

MSI Webinar:

Millennials and the Take-Off of Craft Brands: Preference Formation in the U.S. Beer Industry

May 2, 2023 | Virtual | 12:00 pm – 12:30 pm EDT

Speaker:

Bart Bronnenberg – *Professor of Marketing, Tilburg School of Economics and Management.*

Overview:

In this MSI Webinar, Bart Bronnenberg (Tilburg University) presented research conducted in partnership with Jean-Pierre H. Dubé (University of Chicago) and Joonhwi Joo (University of Texas at Dallas) to better understand the rise of the craft beer industry in the United States. More specifically, this empirical case study focused on the Millennial cohort in this market, known for their propensity towards craft beers over larger, more corporate brands. In the opening, Bronnenberg provided broader context on the formation of brand preferences, using the brands Folgers and Maxwell House as examples of brand variations in local market shares. In this portion of the discussion, he examined factors such as product launch timing, paying brand premiums and supply and demand. Bronnenberg then explored the unique relationship the Millennial cohort has regarding brand preferences. It is often said that Millennials have a need for authenticity in their brands. Much of their preference for craft beer, however, can be explained by their “consumption capital” created by exposure to a greater variety of brands during their formative years as consumers compared to previous generations.

Takeaways

Local Markets and Order of Entry Effects

- Regarding market shares, particularly in categories that may create a good environment for substitutions, **local market shares can have "incredible variations"** which can influence preferences for competitive brands.
- Using the brands Folgers and Maxwell House as examples, the speaker noted that product launch timing can play a pivotal role across various cities, which can determine the brand with the greatest market share and brand preference. **Entering earlier than rivals explains 45% of cross-city variation in current market share.**

Is preference persistence because of the demand side or the supply side?

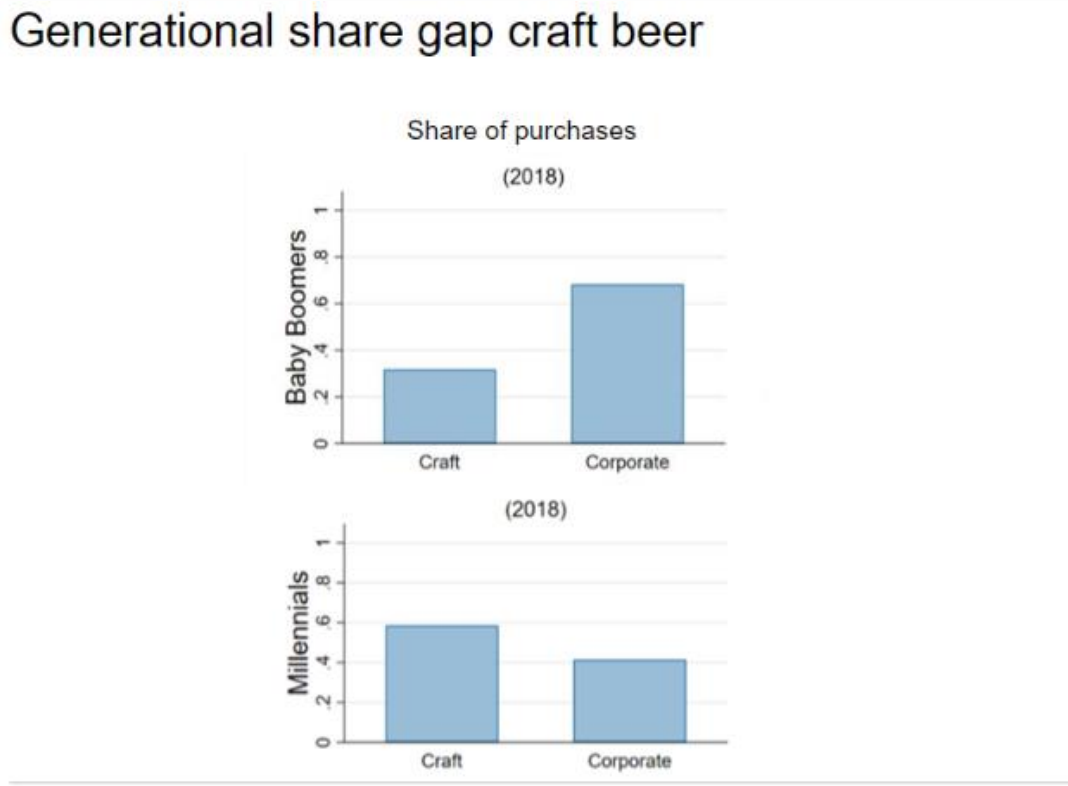
- This notion was examined by following consumers from one local market (Maxwell House) where a brand had the highest market share, to another local market where the competitive brand had dominance (Folgers). In this case, the consumer bridged "60% of the share gap" on impact.
 - Research showed that **60% of consumers acculturated towards the dominant brand (Folgers) supporting supply**, but the share gap remains with **40% of consumers still preferring the brand dominant in the market they came from (Maxwell House), supporting demand**.
 - Preference change was shown to be slow, in terms of the 40% share gap, with the half-life of a treatment indicated as 27 years.

In terms of paying brand premiums, does product expertise mediate brand preferences?

- The research indicated that **knowledge about products is associated with stronger preferences for private labels**. This turned out to be especially true in terms of the existence of comparable alternatives such as food staples and OTC drugs.

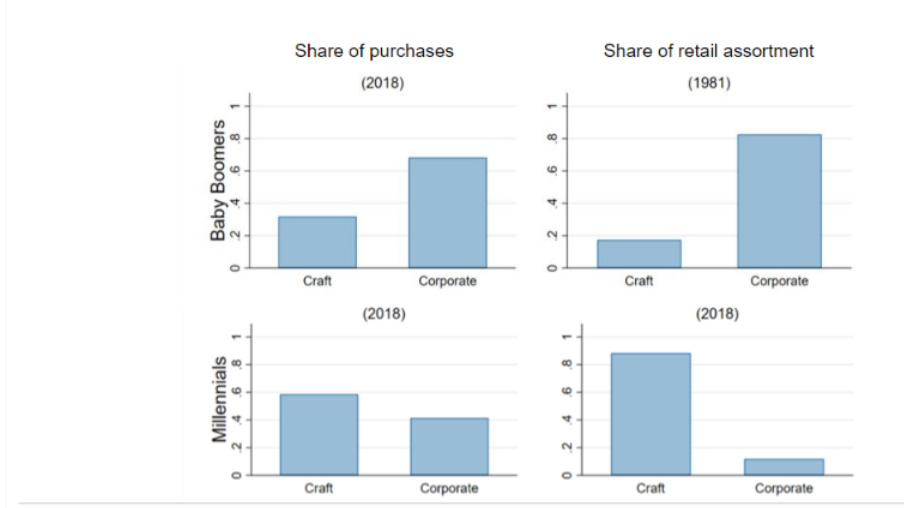
Brand Preference and Millennials.

- An example in the Chicago beer market showed **Millennials have a higher propensity towards craft beers than their Baby Boomer counterparts**.



- **The generational share gap of craft beers** between Millennials and Baby Boomers **considered the availability of beer brands when young and forming taste.**

Generational share gap craft beer and availability when young



- **Three key disruptions for the craft beer** market included the **deregulation of home brewing** (1979) and **state legalization of brewpubs** (1908-2000), the rise of **the internet** (less expensive marketing costs) and **organization** (e.g. Brewing technology, Brewers Association, etc.).

Do Millennials have different tastes?

- Data for this study were collected to test two different possibilities: preferences and experiences - formation of consumption capital. The study considered purchase data, beer characteristics and laws/population, derived from Nielsen Homescan Panel (2004 – 2018).

Individual level consumption model

$$\text{Craft Beer Choice Share} = \text{Effect of Generation} + \text{Consumption Capital} + \text{Effect of Availability} + \text{Control Variables and Unobservables}$$

1. Effect of generation:
Marketing experts argue Millennials have intrinsically different preferences
2. Consumption capital
Experiences: Formation of consumption capital, or a "liking", from past consumption
3. Availability
Measured as fraction of all brewers on the supermarket shelf that are craft brewers
4. Control Variables and Unobservables
Things like income, education, plus an econometric error term covering unobserved demand shocks

Concern: Firms may raise availability because of unobserved demand shocks
Solution: An empirical strategy where we use things that move around availability but not individual taste for craft beer, such as legal changes or local population growth

- **The study yielded the following results:**

Results

$$\text{Craft Beer Choice Share} = \text{Effect of Generation} + \text{Consumption Capital} + \text{Effect of Availability} + \text{Control Variables and Unobservables}$$

1. Effect of generation:
Small and insignificant
2. Consumption capital
Tastes build over a long time when you are young, but typically within the span of a generation. After that, tastes are more settled. Therefore, Baby Boomers still like beers that they got used to at young age, before the legalization of brew pubs.
3. Availability
Contemporaneous effects of availability are highly significant
4. Control Variables
Income and education have positive effects on craft beer choice share