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*Eva Fernández*

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This paper looks at the role of brands in the expansion of sherry exports into the UK during the 20th century. From 1920, the leading Spanish sherry firms (Domecq and González Byass) popularized their own brands through wide advertising campaigns and increased their commitment with the import market establishing distribution alliances and subsidiaries. The sale of their own brands allowed firms to overcome the reputation problems that had caused a decline of exports from 1870 onwards. During the second half of the 20th century the advertising budget of the firms increased even more, allowing exports to multiply by 7 between 1950 and 1980, and placing sherry as the second alcoholic beverage consumed in the UK after beer. The increasing competition placed by imitators and new entrants selling at lower prices to overtake the market power of leading brands, led Spanish leading firms to cut margins and compete on prices during the 1970s. The profitability of the sherry business declined in the UK, but the marketing knowledge acquired by the use of brands and the increasing integration into distribution allowed Spanish leading firms (especially Domecq) to grow internationally.

**Keywords:** wine history, Spain, business history, marketing, brands, advertising.

**JEL Classification:** N84, M31

**Eva Fernández:** Research Assistant, Department of Economics, Universidad Pablo de Olavide Ctra. de Utrera, Km. 1, 41013 Sevilla, Spain.

E-mail address: [efergar@upo.es](mailto:efergar@upo.es).

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# **BRANDS AND THE EXPANSION OF THE SHERRY EXPORTS, 1920-1980\***

Eva Fernández<sup>†</sup>

**Abstract.** This paper looks at the role of brands in the expansion of sherry exports into the UK during the 20<sup>th</sup> century. From 1920, the leading Spanish sherry firms (Domecq and González Byass) popularized their own brands through wide advertising campaigns and increased their commitment with the import market establishing distribution alliances and subsidiaries. The sale of their own brands allowed firms to overcome the reputation problems that had caused a decline of exports from 1870 onwards. During the second half of the 20<sup>th</sup> century the advertising budget of the firms increased even more, allowing exports to multiply by 7 between 1950 and 1980, and placing sherry as the second alcoholic beverage consumed in the UK after beer. The increasing competition placed by imitators and new entrants selling at lower prices to overtake the market power of leading brands, led Spanish leading firms to cut margins and compete on prices during the 1970s. The profitability of the sherry business declined in the UK, but the marketing knowledge acquired by the use of brands and the increasing integration into distribution allowed Spanish leading firms (especially Domecq) to grow internationally.

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<sup>†</sup> Research Assistant, Department of Economics, Universidad Pablo de Olavide Sevilla, e-mail:efergar@upo.es

Sherry, a fortified wine produced in the Jerez region (Southern Spain), showed a rapidly expansion of their exports to Britain during the 19<sup>th</sup> century, reaching its highest level between 1867 and 1877. During this period, the production of sherry was strictly limited and the growth of demand created supply problems which encouraged the blend of sherry with cheap wines from other regions. Additionally, the outbreak of oïdium (a vine disease) rapidly reduced the supply of wine and provoked a steady increase in the prices during 1856-1865, furthering cheap imitations of sherry. The sale of inferior and cheap wines finally damaged the sherry reputation and caused the rapidly decline of exports from the 1880s.<sup>1</sup> After the problems of reputation of the 19<sup>th</sup> century, there were two new periods of export expansion in the sherry trade, first occurring in 1919-1940 and second in 1958-1980. During the 20<sup>th</sup> century, Spanish shippers used own brands as a way to overcome the reputations problems created by fraudulent wines. Brands were especially important in the growth of exports as they led firms to create and enhance their own image and to avoid reputation problems.<sup>2</sup> They were also a valuable intangible asset for producers, allowing the Spanish leading firms to obtain economies of scale and to consolidate their market share.<sup>3</sup>

But wine is a commodity very difficult to be branded.<sup>4</sup> In the sherry industry the introduction of a new method of maturation in the 18<sup>th</sup> century allowed the production of a wine that could be very easily branded. The new process aimed at producing a uniform wine in age and character. In this new system sherry was matured in the *solera*, a scale of oak casks containing wine of the same type, in which sherry in different stages of

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<sup>1</sup> Simpson (2002 and 2005)

<sup>2</sup> About the effects of quality uncertainty on markets and the use of brands to avoid reputation problems, see Akerlof (1970). Brands allowed firms to give information to the purchaser, providing a guarantee of continuing standards of quality to consumers and allowing firms to avoid reputation problems. Wilkins (1992 and 1994)

<sup>3</sup> Wilkins (1992) and Lopes (2002b) have emphasized the role of brands in the growth of international business. Lopes (2002b) argues that marketing knowledge, as well as brands, was also important in the growth of firms in foreign markets.

<sup>4</sup> González Gordon (1970 and 1990); Maldonado Rosso (1999). Other processed wines are champagne and port. See Boulet and Laporte (1976: 66-75) on corporate concentration in Champagne industry and Lopes (1998) in Port. Non-processed wine is very difficult to be branded as great number of growers produces a wide variety of wines, whose quality differs yearly and across regions. In fact, wine-making and wine distribution in the European producing countries is traditionally highly fragmented in small family firms, so that wine exports are geographically branded and the level of corporate concentration in production and distribution is not very high. Cavanagh and Clairmonte (1999); Anderson (2004). As oppose as old wine producing countries, new producers, such as the United States, achieved a great level of concentration in light wine production from the 1970s. In the U.S., Gallo was the largest wine company accounted for 33 per cent of all wine sales. The largest eight wine companies accounted for 65 per cent of wine sales (Folwell and Baritelle, 1978: 38-39).

maturation was blended, obtaining a wine of no particular vintage, which maintained its quality from one year to another.<sup>5</sup> During the 19<sup>th</sup> century, sherry was retailed under distributor's brands. Although Spanish sherry firms launched premium brands (such as *Tío Pepe*) as a way to prevent the adulteration of their wines during the 19<sup>th</sup>,<sup>6</sup> it was in the 20<sup>th</sup> century when these Spanish brands were extensively popularized in the British market. The numerous fraudulent practises that finally caused the end of the export expansion, prompted the leading Spanish firms to focus mainly on the promotion and sale of own brands in Britain. From the 1920, leading shippers also increased their commitment with the import market, establishing tighter alliances with distributors or own distribution subsidiaries, starting a process of internationalization that accelerated in the second half of the 20<sup>th</sup> century.

This paper is divided into 5 sections. Section 1 considers the first period of expansion of sherry exports in 1919-1940 when the Spanish leading sherry houses changed the distribution approach, establishing distribution alliances or wholly-owned subsidiaries and popularizing their own brands through wide advertising campaigns. Section 2 analyses the second expansion of sherry in 1958-1980, when Spanish independent firms continued the strategy to sell their own brands in the British market. Section 3 analyse the extension to which imitations and the cheap sherries (produced by new entrants to the sherry industry) were sold in the British market from 1960 onwards. The increasing competition placed by both cheap sherries and imitations led Spanish firms to compete on prices. The decline of profitability of the Spanish sherry firms because of this strategy prompted firms to integrate into production from the 1970s, a process analysed in Section 4. Finally, section 5 concludes.

## **1. Changes in the marketing approach and expansion of sherry exports to the UK, 1919-1940**

The budget issued in 1860 by Prime Minister William Gladstone had diverted the British taste from the heavy fortified wines (port and sherry) to the French lighter wines.<sup>7</sup>

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<sup>5</sup> González Gordon (1970 and 1990) and Maldonado Rosso (1999)

<sup>6</sup> Simpson (2005), p. 378

<sup>7</sup> Simpson (2005)

However, when World War I finished, the British consumers developed again a taste for fortified wines, which became increasingly popular for the public.<sup>8</sup> During the inter-war period, the consumption per caput of all types of wines in the UK remained remarkably steady.<sup>9</sup> However, the average total consumption increased by 20 per cent from 570 thousand hectolitres per annum in 1900-1914 to 689 thousand in 1919-1927.<sup>10</sup> Most of the increase in total consumption of wine consisted of Portuguese and Spanish fortified wines, whose imports increased by more than 30 per cent from 1920 to 1927, as opposed to the decline in the imports of Spanish and French light reds by another 30 per cent in the same period. Moreover, as a consequence of the duty preference given to Empire wines in 1927, French and Spanish red wines continued their decline by 40-45 per cent.<sup>11</sup> The consumption of Empire wines increased from 7 per cent in 1900 to 23 per cent of the total UK consumption in 1931, caused especially by the growth of imports of Australian wines, which multiplied by 6 between 1930 and 1933.<sup>12</sup> Although imports of Port also decreased by a 40 per cent because of the duty increase, the rising tendency of sherry exports continued from 1927, growing by 50 per cent up 100 thousand hectolitres in 1933. Besides the expansion of the market in the UK, the demand for sherry also increased in other countries and total exports of sherry multiplied by 3 from 77 thousand hectolitres in 1920 to 250 thousand in 1940 (graphic 1).

The increasing popularity of sherry in the British market from 1920 was possible because shippers were able to maintain a very solid standard of quality, favouring quality before quantity. Sherry firms could also enlarge their business because of the extensive advertising of own brands.<sup>13</sup> Furthermore, the Sherry Shippers Association, formed in London at the beginning of the 20<sup>th</sup> century to the aim of popularizing the product and defending the interests of the shippers in the UK market, made generic campaigns to foster

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<sup>8</sup> *Ridley's* (1931), no. 1000, p. 98

<sup>9</sup> That was the case also of the 19<sup>th</sup> century (Simpson, 2005). During the years 1924 to 1930, the average annual consumption per caput was 2.97 pints, which was practically the same as from 1886. *Ridley's* (1932), no. 1019, p. 611

<sup>10</sup> Calculated from *Annuaire Statistique de la France* (1924) and *Ridley's* (1932), no. 1019, p. 611

<sup>11</sup> Calculated from *Ridley's* (various years)

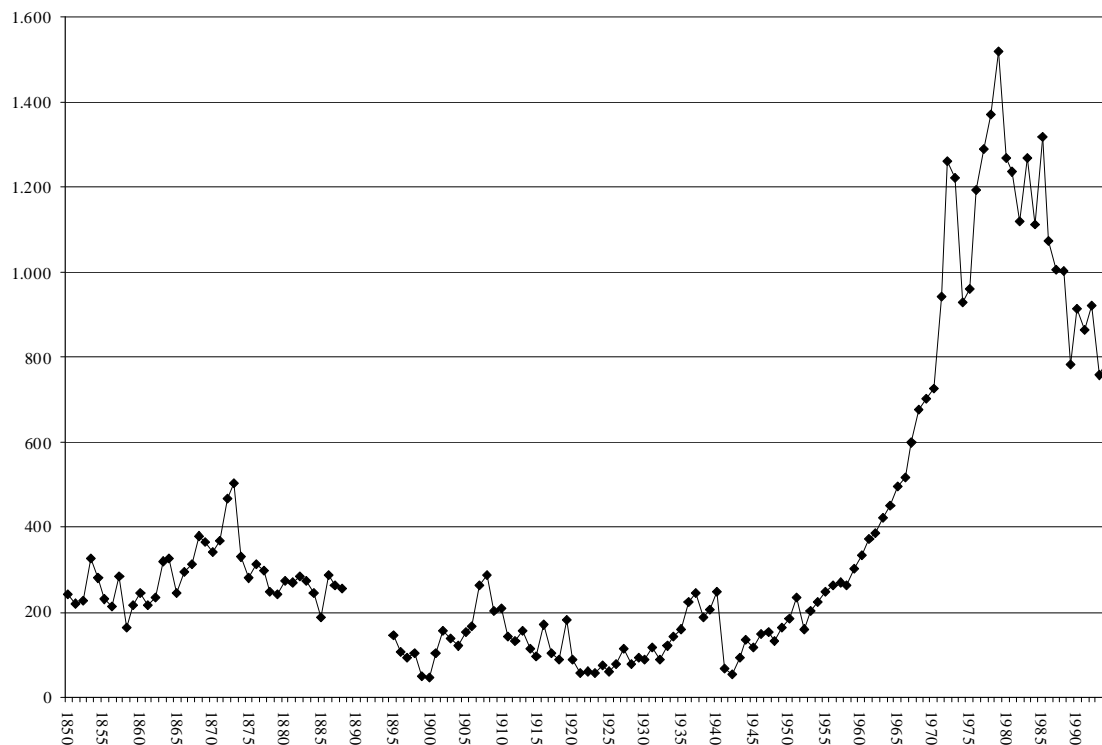
<sup>12</sup> *Ridley's* (1932), no. 1019, p. 612

<sup>13</sup> *Harpers* (1933), n. 2544, p. 547, 561 and *Ridley's* (1933), no. 1031, p. 685 and (1935), no. 1047, p. 5. Although most of the sherry consumed in the UK was sweet wine, the gradual increase of sherry exports to the UK consisted mainly on dry sherry, which increasingly became popular as an aperitif, competing successfully with cocktails. The increasing consumption of sherry as an aperitif was due also to diversion of taste from whisky because of its relative high price. *Ridley's* (1932), no. 1011, p. 5

the consumption of the product. These campaigns consisted mainly on systematic adverts in the daily press and the organization of an annual *Sherry Week* (first organized in 1924), which permitted the revival of this beverage.<sup>14</sup>

Graphic 1

Total Exports of sherry in 1850-1994, in thousand hectolitres



Source: elaborated from GEHR (1989: 113-114) and Consejo Regulador de las Denominaciones de Origen Jerez-Xérès-Sherry y Manzanilla-Sanlúcar de Barrameda (1994)

During this period, Spanish sherry houses also changed their distribution approach in the British market. In 1920, Domecq decided to end the trading of their wines in bulk and to market bottled sherry under their own labels. Having decided this change in the distribution approach, Domecq cancelled the distribution agreement with its distributor,

<sup>14</sup> *Ridley's* (1926), no. 939, p. 23 and (1927), no. 951, p. 9

Matthew Clark, and established a tighter alliance with Luis Gordon.<sup>15</sup> This new approach was followed by other firms, especially by González Byass and, consequently, the percentage of sherry exported in bottle accounted for 20 per cent of total exports in the period 1926–1940, and the largest volume of bottled sherry was exported by Pedro Domecq (47 per cent) and González Byass (17 per cent).<sup>16</sup> The use of brands increased the level of concentration of the exports in a few shippers continuing a process initiated at the beginning of the 19<sup>th</sup> century. In 1850-1870, when the exports were growing fast, the total number of shippers increased from an average of 70 to 90, and the leading 10 shippers sold around 50 per cent of total exports.<sup>17</sup>

During the export boom of the 19<sup>th</sup> century, González Byass and Pedro Domecq rivalled each other for the position of leading shippers (table 1). Both firms established alliances with distributors in England and those alliances allowed them to consolidate their export share after a process of internal growth. In 1833 Pedro Domecq, formed as a joint venture between a Spanish shipper and a British agent, was the leader with about 9 per cent of total exports.<sup>18</sup> However, Domecq was replaced in the top position by González Byass from the 1850s (table 1), after the firm was established in 1855 as an alliance between two growers associated for the production of sherry (González & Dubosc) and Byass, a British distributor who had operated as the sole agent of González and Dubosc's sherry from 1836.<sup>19</sup> From the 1850s, exports from the firm grew steadily to 9 per cent of total sherry exports in 1861-1873, placing the firm as the export leader.

This process of concentration among a few shippers consolidated during the expansion of the 1919-1940, because of the use of brands by the leading shippers. The level of concentration in 1926-1940 almost doubled that of 1871-2. In 1871-2, the first ten leading firms concentrated 47 per cent of total exports, González Byass being the leader with 10 per cent (table 2). González Byass was followed by Misa and Garvey, with a percentage of 8 and 5 per cent, respectively. Domecq was in the fourth position with a mere

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<sup>15</sup> *Ridley's* (1920), no. 879, p. 604 and (1921), no. 879, p. 40

<sup>16</sup> Calculated from Garvey Archive: *Estadísticas (1870-1930)* and *(1931-1949)*.

<sup>17</sup> Calculated from Archivo Garvey. *Estadísticas (1850-1870)*

<sup>18</sup> In the early 19<sup>th</sup> century, Pierre Domecq established the firm “Ruskin, Telford & Domecq”, which operated as the sole agent of Juan Haurie, a Spanish shipper. This shipper acquired all the capital share of Juan Haurie, founding Pedro Domecq. Since then, “Rusking, Tedlord & Domecq” (Pedro Domecq & Co. from 1864) along with two partners, R.W. Willis and H. Scott, were in charge of the marketing of the sherry that Pedro Domecq produced in Spain. See Lignon-Darmaillac (2004), p. 229-240

4 per cent of total exports. In contrast, in 1926-1940 ten leading firms were responsible for 82 per cent of the export trade. The increasing concentration of exports was due to the internal growth of the three leading firms, Domecq, Byass and Williams & Humbert, which jointly concentrated 55 per cent of total exports. Domecq recaptured the first position again after changing its system of distribution. Its exports increased from an average of 11 thousand hectolitres in the peak years of the export boom in the 19<sup>th</sup> century to more than 45 thousand hectolitres in 1926-1940, accounting for 26 per cent of all exports. The sale of its brand *Tío Pepe* from González Byass, which operated as a distributor of own brands in the UK, increased and recovered the exports levels of the previous boom (25-30 thousand hectolitres) and become second major shipper with a 16 per cent share in 1926-1940. Williams and Humbert, founded in 1877, which sold its famous brands *Dry Sack* in the British market through its own subsidiary, was the third larger exporter with 13 per cent of exports, and an average of almost 24 thousand annual hectolitres.<sup>20</sup> Finally, in contrast with the strategy of these firms, other large Jerez houses, such as Garvey and Misa, continued to supply wines to British agents and showed a decline in their average annual exports as well as in their share of the trade.<sup>21</sup>

Table 1

Leading firms in the sherry industry during the 19<sup>th</sup> century, in percentage of total exports

	1833-1844	1851-1860	1861-1873
Domecq	9,1	5,7	4,9
González Byass		5,9	9,2
Garvey	5,6	5,5	5,5
Misa		3,5	6,6

Source: for the period 1833-1844, Maldonado (1999); for the period 1851-1873, calculated by the author from Archive of Garvey: *Estadísticas (1851-1870)*.

<sup>19</sup> Montañés (2000) and Lignon-Darmaillac (2004), p. 229-240

<sup>20</sup> *Wine and Spirit* (1974), vol. 102, no. 1202, p. 41.

<sup>21</sup> That was the case of Garvey, which from 1916 had an agency agreement with Matthew Clark to supply bulk wines in order to bottle and sell wine with the agent brand. Garvey Archive. *Garvey (London) Ltd.*



Table 2  
Concentration in the sherry exports in 1871-2 and 1926-1940

	1871-2		1926-1940	
	Hectolitres	Percentage	Hectolitres	Percentage
Pedro Domecq	11.217	4	46.605	26
González Byass	26.745	10	30.578	16
Williams & Humbert	-	-	24.309	13
Misa	21.086	8	4.987	2
Garvey	14.899	5	3.591	2
Total	280.714	100	184.915	100
<b>Ten leaders</b>	130.935	47	150.729	82

Source: elaborated from Garvey Archive: *Estadísticas* (1871-1930) and *Estadísticas* (1931-1950)

In spite of the efforts of the Sherry Shippers Association and the new strategy of the firms to enhance the reputation of sherry through brands, some shippers continued to export inferior sherries to the UK in order to sell at very cheap prices during the 1920s and 1930s. Moreover, it was also common that certain merchants and distributors sold wines labelled as “sherry” at prices that suggested serious adulteration practises.<sup>22</sup> Although the sale of cheap and false wines was seen as detrimental to the trade and risked a return to the years after the 1870s, when the shipping of imitations and inferior wines caused the decline of the trade, the export boom of the inter-war period finished because of the outbreak of World War II. During the wartime blockage, exports fell to 50-90 thousand hectolitres, a mere 30 per cent of the pre-war years, and the inability to obtain supplies increased the sales of imitations, the so-called “sherry-styles”, which flourished in the UK.<sup>23</sup> The restrictions on imports of luxury goods in the post-war period resulted in sherry imports stagnating at around 150 thousand hectolitres until 1950 (graphic 1). In the UK, there were quotas on the sherry imports and wines duties increased by 600 per cent in the period 1938-1950.<sup>24</sup> Conditions of Spanish economy under Franco dictatorship had also negative effects on the

<sup>22</sup> Ridley's (1931), no. 1007, p. 614 and (1933), no. 1031, p. 685

<sup>23</sup> Ridley's (1963), no. 1386, p. 258

wine trade. During the 1940s, most industries worked half time due to the shortages of electric power, and companies faced financial difficulties because of the shortages of credit.<sup>25</sup> During the 1950s, total exports of sherry stabilised around 200-250 thousand annual hectolitres, and the UK consumption of sherry increased slightly from 138 thousand hectolitres in 1938-9 to 150 thousand in 1958-59, at a time when the sales of other wines doubled mainly because import duties increased less.<sup>26</sup>

As a result of the import restriction, most of the sherry was sold under the brands of the British distributors and sherry substitutes and imitations had heavily popularized in the British market between 1940 and 1960. Indeed, in the early 1960s, the four leading brand names were those of the British distributors, part of alcoholic beverages groups very integrated into retailing (table 3). Only one Spanish independent firm, Domecq, had maintained the popularity of their brands from the end of the previous expansion.<sup>27</sup> In 1960, the leading brand name was *Bristol Cream*, belonging to Harvey, a British wine distributor with their own retail network, which enjoyed 10% of total market share.<sup>28</sup> Other distributors that sold sherry brands in the UK market were brewing companies that had diversified into the distribution of wines and spirits after the decrease of beer consumption in the British market.<sup>29</sup> That was the case of the Courage, whose subsidiary, Kinloch distributed brands of whisky and rum as well as Spanish table wines and a sherry sold under the name *Cuesta*.<sup>30</sup> Stowell, a subsidiary of Whitbread, bottled and labelled the Garvey's sherry under the *Caroza* brand.<sup>31</sup> Finally, Ind. Coope, part of Allied Breweries, introduced *Regency* sherry in the early 1950s and their sales rapidly increased during the 1960s.<sup>32</sup>

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<sup>24</sup> *Ridley's* (1949), no. 1216, p. 84 and (1950), no. 1235, p. 638

<sup>25</sup> *Ridley's* (1949), no. 1217, p. 155 and no. 1218, p. 227

<sup>26</sup> During the 1950s, the UK duties on sherry had increased by 375 per cent from the pre-war levels, whilst those of light wines had only done by 225 per cent. *Ridley's* (1960), no. 1348, p. 78-79

<sup>27</sup> The Domecq marketing strategy consisted on advertising and distributing its brands in supermarkets. Garvey Archive. *Informe al Consejo* (1973).

<sup>28</sup> *Ridley's* (1960), no. 1351, p. 307 and (1964), no. 1399, p. 274; see also Lopes (2004).

<sup>29</sup> Gourvisch and Wilson (1994) and Lopes (2002)

<sup>30</sup> The Group, formed after the association of H & G Simonds with Charles Kinloch, subsidiary of Courage, had more than 4.800 licensed houses, including 450 off-licensed. Courage Barclay & Simonds Limited (1962): *Report and Account*.

<sup>31</sup> Whitbread and Company Limited: *Reports and Accounts 1961*. Stowells also sold some Domecq brands in Great Britain. Garvey Archive: *Informe al Consejo*, 1973.

<sup>32</sup> In order to assure the continuity of the supply of sherry, Allied Breweries signed an agreement with Geo G. Sandman's Sons & Co. Ltd, later reinforced with the acquisition of part of the share of Sandeman. Allied

Table 3

Some leading brands sold in the British market in the early 1960s

<i>Firm</i>	<i>Group (Acquisition year)</i>	<i>Brand</i>
Harvey of Bristol	Allied Breweries (1966)	Bristol Cream
Domecq	Independent	Various
Kinloch & Co	Courage	Cuesta
Stowell	Whitbread	Caroza
Ind. Coope	Allied Breweries (1961)	Regency

Source: see text.

## 2. The use of brands and the expansion of sherry exports in the United Kingdom, 1958-1979

The rising living standards in Northern Europe and changes introduced in the retailing system increased the demand for sherry and other wines from 1950. Total exports of sherry grew from 180 thousand hectolitres in 1950 to more than 1.5 millions hectolitres in 1980 (graphic 1). As in the previous exports booms, the main market for sherry was the UK which accounted for 65 per cent of sales in 1955-1969. However, exports increasingly diversified into other markets, so that sales in the UK accounted for only 55 per cent of total exports in the 1970s.<sup>33</sup> In the UK, the demand for sherry and other alcoholic beverages expanded thanks to higher per capita incomes and the Licensing Act of 1961. Additionally, the government reduced the duties on sherry in 1958 and again in 1960.<sup>34</sup> As a consequence of these duty reductions, exports to this country multiplied by 3 from 1958 up to 760 thousand hectolitres in 1979 (graphic 2).

The growth of the sherry consumption in the UK was made possible through the use of heavy advertising by sherry shippers to promote their own brands. The sherry firms'

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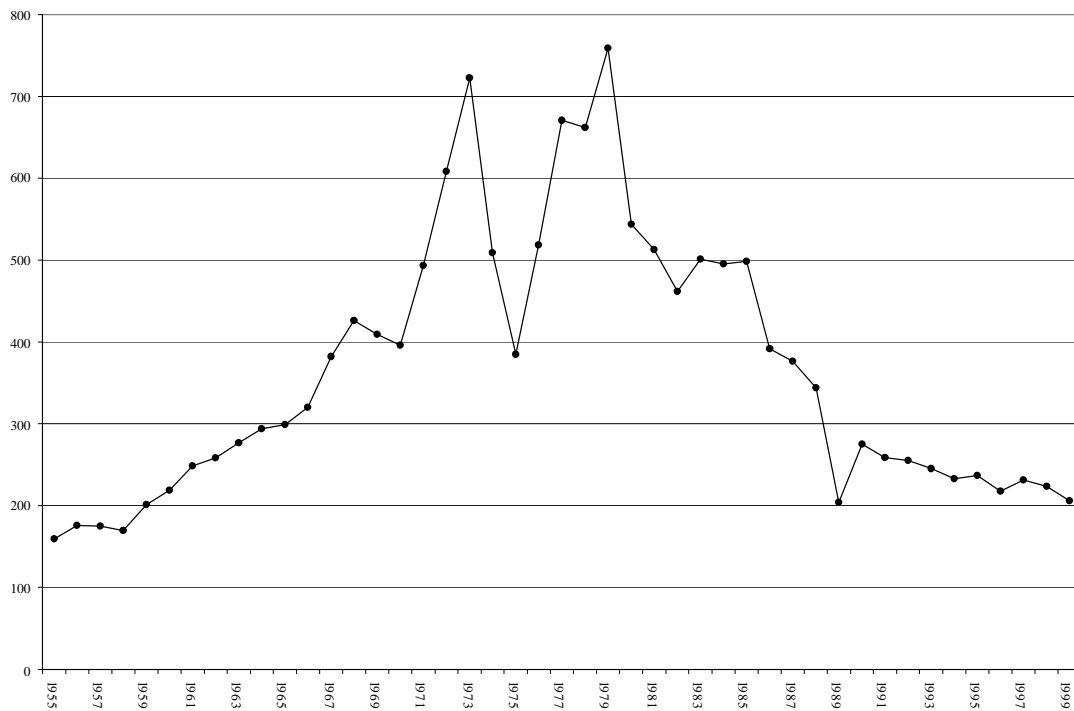
Breweries Limited: *Reports and Accounts 1963 and 1964*; Ind. Coope, Tetley, Ansell Limited: *Reports and Accounts 1962*

<sup>33</sup> Calculated from Consejo Regulador de las Denominaciones de Origen Jerez-Xérès-Sherry y Manzanilla-Sanlúcar de Barrameda

<sup>34</sup> *Ridley's* (1960), (1960), no. 1348, p. 78 and no. 1352, p. 378 and (1964), no. 1405, p. 644. Prior to the Licensing Act of 1961 alcoholic beverages only could be sold in specific outlets. The new licensing law allowed supermarkets and other premises to retail alcoholic drinks. See Cavanagh and Clairmonte (1985), p. 152.

total spending on advertising increased from £775 thousand in 1966 to almost £2 million at the beginning of the 1970s.<sup>35</sup> During the 1970s, fortified wine categories, especially sherry, were traditionally the biggest spenders in press and television advertising, responsible for 18-20 per cent of total expenditure for wines and spirits, followed by vermouth and whisky. Moreover, the total advertising expenditure for sherry continued to increase fastest than that for other wines and spirits, doubling from £1.8 million a year in 1971-1972 to £3.3 in 1975-76 (table 4). As a consequence of these advertising and promotional campaigns, sherry became the second alcoholic drink consumed in the British market in terms of volume after beer.<sup>36</sup>

Graphic 2  
Sherry exports to the UK in 1955-1999, in thousand hectolitres



Source: elaborated from Consejo Regulador de las Denominaciones de Origen Jerez-Xérès-Sherry y Manzanilla-Sanlúcar de Barrameda

<sup>35</sup> RUMASA Archive (Fondo Antiguo, Caja 36: *Marketing Report Varela Sherries, 1968*) and table 7

<sup>36</sup> *Harpers* (1975), no. 4737, p. 572.

Table 4

Total annual spending in press and TV advertising in the UK market of alcoholic drinks, in 1971-1976 (£ millions)

	1971-1972	1973-1974	1975-1976
Sherry	1,8	2,4	3,3
Vermouth	1,7	2,6	3,2
Whiskey	1,4	2,0	2,5
Brandy and liqueurs	1,2	1,9	2,3
Cider and Perry	1,2	1,5	2,2
Gin and Vodka	1,1	1,7	1,6
Table wines	1,6	1,6	1,7
Rum	0,3	0,4	0,4
Port	0,3	0,5	0,3
<b>Total</b>	<b>10,5</b>	<b>14,5</b>	<b>17,7</b>

Source: calculated from *Wine and Spirit* (1973: no. 1186) and (1977: no. 1234).

During this expansion of trade, the Spanish firms continued the strategy initiated in the 1920s and 1930s to sell their own brands. As a result, brands of the Jerez houses once more gained market share, and together with Harvey's brands, had become leaders in the UK market during the 1970s. Seven firms dominated the British market for sherry but only three of them were independent Spanish houses, González Byass, Williams & Humbert and Domecq (table 5). Two of the other four were British distributors traditionally specialised in sherry (Harvey and Grants of St. James, part of Ind. Coope), together with two new firms established in the Jerez area by multinationals (Croft, part of the IDV Group, and Sandeman, part of Allied).<sup>37</sup>

<sup>37</sup> Croft was a leading port shipper and a subsidiary of Gilbey (IDV Group), which also sold bulk sherry into Northern Europe countries, and an own brand, *Croft Original*. Croft increased their sherry sales during the 1970s until being placed in value terms amongst the top four shippers in 1980, mainly because the distribution

Table 5  
Main sherry brands and suppliers between 1960 and 1980

<i>Supplier</i>	<i>Parent</i>	<i>Brands</i>
John Harvey and Sons	Allied Breweries	Bristol Cream, Club Amontillado, Luncheon Dry
Grants of San James (Ind. Coope)	Allied Breweries	Regency
Sandeman	Allied Breweries	Sandeman
Croft (Gilbeys Vintners)	Grand Metropolitan (IDV)	Croft Original
González Byass	Independent	Tío Pepe, Elegante, La Concha
Pedro Domecq	Independent	Double Century, La Ina, Celebration Cream
Williams & Humbert	Independent	Dry Sack

Source: see text

In the 1960s, sweet sherry accounted for about 70 per cent of the British market (table 6), with Harvey, especially with its *Bristol Cream*, accounted for 35 per cent of the sweet sherry market, followed by Domecq, which had nearly 15 per cent.<sup>38</sup> *Bristol Cream* (launched by the firm in the 1880s) had the advantage of being a pioneering and well-established brand, and Harvey was the highest press and TV advertising spender at the beginning of the 1970s (table 7), which allowed it to consolidate its position as the best brands' seller in the 1970s.<sup>39</sup> From 1971, Harvey's total expenditure doubled from £408 thousand to £803 in 1976, and most of it allocated to two of their brands, *Bristol Cream* and *Bristol Dry*.

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support of IDV. *Ridley's*, no. 1375 (1962), p. 300 and *Harpers* (1975), no. 4739, p. 466; *Wine and Spirit* (1980), vol. 106, no. 1273, p. 32

<sup>38</sup> RUMASA Archive (Fondo Antiguo, Caja 36: *Marketing Report Varela Sherries, 1968*)

<sup>39</sup> In contrast to patents, brands do not prevent competitors for making the same good and segmenting the markets. Consumers can also switch to alternatives or other brands. The monopoly of the first entrant can be overcome by product differentiation (case of Pedro Domecq or González Byass in the British market) or by selling at a lower price (case of new entrants to the sherry trade such as the different firms of the Rumasa holding). Schmalensee (1982), Wilkins (1992), p. 86-87

Table 6

Main styles of sherry sold in the British market (1968-1980), in percentages

	1968	1970	1979	1980
Sweet/ cream (oloroso)	70	70	47	56
Pale cream			11	
Medium (amontillado)	20	20	29	30
Dry (fino)	10	10	13	14

Source: elaborated from *Wine and Spirit* (1968), no. 1134, p. 1120; *Harpers* (1980), no. 4986, p. 42; *Retail Business*, No. 369, November 1988, p. 55.

Although Harvey (especially with its *Bristol Cream*) had the advantage of being first entrant and even consolidated its position as the best selling brand in the 1970s, other brands became also important. Harvey was followed in advertising expenditure by Domecq's brands, especially *Double Century* and *Celebration Cream*, and the growth of advertising spending for Domecq's brands increased much more from £137 thousand to £651 (table 7). Wide advertising campaigns and the distribution approach implemented by its sole agents in the UK, Luis Gordon, increased the sales of Domecq's *Double Century* and *Celebration Cream* brands, so that by 1973 this firm had captured 24 per cent of the sweet sherry market, rivalling Harvey dominance position.<sup>40</sup> The brands of the two other Spanish independent houses, González Byass' *Tío Pepe* and Williams & Humbert's *Dry Sack*, whose advertising expenditure were smaller (table 7), dominated the market for medium and dry sherry, which only accounted for a third of the British market (table 5).<sup>41</sup>

Sherry firms increased their business by developing line extensions, mainly launching brands of medium and dry sherry.<sup>42</sup> That was the case of Domecq. Although *Double Century* accounted for 60% of the Luis Gordon's sales in Britain, it also marketed other Domecq's brands, such as *Celebration Cream*, *Casino Amontillado* and *La Ina*.<sup>43</sup> The main brand of Harvey it was also sold under different tastes (*Bristol Cream*, *Bristol Dry*,

<sup>40</sup> *Wine and Spirit* (1973) no. 1192, p. 67.

<sup>41</sup> RUMASA Archive (Fondo Antiguo, Caja 36: *Marketing Report Varela Sherries, 1968*)

<sup>42</sup> The aim of this strategy, which is a low risk method of launching new products, is to target new markets, taking advantages of the reputation of a long-established brand. See Lopes (2002), p. 2-4

<sup>43</sup> *Wine and Spirit* (1973), vol. 102, no. 1190, p. 26.

*Bristol Milk* and *Bristol Fino*) and Harvey also launched *Club Amontillado*, a medium sherry and *Luncheon Dry*, a dry sherry.<sup>44</sup> As a result of this strategy of product differentiation of the firms, during the 1970s there was a slow shift towards medium and dry blends. In 1979, the British market was still dominated by the sweet style with 47 per cent of total sales, but the development of line extensions made that the sales of medium sherry rose up to 29 per cent of total sales. The sale of dry sherry, leaded by *Tio Pepe* also increased up to 13 per cent of the market and that of the pale cream sherry, especially represented by *Croft Original*, did up to 11 per cent (table 5).

Table 7

Press and TV spending on major sherry labels, in 1972-1976 (£ thousands)

	1971	1972	1973	1.974	1.976
Harvey	408	523	577	702	803
Domecq	137	173	182	559	651
Emya Cream Cyprus	277	305	228	184	n.d.
Crofts	-	115	161	164	n.d.
Williams and Humbert's Dry Sack	38	104	197	131	n.d.
González Byass	64	74	73	81	n.d.
RSVP's British sherry	110	37	-	-	n.d.
Total	9.747	11.259	13.425	15.568	18.067

Source: elaborated from *Wine and Spirit* (1973), no. 1186, (1975), no. 1210 and (1977), no. 1234

### 3. The competition in the UK market from imitations and new entrants to the sherry industry, 1970-1980

During the 1970s, inferior sherries and imitations were extensively sold in the British market. The new firms established in Jerez from the 1950s, attracted by the expansion of the demand for sherry, sold cheap and inferior sherries to gain entry and

<sup>44</sup> EIU (1980), p. 80-81. González Byass intended to appeal to a youngish audience by launching in 1975 a complete range (Cream, Pale Cream and Medium) of a low price sherry under the brand *Sun*. *Wine and Spirit* (1975), no. 1218, p. 63 and *Harpers* (1976), no. 4767, p. 546



compete with the established brands. If the number of shippers in 1927-1940 accounted for about 60 firms, the number had increased to about 85 in the 1970s, and the level of concentration of exports in the 10 largest firms decreased from 80 per cent in 1927-1940 to 63 per cent in 1972-1974 (table 8).<sup>45</sup> Domecq and González Byass were again the leading shippers but their exports share had fallen to some 12 and 9 per cent respectively. The loss of their export share came mainly from the growing exports of the three new firms established in Jerez by multinationals (John Harvey, Sandeman and Croft) which accounted for almost 20 per cent of the total exports of sherry in the 1970s.

Table 8  
Major sherry shippers in the 1970s, in percentages

	1972-4		1976
	Volume	Value	Volume
Pedro Domecq	12,0	16,9	11,7
González Byass	8,5	8,7	13,4
Garvey	8,4	5,9	6,8
Sandeman	7,7	6,0	7,2
Zoilo Ruiz Mateos	6,2	6,4	11,7
Williams & Humbert	6,0	9,1	4,3
Palomino & Vergara	3,9	3,4	3,0
Antonio Barbadillo	3,6	3,1	2,2
Emilio Lustau	3,2	2,1	3,7
Croft Jerez	2,6	2,1	3,6
John Harvey & Sons	1,8	2,4	6,6

Source: Calculated from AGA (Sindicatos, legajo 5575. *Exportación de vinos y licores: 1972-1974*) and Lignon-Darmaillac (2004: 337).

<sup>45</sup> In the champagne industry the level of concentration was slightly smaller. In 1953, 10 major firms accounted for 46 per cent of total sales, while in 1960 and 1967 accounted for 55 per cent. The major firm, Moët et Chandon, shared 13 and 20 per cent of champagne sales in 1968 and 1970. Concentration process in champagne continued in the 1970s, when 10 major companies accounted more than 60 per cent of total sales. From the end of the 1960s onwards, the growth strategy of companies was horizontal integration due to problems of internal expansion (grape supply rigidity, difficulties of storage). For example, Moët et Chandon controlled two other champagne *maisons* (Ruinart and Mercier) and created in 1971 a financial holding, Moët

Other firms that competed successfully with the old-established houses were those belonging to the Ruiz-Mateos family, which competed in the international market through a strategy of selling large quantities of wines at low prices. After establishing a one-year contract to supply wines to Harvey in 1958, Ruiz Mateos family established the firm Zoilo Ruiz Mateos and developed a strategy of horizontal integration in order to increase shipping capacity and to be able to supply the quantity that Harvey demanded. Until 1963, Ruiz Mateos family acquired seven firms (table 9), although with the exception of Misa and Palomino & Vergara, these firms were small and lacked important brands. When Zoilo Ruiz Mateos and Harvey signed a new 99-year contract in 1964, these seven firms were integrated into the Unión de Exportadores de Jerez, whose 10 per cent stocks were given to Harvey's.<sup>46</sup> The alliance between Ruiz-Mateos and Harvey was reinforced by the election of Zoilo Ruiz Mateos as a director of John Harvey & Sons, a subsidiary of the Harveys Group in Spain, as well as the integration of some members of the Ruiz-Mateos family in the boards of the Harveys of Bristol Group.<sup>47</sup> This agreement was cancelled after the takeover of Harvey by Showerings,<sup>48</sup> but by then the Ruiz-Mateos holding had established itself as one of the most important Jerez shippers and continued its policy of expansion. In 1972 the family, through its wholly-owned subsidiary Unión de Exportadores de Jerez, acquired three more Jerez houses, Bertola, Lacave and Williams & Humbert, although only the former had a strong brand, *Dry Sack*.<sup>49</sup>

By 1972, all the Ruiz-Mateos houses accounted for almost 25 per cent of total exports,<sup>50</sup> and in the following years its export capacity increased even more, with the acquisition of more Jerez houses such as Garvey, Fernando A. de Terry or Diaz Mérito, and in 1979 Rumasa launched Bodegas Internacionales, the first public company in the sherry industry.<sup>51</sup> Besides horizontal expansion, Ruiz Mateos integrated forward into distribution in the UK market, with the acquisition at the beginning of the 1970s of a distribution

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Hennessy. The second *maison de champagne*, Mumm controlled three other firms, Perrie-Jouet, Heidsieck and Cie Monopole (Boulet and Laporte: 1976: 66-75).

<sup>46</sup> Argüelles, 1992: chapters 1-2

<sup>47</sup> *Wine and Spirit* (1966), no. 1109, p. 1146

<sup>48</sup> Argüelles (1992) and Lignon-Darmaillac (2004)

<sup>49</sup> When Rumasa bought Williams & Humbert, the advertising expenditure on *Dry Sack* increased from £60.000 to £ 200.000. *Wine and Spirit* (1974), vol. 102, no. 1202, p. 41.

<sup>50</sup> Calculated from AGA (Sindicatos: legajo 5575. *Exportación de vinos y licores: 1972-1974*)

<sup>51</sup> *Wine and Spirit* (1980), vol. 106, no. 1271, p. 14.

company, Imported Wines.<sup>52</sup> The holding also owned the British retail subsidiary Augustus Barnett, with its network of 180 wine shops, allowing it to follow its strategy of selling large quantities of very cheap sherry. The subsidiary distribution company, Imported Wines, concentrated in the selling of a great quantity of very cheap single products, although only the brand *Dry Sack* where distributed by exclusive agent, BB Vintners, also part of the holding. Although Ruiz-Mateos commercialized a small quantity sherry under premium brands, such as *Don Zoilo* or *Duke of Wellington*, and other cheaper brands (Misa, Stowells, CWT), most of the business of the holding in the UK concentrated in the selling of a huge quantity of cheap sherry through its retailing and distribution companies, with competed directly with old established brands. Only from 1979 onwards, Augustus Barnett adopted a new strategy by increasing the price of all its product range in order to increase its margins. This change coincided with the aim of abandoning the strategy followed during the 1960s and the 1970s of selling at low prices, as there were already competitors which sold at prices even lower.<sup>53</sup>

Table 9

Firms acquired until 1973 by the Ruiz-Mateos Holding (sherry Section)

<i>Firms</i>	<i>Acquisition year</i>
Unión de Exportadores de Jerez:	1964
Jiménez Valera	1960
Carlos de Otaolaurruchi	1961
Jaime F. Diestro	1961
Pemartín	1962
Misa	1963
Palomino & Vergara	1963
Williams & Humbert	1972
Bodegas Bertola	1972
Lacave	1972

<sup>52</sup> *Harpers* (1973), no. 4625, p. 216.

<sup>53</sup> Rumasa had also a wide business of storage in the UK. Its subsidiary, Sherry House, operated as a holding for two storage companies, Testwood Vintners and Victoria Warehouse. Testwood Vintners bottled sherry from Rumasa, but even that of its direct competitors such as that of the best selling South African firm, SAWFA. Rumasa also had a substantial business of BOB. *Wine and Spirit* (1979), no. 1261, p. 36.

Díaz Morales	1973
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Source: Archive of Rumasa.

Beside the competition placed by new entrants such as Ruiz Mateos, the old established sherry firms faced the competition from other producers selling sherry imitations, which were very cheap to produce. In fact, the word “sherry” was not reserved for wines made in the Jerez district but could be used in Britain to describe beverages made in Britain, South Africa, Australia and Cyprus.<sup>54</sup> After the increasing consumption of these sherry-style wines in Britain during World War II, the sale continued to expand, accounting for more than 50 per cent of total British market in the 1970s (table 10), because of the preferential rate of duty that they enjoyed.<sup>55</sup> By this time, British sherry, a wine manufactured from the juice of dehydrated grapes produced abroad, accounted for over a third of the total British market for fortified wines, whilst Cyprus sherry sales represented half this figure. In spite of similarities, at the beginning of the boom period of 1958-1980, sherry and sherry-styles wines had different images and prices. British and Cyprus sherry, as well as Montilla wines (produced in Spain and sold also as a substitute for sherry) had a younger market profile than those that Spanish sherry and they were sold in the low-priced segment of the market during the 1960s.<sup>56</sup> Meanwhile, sherry shippers concentrated on the sale of expensive sherry brands, for which British consumers had preference, as those of Harvey, whose sales had the higher rate of increase.<sup>57</sup>

The British market for fortified wines became extremely competitive and, as a consequence of their high prices, sherry started to be considered as a traditional, “serious”, “middle-aged, middle-class” drink,<sup>58</sup> increasingly threatened by the growing sales of vermouth and sherry-style wines, which attracted a younger public, and by the cheap Spanish sherries sold by the new entrants to the industry. Sherry firms formed different strategies to compete with this dual threat. The leader Harvey, with its extensive distribution and retail network, sold an increasingly great volume of its well-established

<sup>54</sup> *Wine and Spirit* (1976), vol. 106, no. 1226, p. 29.

<sup>55</sup> *Ridley's* (1963), no. 1386, p. 258

<sup>56</sup> *Retail Business* (1988), no. 369, p. 60. For instance, in the early 1960s, while sherry prices ranged from 18 to 26 shilling, South African sherry did from 12 to 15. *Ridley's* (1962), no. 1374, p. 217

<sup>57</sup> RUMASA Archive (Fondo Antiguo, Caja 36: *Marketing Report Varela Sherries, 1968*)

brands, backed by a high advertising budget, which allowed it to maintain significant price differentials with imitations and cheap sherries. By contrast, companies such as Domecq and González Byass tried to compete on prices in the 1970s. The increase of sales of the Spanish brands was obtained by the increasing investment in advertising campaigns but long-established firms also maintained prices very stable in the retail level, absorbing the rise in production costs. Indeed, from the 1960s, Spanish firms cut margins in order to obtain the loyalty of consumers and to maintain their market share. Until 1973, the leading Spanish firms maintained retail prices at the same levels for years, in spite of the rising costs of production in Spain and the duty increases. The higher prices of grapes, musts and spirits in the growing area, as well as the devaluation of the pound and the increase of the minimum export price, finally led companies to increase them in 1973.<sup>59</sup>

Table 10

Sales of sherry and *sherry-style wines* in the British market (1976-87), in percentage

	1976	1977	1978	1979	1980-87
Sherry	36	46	46	47	45
British sherry	37	31	37	37	42
Cyprus sherry	23	20	15	12	7
All others	4	4	3	4	6

Source: calculated from *Wine and Spirit* (1979), no. 1261, p. 31 and *Retail Business*, (1988), no. 369, p. 52.

Despite the drop in demand during the crisis of 1974-75, which caused a decline of 60 per cent of sherry exports (graphic 1) and the fall in sales of all types of wine, sherry showed a good performance in the British market in relation with that of the sherry-style wines and even improved their share in the market for fortified wines. Thereby in 1975 the sale of Cyprus wine fell by 16 per cent, but the Spanish sherry sales reduced only by 8 per cent. The reason for this outstanding performance of sherry at the time of an economic crisis was the low retail prices at which sherry were sold during 1975, as Harvey and other

<sup>58</sup> *Wine and Spirit* (1980), no. 1271, p. 14; *Harpers* (1975), no. 4737, p. 572 and *Wine and Spirit* (1976), no. 1226, p. 29

<sup>59</sup> *Wine and Spirit* (1973), no. 1190, p. 26

leading firms absorbed the duty increase and the growth of production costs in order to keep pricing competitive. As a consequence of lower prices and the increase of the rate duty for sherry-style wines, the price differential between Spanish sherry and other fortified wines narrowed and consequently the price advantage of sherry imitations was removed.<sup>60</sup>

After the economic crisis of 1973-1974, the retail prices of the sherry from Spanish independent firms remained again stable for 4 years (1973-1977).<sup>61</sup> Price stability helped sherry to become highly competitive and to reduce even more the price differentials between Spanish sherry and sherry-style wines, which consequently lost their price advantage.<sup>62</sup> Stability was achieved thanks to the firm strategy of cutting margins, but some shippers also reduced the alcoholic content of their wines from 20° to 17° when introduced in Britain in order to take advantage of the lower duty bands on fortified wines.<sup>63</sup> As a consequence of all these practices, during the second half of the 1970s the sales of the cheapest sherry increased substantially.<sup>64</sup> Although the profitability of the sherry trade declined, the sherry share of the market increased from 36 in 1976 to 46 per cent of the market in 1977-1978. The gain was made at the expense of British and especially of Cyprus sherry, whose share declined from 23 to 15 per cent of the total market in the same period (table 10). As a result of the pricing decisions, in 1980 the Spanish sherry's price disadvantage had almost entirely disappeared. In the early 1970s British and Cyprus sherry were positioned at the bottom of the market, while Spanish and South African drinks were at the top (table 11), and a consumer paid 80 per cent more for Spanish sherry than for British sherry, and about 60 per cent more than for Cyprus sherry. By contrast, in 1980, most sherry, except for Harvey's *Bristol Cream* and Gilbey's *Croft Original*, was priced at £1.70-£1.80, little more expensive than Cyprus sherry, whose best known brand, Emva, usually retailed at about £1.70. Consequently, the gap between Spanish sherry and British sherry also narrowed to a differential of only about 13 per cent.<sup>65</sup>

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<sup>60</sup> *Harpers* (1975), no. 4737, p. 572; *Wine and Spirit* (1976), no. 1226, p. 29

<sup>61</sup> *Harpers* (1976), no. 4777, p. 173

<sup>62</sup> *Harpers* (1976), no. 4783, p. 378 and 390 and *Wine and Spirit* (1978), n. 1246, p. 44. In 1976 the price differential between Spanish and other sherry was as little as 20p.

<sup>63</sup> *Wine and Spirit* (1978), n. 1246, p. 45

<sup>64</sup> *Harpers* (1977), no. 4838, p. 642 and no. 4834, p. 446. *Wine and Spirit* (1978), no. 1250, p. 34. According to *Wines and Spirit* (1978), sherry from Rumasa companies were at a very bargain price.

<sup>65</sup> EIU (1980), p. 76

Table 11

Retail prices of all types of sherry in the UK market, 1973-1980 (£)

	1973	1980
South African	0,7	1,8
Spanish	0,8	1,7-1,8
Cyprus	0,5	1,7
Montilla	0,7	1,5
British	0,5	1,5

Source: EIU (1980), p. 76

Only Harvey and Gilbey, which commercialized the Croft's brands, managed to support much higher prices on big advertising budgets. Harvey continued to be the heaviest spender with £1.47 millions in 1979 and 40 per cent of all Spanish sherry advertising. Gilbey was the second spender with more than £0.6 millions. As a consequence two single brands, *Bristol Cream* and *Croft Original* together accounted for £1.9 millions of advertising in 1979, which represented a 70 per cent of all spending on Spanish sherry. Harvey's brands dominated the UK market with 31 per cent of total sales, *Bristol Cream* accounting for 20 per cent of all sherry and *Club Amontillado*, with about 8 per cent of all sales, being the leading brand in the medium sector to 31 per cent in 1979 (table 12).<sup>66</sup> But Harvey had about twice the share than its nearest rival Gonzalez Byass, as the two companies operated in different market segments, Harvey maintaining a premium image and high prices, while Gonzalez Byass competing on price. Furthermore, although González Byass increased its advertising budget up to £0.2 millions in 1979, it still was a small budget in comparison to those of Harvey and Gilbey.<sup>67</sup>

Domecq, although maintaining the third place in advertising expenditure, decreased substantially their advertising budget from £0.7 millions in 1976 to £0.4 in 1979. Consequently, the market share of their brands fell from 20-25 per cent in the early 1970s

<sup>66</sup> *Wine and Spirit* (1975) no. 1218, p. 63; *Harpers* (1975), no. 4743, p. 698; *Wine and Spirit* (1978), vol. 103, no. 1250, p. 34 *Wine and Spirit* (1979), no. 1261, p. 31. EIU (1980), p. 85-86

<sup>67</sup> EIU (1980), p. 85-86

to 13 per cent in 1979 (table 12).<sup>68</sup> However, the second largest single brand after *Bristol Cream* was the Domecq *Double Century* range, with about 10 per cent of the sales. *Croft Original* from Gilbey, with about 7.5 per cent of the volume, became very important in the pale cream, selling at the premium segment as *Bristol Cream*. In the dry sector, Gonzalez Byass was the most important supplier with about 32 per cent of volume, followed by Harvey with *Luncheon Dry* (about 13 per cent).<sup>69</sup>

Table 12  
Sherry market shares by supplier and brand in 1979, in percentage of volume

<i>Firm</i>	<i>Brand</i>	<i>Percentage</i>
Harvey		31
	Bristol Cream	20
	Club Amontillado	8
González Byass		17
	Elegante	2,5
Domecq		13
	Domecq Double century range	10
Gilbey		8
	Croft Original	7,5
Own label		10
Other brands		21

Source: EIU (1980), p. 82

As a result of the advertising campaigns and the pricing decisions, there was only one brand of a Spanish independent firm (Domecq's *Double Century*) among the six products with strong brand recognition in the British market for fortified wines, according to a 1978 private survey (table 13). Top of the list was Harvey's *Bristol Cream*, but second

<sup>68</sup> *Wine and Spirit* (1978), no. 1250, p. 34-35. According to the marketing director of Luis Gordon & Sons, Domecq brands lost their market share because of a price elevation decision that tried to increase margins, but put Domecq's sherry out of competition. *Wine and Spirit* (1979), no. 1261, p. 33.

<sup>69</sup> EIU (1980), p. 79



and third positions were two sherry-styles: *Emva*, a Cyprus sherry and *VP&QC* a British sherry, whose advertising budgets maintained stagnant or decreased (table 7).

Table 13  
1978-private survey on brand recognition

<i>Position</i>	<i>Brand</i>
1	Harvey's Bristol Cream
2	Emva
3	VP&QC
4	Croft
5	Domecq's Double Century
6	Monte Cristo

Source: *Wine and Spirit* (1978), vol. 103, n. 1246, p. 45.

#### 4. The integration into production of the sherry firms from the 1970s

In order to succeed in their strategy of competing on prices, shippers needed a supply of large quantity of relative cheap young wines. However, the rapidly increase in demand in the UK and other countries during the 1960s and the 1970s created supply problems which, together with the increasing production costs, prompted Spanish firms to integrate into production. From 1970s onwards, large Spanish houses largely invested in vineyards in order to ensure the availability of large stocks of wines. The ownership of vineyards was also seen as a key to maintain the quality and price of own brands.<sup>70</sup> Moreover, an official Spanish Shippers' Committee aimed at obtaining the exclusive use of the word "sherry" in the UK, which required the recognition of sherry as a wine exclusively produced in the Jerez region, while firms had been used wines from outside of the region to overcome the shortage in young wines from 1960. In order to remove the reliance on foreign wines, it was necessary to increase the area of vineyards, which also prompted firms to undertake themselves the new plantings.

<sup>70</sup> Besides investment in vineyards, companies also established much more long-term contracts with other vineyard owners. For instance, by 1973 Domecq offered to landowners 25-year contracts instead of the

Before the 1970s, shippers owned some vineyards, but the large part of their needs were supplied by grape growers, assuring the quantity and quality specifications through long-term contracts.<sup>71</sup> However, they also started to integrate into production by acquiring and planting new vineyards from 1970. One of the largest vineyards owner was Pedro Domecq, which in 1973 owned more than 800 hectares of vineyards (8 per cent of the total Jerez vineyards), producing 65 per cent of its total needs. In the following year the area of Domecq vineyards expanded even more, up to being able to produce 80 per cent of all of its young wines.<sup>72</sup>

Additionally, multinationals that operated in the international sherry market (especially Allied and IDV), which previously did not have any interest in the area, also integrated into production from 1970 onwards. One of the reasons for the multinationals to invest in vineyards was to break the monopoly of some of the largest Spanish companies in the area, which had initiated a strategy of taking over independent suppliers.<sup>73</sup> As explained above, the Rumasa holding and the two main independent firms, Domecq and González Byass, were responsible for almost half of the total exports. In front of the increasing concentration of shocks in these three firms and in order to assure the supply of sufficient wines, multinationals established own houses in the area and also integrated into grape growing, forming alliances with local producers from 1970.

Prior to 1970 Harvey, part of Allied, signed contracts with local suppliers, but it did not own shipping capacity or vineyards in the Jerez area.<sup>74</sup> In 1960 Harvey had formed a new company in Jerez, John Harvey (España), but only with the objective to supply the Spanish and German markets. The shortages of supply prompted Harvey to integrate into production with the aim to produce at least 25 per cent of their total supply.<sup>75</sup> It was in 1970 that Harvey began to build a base in Jerez with the purchase of a sherry producer, Mackenzie, partly in order to secure continuity of sherry supplies and partly because of the

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traditional 5-10-year ones. *Wine and Spirit* (1973), vol. 102, no. 1190, p. 26 and *Wine and Spirit* (1974), vol. 102, no. 1202, p. 38

<sup>71</sup> *Wine and Spirit* (1973), vol. 102, no. 1190

<sup>72</sup> With the integration into production, Domecq tried to maintain the production and quality of its own brands. *Wine and Spirit* (1973), vol. 102, no. 1190, p. 26. *Wine and Spirit* (1974), vol. 102, no. 1202, p. 38.

<sup>73</sup> That was the case of all the firms acquired by Rumasa, but also of other such as Agustín Blázquez, which had been acquired by Pedro Domecq. *Wine and Spirit* (1974), vol. 102, no. 1202, p. 34.

<sup>74</sup> After the cancellation of the agreement with Rumasa, the firm started again to buy their wines from about 12 suppliers, such as Garvey and Antonio Barbadillo. *Wine and Spirit* (1974), vol. 102, no. 1202, p. 34

<sup>75</sup> *Ridley's* (1960), n°. 1351, p. 304; *Harpers*, 1975, 31 octubre, 587

growing insistence on bottling at source, particularly within the EEC. In 1972 this purchase was followed by the establishment of two joint venture companies to plant vineyards, one with Garvey (Viñarvey) and the other with other producer, Barbadillo (Gibaldin), which in 1976 operated more than 800 hectares of vineyards.<sup>76</sup> Finally in 1979, Harvey acquired a Rumasa firm, Misa, which made Harvey the major vineyard owner and stockholder in Jerez, together with Domecq.<sup>77</sup> In the same way, Gilbey, part of IDV, had never taken interest in Jerez production as it was supplied by González Byass. In the late 1960s, IDV decided to produce wines from their own vineyards. Croft Jerez was founded in 1970 as a joint venture between IDV, its traditional allied in the area (González Byass) and other Spanish investors.<sup>78</sup> In 1972, Croft had formed a new company in Spain, Vineyards Croft to buy and plant vineyards in Jerez and by the middle of 1970s, Croft Jerez had purchased 400 hectares of vineyards in the Jerez Superior (*albariza*) zone.<sup>79</sup>

## 5. Concluding remarks

During the 20<sup>th</sup> century, the leading Spanish firms of the sherry industry focused mainly on the sale of own brands to Britain as a way to overcome the reputation problems that caused a decline of exports from 1870 onwards. The expansion of the British market for sherry began in 1920 and continued throughout the 1930s. In contrast to the strategy of the 19<sup>th</sup> century, from 1920 the business had a firm basis and the Spanish leading houses popularized their own brands through wide advertising campaigns. The change of strategy was accompanied with a change in the distribution approach of main firms, which established distribution alliances or wholly-owned subsidiaries. The use of brands allowed Spanish firms to grow internally and to increase their market share. However, the expansion of exports swiftly finished due to the outbreak of World War II and during the following two decades, duty taxes on sherry and other luxury products maintained at a high levels and imports were subject to quotas, which caused a sharply decline in exports. After

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<sup>76</sup> *Wine and Spirit* (1974), vol. 102, no. 1202, p. 34. *Wines & Spirit* (1976), Vol. 106, No. 1226, p. 25. *Wine and Spirit* (1980), no. 1271, p. 14-5. Archive of Garvey: *Viñarvey*.

<sup>77</sup> *Wine and Spirit* (1980), no. 1271, p. 15.

<sup>78</sup> In 1979, IDV had 75% of the capital share of Croft Jerez. *Harpers*, 1975 (31 oct), p. 584, and (1976), no. 4783, p. 382; *Wine and Spirit* (1980), vol. 106, no. 1273, p. 32.

<sup>79</sup> *Wine and Spirit* (1973), vol. 102, no. 1190, p. 26 and *Wine and Spirit* (1974), vol. 102, no. 1202, p. 39.

the post-war period, the rising living standards in most developed countries and the improvement of transportation and retailing systems caused an enlargement of the market for wines. This change in demand was accompanied by the reduction of duties on strong wines in Britain, which allowed the increase in sherry exports to the UK market. As in the 1920s and 1930s, leading firms used brands as a way to create their own reputation. In the second half of the 20<sup>th</sup> century, the increase of sales of the Spanish brands was obtained by the increasing investment in advertising campaigns but long-established Spanish firms also maintained prices very stable in the retail level, absorbing the rise in production costs. The great part of the demand concentrated in only a few brands, and those of some old-established Jerez houses achieved to improve their market share in the UK, although the brand leader continued to be Harvey, a British distributor and the major advertising spender. Even if during this period the British market for sherry was really segmented between low-priced and expensive sherry, the competition imposed by new entrants and by imitations increased. The imitations of sherry (the so-called sherry-styles), produced in Britain and other countries and sold in the low-priced segment, retained a great part of the market for fortified wines and represented a great competition to the Spanish houses. Moreover, the expansion in demand attracted new entrants to the business, which increasingly tried to overtake the market power of leading brands by selling at lower prices. The increasing competition placed by both new entrants and imitations led firms to compete on prices during the 1970s. Spanish firms cut margins in order to obtain the loyalty of consumers and to maintain their market share. As a consequence, Spanish firms placed their brands on the cheap segment of the market, selling at the same prices as those of the imitators. The profitability of the sherry business in the UK declined which, together with the volatility in demand and the seasonality of the sales and the difficulty to increase the market even more, led firms to increasingly integrate into production as well as to diversify into other markets and products.

The second expansion peaked in 1979 and from 1980 exports of sherry had gradually decreased to half of the volume in the 1990s. Sherry exports to the UK decreased by 60 per cent during the 1980s, because of the economic crisis and the competition from

other drinks with a younger market profile.<sup>80</sup> Following the strategy of Spanish independent firms to compete on price during the 1970s, the Spanish Shippers Committee decided to enhance quality and restrain supply in the 1980s, and consequently the price differentials between sherry and imitations increased again in the UK. Furthermore, the duty discrimination in the UK favoured British sherry and Cyprus sherry against Spanish sherry.<sup>81</sup> The rising prices of sherry, the duty discrimination as well as the world economic crisis favoured the decline of the international market for sherry. Nevertheless, although during the 1980s there was a decline of the total volume, exports of bottled wines increased from 25 per cent of total export in the 1970s to more than 80 per cent at the beginning of the 1990s, as a result of a policy of bottling at source as a way to control quality.<sup>82</sup>

The marketing knowledge acquired by the use of brands and the increasing commitment with the import markets through wholly owned distribution subsidiaries or tight alliances with sole distributors allowed the international growth of the Spanish firms. Although the international market for sherry declined from 1980 onwards, the Spanish independent sherry firms had become international firms that operated in a great number of countries as producers and distributors of a wide range of alcoholic beverages. The international growth of these firms began in the 1920s, when Spanish firms started to extensively use brands as a way to obtain the loyalty of the public. The use of brands as well as the marketing knowledge obtained by strong alliances with distributors or wholly-owned subsidiaries allowed Spanish firms to internationalize from the 1960s, becoming the most important firms in the alcoholic-beverage sector in Spain in terms of sales.<sup>83</sup>

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<sup>80</sup> In fact, during the 1980s, there was a decline in the UK not only in the demand of sherry but also of that of imitations. The fall in sales was particularly significant for Cyprus sherry, which decreased by 65 per cent between 1978-9 and 1985-9. In contrast, the sales of British sherry decreased only by 5 per cent. Calculated from *Retail Business* (1988), no. 369, p. 52

<sup>81</sup> Spanish sherry must by law be a minimum of 15.5% alcohol by volume, which brought sherry into the 15-18% UK duty band. On the contrary, British sherry could be fortified with combination of high and low strengths of alcohol, thus qualifying for a lower duty rate. Cyprus sherry, as a fortified to up 15% alcohol by volume, also qualified for lower tax as the wording of the 1985 Finance Act was changed to include 15% in the light wine tax band. *Retail Business* (1988), no. 369, p. 54. Harveys (1988), p 18

<sup>82</sup> Calculated from Consejo Regulador de las Denominaciones de Origen Jerez-Xérès-Sherry y Manzanilla-Sanlúcar de Barrameda

<sup>83</sup> See *Fomento de la Producción* (1991)

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