

# **Co-branding and the impact on inter-organizational relationships**

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“Nobody ever got fired for buying and IBM”  
(Thompson et al. 1997, p25)

## **Abstract**

*During the last decade branding has developed to be one of the main focus areas in consumer marketing. In the industrial marketing area there has only been limited attention to this phenomenon in this paper we elaborates more on the connection between corporate branding and value creation in industrial network. We especially points to the fact that the effects of industrial branding very much is under influence of the perceived uncertainty of industrial buyers. Industrial firms not only make use of branding they also use co-branding as a joint action to enhance their position within a network. In the paper we present a case of the Danish firm JUNCKERS one of Denmark’s largest wood industries who has launch a co-branding project together with DEVI (a part of the Danish DANFOSS group) and WIRSBO (a part of the Swedish UPONOR group). Even though DEVI and WIRSBO could be considered to be competitors they together with JUNCKERS show a high degree of coopetition. The case shows that co-branding is an efficient tool in lowering the uncertainty by the customers and by signalling combined resources and skills of three actors each firm enhance their position in the network.*

Keywords: Branding, Co-branding, Networks,

## **Introduction**

Theories of brand management have generally focus on how companies can build strong brands that attract loyal customers (e.g. Aaker 1996; Kapferer 1997). The main focus in this field of research has been on the marketer's brand building activities and its effects on consumer markets. Traditionally brands have been seen as the means of establishing a desired product image that differentiates the firm delivering a unique perceived value (Brown et.al. 1989) that attract loyal consumers (de Chernatony and McDonald 2003) and allow the company to charge a premium price for its products or services. Although the primary target for a branding strategy oftentimes is the end-customers, whether they are companies or consumers, brands have considerable impact on relationships with all stakeholders of the company (Jones 2004). So while the concept of brand management is highly recognized in consumer marketing, its significance in industrial markets is far less researched (Mudambi 2002). For instance, advertising campaigns and other brand building activities that are intended for end-customers are likely to have impact on the organization itself (Christensen and Cheney 2000) and its relationship with other companies. In this article, we will investigate how one particular brand strategy – co-branding – can influence a company's relationships with other companies. First, we will provide an overview of branding in industrial market. Thereafter follows a discussion of co-branding and its potential impacts on the organizations involved. We will then present a theoretical conceptualization that outlines how partnerships between brands may influence inter-organizational relationships. In the final section of the paper, we present a case study of two companies and their co-operative branding activities.

## **Industrial branding**

Branding on the industrial market is as such not a new phenomenon already in the early 1930'ties authors referred to trademarks as a tool for differentiating products on the industrial market. In the 1960'ties researchers referred to image and reputation as a set for gaining more market share by industrial firms (e.g. Robinson and Farris, 1967). In the 1990'ties there was a huge interest both in academia and in practice for branding of corporations and products. This growing interest was partly due to success of some large and very well known companies like; ARMANI, NIKE etc. mainly companies whose main value was their name and the values the name was signaling to other consumers interesting the majority of articles on branding has an explicit or implicit focus on products or firms serving consumers markets. A few however specifically addressed the industrial market. Later in this section we will more in detail comment on this distinction.

Overall there seems only to be little consensus on a precise definition of branding on the industrial market whereas several researchers focus on the effects of branding on the purchasing activities in industrial firms. Low and Blois (2000), Thompson et al (1997), Saunders and Watt (1979) stresses that there seems to lack of research on industrial branding in contrast to consumers goods branding this is further elaborated by Mudambi (2002) in which she in detail works with the effects of branding on the industrial market. Especially in relation to risk reduction branding plays an important role. Brands add to customer value by giving signals about the offer. These signals are often interpreted in terms of risk reduction and enhanced satisfaction (Mudambi, 1997) and the research indicates that branding has the largest impact in situations with high need uncertainty and technical uncertainty but only to a lesser extent in situations with transaction uncertainty. For a definition of purchasing uncertainty please refer to Håkansson and Östberg (1975) and Möller (1985). Mudambi (1997) argues that the need and technical uncertainty can be reduced by having relationships

with “well-known” suppliers e.g. suppliers that is already known from previous cooperation or endorsed by existing close suppliers. If this is not possible a firm can evaluate a potential supplier from the existing knowledge on the supplier, a knowledge that esteems from the image the suppliers has on the market which again is affected by the reputation, communication activities of the supplier.

In order to reduce the uncertainty in purchasing situations with high perceived importance and complexity an industrial buyer will have a tendency to choose a supplier already known and is a well-reputed player on the market rather than a coincidental offer from a unknown player (Michell et.al. 2001, Mudambi 1997,2002). Thompson (1997) points out that in the case of high technical uncertainty firms are inclined to value attributes like delivery stability, adaptability, degree of service etc. so the reputation or brand a firm has plays an important role in the creation of trust among firms as Thompson describes it; “ *Nobody ever got fired for buying an IBM*” (1997:25). Trust is based on the relationships buyers and suppliers on the industrial market (Gadde and Håkansson, 1994) and as such a brand may be a prerequisite for firm to engage into a relationship on the other hand brand equity is a result of an ongoing relationship that is communicated to other actors than those involved. Brands and branding is not a one dimensional term which can be used in different ways.

Olins (1989) describes three different ways firms may work with brands;

- Monolithic identity, if the firms’ name is used in all external communication
- Endorsed identity, if a firm has a number of products which has their own semi-individual identity but is also explicitly represented by the firm.
- Branded identity, if the firm promotes a series of brands, that not deliberately relates to each other or to the firm.

The general impression is that on the industrial market endorsed or branded identity is not commonly seen and if so the firm name is often used as product name and not individual branded products as Mudambi (1997) underlines that switching brands often implies switching supplier as well. So the monolithic identity is often used on the industrial market implying a corporate branding by which the firms name, logo is used in all external communication and on the products produced by the firm. The industrial customers do not only buy a product but has a relationship with a supplier. This implies that branding plays a more important role in the industrial decision making than has generally been recognized. For most industrial firms the brand will still remain the focus of the branding strategy, yet the firm brand of a diversified corporation is multidimensional and dynamic. *Understanding how customers perceive the company brand will be the key to future management decisions* (Mudambi, 2002;531)

Even though Mudambi do not explicitly refers to a specific type of branding it is clear that the firm is in focus and corporate branding efforts are generally an attempt to projects the distinctiveness of the firm to external audiences who are encouraged to perceive and judge them as attractive and desirable (Hatch and Schultz, 2003;10). The trend for firms to brand them self rather than their products is further fuelled by the demand of persistency and consistency by the stakeholders of the firm *“Quality is not longer the functional quality of a product, but the quality of the firm as a whole. People have an opinion about everything, not only environment or ethics, people has an opinion about the whole.”* A. Knudsen, CEO, B&O (Jacobsen, 1999;101)

On industrial markets differentiation strategies like corporate branding has shown a certain effect (Mudambi 1997, 2002, Ind 1998, Hatch and Scultz 2003, McNaughton 2003. Mudambi (2002) stresses two patterns of reaction by industrial buyers either to focus on the tangible (best quality/best price) or to focus on the more intangible aspects

like service quality, brand etc. and often factors like reputation and image outweighs tangible product attributes when the purchasing decision are taken. An example of the effects of corporate branding Butler (2001;40) mentions purchasing in the chemical industry. What the outside thinks of the organization is extremely important. Positive perceptions of the company – in other words a strong corporate image – by various external audiences or stakeholders, translates into tangible actions on their part that are to the company's advantage and that deliver significant value. If the customers have positive perception of what the company stands for, they will have confidence in it as a supplier (in its reliability, quality, integrity and ethics) and this will be an important factor in their choice of supplier. If the employees feel they are working for a well respected, ethical, innovative dynamic company, this will enhance their levels of motivation. In other words corporate branding is a key element in the erection of a corporate image and this image reflects what the firm stands for and delivers. Branding makes the firm a heterogeneous unit and gives an image of what the customers can expect when doing business with the firm and depicts the competencies of the firm.

Butler points to the necessity that the customers has a positive impression of an potential suppliers, which rests on the firms reputation which again rests on the ability to communicate through corporate branding, public relations, word-of-mouth communication (also from employees). This positive image creates a degree of trust to a supplier a fact underlined by Stuart (1998) in a survey in which they concludes that those firms who has worked most intensively with corporate branding also are those who has the highest perceived quality by their customers.

The interaction between the firm and the environment is labeled by Stuart (1998) as the identity image interface where the identity is the internal perception of the firm; the image is subjective perception by the surroundings and the interpretation of communication, products and reputation. If one adds a feedback as the stakeholders' communication with the firm corporate branding is about the dialogue between the firm and the environment. If the firm is able to collect and belabor this feedback in a systematic manner it will increase the firms' capability to adapt to the customers and customers' customers need in a dynamic way. Ind (1998) stresses this by researching the dialogue or interaction between a customer and a supplier, where the relationship is erected on the dialogue between the parties which again creates trust over time and mutual dependence. Corporate brands are about relationships. An effective relationship requires an understanding of the organizations' core capabilities, an ability to listen to and understand the needs of various audiences and to create a dialogue that provides real benefits (Ind 1998;11). Here we see a clear distinction to consumer branding in which relationships are not stressed to the same extend, on the other hand most research on industrial branding is not seen in a network context or setting, more in a traditional monadic setting, even the resemblance is striking. Both Anderson et al (1994) and Möller and Halinen (1999) stresses the roles of attraction, trust and commitment and relational investments and adaptations. Above all the two emphasizes the value adding content in a network setting. When Anderson et al (1994) deals with network identity as capturing the perceived attractiveness (or repulsiveness) of a firm as an exchange partner due to its unique set of connected relations with other firms, links to their activities and ties with their resources. Anderson et al (1994) refers to how firms see themselves in the network and how they are seen by other network actors and this implies as above stated the corporate branding of the focal firm. In the following section we will elaborate on the how corporate branding could take place not as how each

identity communicates a certain orientation toward other actors (p.4.) but how actors collectively in the joint action can influence the perception of other actors through co-branding or corporate co-branding.

### **Co-branding – an overview**

More than a decade after the discovery that brands are the most valuable asset in many companies (Aaker 1991), we are now witnessing a managerial interest in pursuing partnerships with other brands and their companies (Bengtsson 2002). Rather than building brands on their own, brand managers in a vast number of industries have exploited the possibility of achieving a more efficient brand management by cooperation with other brands. Co-branding, sometimes also referred to as brand alliance, is a comprehensive term that refers to co-operations between two or more marketable items that in one way or another connect representations of several brands in the marketplace (Simonin and Ruth 1998; Washburn, Till, and Priluck 2004). By representations of the brands, we refer to elements such as company name, product designs, logotypes, and celebrity endorsers that over time have established a connection to the brand. The literature on co-branding identifies a number of different strategies such as affinity programs, cause-related marketing, ingredient branding, co-operative advertising, dual branding, and joint sales promotion (Cooke and Ryan 2000; Rao and Ruekert 1994; Swaminathan and Reddy 2000), that can be used to increase the value of a product or a service.

In practice, companies often use a combination of the above mentioned strategies. For instance, two companies that bundle their products may support the bundle with co-operative advertising and make use of a celebrity endorser for the communication campaign.

As a consequence, it is difficult to examine the effect that each particular strategy has on the total outcome of the co-operative strategy. The effects that co-branding have on consumers have been researched extensively in recent years (McCarthy and Norris 1999; Park, Jun, and Shocker 1996; Rao, Qu, and Ruekert 1999; Simonin and Ruth 1998; Vaidyanathan and Aggarwal 2000; Washburn et al. 2004). In this line of research, focus is directed on the potential meaning transfers that consumers may undertake because of the co-operation between the brands. Less known, however, is how partnerships between brands can influence relationships with other companies that are not directly participating in the partnership. Norris (1992) argues that ingredient branding can benefit various stakeholders. The supplier of the ingredient brand can benefit by obtaining higher profit margins, more stable demand as well as long-term relationships with the customers. The manufacturer can benefit by achieving added values from the ingredient brand and through that gain a competitive advantage. The ingredient brand can furthermore help to improve access to distribution channels and share production and development costs with the manufacturer. In addition, Norris (1992) mentions that retailers can benefit from joint branding strategies by achieving higher operating margins and a faster turnover rate. The retailer might also benefit from promotional support from the ingredient brand. Besides potential benefits of the strategy, Norris (1992) mentions several drawbacks. Although an ingredient branding strategy might help a company to become market leader, like for instance the Intel Inside program did, the cost of promotion may very well exceed the long-term return. When initiating a partnership with another brand, part of the control over the brand is lost. Norris (1992) mentions also that when a supplier initiates an ingredient branding strategy, there is a potential for losing accounts with customers. If a partnership between two brands fails for some reason, chances are that both brands will be hurt by the divorce (Grossman 1997; Prince and Davies 2002).

## Co-branding and inter-organizational relationships

From the short review of the existing research on the effects of co-branding, it is evident that the relationships a manufacturer has with its supplier and distributors are regarded as relative unambiguous and primarily based on financial benefits. However, although a co-branding strategy might improve a distributor's profit margin, it does not necessarily imply that the relationship between the manufacturer and distributor is improved. If for instance the distributor feels obliged to keep co-branded products in the assortment because the co-branding strategy has generated preference among consumers, the relationship might actually become worsen because the distributor face the power of a dominant manufacturer. In addition, no research has empirically investigated which effect that a co-branding strategy has on inter-organizational relationships. In the figure below, the relationships that a co-branding strategy potentially has impact on is identified.

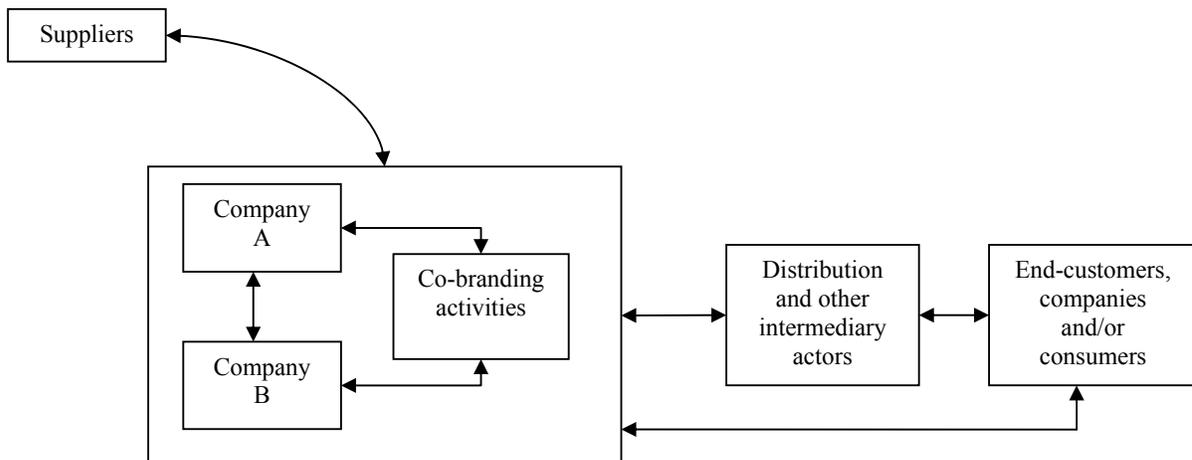


Figure 1: Overview of focal relationships where co-branding can have an influence

## **Case DEVI and JUNCKERS**

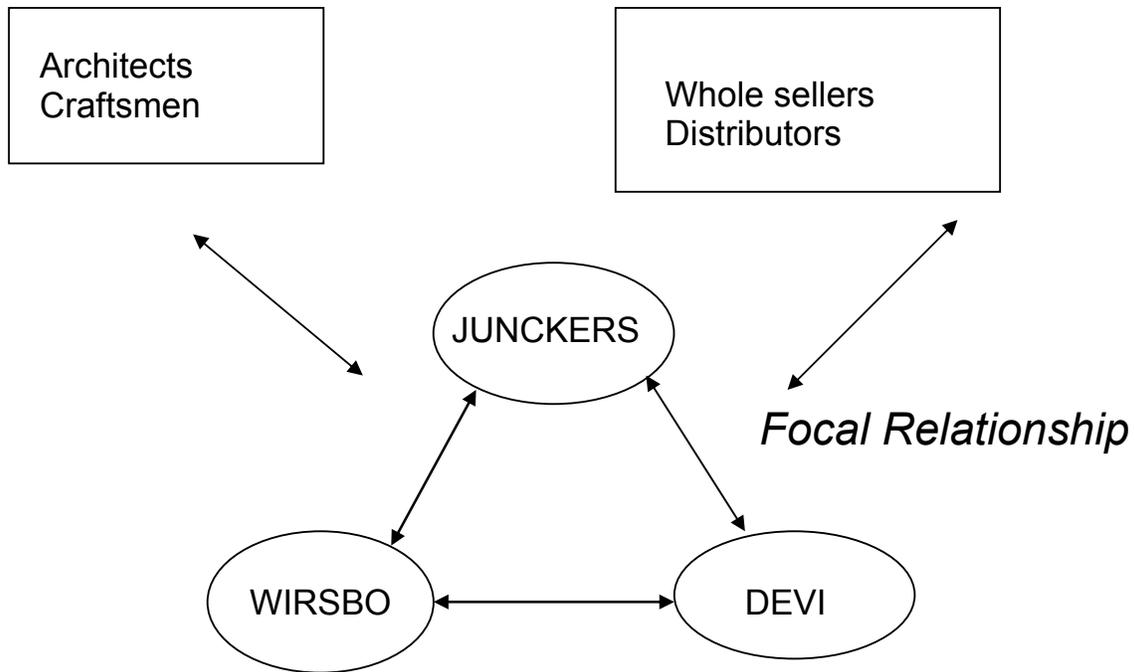
JUNCKERS Industries, established 1955, is one of Denmark's largest wood industries. Yearly more than half a million cubic meter of hardwood is manufactured into parquet flooring and tabletops, beside this JUNCKERS produces sealing-wax and different kinds of oil for its wood products. At the main plant in Køge (Denmark) more than 1.000 people are employed in the production and more than 200 are employed in sales and administration. JUNCKERS has no direct sales to end-users, but sell their products through timber-merchants/whole sellers like Bauhaus/Home Depot. Another important market is the institutional market where architects have a substantial influence on design, solution and products to be used. JUNCKERS has a long tradition for being a high quality/ high price supplier for parquet flooring and tabletops in Europe and North America. Many resources have been put into building up a brand in this particular niche. In the past 10 years there has been a growing interest by house owners to install floor heating instead of radiators, since floor heating gives a more comfortable heating and gives more wall space increasing indoor decoration flexibility. However combining wooden floors and floor heating is not an easy task wood is a natural material which contracts or expands depending on the temperature. This puts demands on a floor heating system to distribute the heat in a gentle and controlled way. Usually the wooden floor manufacturers prescribe a maximum temperature of 27° which must not be exceeded. In the market there are several actors produces parquet flooring, JUNCKERS has chosen two partners for floor heating one with a water carried solution - UPONOR-WIRSBO a Swedish firm with a 30 year tradition of producing plastic (PEX) pipes and control of underfloor heating. The other is DEVI a Danish firm that manufactures electrical heating mats and cables.

DEVI was established in Copenhagen, Denmark, in 1942. At the beginning DEVI produced heating elements for industrial purposes. In the early sixties DEVI starts to take an interest in

electrical heating cables and the oldest heating cable installations are from the early sixties. Over the sixties and seventies the industrial heating elements were still the far most important product group but in the early eighties a considerable export of heating cables begin, - first to Finland.

The first subsidiary companies in Germany, Sweden and Norway are established in the mid eighties and the export adventure starts to take shape. Throughout the nineties things start speeding up and a number of subsidiary companies are established, among other places in the previous East bloc countries. Focus has now turned from industrial heating elements to floor heating systems and in 1998 DEVI sells its industrial heating elements activities to the NIBE group. Today DEVI has 16 subsidiary companies and 3 sales offices and 4 partner companies spread out – primarily – over the European market. Latest DEVI has established a sales office in Beijing and from 2003 DEVI has become a part of the Danfoss Group - Denmark's largest industrial Group.

In this paper, we will present a case describing the co-operation between JUNCKERS's hardwood flooring and DEVI electric heating mats for floor heating. These two companies have recently started to endorse each other and guarantee that the heating mats work well together with the hardwood flooring. JUNKERS on the other hand also has a somewhat resembling relation to UPONOR-WIRSBO. At first glance one would believe that DEVI and UPONOR-WIRSBO are competing against each other, but in reality they seldom do since electrical heating is mainly used in room renovation and areas where water based pipe heating can not be used.



Ongoing data collection about this co-operation and its potential effect focuses on the two companies' relationships with their distributors and retailers as well as other actors in the network such as architects and craftsman, because there has been a considerable prejudice for not using underfloor heating in connection wooden floors. Hence one main objective for the actors involved is to reduce risk (Håkansson and Östberg 1975) and buying top brands from reputable companies is one way of handling and reducing risk (Mudambi 2002).

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