The great British 'brand drain'

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In recent years many great British brands have gone 'off-shore'. Three major issues seem to have driven this trend.

Globalisation

In most sectors there is a strong push for globalisation… in automotive, alcohol, banking, food, airlines, retail and even in utilities. Larger entities benefit from manufacturing efficiencies of scale, stronger distribution, shared marketing and R&D costs, and less competition.

As a result of this pressure the Bentley brand now belongs to VW, Mini and Rolls-Royce belong to BMW, Peroni and Miller belong to South African Breweries, Tetley Bitter belongs to Carlsberg, HP Sauce belongs to Heinz, KitKat belongs to Nestlé, Hamleys belongs to Baugur and London Electricity belongs to EDF.

In this new world, Manchester United takes orders on soccer from Florida, Harry Ramsden takes orders on fish and chips from Stockholm and the editor of *The Times* takes orders on newspaper management from Sydney. What is the world coming to!

The fact is that such cross-border activity has always happened. It is healthy that if a brand in one country is undervalued and underdeveloped then the free enterprise system allows others to do more with it. And there are probably more foreign brands owned by UK quoted companies than vice versa.

In some countries the sale of national brands to foreigners can be politically embarrassing. The French are particularly keen on maintaining French hegemony over their brands. But in Britain the days of 'I'm buying British' are long gone. Tony Blair recently bragged that he bought electricity from a French company and gas from a German one.

Management talent

When asked why France had such a weak venture capital sector British venture capitalists used to joke that the French didn't have a word for 'entrepreneur'! Of course, the French VC business is now booming.

The fact is that we don't have a monopoly on talent and it's healthy to allow foreign managers to keep Britain on its toes. Arsenal and Chelsea both demonstrate the benefit foreign owners, managers and players can have on great British brands.

The Queen, Managing Director of 'The Firm' and 'brand manager' of one of our greatest British brands, is in fact of German origin. The England football team was until recently managed by a Swede.

Many companies have taken a leaf from this book. A Canadian runs the *Financial Times*, a German runs the London Stock Exchange and an American runs Cadbury. British brands increasingly choose the best managers, wherever they come from.

And even for quintessentially British brands it sometimes makes sense to change the nationality of the head office as well as the team who run it – in particular where tax raises its head.

Tax planning

Back in the 1960s, when marginal tax rates hit 90%, many talented people left the UK for sunnier tax climes. Although they might have wanted to stay, it was hard when the alternative was tax rates of 10% or less. The reduction in marginal tax rates in the 1980s and 90s stemmed the 'brain drain' although there will always be a minority for whom tax emigration makes sense.

Successful brands are no different to successful individuals where it comes to tax avoidance. Why voluntarily pay 40% tax on a brand-holding company based in the UK when a similar brand-holding company based in Switzerland might pay 10% tax or less? The answer is often a 'no-brainer' and the 30% saved gets reinvested in building the brand.

But despite the immediate attraction, there are practical reasons why many brands stay in their country of origin.

For example, a brand may largely operate in the UK with minimal international activity. It can create substantial operational problems to move the brand management to a tax haven if most of their work is still in the home country. Once a reasonable volume of international activity starts, it may make sense to move.

Another issue is the availability of high-quality brand managers in tax havens. Curaçao and Lichtenstein are not noted as recruiting grounds for world-class brand managers. Some brand-holding companies have struggled to find staff or persuade existing ones to move. However, Switzerland, Ireland, Holland and Singapore have the advantage of favourable tax regimes and a strong market in the people needed to run them.

Another reason for staying put is that some jurisdictions are reluctant to see iconic national brands exiting to foreign parts. Some offer specific grants, loans and facilities to keep them in place. Some give very attractive tax breaks to keep them. For example, accelerated tax amortisation may reduce the effective tax rates of brand-holding companies even in apparently high-tax locations.

The future

Despite the reasons for not relocating, there has been a significant growth in the migration of brand-holding companies to tax havens. Some are the result of existing business reorganisations. For example, Shell Brands International was recently established in Switzerland to manage the Shell trade marks globally.

More reasons arise when brands are acquired. The preferred location is increasingly driven by tax. For example, Nestlé has always moved acquired brands to Switzerland. Lornamead, a fast-growing brand conglomerate, is based in Dubai where tax rates and financial information disclosure requirements are low.

Does this spell the end for the great British brand? Not as long as it is managed sensitively in its home market and presented consistently elsewhere.

And what about the great British brand manager? The main lesson to learn is that brand managers need to acquire a much more international perspective. They also need a basic grasp of tax and financial principles. They need to speak the same language as the Gnomes of Zurich – who increasingly own them.