Multi-brand-nationals: How consumer product firms expand abroad

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Abstract

The dominance of enormous multinational corporations (MNCs) is a feature of modern market economies that has long attracted attention. The standard notion of how multinationals become so large is that they have done so by achieving economies of scale in a set of core products developed at headquarters. The German car maker BMW is a good illustration of such view. A lesser discussed route to large size is the amalgamation of products developed in multiple countries through acquisitions. For example, the US-based snack foods maker Mondelez, is the second largest chocolate seller in the world, but it achieves 81% of its chocolate sales via brands originated in the UK (Cadbury), Belgium (Cote d'Or), Switzerland (Toblerone, Milka), Norway (Freia, Marabou), and Greece (Lacta). Another example comes from Diageo, owner of such well known spirits brands as Johnnie Walker, Smirnoff, and Tanqueray. It had a market share of less than two percent in India before it bought the local Group United Breweries, and rose to 39% .

This paper aims to answer three questions inspired by the above observations. First, how widespread is the phenomenon of multinational brand amalgamation? Second, which economic mechanisms do motivate a firm to outbid brand-owners from other countries in order to add their brands to its existing roster? Third, can the increasing concentration of brands under the ownership of a small number of dominant firms be expected to reduce consumer welfare?.

This paper considers the international expansion of MNCs through the acquisition of brands created in other countries, departing from the common view that MNCs perform all their innovation activities in their home country, while producing globally

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those products/brands designed at headquarters. By acquiring foreign trademarks, a MNC also acquires their reputation, especially in the brand's country of origin, mitigating home bias effects.

We assemble a unique dataset that records the value and/or volume of sales for more than 83,000 brands owned by 46,000 companies, across 153 detail product categories, in 79 countries, while tracking any national and cross-border changes in ownership at the brand level occurred over the period 2006–2016. Using Wikipedia, USPTO, and WIPO, we apply a classification algorithm to identify each brand's country of origin. This allow us to separate the headquarter country of the current owner from the country in which the brand was originally created.

We use the constructed dataset to estimate a multi-product oligopoly model with a constant elasticity of substitution demand in order to infer the impact of cross-border brand acquisitions on a firm's appeal, cost and markup. Armed with an estimation of how changes in corporate headquarters of a brand affect consumer demand and a firm's costs, we construct a series of counterfactuals that change supply conditions, eliminate home bias, and evaluate changes in the ownership matrix of brands across countries.

Finally, we quantify how much of firms' appeal in foreign markets is explained by its roster of acquired brands with high reputation value in their local markets, and how much is due to brands developed in their headquarter country. The acquisition of foreign brands has a major impact on multinationals' appeal across markets but this phenomenon varies considerably across product categories.