

# Roadmap of Co-branding Positions and Strategies

Wei-Lun Chang, Tamkang University, Taiwan

## ABSTRACT

Co-branding, is a marketing arrangement to utilize multiple brand names on a single product or service. Basically, the constituent brands can assist each other to achieve their objectives. Co-branding is an increasingly popular technique for transferring the positive associations of one company's product or brand to another. In the absence of a clearly defined strategy, co-brand mergers are frequently driven by short-term goals to mistrust and failure. In this paper, we identify critical factors of a successful co-branding strategy, co-branding position matrix, and co-branding strategies respectively. We also utilize certain real-world cases in order to demonstrate our notions. Finally, this research aims to provide clues and a roadmap for future research in co-branding issues.

## INTRODUCTION

Co-branding, is a marketing arrangement to utilize multiple brand names on a single product or service. Also, co-branding can be seen as a type of strategic alliance between two parties. Basically, the constituent brands can assist each other to achieve their objectives. Obviously, creating strategic alliances by engaging in co-branding has become increasingly popular across many industries. A successful co-branding strategy has the potential to achieve excellent synergy that capitalizes on the unique strengths of each contributing brand.

Co-branding is an increasingly popular technique for transferring the positive associations of one company's product or brand to another. In other words, creating synergy with existing brands creates substantial potential benefits of various kinds. As Gaurav Doshi notes in a recent 2007 article, such synergy: (1) expands the customer base (more customers), (2) increases profitability (3) responds to the expressed and latent needs of customers through extended production lines), (4) strengthens competitive position through a higher market share), (5) enhances product introductions through enhancing the brand image (6) creates new customer-perceived value, and (7) and yields operational benefits through reduced cost.

The philosophy behind co-branding is to attain advanced market share, increase the revenue streams, and improve competitive advantages through customer awareness. A great deal of attention has been focused on selecting a co-branding partner—not only the essentials of the potential parties but a series of steps in selection process. Correspondingly little attention, however, has deeply been paid to the co-branding position and successful strategies. An appropriate co-branding strategy decision on brand managers has by and large tended to follow rather than focus on surface factors.

Not surprisingly, such a reactive approach can be deeply damaging. At best, it results in confusion and conflict among brand managers who hold differing views regarding the co-brand mandate. At worst, it results in turf wars between rival managers about who owns the top post-merger brands. Alternatively, brand managers can find themselves caught up in appropriate type and strategies of co-brands to reach ambitious revenue targets in order to allay market fears. The result, all too often, is a single winner strategy that seriously compromises customer expectations, employee morale, and long-term competitiveness.

The most damaging response, however, is to do nothing at all, allowing the pre-merger brands to go their separate ways. The expected synergies of a co-brand can easily turn into a nightmare if the co-brand located in the inappropriate position and strategy.

In the absence of a clearly defined strategy, co-brand mergers are frequently driven by short-term goals to mistrust and failure. A recent report claims only once in five brand mergers succeed (Riiber et. al., 1997). Clearly, something more strategic than an adaptive response is needed to harness the market potential of a merger. A clear co-branding strategy is critical in both directions: positioning a new brand align their efforts behind a common set of goals and finding an appropriate co-branding tactic to create a win-win situation. Such a strategy should take into account the core competences and goals of both firms. It should be also defined a suitable co-brand architecture, in other words, the desired relationship between brands within merged portfolio. Clear decisions on the four key aspects of co-branding position—coalition, coordination, collaboration, and cooperation—provide a robust underpinning for successful co-brand mergers.

## CRITICAL FACTORS FOR A SUCCESSFUL CO-BRANDING STRATEGY

Once the essentials of a co-branding strategy are clear, five critical factors emerge for a successful co-branding strategy. This can be referred to as a 5C co-branding strategy (Figure 1). These factors can assist a company in organizing a successful and appropriate co-branding strategy from a macro perspective.

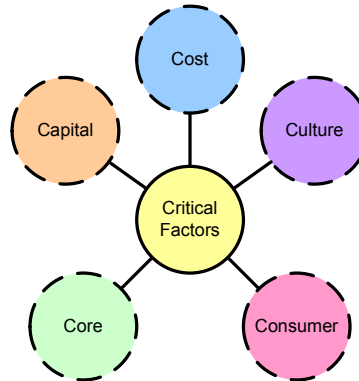


Figure 1 Critical factors for a co-branding strategy

### Transition Cost

It's important to consider the transition costs for two companies embarking on a successful co-branding strategy. For the joint venture type, the two companies have the same responsibility for both profits and liabilities (e.g., Sony and Ericsson). Thus, the transition cost for both parties is symmetric. But in the merger type, one party (e.g., BenQ) must take responsibility for the other (e.g., Siemens). BenQ merged with Siemens and had to provide constant financial support. Unfortunately, BenQ's pockets just weren't deep enough to absorb the cost of turning around the profit-losing Siemens unit. The cost for both parties was thus asymmetric. The general lesson: the transition costs of co-branding seriously affect the future for the companies involved.

### Cultural Differences

Cultural differences are also a crucial consideration for two companies planning a co-branding strategy. Trying to consolidate companies from different countries creates many unknowns of, especially at the employee level. For example, if one company's culture is conservative while the other is innovative, cooperation will prove difficult. And there are many other potentially problematic cross-cultural factors that are extensively documented in the literature. BenQ's employees worked hard to collaborate with Siemens' workers for nine months, but ultimately failed, largely as a result of underestimating the intractability of German labor laws. Cultural differences are a major factor impacting on the direction and outcome (success or failure) of a co-branding strategy. Lesson two - cultural differences between two companies should be considered thoroughly in advance and require very effective management.

### Consumer Acceptance

The third lesson: "know thy customers". Consumer-centric design will drive a successful co-branding strategy. Sony and Ericsson is a case in point, having launched several consumer-centric mobile phones in recent years (e.g., embedded with Cybershot technology). They advanced the level of functions (digital video recorder, Bluetooth, etc.) in order to increase competitive advantage. On the other hand, BenQ and Siemens originally targeted teenage customers (based on the slogan "enjoy matters") and then attempted to provide diversified models (e.g., classical and business models) for other groups (besides teenagers). However, consumers in Germany and Taiwan are completely different. It was difficult to find a leverage point and common ground for both parties to satisfy the radically different types of consumers in the two countries, the companies should identify, focus on and act concertedly in terms of what specific consumers want and need.

### Core Positioning

The core competence of a brand is fundamental in attracting large numbers of customers. Since each individual brand has its own core competence, the synergy between two brands is extremely important. In the brand alliance situation, a strong brand should clearly and uniquely identify and position its core competence, so that the second brand can integrate with it. The core competence could be either homogeneous or heterogeneous. Ideally, *similar* core competencies (i.e., homogeneous) will generate a stronger co-branding effect. However, heterogeneous core

competencies can complement each other to create a substantial synergy. For example, BenQ has re-positioned its brand as “keep exploring” to replace the original slogan ”enjoy matters” after that original venture failed. The lesson is that the core competencies of two companies should be clearly identified in order to successfully position the new brand.

### Capital Restructuring

As previously mentioned, co-branding may take on one of two essential operational types: joint-venture or merger. For the former, both companies restructure the capital structures of the original corporations. That is, each member corporation is responsible for the new joint-venture company, especially the financial aspects. In the merger situation, the dominant company should be responsible for the gain and loss after merging. For example, the capital structure of BenQ was reorganized after it merged with Siemens, and this resulted in a loss of around 810 million US dollars between October 2005 and June 2006. The lesson: adequate capital for two companies is critical before they even start evaluating each other and organizing a co-branding plan.

### PISOTIONS FOR LOCATING A CO-BRAND

A co-brand may have many constituencies. Externally, among customers, it guides the formation of brand image and expectations. Generally, for companies that are present in a variety of product markets, the co-brand stands for overarching consumption values (e.g., reliable for HP-Compaq, which serves product markets as varied as desktops and laptops). Similarly, a co-brand offers image and expectations to business partners (e.g., SONY Ericsson brand stands for superior quality of mobile phones, which SONY has an excellent brand image and Ericsson has superior manufacturing for telecommunication equipments). Internally, a co-brand acts as a bond of identity among two companies, helping to build trust and loyalty by projecting a continued and consistent set of values.

Various types of positions between two firms create options for four generic positions for locating the merged brand: Coalition; Coordination; Collaboration; and Cooperation (see Figure 2). Also, four cells in the co-branding position matrix are driven by two dimensions: co-branding type and co-branding level. Co-branding type stands for operation form regarding the type of co-branding situation, for example, merger (Company A merges with Company B) and joint venture (A and B invest collectively). Conversely, co-branding level stands for whether the process refers only to a department (A’s department corresponds to B’s department) or to the entire enterprise (Company A corresponds to Company B).

		Co-branding Type	
		Merger	Joint Venture
Co-branding Level	Enterprise	Coalition (HP-Compaq)	Collaboration (Miller-Coors)
	Department	Coordination (BenQ-SIEMENS)	Cooperation (SONY-Ericsson)

Figure 2 Co-branding position matrix

### Coalition

Coalition stands for the union of two companies in terms of merger type and enterprise level. Coalition allows two firms to combine into a single company with a dual brand name. Generally, the first brand name of a co-brand is the dominator and usually pre-dominates the coalition process such as between HP and Compaq (2002). HP originally utilizes HP-Compaq as the co-brand name and enjoys the entire target customers. Coalition potentially integrates two firms’ resources, reinforces the brand image, enhances the market share, and raises the visibility of the newly co-brand. The resources, for instance, include the tangible and intangible ones. Tangible resources, such as assets, equipments, plants, employees, and customers, are easily to identify after merging. However, intangible resources, such as brand value, brand image, and perception, are difficult to measure and judge. Intangible resources integration can be seen as the synergies of two individual brands, which is unpredictable and uncontrollable. Simply, HP enhances the co-brand image, which Compaq had good manufacturing quality and brand image. Yet, they did not exceed IBM’s market share dramatically as a result of unpredictable synergies.

### **Coordination**

Coordination stands for putting two companies in harmony of the same rank or order in terms of merger type and department level. Coordination allows two departments of different firms to combine into a single department in a company with a dual brand name. Similarly, the first brand name of a co-brand is sometimes the dominator and usually pre-dominates the merger, for instance, BenQ and Siemens (2005). BenQ settles the vision to extend the global market by embedding Siemens' brand name as a co-brand. Meanwhile, Siemens was one of the global top 5<sup>th</sup> mobile phone manufacturers before merging by BenQ. Also, coordination possibly harmonizes two departments' resources and enhances companies' competitive advantages. For instance, BenQ invested a major portion of company's assets (besides telecommunication department) to support Siemens' telecommunication department, however, did not acquire the core intellectual property rights from Siemens at the agreed time. It also faced formidable differences in culture, laws, and regulations. The global market share numbers tell us BenQ that lost its original advantages and ended with a highly unsatisfactory partnership. Once one of the brands affects in a negative way either in tangibility or intangibility, the difficulty to coordinate two departments will be raised.

### **Collaboration**

Collaboration stands for one company works with another company in terms of joint venture type and enterprise level. Collaboration allows two firms share their resources, tacit knowledge, and know-how aligns with a joint goal like Miller and Coors (2007). Miller Brewing Corporation and Coors Brewing Corporation, which are US second and third largest brewers, combine their operations to create a bigger challenger to Anheuser-Busch Corporation (Tom, 2007). SABMiller and Molson Coors will each have a 50% interest in the joint venture, and have five representatives each on its board of directors. Based on the value of the assets, SABMiller will have a 58% economic interest in MillerCoors, and Molson Coors will have a 42% economic interest. MillerCoors will have annual beer sales of 69 million barrels, roughly 29% of the U.S. market, and revenue of \$6.6 billion. Anheuser-Busch has a market share of around 48%. Collaboration not only increases the number of market share, but also reduces the cost of two companies. Thus, the difficulty to attain a joint goal, share resources and knowledge, and executes the same strategy is high. However, the potential benefits will emerge time by time if two firms collaborate collectively.

### **Cooperation**

Cooperation stands for the act of working jointly together for the same end in terms of joint venture type and department level. Cooperation allows two firms to help each other in operating a newly single company such as SONY and Ericsson (2001). SONY and Ericsson invested collectively to form a new company in terms of telecommunication. Basically, SONY and Ericsson still hold their own companies even they decide to joint venture. Meanwhile, SONY had superior design capabilities, but lacked core telecommunication competences, whereas Ericsson had excellent R&D capabilities. Both firms attempt to contribute their own advantages and help building good reputations for new company. Cooperation drives single company to draw on the strength of each to offset the weakness of the other. For instance, before merging with Ericsson in 2001, Sony was not (with market share of only 1% to 2%) a leading player in the telecommunication industry. The dominant players were Nokia, Motorola, and Ericsson (15%). Sony-Ericsson initially suffered losses: the deficit was 13.6 million US dollars in the first quarter and the market share dropped to 5.4%. At 6<sup>th</sup> place, the firm remained out of the group of leading players in the first year after merging. Sony-Ericsson saw particularly dramatic growth of 7.4% in 2006, up from 6.3% when they acquired Sony's authorization for "Walkman" brand technologies in 2005. Sony-Ericsson is currently among the top four mobile phone manufacturers.

## **STRATEGIES FOR CO-BRANDS**

A co-brand is more limited in terms of its audience than a corporate brand. It conveys a specific image and a set of expectations to target customers in a given market. The key decision that the merged firm needs to make regarding its co-brand is to choose the type of tactic it wants to create or maintain with the various strategies previously served by the individual firms. Should it try to maintain all the existing strategies or eliminate them in favor of just one or a few? The issue underlying these choices is how to manage similarities and differences—in respect of both customers and the brands that it has inherited—through a clear co-branding strategy.

The two dimensions that determine a merged firm's co-branding strategy are its co-brand name and its intended market. The co-brand name signifies a new or existing brand name for a co-brand. The co-brand name involves a choice for the firm: should it have a same brand name to all its customer segments no matter how

different they might be from each other? Or should it create a different brand name, varying the range of specifications and quality accordingly to different customers segments?

The intended market dimension signifies the market positioning of the firm’s products or services that it wishes to convey to a given market. The merged firm may decide to stay in the exiting market regard to all its product or service—that is, suggest the same positioning across all served segments. Alternatively, the firm could create new opportunities to move to a new market with its product or service—that is, adopt different positioning for them depending upon the particular customer and competitive dynamics in each of its served segments.

		Co-Brand Name	
		Existing	New
Intended Market	Existing	Market Penetration Strategy	Brand Reinforcement Strategy
	New	Global Brand Strategy	Brand Extension Strategy

Figure 3 Co-branding strategies

Cross-classifying the two dimensions (Co-brand name: existing or new; Intended Market: existing or new) leads to four alternative co-branding strategies, each representing a particular way to integrate the brand name and customer positioning dimensions: Market Penetration, Global Brand, Brand Reinforcement, and Brand Extension (see Figure 3).

### Market Penetration Strategy

A Market Penetration Strategy signifies a conservative tactic to keep the existing market and the original brand names of two firms. In essence, the co-brand name is either a single brand name (e.g., BMW MINI Cooper) or the combination of two firms (e.g., MillerCoors and DaimlerChrysler) with the products or services. The key assumption that drives the adoption of a Market Penetration strategy is the horizontal convergence of two companies. The merged firm’s commitment is to take advantage of such horizontal integration, accentuate the desirable goals and benefits by sharing the resources.

The merger between HP and Compaq, for instance, has led to the creation of a global brand. HP uses single brand name for the firm’s image but some products with a dual name such as HP Compaq Presario series of laptop/desktop. Another example is the merger of Miller and Coors recently on October 2007. The new co-brand “MillerCoors” positions in existing market and keeping the original brands. The new company will combine Coors’ two breweries with Miller’s seven plants. Under the deal, a Coors product can be brewed at a Miller plant and vice versa. Thus, the combined firm will bring its production closer to end markets, creating huge savings on shipping.

However, focusing on existing market and brand names might not cause the synergy to make the merged firm stronger and more efficient (e.g., HP was not superior to IBM much after merging Compaq). Finally, for a Market Penetration strategy to succeed, it is critical that the heterogeneous of customer segments and the reputation of two firms should be sufficiently high.

### Global Brand Strategy

A Global Brand Strategy signifies a firm’s decision to serve all its customers with an existing co-brand name in a new market. The key assumption that drives the adoption of a Global Brand strategy is convergence of cross-segmental preferences. The merged firm’s commitment is to take advantage of such convergence, accentuate the desirable goals and benefits by utilizing global recognition. Among recently merged firms in the telecommunication sector, BenQ has actively pursued to extend the market share and global visibility by merging telecommunication department of Siemens with existing brands of the combination “BenQ-Siemens”.

For the merged brand, advantages of a global product brand could accrue at both the supply end—when scale and scope advantages substantially outweigh the benefits of partial—as well as the demand end, with uniquely

and premium than local or regional brands. However, focusing on extending the current market might cause fail and lose the original advantages (e.g., BenQ reduced its assets dramatically after merging Siemens). Finally, for a Global Brand strategy to succeed, it is vital that the universality across diverse customer segments appeal continuously to evolving patterns of preference.

### **Brand Reinforcement Strategy**

A Brand Reinforcement Strategy signifies two firms decide to use a new name as a co-brand name in the existing market. The key assumption that drives the adoption of a Brand Reinforcement strategy is brand image reinforcement. The merged firm's commitment is to take advantage of such attempt of a totally different co-brand name, accentuate the desirable goals and benefits by providing a diverse name and representation style.

For the new co-brand name, two firms could reinforce the reputation of their original brands without hurting the original names. However, focusing on creating a new brand name might cause fail lose the advantages (e.g., people have negative image will affect the seed company of a diverse co-brand name). Finally, for a Brand Reinforcement strategy to succeed, it is essential to create an appropriate co-brand name that is totally different from original ones effectively and efficiently.

### **Brand Extension Strategy**

A Brand Extension Strategy signifies two firms decide to serve a newly co-brand name in a new market. The key assumption that drives the adoption of a Brand Extension strategy is union of cross-segmental preferences (e.g., Sony and Ericsson). The merged firm's commitment is to take advantage of such union, accentuate the desirable goals and benefits by extending different segments.

The merger between Sony and Ericsson has led a horizontal integration for a strategic purpose. Before merging with Ericsson in 2001, Sony was not (with market share of only 1% to 2%) a leading player in the telecommunication industry. Sony had superior design capabilities, but lacked core telecommunication competences, whereas Ericsson had excellent R&D capabilities. The merger began to earn profits in the second merged year (2003) thanks to the embedded camera function and emergence of 3<sup>rd</sup> generation mobile phone standards and technology. Sony-Ericsson is currently among the top four mobile phone manufacturers. This success can be attributed in part to the fact that the partners had a good co-branding plan including a joint brand name for cellular phones.

For the merged brand, positioning a co-brand in an extension purpose might cause by a successful co-branding plan (e.g., Sony-Ericsson). However, it is risky for both firms to position a new brand in an unfamiliar market or customer segments. Finally, for a Brand Extension strategy to succeed, it is vital that two firms have to take advantage of their core competences at the first place, generate the positive synergy as well as draw up an appropriate long-term co-branding plan.

## **CONTEXT ANALYSIS FOR CO-BRANDING STRATEGIES**

An effective co-branding strategy could have many key successful factors. This paper attempts to analyze the co-branding context in terms of legal, economic, and culture. In the legal viewpoint, two firms could take into account the antitrust issue when they attempt to merge or ally. The economic issue is also significant either for a joint venture or merger type of two firms in term of co-branding. For example, the transition cost and capital reconstructing would be the factors of success or failed. Moreover, the cultural viewpoint for a successful co-branding strategy is required. The existing cases demonstrate that cultural factor may affect the future of a successful co-branding strategy.

### **Legal**

The merger is a type of strategic alliance for two firms either for vertical or horizontal integration of the industry. One of the advantages for merger is the extension of market share. However, the antitrust issue exists which may cause the in-equilibrium of the market. Miller and Coors announced to combine in order to fight the leader Budweiser. The combination needs to pass an antitrust review by either the Federal Trade Commission or the Department of Justice first. Few analysts expect the government to try to block the deal; however, despite close scrutiny by regulators. Regulators might even see the pairing as helping offset Anheuser-Busch's (i.e., Budweiser) dominance. Thus, the pre-merger notifications allowed companies to make adjustments in areas regulators cited as problems, and largely took the Supreme Court out of the picture. Hence, antitrust is a significant legal issue for co-branding and the firms should tackle it carefully and circumstantially.

## Economic

It's important to consider the transition costs for two companies embarking on a successful co-branding strategy. For the joint venture type, the two companies have the same responsibility for both profits and liabilities (e.g., Sony and Ericsson). Thus, the transition cost for both parties is symmetric. But in the merger type, one party (e.g., BenQ) must take responsibility for the other (e.g., Siemens). BenQ merged with Siemens and had to provide constant financial support. Unfortunately, BenQ's pockets just weren't deep enough to absorb the cost of turning around the profit-losing Siemens unit. The cost for both parties was thus asymmetric.

As previously mentioned, co-branding may take on one of two essential operational types: joint-venture or merger. For the former, both companies restructure the capital structures of the original corporations. That is, each member corporation is responsible for the new joint-venture company, especially the financial aspects. In the merger situation, the dominant company should be responsible for the gain and loss after merging. For example, the capital structure of BenQ was reorganized after it merged with Siemens, and this resulted in a reduced brand value from 7 billion to 2 billion (-34%). The lesson: adequate capital for two companies is critical before they even start evaluating each other and organizing a co-branding plan.

## Culture

Cultural differences are also a crucial consideration for two companies planning a co-branding strategy. Trying to consolidate companies from different countries creates many unknowns of, especially at the employee level. For example, if one company's culture is conservative while the other is innovative, cooperation will prove difficult. And there are many other potentially problematic cross-cultural factors that are extensively documented in the literature. BenQ's employees worked hard to collaborate with Siemens' workers for nine months, but ultimately failed, largely as a result of underestimating the intractability of German labor laws. Cultural differences are a major factor impacting on the direction and outcome (success or failure) of a co-branding strategy. Thus, cultural differences between two companies should be considered thoroughly in advance and require very effective management.

## IMPLICATION

Co-branding strategy is a significant issue for either researchers or practitioners recently. Researchers have focused on seeking correctly strategies from conventional marketing perspective. However, in fact, it is not well-organized and clearly pointed out yet. Co-branding may also affect the partner brands negatively. For example, combining two brands may cause brand meaning to shift in ways that were never intended or desired. The potential benefits and risks associated with co-branding strategies must be explored and examined carefully. The right partner can lead a successful co-branding synergy (e.g., Sony and Ericsson) very effectively. However, a failed co-branding synergy will damage brand image for both companies (e.g., BenQ and Siemens). This paper indicates the roadmap for co-brands from a well-defined co-branding position matrix and co-branding strategies. Furthermore, the practitioners could successfully position their co-brands from an approved strategy. This work not only assists the firms in identifying the role of co-brand but determining a decent tactic in practice.

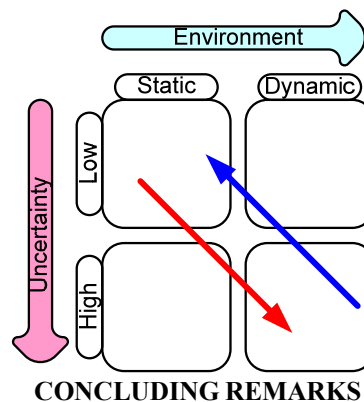


Figure 4 Co-branding strategy matrix

The cases we've discussed in different industries demonstrate both substantial success and disastrous failure. In essence, two strong brands may raise the collective brand image (in quality and/or value), transforming it from an excessively dynamic and uncertain situation to a stable status. For example, Sony-Ericsson currently ranks as one of the top 3 in the global mobile phone industry. Separately, however, neither company made the top 5 in 2001.

On the other hand, if two companies do not consider the position and strategy adequately, they will be taking large risks, and probably face a static and uncertain environment. Hence, the companies attempting to invest in co-branding opportunities should consider and truly investigate their current status in the co-branding strategy matrix (Figure 4). As we have seen, an initiative that moves in the wrong direction into a dynamic and uncertain situation, can soon face disaster. Through understanding these real-life cases, we can gain insights into what works and what does not, and apply the lessons from the past to the relevant processes and critical success factors. These provide reliable guidelines for developing a viable co-branding road map. Through understanding these real-life cases, we can gain insights into what works and what does not, and apply the lessons from the past to the relevant processes and critical success factors. These provide reliable guidelines for developing a viable co-branding road map.

### **ACKNOWLEDGEMENT**

The authors would like to thank the National Science Council of Taiwan for financially supporting this research under Contract No. NSC 97-2410-H-032-033.

### **REFERENCES**

- Riiber K. Trond, Lars Finskud, Richard Tornblom, and Egil Hogna, "Brand Consolidation Makes a Lot of Economic Sense: But Only One in Five Attempts Succeeds," *The McKinsey Quarterly*, 4 (Autumn 1997): 189-195.
- Tom Daykin, "Miller, Coors to combine U.S. operations," *JSOnline*, Oct. 9, 2007. Available at: <http://www.jsonline.com/story/index.aspx?id=672364>



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.