

# Sources of Monopoly Power: Branding

Today two articles:

- Bart J. Bronnenberg, Sanjay K. Dhar, and Jean-Pierre H. Dubé  
“Brand History, Geography, and the Persistence of Brand Shares”  
Journal of Political Economy, Vol. 117, No. 1 (February 2009), pp. 87-115.
- Sutton, John (1990) “The Evolution of Advertising Intensive Industries” Chapter 8.

# Bronnenberg, Dhar, Dube

## Overview

This paper looks at the evolution of brand preferences for CPG's (Consumer Packaged Goods — stuff in the super market that is shelf stable and has a SKU code).

There is an interesting story here:

- *Who eats miracle whip versus Hellman's Mayonaise?*
- *Who drinks Folgers versus Maxwell House.*

# Map of Market Shares

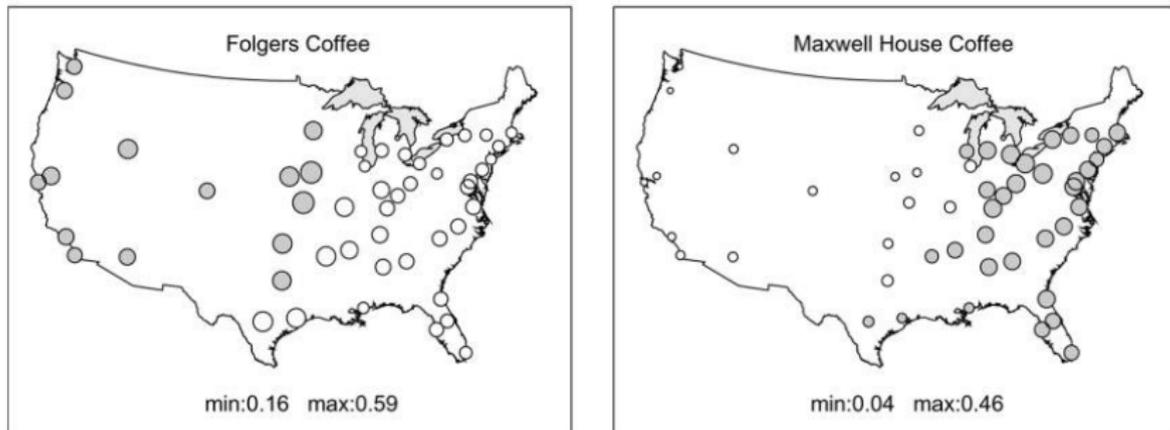


FIG. 2.—The joint geographic distribution of share levels and early entry across U.S. markets in ground coffee. The areas of the circles are proportional to share levels. Shaded circles indicate that a brand locally moved first.

## Seem to decay with distance

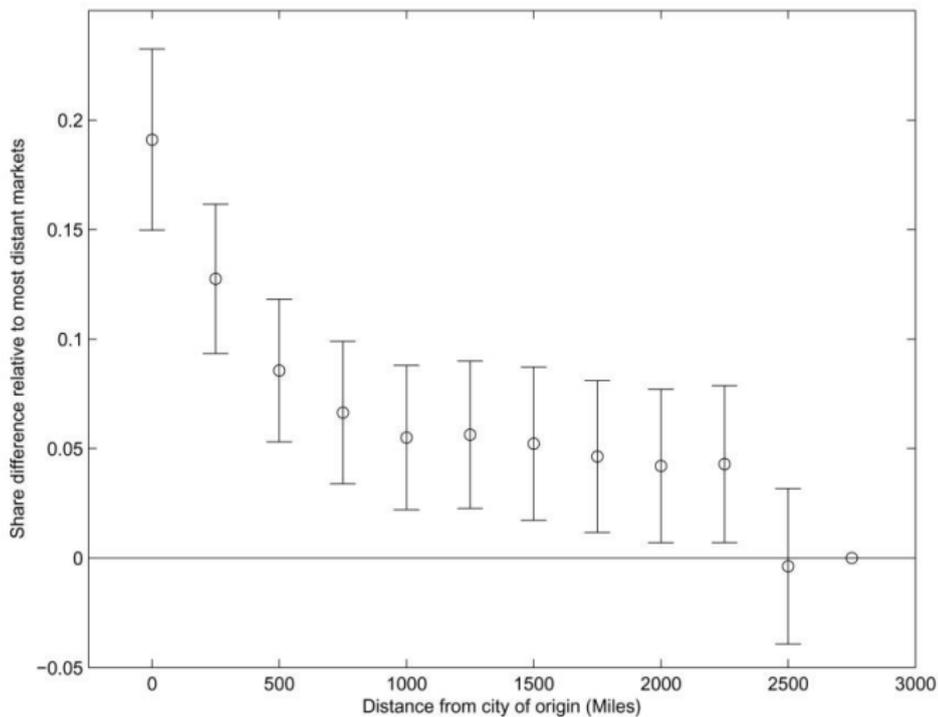
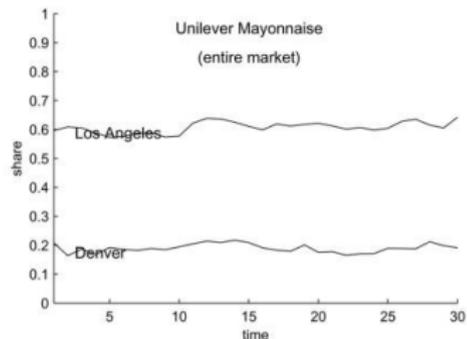
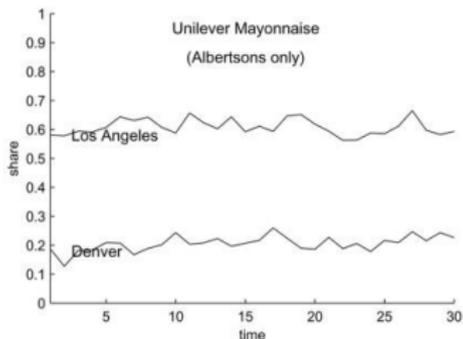
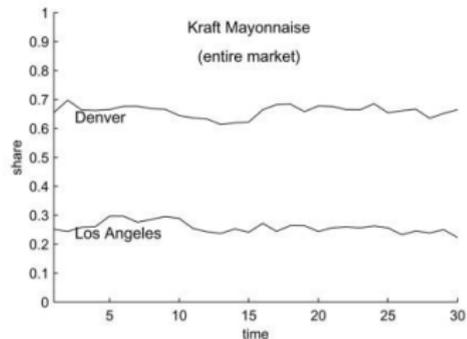
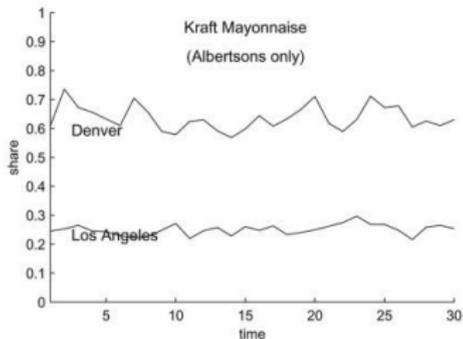


FIG. 3.—Effect of distance from city of origin on market share (net of brand-specific fixed effects). Whiskers indicate 95 percent confidence intervals.

# These differences are super persistent

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## These differences persist across generations

- Take a look at “The Evolution of Brand Preferences: Evidence from Consumer Migration”, with Bart Bronnenberg and Matt Gentzkow, and Jean-Pierre Dube, *American Economic Review*, 102(6), October 2012.
- Here they find that brand preferences persist across generations: where your parents grew up affects what brand you purchase.
- Data: Nielsen Homescan, combined with a special survey question on parents and where you grew up.

## What to make of this evidence

- There is a strong first mover advantage: the first brand to be popular matters a lot.
- Here the channel is that consumers develop tastes for products, and these tastes are hard to change after the market gets started. Over 100 years of persistent effects.
- What is amazing is that consumers often seem unable to distinguish these products in blind taste tests.
- Note that this excludes markets with network lock in effects, such as iPhones and iMessages.
- Very stable market share of large companies; there seems to be limited competition in these markets (unlike say, yogurt).
- Most of the value of these companies is in “intangibles” — primarily goodwill and branding, in their accounting statements.

## Sutton: Advertising Intensive Industries

- Frozen Food starts in the United States in the 1920s with home freezers. (Birdseye is one of the large firms here).
- Large investments to get product into retail stores (markets), mainly refrigerated cases.
- From the 1960's onwards heavy advertising — TV diners: ratio of advertising to sales for big firms 5.2 %, lower for small firms.
- Big differences after advertising comes in between retail and non-retail sectors.

**Table 8.1**

The frozen food industry by country

	Four-firm sales concentration ratio (retail only, %)	Number of firms	Relative market size (total sales)	Retail sales as a fraction of total sales
France	43	~70	~0.05	N.A.
Germany	81	~90	0.2–0.3	0.5
Italy	89	~70	0.1	0.75
Japan	46	~500	0.15	0.25
United Kingdom	37	50–100	0.2	0.76
United States	~40	1,500–1,600	1	N.A.