



## How co-branding versus brand extensions drive consumers' evaluations of new products: A brand equity approach

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### ABSTRACT

Current research into co-branding and brand extensions indicates that these marketing strategies benefit firms, yet marketing literature examines the concepts only independently. This article reports the findings of two studies, conducted among 256 students, that compare the effectiveness of co-branding versus brand extension strategies. The comparison of these strategies, both individually and concurrently, considers consumers' attitudes, quality perceptions, and purchase intentions toward a new product (i.e., Bluetooth-enabled sunglasses). The first study reveals that the presence of at least one high-equity brand in co-branding strategy suffices to leverage consumers' evaluations of a new product. However, the findings of the second study indicate no significant differences between co-branding and brand extensions in terms of consumer evaluations of an identical product.

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### 1. Introduction

When Apple launched the iPhone, an Internet-connected smart phone, its rivals in the cell phone industry worked furiously to introduce similar prototype models and extend their product lines. Yet they faced a considerable barrier, in that the iPhone's advanced features dramatically increased phone users' expectations, to the point that meeting such criteria was unrealistic in the short term. Nonetheless, Google, which earns profits on the basis of advertising that appears on its online products and services, partnered with T-Mobile to introduce a first-generation cell phone, G1 in August 2008. The astonishing 1.5 million preorders reported in the press indicate that T-Mobile made a smart move to co-brand with Google to challenge the dominant iPhone.

Unstable environments, dynamic markets, intense competition, and high costs to enter new markets force companies in various industries to adopt nontraditional, innovative branding strategies, including co-branding, in an attempt to exploit their existing brand equity (Desai & Keller, 2002). This strategy usually provides a tool for differentiation that leverages brands through the transfer of positive associations, such as brand-quality, image, or awareness, from one brand to another (McCarthy & Norris, 1999; Simonin & Ruth, 1998; Washburn, Till, & Priluck, 2000). Co-branding strategy is defined when two brands jointly appear on the logo and/or package of a new product (Grossman & Till, 1998). Because the ultimate goal of co-branding is to launch a new product, it sometimes is referred to as a special case of brand extension (Park, Jun, & Shocker, 1996). The financial benefits of extending a brand

within and beyond an original product, such as lower cost advertising and promotions, therefore usually generalize to co-branding strategy (Tauber, 1988; Volckner & Sattler, 2006).

Various examples of co-branding span a wide range of product categories. Kellogg, a cereal company, co-branded with ConAgra to launch Healthy Choice cereals in 1994. Coca-Cola co-branded with Diebels, a German beer producer, to market a new fruit beer called Dimix in 1998. Nike and Apple jointly launched Nike Plus sport shoes, which feature both brands' logos and a technology that enables communication between the shoes and a runner's iPod. Even Ferrari, the infamous Italian sport car manufacturer, and Fila, a sport goods manufacturer, found the idea appealing and co-branded a series of sport clothing and shoes from 2001 to 2004. Philips's cool skin electric shaver is co-branded with Nivea, an international skin and body care brand. This shaver dispenses Nivea for Men shaving lotion or gel.

No study empirically investigates how such combinations of brands, with their unique brand equities, in co-branding strategy influence consumers' judgments of the participating brands and the new product. Prior studies instead study co-branding between one unknown brand and one established brand or two well-known brands, without taking into consideration the possible combinations of their brand equities (Rao & Ruekert, 1994; Simonin & Ruth, 1998; Voss & Gammoh, 2004). For example, if Sony, as a high-equity brand, intends to engage in co-branding with another brand, is its best choice another high-equity brand, like Nike, or would a low-equity brand produce similar consumer judgments and market positioning for the new product? If there are no significant differences in attitudinal factors, perceptions, and future buying intentions, a high-equity partner such as Sony should select a low-equity co-branding partner, because it would enjoy more power during contract negotiations and likely more profit premiums.

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Furthermore, though researchers investigate the advantages and disadvantages of brand extension and co-branding strategies, they typically consider only one strategy, without assessing consumers' evaluations of alternative strategies (Aaker & Keller, 1990; James, 2005). In particular, no work offers a paired comparison of co-branding and brand extensions with identical new products. This study addresses this gap by investigating whether co-branding strategy, relative to brand extension strategy, significantly alters consumers' attitudes, quality perceptions, and purchase intentions toward a new product. For example, if consumers generally favor co-branding to brand extensions for the same product, companies need to seek partners that can help them leverage their brand equities by boosting customers' evaluations in the market.

In the next section, this article describes the conceptual background and theories relevant to the study of co-branding and brand extension strategies. A synthesis of previous research leads to a set of hypotheses. The next section describes the research method and presents the results, followed by a discussion of the findings with some managerial implications and further research directions for co-branding literature.

## 2. Defining the study scope

### 2.1. Brand extension definition

With brand extension strategy, companies use an established brand to launch new products. This approach represents one of the most frequently employed branding strategies (Aaker & Keller, 1990). However, the failure rates of brand extensions in many fast moving or high-tech industries are close to 80% (ACNielsen, 1999), which has prompted extensive study of the potential determinants of brand extension success (Bottomley & Doyle, 1996).

### 2.2. Co-branding definition

Because no globally accepted definition of co-branding exists (Leuthesser, Kohli, & Suri, 2003), several other terms appear interchangeable, including brand alliance, composite branding (Park et al., 1996), ingredient or composite branding (Leuthesser et al., 2003), multi-branding (DiPietro, 2005), and joint or dual branding (Levin & Levin, 2000; Rao, Qu, & Ruekert, 1999; Rao & Ruekert, 1994). Research that attempts to define co-branding (Abratt & Motlana, 2002; Baumgarth, 2004; Washburn et al., 2000) implicitly suggests three criteria:

- Co-branding should be accompanied by a long-term agreement and cooperation.
- The name of both brands should appear on the product, logo, or product package.
- The primary objective is to launch a new product in a new or existing market.

Previous research indicates the benefits of co-branding for participating brands. For example, co-branding may facilitate the transfer of positive brand associations from one brand to another. McCarthy and Norris (1999) argue that co-branding also provides quality signals to customers about a new product in the market, such that quality perceptions of one partner brand influence quality perceptions about another brand. Customers also perceive an average quality host brand that partners with a high-quality brand more favorably. Similarly, Park et al. (1996) suggest that two well-known brands can achieve a better attribute profile when one of them extends into a new product category. Levin and Levin (2000) further assert that co-branding provides a legitimate context for influencing impressions about the image of one brand through a transfer from the second brand. When people encounter a co-branded product

marketed by a well-known and an unknown brand, they tend to assume the unknown brand shares values and images with the well-known brand.

Research on co-branding also explores the antecedents and moderators of favorable co-branding evaluations. For example, Simonin and Ruth (1998) reveal that positive existing attitudes toward each participating brand lead to favorable judgments about a new product. They also identify product fit, or the extent to which the product categories of the partnering brands appear compatible, and brand fit, or the degree of consistency between the images of the participating brands, as antecedents of co-branding evaluations.<sup>1</sup> The country-of-origin image of the participating brands also has a significant impact on attitudes toward cross-border brand alliances. That is, when customers perceive overall compatibility between the countries of origin of the allied brands, they adopt a positive attitude toward the new co-branded product launched internationally. Brand familiarity may moderate customers' judgments about co-branding strategy too. When customers are less familiar with partnered brands, the effect of their prior attitudes decreases (Simonin & Ruth, 1998), and more familiar brands contribute more to their co-branding evaluations (Baumgarth, 2004).

Some researchers extend such findings to other contexts or end users. Dickinson and Barker (2007) suggest that nonprofit organizations can ally with commercial partners in cause-related marketing to acquire financial resources. Co-branding concept also may apply to cultural and artistic products, such as those introduced by multiple nonprofit art organizations (d'Astous, Colbert, & Fournier, 2007). Bengtsson and Servais (2005) even examine how co-branding, as a network of partnerships and trust, may enable industrial markets, whose end users are industrial buyers rather than individual customers, to increase their profitability.

### 2.3. Consumer-based brand equity

Customer-based brand equity receives extensive attention in marketing literature (Keller, 1993), including investigations into the effects on brand preferences, purchase intentions (Cobb-Walgreen, Ruble, & Donthu, 1995; Van Osselaer & Alba, 2000), and brand partnerships (Rao et al., 1999; Rao & Ruekert, 1994; Washburn, Till, & Priluck, 2004). There are many ways to measure the brand equity of a company; some researchers assess it at the firm level, others at the product level, and some at the consumer level. This study conceptualizes brand equity from the customer's point of view and thereby measures the existence and magnitude of any associations consumers have with a brand (Keller, 1993). Two underlying dimensions—brand awareness (recall and recognition of a brand) and brand image (overall associations a brand has)—thus emerge to measure the latent construct, consumer-based brand equity. Evidently, brands with high levels of awareness and favorable and unique associations represent high-equity brands (Keller, 2003; Yoo & Donthu, 2001).

### 2.4. Co-branding theories

Co-branding research has used various theories such as information asymmetry (Voss & Gammoh, 2004; Rao et al., 1999), information integration (Simonin & Ruth, 1998), concept combination (Levin & Levin, 2000), associative learning (Washburn et al., 2004), and associative network memory models (Samu, Krishnan, & Smith, 1999) to explain underlying mechanisms for this strategy. The research inquiries in this article can be explored using two theories: associative learning (Shimp, 1991) and information asymmetry (signaling) theory (Spence, 1974).

<sup>1</sup> In a replication though, Baumgarth (2004) does not find a significant role of product fit in co-branding evaluations.

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