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How does a component from a supplier with high reputation for product innovation improve the perception of a final offering? A process perspective

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A B S T R A C T

An excellent reputation for product innovation (RPI) is an intangible asset for any company and promises a sustainable competitive advantage. This study empirically analyzes the spillover effects of a high component supplier's RPI to the offering of the original equipment manufacturer (OEM). The results show that there are positive effects to be gained from the innovativeness of a component supplier, which increases the perceived performance of the final offering containing the supplier's product. In addition, the study demonstrates that such a strategic partnership between a component supplier and an OEM has the potential to influence the purchase intention of the final consumer in a positive manner, thereby creating value for both parties. Contributions are made to a better understanding of strategic options for such a partnership and to an on-going discussion on RPI and the importance of intangible attributes in innovation management.

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1. Introduction

Innovation management for component suppliers has more than one relevant target group. Because the innovation is manufactured into a final product, it should satisfy the needs of the direct purchaser—the original equipment manufacturer (OEM)—and the needs of the OEM's customer. To address the challenges linked to such a multitarget marketing strategy, scholars recommend that component manufactures should consider an ingredient brand if the offering and marked situation meet specific criteria (Kotler & Pfoertsch, 2000). In the literature, ingredient branding is often viewed as a strategy where an independent supplier and an OEM together offer a product with an engineered component (or with a line of related components) physically incorporated into the OEM's product and integral to its proper functioning (Ghosh & John, 2009). In ingredient branding, such a product is branded with both the brand name of the final product and of the component (Desai & Keller, 2002; Park, Jun, & Shocker, 1996) and is commonly referred to as an ingredient branded offering (IBO). The idea is that such cooperation has the potential to increase awareness among end-consumers, and this then leads to a market pull from which both the supplier and the OEM's benefit.

A number of studies have investigated this phenomenon from a brand perspective (Desai & Keller, 2002; Kumar, 2005; Rao, Lu, & Ruekert, 1999; Simonin & Ruth, 1998; Voss & Gammoh, 2004). However, little is known in this regard from an innovation management point of view.

Admittedly, there have been a number of attempts to conceptualize the strategic options for IBOs in terms of the supply chain (Xu, Gurnani, & Desiraju, 2009; Zhang, 2013), vertical integration (Helper & Kiehl, 2004; Venkatesh, Chintagunta, & Mahajan, 2006), and price premiums (Venkatesh & Mahajan, 1997). Besides these studies, however, so far no investigations have been undertaken on the process through which a supplier's reputation for product innovation (RPI) increases the performance perception of an OEM's offering. Thus, our research is concerned with the mechanism of a component branding strategy and how it increases the innovation-relevant attributes of the final product when an OEM cooperates with a component supplier to which consumers ascribe a high RPI. In particular, our research questions ask, first, how an innovative ally (component supplier) enhances the product perception of the final product positively and, second, whether such alliance

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embodies a strategic option for innovation management.

Against this background, we intend to broaden the access from an innovation management perspective to this kind of cooperative strategy because the existing literature has almost exclusively a marketing focus on IBOs. We argue that management-related aspects of vertical partnerships, such as the technical and organizational fit between the supplier and the OEM, the supply chain design, or innovation management issues, are difficult to analyze solely within the marketing domain. With this study, we want to contribute to a new and ongoing discussion on the management and strategic potential of IBOs, their optional application fields, and the associated limits and risks (e.g., Lienland, 2013). Henard and Dacin (2010) observed a continuing trend in innovation studies that focus on the less tangible facets of innovation, such as a company's reputation. These areas remain relatively under-researched, despite indications that they might offer a sustainable competitive advantage. Our current work contributes to this discussion by providing an insight into reputational spillover effects from suppliers to OEM's offerings. Thus, we draw on evidence that highlights the feedback effects of consumer perception resulting from a particular company's reputation in relation to their partner (Swaminathan, Reddy, & Dommer, 2012). We further uncover the mechanism through which the RPI of a highly reputed supplier affects the product perception of an OEM. By describing this process, we can contribute to the discussion on RPI and open up this phenomenon for management by providing a holistic picture on how reputational spillover effects work. This knowledge helps take managerial action to build and develop fruitful cooperations with suppliers. Finally, we look at the intention to buy. In this regard, Radighieri, John-Mariadoss, Grégoire, and Johnson (2014) showed that in terms of value creation, a careful identification of a potential supplier has both a technical and an organizational dimension, as well as a less tangible perceptional dimension—the consumers' ascription of performance to such partnerships.

Taken together, we argue in this paper that according to cue utilization theory, a supplier with a high RPI has the potential to positively affect the perception of the OEM's offering in terms of perceived relative advantage and perceived buying risk that positively affects a consumer's decision to buy. With this focus, our study differs from the existing literature in two ways: First, the focus is on innovation, especially in regard to the effects of a high RPI of the component supplier, and how this affects consumer perception of the OEM's offering. Second, we disclose the intervening conditions through which the supplier's RPI affects consumer's perception.

2. Theory and prior research

2.1. Ingredient branding

Commonly, IBOs are regarded as a special alliance between two companies that cooperate in the developing and marketing of a product. There is a particular emphasis on the possibility of recognizing and identifying the components used in the final offering. IBOs were implemented as a business-to-business branding strategy between manufacturers and suppliers, whereby the supplier's end product would be one of the components of the manufacturer's offering (Mazodier & Merunka, 2014; Norris, 1992; Simonin & Ruth, 1998). However, the working principle behind this concept is the push/pull logic. This concept is critical to understanding IBOs and the motivational aspects by which they are guided. According to this concept, the *push* happens from the supplier toward the OEM when the supplier provides intangible attributes affiliated with the offered component. This offering is intended to attract not only the supplier's own customers but also OEM's customers by meeting their needs. For instance, GoreTex is known among Adidas consumers for innovation, even if those consumers would never buy directly from GoreTex. Instead, the intention with such component brand is that attributes such as reputation, innovativeness, or image should support the OEM's offering beyond the technical features (Rao & Ruekert, 1994).

2.2. Cue utilization theory

We will argue in this paper that a supplier's RPI may serve as a cue that influences a consumer's purchase intention for a specific final product. According to cue utilization theory, products are conceptualized as an array of cues (e.g., Cox, 1962) that may serve as signals for product performance (Richardson, Dick, & Jain, 1994). It is further assumed that consumers make a buying decision in reference to the evaluation of various cues (Akdeniz, Calantone, & Voorhees, 2012). Scholars argue that the theory also explains how consumers prioritize certain cues according to their potential diagnostic ability in regard to the differentiation from alternative products (Slovic & Lichtenstein, 1971). One basic assumption of cue utilization theory is that the extent to which a specific cue is utilized in assessing the product features varies in terms of its predictive value, its diagnosticity, and the consumers' perceived reliability of a cue in regard to distinguishing between alternative product categorizations (Skowronski & Carlston, 1987). This means in our context that if a component supplier could enrich his offering by incorporating highly predictive and reliable cues for innovativeness, the supplier would also be able to influence consumer perception of the final product and, ultimately, the intent to purchase. A positive perception increases sales and/or the IBO price, which in turn increases OEM's demand for the particular component (Desai & Keller, 2002). This could generate a *pull* effect, resulting from the supplier's capabilities to enrich the OEM's offering with nontangible features that could appeal to consumers in terms of product choice, if recognized in the final OEM's offering (Kotler & Pfoertsch, 2000). In the following, we investigate the degree to which reputation in general—and RPI in particular—can be such cues and how they shape consumer perception of the IBO.

2.3. Cues and reputation

In related studies, there appears to be some evidence that suggests that in regard to partnerships, the reputation of one partner may serve as cue for the performance of the joint offering (Chu, 1994; Grewal, Krishnan, Baker, & Borin, 1998). Additional research shows that a reputation only develops over time and through repeated practice (Fombrun & Shanley, 1990). The building of a reputation requires considerable investment to establish a positive valence, which according to Purohit and Srivastava (2001) must be regarded as a high-scope cue. In this regard, theory suggests that there are two possible ways in which reputation works (Wernerfelt, 1988). First, the so-called risk-reduction hypothesis claims that reputation is an indicator that reduces the likelihood of a bad outcome for the buyer. This is because the creation of a quality reputation requires a company to only have a small variance in their average product quality (Montgomery & Wernerfelt, 1992). The reliability of such signals minimizes the risk of a bad outcome for the consumer (Gammoh, Voss, & Chakraborty, 2006). Second, the so-called bonding hypothesis suggests that the potential loss of a company's investment in a reputation for high-quality products acts as a bond (Wernerfelt, 1988). Here it is argued that the violation of a consumer's expectation of high product quality—typically built by investing in development, innovation, and quality management as well as branding, marketing, and

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