Growth and survival in the global alcoholic beverages industry, 1960-2001

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1. Problem

The alcoholic beverages offers an interesting case of a non-science based industry where firms have grown very large and survived (as the longevity of their brands and products shows) for a very long time. It is an industry, moreover, whose largest firms have always ranked among the largest in the world, along with firms from science-based industries such as electronics and oil and capital intensive such as automobiles.[1] It is worthwhile, then to ask why? Have the industry-specific factors such as the evolution of consumption, competition, institutional environment and industry structure determined their growth and survival? Or have firm-specific factors such ownership structures, entrepreneurial capabilities, brands, marketing knowledge or technology been more important in the growth and survival of firms in the long run? This study addresses these questions.

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* I would like to thank Mark Casson, Roy Church, Paul Duguid, Geoffrey Jones and Steven Tolliday for their helpful comments and suggestions. The paper has benefited from discussion of an earlier version at the Association of Business Historians 2001 Conference, Portsmouth 29-30 June 2001. Joost Dankers, Kurt Pedersen, Peter Sorensen and Jesper Strandskov, Salvador Guedes, and George Sandeman provided great help in establishing the contact with Heineken, Carlsberg, Bacardi-Martini and Seagram. The interviews given by José de Isasi-Isasmendy y Adaro, Jan Beijerinck, Colin Campbell, James Espey, Kunimasa Himeno, Michael Jackaman, Yoshi Kunimoto, John de Lucca, José Luis Martin and Xavier Serra greatly contributed for my understanding of the evolution of the alcoholic beverages industry. Mrs. Bellamy from Companies House, Gillian Bouzy from Moët et Chandon, Michael Hallows and Lyne Ouget and from Seagram, Roger Horowitz, Michael Nash and Ellen Morfei from Hagley Museum and Library, Christine Jones from United Distillers and Vintners, Takashi Katagiri from Suntory, Laura Linard from the Historical Collections at Harvard Business School, Ulla Nymann and Bjarne Maurer from Carlsberg, and Phil Taylor from Allied Domecq also assisted my research.

1 Alfred D. Chandler Jr., (Cambridge, Mass., 1962); Leslie Hannah, (London, 1976), pp.102, 189; Christopher Schmitz, 'The world's largest industrial companies', , Vol.37, No.4 (1995), pp.85-96.

There is ample business history literature proposing different explanations for the growth and survival of individual or small groups of firms. Some discusses the evolution of the industry, some the capabilities of the firm. Others take a broader view, comparing the evolution of multiple firms, analysing the relationships they establish such as concentration, competition or co-operation, and making a systematic analysis of both sustained growth and survival. After the pioneering work of Alfred Chandler concerning the rise of big business in the USA, many new comparative studies emerged analysing the evolution of large samples of firms in different countries, or in distinct industries within the same country. Yet others examined the internationalisation of firms from specific countries.[2]

This paper explores the general patterns that might explain growth and independent survival of firms in the alcoholic beverages industry between 1960 and 2000. For that purpose it examines on the world's largest alcoholic beverages firms, and looks beyond their individual experience. In doing so it re-examines issues covered in studies such as Chandler's (who was primarily concerned with analysing capital-intensive industries) but in this case, they are explored in the context of non-science based industry, where R&D and competitive advantage in production is less important. As a result, focussing on an industry where brands, marketing knowledge and distribution networks have been important determinants in the growth and survival of firms, it reaches distinct conclusions, highlighting in particular the importance of family ownership and entrepreneurial capabilities.

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[2] Chandler, idem, (Cambridge, 1977); idem, 'The growth of the transnational industrial firm in the United States and the United Kingdom: a comparative analysis', , Vol.33, No.3, pp.296-410; idem, (Cambridge, Mass., 1990); Alfred D. Chandler, Jr., Franco Amatori, and Takashi Hikino, (Cambridge, Mass., 1997); T. R. Gourvish and R. G. Wilson, (Cambridge, 1994) is an important study of an industry within a single country; Mira Wilkins, (Cambridge, Mass., 1970), idem, (Cambridge, Mass., 1974), and Geoffrey Jones, (Oxford, 1993); idem, (Oxford, 2000), are examples of studies on the international growth of firms, respectively from the US and from the UK; D. C. Coleman, 'Failings and achievements: some British businesses, 1910-80', , Vol.29, No.4 (1987), pp.1-17, is an important study in business history where growth and survival of firms are analysed systematically.

The alcoholic beverages firms considered in this study produce or distribute several types of beverages - wine, spirits and beer, and are originally from different parts of the world - Europe, North America, Asia, Australasia, Africa and South America. Their different origins obviously lead to distinct patterns in their evolution. For example, the size and the level of internationalisation of wine firms is much smaller than that of beer and spirits firms, because, among other factors, the wine producing business is asset specific, depending on the characteristics of the soil and climate of the region where the grapes are cultivated.[3] In most spirits and in beer businesses asset specificity tends to be less determinant of the boundaries of firms, explaining why spirits and beer firms (especially from countries like the UK, where the institutional environment was more favourable to that expansion) started to internationalise earlier than wine firms, and also why wine firms tended to hold more brands than beer firms.[4]

As several scholars have observed, economic theories can have an important impact on business history as they put forward general propositions and hypothesis, which can help researchers resolve different issues he or she wants to address separately and also achieve generalisations.[5] In this paper, along with Chandlerian generalisations, the evidence provided draws on several concepts from economic theory, in particular Dunning's .[6]

The term 'growth' is used to mean 'increase in size as a result of a process of development' either organically or through merger or acquisition, and 'size is a by-product of the process of growth'.[7] Although 'survival' may be used with different

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3 On the concept of asset specificity see Oliver E. Williamson, (New York, 1975); idem, (New York, 1985).

4 Pierre Spahni, (Cambridge, 1995), p.7.

5 William Lazonick, (Cambridge: 1991), pp.265-6; Geoffrey Jones, 'Business history: theory and concepts', (1994), No.295; Joseph A. Schumpeter, (New York, 1954), p.12.

6 John H. Dunning, 'Trade, location of economic activity and the MNE: A search for an eclectic approach', B. Ohlin, P. O. Hesselborn, P. M. Wijkman (eds.), (London, 1977), pp. 395-418.

7 Edith Penrose, (Oxford, 1959/1995), pp.1-2.

connotations, in this study it aligns with population ecology literature and is defined to mean non-extinction of the firm, and maintenance of its autonomy of action.[8] In this respect, non survivals or 'exits' include firms that have either been liquidated, dissolved, discontinued, or absorbed, as well as firms that were merged or acquired by other firms (even if they were able to retain their corporate identity and continuity of existence for a significant period of time).

The paper is organised in five sections. Following the introduction, the second section explains the selection of the world's largest firms in alcoholic beverages. The third section establishes which were the main determinants in the growth and survival of firms and gives some examples to illustrate their changing relevance over time. The fourth section provides a framework which explains the different patterns of growth and survival of firms over time, using the determinants outlined in the previous section, and it illustrates each of the main patterns with some examples. Finally, section five concludes that firm-specific factors (such as family ownership and entrepreneurial capabilities) always had a fundamental role in the growth and independent survival of firms over time, whereas industry-specific factors (such as consumption and competition) were important while the industry was not global.

2. The world's largest multinationals

An original database was created, drawing on five benchmark dates for the selection of the world's largest firms: 1960, 1970, 1980, 1990 and 1999 and several sources of information, in particular magazine and companies' annual reports. Using several benchmark dates instead of just one, avoids possible bias that

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[8] Chandler in (p.371) talks about the survival of managerial hierarchies. See also Leslie Hannah, 'Scale and scope: towards a European Visible Hand?', , Vo.33, No.2 (April, 1991), pp.298-9, for a critical analysis of the definition of survival used by Chandler. Neil M. Kay, (Oxford, 1997), pp.78-81 offers a broader definition of survival also including firms that were merged or acquired and were able to keep they corporate identity. M. T. Hannan and J. Freeman, 'The population ecology of organisations', , 82, pp.929-64; idem (Cambridge Mass., 1989), pp.150-2. For a discussion of success and survival of firms in alcoholic beverages see Paul Duguid, 'The changing of the guard: British firms in the port trade, 1774-1840', in Gaspar Martins Pereira (ed.), , (Porto, 2001).

could occur if only one of the benchmark dates had been selected. For example if only 1999 had been used as a benchmark date it would have led to the elimination from this study of firms that were important in the 1960s or after but which had not remained in the ranking of the world’s largest firms until the end of the century, either because they had not survived or because they had not kept a pace of growth which allowed them to remain in ’ rankings. In the same way, if 1960 had been chosen as the only benchmark date firms that that had emerged as the largest at the end of the period of analysis would not have been included in the study.[9]

Several possible economic criteria could be used in the selection of the firms to be included in this study. Value added, assets, market capitalisation and sales, are just some examples of alternative measures. Although these measures might be equivalent in the long run, and all they do is to offer valid but distinct perspectives of the performance of firms, each one has its own advantages and drawbacks.[10] In the present study, where wines, beer, and spirits firms have different cost structures, value added would have been the ideal measure for the performance of firms. It would have illustrated that wine firms generate lower value added than spirits and beer firms, because of their less powerful brands and higher production and inventory holding costs (such as labour and investments in ageing the wine). However, due to the lack of availability of information, value added could not be used as a selection criteria. Assets were another possible measure which was not selected for two main reasons. First, because of its highly sensitive to inflation. Second, because firms do not always use the same criteria in accounting for assets, so it is difficult to re-construct the balance sheets in such a way as to have comparable information between firms. Market capitalisation is also frequently considered to be an appropriate indicator for

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[9] This last kind of distortion occurs in Raymond Vernon's study on US Foreign Direct Investment between 1900 and 1967, in which he only looked at the largest firms by the end of the period and traced them back. Raymond Vernon, ‘International investment and international trade in the product cycle’, , 30 (May, 1966), pp.190-207; idem, (New York, 1971). For a critique and alternative approach see Geoffrey Jones and Frances Bostock, ‘US Multinationals in British Manufacturing before 1962’, , Vol.70 (Summer 1996), pp.211-2.

[10] Leslie Hannah and J. A. Kay, (London, 1977), pp.42-3; John Kay, (Oxford, 1993), chapter 13.

measuring the size of firms as it reflects the expectations on their present and future profitability irrespective of their origin, was also not used in this study for two reasons. On the one hand most firms in this study, only became publicly quoted in the last decades of the twentieth century (and for that reason it is not possible to obtain consistent information for the period from the 1960s).[11] As a result of these drawbacks with these alternative measures, turnover (sales), the most widely used indicator of performance, was selected to measure the performance and in particular the evolution in the size of firms.[12]

Several sources of information were to create an original database. First, magazine lists of the largest 500 US industrial corporations (in all the benchmark dates), the 100 largest foreign industrial corporations in 1960, the 200 largest foreign industrial corporations in 1970, the 500 largest foreign industrial corporations in 1980, and the largest global 500 corporations in 1990, and 1999. lists, however, are biased towards US firms, which appear in much larger numbers than foreign firms. To address this problem, several additions were made to 's list of alcoholic beverages firms. In particular, all the world's largest firms which should have been included, had the criteria used for the selection of the US 500 been applied to the top 500 companies of other countries, like the UK, France and Japan, were added. Among the firms selected according to this criteria were Interbrew, Remy Cointreau, Suntory and Watney Mann.

Six other firms of smaller size, which ended up being acquired by one of the world's largest firms included in list, were also included, as they had a fundamental importance in the growth and survival of these leading MNEs[13] These firms were Arthur Bell, International Distillers and Vintners, Gilbeys, Harveys, Liggett and Myers, Moët & Chandon, Moët-Hennessy, and Truman. These firms had the added advantage that detailed financial information was available on them. In

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[11] For example Anheuser Busch, a family owned and controlled firm, became publicly quoted in 1990.

[12] See for example John H. Dunning and Robert D. Pearce, (Hants, 1981); Hannah and Kay, , p.42.

[13] Teresa da Silva Lopes, 'Corporate governance, path dependency and the predecessors of the global drinks companies' (, 2001).

addition there were obvious advantages in getting a wider representation of firms in the industry worldwide.

Table 1 – **The world's largest firms in alcoholic beverages, 1960, 1970, 1980, 1990, 1999**
(Amounts states in millions of current US$)

Multinational Enterprise (MNE) Firms	**Year of foundation/ last merger**	**Year of Merger/acq.**	**Country of origin**	**Sales** 1960	1970	1980	1990	1999
Allied Domecq								
Allied Domecq (Allied Breweries)	1799/1961		UK		919	4.114	6.411	4.832
Showerings	1932/1961	1968	UK					
Harveys	1871	1966	UK					
Hiram Walker	1926	1986	CAN	440	715	2.525		
Pedro Domecq	1730	1994	SPN					
Anheuser Busch	1852		USA	309	793	3.295	11.612	12.262
Asahi Breweries	1889		JAP			3.103	4.507	9.958
Bacardi	1862		CB/BER					
Martini-Rossi	1847	1993	IT					
Brown Forman	1870		USA	102	219	676	1.304	2.009
Carlsberg	1847		DEN		301	816	1.843	3.081
Tuborg	1873/1894	1970	DEN					
Constellation Brands	1954		USA					2.340
Coors	1873		USA			888	1.868	2.414
Diageo	1997		UK					13.891
Grand Metropolitan	1962	1997	UK		582	4.830	12.731	
Truman	n/a	1971	UK	36	68			
Watney Mann	1898/1958	1972	UK		379			
Gilbeys	1857	1962						
IDV	1962	1972	UK		254			
Heublein	1875	1987	USA	103	586	1.922		
Liggett & Myers	1873	1980	USA					
Guinness	1759	1997	UK	192	436	1.465	4.758	
Arthur Bell	1825	1985	UK	14	52	379		
United Distillers	1877/1925	1986	UK	653	895	1.889		
Schenley	1920	1987	USA	382	669			
E. & J. Gallo	1933		USA				1.050	1.350
Fortune Brands/American Brands	1864		USA					
Jim Beam	1795	1966	USA					
National Distillers	1924	1986	USA	580	1.034	2.100		
Foster Brewing	1888		AUS					
Heineken	1864		NL			1.189	3.361	11.530
Amstel	1870	1968	NL					
Interbrew	1988		BEL					4.074
John Labbatt	1847	1995	CAN		362	996	3.970	
Doosan	n/a	1998	SKOR				2.984	
Bass	1777	2000	UK	112	821	2.362	6.046	
Whitbread	1742	2000	UK		485	1.381	2.940	5.114
Kirin	1907		JAP	211	495	3.260	5.556	8.860
Moet-Hennessy Louis-Vuitton	1987		FRA				2.718	
Moet & Chandon	1743	1971	FRA	11				
Moet Hennessy	1971	1987	FRA		100	508		
Miller (Phillip Morris)	1855	1970	USA					
Stroh	1850	1999	USA					
Schlitz Brewing	1858	1982	USA		462	897		
G. Heileman Brewing	1853	1996	USA			722		
Pabst Brewing	1844	1985	USA	111		720		
Molson	1876		CAN		425	1.033		
Pernod Ricard	1975		FRA			865	2.308	17.238
Remy Cointreau	1991		FRA					3.920
Scottish & Newcastle	1749/1960		UK		321	931	1.681	3.920
Seagram (Vivendi)	1924	2001	CAN	768	1.437	2.885	5.582	12.312
South African Breweries	1895		SA					4.863
Suntory	1899		JAP		377	2.661	4.165	5.946

Source: Database

A third group of large firms which do not publish accounts, due to their family ownership structure, but which very likely rank among the world's largest firms, were also included in the database. These firms are Bacardi-Martini, the world's largest rum producer, E. J. Gallo, the world's largest wine producer, and Pedro Domecq. Pedro Domecq was a Spanish family firm, a leading producer of sherry and brandy, and highly internationalised into South America. Despite resistance from the family for some time, it ended up being acquired in 1994 by Allied Lyons, which already owned Hiram Walker, Domecq's joint venture partner since 1966.[14]

A number of reservations should however be noted concerning the selection criteria. First, in some cases the data about the firms in magazine did not agree with the information in the original annual reports (eg. because it only considered the operations of the subsidiary in the US). In such cases, data was corrected using the firm's original annual reports. Second, the national differences in market structure and in reporting and practices (including exchange rate conversions) leads to different ways of computing and reporting financial data. Third, inflation distorts the rankings of the largest firms and their apparently comparable data. Fourth, many firms were active in other sectors, but these are not always distinguished in performance results. Nevertheless, ' criteria of ranking a firm in a specific sector implies that it has to derive the greatest volume of its turnover from that sector. This same criteria was used to select other firms to complement list.[15] Given these various difficulties, whilst the upper reaches of the list provided are likely to include the world's largest firms, as one moves downwards in the list, the probability of missing candidates is bound to increase.

Table 1 provides a list on the firms considered in this study, their date of foundation or last merger, the year they were dissolved, merged or acquired by

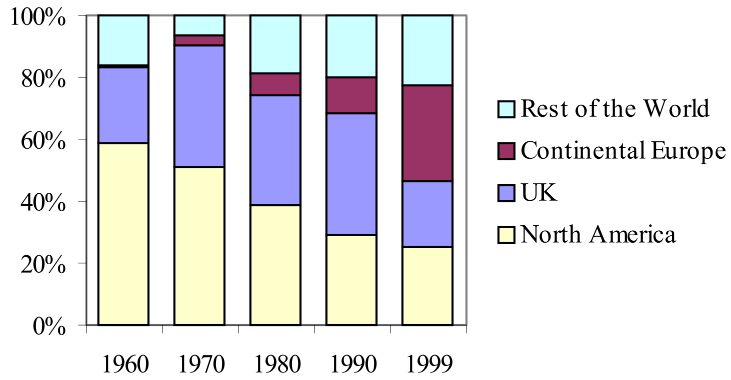
[14] See for example the lists provided by , Vol.13 No.4 (Feb. 1998), p.40 on the world's largest spirits firms in volume, where Bacardi ranks among the top ten spirits firms in the world. Interview with José de Isasi-Isasmendy y Adaro – former President of Pedro Domecq and also a family member (Madrid, 18 July 2000). On Pedro Domecq's acquisition see also Allied Lyons, , 1994.

[15] See for example , (August, 2001), p.F-11.

another firm, their country of origin and their sales volume (stated in millions of current US$) in each of the benchmark dates.[16]

In total, this database contains 54 firms, 20 from North America, 16 from the UK, 10 from Continental Europe, 5 from Asia, and 1 from each of the three continents, South America, Australasia and Africa. In 1960 58.5 percent of the sales were from North American firms, 25 percent from British firms, and 16 from the rest of the world. As figure 1 shows, over time there was a sharp decline in the importance of North American firms and an increase in the importance of firms from the UK, Continental Europe and the rest of the world.

Figure 1 –**World's largest firms – sales by country of origin, in 1960, 1970, 1980, 1990 and 1999.**



Source: Database

In 1999, Continental European firms (especially from France, the Netherlands, and Denmark) were the most important in terms of sales, but the UK, as a single country, was the origin of the largest alcoholic beverages firms in the world. Firms from the Far East (especially from Japan) had also gained considerable prominence and US firms had clearly lost the dominant position they had in the 1960s and before then.

Over time there were considerable changes in the rankings of firms. Most of the firms that disappeared from earlier list of the world's largest alcoholic

[16] As these firms have distinct origins, a homogenous criteria was used to convert the data from the companies' annual reports. To convert the data into current US dollars average annual exchange rates for the UK, France, Denmark, Japan and the Netherlands were used - International Monetary Fund, (Washington D. C., 1990, 1999).

beverages firms were actually merged or acquired by other firms from the same list. Of the US firms, only Anheuser Busch, Brown-Forman, Constellation Brands, Coors and E. J. Gallo, all family controlled firms, survived independently as the world's largest firms until the end of the century. National Distillers (the world's largest alcoholic beverages firm in 1912 which, as illustrated by table 1, still ranked as one of the world's largest spirits firm in 1960) was acquired by American Brands (renamed Fortune Brands in 1997) in 1985, which also had owned Jim Beam Brands since 1966.[17] The American breweries, Stroh, Schlitz, G. Heileman and Pabst went through several mergers and acquisitions during the 1980s, and ended up being part of Miller Brewery from 1999. Miller, traditionally a family firm was acquired by Philip Morris, a tobacco company in 1970, as part of its diversification strategy. Since the mid 1960s tobacco firms had started diversifying into various businesses including wines and spirits, as a result of studies showing that smoking was harmful to health. Liggett & Myers another tobacco company, acquired several US wines and spirits distributors, but ended up being acquired by Grand Metropolitan in 1980. Heublein, owner of the famous vodka brand Smirnoff, was also acquired in 1986 by Grand Metropolitan, and Schenley which had been a very important player in the US market after repeal of Prohibition also ended up being acquired by Guinness in 1987.[18]

Over time, the Canadian firms also lost their relative importance in the ranking of the world's largest firms. By the end of the twentieth century, Molson was the only large alcoholic beverages firm from Canada surviving independently. However, for some time the ownership of this firm had been shared with Miller and Foster Brewing, but their stakes had been bought back, respectively, 1997 and 1998**.** By the end of the twentieth century Molson was once again a family firm, which controlled over 50 percent of the voting shares, having a family member as its chairman. Seagram, a family-controlled firm, which between 1960 and 2000 had always ranked among the top three alcoholic beverages firms in the world, was acquired by the French entertainment and water group Vivendi in 2000, which kept Seagram's entertainment and media businesses and sold Seagram's alcoholic beverages business to Diageo and

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[17] See Chandler, , Table 1 – Largest Industrials in 1909, p.5.

[18] William J. Reader and Judy Slinn, Grand Metropolitan (unpublished Mss, 1992).

Pernod Ricard.[19] Hiram Walker, another family firm, producer of spirits was acquired by Allied in 1986, and John Labbatt a brewer was acquired by the Belgium brewer Interbrew in 1995.

Bacardi a family firm founded in Cuba developed essentially out of its sales in the USA and of a single product (rum) and brand (Bacardi). In 1993 it acquired Martini-Rossi another family firm whose sales also relied essentially on a single product and brand - Martini vermouth - which had good distribution network in Europe, where Bacardi needed to penetrate.[20]

In the UK, Arthur Bell and United Distillers (the world's largest Scotch whisky and gin producer) were acquired by Guinness in, respectively 1983 and 1985, (Distillers' acquisition caused a celebrated corporate scandal.)[21] Grand Metropolitan, originally a real estate and hotel business, which diversified into alcoholic beverages from the late 1960s with the acquisitions of Truman and Watney Mann (which had just acquired International Distillers and Vintners - IDV), grew very fast becoming the world's largest firm in this industry during the 1980s and early 1990s. In 1997 Grand Metropolitan merged with Guinness, forming Diageo, the world's largest multinational in alcoholic beverages. Allied Breweries, renamed as Allied Domecq in 1996 (Allied hereafter) made several important acquisitions from 1960s, especially the acquisition of Showerings (a family firm which owned of a famous cider brand Babycham), and Harveys (an old firm and owner of the sherry brand Harveys of Bristol). The already mentioned Canadian family firm Hiram Walker was another important acquisition. Bass, Scottish and Newcastle and Whitbread, three leading British brewers, remained independent until the end of the twentieth century, but in

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[19] By July 2001 this transaction was still waiting to be cleared by the US Federal Trade Commission (, 19 July 2001). After the joint acquisition of Seagram by Diageo and Pernod-Ricard, Samuel Bronfman II, former chairman of the family controlled firm Seagram, was appointed as chairman of global wine operations at Diageo PLC, which became Seagram's parent company (, 9 July 2001).

[20] Interview with José Luis Martin – President Bacardi-Martini Spain, and with Xavier Serra - General Manager Bacardi-Martini (Barcelona, 22 July 1999).

2001 Bass and Whitbread were acquired by Interbrew, leading to a contested case of anti-trust.[22]

The Continental European alcoholic beverages firms only entered the ranking of the world's largest MNEs from the 1980s. Heineken (from the Netherlands) and Carlsberg (from Denmark) the two most internationalised brewers in the world, developed very fast from the 1970s after they merged with their most important domestic competitors, respectively Amstel and Tuborg. Pernod Ricard was formed in 1975 as a result of the merger of two French, long established, family firms Pernod and Ricard, and Remy Cointreau was formed in 1991, also as a result of a merger of two family firms. In the 1990s Louis Vuitton Moët-Hennessy (LVMH) entered the list of the world's largest alcoholic beverages firms, soon after it had been formed (in 1987) from the merger of two family controlled French companies Louis Vuitton and Moët-Hennessy. Interbrew a firm established in 1988 as a result of a merger of two Belgium firms Artois and Piedbouef-Interbrew (whose constituent companies can be traced back to 1240), grew very fast in the 1990s as a result of the already mentioned acquisitions of other large beer firms John Labbatt, Bass and Whitbread.[23]

Of the Japanese firms, Kirin the leading brewer since the 1954, is the only firm that always ranked in the list of the world's largest MNEs in the five benchmark dates used.[24] Asahi growth from the mid 1980s was related with the alliances it established with other alcoholic beverages firms (such as the German company Löewenbräu), as well as soft drinks firms from Europe (eg. the Swedish company Pripps to bottle and distribute sports beverages in Japan). Doosan, a South Korean conglomerate, which appeared in 1990 in list as one of the world's largest firms in alcoholic

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21 Schmitz, 'The world's largest industrial companies', pp.89, Hannah, , pp.102, 189; R. B. Weir, 'Managing decline: brands and marketing in two mergers; 'The Big Amalgamation' in 1925 and Guinness-DCL 1986', in Geoffrey Jones and Nicholas J. Morgan (eds.), (London, 1994), pp.139-61.

22 See for example Daniel Dombey, 'Interbrew attacks UK over Bass hangover', (15 March 2001).

23 In January 2001 the UK Monopolies Commission ordered the sale of Bass, claiming the purchase gave Interbrew an unfair advantage in the marketplace. However, a UK High-Court overturned the order in May, leaving competition issues unresolved.

24 Kirin, (1966, 2000).

beverages due to its ownership of Oriental Brewery (founded in 1952 and the country's second largest brewery), formed a joint venture with Interbrew in 1998 by selling 50 percent of its stake in Oriental brewery, and in 2001 sold an additional 45 percent, keeping the remaining 5 percent.[25] Like the breweries, Suntory, Japan's largest wines and spirits firm, grew essentially out of sales in the domestic market. Its process of growth within the alcoholic beverages business was essentially organic, but from the 1980s alliances with European and North American MNEs of alcoholic beverages were an important factor contributing to their process growth.[26]

South African Breweries, a Johannesburg-based company and the country's largest brewer, founded in 1895 (listed in the Johannesburg Stock Exchange since 1897 and the London Stock Exchange since 1898), acquired its two major competitors in the domestic market in 1956 and became almost a monopoly in the South African market, as the clearly the dominant beverages company in the country. Since then the firm has not made any major acquisitions either in the domestic market or abroad due to restriction imposed by the South African government. Foster's Brewing the leading Australian brewer (which changed its name from Elders IXL in 1990) was formed in 1981 as a result of the merger of Henry Jones (IXL) and Elders and since then grew very fast as a result of mergers and acquisitions of other large brewers.

An interesting feature of this industry, which contrasts with the majority of other industries which became global, is that during the period of analysis there are no German firms among the world's largest MNEs.[27] Although Germany is the country with the largest per-capita consumption of beer in the world, the absence of large firms during the period of analysis is essentially related to the characteristics of domestic market, with high but very fragmented consumption, deeply entrenched in regional loyalties, and to the structure of the industry, which is very fragmented and dominated by family firms, also with strong regional loyalties. The restrictive

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[25] (27 June 2001).

[26] Interview with Yoshi Kunimoto – Executive Vice President of Suntory-Allied and with Kunimasa Himeno – Manager International Division of Suntory (Tokyo, 16 September 1999).

[27] In the last quarter of the nineteenth century and early twentieth century there were some German brewers had internationalised into the US, but when compared with British brewers their foreign direct investment was not substantial. Mira Wilkins, (Cambridge, Mass., 1989), pp.324-31.

legislation which protected domestic firms from foreign competition for a long time was also an incentive for domestic firms to operate domestically, growing in line with the growth in population and so surviving.[28] Apart from that comparative advantages reasons can be given, where Germany chose to internationalise those industries which were innovation and technology intensive, leaving the branded packaged products to countries like the UK.

3. The determinants of growth and survival of firms

Although there is no 'secret recipe' that explains sustained growth and survival of firms in the alcoholic beverages industry, it is possible to clarify their complexity and monitor their evolution by making systematic comparisons between the largest firms from different countries, and assessing the relationships they established between themselves such as co-operation and competition. Drawing on several theoretical strands, figure 2 provides a general framework used in section 4 to analyse the patterns of growth and independent survival of firms in the alcoholic beverages industry. For that purpose these determinants are divided in two groups: industry specific determinants and firms specific determinants.

Dunning's and in particular on his concepts of 'location advantages' and 'ownership advantages' provided a fundamental theoretical background in the construction of this framework. Concepts from other scholars were also considered, such as Chandler's claim that structure follows strategy, the importance of the entrepreneur, economies of scale and scope, and first mover advantages.[29]

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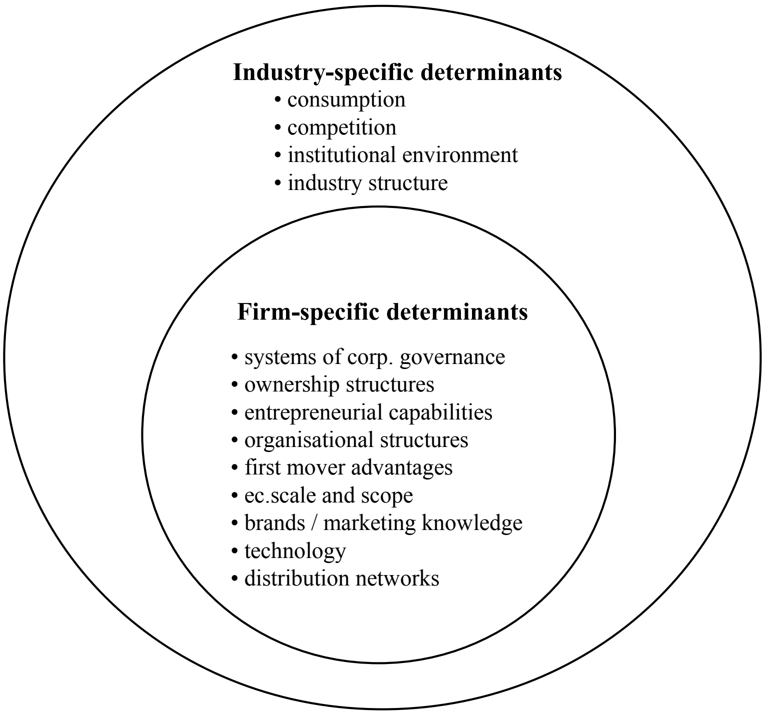
[28] In 1987 the European court declared the Reinheitsgebot Law, which established that only 100 percent malt beer could be sold, was considered invalid. John Cavanagh, Frederick Clairmonte and Robi Room, (Sydney, 1985), p.45; M.G.P.A. Jacobs and W.H.G. Mass, (Amsterdam, 1992), pp.302-3.

[29] John H. Dunning, 'Trade, location; idem, 'The eclectic paradigm as an envelope for economic and business theories of MNE activity', , No.263 (1998); Chandler, , idem, .

Figure 2 –**The determinants of survival of firms in alcoholic beverages**



The industry-specific determinants are predominantly exogenous to the firms and are considered to affect all the firms in the industry equally and. They refer to the predictability of demand/consumption, the level of competition and the institutional environment (eg. changes in legislation). Industry structure, associated with concentration of industry, is also considered to be an industry-specific determinant, in the sense that although it was determined by some firms, it then determined and restricted the choices of all the firms operating in the industry as a whole.[30]

The firm-specific determinants relate to those factors that are endogenous to the firms, and differentiate them from one another, promoting and limiting their success.[31] They may refer to firm characteristics or strategic choices, and include the systems of

[30] This process reflects Giddens's notion of 'structuration'. Giddens argues that in their actions people create social structures that then determine and restrict the choices of those who created them. This process is similar to the one described here. Anthony Giddens, (Cambridge, 1984),

[31] Dunning, 'Trade'; Stephen Hymer, 'On multinational corporations and foreign direct investment' selected by John Dunning from 'The international operations of national firms: a study of foregin direct investment' (PhD Dissertation MIT 1960), in Christos N. Pitelis and Roger Sugden (eds.), (London, 1991), pp.23-43; Richard Nelson, 'Why do firms differ and how does it matter', (1991) Vol. 14, pp.61-74.

corporate governance/ownership structures, entrepreneurial capabilities, organisational structures, first mover advantages, economies of scale and scope, brands and marketing knowledge, technology and distribution networks. They form the basis of firm specific advantages, considered to be fundamental in explaining the growth and independent survival of firms.[32]

These two groups of determinants are used in a complementary way to explain the same phenomena of growth and survival of firms within a specific industry. Ultimately the focus is on the firm, as it is the analysis of the resources within firms rather than the price mechanism that determine their nature (and survival) in the long run.[33]

3.1 Industry specific determinants

The industry specific determinants which, are considered to affect all the firms equally either at a domestic market level only or also at an international level, depending on the scope of firms' activities, changed substantially during the period of analysis. Figure 3 which illustrates the evolution of alcohol consumption by region of the world from the 1960s, shows that during the 1960s and 1970s alcohol consumption increased, and from the 1980s showed a tendency to stagnate and even decrease in some regions.

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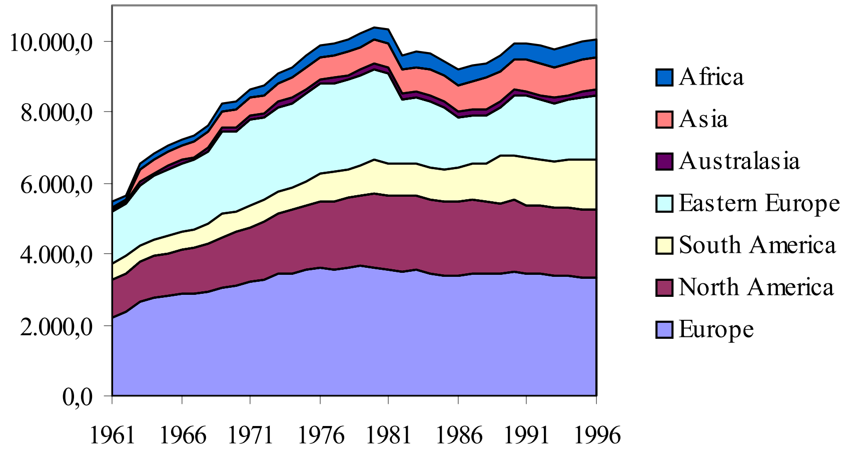
[32] Alfred D. Chandler Jr., 'Managerial Enterprise and Competitive Capabilities', (Jan, 1992), Vol.34, No.1, p.39; William Lazonick and William Mass (eds.), (Hants, 1995), p.xi.

[33] Ronald H. Coase, 'The Nature of the Firm', 4 (New Series), pp. 386-7.

Figure 3 - **Evolution of alcohol consumption worldwide**

(Amounts stated in millions of litres)



Source: Per-capita consumption - NTC Publications, (Henley-on-Thames, 1998); Estimates of mid year population by country - United Nations, (1998),.

Considering the 46 countries used in the construction of figure 3, alcohol consumption grew at an average rate of 1.5 percent per year from 1961. During the 1960s and 1970s the increase in consumption was essentially influenced by the rising incomes at least in the industrialised world, and by the changes in lifestyles and tastes of consumers. As in other industries, this evolution in the consumption of alcoholic beverages had a strong impact in the development of multinational activity and in the survival of firms.[34]

In the 1980s and 1990s per-capita consumption of alcoholic beverages stagnated in the western world. This evolution was partially compensated by the rise of consumption in the emerging such as India, China and Thailand which are not considered in figure 3 because of lack of systematic data from 1961. For example, between 1988 and 1996 consumption of alcoholic beverages in those 46 countries grew at an average rate of 0.8 percent, and in the emerging markets not considered in

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[34] John H. Dunning, (Wokingham, 1993), pp.125-32; Teresa da Silva Lopes, 'The impact of multinational investment on alcoholic consumption', , Vol.28, No.2 (1999), pp.109-22.

that table, consumption increased at an average of 6 percent a year.[35] The maturing of markets in the western world was associated with the changes in the legislation on drinking and driving, and also with the higher levels of education by consumers (who became more concerned with quality of the beverages they were drinking, with their own fitness, and with other side effects related to addiction and health).

In the emerging markets several factors contributed to the rise in consumption from the mid 1980s. On the one hand the stagnation of consumption in the western world had led the world's largest MNEs to internationalise or to intensify their investments in those markets, increasing the availability and diversity of branded drinks. That is why, in many emerging markets, statistics on consumption and production, only start to be reliable and systematised after MNEs invested locally. This economic movement coincided with rapid technological strides in transportation and telecommunications (which facilitated the globalisation of marketing and managerial decision making), with the unprecedented migration from rural areas to urban regions in post-independence developing countries where people acquired more Westernised habits and lifestyles, accomplished by a vast numerical increase in elites with high purchasing power.[36]

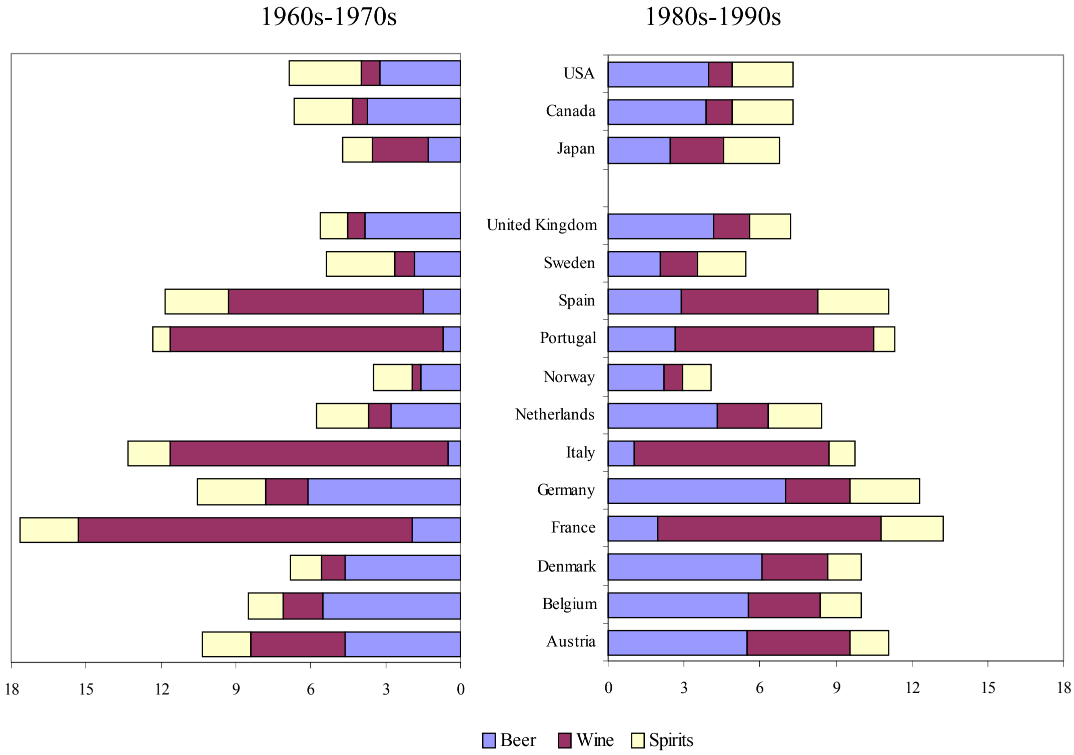
Although large countries such as the United States and Canada figure among the largest absolute consumers of alcohol in the world, the biggest markets in per-capita terms are found in a cluster of western European countries. Figure 4 illustrates this situation for some of the most important markets from 1961 as well as their evolution in the patterns of alcohol, distinguishing two periods 1960s-1970s and 1980s-1990s.

[35] Compound average annual growth rates estimated using per-capita consumption by country (NTC Publications,); and estimates of mid-year population by country (United Nations, 1998).

[36] Cavanagh, Clairmonte and Room, , pp.4-5, 10; Lopes, 'The impact'.

Figure 4 – **Average per capita consumption of alcoholic beverages in Europe, North America and Japan in the 1960s-70s and 1980s-90s**

(Amounts stated in litres of pure alcohol)[37]



Source: Annual per-capita consumption by country - Brewers Association of Canada, (Ottawa, 1997).

This figure shows that over time per-capita consumption of alcoholic beverages decreased in the traditional markets of the western world, and also that it stopped being culture-specific (where each country consumed predominantly one type of alcoholic beverage, usually domestically produced), to become more homogeneous. In northern Europe, where markets traditionally consumed beer, there was an increase in wine consumption. For example, in the United Kingdom where consumption of beer was still around six times more important in volume than wine by the end of the century, there had been a fast growth in wine consumption from the 1970s and 1980s. This reflected other social trends, such as the increase in holidays abroad and the globalisation of tastes, the growth of, on the one hand, eating out as a leisure activity and, on the other, home-based entertainment, and the increasing economic participation of women, as consumers started to learn more about wines and create wine drinking habits.

[37] 1990s includes data up to 1997.

In southern Europe, the origin of the most important traditional wine producers, while wine still accounted for the majority of alcohol consumption by the end of the twentieth century, beer consumption had in

However, from the 1980s when consumption started to become more homogeneous between countries, the different patterns and levels of consumption stopped being an important determinant for the origin, development and survival of firms. In order to survive firms had to react to adversities by being able to create consumption.

International competition, another industry specific determinant, which had been developing since before 1914 did not become a fully-fledged reality until the 1960s, after the economic health of the European Nations was fully restored and after Japan started to undergo rapid economic growth.[40] Until the 1980s it was essentially played at a domestic level or between firms from countries that were culturally and geographically close. With the globalisation of the industry from the 1980s, competition intensified very rapidly, being played at a multimarket level. Table 2 below shows for the case of Diageo and its most important predecessors (Guinness, Grand Metropolitan, International Distillers and Vintners, and Distillers) the trend that exists over time for firms to become increasingly committed to international markets. Several indicators are used to measure this increased globalisation in each decade: percentage of sales by markets (where sales in the country of origin are separated from sales in the major continents), percentage of foreign to total mergers and acquisitions, and number of international alliances in production or distribution (which include joint ventures, distribution agreements, licensing agreements, among others).

[40] Alfred D. Chandler, 'Organizational capabilities and the economic history of the industrial enterprise', , Vol.6, No.3 (1992), p.98.

Table 2 – **International evolution of Diageo and its major predecessors**[41]

(Sales amounts stated in millions of US constant dollars (1995 =100)

Firm/ decade	Sales by Markets					Total number of new mergers and acquisitions	% of foreign to total new mergers and acquisitions	Total number of alliances with international partners
	Total average sales	Country of Origin (%)	North America (%)	Europe (%)	Other (%)			
Grand Metropolitan		**UK**						
1962-1969	21	0,92	0,02	0,06	0,00	0	0,0	0
1970-1979	955	0,91	0,01	0,05	0,02	3	0,3	4
1980-1989	5.224	0,64	0,27	0,05	0,04	13	0,8	11
1990-1996	9.975	0,20	0,55	0,17	0,08	15	1,0	28
IDV		**UK**						
1963-1969	31	0,29	0,56	0,04	0,12	6	0,5	4
1970-1974	96	0,72	0,08	0,04	0,16	5	0,6	0
Guinness		**UK**						
1960-1969	62	n/a	n/a	n/a	n/a	1	1,0	15
1970-1979*	306	0,78	0,04	0,03	0,15	0	0	11
1980-1989*	1.819	0,66	0,10	0,08	0,16	16	0,9	11
1990-1996	4.489	0,40	0,16	0,35	0,09	7	1,0	21
Distillers		**UK**						
1960-1969	184	0,57	0,28	0,00	0,14	3	0,7	0
1970-1979	498	0,53	0,13	0,07	0,24	3	0,3	0
1980-1985	1.125	0,43	0,17	0,12	0,28	4	1,0	0
Diageo		**UK**						
1997-2000	13.978	n/a	0,47	0,35	0,16	1	1	0
Total		**UK**						
1960s	299	0,59	0,29	0,03	0,09	10	0,5	19
1970s	1.856	0,73	0,06	0,05	0,14	11	0,3	15
1980s	8.168	0,58	0,18	0,08	0,16	33	0,9	22
1990s	28.442	0,30	0,39	0,29	0,11	23	1,0	49

n/a – not available

* Sales by geographical region for Guinness from 1970-1979 only include data from 1979 as the information for 1970-1978 is not available. Information on M&A and alliances by Guinness during the period 1970 and 1989 was only available for the years 1970-1975 and 1983-1989.

Source: Database

Despite not always offering comprehensive and systematic information this table illustrates the general patterns and directions of growth followed by each of the major firms that preceded the formation of the world's largest MNE in alcoholic beverages – Diageo. It shows that until the 1980s firms tended to sell essentially in their country of

[41] The information in this table draws on the companies' annual reports. The total number of mergers and acquisitions data only includes firms merged or acquired within the alcoholic beverages business. New companies formed and new offices or warehouses acquired or built are excluded. Minority interests are considered as alliances, apart from joint ventures, licensing agreements, and distribution agreements. Alliances with international partners include both alliances in the UK and abroad.

origin and also in US and in the British Commonwealth (countries of the former empire). This high concentration of sales can in part be explained by fairly distinctive national consumption patterns in the other countries of the western world (especially in Continental Europe) and also to barriers to trade that existed. From the 1980s there was a dispersion of sales to Continental Europe and to markets in other continents which had not been part of the British Commonwealth.

Table 2 also shows that the total number of mergers and acquisitions by multinationals of alcoholic beverages in production and distribution reached its peak in the 1980s, decreasing in the 1990s. However, by the end of the twentieth century these mergers and acquisitions tended to be all in foreign markets whereas in the 1960s and 1970s a substantial number of mergers and acquisitions targeted domestic firms, signalling a strategy of consolidation in the home markets.

Alliances in the form of joint ventures, distribution agreements, licensing agreements, and also minority investments with other firms related to the production and distribution of alcoholic beverages were always an important alternative for growth, but reached its peak in the 1990s.

From looking at the same information by firm, it is clear that IDV and Distillers which were merged and acquired, respectively in the 1970s and 1980s, essentially merged and acquired other firms in the UK, and formed a small number of international alliances. Apart from that, their average growth rate in sales was slower than that of the leading MNEs such as Guinness and Grand Metropolitan. Diageo which had been created in 1997 was still rationalising its operations by 2000, disposing rather than merging and acquiring businesses or forming new alliances. At the end of 2000, it made a joint acquisitions with Pernod Ricard of Seagram another leading MNE.

Although conventional definitions of global MNEs would consider these alcoholic beverages firms to operate globally,[42] in practice that is not so, for they derived most of their income from a small number of countries. However, if we take into account that their brands were sold all over the world (even if in small amounts), than they can be considered to be global MNEs. For example Ballantines Finest, one of the world's

[42] John H. Dunning, 'The globalization of firms and the competitiveness of countries', in John H. Dunning, Bruce Kogut and Magnus Blomström (eds.), (Lund, 1990), pp.9-57.

most popular spirits brands, in 1997 was sold in 95 countries. However, around 76 percent of those sales were accounted for by a cluster of ten countries.[43]

Another pattern in the evolution of firms which illustrates their globalisation is their increased international commitment, through foreign direct investment (see table 2). Over time, the number of international mergers and acquisitions and alliances increased substantially.[44] Those firms that did not follow this pattern were restricted in their process of growth and independent survival. An example is Distillers, the world's largest Scotch whisky and gin producer. Although it had become one of the most internationalised firms in the world since the big amalgamation in 1925, its foreign direct investment and alliances creation (both into production and distribution) during the period of analysis was very low, when compared with other leading firms as Grand Metropolitan.[45] This evolution in part explains the failure of this firm to survive independently in the 1980s.

Another example is Schenley, a US firm which relied almost exclusively on the domestic market, until its acquisition by Guinness in 1987. A large number of the brands in its portfolio were imported, obtained through alliances (in the form of distribution contracts). This lack of international experience, as well as limited ownership of successful brands is to a great extent associated with Prohibition, which led firms to stop production of alcoholic beverages between 1920 and 1933, and diversify into other businesses, impeding them from accumulating either general marketing knowledge (accumulated knowledge within the firm about marketing methods, management of brands and distribution, irrespective of their geographic region, which can only be learned through personal experience, in the long term) or specific marketing knowledge (knowledge about the characteristics of a specific brand

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43 Allied Domecq's Internal Database (1998) – with special acknowledgements to Phil Taylor, Insight and Analytics Director at Allied Domecq

44 Teresa da Silva Lopes, 'Brands, mergers and acquisitions in the alcoholic beverages industry', (Bordeaux, 14-16 September 2000); idem, 'Governance structures in the international distribution of alcoholic beverages', (Miami, 20-22 April, 2001).

45 R. B. Weir, , 1877-1939 (Oxford, 1995); idem, 'D.C.L.: Acquisitions and Major Shareholdings, 1877-1940' (, 1990); idem, D.C.L. Acquisitions, 1940-1986' (, 1999).

and national market which includes among other factors its business climate, income per head, habits and lifestyles of consumers and social and cultural factors, and can be accessed by the firm in the short run through acquisitions or alliances).

The institutional environment, another industry specific determinant, both facilitated the growth and survival of firms and inhibited it. Among the facilitators were the developments in technologies, in infrastructures, in global communications, and in logistics, which reduced the costs of distribution of products and improved their availability to consumers, allowing firms to obtain economies of scale and scope. These changes started from the 1960s, but increased very rapidly from the mid-1980s, in particular with the emergence of cheap international telephone, then the internet and intrafirm networks, which among other things centralised decision making within firms.[46] Among the inhibitors were the laws, such as those on drinking and driving, and the governmental campaigns in most Western countries established to restrict alcohol consumption in order to minimise its harmful effects and to shift consumption away from higher to lower alcohol content beverages, as well as barriers to entry imposed by governments in order to protect their domestic industries.[47] In the UK where there had been licensing laws since the nineteenth century, which restricted the sale of alcoholic beverages to specific outlets, at pre-determined hours, with fixed prices, in part explains the historically salient feature in the development of the industry, where largest brewers tended to be strictly interconnected with the retailing business. The Licensing Act of 1961 changed this pattern in the evolution of firms, finishing with the resale price maintenance, and liberalising the times of drinking, among other aspects. The regime of Monopoly created in the Scandinavian countries and in Canada from the 1930s, where trade became completely controlled by

[46] John Seely Brown and Paul Duguid, (Boston, 2000); Harold Innis, , (Toronto, 1991); Andrew Odlyzko, 'The Internet and Other Networks: Utilizations Rates and their Implications', , Vol.12, No.4 (2000), pp.341-365.

[47] John Cavanagh and Frederick F. Clairmonte, (London, 1985), p.152.

government institutions, is another example where the institutional environment determined the growth and independent survival of firms.[48]

By the end of the twentieth century these restrictions imposed by distinct countries had become less distinct. For example within the European Union, there was a movement to harmonise prices and taxes on alcoholic beverages between member states, which had the effect of dramatically reducing the prices of wines in particular in northern Europe in line with the lower prices in the south.[49]

The patterns of growth of the world's largest firms in alcoholic beverages between 1960 and 2001 (through mergers and acquisitions, alliances or organically), in particular those in the beer and spirits businesses led to concentration, an increase in the extent to which economic activity is controlled by large firms.[50] As there are no robust estimates on the size of the industry, figures 5 and 6 provide alternative approaches to analysing the evolution of industry structure. Showing the world's largest firms in 1961, and assuming that in the long run the evolution of consumption corresponds to that of sales in the entire industry, figure 5 illustrates there was a rise in the index of growth in sales at constant prices by the world's largest firms, which

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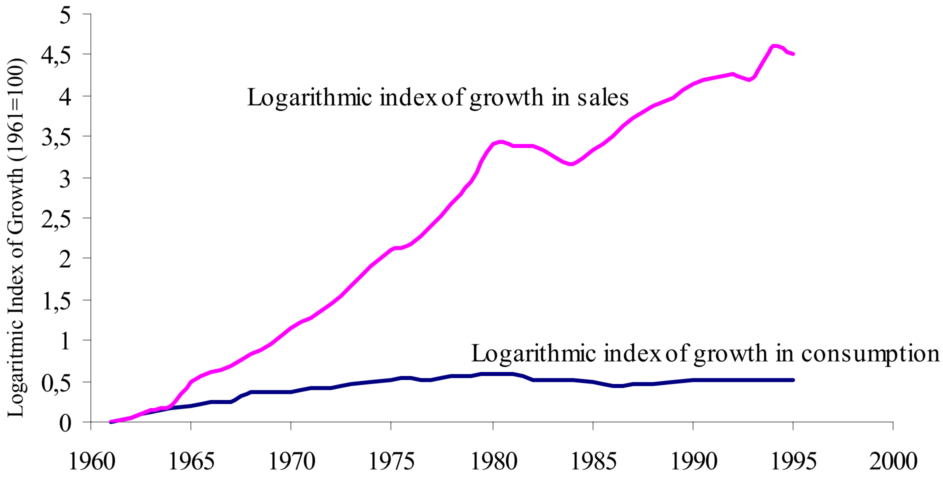
48 About the impact of Prohibition in the alcoholic beverages industry see for example A. M. McGahan, 'The emergence of the national brewing oligopoly: competition in the American market, 1933-1958', , Vol.65 (Summer 1991), pp.229-284. On the UK Licensing Acts, see Gourvish, , chapter 1, and Briggs, , 1985, p.160. On the Temperance Acts and monopoly regimes in Scandinavia, see for example Carl Hamilton, (London, 2000), chapter 6.

49 Terrene R. Gourvish, 'Economics of brewing, theory and practice: concentration and technological change in the USA, UK and Germany since 1945', , Vol.33, No.1 (Fall, 1994), p.255; M. Dewar and H. Collins (eds.), (2nd ed. 1992).

50 Hannah and Kay, , p.41; Terence R. Gourvish, 'Economics of brewing, theory and practice: concentration and technological change in the USA, UK and West Germany since 1945', , Vol.3, No.1 (Fall 1994), pp.256; idem, 'Concentration, diversity and the firm strategy in European Brewing, 1945-90', in Wilson and Gourvish (eds.), , pp.81, 85.

was higher than the index of growth in consumption of alcoholic beverages, indicating a concentration in the industry.[51]

Figure 5 –**Indexes of growth in consumption of alcoholic beverages and in sales by the world's largest firms in 1960**



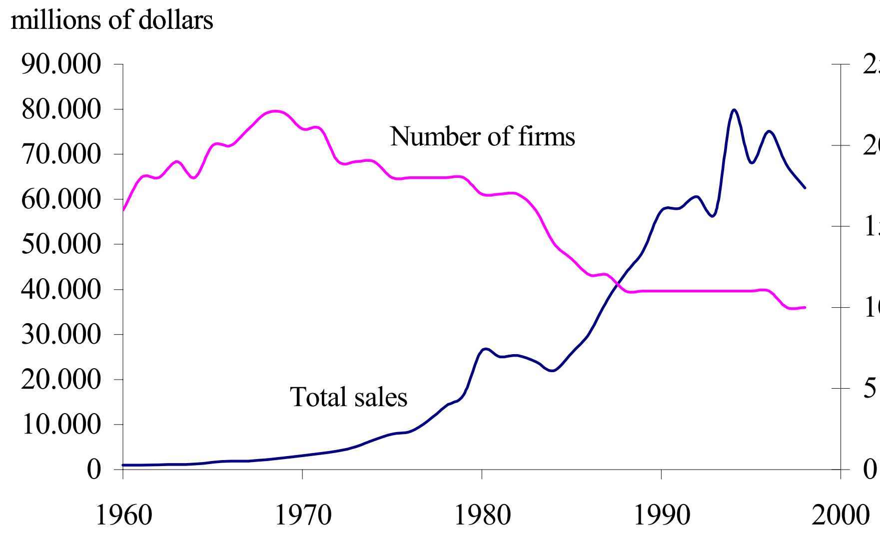
Source: Database; NTC Publications, (1998); and population by country – (United Nations, 1998) - estimates of mid-year population.

Figure 6 below, which shows the evolution in the volume of sales by the world's largest firms between 1960 and 2001 and the total number of firms considered in the database in each year, also confirmes this trend towards a higher concentration in the industry.

[51] Statistics on the evolution of the number of firms in the global industry, of trade and of consumption of alcoholic beverages are not very robust.

Figure 6 – **The evolution of sales by a groups of the largest alcoholic beverages firms in the world**[52]

(Sales in millions of constant US dollars 1995=100)



Source: Database

In particular, figure 5 illustrates that during the 1960s new large firms developed, ranking among the world's largest, but their sales were rising slowly. In the 1970s, sales started to rise at a faster rate and the number of firms decreased. From the 1980s, when competition became global, there was a sharp rise in the volume of sales and at the same time the number of firms decreased slightly, and showed afterwards a tendency to stagnate.

While these four sets of factors, consumption, competition, institutional environment and industry structure had been very distinct before the 1960s, having an important impact in the growth and independent survival of firms, especially when the resulting environment was adverse, by the end of the century they had become less significant. With the globalisations of the industry, the capacity of firms to deal with industry specific factors had become a necessary but not sufficient determinant in their growth and survival.

As already mentioned, by the end of the twentieth century, the wine business was still very fragmented, firms were strongly influenced by the institutional environment of their country of origin, consumption was still culture specific, and competition was

[52] This Figure only takes into account those alcoholic beverages firms for which there exists

essentially played at a domestic level. However, there existed signs that the industry was starting to concentrate and globalise, because technological developments had allowed firms to improve the quality and predictability of their product. That is why many large MNEs like Foster's, the Australian based firm, changed the nature of its business from being more than a brewer as it embarked on a series of wine related acquisitions from 1996. In July 2001, the same month when the firm acquired International Wine Accessories, it changed its name from Foster's Brewing Group to Foster's Group Limited.[53] Allied Domecq's acquisitions of leading wine firms in New Zealand, Argentina and California in 2001, were seeking a large presence in the wines sector.[54] This pattern of concentration was not only occurring in the wine regions in the New World but also in the Old World.[55] For that reason industry specific determinants still had a very important impact in determining the growth and independent survival of firms.

3.2. Firm-specific determinants

This set of determinants looks inside the firms and establishes what led to their different patterns of evolution over time. As each one of the determinants isolated is insufficient to assure growth and long term survival of firms. At each moment in time, firm-specific advantages of firms over their competitors, had to be created or re-built, adapted to the economic needs and opportunities in the environment.[56]

A special focus will be given to systems of corporate governance, ownership structures and entrepreneurial capabilities of management, to explain growth and survival of firms in the alcoholic beverages industry. Although systems of corporate governance are an industry-specific factor in the sense that they affect all the firms

consistent and systematic data.

53 (3 and 5 July, 2001).

54 (17 July 2001); (5 July 2001).

55 Interview with John de Lucca – President of the California Wine Institute (San Francisco, 20 March 2001); Interview with Colin Campbell – Top Manager Moët-Hennessy (Paris, 22 November 1999); Cavanagh, Clairmonte and Room, , p.54; , , p.150; Tony Spawton, 'Development in the global alcoholic drinks industry and its implications for the future marketing of wine', , Vol.24, No.4 (1990), p.49.

56 Chandler, , p.35; Sullivan, , p.2.

operating within a single nation, in the present study they are analysed together with ownership structures, and for that reason appear classified as firm-specific factorsThe other firm-specific determinants highlighted in figure 2 such as scale and scope, organisational structures, brands and marketing knowledge, distribution networks and technological innovation, will also be analysed briefly.

It is now well known that there are large differences between countries in terms of the predominant systems of corporate governance, and that these differences may influence company goals, behaviour as well as performance over time.[57] These studies tend to distinguish two systems by which firms are governed: the 'outsider' systems of corporate governance and the 'insider' systems. In the 'outsider' systems, firms' ownership tends to be dispersed among a large number of individual and institutional investors. Shareholders do not intervene in decision making, which is done by professional managers. In the 'insider' systems, ownership of individual firms tends to be concentrated in the hands of a small number of other firms, financial institutions and families. These owners may participate more directly in management decisions. Cross-shareholding between firms is also commonplace.[58] Although the systems of corporate governance of each country have evolved over time, by the end of the century "Anglo-Saxon" countries like the UK, US and Canada were considered generally to use 'outsider' systems of corporate governance, as they had well-developed equity markets, with most major business enterprises being quoted on a stock exchange.[59] Continental European countries and Japan were considered to be

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[57] Mary O'Sullivan, (Oxford, 2000); Steen Thomsen and Torben Pedersen, 'Industry and ownership structure', Vol.18 (1999), pp.385-402; Steve Toms and John Wilson, 'The evolution of British business? A new paradigm', (Portsmouth, 29-30 June 2001).

[58] Tim Jenkinson and Colin Mayer, 'The assessment: corporate governance and corporate control', , Vol.8, No.3 (Autumn, 1992), pp.1-10; Torben Peterden and Steen Thomsen, 'European patterns of corporate ownership: a twelve-country study', , Vol.28, No.4 (1997), 759-778; Steen Thomsen, 'Foreign Ownership and Survival', , 25-26 May 2001.

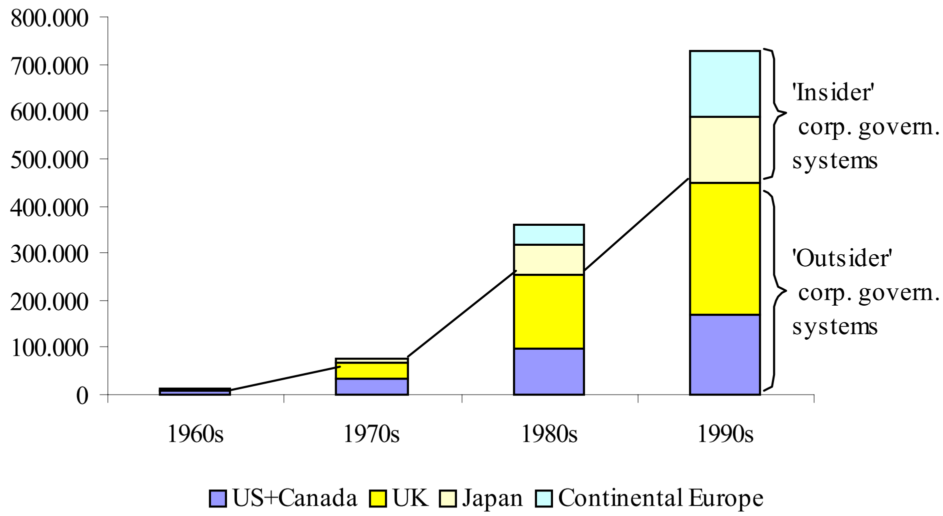
[59] P. W. Moerland, 'Alternative disciplinary mechanisms in different corporate systems', Journal of Economic Behaviour and Organization, Vol.26 (1995), p.19;

based in ‘insider’ systems of corporate governance, although elements of convergence were discernible.[60]

Taking into consideration the world’s largest MNEs in alcoholic beverages from 1960, figure 7 shows that until the 1980s, the firms originally from outsider systems of corporate governance (the US, UK and Canada) always accounted for a higher volume of sales than the firms from insider systems of corporate governance.

Figure 7 - **Sales of firms from insider / outsider corporate governance systems**

Amounts stated in millions of constant dollars (1990=100)



Source: Database

However, from the 1980s the relative importance of firms originally from insider systems of corporate governance (in particular from Continental Europe - France, Denmark and The Netherlands, and also from Japan) increased, as firms started to grow faster. This faster growth is connected with the mergers and acquisitions that took place between large firms during this period.[61]

Although firms from outsider systems of corporate governance tended to grow larger, they were also more likely to be merged or acquired, an outcome that reflected the increasing attention given by firms from these countries to short-term performance, as well as the increasing role of financial institutions as intermediaries

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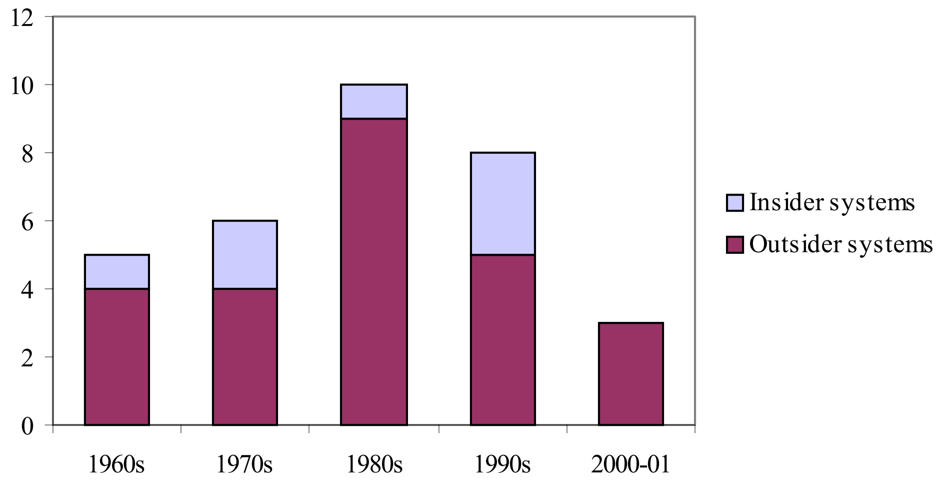
[60] Ibid; Geoffrey Jones, ‘Corporate governance and British industry’, , No.21 (1999), pp.29-43.

to shareholders, which were putting pressure on firms to keep high share prices. Figure 8 which takes into consideration the world's largest firms from table 1, shows the number of firms in that list that were merged or acquired by another large firm from the list in each decade, distinguishing the systems of corporate governance in which they were based.

Figure 8 – **World's largest firms – number of firms merged or acquired**



Source: Database

As in other industries, despite certain pressures towards harmonisation and integration within the European Union, by the end of the century mergers and in particular acquisitions were still more common in firms based on 'outsider' systems of corporate governance.[62]

With regard to the ownership structures of firms, an important determinant of corporate governance and firm behaviour, the evidence on the alcoholic beverages industry shows that over time family firms predominated in relation to managerial firms. However, as a consequence of their process of growth, their nature changed substantially over time.[63] In the absence of a precise definition of 'family firms'[64],

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[61] Lopes, 'Brands, mergers and acquisitions'.

[62] Richard Whittington and Michael Mayer,
(Oxford, 2000), p.90.

[63] Lopes, 'Corporate governance, path dependency'.

they are defined in the present study to include not only family owned, controlled, and managed firms, but also firms owned by families who run the corporate board, but which are managed entirely by professional managers. Managerial firms are defined as those firms where there is a separation of stock ownership from operating and investment decisions, which are made by a hierarchy of salaried managers governed by a board of directors.[65]

Table 3 shows by decade the evolution of several indicators of economic and financial performance of the world's largest MNEs: total sales, profitability ratio (measured as the ratio of operating profit to total sales), and ROE - return on equity (calculated as the ratio between net earning and equity). This table also includes an indicator of independent survival, which considers the number of firms merged or acquired by other firms. Two types ownership structures of firms are distinguished in the calculation of these indicators: family firms and managerial firms.

Table 3 – **Ownership structure, average sales, average profitability and average ROE by a group of the world's largest alcoholic beverages firms**[66]

	Average Sales		Average Profitability		Average ROE		Merged or acquired firms		
Decade	**Managerial firms**	**Family firms**	**Managerial firms**	**Family firms**	**Managerial firms**	**Family firms**	**Managerial firms**	**Family firms**	**Firms Total**
1960s	86	100	0,12	0,13	0,10	0,09	2	3	5
1970s	362	360	0,10	0,11	0,10	0,12	3	3	6
1980s	2.164	1.678	0,10	0,10	0,11	0,14	7	3	10
1990s	7.011	4.061	0,14	0,12	0,10	0,15	6	2	8
							18	11	29

Source: Database.

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64 Roy Church, 'Family firm and managerial capitalism: the case of the international motor industry' Business History, Vol.XXVIII, No.2 (April 1986), pp.165-6; idem, 'The family firm', p.18.

65 Mary B. Rose, 'Family firm community and business culture: a comparative perspective on the British and American cotton industries', in Andrew Godley and Oliver Westall (eds.), (Manchester, 1996); Andrea Colli and Mary B. Rose, 'The culture and evolution of family firms in Britain and Italy', , Vol.47, No.1 (1999), pp.24-47; Alfred D. Chandler, 'The enduring logic of industrial 'success' ', (March-April), p.132.

66 The use of economic and financial indicators has the advantage of providing a clear view of the actual performance of firms and consequently of their performance over time. However, considerable care should be taken, as these results might be distorted due to differences in accounting systems, exchange rate variations, inflation rates in the countries concerned as well as considerable currency movements.

As illustrated by table 3 there are clear differences between family and managerial firms in terms of their economic and financial performance over time. While in the beginning of the 1960s the family firms had on average a higher level of sales, higher profitability and lower return on equity, from the 1980s this situation reversed, with family firms showing on average a higher return on equity and a lower sales volume and lower profitability, confirming the idea that the basic goal of the managerial enterprise is growth and short term performance.[67] The evolution of these indicators can be related with the strategies followed by firms, as family firms tended to use more conservative financing policies (relying essentially on internal funds) and for that reason grew more slowly than managerial firms, and also because they tended to acquire firms of smaller size (usually family owned). In the long term this strategy followed by family firms in the alcoholic beverages industry proved to generate on average more income for shareholders, confirming that they were not forces for conservantism and backwardness, but rather that they could compete successfully on an international basis over the long run.[68] The numbers on firms that were merged or acquired, show that there were more managerial firms that did not survive independently than family firms.

These findings on the ownership structures of firms apparently contrast with the conclusions relating to systems of corporate governance, which showed that over time firms from countries based on 'outsider' systems of corporate governance (where ownership is dispersed among a wide number of investors), were more important than firms from 'insider' systems of corporate governance, which could indicate that there was a predominance of managerial firms over family firms. Although it is true that, over time, managerial firms gained increasing relevance among the world's largest firms in all industries in general (especially in the US economy)[69], in the alcoholic beverages industry family firms have always predominated. The main explanation for

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[67] Chandler, 'The enduring', p.138.

[68] Roy Church, 'The family firm in industrial capitalism: international perspectives on hypothesis and history', , Vol.35, No.4 (Oct. 1993), pp.17-43; Geoffrey Jones and Mary Rose, Family Capitalism, Business History, Vol.35, No.4 (Oct. 1993), p.2.

[69] See for example Geoffrey Jones and Mary B. Rose, 'Family Capitalism', , Vol.35 (1993), p.1.

that relies on the specificities of this particular industry[70], which is non-science based and its products have very long life cycles.

There is another apparent contradiction between the evidence provided in this study where family firms predominate and Chandler's argument about the lack of sufficient managerial resource and talent to manage the large complex enterprises of the twentieth century by family firms, and where failure to hand over control to professional managers inhibited both growth and the development of organisational structures and capabilities. The main explanation for this apparent contradiction relies again on the industry being analysed. Chandler was looking essentially at capital-intensive industries where the rational for managing firms is very different when compared to non-science-based industries such as alcoholic beverages (which make fewer managerial demands in terms of the complexity of production and offer less opportunity for securing scale economies).[71]

There are several differences between capital intensive industries and non-science based industries, the strategic focus of firms being the most important. While in the capital intensive industries the focus tends to be the short run because products have very short life-cycles, in non-science-based industries relying on heritage and tradition (where family members are an important factor supporting the company brand image) as alcoholic beverages it tended to be the long run as products have very long life-cycles.[72] That is why that for a long time, while consumption was culture specific and competition local, there was no need to attract entrepreneurial talent from outside the family.[73]

When competition accelerated and became global, firms hired new entrepreneurs with capabilities in marketing and management of brands and wider horizons, who were able to re-build the firms' capabilities, especially in adverse periods of stagnation and rationalisation. Frequently, as a result of globalisation of competition

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70 Thomsen, 'Foreign'.

71 Roy Church, 'The limitation of the personal capitalism paradigm', in Roy Church, Albert Fishlow, Neil Fligstein, Thomas Hughes, Jürgen Kocka, Hidemasa Morikawa and Frederic M.Scherer, 'Scale and scope: a review colloquium', , Vol. 64, No.3 (Autumn, 1990), p.704.

72 Chandler, , pp.236-94; Richard Whittington and Michael Mayer, (Oxford, 2000), p.106.

73 Casson, 'The economics of the family firm'.

firms also merged with other family firms. In this process they also became publicly quoted but retained the control of the ownership, which allowed them to raise capital yet still to impose their own priorities to managers such as keeping a long term perspective of the business. This situation was not possible in managerial firms where the dispersion of shares allowed managers to pursue their own objectives, striving for higher sales and profitability rather than the long-term survival of firm (and encouraged managers to protect their position by ensuring high short-term return to investors). In this industry the tradition of entrepreneurship and trading skills established and nourished by the family firms laid the foundation for the growth of modern-day managerial techniques in the food and drinks business.[74] These professional managers as well as the agents representing the shareholders had a fundamental role in changing the mindset in the industry, which increasingly became financial performance oriented.[75]

One example of a family firm which changed its ownership structures is Heineken, whose chairman Mr. A.H. Heineken resigned in 1989 passing the chairmanship to a professional manager, who had been working for the company whole his career. Heineken remained family controlled with Mr. Heineken controlling 50.5% of the shares of Heineken's holding company which controlled 50.5% of the Heineken brewery.[76]

Another example of a family firms that faced problems of succession and centralisation of decision taking which, merged with another family firm is Moët-Hennessy (a champagne and cognac firm). In 1987 it merged with Louis Vuitton (a luggage and luxury products firm) another family firm. The families of the new merged MNE hired a professional manager Bernard Arnault who had graduated from an Elite Ecole Polytechnique, had worked for his family firm dealing in real estate,

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[74] V. N. Balasubramanyam, 'Entrepreneurship and the growth of the firm: the case of the British food and drink industries in the 1980s', in Jonathan Brown and Mary B. Rose, , (Manchester, 1993).

[75] Interview with Michael Jackaman – former Chairman of Allied Domecq (Somerset, 19 Jun. 2000), Interview with James Espey – former Chairman of Seagram Distillers and former Chairman of IDV-UK, (London, 23 Feb. 2000).

[76] Interview with Jan Beijerinck – former Worldwide Client Services Director of Heineken (Utrecht, 10 March 2001); Heineken, (1989).

and had moved to New York, where he had learned about the aggressiveness of the stock market. When he took over the management of LVMH, he embarked in a fast and aggressive process of mergers and acquisitions of other alcoholic beverages firms, and other French luxury businesses as well, showing an enormous capacity to detect opportunities and deal with adversity. In this process he also became the major shareholder of the firm.[77]

The other firm-specific determinants used in this analysis of the growth and independent survival of firms in the alcoholic beverages industry (brands, marketing knowledge, technology and distribution networks) are all interrelated, as they allow the firm to exploit fully exploit its economies of scale and scope at the various levels of its activity.[78]

Although Chandler's and Nelson and Winter's suggest inverse relationships of causality between the organisational structure of the firm and its strategy (where the former propose that structure follows strategy and the latter that strategy follows from structure), they both aim to deal with the issue how can firms explore economies of scale and scope, given the existence of bounded rationality.[79] The evidence from the alcoholic beverages industry seems to support both cases. However, when competition accelerated from the 1980s, firms were frequently adapting their organisational structures to their strategies. An example is Allied Lyons (subsequently renamed Allied Domecq) change of organisational structure in the early 1980s as a result of the appointment of a new chairman of the Wines Spirits and Soft Drinks Division (Michael Jackaman) which turned the firm into a 'truly multinational' of

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77 Mark Casson, (Oxford, 1982); Richard Whittington and Michael Mayer, (Oxford, 2000), p.108; Michel Refait, (Langres à Langres-Saints-Geosmes, 1998); D. C. Coleman, 'Failings and achievements: some British Businesses, 1910-80', , Vol.29, No.4 (Oct. 1987), p.1.

78 Chandler, , p.8. For a definition of economies of scale and scope see Chandler, , pp.17-8.

79 Chandler, ; Richard R. Nelson and Sidney G. Winter, (Cambridge, Mass., 1982); Williamson, , p.45.

alcoholic beverages.[80] For example, while in 1985 Allied sold 2,706 millions of pounds (at constant prices 1995=100), being 27 percent of those sales made by subsidiaries operating in 7 different countries essentially in Europe, in 1990 sales had raised to 6,174 millions of pounds (at constant prices 1995=100), 40 percent being made by subsidiaries based in 20 different countries from different continents.[81]

Most of the world's largest firms were long established (dating back to the nineteenth century and before) and were first movers in their markets of origin and for their types of beverages. The 'challengers', which also ranked among the world's largest MNEs of alcoholic beverages, relied on the management of successful brands that they had obtained through merger with or acquisition of long established firms. In all cases, these firms had created cost advantages related to learning, reputation, brand image, and 'legitimation'.[82] However, during the period of analysis all the beverages had long achieved maturity in their life-cycles. So this first-mover advantages were no longer enough to sustain growth and secure independent survival. Many firms which had been first movers in specific markets such as Distillers and Arthur Bell both in Scotch whisky, but which had not rebuilt new firm specific advantages, ended up being acquired in the 1980s.

The management of brands, distribution networks and the capacity of firms to accumulate and transfer marketing knowledge also proved to be an important determinant of growth and long term survival. There were several waves of merger and acquisitions from the 1960s in the industry which were essentially determined by the need of firms to own successful brands which had the potential to become global and to accumulate general marketing knowledge (related with the general marketing methods, management of brands and distribution, irrespective of their geographic origin) and also specific marketing knowledge (related with the characteristics of a specific market, taking into consideration its business climate, cultural patterns, and structure of the market).

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80 Interview with Michael Jackaman – former Chairman of the Wines Spirits and Soft Drinks Division and, and also Chairman of Allied Domecq (Somerset, Nov. 1998).

81 Allied Lyons, (1985, 1990).

82 Glenn R. Carroll and Michael T. Hannan, (Princeton, 2000).

Technology which traditionally had been an important firm-specific determinant in the growth and survival of firms in alcoholic beverages, in particular in the beer sector, had become less important by the end of the century, with the exception of wines. For example the wine technologies developed in the New World allowed firms to control the taste and quality of wines, permitting mass branding strategies.[83]

4. Patterns of growth in alcoholic beverages

Although no two firms in alcoholic beverages can ever be exactly alike and develop and grow exactly in the same way, it is possible to draw general patterns in their process of growth, as they tended to focus their activities in the distilled spirits and brewing businesses, as the wines business was still relatively fragmented. However there are firms such as Moët-Hennessy and E. J. Gallo which developed in, respectively, the sparkling wines and still wines businesses.

Bearing on the description presented in section 3 on the evolution of the industry and firm specific determinants, figure 8 provides an analytical framework on the patterns of growth and survival of the world's largest MNEs, considering three different phases. In each phase firms may survive independently or be merged or acquired by another firm. As the number of cases of firms in the alcoholic beverages industry that were dissolved or liquidated is very reduced, this alternative was not considered in figure 9. This evolution depends on two sets of determinants – industry specific and firm specific determinants. The industry specific determinants affect the firms equally and include consumption, competition, institutional environment and industry structure, and determine the different characteristics of each of the three phases. The firm specific determinants are considered in the framework as one single group of determinants for two reasons. First because at each moment in time, the individual factors such as governance structures, ownership structures, entrepreneurial

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[83] David John Collis, 'The value added structure and competition within industries', PhD Dissertation on Business Economics (Harvard University, 1986); James Espey, 'A multinational approach to new product development', , Vol.19, No.2 (1985), pp.5-18; David Merrett and Greg Whitwell, 'The empire strikes back: marketing Australian beer and wine in the United Kingdom', in Geoffrey Jones and Nicholas Morgan (eds.), (London, 1994).

capabilities and scale and scope, vary in their relative importance in determining the firms' specific advantages. Second because over time the number of factors needed for the firm to create its specific advantages increase and become more complex.

Figure 7 shows that in phase 1 consumption was culture specific, competition and the institutional environment was local, and the industry was still fragmented. So it was possible for firms to grow and survive independently even without constantly re-building their firm-specific advantages, as long as industry specific determinants were relatively benign, there existed 'market failures' and firms could benefit from positive externalities.[84]

An example is United Distillers which had built firm specific capabilities before the 1960s becoming the world's largest scotch whisky and gin producer, through, for example, its economies of scale and scope in production. However, it had not re-built its firm-specific advantages, and had an organisation structure with lots of duplications of activities (which obviously increased costs and bureaucracy), was not sufficiently internationalised, when compared to competition, and also was not investing enough in marketing. Until the 1980s it had survived as the environment was relatively benign, the industry was fragmented and competition was local/regional. From the mid 1980s when competition became global and industry concentrated, by not re-building its advantages Distillers was not able to survive independently.[85]

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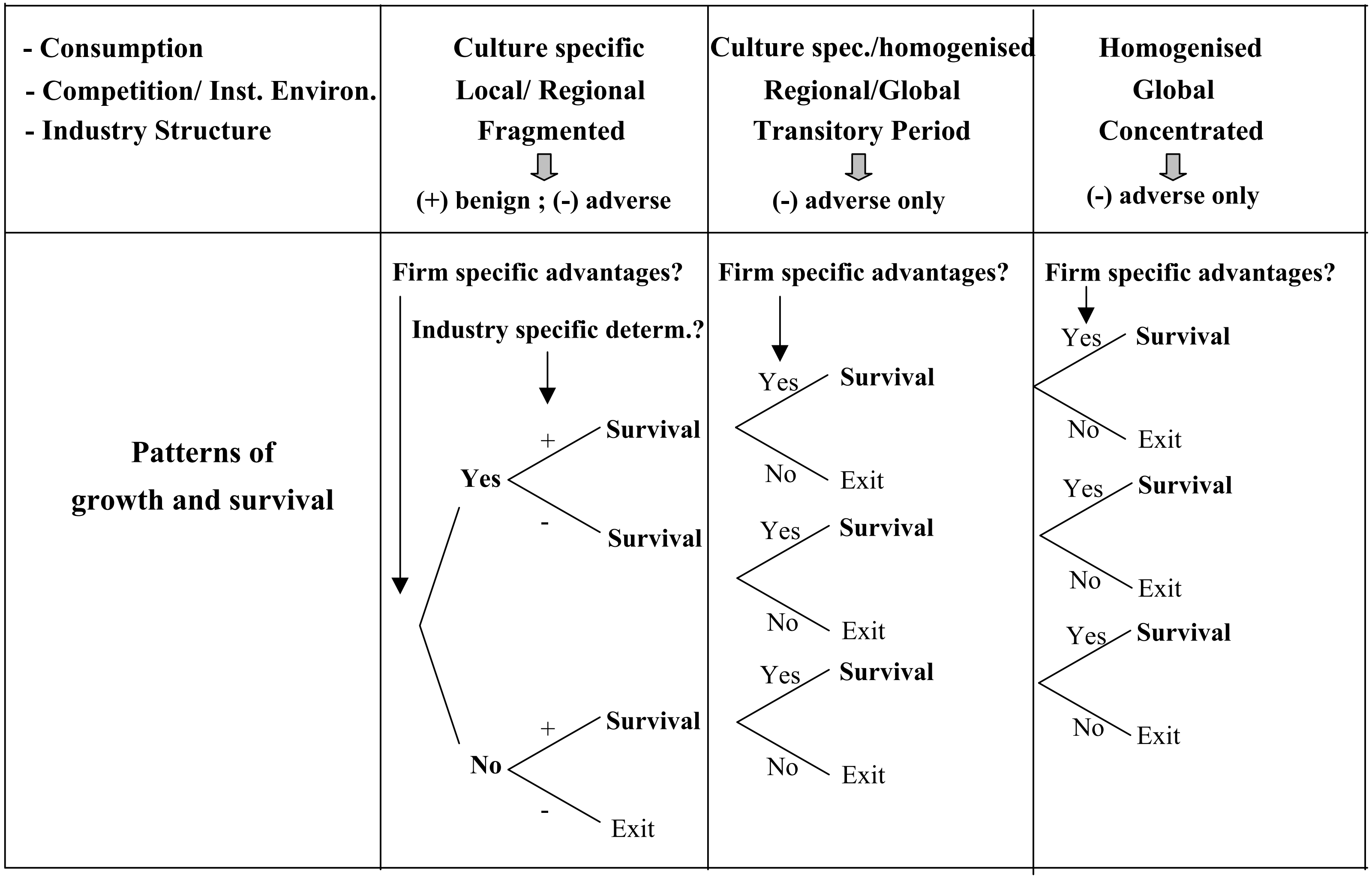
84 Ingemar Dierickx and Karen Cool, 'Asset Stock Accumulation and the sustainability of competitive advantage', , Vo.35, No.12 (1989), pp.1504-11; Paul J. H. Schoemaker and Rapahel Amit, 'Investment in Strategic Assets: industry and firm specific perspectives', , Vol.10, pp.3-33. On the concept of market failure see Williamson,

85 Chandler, , p.378; Weir, 'Managing Decline'.

Figure 9 –**Patterns of growth and survival of firms in the alcoholic beverages industry**



Phase 2 is a transitional period (shakeout period) when firms have to get used to dealing with a multitude of environments, competitors and consumers.[86] The industry starts to globalise, consumption patterns change becoming more homogenised and the industry concentrates. Firms are only able to grow and survive if they create or re-build firm-specific advantages.[87] An example is the already mentioned case of Moët-Hennessy which was able to re-build the necessary firm-specific capabilities in the when the industry became global in the mid 1980s, by remaining a family controlled firm after merging with another family firm and hiring a professional manager to run the business.

In phase 3 the industry is concentrated and global. Firms can only survive as long as they create or continue to re-build their firm specific advantages. An example is Guinness and Grand Met which re-built their firm specific advantages by forming Diageo through a merger in 1997, obtaining economies of scale and scope at the various levels of the firm, and in particular in marketing and distribution.

5. Conclusion

This paper has employed an original database of the world's largest alcoholic beverages firms between 1960 and 2001 to analyse the dynamic evolution of the industry and to establish the general patterns that explain the growth and survival over the long term. After a brief introduction, the second section explained the methodology used in the selection of the world's largest firms in the beer, wines and spirits businesses, operating in different continents. In section three an analytical framework was proposed which considers two sets of determinants - industry specific determinants and firm specific determinants. It shows that although these determinants are always important in the growth and survival of firms, their relative importance changes over time.

The schematic framework developed in section four illustrates alternative patterns of growth and survival of firms and shows how industry and firm-specific factors

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[86] Steven Klepper and Kenneth l. Simons, 'Innovation and industry shakeouts', , Vol.25, No.1 (Fall 1996), pp.81-9; Richard N. Foster and Sarah Kaplan, (London, 2001), p.54.

[87] Chandler. 'The enduring', p.140; Jones, , p.325.

affect that evolution. It reveals that when the industry-specific factors that affect all firms in general are benign, that is, when consumption patterns are culture specific, competition and the institutional environment is principally domestic, and the industry is fragmented, it is possible for firms to grow and survive without constantly re-building their firm-specific advantages.

Once these industry-specific factors become adverse, however, it is no longer possible for firms to grow and survive without creating or re-building firm-specific advantages. The adverse nature of the industry does necessarily imply that the environment is hostile. For example, globalisation demands that firms learn to deal with multiple markets if they want to grow and survive. Such a multiplicity of markets makes the industry-specific determinants under which firms operate adverse, even if at the level of particular markets conditions are benign. In such circumstances, industry-specific determinants become a necessary but not sufficient condition for firms to grow and survive, as firm-specific factors play an increasing role. These include the ownership structures of firms, their entrepreneurial capabilities, their organisational structures, their economies of scale and scope, their brands and marketing knowledge, and their distribution networks, among other firm-specific factors, which need to be created and constantly re-built.

By analysing the evolution of the world's largest firms in wines, spirits and beer, this paper shows the different patterns of growth followed by firms from these different sectors were related to the nature of their main businesses. For beer and spirits firms benign industry-specific determinants significantly determined the growth and survival of firms until the 1980s, at which point they encountered more adverse conditions related with the globalisation of the industry, and firms had to summon new firm-specific capabilities to grow and survive. In the wines business which is less global due to its asset specific nature (dependent on specific geographic regions), industry-specific factors still determined firms' growth and survival by the end of the twentieth century. While in the late 1960s and early 1970s the merger waves had targeted beer and also wines firms (in particular producers of processed wines such as port, champagne, and sherry), this trend had changed in the 1980s with spirits becoming the acquisition target for firms wanting to create global brands. However, by the end of the century consolidation was taking place in the wines business, where technological changes had made global brands and distribution viable strategies (in particular with wines from the New World and America).

Consequently, evidence from the world's largest firms in the alcoholic beverages industry shows, for example, how important were the systems of corporate governance in which firms were based, the ownership structures and the entrepreneurial capabilities of their management, to growth and survival. Although some of the world's largest MNEs in alcoholic beverages such as Diageo (originally from the UK, where capital markets facilitated the development of managerial firms), are managerial, family owned firms which have always been a significant part of this industry, have shown remarkable capacity for growth and survival, and their resilience has been most pronounced when conditions have turned adverse. This apparent contradiction with Chandler's argument which considers that family ownership unduly restricted the growth and survival of firms, can be explained by looking at technology based industries where products have short life cycles, the alcoholic beverages industry is basically a non science based industry where products may have long life cycles.

The survival and prominence of family firms in this industry is also related with the strategies they followed, which are more long-term oriented and based on more conservative financing policies, and to their capacity to create and constantly re-build firm-specific capabilities over time. These capabilities may reflect the way that by the end of the twentieth century, most family firms had developed a hybrid form of governance. Publicly quoted, they used professional managers with entrepreneurial capabilities, while families maintained control of the ownership.

This paper has sought to cover a wide range of issues related with the growth and survival of the world's largest firms in the alcoholic beverages industry. It remains to be seen whether these findings about the impact of the industry- and firm-specific determinants on the patterns of growth and survival of firms over time can also be applied to the study of smaller firms in the alcoholic beverages industry that operate at a global level. Such a study would require more rigorous analysis, but it would also indicate the possible generality of the argument with regards to the evolution of other non-science based industries that, like alcoholic beverages, are characterised by a high level of competition, concentration and globalisation, and globally-branded products with long-life cycles.