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Co-branding Strategy as a Source of Innovation on International Market

Abstract: The aim of this paper is to identify the impact of a co-branding strategy on the innovations development on international market. The research has been conducted in 2013–2015, and has been targeting 50 large international companies which operated in minimum 3 countries of Europe and have implemented a co-branding strategy for 3 years. The analysis of findings has shown that the possibility of use of the new technologies and the use of knowledge and experience of partner's through technical knowledge exchange are rated at the low level in case of implementation of co-branding strategy. These findings suggest that co-branding is not a source of innovation on international market due to the fact of the limited trust in the foreign partner and the protection of own's know-how by the companies. These outcomes confirm also that today the managerial actions should focus mainly on the symbolic dimension of brands.

Key words: co-branding, marketing, innovation, competitive advantage, partner, brand management

Introduction

Over the last decades we observed a re-evaluation of the approach to international business cooperation, both in practice and the theory of management. Increasingly, business success is significantly dependent on the ability to build partnerships of business networks, strategic alliances and other forms of interaction on international market. This cooperation can be conducted based on various sources and stimulators. In the same time, both brand management and innovation management became important determinants of the strategic international success of companies. Big competition triggered the need of intensive innovation, while maintaining strong brands [Kim and Mauborgne, 2005]. However, international cooperation – connected with intercultural exchange – is often burden with a risk related with limited trust in the foreign partners and lack of experience in the international relations.

The aim of this paper is to identify the impact of a co-branding strategy on the innovations development on international market. The following research questions were identified: If co-branding is a source of innovation in case of companies cooperation on international level? If the expectations of foreign partners in field of innovations development are satisfied?

The interconnection issue of brand management and innovation management seems to be an important direction of research. According to Brexendorf *et al.* (2015, pp. 548–549), the interrelationship between branding and innovations is still relatively under-researched. It is important research area taking into account that brand and innovation management have become recently increasingly important priorities for companies. Brand and innovation need and benefit from each other. According to O’Cass and Ngo (2007, pp. 868–887) “organisations with a strong innovative culture appear to recognise that building a successful brand depends not always on the interpretation of feedback received from current customers and competitors, but instead on organisations’ ability to innovatively develop unique ways of delivering

superior value to customers". It suggests a need in a deeper integration between brands and innovations to gain competitive advantage and fuel growth.

In the current international market context, brands help consumers taking decisions, thereby increasing the competitive advantage of companies. A strong innovative brand facilitates interpretation, processing and storage of information, providing postmodern consumers a sense of security in the purchasing process. In the context of successive crises, the brand creates safeguards, connivance, well-being and re-enchantment of the disenchanted consumers (Firat and Venkatesh, 1995, pp. 239–24).

Identifying open innovation processes (Gassmann et al., 2010, pp. 213–221), one of the ways to strengthen a brand and introduce the new innovative products is cooperation with other companies that develop innovative solutions. It can be based on co-branding strategy that involves the reinforcement of an own brand with a partner's brand.

Theoretical background

The brands role in the creation of our society and with it, its ethics and aesthetics. Brands do not only sell a product. They create and affects our lifestyle and they create communities. Postmodern consumers patronize the service setting not primarily due to its use-value but due to its "linking value" in order to feel part of a community and to satisfy social needs (Carù and Cova, 2015, pp. 276–294). Consumers do not seek goods and services but social bonds, namely, "the link is more important than the thing" (Cova and Cova, 2002, pp. 595–620).

By giving meaning to life through consumption, the brand has become a key asset of marketing, while other marketing tools are more frequently subjected to and determined by brand strategy. Observation of market trends proves that the development of brands is inevitable (Balmer, 2013, pp. 723–741). The requirement to be competitive forces companies to undertake

non-traditional actions in the area of marketing, thereby adapting to the preferences of consumers and behaviours of competitors. This tendency primarily applies to managing brands.

The use of a brand in distinguishing an offer allows to build an added value not only based on the price or on the functional qualities of products or services, but also based on emotional benefits. This is because a brand is the reflection of the offered functional and symbolic benefits. The production of the symbol has become a "spectacular activity" (Firat and Venkatesh, 1995, pp. 239–241), the consumer becoming a consumer of symbol/spectacle, buying images, looking for meanings, illusions and experiences while marketers produce the spectacles. The competitive advantage arises from emotions produced by imaginary projections of consumers in search of identity (Elliot, 1997, pp. 285–296).

The concept of co-branding is the topic of many discussions among researchers, as well as practitioners of brand management, because **co-branding** strategies are now seen increasingly in both business-to-customer (B2C) and business-to-business (B2B) relations. Hillyer and Tikoo (1995, pp. 123–127) define co-branding as "the practice of double branding products, in which a product features more than one brand name". According to Leuthesser *et al.* (2003, pp. 35–47), co-branding involves combining two or more well-known brands into a single product and is an alternative for developing new products. Bouten *et al.* (2011, pp. 455–469) define co-branding as a strategy that allows a brand to innovate with the support of a partner brand. Taking into consideration the standpoints of different authors, the analyses of current instances of cooperation in the area of brand management and the broad spectrum of marketing operations, one can be inclined to limit the definition of co-branding to the co-development of a product offer by two or more partner brands on a functional, as well as symbolic level (Grębosz, 2015, p. 21). The actions conducted as part of joint communication and distribution are a result of a marketing strategy and have no specific association with the brand strategy. In consequence, co-branding is defined in this paper as

the cooperation of two businesses with the goal of introducing a product bearing the brands of both partner companies to the market, together creating a co-branded product.

A co-branding strategy is used in many sectors of the economy, especially in the food industry and in the automotive and financial sectors. Depending on the relationships between the partners, co-branding may be open or the cooperation between the two companies is executed on an exclusive basis (Grębosz, 2015, pp. 18–20). More and more frequently, we observe implementation of co-branding strategy on international level. Two or more foreign partners cooperate together in order to create co-branded product that is introduced on partners' markets or often on the international one. In context of business expansion in international markets, co-branding is an opportunity for both, global brands and local brands. Collaborating with local brands enhances the ability of global brands to succeed in the foreign local market and accelerates the market entry process. On the other hand, for local brands, cooperation with the global brand allows access to the new management methods and tools and potentially to the new technological solutions. In both cases, co-branding reduces costs and risk.

Symbolic co-branding consists in the use of a partner brand in order to highlight the symbolic values and create a specified brand image. In case of ingredient branding, the brand of the final product's ingredient or ingredients is specifically indicated. This strategy's goal is to underline the cooperation of brands in terms of the product's physical properties. Such form of cooperation between two businesses is aimed at emphasising the high quality of a product and reinforcement the manufacturers' competences. The presence of a branded ingredient, material or component, which ensures higher quality of the product, guarantees higher margins, facilitates access to new distribution channels and strengthens the effects of promotion (Norris, 1992, pp. 19–31; Norris, 1993, pp. 14–24; Rao and Rueckert, 1994, pp. 87–97; Hillyer and Tikoo, 1995, pp. 123–127; Erevelles *et al.*, 2008, pp. 940–952; Busacca and Bertoli, 2003, pp. 73–86). Co-branding gives also consumers a feeling of

innovativeness and technological advancement. Findings of Linder (2015, pp. 254–272) show that the perception of innovativeness of the partner brand changes the perception of the component and a positive expectation of the component allows the consumer to judge the final product brand positively. These effects have an impact on the intention of buying. This is particularly true when the consumers in question are passionate and enthusiast (Carù and Cova, 2015, pp. 276–294).

The objectives and characteristics of the study

The objectives of the study was to identify the impact of a co-branding strategy on the innovations development on international market. In this paper, the following hypotheses are set forth:

H1: Implementation of co-branding enables the use of new technologies.

H2: Co-branding is for the companies a source of innovation.

H3: Co-branding facilitates the introduction a new innovative product.

Recent primary research (2013–2015) by one of the authors was looking at fifty large international companies operating in Europe engaged in co-branding projects. A survey was conducted in 50 companies which operated in minimum 3 countries of Europe and have realized co-branding strategy for 3 years. Due to the difficulties in reaching a large number of companies, and their reluctance to participate in research projects, the studies conducted among companies are not representative. However, both the range of addressed issues and the insightful approach to co-branding strategy justify the attempt to present conclusions of a qualitative nature.

Two stages of research concerning implementation of co-branding strategy were applied:

- the first stage **of the study**: a survey.
- **the second stage of the study**: open interviews.

The survey was conducted among the brand managers with the application of the techniques of personal survey, electronic survey and paper survey.

During the second stage of the study open interviews were conducted addressed directly to the managerial staff of companies implementing a co-branding strategy. The interviews were carried out by one of the authors on a selected group of 10 companies, among the managers representing the companies participating in the survey.

The choice of companies to be studied was a deliberate one. 120 companies operating in Europe engaged in co-branding projects were identified. Questionnaire surveys were carried out throughout all identified companies. As a result, data from 50 companies was obtained, which amounted to 41,7% of all the companies polled. 35 companies direct their offer to individual customers, 6 companies operate on B2B market offering products and services to business clients and 9 companies operate in both sectors. The studied companies carry out various kinds of activity. 40 companies deal in manufacturing, 6 companies deal in trade and 4 companies provide services. The surveyed companies are characterized by a varied structure of employment and belong to various sectors. Among 10 studied companies, that took part in the interviews, 6 companies direct their offer to individual customers, 3 companies operate on B2B market offering products and services to business clients and 1 company operate on both markets. The studied companies carry out various kinds of activity. 7 companies deal in manufacturing, 2 companies deal in trade and 1 company provides services. The analysed companies are characterized by a varied structure of employment and belong to various sectors [Grębosz, 2015, pp. 52–53].

One may conclude that the studied companies – both, during the realisation of survey and interviews – represented various forms and characters of co-branding strategies. Partner brands served various roles and co-branding products were of varied nature. This allowed more detailed analyses related to the impact of co-branding on the innovations development.

Analysis and results

The analysis of the results of survey helps to determine the impact of co-branding on the innovations development on international market. The brand managers have evaluated the indicated factors using the six point scaled from 0 to 5 (where 0 – means lack of effect, 5 – very important effect).

Among the least rated results of co-branding strategy, we can distinguish co-branding as a source of innovation (average 1.70), the possibility of use of the new technologies (average 1.90) and the use of knowledge and experience of partner's through technical knowledge exchange (average 2.08). These results are interesting taking into account that 39 of the studied companies applied the strategy of ingredient branding (Table 1). It can mean that the companies hide and protect their technical and technological know-how on international market or they consider co-branding only as the strategy which concentrates on the symbolic and imaginary projections issues. These results forced to reject the hypotheses H1 and H2.

Table 1. The comparison assessment of the chosen co-branding results with companies expectations

Result	Medium assessment of results	Medium assessment of expectations	Difference
use knowledge and experience of partner's in brand management area	4.02	4.06	0.04
facilitate the introduction a new product	3.28	4.20	0.92
enter new markets segments	3.04	3.62	0.58
develop the product range	3.00	3.40	0.40
use knowledge and experience of partner's through technical knowledge exchange	2.08	3.70	1.62
use the new technologies	1.90	2.16	0.26
be a source of innovation	1.70	2.10	0.40

Source: Own elaboration based on the results of primary research.

These outcomes confirm also that today the managerial actions should focus mainly on the symbolic dimension of brands. The critical role is played

by symbolic issues that affect the customers involvement. The postmodern brands should become symbolic resources for the construction, communication and maintenance of identity, also on the international market. These findings confirmed the results of previous research conducted by e.g. Huang *et al.* (2012, pp. 334–335) that revealed that consumers reflect their personalities by the brands they use, but the relationship between brand choice and symbolic dimensions is much stronger than the relationship with functional dimensions.

The comparison of the assessments of effects of co-branding with expectations of the brand managers shows that – except one factor – the differences in evaluation do not exceed 1 point. These results confirm the high awareness of the brand managers and well-defined expectations connected with brand cooperation and partner's involvements (Table 1).

In case of the highest rated effect (use knowledge and experience of partner's in brand management area) the divergence between assessment of the final result and of expectation is unnoticeable (0.04). The biggest variation is observed for the factor "use knowledge and experience of partner's through technical knowledge exchange" and is equal 1.62 point. It is even more interesting if we compare this grade with assessment of effects and expectations concerning the use of the new technologies and co-branding being a source of innovation which oscillate on the level of 0.26 and 0.40. We can suppose that the companies expected bigger involvement of the partner within existing and applied technical knowledge. However the assessment of effects showed that the companies operating on international market are very careful in this area. In reality, the implementation of branding strategy does not help the companies to use of the partner's knowledge and experience through the exchange of specialized (technical) know-how, application of new technologies and implementation of innovations.

To characterize the different categories of co-branding, the correlations among the variables were compared. The analysis of results shows that the correlations between results and category of co-branding are on the high

level. The companies which have realized the strategy of ingredient branding confirmed that the co-branding allows to use of knowledge and experience of partner's in brand management area and facilitate the introduction a new product. The last effect was well evaluated only in case of application of ingredient branding strategy. It is connected with the character of cooperation and involves the co-creation. The emphasis of the quality depends on the inherent importance of the ingredient itself. However, the results of research confirm that we should stress the high significance of symbolic issues even in case of functional-based cooperation. In comparison of the companies which have realized the strategy of symbolic co-branding, in case of realization of ingredient branding, the companies gave low grade for product range development.

The companies which were engaged in the realization of symbolic co-branding stressed especially the possibility of use of knowledge and experience of partner's in brand management area. While, they rejected the possibility of new product introduction as well the use of the new technologies and innovation creation which is evident taking into account the character of cooperation. These results confirm that different cases (categories) of co-branding should be analysed taking into account different variables, especially in case of ingredient branding.

Engagement and trust in development of international cooperation based on co-branding, were important for respondents. Based on the commitment-trust theory, Morgan and Hunt (1994, p. 23) stated that the importance of these factors is extremely important in creating relationships between partners. Relationship between partners is affected by the cost of relationships, benefits from relationships, and common values. During the course of cooperation, the most important – according to respondents – is a good climate of cooperation, based on mutual trust, which helps to overcome the differences of interests, protects the independence of partners and helps in resolution of possible conflicts. Building trust between the cooperating companies is about getting the benefits of cooperation proportionate to the

contributions made, in the form of tangible and intangible assets. However, the level of trust was insufficient to exchange technical knowledge and develop technological innovations.

H1 predicted that implementation of co-branding enables the use of new technologies. The corresponding comparison of low assessment of this effect for each category of co-branding as well as the low expectation of the brand managers in this area resulted in reject of this hypothesis.

H2 predicted that co-branding is for the companies a source of innovation. As in case of the hypothesis H1, the corresponding comparison of low assessment of this effect for each category of co-branding as well as the low expectation of the brand managers in this field resulted in rejection of this hypothesis.

H3 predicted that co-branding facilitates the introduction a new innovative product. The comparison of co-branding effects and managers expectations shows that even if these expectations are high, the realization of co-branding do not guarantee the introduction of a new product. This effect was low evaluated by the companies which have participated in symbolic co-branding project and higher by the participants of functional co-branding. Thus, hypothesis H3 was partially supported.

Limitations and suggestions for future research

The recommendations in this study are set forth, with the caveat as to the limitations of the sample. Nonetheless, it is believed that the results of this study will alert companies on the lack of potential profits of co-branding in the area of innovations development. However, to provide a more comprehensive picture of the effects of co-branding, similar studies could be done for different product categories. A future study could also examine the customers and their opinions concerning co-branding products and the effects of co-branding on the partners brands. In particularly, future research needs to investigate the active role of enthusiastic consumers in

co-branding strategies and the role of brand communities in the success, co-creating value, introducing new products, generating new stories with positive feelings and emotions on both brands perceptions.

Conclusions

Variability and complexity of environment are forcing companies to research the sources of innovations beyond their own organization. In recent years, companies have built their own competitive advantage by using the relationships with partners. Combining two or more well-known brands, co-branding is an opportunity to consolidate its place on the market by changing a few things. Thus, co-branding has become a rapidly growing strategy in relations between companies; however this strategy is not a direct source of technological innovation. Innovation from the existing is a means of differentiation, sharing of common passions between communities, building a new reality and doing stories on social media.

The analysis of the study results leads to the conclusion that, in the general context, co-branding primarily enables partner companies to accomplish the objectives closely linked to the area of brand management. As a result of the implementation of a co-branding strategy, new links between partner brands and the co-brand as well as between partner brands and the new product category are created.

The analysis of findings as well as the analysis of the theoretical background and the results of previous research emphasizes the significance of the symbolic character of co-branding strategy. Co-branding as a source of innovation, the possibility of use of the new technologies and the use of knowledge and experience of partner's through technical knowledge exchange were evaluated at low level and it suggests the lack of confidence to the partner and the protection of companies technological expertise.

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