated shape, which became part of their brand image until the present days.<sup>31</sup>

The brand Mateus was created in 1942 and Lancers in 1944. Both brands had a very rapid growth initially, mainly in foreign markets. The success of these brands allowed the firms to grow internationally through exports. They were also able to sell other brands internationally, mainly of wines from the Dão region and the *vinho verde* region. These different types of wines were aimed at different consumers or the same but in different occasions.

From the 1980s the changes in consumer preferences and increased sophistication of their tastes, sales volume of these two brands stagnated, leading the firms to change

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<sup>30</sup> Based on data from 'Company Watch - LVMH' and 'Company Watch - Sogrape', *Canadean* (London: Canadean, 2003).

<sup>31</sup> Interview with Fernando Guedes, 'Fighting Flask', *The Times*, 31 October 1991; Martins Pereira, *Sogrape – Uma História Vivida*.

their strategies. While Sogrape chose to grow based on mergers and acquisitions, José Maria da Fonseca, grew organically, and remained very dependent on the brand Lancers. In order to rejuvenate the brand, Sogrape made several changes to the marketing strategy of Mateus, which had become a global brand. The wine became dryer, and could be red or white. Several line extensions were launched, the word rosé disappeared from the label, and the bottle became taller. Despite the changes in the marketing strategy of Mateus, the mergers and acquisitions of other alcoholic beverages businesses, meant that the brand had lost its relevance in the total activity of the firm.<sup>32</sup>

Lancers initial success is closely associated with the alliance that José Maria da Fonseca had with Vintage Wines, a US distributor of wines since World War II. The acquisition of this distributor by Heublein in 1965, then one of the leading US firms in alcoholic beverages, increased the success of the brand even more. In 1970 the two companies formed a joint venture – J.M. da Fonseca Internacional Vinhos, which apart from the distribution of Lancers also involved investments in a new production unit in Portugal. The acquisition of Heublein by Grand Metropolitan in 1986 meant that the joint venture was transferred to the latter. In 1996 the changes in strategy of Grand Metropolitan, led to the sale of its part in the joint venture back to the Fonseca family.<sup>33</sup>

By the beginning of the twenty first century, José Maria da Fonseca, had a very similar portfolio of brands to that of fifty years before, focusing on a small number of brands of quality and denomination of origin, such as Moscatel de Setúbal and Periquita.<sup>34</sup>

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<sup>32</sup> By 2002, after the acquisition of Sandeman, the sales volume of Sogrape was 40 per cent from port wine business, 36 per cent from table wines (including Mateus), 8 per cent from Sherry, 4 per cent from Argentina and 12 percent of licensing agreements for the distribution of foreign companies brands such as Cutty Sark, Glenrothes and Glengoyne, owned by Berry Brothers & Rudd. [‘Cutty Sark gets new handler in surging Portuguese Scotch market’, *Impact International*, Vol.31, Nos. 15 & 16, 9; ‘Boa Rolha para a Sogrape’, *Semanário Económico* (3 May 2003)].

<sup>33</sup> Heublein, *Annual Report and Accounts* (1965, 1971); Grand Metropolitan, *Annual Report and Accounts* (1986).

<sup>34</sup> Conceição Andrade Martins, ‘Survival and renewal of Portuguese family wine firms in front of internationalisation 1820-1999’, paper presented at annual conference of the European Business History Association (Bordeaux, 15-16 September, 2000).

In the beer industry there were many global brands, owned by multinationals such as Scottish and Newcastle and Heineken. The Portuguese firms Unicer and Centralcer only owned brands that were leaders in the domestic market - Superbock and Sagres, respectively. Sagres was a brand created in 1940, at the time of the exhibition of the Portuguese world. Superbock was created in 1927, and was launched in the 1930, at the time of the great depression.<sup>35</sup> Both Centralcer and Unicer changed ownership several times. Both were nationalised with the revolution of 1974 (which changed the Portuguese economic system from a fascist regime to a democracy), and both were privatised in the 1990s. At the time of the revolution of 1974 the main shareholder of Soc. Central Cervejas (subsequently renamed Centralcer) was a Portuguese group Parfil – Soc. Gestão de Participações Financeiras. From the 1990s it changed ownership several.

In 2000 Bavaria sold the firm to the multinational Scottish & Newcastle (49 percent) and the consortium VTR SGPS (the holding of a Portuguese family owned bank - Banco Espírito Santo), to Parfil, Fundação Biscaya Barreto, Olinveste and Fundação Oriente (51 percent). In 2003 Scottish Newcastle acquired the remaining part of the capital of Centralcer becoming the sole shareholder of the company. Unicer was also privatized in 2000, and was partly owned by Viacer – Sociedade gestora de Participações Sociais (56 per cent) and the Danish multinational brewer Carlsberg (44 per cent).

The type of beverage to which these brands related was also distinct. There are many more spirits, beer, and processed wines global brands than there are still wines brands. Even companies like Pernod Ricard have global brands of still wines, such as Jacob's Creek, but they are not as significant as the other types of beverages.

### **3. M&A and Concentration**

The leading multinationals in alcoholic beverages resulted from multiple mergers and acquisitions waves, which overall they led to a concentration in the global industry. While in the UK, France and the Netherlands the concentration process had started in the 1960s, in Portugal mergers and acquisitions of similar size only started

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<sup>35</sup> '75º Aniversário da Cerveja Super Bock', *Revista dos Vinhos*, October 2002.

taking place in the 1990s. Several of the leading Portuguese firms, especially the brewers, were owned or controlled by multinationals by the beginning of the twenty first century. Scottish & Newcastle from the UK owned Centralcer; a controlling share of the capital of Unicer was controlled by Carlsberg from Denmark; and Allied Domecq, also from the UK owned Cockburn Smiths a port wine firm.

### **3.1 International merger waves**

The first merger wave started in the late 1950s and lasted until the early 1960s. It had a very restricted geographical scope, involving mainly British brewers and wine merchants, which were consolidating their positions in the domestic market. An example of that are the mergers between three small English brewers which led to the creation of Allied Breweries in 1961. Another example is the merger between Gilbey's (which owned Croft port) and United Wine Traders in 1962, which led to the creation of International Distillers and Vintners, owner of the scotch whisky J&B.<sup>36</sup>

The second merger wave took place from 1968 to 1972, and had similar characteristics to the first one, the main difference being that it involved leading brewers from other countries, such as the Netherlands and Denmark, apart from the UK. Examples are the merger and acquisitions of Amstel by Heineken and Tuborg by Carlsberg in 1968 and 1970, respectively. The spirits and processed wines firms also started to merge and acquire other firms. An illustration of that is the merger in 1971 between the French champagne and cognac producers Moët & Chandon and Hennessy.

The third merger wave, from 1985 to 1988 was motivated by the globalization of markets, and the target firms were those that owned spirits brands with the potential to become global, sold in many different countries. In this period, firms also aimed at acquiring distribution channels as they believed that would allow them to appropriate more value in the value added chain.

The last merger wave which started in 1998 and lasts until the present day, was motivated by the trend for firms to focus their businesses on a restricted number of global brands, using similar marketing strategies. This wave involved not only spirits

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<sup>36</sup> Allied Breweries, Annual Report and Accounts (1961); Gilbey's, *Annual Report and Accounts*, (1962).

firms but also brewers and wines producers, which had remained essentially domestic. Nonetheless the scope of the mergers and acquisitions was much more significant in spirits and brewing sectors than in the wines sector.<sup>37</sup>

### **3.2 Fragmentation in Portugal**

In Portugal the situation was quite different. By the beginning of the twenty first century the industry was still fragmented, with the exception of beer where there was a high concentration.<sup>38</sup> Despite the fragmentation of the wines and spirits industry, a small group of Portuguese firms developed becoming domestic leaders. These were in table wines Sogrape and José Maria da Fonseca, and in port wine Cockburn Smiths, Quinta Vineyards Bottlers (previously Taylor group) and Symington, apart from Sogrape.

Several of these firms had complicated paths of evolution until they were merged or acquired by others. An example is Sandeman, acquired by Sogrape in 2002. Sandeman, is a port and sherry company known for its brands with the same name and its famous logo with the 'don'. It was a family firm from 1790 until 1980, when it was acquired by the Canadian multinational Seagram. This multinational already had investments in Portugal, having acquired a brandy firm Macieira in 1973. In 1974 there were negotiations for the acquisition of Adriano Ramos Pinto by Seagram, but due to problems created by some minority shareholders of the Ramos Pinto family and also because the management of the firm was very rudimentary and the economic and financial situation of the firm was weak, the deal did not go ahead.<sup>39</sup>

In 2002 Seagram was acquired by the water and media French Multinational Vivendi. At the time of the acquisition Seagram was one of the leading multinationals in alcoholic beverages and also a highly diversified multinational with businesses in alcoholic beverages and media. Vivendi retained Seagram's media business and sold the alcoholic beverages business to Diageo and Pernod Ricard in the same year. These

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<sup>37</sup> Teresa da Silva Lopes, 'Brands and the Evolution of Multinationals in Alcoholic Beverages', *Business History*, Vol.44, No.3 (2002), 1-30.

<sup>38</sup> Monitor Group, *Vini-Portugal – Initiatives for Action in the Portuguese Wine Cluster* (29 May 2003).

two multinationals shared the brands, and disposed of those that they did not consider to be strategic for their global portfolio of brands. This is when Pernod Ricard sold Sandeman to Sogrape.<sup>40</sup>

Apart from Sogrape and José Maria da Fonseca, there were other Portuguese alcoholic beverages firms of significant size in the beginning of the twenty first century. Table wines firms had formed a consortium in 1993 – the Group of Seven. This group was formed by Sogrape, José Maria da Fonseca, Caves Aliança, Quinta da Aveleda, Caves Messias, Finagra – herdade do Esporão and J.P. Vinhos. The aim was to promote Portuguese wines of quality in foreign markets, and obtain economies of scale and scope in its distribution and sale. They sold 150 millions of bottles a year, corresponding to around 400 brands which were sold in more than 125 countries. The sales of this group represented around 75 per cent of Portuguese exports of Portuguese wines bottled at their source (excluding port wine).<sup>41</sup> Among the brands they distributed was Esporão owned by Finagra, and the leading brand of *vinho verde* (green wine) Casal Garcia created in 1947 and owned by Quinta da Aveleda.

In fortified wines, especially in the port wine business, the size of firms was more similar than in table wines. For reasons similar to those that led to the creation of the ‘Group of Seven’ in table wines, in port wine a group of independent and family owned firms also formed a consortium ‘Port 6’. The companies that were part of this consortium were Barão de Vilar, Vinhos C. N. Kopke, J.H. Andresen, Manoel D. Poças Junior, Sociedade Quinta do portal and Wiese & Krohn.

In Madeira wine, the two leading firms were Madeira Wine Company and Henriques e Henriques. Madeira Wine Company which was the largest Madeira wine producer, resulted from the merger in 1913 of a group of very long established firms.<sup>42</sup> Some of its main brands were Blandy, Leacock and Cossart Gordon, and was partly owned by the port wine group Symington.

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<sup>39</sup> Price Waterhouse, ‘Adriano Ramos Pinto - Report on a Businessman’s Review’, 17 May 1974, Seagram Collection, Accession 2126, Box 181.

<sup>40</sup> Interview with Thierry Jacquillat, CEO da Pernod Ricard (London, 20 January 2004); interview with Julie Massies, Business Developer da Pernod Ricard (Paris, 11 June, 2003).

<sup>41</sup> ‘G7 com 75% das Exportações’, *Diário Económico* (8 de Abril 2003).

<sup>42</sup> Benedita Câmara, ‘O Vinho da Madeira, 1850-1914’, in Aberto Vieira (ed.), *Os Vinhos Licorosos e a História* (Funchal: Centro de Estudos de História do Atlântico, 1998).

In brewing the concentration in was not due to planned strategies by the firms, but resulted instead from the intervention of the government, such as the 'Lei do Condicionamento Industrial'. Subsequently, in the period after the revolution of April 1974, the State nationalized all the Portuguese brewers merging them in two economic groups. This nationalization of firms took place in 1977, and led to the creation of Centralcer and Unicer. Centralcer – Central de Cervejas EP, resulted from the merger of Sociedade Central de Cervejas and Cergal, and Unicer resulted from the merger of CUFP – Companhia União Fabril Portuense das Fábricas de Cerveja e Bebidas Refrigerantes, with Copeja, Imperial and Rical.

### **3.3 Portuguese M&A's**

Despite the small size of Portuguese firms, and the fragmentation of the industry, they had been involved in the international merger waves but in a passive way. Table 2 below provides a list of the major mergers and acquisitions involving Portuguese firms from 1960 until the present day. It shows the dates of mergers and acquisitions of the firms, the names of the acquiring and the acquired firms, as well as the amounts involved (when available).

During the 1960s British firms such as Allied Breweries believed that it was possible to brand port by obtaining a beverage with homogenous characteristics. This is why Harvey's Group (later part of Allied Domecq) acquired the port firms Cockburn and Martinez Gassiot in 1961.<sup>43</sup> In fact, multinationals such as Allied Breweries had a very important role in the development of the port wine industry in general. For instance in 1983 Harvey's created Cockburn Special Reserve, which became the premium port with highest level of sales in the world. This was a major innovation, which changed the way port was sold, as it segmented the market in new niches not considered previously.<sup>44</sup> This trend was followed by multinationals from other countries such as Bacardi based in Bermuda and LVMH from France.

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<sup>43</sup> Tim Unwin, *The Wine and the Vine*.

<sup>44</sup> Interview with Michael Jackaman, CEO of Allied Domecq (Somerset, 19 June 2000).

**Table 2 – Major mergers and acquisitions in the Portuguese Alcoholic Beverages Industry,  
1960-2004**

(millions of US\$, constant prices 2000 =100)

Year	Acquired Firm	Acquiring Firm	Amount
<b>1960s</b>			
1961	Cockburn	Harvey's ( Allied Domecq)	na
1961	Martinez Gassiot	Harvey's (Allied Domecq)	na
1962	Offley/Forrester	Sandeman	na
1969	João Pires e Filhos	José Maria da Fonseca	na
<b>1970s</b>			
1972	Croft Delaforce/IDV	Grand Metropolitan	na
1975	Gran Cruz	La Martiniquaise	na
1978	Rozès	Moët Chandon (60%)/ Taylor (40%)	na
<b>1980s</b>			
1980	Sandeman	Seagram	na
1983	Offley/Forrester	Bacardi-Martini	na
1985	J. M. Fonseca Internacional	Heublein	na
1985	Sileno (parte do Grupo José Maria da Fonseca)	IDV	na
1987	A.A. Ferreira	Sogrape	na
1987	Rozès	LVMH	na
	Robertson		na
<b>1990s</b>			
1990	Adriano Ramos Pinto	Roeder	na
1991	Centralcer	Santo Domingo (Colombia)	135
1992	Unicer	Carlsberg	na
1996	J. M. Fonseca internacional Vinhos	José Maria da Fonseca	na
1996	Offley/Forrester	Sogrape	na
1997	Finca Flincham (Argentina)	Sogrape	22
1999	Burmester	Amorim	19
	Quinta do Noval	Axa	na
1986	Quinta do Convento S. Pedro d'Aguias	Vranken	na
1999	Rozès	Vranken	na
1999	Calém	Caixa Nova	na
1999	Quinta do Ventozelo	Proinsa	10
<b>2000s</b>			
2000/ 2003	Centralcer	Scottish & Newcastle	352
2002	Sandeman	Sogrape	98
2002	Croft e Delaforce	Taylor e Fonseca	27
2002	João Pires	UDV	na
2002	J. P. Vinhos	Joe Berardo	na

Source: Database; various articles from the press.

na – not available

In the beginning of the twenty first century, most of the leading multinationals had divested from the port wine business. It was not easy either to control the levels of production each year, nor obtain similar characteristics for the beverages. Additionally, the return on capital invested was not as significant as that obtained in spirits and processed wines such as vodka, tequila and cognac.<sup>45</sup>

Soon after its creation in 1997 as a result of the merger between Grand Metropolitan and Guinness, Diageo decided to concentrate in a restricted number of global brands – Johnnie Walker, Guinness, Smirnoff, Tanqueray, J&B, Baileys, Cuervo and Malibu. This portfolio of priority brands was complemented by a group of local priority brands such as Bell’s and Gordon’s, Captain Morgan, 7 Crown and Sterling Vineyards. The other brands such as Croft port were disposed of. For these brands, multinationals often created distribution alliances with their new owners in order to keep them in their portfolios.<sup>46</sup>

Allied Domecq was the only leading multinational which kept its investments in port wine, with the ownership of the firm and the brands Cockburn and Martinez Gassiot. The main reason for that was related to the leadership position and sustained growth that the brands had in the UK (where for instance the share of the market for Cockburn in the off-trade of around 28 percent in 2002).<sup>47</sup>

Acquisitions by multinationals of Portuguese firms’ producers of table wines are less common. João Pires a table wine brand created by the firm with the same name in 1922 is one of those exceptions. The success of the brand in the domestic and international markets made the brand an attractive target for acquisition by Distillers and Vintners (now part of Diageo) in 1991. After selling the brand, the family firm changed its name to J. P. Vinhos SA.

Even though it is only from the 1990s that the mergers and acquisition movements by Portuguese firms start to have significance, there existed a concentration process since the late 1950s, just as in the world industry. These

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<sup>45</sup> Interview with Colin Campbell, Director General of Moët-Hennessy (Paris, 22 de November 1999).

<sup>46</sup> Interview with Jack Keenan, CEO of Diageo (Cambridge, 14 May 2003).

<sup>47</sup> Interview with Cathryn Sleight, Managing Director of Allied Domecq Spirits and Wines to *Harpers*, (5 April 2002).

movements were mainly visible in the port wine sector.<sup>48</sup> Ferreira (previously Companhia Agrícola e Comercial de Vinhos do Porto) was the first firm to follow this strategy, after the creation in 1955 of Consórcio Vinícola do Porto Lda, jointly with J. H. Andresen and Soc. dos Vinhos do Porto Messias. This consortium acquired several very small port firms which were subsequently split up between its members.<sup>49</sup>

The mergers and acquisitions that took place from the 1990s aimed at consolidating the domestic leadership positions of Portuguese firms. Sogrape was the most active firm in this consolidation process. Its dependency of one unique brand – Mateus Rosé – which corresponded to around 95 percent of their sales in the beginning of the 1980s, and started to decline since then - led the firm to diversify to other types of wines. First they acquired the largest producer of table wines from the Dão region and in 1987 acquired the port wine firm A. A. Ferreira, which also had the most prestigious brand of Portuguese table wine – Barca Velha. Subsequently Sogrape acquired various vineyards and centers for the vinification of wine in the main wine regions of Portugal, such as the Douro, Dão, Alentejo, Bairrada and Vinho Verde. This allowed the firm to greatly diversify into the production of quality wines with grapes grown in areas with denomination of origin.<sup>50</sup>

In 1996 Sogrape absorbed Offley-Forrester, another port firm. This firm had been sold to Bacardi, when Seagram acquired Sandeman but was unable to gain full control over Offley, was swapped in exchange for 21.7 percent of the shares of Sogrape. Apart from becoming a shareholder of Sogrape, Bacardi also became the exclusive distributor of several of Sogrape's brands in various markets such as the UK, Denmark and Thailand (markets where Bacardi had its own distribution channels).<sup>51</sup>

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<sup>48</sup> Teresa da Silva Lopes, *Internacionalização e Concentração no Vinho do Porto* (Porto: ICEP/GEHVID, 1998).

<sup>49</sup> Messias did not absorb any of the firm, as it left the consortium quite early in its life. Some of the firms acquired by the consortium were Morgado & Silva, G. H. Sellers & Ferro. Both companies were acquired in 1955 when they were still part of the group Valente Costa. Soc. dos Vinhos António Ferreira Menéres was acquired in 1958. Documents of the 'Consórcio Vinícola do Porto Lda', A.A. Ferreira Archive. Interview with Sr. Bernardo Campos, ex-director of A. A. Ferreira (Porto, 20 February 2000). See also Lopes, *Internacionalização*, 38-39.

<sup>50</sup> Barca Velha was launched in 1952 by Fernando Nicolau de Almeida which worked for the Ferreira firm. Pereira, *Sogrape*.

<sup>51</sup> 'Company Watch- Bacardi', *Canadean*, (London: 2003).

Sogrape's first acquisition abroad was in 1997 – Finca Flinchman. This is was one of the leading producers of wines in Argentina and one of the largest exporters of that country. The aim with this acquisition was to gain a presence in the international market of table wines, using varieties well known in foreign markets (in Portugal consumption is mainly of Portuguese varieties). These wines were sold in international markets using the well known brand name Mateus. However, these line extensions used different bottle shapes, and had a difference appearance from the original Mateus Rosé.<sup>52</sup>

Sogrape's strategy of investing in a country such as Argentina which is one of the largest producers of wines in the world is in fact similar to that followed by some leading multinationals in alcoholic beverages, such as Allied Domecq, Moët & Chandon and Pernod Ricard, which also invested in the production of wines from Argentina, one of the largest producing countries of wines in the world. Over the years Sogrape also diversified into non-related businesses and beer (investing in Unicer), but in the early 1990s disposed those investments as they were considered non-strategic.<sup>53</sup>

The acquisition of Sandeman in 2002 allowed Sogrape to establish its leadership position in port wine, and diversify into sherry. Quinta & Vineyards Bottlers (owners of the port brand Taylor) made a similar but more risky acquisition in the same year, as they bought out the port brand Croft, but left the sherry brand Croft to be acquired by the Spanish family firm Gonzalez Byass.<sup>54</sup>

While leading multinationals were divesting from the port business, some smaller multinationals from France, specializing in niche markets, acquired those businesses. In 1998 Vranken acquired Rozés and Quinta de S. Pedro d'Águias. Other smaller French multinationals which in previous decades had acquired port wines firms also kept their investments. Some illustrations of that are La Martiniquaise which was acquired by Gran Cruz in 1975, Metropole which acquired Ramos Pinto in 1990, and the French insurance company Axa (which also had investments in Bordeaux wines – Châteaux Cantenac Brown) and had acquired Quinta do Noval in 1993. The interest

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<sup>52</sup> Interview with Fernando Guedes, 'Vamos fazer na Argentina vinhos varietais com a marca Mateus', *Revista de Vinhos* (November, 1998).

<sup>53</sup> Ibid.

<sup>54</sup> 'Grupo Taylor compra a Croft e a Delaforce', *Jornal de Notícias* (4 September 2001).

of these smaller French multinationals in port wine was greatly related to the fact that France was the main market of destination of port since 1963, where it was drunk as an aperitif.<sup>55</sup>

During this period, Portuguese investors from other business activities also entered the port industry. Group Amorim, the world leader in the production of cork, acquired the port firm Burmester in 1999. Sociedade dos Vinhos Borges was acquired by José Maria Vieira, a former distributor of the company in the domestic market, which also owned the *vinho verde* brand Gatão, the Dão wine brand Meia Encosta, and the sparkling wine Fita Azul. Calém, a port wine firm founded in 1859, which had remained in family hands until 1998 when it was sold to a former manager of another port firm and a Spanish financial institution Caixa Nova.

In the wines business there are also examples of firms acquired by investors originally in other industries. Herdade do Esporão was acquired by the businessman José Roquette in 1987, and J. P. Vinhos by Joe Berardo a businessman which had a large hotel business in Madeira as well a diamonds business in South Africa.

#### **4. Growth strategies within alcoholic beverages**

It is also possible to find similarities in the paths of diversification of firms within the alcoholic beverages business, from the 1960s to the present day. These similarities exist both in terms of their paths of evolution and the timing in which they took place.

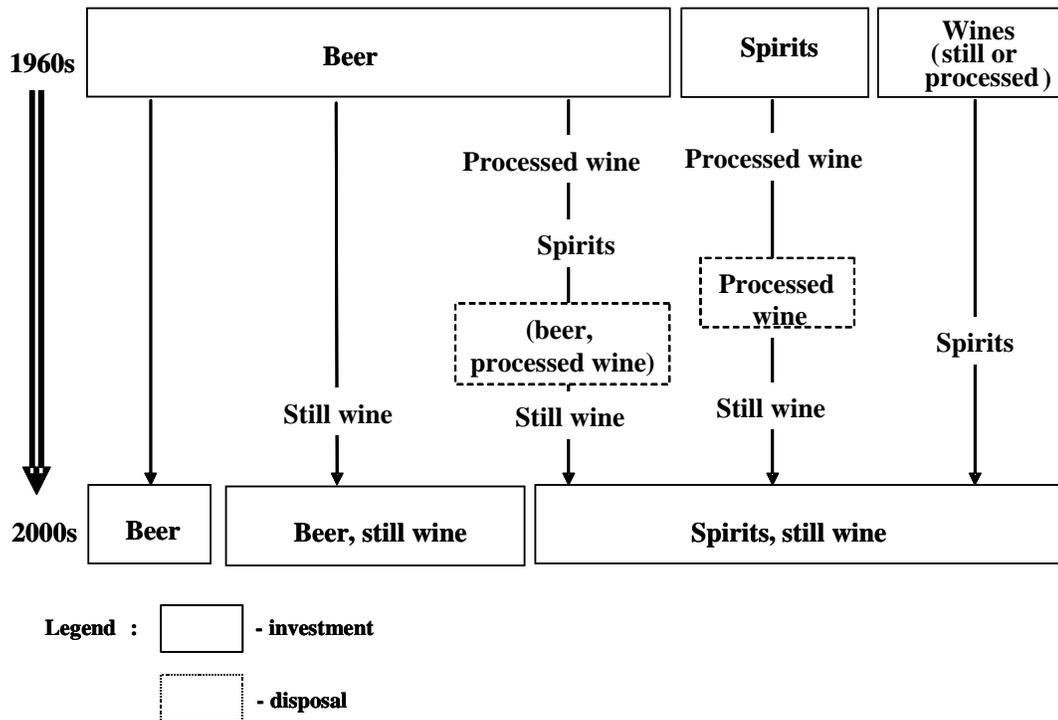
##### **4.1 Paths of evolution**

Figure 1 below illustrates the cycles of diversification of the world's leading multinationals, within the alcoholic beverages industry.

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<sup>55</sup> Philippe Roudié e François Guichard, 'La Situation Comparée des Marchés des Vins de Porto et de Bordeaux au Début des Années 1980', *1<sup>as</sup> Jornadas de Estudo Norte de Portugal/Aquitânia* (Porto: CENPA, 1986).

Figure 1 – Cycles of diversification in the global alcoholic beverages industry



The world's largest brewers grew by using three types of diversification strategy. Some firms, such as Scottish & Newcastle and Heineken, remained essentially focused on the beer business, in various activities in the value added chain such as production and distribution. Their growth was mainly organic, even though in recent years they merged and acquired other brewers, both in their country of origin and abroad.<sup>56</sup>

Nonetheless, the majority of brewers diversified to other alcoholic beverages businesses, applying the marketing knowledge they had acquired in the management of beer brands, in table wines and spirits brands. An illustration is Allied Breweries (currently Allied Domecq) which in 1966 diversified into wines with the acquisition of Harvey's (which owned Harvey's Bristol Cream and Cockburn port and sherry, among others). Subsequently, in 1975 it diversified into spirits, with the acquisition of the Scotch whisky firm Teachers.

<sup>56</sup> The process of expansion through mergers and acquisitions started in 1995 with Scottish & Newcastle's acquisition of Courage. Interview with Tony Froggatt, CEO of Scottish & Newcastle (Edinburgh, 11 July 2003); Berry Ritchie, *Good Company – The Story of Scottish & Newcastle* (London: James & James, 1999).

In most cases brewers started diversifying later than spirits firms. For instance Guinness acquired Arthur Bells and United Distillers in 1985 and 1986, respectively, this last one being the world leader in scotch whisky and gin at the time, with brands such as Johnnie Walker and Gordon's.

By the end of the twentieth century, many of the multinational firms, with origin both in beer and spirits, had diversified into table wines. They combined their experience and marketing knowledge in the management of brands with the technological developments in enology and viticulture in recent years. These allowed the production in large scale of table wines with homogenous characteristics, and using a restricted number of grape varieties. A leading firm which followed this type of strategy was Pernod Ricard with the acquisition of the Australian wine Jacobs Creek in 1989, which also had distribution operations in its domestic market.<sup>57</sup>

The world leaders in the production of wines, such as Constellation Brands and Gallo from the US, also started to grow by consolidating their position in their domestic markets and concentrating their production in the country of origin. This was also the strategy followed by the largest Portuguese wine producers, such as Sogrape.

These different paths of diversification within alcoholic beverages suggest that it is easier for brewers to invest in spirits and wines, than it is for wines or spirits firms to invest in beer. The diversification by some brewers into processed wines such as port during the 1960s, followed by a diversification into spirits and finally wines, indicates it is easier for brewers to apply the marketing knowledge acquired in the management of their brands to other alcoholic beverages brands.

It is much more difficult for firms' producers of processed wines and table wines to diversify into other alcoholic beverages businesses. These businesses were traditionally more labour intensive and tended to focus on the production stage as they needed to control the impact of changes in climate, and the quality of wine, as well as their aging process in order to obtain beverages with homogenous characteristics (such as quality, colour or taste). Therefore their levels of marketing knowledge associated with the creation of brands and management of distribution channels, were very low when compared to spirits firms and brewers.

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<sup>57</sup> Interview with Thierry Jacquillat, former CEO of Pernod-Ricard, London, 20 January 2004.

There are a few cases of leading wine firms investing in the brewing sector. However, their investments were never successful from an economic perspective. For instance, Suntory, the Japanese leader in the production of wines and spirits diversified into beer from the beginning of the 1960s, but that business was never profitable. The main reason for keeping this business is the result of the oligopolistic reaction to competitors such as Kirin and Asahi, which apart from beer also sold spirits and wines in Japan.<sup>58</sup>

## 4.2 Timing for growth

The evidence provided by the world's leading multinationals also shows there was a time sequence in the growth of firms. In the 1960s firms expanded to processed wines. From the 1970s they went into spirits, and it is only from the 1990s that they invested in table wines. The evidence provided by the Portuguese firms shows a significant time lag in the process of diversification within the alcoholic beverages industry. It is only from the end of the twentieth century that brewers and wine firms started to diversify to other alcoholic beverages businesses, which were not their original businesses. By the time the Portuguese started merging and acquiring other firms, premium brands had been bid up and the late starters could only afford smaller, lesser brands.

The frequency and size of the transactions was also substantially smaller than that of the leading multinationals. Apart from that, they tended to remain focused on the domestic market. An example is Unicer which only at the end of the century invested in table wines (mainly Portuguese *vinho verde*).

The motivations that are behind these diversification movements of firms into table wines do not seem to be the same as those of multinationals. Acquisitions by large multinationals aimed at responding to changing preferences in consumer tastes, and to sell wines that were easily branded. The diversification of Portuguese port firms into table wines was also motivated by changes in consumer tastes for beverages with lower level of alcohol content. However, there were other motivations such as restrictions imposed by government legislation on production and aging of wine (eg.

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<sup>58</sup> Interview with Yoshi-Kunimoto, Vice President Executive of Suntory and with Kunimasa Himeno, Manager of the International Division of Suntory International (Tokyo, 16 September, 1999).

Lei do Terço, which obliges firms to keep large amounts of wine aging in stock for at least three years, until it can be sold). The diversification into table wines allowed firms to overcome this barrier to their growth as well as to cut costs associated with aging the wine, as it could be sold at a higher price with much less costs.

The differences in the growth strategies of Portuguese and foreign wine firms is visible in other areas of product management. For instance, it was only in recent years that Portuguese firms started to invest in ways to overcome the problem of multiple wine casts which characterize the Portuguese viticulture, and to make it difficult to create brands. They focus for that purpose on a restricted number of traditional grape varieties which can be combined, such as Touriga Nacional, Touriga Franca or Tinta Barroca in the Douro region.<sup>59</sup>

Additionally, in recent years, the entry into the Portuguese wines business of other investors originally from other sectors, was also motivated not by reasons of economic rationality, which are usually behind the creation of global brands, but instead by motives of nationalism, dream and pleasure. Even in the case of the acquisition of Burmester by the world leading producer of cork (the Amorim group), the synergies between the two businesses are not as strong neither in terms of physical and information linkages, nor technological and marketing knowledge.

## **5. Nationality in the development of multinationals in marketing based industries**

Despite coming from different countries, in distinct continents of the world, the world's leading multinationals in alcoholic beverages have a remarkable amount in common. Absolute advantages such as land, geographical location were not sufficient for nations to develop leading multinationals. In some cases these advantages did make important initial contributions. For instance, in the UK the climate and geographical region were favourable to the production of beer and spirits and from these firms did develop multinationals. In Portugal, by contrast, climate favoured

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<sup>59</sup> Cincinato da Costa, *O Portugal Vinícola* (Lisboa: Imprensa Nacional, 1900); Interview with Domingos Soares Franco, senior onologist of José Maria da Fonseca, to *Wine and Spirit International*, June 2002.

wine, which turned out not to be as propitious for multinational formation. The type of beverage, it has been argued, had an important impact on the ability of firms to gain experience in marketing and branding, which they could subsequently apply in the management of new acquired brands. The size of the countries and their experience and level of internationalization of their firms also influenced the development of multinationals.

Institutions and in particular governments also played a major role in setting the rules of the game. While in countries such as the UK and the Netherlands they interfered in trade and consumption, in Portugal state intervention focused essentially on production and trade. By creating favourable conditions for trade and consumption in countries such as the UK, the state forced firms to become more competitive to survive. In Portugal state intervention had a different purpose of protecting existing firms and so making them less competitive and allowing them to survive without developing management skills of marketing or technological knowledge. Once the Portuguese alcoholic beverages industry opened to foreign competition, as a result of the entry into the European Union in 1986, important problems of survival arose for small inefficient firms.

There were two main aspects relating to the activity of the ‘players’ which did not facilitate their becoming leading multinationals. Most alcoholic beverages firms that became leading multinationals remained family owned. However, they tended to change their management to using hired professionals. Furthermore, while multinationals developed around marketing skills, Portuguese firms, in part, as a result of their principal product, wine, tended to concentrate on the production activity within the value added chain. Consequently, there are very few alcoholic beverages brands which are of Portuguese origin and global; and, until recently, Portuguese firms have exercised little control over the marketing of those of their brands that are multinational.

The evidence provided by the Portuguese alcoholic beverages industry shows the increasing importance in recent years of marketing and distribution skills in sectors that once focused heavily on production. At the level of the firm, this argument points to the importance of gaining such skills for survival in an increasingly global economy. At the level of the nation and government policy, it points to the need to limit the protection of indigenous production while encouraging and supporting entry into global markets. Returning to Adam Smith, it would seem that, in order to

enhance national wealth trade remains vitally important, and provides a crucial contribution to the division of work, which has clearly been explained by Smith's example of the pin factory. In marketing based industries, the role of institutions should be one of creating conditions for firms to concentrate on being multinational information hubs, concentrating on marketing activities, rather than on handling products.

**Annexe 1 – Number of wine producers and level of production by wine region, 2001**

<b>Wine regions</b>	<b>Number of producers</b>	<b>Production ('000 hls)</b>	<b>Production by producer ('000 hls)</b>
Minho	129	881	6,8
Trás-os-Montes: Douro	204	1513	7,4
Restantes regiões de Trás-os-Montes	13	204	15,7
Beiras: Dão	272	400	1,5
Beiras: Bairrada	102	316	3,1
Restantes Regiões das Beiras	180	485	2,7
Ribatejo	213	744	3,5
Estremadura	137	1306	9,5
Terras do Sado	96	329	3,4
Alentejo	39	434	11,1
Algarve	96	14	0,1
Madeira	9	62	6,9
Açores	4	22	5,5
<b>Total production of wines</b>		<b>6710</b>	

Source: Instituto da Vinha e do Vinho, Anuário 2001.

This table confirms the existence of a high number of producers in different wine regions of Portugal, the differences in values of ‘production by producer’ by wine region are related to historical reasons (and also physical reasons, such as climate) and the division of land. The relation between the number of producers and the production level by region in 2001 shows an enormous fragmentation of national production of wine. The high number of producers of different wine regions is also related with the type of agents that produce wine in those regions. For instance, in the Alentejo, production is mainly dominated by cooperatives since the revolution of 1974. These cooperatives sell wine with their own brand name, and use the grapes from all the farmers in the region. In other regions of the country such as Trás-os-Montes, the cooperatives have a different role, as they produce wine and sell it to large family firms which age the wine, bottle it and sell it with their own brand name.<sup>60</sup>

The table has nonetheless some limitations. On the one hand, there are a high number of farmers which produce wine essentially for home consumption, which do not register their production and therefore do not appear in the national statistics of

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<sup>60</sup> In the last few years co-operatives and wholesalers started modernising their production units, using new technologies for production and aging of wines, such as the use of stainless steel containers and controlled fermentation, which resulted in more fresh and fruity wines, which did not become oxidised.

the Instituto da Vinha e do Vinho. On the other hand, some producers are considered several times, as they have production in several wine regions.

**Annexe 2 – The leading firms in alcoholic beverages in Portugal, 2004**

<b>Portuguese Group (Multinational)</b> Merged/Acquired firms	<b>Foundation</b>	<b>Last merger/ acquisition</b>
<b>Centralcer (Scottish &amp; Newcastle)</b> Comp. Produtora de Malte e Cerveja Portugália Companhia de Cervejas Estrela Companhia da Fábrica de Cerveja Jansen Companhia de Cervejas de Coimbra Fábrica de Cervejas Trindade Cergal – Cervejas de Portugal	1934  na na  na na 1836 1969	  1934 1934  1934  1934 1935 1977
<b>Cockburn Smithes (Allied Domecq)</b> Martinez Gassiot	1815  1790	1962  1962
<b>José Maria da Fonseca</b> J. M. Fonseca Internacional	1834 1970	 1996
<b>Quinta &amp; Vineyards Bottlers</b> Taylor Skeffington Romariz Fonseca Guimarães CD Vintners (antiga Croft)	2003 1692 1678 1987 1986 1678	 2003 2003 2003 2003 2003
<b>Sogrape</b> A.A. Ferreira Offley/Forrester Finca Flinchman Sandeman	1924 1751 1737 na 1790	 1987 1996 1997 2002
<b>Symington</b> Warre Silva & Cosens (Dow) Graham Quarles Harris Smith Woodhouse Quinta do Vesúvio	1947 1670 1860 1814 1680 1784 1823	 1961 1965 1970 1970 1970 1989
<b>Unicer (Carlsberg)</b> CUFP Copeja Imperial Rical	1977  1890 1972 1973 na	  1977 1977 1977 1977

Source: Database; several annual reports and accounts, several newspaper articles.

na – not available