

# A Taxonomy Model for a Strategic Co-Branding Position

Wei-Lun Chang, Tamkang University, Taiwan

## ABSTRACT

In the competitive and shifting business environment, creating non-replaceable value and strengthening core competences are critical. M&A is the best strategy for survival because of one rule: the big ones get bigger. This study investigates the effects of co-branding strategies and strategic alliances in order to propose a co-branding taxonomy. It analyzes co-branding from four dimensions and two perspectives: The perspectives are the management and brand perspectives, and the dimensions are goals, reasons for M&A, brand image, market segmentation, financial reports, and reasons for successful/failure. Hence, this research furnishes a roadmap and guideline for future co-branding strategies and provides clues for managers in decision-making related to brand alliances.

## INTRODUCTION

In the competitive and shifting business environment, creating non-replaceable value and strengthening core competences are critical. Merger and acquisition (M&A) has become a significant strategy that assists companies in gaining competitive advantages in a global environment. M&A allows firms to develop in vertical and/or horizontal dimensions, to expand scales of business, and to handle advanced technologies.

Drucker (1992) indicated that it is inevitable that companies evolve into globally allied businesses. Ohmae (1989) specified that alliances are essential for business strategies based on diffusion of IT, cost increments, and protection of trade. Thomson Financial reported that total revenues of M&A reached US\$3.87 trillion in 2006 (as shown in Figure 1). According to Bloomberg LP (11/20/2006), the global scale of M&A in 2006 was US\$3.1 trillion, which was a 50% growth compared to 2004 and 7 times higher than 2003. Forty-seven percent of the M&A activity was in Europe and the US. M&A is not only a trend but an altering process for specific areas or domestic industries.

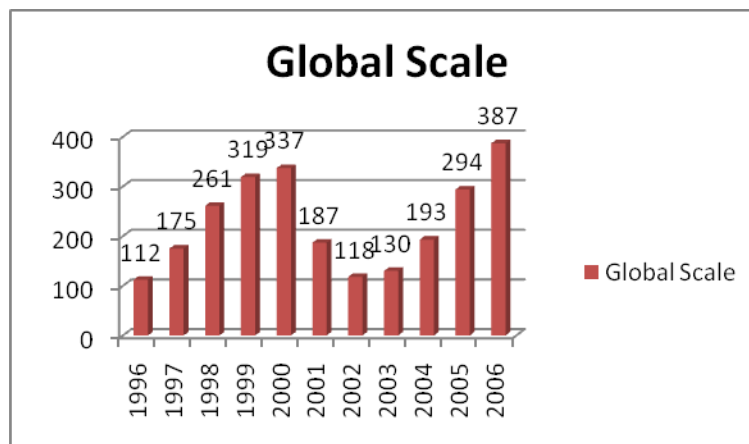


Figure 1 Global scale of M&A (Unit: 10 billions USD) (Data source: Thomson Financial)

However, M&A is not the only approach by which to gain competitive advantage. Companies seek new marketing strategies and create their own competitive advantage from building their own brands. Kolter (2000) indicated the key factor for firms to grow is to build sufficient brand portfolios, which is considered brand construction (Ries and Ries, 1998). Leith Reinhard, the CEO of DDB Worldwide Communications Group, Inc., specifies that brand is everything and that, unlike product, brand value is not duplicable. Hence, it is beneficial to companies if the synergy from an M&A is greater than either single brand.

As a result, M&A is the best survival strategy for companies, given the rule that the big ones get bigger. Moreover, brand construction is the critical factor for enterprises to maintain their competitive advantages. The existing research has been conducted only from the viewpoints of organizations or strategic alliances, but the current study attempts to investigate the effects of co-branding strategies and of strategic alliances. In addition, we propose a

co-branding taxonomy and conduct our analysis in four dimensions: goal, reasons for M&A, market segmentation, and reasons for success/failure.

The rest of this paper is organized as follows. Section 2 surveys the extant literature. Section 3 demonstrates and describes the devised co-branding taxonomy, while Section 4 provides further analysis based on the four dimensions. Section 5 discusses the contributions of this research, and section 6 provides a conclusion.

## BACKGROUND

In this section, we will survey the extant literature related to strategic alliances and brand. In the first sub-section, we synthesize the state of the art for strategic alliance research and identify its advantages and shortcomings. The second sub-section discusses the theories related to brand, brand similarity, and brand equity. Finally, M&A and branding are merged and discussed as a single new issue: co-branding.

### Strategic Alliances

A strategic alliance can be seen as an alliance formed by two or more organizations with a joint strategic goal (Killing, 1983), and/or as merged resources and capabilities by which companies use their cooperating strategies to create competitive advantages (Michael et al., 2005). In a strategic alliance, companies sign contracts to create short-term relationships and agree through a joint venture format to be strategic partners.

Porter (1990) and Thompson and Strickland (2001) elucidated several purposes of strategic alliances: (1) to achieve technical cooperation, (2) to commit to new product development, (3) to overcome difficulties in manufacturing, (4) to improve efficiencies of supply chain management, and (5) to attain economic scale. That is, strategic alliances ensure and enhance competitive advantages based on the allying companies' strategies.

Hill and Jones (2004) they identified the advantages and shortcomings for strategic alliances. Advantages included the idea that strategic alliances are a superior approach to (1) penetrate other markets, (2) share fixed costs and risks in developing new products or business processes, (3) complement each other in technologies, and (4) assist companies in establishing industrial standards. Disadvantages included unequal work loading (e.g., when lower-cost work falls primarily on one partner or the other). In this situation, it is not favorable to maintain competitive advantages with a long-term partnership.

Wakeam (2003) devised five criteria by which to verify the strategic value of a strategic alliance: whether the partner is appropriate to a critical business objective, whether the enterprise can develop and protect their core competencies through learning from a more experienced partner, whether the strategic alliance can block and prohibit threats from competitors through its market power, whether the alliance can push the companies to achieve future strategic options, and whether the alliance mitigates risk through collaboration.

### Brands

Brand is a combination of name, term, sign, symbol, design or any mixture of these that identifies a product and differentiates it from its competitors (AMA). Branding is the behavior undertaken to define products through a brand (Perreault and McCarthy, 2005). Brand name signifies using text to represent a brand, and brand mark is the term for utilizing symbols or graphics to depict a brand.

Brand needs to be managed, which can be costly and, therefore, can raise the product's price. In 1970, Carrefour launched a series of low-cost generic products without a brand name but, assuming low cost is not the only motivation for the buyer, how companies can promote their products and how customers purchase specific products, with or without brands, become important questions. Generally, branded products build high loyalty and familiarity and enhance market segmentation and brand image, so enterprises choose to strengthen their products' brand similarity and brand equity.

Brand similarity is the degree to which customers identify with the brand. A high degree of brand similarity results in high brand loyalty. Perreault and McCarthy (2005) identified five levels of brand similarity, from least to most loyal: brand rejection, brand non-recognition, brand recognition, brand preference, and brand insistence. Generally, a high degree of brand similarity can result in superior brand equity, which is derived from brand association, including brand awareness, recognition, and image (Keller, 1991;1993). Aaker (1996) defined brand equity as a set of assets and liabilities associated with a brand, which may increase or reduce the benefits for

companies. Strong brand equity allows companies to provide more sufficient services and increase customer benefits (Rajagopal, 2008). Hence, a high degree of brand equity may create a considerable competitive advantage.

### **Co-branding**

Blackett and Boad (1990) defined brand alliance as combining two or more brands under all brand names. Kolter (2003) defined co-branding as occurring when “two or more well-known brands are combined in an offer,” and each brand sponsors expects that the other brand name will strengthen the brand preference or purchase intention and hopes to reach a new audience. Thus, we consider the formation of a co-brand is mostly generated by merger and acquisition of companies. For example, SONY Ericsson is a joint venture intended to generate synergies for the co-brand and to create superior brand similarity and equity. This research devises a co-branding taxonomy model to classify existing cases of co-branding and analyze the effects of extant co-branding cases in different industries. The proposed taxonomy model provides clues and a roadmap for future co-branding research.

## **RESEARCH FRAMEWORK**

### **Theoretical Background**

Mergers occur when two enterprises commit to a cooperation strategy and combine their business processes on a 50-50 basis (Hitt et al., 2005). Merger can be unfolded as statutory merger or a statutory consolidation. The former occurs when one merged company is eliminated, such as when HP merged with Compaq in 2001. In statutory consolidation, both companies are eliminated and a new company is formed after merging. For example, Banc One Corp. merged with First Chicago NBD in 1998 and became Bank One.

Acquisition occurs when one company purchases another (Hill and Jones, 2004). Acquisition can unfold as stock acquisition or as asset acquisition. Stock acquisition is a direct or indirect purchase of all or parts of interests of the targeted company so that the targeted company becomes the transferred investment and the dominant company abides by the results of acquisition (e.g., liability, asset, responsibility). For example, Daimler-Chrysler purchased 34% of the interests of Mitsubishi Motors in 2003 in order to penetrate the automobile market in Asia. With asset acquisition, the dominant company purchases all assets of the targeted company, and the targeted company will become the transferred investment. With this type of acquisition, the dominant company has no responsibilities to the targeted company (e.g., responsibility or liability). For example, Fubon Life insurance company purchased all assets of Citi Life Insurance Company’s Taiwan branch in 2001.

### **A Co-branding Taxonomy Model**

Awadzi (1987) investigated 40 international joint-venture companies and their performances and found that the level of the alliance and the degree of cooperation between members affects the performance of the alliance. Several conceptual studies have indicated as well that management methods affect performance (Randall, 1989; Gantz, 1990; Selwyn and Valigra, 1991). However, the current literature is still lacking further investigation from the management perspective. This paper proposes a co-branding taxonomy (as shown in Figure 2) to classify existing cases and to provide a detailed analysis from management and brand perspectives.

In the proposed taxonomy, co-branding is divided into three categories in the first level: “A+B=A/B”, “A+B=AB”, and “A+B=BA.” A stands for the brand name of company A and B for the brand name of company B. In the first category, A/B means only one brand name will be reserved, either A or B. In the second category, AB means company A merges with company B and creates a new joint-venture company. BA, the third category, is the reverse of second category. Moreover, there are two sub-categories (company and department) behind each category in the second level of the taxonomy. Company and department signify that the strategic alliance is formed by merger or acquisition of company or department. In the third level of the taxonomy, we separate the cases into domestic and global companies.

#### **Category 1: A+B=A/B**

Four cases are located in the first category: HP (Compaq), Black Rock Capital Management, Lenovo (IBM), and Daimler-Chrysler. HP announced its merger with Compaq in 2001 through exchanging interests of up to US\$25 billion. Originally, HP had insufficient brand awareness in east European countries, compared to Compaq, so HP attempted to combine the two brand names in order share Compaq’s brand awareness and image, but it finally discarded the Compaq name when their market share was stable. In the second case, Merrill Lynch Capital Management merged with Black Rock Capital Management in 2006 and formed a new company.

In the third case, Lenovo merged with IBM's PC department for US\$1.25 billion in 2004. Lenovo became one of the top three PC companies in the world after the merger, and discarded the brand name of IBM in 2007 in order to build its own brand image without IBM. Finally, Daimler-Benz merged with Chrysler for US\$2.6 billion in 1998. However, cultural difference between the two companies resulted in their terminating the agreement of the merger. In 2007, Daimler-Chrysler changed its name to Daimler by selling 80.1% of its Chrysler interests to Cerberus Corporation.

**Category 2: A+B=AB**

There are five cases located in this category: SONY Ericsson, Yahoo Kimo, BenQ Siemens, ING-Antai insurance, and Cathay United Bank. SONY and Ericsson decided to form a new company, SONY-Ericsson, on a 50-50 basis in 2001 in order to pursue the global market for the mobile phone industry. In the second case, Yahoo and Kimo (Taiwan) were merged in 2000 in an attempt to be the biggest Internet portal in Taiwan. In the third case, BenQ merged with the telecommunication department of Siemens in 2005 in order to acquire intellectual technology property and to have access to the use of Siemens' brand name (for five years). In the fourth case, ING group, from the Netherlands, merged with the Taiwan branch of Antai insurance company in 2000 in order to provide global services. The final case, Cathy United Bank, was formed by the merger of Cathay Bank and Shihwa Bank in 2003. It now has more than 4500 employees and 100 million customers, making it the biggest holding corporation in Taiwan.

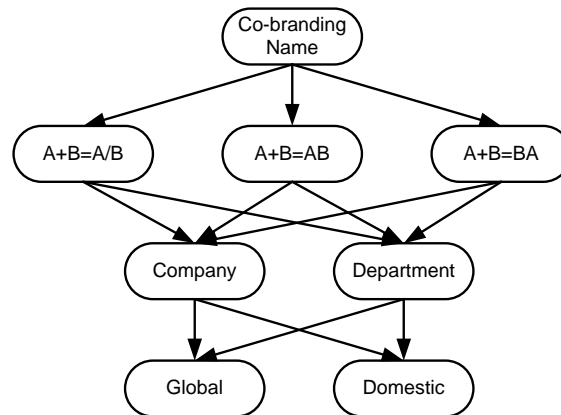


Figure 2 A co-branding taxonomy model

**Category 3: A+B=BA**

Yam, one of the top three portal websites in Taiwan, merged with Webs-TV Corporation from Hong Kong in 2006. Webs-TV had the capability to operate a website, advertise over the Internet, and provide 4C-ASP services. The merged companies announced a new integrated web service, "Yam Blog," in 2007.

The next section will discuss and synthesize existing cases from management and brand perspectives based on our proposed co-branding taxonomy.

**DISCUSSION**

This section investigates cases from the management and brand perspectives. From the management perspective, we discuss the performance of strategic alliances from certain indicators while, from the brand perspective, we utilize the research from Interbrand to verify the performance of brand alliances.

**Management Perspective**

The literature of strategic alliances can be divided into whether it deals with objective or subjective performance. An objective indicator provides financial perspective, such as sales and revenue (Nei, 1995); for example, Aulakh et al. (1996) employed the growth rate of sales and market share as a measurement. However, some researchers consider objective indicators to be inappropriate for evaluating strategic alliances (Anderson, 1990) because the value of the alliance belongs to intangible assets and is not easy to quantify. Subjective indicators include satisfaction of strategic partners, accomplishment, and satisfaction with performance. Harrifan (1988) also considered the survival capability of alliance to be a subjective evaluation of an alliance.

This paper synthesizes the existing cases based on both subjective and objective indicators (see Table 1). The findings reveal that the goals of a strategic alliance can be divided into increase of brand value and increase of market share. For example, Lenovo and BenQ are classified in the former category as both companies attempted to promote their brand image by allying with another international brand. Alliances pursuing the goal of increased market share all desire to be top enterprises in their industries.

If we utilize an objective indicator (e.g., market share) to measure performance, HP, Daimler, and BenQ are all failed alliances. The market share for HP after merging with Compaq is only 18%, much lower than their goal of 30%. Daimler's failure to attain the expected market share was due to its cultural differences with Chrysler, which led to a long-term loss. BenQ and Siemens also failed (compared to SONY and Ericsson); the market share was 6.7% at second quarter of 2006 and is the top 5 brand). ING group increased the scale of its business and increased the growth rate of sales 9% compared to 2002.

If we utilize a subjective indicator (e.g., accomplishment and satisfaction) to measure performance, BlackRock and Yahoo Taiwan were successful, as was Cathy Union Bank in Taiwan in its attempt to provide more comprehensive services and to increase service quality after the merger. Yam has also been successful in integrating resources and in furnishing innovative services in Taiwan. Both cases can be considered as successful domestic strategic alliances.

We have found that many firms which lack specific technologies and capabilities and, thus, need to integrate partners' capabilities, have succeeded in their efforts. However, BenQ and Daimler failed to accomplish the expected goals because of cultural differences and the losses of one company as Chrysler's long-term losses encumbered the development of Daimler-Chrysler. This demonstrates that, not surprisingly, the status of the partner's operation is of significant importance to the success of an alliance. However, people—e.g., human resources and culture—are also an important factor when it comes performance. Most successful cases emphasize the mixture of people and cultures, which is the “power steering” of the new enterprise.

### **Brand Perspective**

From the brand perspective, the only measurable indicator is brand value. This research utilizes the reports from Interbrand and Businessweek, which investigate the top 100 brands every year. We infer from these reports the outcomes of strategic alliances in terms of brand value (see Table 2). We also refer to other research for brands which are not ranked in the top 100.

The findings reveal the brand values of HP, SONY, and IBM decreased in the year following the strategic alliance. The brand value of HP decreased from US\$17.98 billion in 2001 to US\$16.78 billion in 2002. The report from Businessweek indicated that HP did not increase brand image by merging with Compaq. The brand value of SONY was US\$15.01 billion in 2001 and decreased to US\$13.9 billion in 2002, after its merger with Ericsson, and the brand value of Ericsson also declined from US\$7.07 to US\$3.59 billion in 2002. These initial decreases in brand value occurred because the power of brand alliance did not trigger in the early stage. As for IBM, the brand value decreased slightly from US\$53.791 billion in 2004 to US\$53.376 billion in 2005 after the brand alliance with Lenovo. Lenovo, on the other hand, has become one of the top the PC manufacturers in the world since the merger.

Siemens is the only one of these mergers that showed an increase in brand value in the year following the merger, increasing from US\$7.507 billion to US\$7.828 billion after merging by BenQ (Interbrand). Even so, this merger finally failed as a result of cultural differences, as did the Daimler-Chrysler merger. Synergy is not easy to generate from a brand alliance, but the cases of BlackRock and ING Group reveal that its possible: the synergy of their brand alliance has helped them to increase their brand values and rankings. Businessweek forecasts that ING will continue its global expansion by moving beyond its banking and insurance roots into the asset management business. In the case of Yahoo's merger with Kimo (Taiwan) in 2000, it attained a 92.3% reach rate from all channels in Taiwan. Although Cathy Union Bank is not on the list of the top 100 brands, its performance can after its merger can be determined its high accreditations from international associations. Cathy Union Bank shared resources from partners and generated synergy from its brand alliance. Finally, Yam (Taiwan), which is also not among the top 100 brands, increased their reach rate in all medias after their merger with a top-3 portal in Taiwan

## CONCLUSION

The merger of brands is risky, and brand needs long-term management. This paper surveys several cases of brand alliance from international companies, which reveal that a successful co-branding strategy needs to emphasize management and brand perspectives. From the management perspective, it is crucial to select appropriate partners and to consider financial issues, the feasibility of operations after the merger, and business cultures. From the brand perspective, the combination of brand and physical channels is central to increasing brand values. Moreover, the combination of human resources in a brand alliance is also significant in order to create the synergy of different business cultures. This work provides a co-branding taxonomy model which could be useful in future research. The proposed taxonomy model, which is divided into three categories (e.g., A/B, AB, BA), demonstrates the state of the art for existing brand alliance cases. We also synthesize the success/failure factors for alliances based on two perspectives—management and brand—and analyze the details of specific cases. This research not only furnishes a roadmap and guideline for future co-branding strategies but also provides clues for managers in decision-making related to brand alliances.

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