Understanding Co-branding Opportunities in B2B context: empirical evidence from Russian companies

for Work-in Progress

Maria Smirnova and Irina Moreva

Graduate School of Management, Saint Petersburg State University,
Center of Strategic Marketing, Bratislava, Slovakia

Abstract

Co-branding is a widely known phenomenon, studied in research literature and substantially applied in business practice. However, exploration of this branding strategy in business-to-business is still unsystematic and fragmentary. Current study is focused on potential drivers of co-branding's impact on business-to-business relationships and the situations, when co-branding strategies can create beneficial conditions for relationship development. To test our assumptions and to understand and explain the circumstances under which co-branding would be crucial, empirical study is conducted on example of Russian bakery industry. Both documents content analysis and in-depth interviews with industry experts have been conducted to investigate the role and specifics of co-branding partnerships in the market. The findings allow identifying particular market-related features of co-branding decisions.

Keywords: co-branding, networks, B2B relationships, Russian business

UNDERSTANDING CO-BRANDING OPPORTUNITIES IN B2B CONTEXT: EMPIRICAL EVIDENCE FROM RUSSIAN COMPANIES

Co-branding is a widely known phenomenon, studied in research literature and substantially applied in business practice. However, exploration of this branding strategy in business-to-business is still unsystematic and fragmentary. Current study is focused on potential drivers of co-branding's impact on business-to-business relationships and the situations, when co-branding strategies can create beneficial conditions for relationship development. To test our assumptions and to understand and explain the circumstances under which co-branding would be crucial, empirical study is conducted on example of Russian bakery industry. Both documents content analysis and in-depth interviews with industry experts have been conducted to investigate the role and specifics of co-branding partnerships in the market. The findings allow identifying particular market-related features of co-branding decisions.

Keywords: co-branding, networks, B2B relationships, Russian business

Introduction

Co-branding is a widely known phenomenon, studied in research literature and substantially applied in business practice (Prince & Davies 2002, Cooke & Ryan 2000, Washburn, Till, & Priluck 2004). However, exploration of this branding strategy is still unsystematic and fragmentary: a lot of research has been done on evaluation of co-branding strategies in consumer markets (Helmig, Huber & Leeflang 2008, Chang 2009), including such aspects as co-branding's influence on perceptions, consumer attitudes and, consequently, on consumer purchasing behavior. Potential co-branding effects on business-to-business interaction are, however, underestimated, although business-to-business relationships and branding on B2B markets are topics of great interest in existing research literature. Potential co-branding effects in industrial markets might include effects of co-branding on the brands-relatives, on business network value, on relationships between partners and inter-organizational network relations, etc. Existing research publications provides also significant field for discussion, arguing for the impact of co-branding on B2B relations (Mudambi & Susan 2002, Bengtsson & Anders 2002, Bengtsson & Servais 2005, Sauvée & Coulibaly 2008, Helmig, Huber & Leeflang 2008).

Existing research is covering both monadic setting approaches as brand strategies etc. on the one hand (Aaker, 1991; Aaker, 1996; Keller, 1998; Kapferer, 1997; Keller & Lehman 2008; Aaker, 2010; etc.) and network setting approaches as cooperation and coopetition on the other hand (Dan, 2001; Gummusson, 2002; Reynolds, 2000; Barnes, 1994, Anderson, Hakannsson & Yohanson, 1994). Understanding of co-branding as a strategic option that can be based on company's relationship system and also can help leverage existing relationships provides substantial opportunities for analysis and investigation. Main motivation for co-branding decisions is based on key co-branding characteristics, potential advantages and disadvantages of this option.

Following this research direction, we focus on potential drivers of co-branding's impact on business-to-business relationships and the situations, when co-branding strategies can create beneficial conditions for relationship development. The factors as the type and strength of partnership, size of companies involved, country of origin and industries of the companies, type of network, and others are considered in the study. Main co-branding characteristics, advantages and disadvantages (Chang 2009, Helmig, Huber & Leeflang 2008) will be considered by analysis of potential impact on business relationships. For example, co-branding benefits for small and medium-sized companies and undeveloped brands; potential minimization of promotional costs; improved quality perception by consumers in case of less known brand. These assumptions lead to the focus of analysis on the small and medium-sized firms, for whom co-branding might provide additional benefits through cooperation.

We assume that in particular institutional system and system of business relationships, co-branding with a well-known, established partner can provide less developed companies with additional advantages, contributing to relationship value enhancement, as comparatively cheap promotion, brand development, etc. For an established brand, such partnership would also be attractive because of potentially creating additional bulk sales due to derived demand. Many co-branding forms can be suitable for analysis, starting from private label ingredient branding to simple co-advertisement. Selected research context will thus allow exploring the ways, drivers and barriers of exploiting cooperation opportunities to enhance brand equity, market goodwill and brand associations.

To test our assumptions and to understand and explain the circumstances under which co-branding would be crucial, empirical study is conducted on example of Russian bakery industry. This industry is a good example, since it includes both new and old stable brands, many of which though would like to change their consumers' perception through establishing cooperating with new partners. New market players generally need to establish permanent relationships with partners to gain brand awareness. Empirical study is based on interviews, conducted in two main economic regions, Saint – Petersburg and Moscow, since these regions have higher business concentration and higher development of cooperative practices. Our research includes both companies which already have established a co-branding partnership and those which have opportunities to adopt such a decision.

Literature review

Advantages and motivation for co-branding strategies

While no integrated approach to B2B co-branding is present, existing research highlights certain aspects of potential outcomes of co-branding cooperation.

There are a number of objective reasons, pushing many companies to establishing joint brands. Firstly, a joint co-brand is a great way to introduce products and services of the first company to the second brand loyal customers. In this case, ingredient branding is a good example. [Vaidyanathan, Rajiv, Aggarwal, 2000, p. 216]. Similarly, co-branding allows one brand to benefit from the "halo effect" of another brand - Nike and Michael Jordan (Michael Jordan) agreement is an excellent illustrative example of this advantage. [Helmig, Hueber, Leeflang, 2008, p. 360]. Also, co-branding helps to reduce costs, so it is often used in the difficult economic situation.

Thus Bengtsson, Anders and Servais (2002, 2005) write about impact of co-branding on inter-organizational structures and on third parties, not straightly involved in co – branding relationships. The authors argue, that co – branding agreement affects the perception of partnerhship by network participants, depending on the history of their previous relationships. As one of the main co-branding outcomes is opportunity to use partners' access to push their products to the distribution networks, Aquilani (2006) suggests that if a group of companies use a strong common brand and build co – branding relationships between small companies in the group and this common brand all companies in this group are more stable under competition than one separate company, using only its own strong but single brand. Sauvée & Coulibaly (2008) describe the brand alliance dynamics, proposing that in the long run organizational factors impact the co-branding agreement stability and performance. They also stress the importance of governance adaptations, resulting from internal and external forces. Mudambi & Susan (2002) discuss the importance of corporate branding on B2B market stressing its importance growth with increase of e-commerce and global competition. This article also proves that companies, using common brand for co-branding activities are usually performing better that those without common brands.

At the same time, existing research does not provide any evidence on the way co-branding relationships develop and what are the key factors for them. Considering co-branding as a partnership agreement leads to a question on the value of these partnerships for the parties involved, and the role of partners' features in gaining certain benefits from this strategy. These features might include size and power of the firm, existing relationships and brand portfolio, previous experience and volume of investments needed to develop cooperation. From the relational perspective, the key questions thus, include the following research questions:

- Are co–branding agreements only possible when companies have a long relational history? (Bengtsson, Anders and Servais, 2002, 2005; Sauvée & Coulibaly, 2008)
- Can co–branding bring additional value to the smaller companies, which use common (corporate) brands? (Aquilani ,2006; Mudambi & Susan 2002).

We assume that small and medium sized companies might benefit by following co-branding strategy with a larger partner: co-branding, in comparison to line extensions, is suitable for small companies and undeveloped brands and can help minimize promotional costs; co-branding improves the quality evaluation of the less known brand by consumers (Chang 2009, Helmig, Huber & Leeflang 2008). We presume that in particular relational context, co-branding with a well-known, established partner can give small and medium-sized companies comparatively cheap promotion, bringing their brands to higher level. Moreover, being interested in the influence of co–branding on the partners and the whole network there might be options when co-branding is a superior decision for both companies (or, thus, when will the bigger company, which provides the common (corporate) brand will also use smaller company's brand to promote their products). Thus the issue of proper partner selection becomes the crucial one.

Co-branding can be successful for both partners if the partners are chosen correctly. The combination of brands in new a product should seem logic to the consumers, otherwise the transaction will not be advantageous for both partners [Chang, 2009, p.78]. This is the reason, why big companies are not always eager to use small companies' brands. Thus, one of potential research questions would be investigation of the key drivers for the larger firms to establish co-branding partnership with the smaller one. For example, will the brand of the smaller company only be used by the bigger one when the first one has a stable loyal customer base?

Different co-branding types

Common brand can have different meanings for different groups of stakeholders. Its external value (for consumers and contractors) creates image and expectations. The internal meaning of co-branding allows adding value for consumers, as well as the improving overall identity of the two companies, which helps to create confidence and loyal customer base. [Washburn, Till, Priluck 2004, p. 494]. Thus, the degree and type of the interfirm relationships will determine positioning of the new co-brand on the market. There are different positions of a co-brand, depending on the type and degree of relationships in the companies: coalition, coordination, cooperation and collaboration [Helmig, Hueber, Leeflang, 2008, pp.360 - 370].

Coalition refers to the union of two companies at the corporate level. It allows two companies to unite into one with a double name. Normally, the name, which stands at the beginning of a co-brand belongs to the dominant company. The coalition brings the resources of companies together, changes the brand image, market share and makes the new brand generally more visible. Resources, in turn, are divided into tangible and intangible. The change in their tangible part - real estate assets, factories, technologies, employees and consumers – can be measured easily. Intangible assets - brand value, know-how, brand image perception - are weakly measurable [Grossman, 1997, p. 192]. Therefore, the integration of intangible resources should be taken as a synergy of two separate brands, which can in some cases be unpredictable and uncontrollable. Here the question about the correct partner is crucial. [Prince, Melvin, Davies, 2002, p. 52].

Coordination assumes the union of two companies merging at the divisional level. It allows two departments of different companies unite together in one department of the company with a double name. Just as in the coalition case, the first brand in the joint name is usually the dominant brand of the company. The complexity of divisions coordination increases if one brand begins to negatively affect both the tangible and intangible resources of the other.

Collaboration implies that two companies work together in a combined company at the corporate level. Collaboration allows companies to share resources (technologies), knowledge and know-how to achieve shared goals. [Cooke, Sinead, Ryan, 2000, p. 40] Collaboration not only increases the joint market share, but also reduces overall costs and companies. Thus, despite the difficulty of achieving a common goal through coordination of resources, knowledge and managerial personnel, the potential benefit is quite large, if both companies seek cooperation.

And finally, cooperation means that two companies work together in a joint enterprise at the divisional level. Cooperation allows two companies to assist each other while managing the new joint company. A good example of cooperation is SonyEricsson. [Helmig, Hueber, Leeflang, 2008, p.365] While excellent design capabilities were available at SONY, Ericsson was distinguished by a strong scientific research base. Thus, cooperation helps to compensate for the weaknesses of one partner by applying to the strengths of another company.

The degree of relationship thus depends on whether the relationship involved the departments only or different companies have merged, as well as what are technologies, know how and other resources involved in the interaction between the partners. From the small and medium-sized companies side thus, the main question is what are the resources and know how that the smaller firm can contribute to the partnership.

Russian bakery market case study

Methodology

Case study approach has been selected as primary research method. Selection of Russian bakery industry for analysis is based on of some of its key features. Firstly, we need to highlight dynamic development of brands in the industry with multiple unstable brands. Both old stable brands and new partners are present in the market. Many of the old brands though would like to change their consumers perception by working with new partners, while new companies need to establish permanent relationships for their brands to gain awareness. The sample analyzed includes Saint – Petersburg and Moscow industry players, since these cities have higher business concentration and better established relationship structures. Both companies established a co-branding partnership and those potentially interested in adopting co-branding opportunities have been included in analysis.

Data was collected by means of two methods. Firstly, documents of the Saint Petersburg Bakery Industry Association ("Khlebopeki Sankt – Peterburga") were analyzed. These included the minutes of regular industry members meetings, entrepreneurial codex of the Association, etc. This type of analysis allowed identifying key problems and specifics of the interaction between the market players. Secondly, the interviews with the top management of the Association have been conducted to verify the findings and comment on the results of the analysis.

Market description

Bakery market has always been limited territorially due to the product peculiarities. Since the beginning of the Soviet times till 1992 all bakeries were parts of territory industry communities. During the 1992-1993 they all were privatized as separate enterprises. Nevertheless, the markets are still regional and most of the competitors try to place there manufacturing as near as possible to their distribution channels. After privatization 20 separate bakeries and confectionary organizations were formed in Saint – Petersburg and twice as much in Moscow. None of those enterprises had a real brand identity, neither a brand name: large-scale bakeries were mainly distinguished numerically. However, some of them had specific product range and thus a loyal customer base who has linked there products with the name of its producer. The role of the supplier orientation in Russia during the Soviet time has been highlighted in the existing literature (Farley and Deshpande, 2005), while a turn to customer oriented practices started after the collapse of the Soviet union. Higher uncertainty and the need for adaptation and mutual planning has forced the firms to search for cooperation partners and adapt mutually adjusted planning approach (Johanson, 2007). But till now "despite the recent positive development in Russian market, the heritage of the centralized planning oriented command economy is still evident" and has impact on firms' interaction along the demand chain (Lorentz and Ghauri, 2010, p. 243).

The main problem on the market is to load the capacities, as they are considerably exceeding existing demand. This capacities were built during the planning period of Soviet time without any consideration of the market rules; and now most of it stands idle, creating costs for its maintenance. This is one of the reasons, why interfirm cooperation became that popular within the bakery industry in Saint – Petersburg market: some important legal agreements on quality and price were set up to avoid price wars; production (manufacturing of the company's brand on their competitor's facilities) contracts became popular and a number of

Mergers and Acquisitions occurred. There are also some co – branding agreements, which are claimed to be very effective. Moskow market, however, is much more competitive: due to historical development cooperation is not developed. Due to these regional reasons we are going to analyze cooperation on both markets evaluating co-branding contracts by comparing the markets and the role of co – branding in the B2B marketing relations sphere, as well as circumstances that led to these contracts.

Saint – Petersburg market

Three main competitors are present in the market (see Table 1), holding about 70% of the market share. The market thus is highly concentrated, but also competitive, since many players and the product line is quite standardized. During the wave of mergers most of the companies gathered under one corporate brand, but some of the smaller companies brands have still remained in the market (mostly, under co–branding agreements), while some have left the market.

Table 1. Saint – Petersburg bakery market

Group/ company	Main corporate brand	Main companies in the group	Brands	Co-brands	Specific technology	Subcontracting	Market share
Fazer	Fazer	• Khlebniy Dom • Murinskoye • Khlebozavod Vasileostrovskogo rayona • BKK Neva	• Khlebniy Dom • Khlebozavod Vasileostrovskogo rayona	Fazer-Khlebniy Dom Khlebniy Dom Khlebozavod Vasileostrovskogo rayona Khlebniy Dom – other products	1		35%
Karavay	Karavay	• Karavay • Zarya • Kushelevskiy khlebozavod • Nevskaya Sushka • Kronshtadskiy Khlebozavod • Rzhevka-khleb	• Karavay • Zarya • Nevskaya Sushka	Karavay-Zarya Karavay – other products	1	Kushelevskiy khlebozavod for Khlebniy Dom; Kushelevskiy khlebozavod for Karavay	25%

Cheryomushki	No corporate brand	• Pervoye khlebopekarnoye ob`edineniye
		   • Khleb (Darnitsa)
		   • Pekar
		• Khlebokombinat Lana
		• Sestroretskiy Khlebozavod
			Darnitsa
			Pekar
			Sestroretskiy Khlebozavod
				No co-branding	1	Darnitsa for Khlebniy Dom;
						Darnitsa for Karavay
							10%

Petrokhleb	Petrokhleb	All bakeries from Liningradskaya Oblast	Petrokhleb				7%

		region					
Khlebniy zavod Arnaut	Arnaut	Khlebniy zavod Arnaut	Arnaut	No co-branding	1	Arnaut for Khlebniy Dom	5%
Ochtinskoye	Ochtinskoye	Ochtinskoye	Ochtinskoye Aladushkin	Ochtinskoye-Aladushkin	1	No subcontracting	8%
Baltiyskiy khleb	Baltiyskiy khleb	Baltiyskiy khleb	Baltiyskiy khleb	No co-branding			
Bushe	Bushe	Bushe	Bushe	No co-branding			

There are two mostly well-known brands in Saint – Petersburg market: Khlebniy Dom and Karavay. The "Khlebniy Dom" brand was invented by "IMA-Press" agency before the first company's shares emission, while Karavay's brand name was chosen before privatization. Both brands are used in many co– branding agreements with smaller companies of the same group, with which they have established relationships about 20 years ago, in the "perestrojka" time. The co-branding decisions seem to be based on this long relational history of cooperation, providing the rationale for such agreements. At the same time, those firms, who did not develop any cooperation, do not have any co – branding agreements, either.

The market is highly innovative as due to standardized products all companies are fighting for customer loyalty trying to produce new and uncommon item, but as technology abilities are similar, all innovations are quickly copied by competitors. Some companies have specific technologies. Most of those companies have subcontracting relationships with one of the leading groups and thus manufacture products for the leader's brand. Smaller companies agree on that because they constantly need to load their capacities. Such subcontracting agreements are crucial for smaller companies as distributors are promoting only those brands, that have the full range of products. . Thus subcontracting is used instead of potential co-branding when the smaller company has a specific technology. A co–branding agreement could have been very effective for them in this case, but the market leaders are not interested in such an agreement until the smaller companies have a loyal customer base on a highly competitive market

Another problem on the market is the private labels' competition. Although market situation is now changing (the adoption of the law on commercial activities decreased the retailers' privileges), retailers have more market power. Thereby, distributors force the producers to sell their products under private labels for the price lower then the costs - for those products to compete with the branded products of the manufacturers. Moreover, retailers use private label co-branding, putting the original product and producer name on the packaging, which, here is very unfavorable for the producer, because of intensified competition. Otherwise, when a manufacturer rejects such an offer, it is very simple for the retailer to terminate the relationships and find another contractor, eager to work under such conditions. Thus industrial cooperation here could help to work against this type of unfair competition. Cooperation has significant importance in defining the market situation – thus a crucial role is played by the Saint Petersburg Bakery Industry Association, founded in 1993. It's main goal is to represent industry companies' interests in court towards authorities and natural monopolies. Several intra-infrastructural projects were realized within the association: an insurance company, retirement fund, leasing company, accounting subcontractor, a subsidiary of an independent registrar etc. Then, however, with the development of financial markets they lost their relevancy and now the association deals mostly with the pricing and ethical behavior issues through implementing a coherent strategy mainly towards negligent contractors - distributors - practicing discrimination against the producers. Association is currently developing it's own trademark to have a sign of quality proof in the industry. By now, only small producers are interested in such cooperation with the industrial organization which corresponds to one of our problems and provides an interesting case for further analysis.

Moscow market

The Moscow bakery market is less developed than the Saint–Petersburg market, thus a lot of the bakery products sold in Moscow is produced in other regions and regional manufacturers can hardly cope with this competition. Being stuck in price wars, they permanently fight for the governmental order. The product quality on this market is also worse than in Saint – Petersburg. Moscow bakery market is highly competitive and, cooperation is not developed on the market, followed by dramatic difference in co-branding practices – namely, the there are no co–branding contracts in the Moscow market. Currently, there are 153 bakeries operating in the Moscow market, including 18 large–scale producers, holding more than a half of the market share and dividing them roughly equal; while the others are small private bakeries. Historically, cooperation is not that much developed on this market as most large-scale bakeries belong to the milling companies, which need to distribute the mill and so make the bakeries compete for the big government orders forcing them to save on quality as much as possible. In the Moscow market, producers compete for the big orders to load their capacity; in Saint – Petersburg they try to fight against governmental dumping strategies through cooperation.

Discussion and conclusion

Specifics of B2B co-branding practices between the large and. small companies was selected for this study. These aspects of co-branding are substantially less studies in existing literature and provide an interesting field for analysis at the intersection of B2B and branding literature. Our findings based on the Russian bakery market analysis have helped to identify some key trends, reflecting potential answers to the research questions raised in the literature review section. Thus it seems that the co – branding agreements are only possible when companies have a long relational history. All analyzed Russian bakery companies which have co-branding agreements had a long interaction development history. And while there are also companies, which have developed cooperation network, but still do not have any co–branding relationships: we suppose, that they also might select the co-branding strategy as the best option. For example, "Cheryomushki" on Saint – Petersburg market do not use any group brand as their brand has a Moscow originally, which is negatively perceived in Saint - Petersburg. Thus, they fear to loose customers loyal to their subsidiaries. We suppose that in the nearest future the group will take the mostly developed brand of their subsidiaries (Darnitsa) to be the group brand and to form co – branding partnership agreement.
Secondly, co – branding brings additional value to the small companies. Expert interviews have confirmed that small companies get additional bulk sales, better market goodwill and brand identity, they are also better perceived by the third parties in the network. Moreover, it is much easier for them to push their brands to the distribution networks when they have a co-branding relationship with a bigger company. Another finding is that the brand of the smaller company will only be used by the bigger one when the first one has a stable loyal customer base. If the customers are loyal to some brand on competitive market, big companies will prefer not to compete with the other players using their own brands, but have a co-branding agreement instead.

We couldn't identify particular role of technology advantage, as indicated during the literature analysis: instead of co–branding in most of the cases bigger companies use subcontracting agreements. This conclusion can appear to be very specific and related to this market only as one of the forces on the market is the exceeded capacity which companies need to load. Anyway, further research is needed to fully disprove existence of this problem.

Moreover, we also found out something we did not expect to: a co-branding agreement between a small and the leading companies can only exist on a highly competitive market. If the sphere of the smaller company's operation is not competitive and this company is the only one to provide such a supply, the bigger company would not use its brand, while it is much more advantageous for bigger company to promote its own brand when possible. This issue is also a disproof for the technological hypothesis.

However, some further analysis should be done to prove the credibility of our research, other markets should be analyzed; concerning Russian bakery market, a series of in – depth interviews with the companies representatives should be undertaken to clarify the nature, development history and stability of the relationships, leading to co – branding agreements.

References

Aaker (1991) Managing Brand Equity: Capitalizing on the Value of a Brand Name, New York: Free Press.

Aaker (1996) Building Strong Brands, New York: Free Press.

Bengtsson, Anders (2002) Consumers and Mixed-Brands: On the Polysemy of Brand Meaning, Lund: Lund Business Press.

Bengtsson, Servais (2005) Co-branding on industrial markets, Industrial Marketing Management, 34 (2005) pp. 706–713.

Cooke, Sinead, Ryan (2000) Brand Alliances: From Reputation Endorsement to Collaboration on Core Competencies, Irish Marketing Review, Vol.13, No.2, pp. 36-41.

Chang (2009) Roadmap of Branding Positions and Strategies, The Journal of American Academy of Business, Cambridge, Vol. 15, № 1, pp. 77-84

Grossman (1997) Co-Branding in Advertising: Developing Effective Associations, Journal of Product and Brand Management, 6 (3), pp. 191-201.

Håkansson, Ford (2002) How should companies interact in business networks? Journal of Business Research, vol. 55, pp. 133-139.

Helmig, Hueber, Leeflang (2008) Co-branding: the State of the Art, Journal of Product and Brand Management, pp. 359-377.

Johanson, M. (2007). Networks in transition, Proceedings of the 23th IMP Conference, Manchester, 2007.

Lorentz, H. & Ghauri, P.N. (2010). Demand supply network opportunity development process in emerging markets: Positioning for strategy realization in Russia. Industrial Marketing Management, 39, 240-251.

Mudambi, Susan (2002) Branding Importance in Business-to-Business Markets, Industrial Marketing Management, 31, Vol..31, pp. 31-43.

Prince, Melvin, Davies (2002) Co-branding partners: What do they see in each other? Business Horizons (September), pp. 51-55.

Vaidyanathan, Rajiv, Aggarwal (2000) Strategic Brand Alliances: Implications of Ingredient Branding for National and Private Label Brands, Journal of Product and Brand Management, 9 (4), pp. 214-228.

Sauvée , Coulibaly (2008) The Interorganizational Dynamics of Brand Alliances, The 24th IMP Conference, Uppsala, Sweden, 4th-6th September 2008.

Washburn, Till, Priluck (2004) Brand Alliance and Customer - Based Brand Equity Effects, Psychology and Marketing, 21 (7), pp. 487-508.