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A case of internationalisation before World War II:
Bayer's marketing strategies in Latin America

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1 Introduction

1.1 Research question

Since almost one century, Bayer Aspirin has been a reliable and globally known analgesic that has also been applied to cure fever and rheumatism. The agent acetylsalicylic acid has been synthesized in Bayer's parent plant in Elberfeld, patented under the name "Aspirin" in 1899 and widely marketed soon thereafter. The sales figures increased immensely. Aspirin in tablet form today is one of the most frequently used pharmaceuticals with a daily consumption of more than 100 million pieces.

This development – however – has not been a continuous one. The breakout of World War I abruptly slowed down the expansion of German corporations on all major world markets. Cut off from supply, limited in communication, and pressed by allied measures German overseas companies tried to hold their position until the end of the war. *Farbenfabriken Bayer* switched to alternative distribution channels and the business was carried out successfully by its North American subsidiary in order to avoid the loss of their Latin American enterprise.

The declaration of war by the United States turned this strategy into a one way street: The confiscation as enemy property and ultimately the sale by US-authorities led to a painful loss of capital, patents and markets. The provisions of the Versailles Treaty legalized these expropriations which led to the situation that *Farbenfabriken Bayer* had to face an independent rival, namely their former subsidiary *Bayer Co. Inc.* now belonging to *Sterling Incorporated*.

The following business historical case study (see also Cramer 2010) illustrates how and under which circumstances the company tried to regain a foothold in their foreign markets during the 20s, especially in Latin America. Firstly, a modus vivendi with the unloved Bayer Co. had to be found, which owned the American trade names as well as patents, also for Latin America. Secondly, new business strategies had to be developed and implemented for the – as a result of the war neglected - Latin American market.

This paper deals with the difficult cooperation between two unequal partners based on the pertinaciously negotiated Latin-American-Aspirin-Treaty, which led – after a period of confidence building – to alienation during the era of National Socialism. Similarly, it is shown how innovative advertising vehicles aligned to local characteristics of the different Latin

American countries helped to develop regional markets and made the Bayer Cross become a leading pharmaceutical brand logo.

1.2 Case selection

The analysis of business strategies of the common Aspirin business of *Farbenfabriken Bayer* and *Sterling* in Latin America is enlightening due to two reasons.

- Firstly it contributes to a reduction of the scarcity of business historical case studies on the interwar period. It shows that in the given (limited) range of action after World War I, the only chance for German multinational enterprises to create space for strategic behavior was the fast adjustment to new conditions. An efficient way to do so was the establishment of a confidential relationship between both firms.
- Secondly a fertilization of North American advertising policies and German pharmaceutical reputation can be observed which led to the regaining of a dominant market position in Latin America. This status was increasingly endangered by local competitors who mainly used innovative distribution and pricing policies and caused *Farbenfabriken Bayer* severe problems.

1.3 Methodology and sources

To gain new insights about the limitation of the action range of German multinational enterprises after World War I and during the Third Reich specifics of selected major markets (Argentina, Brazil, Mexico) and *Farbenfabriken Bayer's* strategies will be embedded in superordinate economic and political spheres. Strategic behavior itself is categorized by the widespread concept of the "marketing-mix" (promotion, product, pricing and placement categories).

In relation to the development of foreign subsidiaries and to the cooperation with *Sterling* extensive researches in the corporate archive of the *Bayer AG* in Leverkusen, Germany, were necessary. Major sources were correspondences, business reports, balance sheets, minutes of meetings and telephone calls, newspaper clippings and internal memoranda.

2 The Latin America Aspirin Treaty

2.1 The genesis

The company of Friedrich Bayer and the succeeding *Farbenfabriken vormals Friedrich Bayer & Co.* has started the selling of its products on the American continent in the second half of the 19th century - firstly carried out by independent agencies, later on done by own subsidiaries.

In June 1913 the US-subsiidiary *Farbenfabriken of Elberfeld*, including the plant in Rensselaer, N.Y., was restructured. Two different entities (*Bayer Co.* and *Synthetic Patents Co.*) were build up and the ownership of both the plant in Rensselaer and of the trade names in Canada, the USA and associated countries were ascribed to it.

With the outbreak of the Great War in 1914 and the British sea blockade German subsidiaries in the Americas were cut off from supply and consequently the *Bayer Co.* started the exportation of pharmaceuticals to Latin America in 1915. This came to a sudden end when the United States entered war in April 1917. The *Bayer Co.* tried to establish purely Latin American owned companies to maintain trade by authorizing local employees to build up such firms. With the "Trading with the enemy act" of October 1917 German companies in the US were put under federal supervision and their revenue was confiscated. An amendment in March 1918 enabled the complete confiscation and sale of enemy property which in the case of the *Bayer Co.* was carried out in December 1918. As some of the tradenames had to be renewed (others had to be newly introduced) during the war, this was also done on behalf of the New York based *Bayer Co.* Due to this practice of tradename registration and due to the organizational reconstruction of 1913 *Farbenfabriken Bayer* lost 1200 patents and tradenames in the sale and had to face an independent rival selling the same products under the same trade names in Latin America after the war was over (see Wilkins 2004, 123 and 1989, 389).

The *Sterling* owned *Bayer Co.* lacked technical know-how to manage the plant and thus take complete advantage of the patents. Therefore it tried to contact Leverkusen as early as May 1919 but *Farbenfabriken Bayer* itself was facing immense information asymmetry about the functioning of its Latin American subsidiaries and rejected any request. Leverkusen send out emissaries and fired "collaborators" who had cooperated with the *Sterling* owned *Bayer Co.*

After the Versailles Treaty had legalized seizure and *Farbenfabriken Bayer* had established contact with some former employees, first negotiations started in Leverkusen in September 1919 and led to no agreement. Another attempt was made by *Sterling* soon after the rejection

of the peace treaty by the US Congress in March 1920. The US officially still being at war with Germany made it impossible for Leverkusen to enforce their wish to reach an agreement over the US market. In the meantime US companies as Parke Davis and European competitors were gaining market shares in Latin America and immense smuggling of the war time paper roll pack of Bayer Aspirin took place. As a result of the urging situation the Latin-American-Aspirin-Treaty was signed on October 28, 1920 and established a firm ground for the expansion of the sales of Aspirin in the 20's.

2.1 Its content

The LAAT basically established a common marketing of acetylsalicylic acid and its compounds under the trademarks "Aspirin", "Bayer" and the "Bayer-Cross" in Mexico, Central and South America. The products were manufactured in Leverkusen (if cheaper as in N.Y.) and sales were organized by N.Y. adopting the former subsidiaries of the *Farbenfabriken Bayer*. Profits were shared $\frac{3}{4}$ to Leverkusen and $\frac{1}{4}$ to New York, starting retroversely at the moment when the *Bayer Co.* went into the possession of *Sterling*. The *Bayer Co.* itself transferred back to *Farbenfabriken Bayer* all trademarks from Latin America. No date of expiry was included. Is it really appropriate to consider the LAAT a "defeat" (Glaser-Schmidt1994, 203) for Leverkusen?

2.2 The accustoming period

The first three years of the common marketing of Aspirin can be seen as a period of confidence building among the unequal partners. In 1922 the settlement of accounts for the first full year of common marketing (1921) was presented. Leverkusen felt that the employed calculation methods were not correct and used its right to send a certified accountant to prove it. New York consequently changed some of its methods especially the exchange adjustment of Latin American currencies to the US dollar. The partners succesfully adjusted various details of contract implementation within the first years.

Though it ostensibly seems to be a period of understanding, *Sterling* attacked *Farbenfabriken Bayer* on those markets where it was not limited by treaty. In Cuba it claimed rights for the tradenames and seized Leverkusens products for infridgement. In Great Britain and the Commonwealth *Sterling* bought the seized properties from the British Government -just as they did in the USA- and pressured *Farbenfabriken Bayer* to stop violations of its rights.

As it seems unlikely that *Farbenfabriken Bayer* may have sued *Sterling* for possible violations of the LAAT, a different way of reducing risks had to be adapted. One possible option is mentioned in an institutional economic analysis of international transactions: A confidence mechanism. It is quite clear that the establishment of confidence causes (setup-) costs which are increasingly amortized through an expansion of the transaction frequency.

As ex-ante informing about the confidentiality of *Sterling* was substituted by a trying out of the relationship during the first years, the signature of a bundle of treaties (“Weiss-treaties”) with *Sterling* in April 1923 represents a consequence of the 1920-1923 experience. Hence the LAAT constitutes a precondition for the Weiss-treaties. On the base of the previous contractual arrangement confidence could be built up while unregulation of markets was severely penalized by the same partner.

3 Marketing Strategies

3.1 Si é Bayer, é bom – The expansion of the 1920's

As the Aspirin tradename was lost in Argentina in 1917 and the same situation seemed to happen in Chile after the war, *Farbenfabriken Bayer* chose to concentrate its promotion policy on the newly introduced tradenames of “Bayaspirina”, “Fenaspirina” and especially “Cafiaspirina” (all 1922). They were all advertised as household remedies and sold over the counter. A polydimensional product image was primarily created for “Cafiaspirina” which was not only recommended for pain relief but also against bodily and mental fatigue and soon became the highest revenue earner of *Farbenfabriken Bayer* in Latin America. To foster the corporate reputation in the same year the slogan “If it is Bayer, it is good” was firstly promoted in Brazil and soon diffused in the rest of Latin America countries. Advertisements appeared in newspapers, pharmacies and locally published own advertising vehicles.

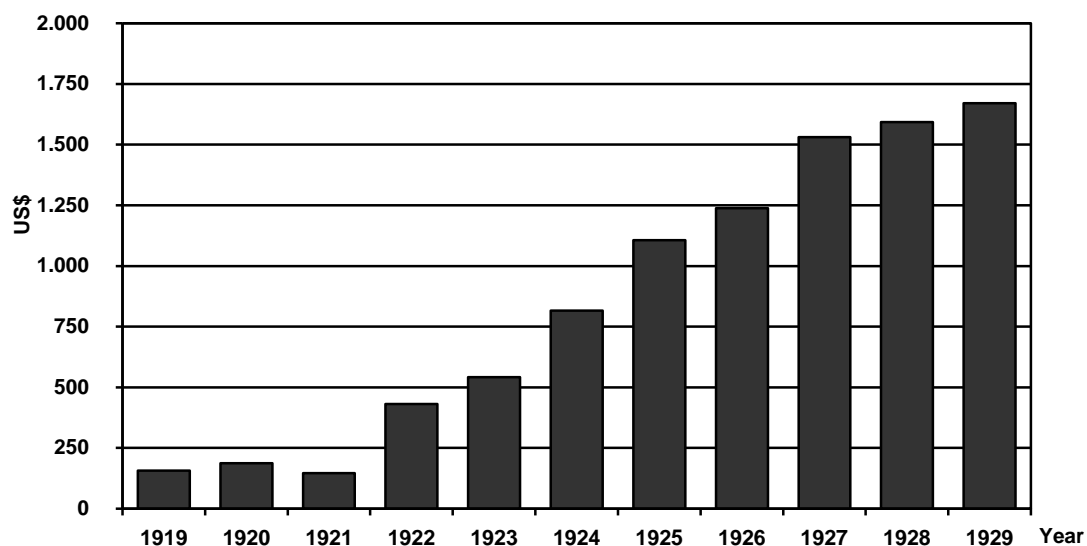
Farbenfabriken Bayer's product policy is closely connected to its pricing policy. It was not desired to diversify local pricing and lower the price in regions where a great population with low payment reserves prevailed as e.g. in Brazil. Instead the dimensioning of Cafiaspirina was amplified. Instead of the formerly prevailing 20 pieces tube, the product was now sold in packs of two or one tablet, called “sobre” and “sobrecito”. To ensure the sale at high prices *Farbenfabriken Bayer* campaigned against the sale of loose tablets and illegitimate counterfeits by furnishing their products with a unique tax stamp. However *Farbenfabriken*

Bayer were powerless against the ongoing smuggling of their own Aspirin war packs, which were sold at a minimum price.

The distribution policy was characterized by an increase of subagencies in the hinterland of Latin American countries during the 1920's which then organized the sale to wholesale dealers. Doctors were visited by traveler salesmen and equipped with a small amount of products.

Although the economic situation of Latin American countries has been difficult after the Great War due to a fall in prices for their exportation goods, the situation improved in the middle of the 1920's. Especially in Argentina a phase of economic revival took place (Rennicke 2004, 83) and stabilized the demand for Aspirin. Sales and revenue figures rose immensely.

Illustration 1: Net-profits of the LAAT business in US\$ (in thousand)



With the collapse of the New York stock market in 1929 and the reduced return on capital investments, the demand for raw materials -especially in the US- sank. Soon there has been an oversupply in agrarian goods and a quick fall in these commodity prices. As there wasn't a suchlike fall in prices for importation goods in Latin America the terms of trade of all countries impaired (Bulmer-Thomas 1996, 196). Consequently importations were reduced and Latin American national budgets showed high deficits, as they were mainly based on revenue from tariffs. The real national debt rose due to constant nominal interest rates while the export value of Latin American goods fell. The combination of reduced government revenues on the one hand and constant interest payments on the other hand made a reduction of public expenditures necessary. In most countries it came to changes of governments,

abandoning of the Gold Standard, exchange controls and import controls (Bulmer-Thomas 1996, 202f.). Due to the devaluation of local currencies the local purchasing power for imported products was reduced and the demand for aspirin declined. A drastic change in the competitive environment worsened the situation for *Farbenfabriken Bayer* at the beginning of the 1930's.

3.2 The challenges of the 1930's

3.2.1 Competitive environment

At the beginning of the 1930's *Farbenfabriken Bayer* had to face a dangerous competitive situation, taking place first of all in Argentina -its the most important Latin American market in terms of profits.

The competing product was called "Geniol" and its producer, *Laboratorios Suarry*, managed to introduce it nearly clandestinely so that *Farbenfabriken Bayer* could not prevent its market entry through an entry barrier of prohibitively high advertising expenses. *Laboratorios Suarry* firstly marketed a pomade called "Untisal" in the Argentine hinterland. With the earnings of this product it financed the advertising for Geniol. *Farbenfabriken Bayer's* first reaction anyhow was the raising of advertising expenditures (see table 1).

Table 1: Advertising expenditures in Argentina, in percentage of sales

Year	Percentage
Prior to 1929	17,5
1930	30,0
1931	43,2
1934	54,8

It had to be observed that the expansion of Geniol's market share could not be stopped by means of higher advertising efforts. This was mainly due to *Laboratorios Suarry's* pricing and placement policy. A field where *Farbenfabriken Bayer* didn't act very progressively in the past decade.

Laboratorios Suarry used a different distribution channel. It sold directly to pharmacies and thus circumvented the intermediary trade. Consequently the product was sold at a lower price than Cafiaspirina. In terms of pricing *Laboratorios Suarry* diversified their policies. Though the prices were as fixed as those of Cafiaspirina, the Argentines introduced different special

offers, so that pharmacists got a discount if they purchased a fixed amount of Geniol. The pharmacist furthermore received 50% of the purchasing price in gratuitous shares of the company which held a guaranty of a 10% dividend per year. Due to these immense reductions the pharmacists sold Geniol a lot cheaper than Aspirin. The average consumer retail price in the 1930's of a tube of Geniol was 1,3 \$ m/n while the same amount of Cafiaspirina cost about 1,7 \$ m/n in Argentina. *Laboratorios Suarry* oriented themselves in the dimensioning of Cafiaspirina and marketed a pack of four tablets called "librito", always underbidding the German product.

In order to fight this threat *Farbenfabriken Bayer* first of all tried to reach new and more customers by expanding their red of subagencies. As this strategy didn't meet the expectations and Aspirin sales continuously declined till the end of 1933, the new strategy was based on the establishment of an alternative distribution channel, similar to the one *Laboratorios Suarry* used. As Leverkusen depended on the retail druggists to distribute their prescription pharmaceuticals, *Farbenfabriken Bayer* had to do so without antagonizing these partners.

In 1934 the decision was taken that the Aspirin business should be carried out by independent agencies in Argentina and Brazil whose association with *Farbenfabriken Bayer* should not appear in public. Therefore the founding capital was equally brought up by *Sterling* and by the *Drugofa*, Berlin. The newly established *Farma Platense* and *Farma Continental* (or *Farmaco*, Rio) built up big sales organizations with their own subagencies and traveller salesmen. The placement costs consequently rose up immensely.

To diminish the revenues for *Laboratorios Suarry's* Geniol advertisements *Farbenfabriken Bayer* diversified their product line and marketed a competing pomade called "Frixal" which was always sold cheaper than Untisal. It was distributed by the *Farmas* but not showing the Bayer Cross due to its generic origins. *Farbenfabriken Bayer* furthermore introduced "Instantina" which contained two more components than Cafiaspirina and was presented as being innovative and more versatile than Geniol. Furthermore a tonic drink, the "Tónico Bayer", was introduced in the mid of the 1930's.

In terms of promotion "Instantina" was strongly advertised and the number of local advertising vehicles increased. To prevent a market entry, the tradename "Geniol" was registered in Brazil and Mexico on behalf of *Farbenfabriken Bayer*. With the appearance of sound film and radio broadcasting in the 1930's the direct distribution was extended to new

groups of buyers which had previously been excluded due to their geographic isolation or due to their illiteracy. *Farbenfabriken Bayer* used “sound trucks” which travelled to distant regions showing Aspirin and animated cartoons. In each trip they interim storages were established. The salesmen of *Farbenfabriken Bayer* were partly regarded as being the messenger of news to these people.

As the economic situation became better in the mid of the 1930's Aspirin sales stabilized and by 1935 they reached the level of 1929. Due to the immense costs of logistics, the Frixal loss and the extraordinary advertising expenses, the business showed an unsatisfying rentability.

As a measure of last resort *Farbenfabriken Bayer* decided to buy the competitor in 1937. Again it should not appear publicly that *Farbenfabriken Bayer* was involved in the transaction and thus the capital was advanced by *Sterling*. After the acquisition it was found out that Geniol sales were still 20% above Aspirin sales and the introduction of Frixal had no lessening effect on the advertising intensity of *Laboratorios Suarry*.

3.2.2 Cooperation despite external difficulties

As world trade relationships had reached a minimum level at the beginning of the 1930's political changes in foreign trade policies took place tending towards a bilaterizing of relationships. In July 1934 a German delegation travelled through Latin America to reactivate German trading in the region by means of mutual clearing agreements. Latin American exporters were ascribed a credit on a “Sonderkonto” at the Reichsbank and could buy goods for the corresponding amounts of Reichsmark in Germany and vice versa. Anyhow the agreements fixed the level of German importations to Latin America at a low level. For instance in Argentina, German importations were fixed at the level of 1933 which was one of the years with lowest trade amounts between the two countries ever. The worst implication of the bilateralization process for *Farbenfabriken Bayer* was that the triangular trade between Leverkusen, Latin America and New York was no longer possible. Revenues of Aspirin shipments from Leverkusen had to be paid back to Germany instead of New York. The *Bayer Co.* tried to readjust accounts by extracting foreign exchange out of those countries where no legal inhibitions were created (including countries of the 1923 treaties). This process turned the cooperation extremely difficult as Leverkusen had to obtain the permission of the Devisenstelle for this accounting process and New York had increased calculation

efforts. A second reason for frictions between the two partners also evolved from the political sphere by the end of the 1930's.

In August 1937 the „Schwarze Korps“, the newspaper of the SS, protested against *Farbenfabriken Bayer's* advertisements in a critical newspaper in Curitiba. As the placing of advertisements was coordinated in N.Y. nothing happened until January 1938. The Buenos Aires group of the NSDAP immensely complained about the continuous advertising in „La Crítica“ and the neglect of „La Razón“. In Argentina a great percentage of pharmacists and druggists were jews so that NY argued that a stop of advertisements in important newspapers lead to the loosing of market shares which at the end was not good for Leverkusen because they expected a continous transfer of foreign exchange.

In March 1938 the Argentine agency received an unambiguous instruction from Leverkusen and a warning to align with the ideas of National Socialism. NY reacted unvoluntarily and placed ads in the pro-German newspapers.

The two partners went on cooperating in the second half of the 1930's despite great difficulties in the operational business. The reason can be found in a confidential relationship between the leading managers of both firms, which were awarded on part of *Farbenfabriken Bayer* with the commitment to confer a honorary doctorate of the University of Cologne to the head of *Sterling* in 1928.

This relationship can also be seen as the major influence on New York assuming of production and distribution of Aspirin after the outbreak of World War II. Although it knew first-handed from the time of World War I that cooperation with Germany led to persecution and eventually expropriation, it maintained the relationship till the last moment. As British black lists reappeared and accused *Sterling* to be a German collaborator, intense investigations followed and a New York court declared the contracts between *Sterling* and *Farbenfabriken Bayer* null and void. The management had to leave the company in order to avoid detention.

4 Conclusion

The cooperation of *Farbenfabriken Bayer* and *Sterling* has been described in literature so far as a “defeat” which demanded a big oblation from Leverkusen. At a closer look it appears that the LAAT build the base for a successful expanding of Aspirin sales in the 1920's. Moreover it was this first arrangement with a previously unknown but stronger growing competitor which paved the way for *Farbenfabriken Bayer's* global comeback and further cooperation

with *Sterling*. Leverkusen's strategies in the first decade after the war consisted mainly of the reestablishment of product and corporate images. The reputational benefit embedded in a steadily growing economic environment in the second half of the 1920's caused *Farbenfabriken Bayer's* success.

In the 1930's both partners were not only facing a difficult global economic climate with falling demand for their products but increasing difficulties from the political sphere. On the one hand the bilateralization of trade relationships between Germany and Latin American countries led to an end of the former triangular trade. The interference of the National Socialist groups in the operative business on the other hand pressured *Sterling's* radius of operation but didn't reduce its willingness to cooperate even after outbreak of World War II. US sales practices combined with the use of modern media made the products available to a new range of customers and enabled a stabilization and expansion of Aspirin sales. The low profitability during that time was mainly caused by immense expenses to come up with a new threatening competitive environment.

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