Does brand partnership create a happy marriage? The role of brand value on brand alliance outcomes of partners

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\section*{ABSTRACT}

In this paper, we investigate an under-researched issue by examining the financial performances of both partner firms in a brand alliance. We find that a participating firm's brand value and other brand characteristics are associated with not only its own financial performance but also its partner's financial gains from the collaboration. Our results show that the participating firm gains higher stock returns when its partner's brand value is higher. However, brand value differential reduces the positive effect of brand value on the partner firm's financial performance. In addition, the primary partner's brand alliance experience helps increase the positive effect of primary partner's brand value on the stock returns of the secondary partner. The secondary partner's brand exploitation attenuates the positive effect of secondary partner's brand value on the stock returns of the primary brand firm.

1. Introduction

Brand alliance, the short-term or long-term association or combination of two or more individual brands (Rao & Rueckert, 1994), is becoming increasingly popular and has piqued the interest of marketing practitioners. For example, HP and Canon formed a brand alliance for printers (Lewis, 1999). Cisco and HP teamed up to deliver co-branded support services. Other well-known brand alliances include Taco Bell and Doritos’s popular Doritos Locos Tacos, IBM and Microsoft (Bucklin & Sen Gupta, 1993), and Kellogg’s Star Wars cereal. While these market observations reflect the thinking that “companies in building alliances achieve more than they can on their own” (Lewis, 1999), how and when two firms benefit from a brand alliance is not well understood or empirically examined.

Therefore, the objective of this research is to have a deeper understanding of what brand-related characteristics helps each partner firm financially gain from a brand alliance. To the best of our knowledge, our research is the first to study the stock market performances of both brand alliance partners with the consideration of each partner’s brand value. We address the gap in the marketing literature from several aspects. First, most prior brand alliance research focuses solely on consumer responses to brand alliances (e.g., Simonin & Ruth, 1998; Walchli, 2007). For example, it has been found that co-branded ingredients can facilitate a consumer’s acceptance of brand extension (Desai & Keller, 2002). Some analytical research modeled the impact of the revenue gain or loss for the branded component involved in a partnership (Geylani, Inman, & Ter Hofstede, 2008; Yan & Cao, 2017). However, consumer perception of brand alliances is not equal to financial performance and marketers need to know the financial accountability of marketing activities (Srivastava, Shervani, & Fahey, 1998). As indicated by previous research, marketers can no longer afford to rely on the traditional assumption that positive product-market results (e.g., product sales, firm profits) will translate automatically into good financial results (Srivastava et al., 1998). Stock market return (changes in the market's expectations of future cash flows) is a broader and forward-looking measure of firm performance - it not only captures the increased market value created by unmeasured intangible assets (Bharadwaj, Bharadwaj, & Knosynski, 1999), but also incorporates complex changes such as sales, cash flow, profit, and other information received by investors (Srivastava et al., 1998). Thus, the extant literature would benefit from examining the financial impact of brand alliance partnership on each brand partner’s stock market performance.

Second, two participating firms have different resources and functions in a brand alliance, and thus may obtain different financial returns from the same brand alliance. Limited research studied the value of brand alliance for only one major participating firm or for professional team sports (Cao & Sorescu, 2013; Yang, Shi, & Goldfarb, 2009). Our research differs significantly in that we analyze the financial outcomes of the two participating firms and consider the strategic importance of brand value to each firm’s financial performances. However, the extant
literature did not address the relationships between the partners' brand characteristics and their stock market returns. Thus, in this study, we focus on the interplay of two brands that are typically independent before, but lend their names to a single physical product for the duration of the brand alliance. Specifically, we denote the brand that manufactures the brand alliance's product as the primary brand and the other partner brand in the partnership (e.g., ingredient provider, licensed brand) as the secondary brand respectively (Helmig, Huber, & Leeflang, 2007).

Third, from the resource-based view (RBV), firms differ in their resources and capabilities, which make them have different future cash flows from the same strategic assets (Barney, 1991). The marketing literature indicates that key resources for a brand alliance can be summarized as follows: (1) the partner's brand value, which is the most important intangible asset provided by brand partners and would generate future cash flows for the brand alliance (Aaker & Jacobson, 1994); (2) brand value differential, which reflects the brand value differences between the two partners. Prior studies have been attentive to partner asymmetries in alliances (e.g., Dussauge et al., 2004); each brand has a different potential for generating cash flows as a result of differences in brand equity (Srivastava et al., 1998). This brand-specific resource difference could lead to the dependence and conflict between partners, and thus influence firm performance (Gaski, 1984); (3) primary partner's brand alliance experience, which pertains to the primary partner's learned capability to efficiently manage brand alliance's operation and maximize the utility of partner's brand equities (Kalaignanam, Shankar, & Varadarajan, 2007). Alliance experience is considered to be the key factor that influences the success rate of technological alliances (Kalaignanam et al., 2007), but its role in the context of brand alliance is unknown; (4) secondary partner's brand exploitation reflects how the secondary partner's past activities affect its brand resource available for the current brand alliance. It is related to the extent to which the secondary partner previously introduces co-branded products for its other partnerships. Secondary partner's brand value is the key external resource for the primary partner, but the secondary partners' overexploitation in the process of prior collaboration can diminish this positive impact (Spiggle, Nguyen, & Caravella, 2012). Through the resource-based view (RBV), these four factors provide a rich picture of how brand-related capabilities and resources affect the financial performances of brand alliance partners.

Our research addresses a key question unexplored by previous research: how do a firm’s brand-related resources affect its partner’s and its own financial performance associated with the brand alliance? Specifically, we empirically investigate the relationships between the financial returns of both brand alliance partners and the brand-related characteristics including brand value of each partner, brand value differential, brand alliance experience and brand exploitation. In the following section, we develop theoretical arguments that link the variables of interest to the two partner firms’ stock market returns from the brand alliance.

2. Theories and hypotheses

In most prior research, researchers have employed an experimental approach to measure consumer’s perception of brand alliance and constituent partner brands (e.g., Rao, Lu, & Ruekert, 1999; Simonin & Ruth, 1998), while the financial performance of each partner in the brand alliance remains an open question. Prior studies suggest that marketing alliances show a positive effect on shareholder value in some studies (Swaminathan & Moorman, 2009) but an insignificant effect in other studies (Koh & Venkatraman, 1991), and marketing alliances could bring additional risks to firms (Das, Sen, & Sengupta, 1998). These divergent findings underscore the importance of studying brand alliance as a unique strategy. Brand alliances involve not only marketing cooperation but also developing and manufacturing co-branded products, and thus it could have a different impact from other types of marketing alliances.

The theoretical model is developed from resource-based view (RBV). The RBV literature suggests that firms differ in their resources and capabilities, and such differences make firms have different future cash flows through using the same strategic assets (Barney, 1991). Brands are viewed as important intangible market-based assets that generate future cash flows (Aaker & Jacobson, 1994) and reduce the volatility of future cash flows (Ambler, 2003). From the future cash flow perspective, financial market values the information about brand asset (Mizik & Jacobson, 2004), and brand information can explain changes in future cash flows. Therefore, we expect that, in brand alliances, the firms' financial returns vary with themselves' and their partners' brand values. Given the importance of brand value and the dearth of research on financial rewards to brand alliance partners, we link this brand alliance-related resources with the future cash flow expectations of the two partners.

In addition, from the perspective of RBV, firms' deployment-capability difference leads to different cash flow expectations (Makadok, 2001). The literature suggests that a firm's prior experiences and capabilities are important factors that could affect the expectations of its partners' returns from the alliance (Kalaignanam et al., 2007). In response to rapidly changing business conditions, dynamic capability has been linked to the resource-based view of the firm, as an important resource for competitive survival (Nelson & Winter, 1982). In this context, we focus on firms' brand alliance-specific capabilities that are gradually formed in the past. The primary partner's brand alliance experience captures the extent of dynamic capability the firms formed over time, determining the primary partner's ability to manage the partnership and maximize the brand's utility. The secondary partner's brand exploitation depletes the secondary partner's brand image which was supposed to be a unique resource to empower the primary partner, and thus it captures the secondary brand's remaining capability to contribute its brand resources to the current alliance after prior collaborations. We expect that, in a brand alliance setting, brand experience and brand exploitation would moderate the effects of firms' brand values on the firms' stock market returns from the brand alliance.

Furthermore, our focus on the brand alliance partner dyad enable us to study from not only an internal perspective of the firm’s own resource, but also an external perspective of the valuable brand resources from the firm's partners. Through extending the resource based view, organizations' competitive advantage is also considered to come from obtaining valuable and rare resources from the external environment (Hillman, Withers, & Collins, 2009). As firms join forces to achieve mutually beneficial goals in brand alliance, they are dependent on each other's resources (Emerson, 1962). A key aspect of brand alliance is to understand the relative strength of the resource base of two partners and how they affect each other's financial returns. Given that the brand values of both partners are important assets for a brand alliance, the difference in brand value between the primary partner and the secondary partner is a key source of power balance. Organizations in power-balanced relationships would have less difficulty in reaching agreement and less risks of exploiting each other (Williamson, 1975). Thus, we study how brand value differential between partners moderates the positive impact of brand value on financial returns.

In general, the constructs in the model reflect how the brand alliance-related key resources and capabilities are associated with the future cash flow expectations of the two partners. The resource-based view, power-dependence and dynamic capabilities theories have complementary focus on resources—internal resources, external resources, resources formed over time, and resources difference between partners. Combining these theories together in this research can help us understand the relationships between the key resources from two partners and their financial gain associated with the brand alliance. We present a conceptual model in Fig. 1 to delineate the factors influencing the financial performances of two partner firms in brand alliances.
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