

**Strategic Alliances or Co-Branded Relationships on the Internet – An Examination of a
Partnership between Two Companies, Unequal in Size**

Working Paper

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“With the Internet revolution sweeping the globe, firms are struggling to understand how to leverage this new opportunity. Many small and medium enterprises view the Internet as an unique vehicle to help them compete on an even basis with larger firms”.

Moore and Andradi (1996), “Who will be the winners on the Internet?”, *Journal of Brand Management*, 4(1).

Moore and Andradi (1996) reviewed the “key competitive dimensions which will determine who dominates in the future development of business on the Internet” and proposed that “the winners on the WWW will be leading brands, big access providers and firms with existing relationships with customers”. Their proposition is based on the four competitive dimensions of (1) access, (2) brands, (3) content and (4) relationships – areas in which they argue larger firms have the advantage. However, they also posit that co-branding with leading companies, short-burst advertising on leading service providers, and being a specialist player are the means by which small firms can compete in the digital environment with their larger competitors. They argue that small or “less well known” brands can leverage their brand value and add credibility - a challenge to marketers on the Internet (Rao and Ruekert, 1994) - to their company through strategies such as co-branding and strategic alliances with larger, more established brands on the Internet (Maistre, 1999).

We were interested to explore how such a co-branding alliance between significantly unequal partners would succeed and undertook a case study to illustrate the strategies and dynamics of two companies, of significantly unequal size and industry experience, and how they function together under a co-branding agreement and relationship which extends to the Internet. Such an enquiry complements the research undertaken by the IMP group in its ongoing investigations of interaction, relationships and networks (Turnbull, Ford and Cunningham, 1996) and in asymmetrical relationships in business markets (Holmlund and Kock, 1996).

The partnership consisted of the smaller company supplying the larger partner with content and service supported by Information Technology (IT) and Marketing expertise. In return, the smaller partner gained access to the relationships and network of the larger partner’s distribution channels and value chain (Kline, 1998). The relationship exhibited the necessary trust and mutuality dimensions noted by Johanson and Mattsson (1985), and conformed to the five categories of relationship bond as described by Hammarkvist, Håkansson and Mattsson (1982).

This study aims to serve as an extension of Moore and Andradi's original, conceptual paper. It is exploratory, utilising qualitative analysis of interviews from the case study participants to explore the area of strategic intention with regards to co-branded partnerships that extend to the Internet.

Literature

Co-branding has been defined as “a form of co-operation between two or more brands with significant customer recognition, in which all the participants' brand names are retained” (Blackett and Blackett 1999). While Motion, Leitch and Brodie (2000) contend that the mutual benefits of co-branding include equity from the marketing communications association and “through access to another brand web of relationships”.

As regards branding on the Internet, Maistre (1999), in apparent agreement with Moore and Andradi (1996), notes that companies with established brand names have a significant advantage when implementing online strategies as they win the “battle for maximum exposure”. He also concurs that co-branding with a trusted brand name is an important factor to consider for both parties. Heller (2000) and Hammond (2001) argue that a company's online marketing strategy need not change drastically from traditional marketing approaches while Bergstrom (2000) contends that brands carry additional importance in cyberspace than in traditional channels/environments.

SME's, in general, face a number of challenges. These challenges can include financial (Camino and Cardone 1999); human resource (Klaas et al 2000); and information technology limitations/expertise (Fink and Kazakoff 1997; Gurin 2000; Karkoviata 2001). McLarty (1999) notes that the Internet is an effective medium for SMEs to utilise in order to improve their businesses through recruitment of better/bigger resource bases. The broad theme that emerges from the literature is that the Internet is a powerful channel that SMEs should explore as a means for growing or improving the capabilities of their business. However, Kline (1998) asserts that the Internet is not able to “automatically eliminate the advantages of size, brand clout, or financial and marketing muscle held by larger companies” and suggests that “the Internet allows smart companies to rent their own economies of scale through the effective use of marketing and

distribution partnerships” and that success depends on “leveraging other people's brand clout, marketing muscle, and distribution reach to attract and retain customers” Kellogg (1997) also notes the advantages for SMEs to leverage larger brand power on the Internet and Pinkerton (2001) describes a Hewlett Packard and Thomson co-branding partnership between companies of undoubtedly unequal size. Carvell (1996), Kuchinskas (1998), Lanham (2000), Mara (2000) and Weber (2000) provide further examples of co-branded relationships in the digital environment.

Background information

The two companies are identified as Companies A (small, start-up) and B (large, multinational). *Table 1* provides brief company characteristics to demonstrate the relative size of each partner. Key differences in characteristics are evident, indicating that Company A (classified as the SME¹) has relatively less industry experience and human resource.

COMPANY	A	B
INDUSTRY	Content providers in the travel industry, specialising in IT and Marketing solutions	Major Airline / Passenger and cargo carrier
# EMPLOYEES	8	9250
YEAR ESTABLISHED	1993	1940s
ANNUAL NET INCOME	NZ\$1million	NZ\$3.2billion

Table 1: Brief Company Characteristics (Approx.)

Their relationship involves Company A (a content provider of travel destination information) providing Company B (airline) with consumer travel information in the form of VHS, CD-rom. Company A is also in the process of releasing an online product, beyond their independent company websites. Currently, there is a level of exclusivity within the partnership, with the provision of the information channelled towards generating Company B sales. The key co-branding activities are described below:

Traditional channels: Company A logo on leisure market-directed advertising such as posters and promotional deals for Company B. Company B logo on all Company A products (e.g. VHS, CD-rom and trade promotions)

Online: Currently, Company B’s logo is found on Company A’s website and linked to Company B’s website. Once the online product is established, the Company A brand name will

¹ businesses with under 500 employees are generally classified as a small and medium enterprise (SME).

remain in the form of production credits, but will ultimately take a secondary position to Company B's brand. Company A: currently also push market to trade through email.

Research Questions

Through exploring the dimensions of the partnership, we determined the degree of co-branding that existed. The central research questions were:

1. How does each company's brand strategy align/(not) with the brand strategy of their partner?
2. How is the partnership defined?
3. What are the motivations behind the partnership and the co-branding?
4. What are the respective advantages and disadvantages of the partnership and the co-branding?
5. How does the value derived, differ for each company from the partnership and co-branding?
6. What are the implications for co-branding on the Internet?
7. How is brand power leveraged from co-branding on the Internet?

Results

Individual Company Brand Strategy

Both parties agreed that an aligned brand strategy was important in their partnership and in the co-branding activities. In particular, each company identified that alignment of core brand values (such as quality, credibility, delivery, assurance etc.) was an important factor of successful co-branding because the association with a high standard/quality brand impacted on customer perceptions of their own brands:

☞ Company B: *(the two brands) fit basically like a glove really, because [Company A] are all about accessibility and providing information, done so in a very warm and approachable manner. They are about ease of delivery, very high service levels in terms of what they meet with the travel agents and the consumers. So it's a very, very close fit. And the manner of the presentation is very '[Company B]' in terms of its look and its feel. The quality is very good*

Partnership or Arrangement between the two companies

Whilst co-branding was a central component of the overall arrangement between the two companies, their partnership spanned a greater strategic scope. This issue was explored to illustrate how co-branding fits into the broader spectrum of strategic partnering. The partnership was described as 'more than just co-branding' by all interviewees, with a focus on terms such as 'strategic' and 'partnership':

- ☞ Company A: *It's an element of co-branding certainly, but I think that strategic alliance would be probably it. It's got a much deeper base to it than co-branding. It's a strategic alliance stroke partnership. Partnership says to me... you're heavily involved with the partner.*
- ☞ Company B: *It's a strategic alliance. It's definitely more than a co-branding opportunity, it's more than just a networking opportunity and it's certainly more than just a delivery mechanism for some products, it's pretty much a strategic partnership*

The relationship was described as:

- 'Strategic' in terms of (1) the partnership had developed over a significant period of time – 8 years; and (2) the partnership was established with long-term goals in mind and interviewees discussed areas (particularly involving the Internet) to which this relationship will extend to over time.
- The idea of 'partnership' involved joint decision making and predominantly involved Company A taking proposals and ideas to Company B with regards to expanding the product lines for distribution. The active roles of both companies illustrated a level of equality which somewhat negated the imbalance in size and experience.
- The key objective of the partnership was to add value to the sales process. Company A provided the information or content at a cost lower than Company B could achieve by producing it in-house, thus generating more sales for Company B. In return, Company A had access to their distribution channels (travel agents and marketing communications) in order to increase the demand for their own product, and increase brand exposure and awareness in the industry.

Increasing customer value via the partnership was a shared focus for both organisations – as an approach to generating increased sales.

☞ Company A: *The idea is to add value to all the parties as [much as] possible*

☞ Company B: *For us hopefully we will lower our costs of sales. That improves our bottom line*

All interviewees classified the relationship as long term and strategic but both parties realised that Company A will become involved in partnerships and networks other than with Company B. For example, Company B is a co-branded member of a large network within its industry. This presents broad opportunities for Company A to eventually tap into the larger market through Company A's network. In addition, Company A is able to benefit from the name association of Company B's network to 1: gain reputation; 2: gain customers; and 3: gain partners. As both

companies co-brand with several other companies, an added benefit is that the co-branding can be extended and the large company will have access to the partners of the smaller company, such as hotels etc. This suggests that a network type structure will arise which will extend beyond merely co-branding.

Co-branding Strategy

The co-branding arrangement between these two companies exists in both traditional marketing communications material (such as Company B branding (through their logo) on Company A products, and Company A branding on Company B promotional advertising), and online – the co-branding is currently limited to Company B's logo placed on Company A's website. The extent of co-branding is expected to expand in the near future through the release of Company A's online product.

The interpretation of the term co-branding was agreed by all interviewees as involving the key terms: 1.brand association, and 2.shared benefits / leveraging off successes.

- ☞ Company A: *benefiting from like core values, leveraging from like core values.*
- ☞ Company B: *featuring along side each other and leveraging off the success of the individual partner's brand*

The co-branding related to the provision of a product/service to Company A that is not part of Company B's core service, utilising the expertise of Company A through the co-branding relationship.

- ☞ Company A: *The advantages... (that) we provide to [Company B] is not part of their core business, but it definitely contributes to the bottom line*
- ☞ Company B: *I mean there is no way we would seek to replicate the [Company A] operation, so co-branding makes sense to us where we can use other people's expertise, other people's reputations as well... we feed off their reputation*

Role of the Internet

The benefits of the channel itself (such as increasing customer reach overall, the flexibility of technology and ability to relay large capacities of information) are understood by all partners as providing additional benefits for co-branding on the Internet beyond traditional marketing communications. It should be noted that the Internet plays a significantly larger role in Company A's business operations than Company B who primarily utilise their website as an information

tool. Future co-branding for their partnership will evolve such that Company A will only have a minor brand presence on their own website (content provision) and the master brand of Company B will hold primary placement. For example, a customer viewing the Company A site for travel destination information will think that the website is part of the Company B website. In this form, the Internet allows the co-branding relationship to take on different (almost reversed) roles. The Company A brand logo will remain present, however the technology will be used to emphasise the brand of Company B. Therefore, whilst the traditional co-branding activities have helped to increased exposure to the smaller brand, future activity will enhance the larger brand. The co-branding aspects will remain – but the emphasis will be on the Company B brand name.

Co-branding on the Internet (as opposed to other mediums) benefits Company A through increasing the exposure of their brand name by: (1) increasing exposure to a potentially global audience, at a relatively low cost;

☞ Company A: *We're about appealing to the millions of potential consumers who are out there, where the economic model is. To achieve that, to get to those hundreds of millions of people, your partnership marketing becomes so much more important.*

and (2) improving access to target markets via association with the larger brand, through the benefits of brand power in search engines.

☞ Company B: *At the moment it's probably skewed in our favour because of our higher brand awareness, and people who are searching...let's say they are up in the UK and searching under NZ ...we are aligned to search engines. We will probably pop up there a hell of a lot quicker than [Company A] do, and that will drive people down to [Company A].*

Leveraging Brand Power

Company A is greater served to leverage their brand power as a smaller company with less-established reputation and a smaller customer base and operation. The key advantage gained from the co-branding partnership is that Company A is able to leverage the reputation and credibility of Company B (based on factors such as quality of product and service attached to their brand values).

☞ Company A: *It means a lot to us to be able to be positioned in there with those bigger players, and we certainly get a lot of recognition out of it... and when you talk to (people) and say that it is endorsed [by] [Company B], people don't really think twice about being associated with it.*

Alternatively, Company B's advantage derived from the co-branding partnership revolved around exclusivity agreements, the functionality of the product, and the value the product adds to their core service.

☞ Company B: *The value to us was there was a void in the marketplace... [Company A] have filled that void, and together we are offering a total package to consumers and for [Company A]... there is obviously huge benefits there for them.*

Key branding issues that arose were:

- Strategic (or long-term) growth was an underlying factor of the partnership (for both companies) and the initiation of co-branding was to generate long-term success,
- Drawing on the positive attributes of both partner brands including the alignment of core brand values (such as quality, reliable delivery, credible and customer satisfaction) was an important driver of the co-branding.
- Company B's reputation and established credibility with the industry and consumers transfers to the strategic partnership and co-branding. Therefore, Company A is imbued with the same positive associations.
- The impact of co-branding on the smaller company's brand was significantly more than to Company B, because of the relative importance the partnership had on the success/demise of the companies.
- However, the larger company did have their own motivations to partner with the smaller brand which, although it held similar core brand values, had more to do with improving their core service and adding a 'point of difference'.
- The value derived (in terms of leveraging brand power) was unbalanced at the present stage in the partnership. However, the development of further Internet products was seen as providing Company A with the opportunity to expand. The growth potential of Company A was understood by both partners as leading to reverse brand leverage over time (i.e. once Company A established itself in its own industry, the exclusivity in co-branding could then add value to Company B). This underlines the strategic and long-term motivations, expectations and benefits of the partnership.

☞ Company A: *Ultimately, [Company A] would start to deliver customers to [Company B] in preference to the other way around and in a standalone environment... and that's the direction or channel we've started to develop ourselves now.*

∞ Company B: *([Company A] could leverage their brand power on the internet) but it would reverse itself and they will start to take a more dominant position so they will definitely be able to leverage it off.*

This study explored the degree of co-branding and what the co-branding partnership strategically involved. It described how the partnership helped to leverage brand power for Company A (such as playing off the reputation and credibility of Company B) in order to establish themselves and potentially expand beyond the reliance on the larger company and its co-branding. Value was perceived to be derived from both parties from the co-branding partnership and there was consensus that the core brand values and value added (to the end-user) needed to be aligned in order to produce an harmonious partnering.

Discussion

This study extended Moore and Andradi (1996)'s assertion that smaller brands can leverage their brand power on the Internet through co-branding with larger brands.

The key findings from this qualitative study indicate that co-branding was only a small part of a larger strategic partnership that was the antecedent for the co-branding activities and relationship. This partnership involved the aligning of target markets, industry offerings, core brand values, the strategic visions of the two partners, and a mutuality of interaction (Kock, 1991).

The case study also illustrated that co-branding on the Internet can be an extension of co-branding in traditional marketing communications and that fundamental strategies behind co-branding activities established in traditional marketing were extended into the digital environment. This finding confirmed the views of other researchers (Hammond, 2001; Bergstrom, 2000) while further indicating that the main differences in the digital environment related to a broadening of the scope of the relationship/s, technological capabilities, extending the product and utilising the expanded networks of the larger partner to reach a greater audience/target market.

It has also confirmed the conventional wisdom that the relationship, network and brand-related advantages of a co-branded strategic partnership were more overtly sought and received by the smaller company in leveraging brand power (such as increasing exposure, reputation, credibility

and image) through association with a larger brand that had previously established the same core brand values.

However, in a departure from Moore and Andradi's original proposition (1996), it described how value was perceived as being added to the larger partner company. While the smaller company was, indeed, able to leverage the larger company's brand power through co-branding we found that both parties contributed by the mutual generation of strategic benefits to their partner (Axelrod, 1984). If the smaller company mostly gained brand-related benefits, the value derived by the larger company was in expansion to their core service to gain competitive advantage in their own industry. This was achieved through employing the specialist skills, products and services of the smaller player. The larger company also perceived, via the co-branding strategic partnership, a means of improving their own brand power over time, as they assist in the growth of the smaller co-branded partner.

This paper has demonstrated the importance and reciprocity of value-based strategic alliances in a digital environment and has illustrated how a relatively small organisation may both leverage co-branding and add value to a larger, more established partner company.

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