The Independent and Eternal Lives of Brands in Alcoholic Beverages

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This study analyses the lives of brands in the global alcoholic beverages industry – their development over time, the processes through which the firms have built, grown and later rationalised their portfolios of successful global brands, the tendency for brands to have independent lives by being traded almost as pieces of intellectual property, and the trends for multinational firms to standardize the practices in the marketing brands of their portfolios. Detailed, historical and comparative, analysis on successful and unsuccessful branding strategies accompany the central discussion.

DEVELOPMENT OF BRANDS

Brands in Alcoholic Beverages

Many of the world's top brands in consumer goods that we know today are originally from diverse countries, and originate from single product and single brand firms. Yet, these brands frequently outlived the entrepreneurs and the firms that created them. They have achieved 'eternal lives' by exchanging ownership multiple times, ending up in most cases under the ownership of a small group of leading multinationals. This tends to be the path of evolution of brands in alcoholic beverages, an industry which has attracted quite a lot of research in marketing and business history, due to the increasing importance of brands in marketplace transactions and in the growth strategies of firms with global operations (Aaker, 1996; Doyle, 1989). In this industry the projection of the brands relies principally on promotion (brand image and other intangible assets) rather than on product performance (attributable to tangible assets such as high quality production plant).[1] Conventional forms of invention (associated with patenting) are minimal, and so we must look elsewhere for exploratory behaviour.

This study defines a brand as a legally defensible proprietary name, recognised by some categories of consumers as signifying a product with added dimensions that differentiate it in some way from other products designed to satisfy the same need (Chernatony and O'Riley, 1998). Drawing on a group of brands in wines, spirits and beer which are top ranked worldwide in their product categories, this study analyses their trajectories since they were created.

The study focuses essentially on the period from the 1960s until the present day, even though brands are often traced back to their origins. This is a period when the globalization process of economies accelerated, which impacted greatly on the evolution of industries in general, and in particular in the lives of alcoholic beverages firms and their brands. Before the 1960s while markets were fragmented, brands could grow and flourish as long as they had some distinctive characteristics such as original recipes or innovative modes of distribution (Hollander and Rassuli, 1993). The increase in global competition, the professionalisation of management, the pressure for firms to obtain short-term results either for shareholders interests or for performance-related pay, changed the success rate and the life expectancy of firms and brands. New brand launchings have become riskier than the management of existing brands and therefore less frequent. Instead trade in brands and the creation of brand and line extensions proliferated.

The study first explains what were the different ways in which brands in alcoholic beverages have achieved independent lives, as part of firms' growth and survival strategies. Secondly, it discusses the processes through which brands become 'eternal', by being rejuvenated through strategies of line and brand extensions. Thirdly, it illustrates the importance brands increasingly have in firms' everyday lives, reflected at different levels of their operations such as their economic performance and organization structures. Finally, this study highlights the relative importance of sticky and smooth marketing knowledge, and its relationship with the type of external environment, in determining the trajectories and independent and eternal lives of brands.

1 In order to place a particular brand and the industry where it operates in this spectrum of alternatives it is possible to use a proxy – number of patents registered each year weighted by the size of the industry. See for example United States Patent and Trademark Office, *Patent Counts by Class by Year, Jan. 1977- Dec. 31, 2001*.

Marketing Knowledge

To explain the development of successful brands with eternal and independent lives, this study establishes the concept of marketing knowledge, which refers to the knowledge within firms about marketing methods and the management of brands and distribution channels. It comprises the 'intelligence' and the skills that are behind the management of firms' activities.

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

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

INDEPENDENT LIVES OF BRANDS

Trading Brands

The number of brands in the portfolios of the world's largest multinationals in alcoholic beverages varied substantially during the last forty years of the twentieth century. From the early 1960s to the late 1980s, these portfolios tended to grow very rapidly. This was mainly achieved through trade in brands. Mergers and acquisitions of firms together with the firms they owned were the most common form. The merged or acquired target firms tended to own successful brands and cover types of alcoholic beverages in which the acquiring firm yet had no presence. They could also involve competing brands in the same product category, which were successful in different market segments.

Some brands also achieved partial independence when their owners formed alliances - often, remarkably, with direct competitors for the production and/or distribution of these brands in specific markets.

In the 1990s, the increasing concentration of the industry involved a tighter control by the anti-trust authorities in different countries, which, in concert with the mergers and acquisitions underway, indirectly encouraged further the trade in independent brands. Strategies for the rationalisation of portfolios played a major role in this period and led brands to have more independent lives. Some brands became targets for acquisition by multinationals. Others, even when successful within particular markets, were disposed to smaller firms, because they did not fit with firms' strategies for the creation of global brands.

At early stages in their lives, brands tend to be owned by family firms, which provide ideal environments to nurture those brands. Families tend to look at the long-term implications for their decisions and accumulate sticky marketing knowledge, which is pragmatic and path dependent, allowing consistency in the way brands are managed over time. Once brands achieve a certain level of success indicative of their potential to become global, then it is important that they be managed by firms with high levels of smooth marketing knowledge, which can be applied to the management of different brands, even when firms have no previous experience in the management of those specific brands. The marketing knowledge of the original entrepreneur is no longer sufficient to develop the successful local brand into a successful global brand. This helps explain how brands may become independent from the firms that created them.

The external impact explains to a great extent the type of marketing knowledge required for a brand to grow and become or remain successful. In benign environments, characterised by fragmented markets and low competition, it is possible for brands to grow and become successful relying solely on sticky marketing knowledge. Once the external environment becomes hostile (for example as a result of the increase in competition), in order to survive brands often have to become 'independent' to be owned by firms that have high levels of smooth marketing knowledge. These firms are usually firms managed by professional hired managers rather than family members, who are able to break from old ways of doing business and managing the brand if necessary.

Mergers and Acquisitions

Mergers and acquisitions of brands together with the firms that own them have always been the most common form of trade in brands. From the 1960s there were several merger waves, being a main motivation the ownership of brands with potential to become global. Other motivations can however be highlighted, such as the need to access marketing knowledge, distribution channels or to gain a quick presence in markets, otherwise greatly delayed by greenfield investment.

Multiple examples can be provided to illustration this case. One is the acquisition of the U.S. leader in alcoholic beverages Heublein by the British Multinational Grand Metropolitan in 1987, when the former was in financial difficulty, despite owning the rights to produce and distribute one of the world's top spirits brands in the US - Smirnoff. Heublein had bought the rights to Smirnoff in 1951, already a very successful spirits brand, giving the the rights to produce and distribute the brand in Europe to Grand Metropolitan. Soon after the acquisition of Heublein and the US rights to Smirnoff, the brand was valued in Grand Metropolitan's balance sheet at £588 million (U.S. $1,047 million).[2]

Brands in Alliances

By forming alliances with competitors firms are often able to spread risk involved with innovation or distribution and entry into new markets, while enabling the parties involved to enlarge their portfolios of brands in the short-term. Through these alliances, firms are for instance able to produce and market their brands in particular markets during particular periods of time. In alcoholic beverages, alliances are very common both in production and distribution. The depth and length of these alliances may, however, vary. On the one hand, they are dependent on the type of product -wine, beer or spirits), and the type activity being shared - production, distribution, marketing, or a combination of these. When they involve the marketing of the brand, independence is facilitated.

For example, alliances are very common in the brewing industry. In the beginning of the twenty first century the global brand Guinness, while part of Diageo (the world's leading multinational in alcoholic beverages), was being distributed either through wholly owned channels, or through alliances with direct competitors, depending on the strategic importance of the market. Some of the direct competitors it had distribution alliances with were the Belgium multinational brewer Interbrew (later Inbev) to cover the French market, Carlton-United Breweries in Australia, and Lion Nathan in New Zealand.[3]

The alliance formed in 1990 between the British brewer Scottish & Newcastle and the Australian Foster Brewing through which the latter licensed to the former the rights to produce and distribute Foster brand beer in Europe for an indefinite period of time, is an illustration. The economic difficulties of Elders/Fosters in the late 1980s were behind the creation of this long-term agreement that gave the sales of such an important market in terms of alcohol consumption to another company.[4]

Long-term alliances often result in the acquisition of one company by another. An example is the alliance formed in 1956 between Heublein and Grand Metropolitan for the production and distribution of Smirnoff in Ireland and Great Britain. The success Grand Metropolitan achieved with this brand in Europe led to its acquisition of Heublein in 1987.[5]

Smirnoff is in fact a good illustration of a brand with a very long and independent life characterised by multiple alliances and ownerships. First launched in Russia in 1864, it became very successful in the 1870s when it was chosen by the court of the Russian royal family. With the Revolution of 1917, the firm ceased operations and the Smirnoff family emigrated. Some years later, a son of the founder set up a distillery in Poland and started producing Smirnoff using the original family recipe and selling to eastern European countries and Scandinavia. In 1933, his company formed a contract with Rudolf Kunnett, a former supplier of the Russian firm Smirnoff, who had emigrated to the United States. This contract granted Kunnett the exclusive rights and licence to manufacture and sell all Smirnoff alcoholic beverages in the United States, its territories, Canada, and Mexico. In the same year, Ste Pierre Smirnoff Fils of New York was incorporated. In 1939, the licensing rights were sold to Heublein, which had made the brand very successful. In 1951, Heublein bought the rights to Smirnoff outside the United States.

In 1987, Smirnoff changed hands again to Grand Metropolitan, and in 1997 became part of Diageo. The global success of the brand led the newly formed Diageo to keep Smirnoff in its portfolio and manage it as one of its global priority brands, *i.e.*, the brands receiving the most investment in terms of resources (management and capital) and which derive their economic profit from several countries.

Brands as Pieces of Intellectual Property

The merger between Guinness and Grand Metropolitan that formed Diageo in 1997 raised important anti-trust concerns. The European Office of Fair Trade ruled that the newly merged firm had to sell some of its most successful brands because the combined company had too high a share in some product categories and in some markets. For example, in Scotch whisky they ruled that J&B and Dewars jointly had too large a share of the market in the United States and in some European countries. This led to the sale of Dewars to Bacardi in 1998. Diageo kept J&B as it had a

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[2] Grand Metropolitan, *Annual Report and Accounts* (1988).

[3] Diageo, *Annual Reports and Accounts* (2003).

[4] Interview with Tony Frogatt, CEO of Scottish & Newcastle, Edinburgh, 11 July 2004.

[5] Interview with Sir George Bull, former Chairman of Grand Metropolitan and Diageo, London 19 December 2003; Heublein *Annual Report and Accounts* (1986), Grand Metropolitan*, Annual Reports and Accounts* (1988).

broader international presence and was number one in Spain where Scotch whisky was growing strongly.[6]

Another example is the sale of Bombay Sapphire by Diageo to Bacardi, which resembled the sale of a piece of intellectual property as it involved only transfer of stocks, the recipe, and the trademark. There were no physical production facilities involved - while the brand was owned by Grand Metropolitan it was distilled by a third party, G. and J. Greenall in Lancashire. After its acquisition, Bacardi maintained the essential components of the brand: the very distinctive bottle (made of blue glass), the recipe, and the ingredients. However, major changes were introduced in the speed of distribution. Investments in advertising and prices also rose in step with the premium image of the brand.[7] Sales of Bombay grew from 0.5 million bottles in 1998 to 1.4 million bottles in 2004.[8]

Interbrew's acquisition of Whitbread and Bass in 2000 and 2001 was another case contested by the European Monopolies Commission. After the failure of several appeals by Interbrew, the firm had to sell the brand Carling, Britain's largest selling beer, to Coors in the beginning of 2002 for £1,2 billion (U.S.$1.7 billion).[9]

The sale of Seagram to Vivendi in 2001, caused more brands to take on an independent life. Vivendi was principally concerned with Seagram's media companies. Consequently, it sold the alcoholic beverage business of Seagram to Diageo and Pernod Ricard. The break up of the Seagram's brands became an important moment in the trade of independent brands. Due to the scale of the sale of Seagram and the size of the acquiring companies, this transaction raised anti-trust concerns in several countries. Consequently, Diageo was not allowed to buy Chivas Regal as it would have a too high share of the market of Scotch whisky. The transaction also raised issues with third parties with whom Seagram had long-term agreements and alliances. One, for instance, concerned the transfer of ownership of Captain Morgan to Diageo. This was contested by Destileria Serralves from Jamaica, the exclusive producer of the brand since its launch. Destileria Serralves claimed it had first rights of refusal in the case of changes in the ownership of the brand. They did not, however, want to exercise their right to purchase, but rather wanted the brand to go to Allied Domecq, with whom Serralves had an alliance. This dispute was settled with the acquisition of Captain Morgan by Diageo and the sale of Malibu to Allied Domecq for £560 million (U.S.$796 million) at the beginning of 2002.[10]

Splitting Brands

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

Focus on Global Brands

It is clear the trend for multinational firms to rationalise their brand portfolios and focus on those that are most successful and easiest to turn into global brands in recent years. The aim is to achieve economies of scale and scope at various levels of the value added chain, including advertising and distribution (Lopes, 2002). This concept of global brands is, however, relative if we take into account the importance of each market individually. By the beginning of the twenty-first century, the most successful brands owned by the world's leading multinationals were sold in many geographical markets. Nonetheless, most of the sales of these brands were, in fact, in a small number of markets. For example in 2002, Jack Daniels owned by Brown Forman, was sold in 142 markets but the sales were essentially generated in 3 markets, the United States being the most important one. Even Johnnie Walker Red, considered to be a good illustration of a global brand, had its sales concentrated in about 27 markets, despite being sold in 169.[11]

Rationalization of firms' portfolios

From the 1990s, the number of brands in firms' portfolios stagnated if not decreased. Rationalisation of portfolios of brands became part of most companies' growth

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

7 Interview with Chris Searle, Global Marketing Manager for Bombay Sapphire - Bacardi, London 22 January 2004.

8 *Impact International* - Database.

9 'Coors agrees to buy Carling', *Financial Times* (27 December 2001).

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

11 *Impact International* – Database.

and survival strategies. Firms started to concentrate on those brands that were most successful and offered the highest profit. With these brands, firms widened further the geographical scope of their operations, using global marketing strategies. The very high success of a few brands contributed to the development of the already mentioned new forms of transacting brands in this industry, either though alliances or as if they were pieces of intellectual property.

In 1993, the British multinational Allied-Lyons (acquired by Pernod Ricard in 2005) sold several brands that had come to its domain through the acquisition of Harveys in 1966. These brands included Tio Mateo sherry, Eminence and Catador brandies, which were sold to Estevez Group in Spain for 500 million pesetas (U.S.$ 3.9 million).[12]

In 1999, after its creation, Diageo sold several brands including Cinzano to Campari of Italy for an undisclosed amount, and also sold Asbach of Germany and Metaxa of Greece to Bols, the Dutch group, for U.S.$200 million. Vecchia Romagna, the leading Italian brandy, was sold to Montenegro, a Bologna-based private company. In the same year, the firm also sold eight Canadian whiskeys to Canandaigua (later re-named Constellation Brands) and four bourbons and other U.S. drinks to a consortium of three companies, the two sales raising £218 million (U.S.$353 million).[13]

The French multinational Pernod Ricard only became truly global with the acquisition of part of Seagram brands in 2001 (jointly with Diageo), marking this achievement by saying: "local roots-global reach."[14] It disposed of many brands that were not considered a strategic priority. In some cases, the sales involved no future connection of the brand with Pernod Ricard. One example is the sale of Four Roses (bourbon) to Kirin. In other cases, Pernod Ricard created alliances for the distribution of the brands disposed, becoming their distributor in major international markets. The alliance formed with the Portuguese leader in wines, Sogrape, where Pernod kept the exclusive rights for the distribution of Sandeman Port worldwide, is an illustration of that.

There were yet other small brands that were sold in groups and through auction by Pernod Ricard, as a result of its partial acquisition of Seagram. Some of these small brands were sold almost as pieces of intellectual property. René Briand and Piave Grappa were two trademarks owned by Seagram although the company neither produced nor distributed them. The producer and distributor of these products, which had no prior ownership in the brand, then acquired them.

Refining segmentation strategies

Despite rationalising their portfolios, the multinationals still had competing brands. In some cases this was an indication of a certain fragmentation of markets, as many firms were able to sell competing brands in particular markets. In other cases, where heavy competition and relatively high concentration prevailed, competing brands within a portfolio indicated that the firms were pursuing sophisticated segmentation and marketing strategies that targeted their apparently competing brands to different niches. For instance, after the absorption of several of Seagram's brands, Diageo had four different whisky brands in South Korea: Johnnie Walker, J&B, Dimple, and Windsor. Nonetheless the four brands were considered to target different market segments in its marketing strategies complied with Diageo's global segmentation studies, which mapped brands' appeal to consumers according to functional benefits and consumer preferences.[15]

This evidence indicates that at early stages in the development of markets, as preferences tend to be quite similar, segmentation strategies tend to focus on the functional benefits and characteristics of consumers. As consumption grows, tastes become more refined and differentiated and new competitors enter the markets, segmentation based on emotional benefits and motivations becomes more significant. For example, when a market first develops in the Scotch whisky category, the main motivation for consumers to drink is status. As new brands enter the Scotch whisky category, consumers start to want to look different. New status categories emerge. Brand management then has to appeal to different interests in order to differentiate brands from those of competitors. Returning to the example of whisky in South Korea, Diageo's Johnnie Walker Black Label is directed towards ideas of sophistication, Windsor to a concept of boldness, J&B to young consumers in Western bars, and Dimple to slightly older consumers and professionals who go to hostess bars.[16]

From Adaptation to Standardization

Over time, the way multinationals managed their portfolios of brands has also varied widely. At early stages

[12] Allied Lyons, *Annual Report and Accounts* (1994).

[13] 'Cinzano sale completes Diageo disposals', *Financial Times* (30 September 1999); 'Diageo close to $200 deal with Bols', *Financial Times* (27 September 1999); 'Diageo in $186m sale of whiskies', *Financial Times* (23 February 1999); 'Diageo sells more spirit brands in $171m deal', *Financial Times* (25 February 1999).

[14] Interview with Julie Massies, Business Development Manager, Pernod Ricard, Paris, 11 June 2003.

[15] 'Brand Building Opportunities for Diageo in the Alcoholic Beverages market in Korea', *Taylor Nelson Sofres* (May 2002).

[16] Interview with Richard Watling, Scotch Whisky Global Director Marketing, Diageo, London 5 February 2004.

in the life of firms, they have tended to use different strategies, adapted to each geographical market. Later, they used standard marketing strategies targeting the global marketplace. However, the timing for such changes varied, in some cases standardized global branding strategies are possible due to the characteristics of the product and the similarities of consumers across the world, therefore enhancing the personality of the beverages and increasing sales; in others the characteristics of the products or the types of consumers in different markets might impede the standardization of the marketing mix and the creation of global brands.

Advantages

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

Other global brands such as Ballantines and Johnnie Walker, only started to be advertised globally at the end of the twentieth century. Until the mid-1980s, Johnnie Walker's imagery was very different across distinct markets, reflecting distinct power groups within the company, on the one hand, and the character of the local managers and distributors, on the other. For example, before the creation of Diageo, Johnnie Walker Red Label projected a very status enhancing and quite passionate image in Latin America. In contrast, in the United States it had a very serious and "Wall Street" like image. In European countries such as Greece, the brand was viewed as a cool drink, seen as a tasteful reward at the end of the day.[17]

Glenfiddich, too, adapted its imagery to local markets' tastes. When the brand was relaunched in England and continental Europe in the late 1950s, it targeted different types of customers in distinct markets. In England, it first targeted consumers who had already tried it when they were in Scotland. Thus, it was perceived as a very Scottish drink, appealing to values of authenticity and tradition. In continental Europe, in countries such as France and Italy where whiskies were seen as deluxe beverages, the image of Glenfiddich was one of luxury in the jet set. Over time, some common trends emerged in those markets where it was most successful, driven by consumers' preferences. By 1969, feeling the strain that comes when a brand is perceived differently in distinct markets, the company began to create a global image for the brand. The imagery was redefined to appeal to younger generations.[18]

Yet another example is the vodka brand, Smirnoff. When first sold in the United States before World War II, it was advertised as a product with no taste or smell, difficult to detect on the breath. In the early 1950s, the advertisements of Smirnoff still emphasised these features. However, a new feature of excitement was added by the slogan "it leaves you breathless." Not only did the slogan hint that the drink was so fantastic you lost your breath, it also taunted whisky lovers for the strong smell of their drink. The fact that the beverage was mixable with others was also emphasised. Smirnoff began running a famous series of surrealistic advertisements, shot in Egypt, the Mojave desert, and other unusual locations. The ads focused on the vodka and emphasised the fact that the spirit was the "driest of the dry." [19]

In the 1960s, realizing that they needed to create an image for the brand beyond its functionality ("tasteless, odourless and you can mix it with your favourite drink"), Heublein hired famous personalities such as Woody Allen, Marcel Marceau, Joan Fontaine, and Zsa Zsa Gabor to build an image connoting lifestyle and sociability. They also started using women in their ads despite the fact that this was considered inappropriate by the Distilled Spirits Institute.

In the 1980s, as other vodkas such as Absolut entered the market presenting themselves in very imaginative ways, Smirnoff became more conservative, emphasising in its advertisements its long history and status as the drink of the Russian royalty. While in the early 1990s, Smirnoff's advertisements had different proposition statements depending on the market, from the late 1990s the firm developed an aggressive campaign with a global proposition: "pure thrill." The aim was to create a compelling idea that could travel across time and borders and yet be perceived as promoting an intelligent, unexpected and audacious brands (Hankinson and Cowling, 1996).

Disadvantages

In extreme cases, conditions of consumption of a beverage may prevent globalization. Ricard, one of the most popular anis/pastis worldwide, generated 87 per cent of its sales in its domestic market in 1997, despite relentless

[17] 'Global Johnnie Walker Review Update', *Consumer Scope* (June 2003).

[18] Interview with David Grant, family member of William Grant and Marketing Director, London, 7 January 2004.

[19] 'White Whiskey' advertisements 1940s, Heublein Archive, Diageo.

efforts by the firm to globalise the brand. The other two markets with some significance were Spain and Belgium, corresponding respectively to 9 per cent and 2 per cent of total sales. In Spain, Ricard was drunk essentially by Algerian-born French who emigrated to Spain. Indeed, among most Spanish consumers, cocktail-type drinks are traditionally not very common. This created a structural problem for Ricard, as consumers did not know when to drink it. Moreover, Ricard is drunk with five parts pastis and one part water, and water does not have a good image in Spain as it is considered to alter the flavour of the beverage. The drink also suffers from association with French tourists spending their summer holidays in Spain. In France, however, the brand is strongly associated with Provence and holidays. There the brand is designed to project optimism, "the sun in a bottle." The same structural difficulty prevents any penetration of Ricard in the United States. Like the Spanish, Americans do not mix water with alcohol. They drink their whisky or bourbon on the rocks, a drinking habit that is hardly favourable to Ricard. Consumer worries about the safety of what they eat and drink (and the related reluctance to mix unbranded beverages with branded ones) has certainly contributed to the persistence of this habit.[20]

Impact on distribution

This evolution from adapted marketing strategies to globally, standardized ones was also accompanied by important changes in the way firms distribute their beverages. By switching from independent distributors to wholly owned channels and alliances, firms were able to increase their control over the marketing and sales of their brands. Even in distribution agreements, the trend has been for the owners of the brands to have more power over the way the brand is managed. This is what happened to the brand José Cuervo, owned by a family firm and distributed since 1960 by leading alcoholic beverages firms (first Heublein, subsequently Grand Metropolitan, and finally, Diageo). Over time, the family has increased its control over how these multinationals manage their brands, by participating in the marketing decisions.[21]

ETERNAL LIVES OF BRANDS

The high costs and risks involved in launching new brands, the already high level of success achieved with certain brands, and the changing trends in consumption of alcoholic beverages are among the main determinants that lead firms to extend existing brands to market beverages that satisfy new consumer preferences.

To extend their lives and achieve 'eternal lives' brands tend to remain under the same ownership. The sticky marketing knowledge accumulated by smaller entrepreneurial firms (e.g., knowing what exactly is the appeal behind the brands, and what the right market segments to target, either demographic or geographic) provides the ability for brands to remain successful even if under the ownership of smaller firms

Extending brands

Line extensions are not entirely new brands as they use established brand names for new offerings in the same product categories (Reddy, 1994). They can either be beverages of the same category with different characteristics such as age, be the result of the mix of the original beverage with a non-alcoholic juice, or refer to a completely different type of alcoholic beverage. While the first kind of extension has been standard practice in the industry, the other forms are more recent.

From the 1960s, innovations thus tended to focus essentially on the creation of line extensions (using existing well-established and successful brands) and on other investments in the marketing mix of existing successful brands such as the packaging of the beverages. The increase in competition meant that innovation involved very extensive consumer research to position the brands in specific market niches.

Same brand in different segments

Johnnie Walker provides an illustration of how the first kind of extension of the brand was used to target different segments. The Scotch whisky brand, Johnnie Walker, was launched in 1820 even though the trademark was not registered until 1877. Line extensions were launched very early, with the introduction of labels Red, Black, and White, referring to whiskies with different ages. In the 1920s, Walker concentrated on the blends Black, and Red, and over the years introduced other line extensions such as Johnnie Walker Swing (in 1932 to be sold in the North American market), and Johnnie Walker Oldest (introduced in 1988 as a flagship brand), which became later Johnnie Walker Blue Label (in 1992). Another line extension was Johnnie Walker Gold, launched in Japan as a 15 year-old blend.[22]

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[20] Interview with Thierry Jacquillat, former CEO of Pernod Ricard and family member, London 20 January 2004.

[21] Interview with Chris Nadin, former Marketing Manager at Grand Metropolitan, London, 10 December 2003.

[22] 'List of Trade Marks registered from 27 July to 2nd August 1877', *Trade Mark Journal* (8 August 1877); 'Advert for 'Johnnie Walker & Sons', *The Graphic* (12 May 1906); 'Minutes of Meeting of Directors', Johnnie Walker & Sons Ltd., London 5 April 1916, UD Archive, Diageo; T. Boyd, 'History of the House of Walker', *D.C.L. Gazette*, April 1930, UD Archive, Diageo.

In the 1980s, the imagery of Johnnie Walker Red was quite distinct across markets. In Latin America it was considered to be tasteful and quite passionate. In continental Europe, it was a cool drink considered to be the reward at the end of the day. After the creation of Diageo, the new board of directors decided that Johnnie Walker was going to be a global priority brand with a consistent imagery, irrespective of the fact that it was Black, Red, or Blue. The imagery involved "inspiring personal progress."[23]

Same brand combined with a different product

There are multiple examples of other sorts of line extensions created in recent years (Barwise and Robertson, 1992; Aaker and Keller, 1990). Some mix the original beverage with a non-alcoholic juice. Bacardi Breezer, Smirnoff Mule, and Smirnoff Ice are some examples. In beer, there are also many examples, including Bud Light, Miller Light and Coors Light.[24] Innovations aimed at extending beer brands into light beer started in the 1960s. However, the early light beer brands failed (Tremblay and Tremblay, 2005). The success of light beer is attributed to Miller Light beer, first introduced in the market in 1972. However, the trend toward lighter and milder beer became common practice during the 1980s when consumption of alcoholic beverages, especially of beverages with high level of alcohol content, started to stagnate.

The trend for consumers to drink beverages with lower alcohol content was significant in the spirit industry, too. The rum brand, Bacardi, for instance, had known uninterrupted growth from the 1950s until the 1980s. It had targeted young consumers in the United States, who drank rum and cola as an easy, fun, alternative to the bourbons, martinis and scotches drunk by their parents. During the 1980s, there was an onset of "cola fatigue," and juice-based drinks grew in popularity. The "mixable" crown had been lost to vodka, and Bacardi faced stiff competition in its own market. The launch in 1990 of Bacardi Breezer was a successful response to these changes in the environment and in consumer needs.[25]

Smirnoff is another brand that has been used in the creation of several line extensions. In 1992, when the sales of Smirnoff were maturing in the British market, Grand Metropolitan launched a line extension called Smirnoff Mule. It was a ready-to-drink beverage that reconstituted a cocktail prepared in the 1940s by bartenders in the United States, who mixed the vodka brand with imported ginger ale and with lime. This cocktail was called "Moscow Mule" and greatly contributed to the establishment of Smirnoff as a vodka brand on the West Coast of the United States. The idea belonged to the managing director of Heublein's, who thought he could teach Americans to use vodka in mixed drinks. Moscow Mule eventually became a very popular beverage in bars all over the United States. The launch in 1992 of Smirnoff Mule in the United Kingdom as a ready to drink beverage was aimed at responding to the problems cocktails raised by taking preparation time at the bar and by varying according to the capacities of the bartender. This frequently led consumers to drink beer instead. However, Smirnoff Mule was unsuccessful. It did not have a sufficient appeal to the target market, and the bottle, which was too sophisticated, did not correspond to the content of the beverage.[26]

This was in fact International Distiller and Vintner's second unsuccessful attempt to enter the ready-to-drink market. It had previously launched Saint Leger, a California Wine Cooler, an alternative to wine and beer. The product failed because the company had not transferred the knowledge from its wine and spirits business to the beer market, and had not done sufficient consumer research.[27]

These unsuccessful ventures were, nonetheless, very useful as learning experiences for the subsequent launch in 2002 of Smirnoff Ice, which turned out to be very successful. Smirnoff Ice's imagery was very different from that of Smirnoff Mule, being much less sophisticated and more connected with the spirits brand. The success of Smirnoff Ice was such that it regenerated consumer interest in the core brand.

Same brand used in different products

The third possible path of extension occurs when brands are used in different types of beverages. An illustration is Gilbey's, which was extended from gin to Indian whisky in 1995. Grand Metropolitan was a late entrant in the Indian whisky market, which was already quite large. As part of its marketing strategy, the firm used a renowned brand name "Gilbey's," which relied on the imagery and heritage of the original brand. The brand took the name of an importer of wines and spirits from England in the nineteenth century. The success achieved with the brand helped Gilbey's Green Label whisky become a leading brand in the Indian market in a short period of

[23] Interview with Peter Dee, Global Marketing Director for Johnnie Walker, Diageo, London, 14 January 2005.

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

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

[26] Moscow Mule was first created in 1941, Heublein archive, Diageo.

[27] Interview with Chris Nadin, former Marketing Manager at Grand Metropolitan, London, 10 December 2003.

time.[28] The brand was subsequently sold to UB Group (a leading Indian alcoholic beverages firm) as part of Diageo's strategy of focusing on a small group of global brands.

When Extensions take over

In the process of creating line extensions, the new rejuvenated brands often become more important than the original brands, surpassing them in their contribution to the total turnover of the firm. In some cases where the firm used an umbrella brand name for all its products, the difference between launching new brands and line extensions is not clear. This is a very common situation in the brewing industry, where line extensions have become the most common way for firms to innovate. The success of many old established brands means that it is difficult for new firms and new brands to enter the market. In recent years, new opportunities appeared in market segments such as female and light beer consumers. Line extensions provide a way for rejuvenating brands and keeping them "forever young."

One example is the beer, Asahi Super Dry, which succeeded Asahi Draft beer (Craig, 1996). It was launched in 1987 by Asahi Brewery, during a period when the Japanese beer industry was suffering a variety of demographic, dietary, social, economic and distribution changes that affected the demand for beer. Whereas consumers traditionally exhibited strong brand loyalty and conservative taste, the modern drinkers were eager to try new types of beer.[29] This was also a difficult period for the firm, which was on the edge of bankruptcy and was therefore sufficiently desperate to risk a frontal attack on the industry leader, Kirin. Asahi Super Dry targeted an unexploited niche of the Japanese market *koku-kire,* "rich in taste and yet also sharp and refreshing." The level of sales not only surpassed those of any other brand owned by the firm but led Asahi Brewery in 2002 to become Japan's largest beer supplier for the first time since 1954.[30]

Launching line extensions may be easier and less risky than launching completely new brands, but it nonetheless requires very careful consumer research and planning, even when the extension refers to the same kind of product as the original brand. J&B Jet is an example of a line extension launched in 1996 which, despite relying on a top whisky brand J&B, only achieved limited success. The aim with this 12-year-old whisky was to compete with Johnnie Walker Black, just as J&B competes with Johnnie Walker Red. However, there were several problems with the launch. First, the 12-year-old scotch category was not very large, and there was considerable consumer loyalty towards existing brands. Second, in order to compete with Johnnie Walker Black and Chivas (then owned by Seagram), very high investments in marketing were required. And third, the investments in maturing stock were very high. The brand was progressively withdrawn from most of the markets beginning in 1999, except for South Korea where it was a huge success.[31]

BRANDS IN FIRMS' EVERYDAY LIVES

The importance of global brands led firms to start including the market value of these brands in their financial statements. This was another factor facilitating the purchase and sale of brands independently from the firms that owned them. Grand Metropolitan was the first firm in this industry to include the value of its North American drinks brands. The enhanced strength of the company's balance sheet made it easier to finance the takeover of the food manufacturer and retailer Pillsbury in 1988. Later in the same decade, after the acquisition of Bells and Distillers, Guinness also included the market value of its new spirits brands in its balance sheet.[32]

The strategic significance of brands also led to important changes in the organizational structure of firms. In the early 1960s, firms either managed brands almost as if they were separate businesses, or organised them geographically, giving each subsidiary complete autonomy for the management of its brands. Over time, brand management changed substantially, becoming centralised. In the 1980s, companies started prioritising brands. Grand Metropolitan started managing Smirnoff, J&B, and Baileys as global brands. Other brands, such as Malibu, were considered regional or local, even though they later became global. This strategy was refined after the creation of Diageo in 1997 when brands were classified according to three categories: global priority brands, local priority brands and category brands. Global priority brands were those considered to have the greatest current and future earnings potential. They were marketed consistently around the world and included leading spirits brands such as Smirnoff, Johnnie Walker, Baileys, and Guinness beer. Each global brand was managed by a different team of managers with their own strategy for the brands.

Local priority brands were those in which a great deal of the economic profit was generated in one or two countries.[33] Investment decisions and management of these brands took place on a market by market basis. Unlike the

[28] *Impact International*; Interview with Richard Watling, Scotch Whisky Global Marketing Director for Diageo, London, 8 March 2004.

[29] Asahi Brewery, *Annual Report and Accounts* (1988).

[30] Kirin, *Annual Report and Accounts* (1966); 'Asahi Pushes Kirin out of Pole Position', *Financial Times* (21 February 2002).

[31] *Impact International*.

[32] Grand Metropolitan, *Annual Report and Accounts*. Various Years.

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

global priority brands, they did not always have a common marketing strategy around the world. They included brands such as Bell's Extra Special whisky in the United Kingdom. This category also included brands not owned by Diageo such as Budweiser and Carlsberg, which were considered local priority brands in the Irish market. Apart from meeting the preferences of Irish consumers (considered to be very sophisticated), this also helped the local subsidiary of Diageo to achieve critical mass.[34] Category brands were those that were neither global nor local, being sold in particular markets. For example, Black & White was sold in France and Venezuela, and Gilbey's gin in the United Kingdom. Any brands that did not fit in these three categories were sold off.

CONCLUSION

The process through which brands develop and achieve independent and eternal lives, tends to be associated with entrepreneurial initiatives, and also with the longevity and size of firms. External environment factors such as globalization, or increased competition also influence the independence and eternal lives of brands.

At early stages in their lives, brands tend to be owned by family firms, which provide ideal environments to nurture those brands. Families tend to look at the long-term implications for their decisions and accumulate sticky marketing knowledge, which is pragmatic and path dependent, allowing consistency in the way brands are managed over time. Once brands achieve a certain level of success indicative of their potential to become global, then it is important that they be managed by firms with high levels of smooth marketing knowledge, which can be applied to the management of different brands, even when firms have no previous experience in the management of those specific brands. The marketing knowledge of the original entrepreneur is no longer sufficient to develop the successful local brand into a successful global brand. This helps explain how brands may become independent from the firms that created them.

Nonetheless, brands do not need to change ownership in order to achieve 'eternal lives' through the creation of line extensions. The sticky marketing knowledge accumulated by smaller entrepreneurial firms (e.g., knowing what exactly is the appeal behind the brands, and what the right market segments to target, either demographic or geographic) provides the ability for brands to remain successful even if under the ownership of smaller firms.

Also in benign environments, characterised by fragmented markets and low competition, it is possible for brands to grow and become successful relying solely on sticky marketing knowledge. Once the external environment becomes hostile (eg. as a result of the increase in competition), in order to survive brands often have to become 'independent' to be owned by firms that have high levels of smooth marketing knowledge. These firms are usually firms managed by professional hired managers rather than family members, who are able to break from old ways of doing business and managing the brand if necessary.

The generalisations provided here might also be applied to the analysis of the life of brands in other industries, in particular in consumer goods. The trend in such industries is for marketing knowledge to become increasingly smooth and for brands to behave as pieces of intellectual property that can be freely bought and sold. There are, however, some differences between brands from distinct industries, or businesses within the same industry. For instance, wine brands are less independent than beer and spirits brands. Emphasising the region of origin of the brand rather than the name of the firm made wine brands dependent on the specificity of the locations. Consequently, it became more difficult to achieve a scale that made them global and independent. If the trend of brands to become pieces of intellectual property is confirmed, the twenty-first century will be characterised by freely floating brands. Such a scenario will very likely induce several trends in the dynamic evolution of industries, such as further rationalisation of portfolios of brands; and the widening of the geographical scope of the surviving brands, through strategies of standardization of their marketing mix and rejuvenating through line-extensions.

NOTES

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