

An analysis of B2B ingredient co-branding relationships [☆]

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Abstract

The proliferation of co-branding in consumer markets has been given considerable attention in the literature, yet attention to the practice in business-to-business markets has been limited, despite the growing attention to the role of relationships in the B2B arena. In an examination of co-branding in the industrial sector, this paper discusses the use of ingredient co-branding and uses an econometric modeling approach to offer a rationale for why it occurs. The analysis provides insight into why downstream manufacturers participate in a relationship that strengthens the supplier's position in the market. We find that under the threat to the supplier of entry from a competitor whose costs are unobservable, co-branding relationships will be entered into resulting in a reduced probability of entry. This co-branding arrangement benefits both the incumbent supplier and the downstream manufacturer. The incumbent supplier benefits from the reduced probability of competitor entry, and the downstream manufacturer is rewarded with a lower price. Further, we find that the cost of the co-branded product is lower, due to a mitigation of double marginalization in a vertically-integrated solution. We examine co-branding relationships with and without advertising support and find that co-branding relationships with advertising support tend to be superior.

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1. Introduction

1.1. Background and overview

Co-branding is the strategy of presenting two or more independent brands jointly on the same product or service. It has been referred to by many different terms, including co-marketing, joint branding, brand alliances, and symbiotic marketing (Abratt & Motlana, 2002). Co-branding is adopted for various reasons including, to provide operational benefits, to gain the

advantage of “spill over” effects on each individual brand, and to gain a competitive advantage by increasing the attractiveness of the combined offering to the downstream customer. In a co-branding relationship between a manufacturer and a supplier specifically, the manufacturer aims to leverage the strength of both brands in the marketplace, and to profit from their individual and combined marketing efforts and brand strengths. In most cases, co-branding occurs when both brands are relatively well-established and when there is a distinctive advantage to be gained by combining the strengths of both brands.

Co-branding increasingly is becoming a major marketing strategy, as a growing number of products are sold with branded ingredients (Prince & Davies, 2002; Cooke & Ryan, 2000; Washburn, Till, & Priluck, 2004). It has been used to maximize utilization of an organization's brand assets, generate new revenues, enter new markets, create barriers to entry from competitors, share costs and risks, increase profit margins, and widen current markets (Rao & Ruekert, 1994; Park, Jun, & Shocker, 1996; American Productivity & Quality Center Report, 2001).

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Co-branding relationships are commonly categorized into four major types: ingredient co-branding, composite/complementary co-branding, licensed co-branding, and umbrella co-branding. In this paper, we primarily are interested in ingredient co-branding, i.e., the B2B relationship between the manufacturer and the supplier in which the end product of the supplier becomes one of the components of the manufacturer's offering. For example, Dell (the manufacturer) has a co-branding relationship with Intel (the supplier) in the marketing of computer servers (Intel, 2006; Wikipedia, 2006). Both manufacturer and supplier enjoy the benefits of the relationship that include mutual co-operation, shared knowledge, and risk sharing. In addition, Dell may enjoy an enhanced market reputation, while Intel may benefit by reducing the probability of entry by competitors. Dell receives a preferential price from Intel, while Intel enjoys a stable, long-term customer. Intel provides advertising support for Dell and co-branding incentives, some of which are passed on to the final customer in the form of lower prices.

In the aerospace industry, Boeing (the manufacturer) has a co-branding relationship with GE (the supplier), whose jet engines are clearly of strategic importance to Boeing (Pyke, 1998). On one hand, by highlighting its use of GE engines, Boeing potentially increases end-user trust in its airplane, consequently generating demand by airlines (the buyers). On the other hand, GE potentially increases the reputation of its product due to the fact that its engines are used by one of the world's leading airplane manufacturers. The synergism of this relationship is reinforced by support from a current GE ad. It states that GE exclusively supplies the GE90-115B engine, "the latest and world's most powerful jet engine", for Boeing's long-range 777 aircraft.

In the polycarbonate market, Data Track (the manufacturer) has a co-branding relationship in the marketing of compact discs with its supplier, Bayer's Makrolon. Makrolon, a high-tech plastic from Bayer Polymers, had approximately a thirty percent market share in the global polycarbonate market in 2002 (Bayer Annual Report, 2002). This impressive performance in the market came partly from the successful co-branding strategy started in 2000. The "Made of Makrolon®" logo helped its manufacturer partners convey the idea that the material used in their CDs and DVDs guarantees superior storage security and quality (Bayer Annual Report, 2002). In turn, this helped Bayer keep competitors at bay and build its reputation. Other examples of manufacturer-supplier co-branding relationships include Symantec (manufacturer)/US Robotics (supplier) and IBM (manufacturer)/Siebel (supplier).

The essence of B2B co-branding centers on relationships, alliances, and networks. These brand partnerships or alliances allow companies to endorse each other, engage in co-operative branding activities, and build relationships and networks that enhance themselves in the marketplace (Bengtsson & Servais, 2005). The benefits of such alliances are well-demonstrated by Bengtsson and Servais in an empirical case analysis of a co-branding alliance between two companies, DEVI and JUNKERS.

Table 1
Some major benefits of B2B ingredient co-branding

Benefit	Description of added value
Relationship benefits	Manufacturers and suppliers benefit through mutual co-operation, endorsement of each other's offering, shared knowledge and capabilities, risk sharing, trust and shared experience.
Competitive benefits	Suppliers may benefit by reducing the probability of entry of competitors. Manufacturers may enjoy a jointly enhanced market reputation.
Cost benefits	In return for the reduced probability of potential competitive entry, suppliers may reward manufacturers with a lower price. In turn, suppliers may lower costs through having a stable, long-term customer and through economies of scale.
Double-marginalization benefits	The cost of the co-branded B2B offering can potentially be lower due to the elimination of double marginalization that could result in lower prices for the customer.
Advertising support benefits	Advertising support from the supplier helps in the marketing of the product by the manufacturer. In some cases, cash-based advertising support by the supplier to the manufacturer is passed on to the buyer in the form of lower prices.

In addition to the relationship benefits highlighted by Bengtsson and Servais, some of the other benefits (see Table 1) include competitive benefits (e.g., suppliers may benefit by reducing the probability of competitive entry), cost benefits (e.g., suppliers may reward manufacturers with lower prices in return for reduced competitive entry), double-marginalization benefits (e.g., the cost of the co-branded offering can potentially be lower due to the elimination of two separate margins being passed down to the final customer), and advertising support benefits (e.g., the supplier provides advertising support to the manufacturer). Moreover, it is these relatively unique "tangible" aspects of an "ingredient" co-branding relationship between a manufacturer and a supplier that are the focus of this paper. For an understanding of B2C brand alliances, a strategy not involving joint-branding efforts as in co-branding, see Erevelles, Horton and Fukawa (2007).

1.2. Purpose

It is the general purpose of this paper to contribute to the limited research in the area of B2B ingredient co-branding. Specifically, the focus of the paper is to propose an analytical model to examine why ingredient co-branding relationships occur, and to examine if they are beneficial for supplier and manufacturer relationships. To clearly distinguish this paper from those that focus on consumer brands or the retail sector, the paper adopts the definition of industrial products utilized by Mudambi, Doyle, and Wong (1997), who define industrial products, "as products used in manufacturing that are not marketed (primarily) to the general consuming public. Industrial products can be process inputs, defined as products consumed in the manufacturing process (such as industrial filters and abrasives); or product inputs, products remaining as ingredients of the final product (such as bearings and coatings). Both goods and services are covered by the

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