

# The Scotch Whisky Industry Between 1939 and the mid-1970s

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## **Introduction:**

Scotch whisky production and marketing between the start of the Second World War (WW2) and the end of the last millennium has profoundly changed and shaped the current modern whisky industry. Considering the numerous changes that took place over 5 decades, this article will focus on the first part, from the start of the WW2 until the whisky boom of the mid-1970s.

As a consequence of the WW2 and the restrictions in distilling, the amount of proof gallons of malt whisky distilled decreased rapidly from 10.7 million in 1939 to nil in 1943 before increasing progressively to pre-war levels in 1949 and stabilising around 12 millions between 1950 and 1954. The production volume for grain volume followed the same trends.

One of the main consequences of the WW2 and the restriction in distilling was the insufficiency of fully matured whisky to meet the demand.

## **WW2 and restrictions:**

In early 1940 the manufacture of spirits was limited to 1/3 of the quantities distilled in the year ended before September 30<sup>th</sup>. This was to ensure food supplies for the British population. Patent (grain) distilled ceased to manufacture after 1940 apart completing the balance. For the malt distilleries, in 1942, the distilleries were limited to 1/3 – 10%. The following year, they were only allowed to complete unused balance. In 1944, distilleries were allowed to resume production to 1/3 of the 1939 volumes.

In addition, to the reduction of production, several distilleries were bombarded (e.g., Caledonian and Banff distilleries) resulting in estimated losses of 4.5 millions proof gallons, the equivalent of 1 year of war production (1).

## **Post-war:**

While close to 50% of the whisky was consumed at home, the situation changed markedly afterwards. Great Britain was in the strong need of money to pay for their loans accumulated during the WW2. Therefore, they decided to increase duties at home, to reduce home consumption and to push the industry towards export. Since the boys experienced the taste of whisky in Europe, the US became rapidly the major export for Scotch whisky. In 1947, the percentage of home-consumed whisky was 45.3%, but dropped to 30.1% the next year and remained to approximately 25% until 1954 and decreasing only slightly afterwards (down to 20% in the 1970s (2)). Exports of whisky (Scotch and Irish) to USA increased from 2.8 millions proof gallons in 1947 to 7.1 millions in 1954. Volumes

remained at the same levels at home, at around 8 millions during this period. In 1970, the USA represented 42% of the world market for Scotch.



Glenburgie distillery in the 1950s before the rejuvenation of 1958. Courtesy of Chivas Brothers.

This “revolution” in whisky distribution was due to the rationing imposed by the Scotch Whisky Association between 1940 and 1953. Restrictions were lifted on January 1<sup>st</sup>, 1954. During the post-war, USA was the major export for Scotch, with Europe showing promises. Europe remained a complicated and challenging market, since each country had his own restrictions.

Concerning duties, the table below summarizes the increases from 1939 to 1951. Duties tripled over 12 years.

### Spirits Duty

Changes since 1938 in the basic rate of Excise duty on spirits and accompanying changes in the retail price of a bottle of one of the usual brands of whisky.

Date of Change	Basic Duty per Proof- gallon	Equivalent per Bottle of Whisky of Usual Strength	Retail Price per Bottle of Standard Brand Whisky
	£ s. d.	£ s. d.	£ s. d.
Pre-1939 . . . . .	3 12 6	8 6	12 6
September, 1939 . . . . .	4 2 6	9 8	14 3
April, 1940 . . . . .	4 17 6	11 5	16 0
April, 1942 . . . . .	6 17 6	16 1	1 3 0
April, 1943 . . . . .	7 17 6	18 5	1 5 9
November, 1947 . . . . .	9 10 10	1 2 3	1 11 0
April, 1948 . . . . .	10 10 10	1 4 7	1 13 4
February, 1951 . . . . .	10 10 10	1 4 7	1 15 0

Source: Report of the Committee on Tax-paid Stocks. Cmd. 8784 (March 1953).

Source; (3).

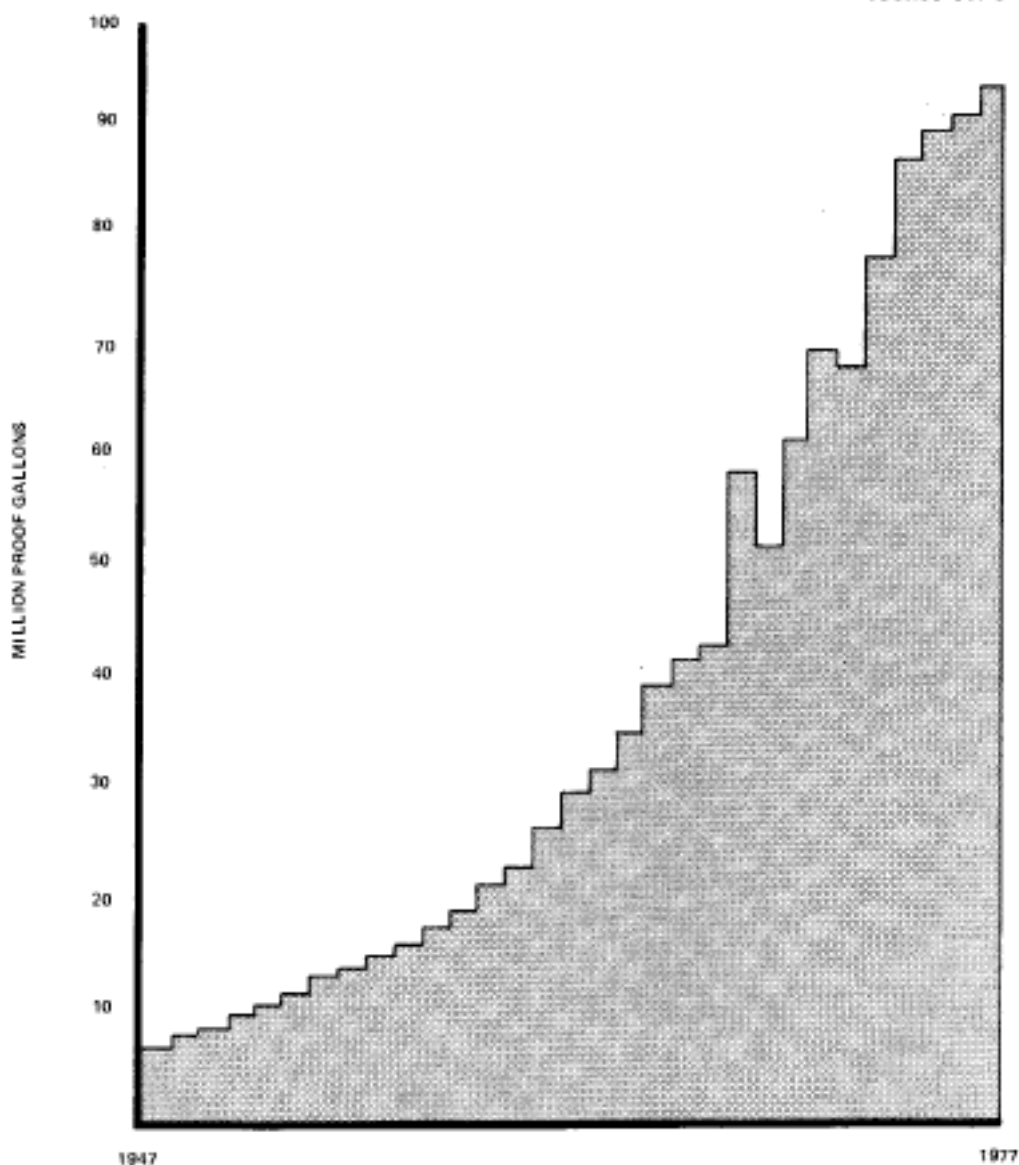
Between 1949 and 1974, the production increase by 9-fold, from 21 millions proof gallons to 184 millions.

In the same period, exports increased dramatically between 1949 and 1975, rising from 22.113 millions litres of pure alcohol (LPA) in 1949 to 102.94 in 1965 and crossing the 200 millions threshold in 1974 (234.27 millions, see Table below)(1). During this period, production increased but the stocks were low, in particular for matured whisky. The situation for aged whiskies was of serious concern for the blenders until the mid-1950s, since the industry was already short of whiskies older than 5 years of age at the start of the war, as a result of the low production in the 1930s. It was not rare for a parcel of whisky bought in 1939 for £40,00 to be sold for £4.5 millions in 1943.

Of note, it is only in the Customs and Excise Act of 1945 that brewing and distilling could be done in parallel, and thus, increased the production capacity of the malt distilleries. In the Act of 1952 it was specified that only whisky manufactured in Scotland could be called Scotch. Until then, some distilleries were still mixing Irish and Scotch whiskies and selling them as "Scotch".

## VOLUME OF WHISKY EXPORTS (MILLION PROOF GALLONS).

SOURCE: DSWG



Source: (4). Some signs of overproduction started to appear in the early 1970s, with the stocks representing approximately 5 years of production in 1970 and 7 years by 1975.

### Employment and wages

Data are sparse and inaccurate, but it was estimated that less than 3,000 were employed in the malt distilleries (mainly in the Highlands and Speyside) in the early 1960s. It was mainly men, who were on average better paid than women (5s 10d per hour vs 4s 2d per hour, respectively).

Almost all the malt whisky output went into blend, and blending halls provided substantial employments between Glasgow and Perth, with John Dewar & Sons employing 600 workers in Perth. New bottlings and warehouses were built after

the WW2 and the Whisky industry provided in total over 5,000 jobs, mainly in the Lowlands, as well as some in the region of London.

Between 1950 and 1975, to support the increase demand and production, number of employees trebled, from 7,000 to 21,800 employees (see Table below)(1), although the numbers of employees in the malt distilleries remained rather stable, due to the mechanisation of the maltings and the tankering to the spirit to the central warehouses to reduce the costs.

Year	Whisky Industry (employees)
1950	7,000
1955	9,650
1960	12,450
1965	16,200
1970	19,950
1975	21,800

Source: [Scottish Register of Employment](#).

#### **Changes in the 1950-70s:**

With sales and production of whisky sky rocketing, the building of new distilleries was very limited, with companies preferring to build new warehouses, to increase capacity in existing distilleries, and to erect extensions to bottling and blending plants.

Mechanisation took place in the malting process (e.g., installation of the first Saladin malting boxes at Glen Mhor in 1950, followed shortly afterwards by Tamdhu and opening of a mechanical drum malting in 1966 at Burghead by the DCL (5)) to increase the output, new methods of effluents disposals were developed and coal firing of the stills was replaced by oil firing. Similar developments took place in the blending and bottling area. Those changes lead to the closure of the floor maltings at the distilleries.



Saladin malting boxes

Certainly, after 1945 the use of peat in kilning went into decline and by the late 1950s most of the malt was lightly peated, while a few distillers began using unpeated malt (5). During the 1950s, the yeast subsidiary of the DCL introduced yeast selected specially selected, resulting in higher consistency and spirit yields. Most malt distillers continued to add brewer's yeast to this new Distiller's yeast.

In the middle of the 1950s, a new style of still, the Lomond's still, was introduced in a few distilleries (e.g., in 1954 at Inverleven and in 1957 at Glenburgie)(5).



The new type of Lomond's still, as here at Scapa distillery

In the late 60s, steam heating became the standard and replaced mechanical stokers. Also, worm (wurm) tubes were replaced by condensers (tubes in the shells) and heat exchanger were added to improve energy efficiency, especially with the sharp increases in fuel in the 1970s.

Several changes took place in the grain distillation, allowing reducing the proportion of malted barley (more expensive) than unmalted barley(5).

#### **Foreign control:**

Most companies before WW2 were in British hands, but ownership progressively changed. For instance, the Canadians Hiram Walker (Hiram Walker-Gooderham & Worts) acquired Glenburgie distillery in 1930 and George Ballantine & Sons in 1937(6) or Seagram and Sons took over the Glasgow blending firm Robert Brown & Co in 1935, and later, Chivas Brothers in 1949 for £85,000. By the early 1960s, over 60% of the distilleries were controlled from outside Scotland.

Changes in ownership increased in the 1970s, with 20 distilleries changing of hand between 1971 and 1981. For examples the Spanish Distilleries-y-Crienza (DYC) took over the MacNab distilleries in 1973 and the same year, Publicker Industries (USA) took over Bladnoch. The next year, Campbell & Sons became French (Pernod Ricard).

These acquisitions were made by companies with experience in distilling or brewing, interested by the growth of this sector. Furthermore, at the end of the 1970s, the annual growth of the sector was estimated to 4.4% in the 1990s (but history turned out to be different, with sales falling of 8% in 1982).



### **The big player:**

The Distillers' Company Limited (DCL) was the result of the "Big Amalgamation" of 1925, resulting from the merger of the Big Five (Buchanan, Dewar, Walker, Haig, and Mackie). In 1961, they controlled 41 malt distilleries and 6 grain distilleries. It dominated the industry by its size and also by benefiting from a horizontal structure, by controlling barley purchase, production, marketing and distribution. As of mid-1970s, the DCL was producing 60% of all Scotch whisky (1)!

### **Structural changes:**

With very limited stocks of aged whiskies, companies were looking to acquire stocks from other companies. Considering the value of the stocks, it was often more economical to purchase companies with stocks than the stocks themselves. This resulted in the absorption of many small firms by big firms such as the DCL.

### **Freeing of restriction:**

It was not until 1954 that restriction on cereals allocation was removed. According to export quotas, 1 tons of barley (i.e., not malt) could be converted into 100 proof gallons and earn £84 in overseas market.

With the anticipation of freer trading conditions, companies undertook expansion and modernisation of their distilleries, for example, with the DCL taking over a firm of engineering in Alloa to facilitate this process.

By 1951, the output of these new installations was coming forwards, but gains were limited due to increase production and selling costs. Between 1954 and 1961, production increased between 7 and 14% per annum. Construction of new distilleries took place mainly in the 1960s, with, e.g., the construction of Lochside, Invergordon, Strathmore or Givran distilleries. During the 1970s, the capacity rose mainly by further expansion of existing distilleries, as for the 1950s (2).





One of the distillery built in the 1960s: the grain distillery of Invergordon

A consequence of increase output was the shortage of sherry casks. More American casks were thus imported. However, the construction of warehouses lagged behind. Both to save casks and warehouse space, grain whiskies began to be filled at 20° over proof instead of 11°, thus allowing to increase storage capacity of 8%. In order to allow additional storage place, steel racking progressively replaced the traditional dunnage warehouses, and spirit tankered to the central warehouses to reduce transport.

A whisky boom took place in the 1950s, but of the 150 millions proof gallons bonded in 1953, 125 millions were laid down during the last five years. Thus stocks of matured whiskies were limited.

On the home market, to keep the same quality of the whisky, it was not uncommon to sell whisky below 35° (under proof).

#### **Cost of production:**

Between 1939 and 1962, the price of the final bottle more than treble, as a result of an increase of cost of productions and duty (see Table below)

TABLE I.

Year	1939	1948	1962
Cost of production.	4s.0½d.	8s. 9d.	14s. 5d.
Duty	8s.5½d.	24s. 7d.	27s. 1d.
Retail Price.	12s.6 d.	33s. 4d.	41s. 6d.

Source: Scotch Whisky Association.

Source: (1)

The increase cost of production is mainly driven by the cost of the raw material, with the barley increasing from price indices of 100 in 1939 to 415 by 1951, before decreasing and stabilising at around 270 in the late 1950s. Unfortunately for the employees, the salary raise was limited (approximately by 20% between 1945 and 1962).

Breakthrough of the production costs is provided in the Table below, indicating that wages were only minor cost element.

TABLE V.

Filling Costs	Per Proof Gallon	
Highland Malt Whisky: 1962 - 63 Season.		
	<u>S.</u>	<u>D.</u>
Malted barley: approx.	7	0
Fuel: approx.		10
Wages: approx.	1	0
Overhead Costs (e.g. Rates)		8
Profit Margin:	7	0
	<hr/>	
Current Filling Price	16	6
	=====	

(Source: Confidential information received by writer).

Source: (1)

Looking at the price of the full bottle, costs of packaging and distribution are at similar levels as the cost of the whisky. Costs of financing the stocks represent non-negligible costs for the blenders. The blenders pay the distillery for the filling and until the whisky is matured, the money is "sleeping".

TABLE VI.

Blending Costs - 1962: Per case of blended Scotch whisky sold in U.K.: 70 <sup>o</sup> proof.		
	S.	D.
Raw whisky ex distillery.		
1.4 proof gallons.	15	5
0.56 proof gallons malt at 14s. p.g.		
0.84 proof gallons grain at 9s. p.g.		
+ 15% evaporation loss	2	3
Financing stocks for 5 years.	4	6
Storage rental while maturing.		9
Transport costs ex distillery.	1	6
Bottling and Packaging.	15	0
Blenders' overhead costs, selling costs, and profit margin.	30	7
	<hr/>	
Total:	70	0
	<hr/>	
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Source: Confidential information  
received by writer.

Source: (1)

## The marketing of Scotch whisky:

Scotch marketing advertising promoted the high quality of the products, its Scottish roots and the social status of the whisky drinker. Before the end of WW2, advertisement was limited to newspapers and hoardings. Since demand exceeded largely the supplies, no advertisement was necessary until the mid-1950s. In 1959, Teacher's started to advertise for the first time and they claimed had risen by 50% the next year. It was estimated that advertisement expenditure for the whole industry was £500,00 in 1960.

The imagery of the 'Scottish Myth' harkens back to a 'Golden Age', which soothes the dour experience of the grey urban Scots who now constitute the overwhelming majority. The Scotch Whisky Industry has employed such symbols to telling effect in their sales drives. This has carried over to the images the natives hold of the industry: a plurality of small, Highland based, Scottish companies. But the art and skill so often emphasised must have been modified, in order to produce the huge gallonage, which has to satisfy even the home market. (4)

It will also be interesting to see whether the tired old assumptions used by the majority of companies in their advertising campaigns, usually aimed at middle-aged tweed-bedecked ex-army types, will be phased out in favour of more upmarket images suitable for a wider target area (4).

The major distillers and blenders, including Seagram Distillers, IDV (International Distillers & Vintners) group, and DCL sold their output by through subsidiaries. For example, the blending and marketing of DCL was divided in almost 40 subsidiaries, with no efforts to rationalise efforts and to develop international brands. As a consequence, there was no integrated marketing plans, nor developing a strategy for each brand to match their client base. This was also linked to long-term relationships between brands and agents, as well as a limited knowledge of their customers based. Since demand was very high after WW2, companies had only to focus on producing, but with the change of consumers' habits and whiskies considered as a drink for "old people" in the 1970s, the signs of a slow down started to appear in the mid 1970s.



An example of traditional advertisement (on the left) and a new style of more targeted marketing approach, as initiated by Teacher's in the late 1960s.

The first survey to identify the behavioural and demographics of consumers (i.e., qualitative marketing research) was made in 1966 for Teacher's, leading to changes in marketing approach in the mid-end of the 1970s and was associated with increased success. IDV was one of the first companies to appoint someone with a strong marketing background as managing director (7).

### A Rebirth:

In the late 1950s and 1960s, some whisky enthusiasts began to react against the small proportion of single malts in blends and more generally the disappearance of bottled single malts. But it is only since the mid of the 1960s, that Glenfiddich pioneered the advertisement of single malts. It remains the only single malt recognized internationally until the 1980s (6).

Patrick Brossard, whisky-news.com ©29 September 2015

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