

Mountain Man Light: More Profits or Less Brand Equity?

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Introduction

"We are not here to sell a parcel of boilers and vats, but the potentiality of growing rich beyond the dreams of avarice." – Samuel Johnson, *'On the Sale of Thrals's Brewery'*

"Some of those coal miners could really drink some beer. We would always stay until closing time, and it happened so many times that the busses were not running anymore. Many weekends we'd get back early in the morning, and we had to be at the coal mines at six in the morning. All we could do was change our clothes, take our lunch bag and go to work." – Jeff Noordermeer, *'Fifty Years of My Life'*

It should surprise no one that West Virginia is beer country. Originally "beyond the pale" of European settlement in Virginia Colony, the Appalachian Mountains were nevertheless well-traversed by Scottish traders hawking spirits to the resident Cherokee. The cessation of the French-Indian war in the 1760s brought permanent settlement by Welshmen, Germans and even more English – all of whom fancied a solid stout. The 1800s saw the start of the long coal boom that transformed Appalachian society, converting subsistence farmers into coal miners and commercializing beer production to meet rising demand. That trend continues today: so popular is beer that West Virginia University has classes on the subject.

Mountain Man Brewing Company exemplifies this history. Founded in 1925 by Guntar Prangel, a coal miner with a home brewery, and marketed largely to other coal miners, Mountain Man lager emphasizes quality ingredients, a bitter flavor and dark coloring. Today, Mountain Man Brewing is still a single-product company. Mountain Man distributes its lager in several states outside West Virginia, is a local market leader, and generates over \$50 million in revenue with 520,000 barrels sold.

Problem Statement

Yet for all its success, Mountain Man is facing serious challenges. Revenue is beginning to erode (2% yearly) as it faces stiffening competition, a maturing market and new products which threaten to steal its customer base. Added to this is the perception by senior management (owner Oscar Prangel and son Chris) that Mountain Man is not, or cannot, change alongside a changing market. Light beer is sweeping the consumer beer market, and as Mountain Man's loyal customer base ages, it is failing to attract younger and female drinkers with its current offering.

Chris Prangel is convinced that the light beer market is the answer. If Mountain Man can produce a successful light beer, it can ensure future growth. Yet a recent marketing survey he commissioned revealed significant obstacles. Existing customers prefer the taste, and more often, the ethos of Mountain Man lager. Many identify light beer with upper income, "yuppie" drinkers – anathema to multigenerational working class mining families. Chris' father, Oscar, rationalizes that if Mountain Man were to produce a light beer, it would both cannibalize Mountain Man's existing market share and alienate its older customer base.

The Mountain Man Brand

Brand equity is defined as the value contained in a specific brand; in some cases, the value of the brand name if it were to be sold; in other cases, how much value the brand name adds to the specific product. Sufficed to say, the concept of brand equity and threats to the brand itself play a role in the decision making of Mountain Man's senior management.

Currently, Mountain Man is a winning brand with a quality product. Their lager is sold in Illinois, Indiana, Michigan and Ohio: impressive for what amounts to a regional specialty brew. In West Virginia, Mountain Man is the market leader. Their lager is rated as the best known regional beer, and has won "best beer" awards in both West Virginia and Indiana. Mountain Man is an established, 75+-year-old brand with a loyal, if aging blue-collar clientele. It is obvious to both Chris his father that alienating that customer segment would be disastrous for Mountain Man.

Specific factors add value to Mountain Man's brand. Most importantly, it caters to regional tastes (dark, bitter). But Mountain Man also has class cachet (it's a miner's beer) it's family-owned, it's perceived as being high-quality and it's a legacy product. Many people seem to drink Mountain Man as a way to connect with previous generation – what Stuart McLean calls "interlinked historical memory." Their fathers and grandfather's drank it, and they'll drink it too. Yet, while this connects past generations, it fails to draw in the coming youth. The demographic data show a steady decline in market capture with decreasing drinker age.

In recent years, Mountain Man has attempted to build additional brand equity by encouraging "off-premise locations" such as stores or supermarkets to sell Mountain Man. Data suggests that the majority of beer-drinkers purchase their beer off-premise; Mountain Man sells 70% of its beer off-premise, which is consistent with, but not exceptional for, the industry average.

Recently, Chris Prangel commissioned a focus group to discuss a proposed Mountain Man light beer ad campaign. It missed the mark. Where Mountain Man, as a small regional brewery, appeals to young drinkers wishing to avoid "big business" associations, the ad campaign's cliché upper middle class missed capitalizing on this image. One viewer passed off the idea that Mountain Man light would be of interest on the assumption that it would taste like the traditional Mountain Man lager. Clearly a light beer alternative would need to find a distinct message of its own. Only one individual, a woman, liked the light beer ads, saying Mountain Man would be an attractive alternative to the common place beers available from the national breweries. Where brand equity drives the existing sales of Mountain Man lager, it can be a double edged sword. The association with a strong bitter flavor was not going to capture the light beer market.

Despite the association with taste, the Mountain Man Beer Company (MMBC) was also associated with best-in-class quality. MMBC would have to be careful introducing new products to keep the association with their award winning production, but distance themselves from the blue collar working man's beer image.

One way to accomplish this is an altogether new product name, but attributes that originate with the brewery. For instance, Blue Ridge Light boldly emblazoned across the label, with a more subtle subtitle, “by Mountain Man Beer Company” below. It could be touted as a reduced calorie beer with an all new complex flavor for the discerning light beer drinker with sophisticated tastes, brought to you by the legendary craftsman of Mountain Man Lager.

In the demographic data and the responses to the test ads, there is no indication that Mountain Man should market its light beer to their existing lager customers. Indeed, all evidence seems to suggest it’d be a disaster to do so: they simply prefer the lager. Shipping their new light beer as a standalone product offers Mountain Man freedom to market to a totally new segment without alienating their existing drinkers.

Analysis

Despite the hesitations of management and Chris’s father to change, a crystal ball wasn’t necessary to foresee what the future held in store for Mountain Man Brewing Company. Their drinkers, while loyal, were aging. The rate at which MMBC was building new consumers was only going to replace a fraction of their current buyers, and as time went on, the percentage of new consumers by age group was getting smaller and smaller. Exhibit 1 tells the tale. Just using current rates of decline, where profit margin was 6.2% in 2005, by 2010 sales are down 10% and profit margin is reduced to 4.7%. This is a rather optimistic projection, as judging by the demographic data, the rate of sales decline will likely accelerate.

A light beer alternative is not the only option. The super premium craft beer segment was experiencing fantastic growth, at 9% CAGR for the last six years. It was a smaller segment than light beer or even the premium segment that MMBC currently competed in with MM Lager, but this was a specialized segment without direct competition from the large breweries. Mountain Man was already recognized as a premium beer, attested to by their regional and national awards by beer tasting aficionados. Nonetheless, this might prove to be a difficult market to crack. It would require more specialized brewing methods and result in most likely smaller sales, due to the limited market.

Mountain Man could also try to expand their sales territory. The feasibility for this option doesn’t look good. Mountain Man’s appeal is not only based on their product, but consumer loyalties to regional brewers. Stepping into another region, that loyalty is lost. MMBC would be the outsider, and instead, they would be trying to compete against other brands that were sold to local drinkers.

What exactly were the motivations behind expanding a product line? Oscar spoke about how he’s watched brewer after brewer fall. Yet, Mountain Man was the sole remaining brewer with a single product. Clearly this was not the demonstrated road to sustained success. New laws in MMBC’s home state of West Virginia were already beginning to change competition. Distributors and retailers alike were facing challenges and cutting costs. A brewer with a broad product offering was seen as a more attractive prospect. If MMBC did not branch out, they were in jeopardy of being dropped from sales channels in their home territory, as the same amount of

effort that supported their single product could be going to support multiple products from a different brewery.

Both Oscar and John Fader had expressed concerns that Mountain Man Light would replace commitments for facings of Mountain Man Lager by retailers. But these were unfounded misconceptions. Research showed that the opposite was true. Product line extensions “Helped brewers obtain greater shelf space for products,” and “Created greater product focus among distributors and retailers.” Even more significant was the reaction among consumers, where additional products not only introduced new drinkers to the brand, but to the brands other product lines.

Other criticisms were of MMBC’s ability to compete on advertising with the large national breweries. This is a rather short sighted outlook. MMBC doesn’t attempt to compete on advertising with their Lager. They pursue their own style of marketing. Why would that change with a Light Beer product? For any new products, MMBC needs to develop a marketing campaign with a message about what sets them apart.

Instead of producing a new product, Fader contended, “Boosting sales of our core brand even slightly means more than what we will get in the light beer segment.” This was an outright failure to realize why sales for MM Lager were falling. Fader is the VP of Sales. Is he stepping up and saying his leadership is the cause of the loss in sales? His sales department is underperforming and he’s personally going to see to it that they make up the losses? He’s not accepting the reality that stands before him. Sure, you can always do more marketing, but at what cost and what payoff? A flagging segment was not going to be propped up by marketing. Consumer habits and tastes were changing.

Oscar’s stance wasn’t much different from Fader, “We’ve never been seduced by the other guy’s market.” At times there comes a point where you have to realize that it’s not about the “other guy’s” market. People evolve; their habits and tastes evolve, too. MMBC has been marketing the same product for eighty years. There was a segment of the population that was still interested, but that segment was declining. Rather than chase the other guys’ market, MMBC needed to pursue a new market. They needed to recognize that other companies had figured out ways to introduce new drinkers to their products. Sales tactics had changed. Future consumers were being cultivated and brought into the fold. If you don’t compete for them, they’re not likely to become your customers.

Like wine and coffee, for most people beer is an acquired taste. There is a broad range of products available with different brewing styles resulting in differing emphases on flavor. These products can aid in introducing a new drinker to the beer family. Further, as time goes on, an individual’s personal perceptions of taste change, such that a food or beverage that once was previously unpalatable at a younger age, strikes a completely different taste reaction later in life.

Yet, amongst consumers that’s not widely recognized. Many people never get over an initial taste reaction, having that taste cemented in their mind in perpetuity. Young drinkers have expressed their perception of Mountain Man Lager as being “too strong for me anyway.” Not surprising with MM Lager being a fuller flavored beer. The danger is that they may never try it

again. For long range success, a brewer has got to give them a stepping stone, an intermediate product.

For the national breweries, light beers were about watered down flavors and cheap ingredients for mass produced beers. Just because MMBC wants to target the same market segment, doesn't mean they need to mimic their competitor's products. Very telling is the region's distribution of light beer sales. 9.4% was captured by small brewers. Despite the deep pocket advertising of the national breweries, it can't be denied that there are successes to be had. Even more critical is the recognition of light beer being responsible for more than 50% of all beer sales in MMBC's East Central Region. Compare that to less than 20% coming from sales in the premium beer market where MMBC's Lager was sold. Even a small percentage of the biggest market had the potential to be valuable.

Another concern raised by Oscar was that a new Mountain Man beer, such as Mountain Man Light, was going to erode sales of their core Premium Lager product. However, this was a failure to realize that MMBC's sales were already declining due to erosion by other brewers light beers. Chris needs to get Oscar to see that Mountain Man's own light beer would be recapturing sales they've already been giving up. Young drinkers concentrated their purchases in the light beer category. This was a reflection of several market trends. Consumers were becoming more health conscious, and Light Beers represented the same alcohol consumption but with fewer calories. Further, social norms were for young drinkers to be perceived as experienced and their ability to consume greater quantities of beer was a key measure of this prowess. This was another factor pushing them towards light beer.

In the end, the forecast of new sales in the light beer market were the most compelling argument in and of themselves. Chris's calculations lead him to deduce a .25% market share in the first year of offering a new light beer product. His expectation was that this share would grow by .25% in successive years. In Exhibit 1, using these projections for market capture of light beer and for sales declines in the premium lager segment, Mountain Man Light would bring profits to 7.5% of sales by 2010. Even assuming a rather drastic 20% erosion of Lager sales due to MM Light, profits are still up.

Even more critical was the realization of the costs of developing and marketing new products. At that point, MMBC was still profitable. They could afford to take on these new product costs. If they waited, eventually their profits would not internally sustain these costs. Either they would have to take on debt, or watch the company slowly fade into the red.

Conclusion

The launch of a new product is always going to be a risk, but banking on the withering demand for a single offering is surely not going to alter the fortunes of the Mountain Man Beer Company. Light beer is the largest sales opportunity for a reason, it is what the market demands. Light beer is the gateway necessary to attract new consumers, and a stepping stone to introduce them to Mountain Man Lager. Where the product association with Mountain Man Lager may be too strong in terms of flavor, directly attracting affluent light beer drinkers can broaden the

identity of Mountain Man Beer Company as a quality brewer within their region. Blue Ridge Light needs to set itself apart from the light beer crowd with quality ingredients, and also separate from the bitterness of Mountain Man Lager, by delivering a rich distinct flavor of its own.

Appendix

	Sales Forecast					
	2005	2006	2007	2008	2009	2010
Sales						
Mountain Man Lager	\$50,440,000	\$49,431,200	\$48,442,576	\$47,473,724	\$46,524,250	\$45,593,765
PM - Single Prod	6.2%	5.9%	5.6%	5.3%	5.0%	4.7%
w/5% Erosion						
Mountan Man Lager		\$46,959,640	\$46,020,447	\$45,100,038	\$44,198,037	\$43,314,077
Mountain Man Light		\$4,727,313	\$9,832,811	\$15,339,186	\$21,270,338	\$27,651,439
PM - 5% erosion		4.3%	5.1%	5.9%	6.8%	7.5%
w/20% Erosion						
Mountan Man Lager		\$39,544,960	\$38,754,061	\$37,978,980	\$37,219,400	\$36,475,012
Mountain Man Light		\$4,727,313	\$9,832,811	\$15,339,186	\$21,270,338	\$27,651,439
PM - 20% erosion		1.4%	2.8%	4.0%	5.1%	6.2%

Exhibit 1 – 2006 through 2010 sales projections including erosion