Sources of Monopoly Power: Branding

Today two articles:


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.*
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.

Fig. 3.—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.

To test for an effect of distance from city of origin on brand shares, we run the following regression:

\[
 Share_{icm} = a_i \left( \frac{d_{Dist}}{1000} \right) + e_{icm},
\]

where \( Share_{icm} \) is the market share of brand \( i \) in industry \( c \) and market \( m \), and \( a_i \) is a brand fixed effect. We report the distance results from (1) graphically in figure 3. We graph the distance effects, \( d_{11} \), against their respective distance intervals. Recall that \( d_{11} \), which corresponds to the effect at distances between 2,500 and 2,750 miles, is normalized to zero. We can see that, net of the brand-specific effects, a brand's market share falls as we move to markets that are increasingly distant from its city of origin. In particular, we see an approximately 20 share point difference between the market share in the city of origin versus in a market more than 2,500 miles away. In the graph, we also report 95 percent confidence bands to indicate that these effects are statistically significant. Given that the overall average market share for these 49 brands is roughly 22 percent.
These differences are super persistent
These differences persist across generations


- 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.
Frozen Food starts in the United States in the 1920s with home freezers. (Birdeye 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

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