When Two Brands Are Better Than One

Co-branding can create significant value for companies by allowing partners to share industry-specific competencies.

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Thanks to a number of innovations, book publishing has been transformed dramatically since the Gutenberg Bible was printed more than five centuries ago. Among the most recent changes: bookselling over the Internet and new, electronic formats such as the e-book.

But arguably few innovations have created as much value for booksellers – and buyers – as the partnership between the Oprah brand (after popular American TV talk-show host Oprah Winfrey) and publishing houses. This example of promotional co-branding was executed through well-publicized reading recommendations made by Winfrey's book club.

Although the co-branding partnership meant more than $100 million in additional sales for Random House following the book club's launch in 1996, what is perhaps even more noteworthy was the level of differentiation the little orange "O" on dust jackets has afforded book buyers. A work of literary fiction may, on a good run, sell 30,000 copies; but those sporting the Oprah imprimatur often sold 500,000 to 1 million. Even in Australia, where Winfrey's show receives scant attention, a co-branded Oprah book could expect a boost in sales of up to 100 percent.

In 2002, however, Winfrey closed down her book club and, correspondingly, the co-branding arrangement with publishing companies. This was likely no surprise to marketing executives. Even the most effective promotional co-branding initiatives (including those involving a relationship diva like Winfrey) are characteristically short-lived compared with other, less conspicuous – but markedly more innovative – forms of cobranding.

But the implications are clear: If this rather uncomplicated type of co-branding can create significant value for companies and their customers, the potential of more durable and innovative co-branding approaches – those that focus on combining the real capabilities of partner companies to create new customer-perceived value – is far greater. And in the current economic environment, with its burdensome spending constraints, co-branding is an increasingly important tool for generating additional value.

Besides reducing costs – including many R&D and marketing expenses – co-branding is attractive for its ability to quickly transfer the stature, imagery, and approbation of one brand to another. In short, it can rapidly improve almost every aspect of the marketing funnel, from creating initial awareness to building loyalty.

Most companies have explored co-branding at one time or another. But few have realized its full potential. While there are many forms of co-branding, before a company can decide which option makes the most sense for its situation, it must fully explore four main types of co-branding.

Each is differentiated by its level of customer value creation, by its expected duration and, perhaps most important, by the risks it poses to the company. These risks include the loss of investment, the diminution of brand equity, and the value lost by failing to focus on a more rewarding strategy.

Promotional/Sponsorship Co-Branding

At the most basic level, a company co-brands by participating in activities that link its image to particular events in consumers' minds – ExxonMobil Masterpiece Theatre, for example; Qualcomm Stadium; Conseco, "the official financial services provider of NASCAR"; or, in the case of this company, the Accenture Match Play Championship round of the World Golf Championships.

Endorsements are where co-branding got its start, and they can be a natural place for many organizations to begin a co-branding campaign. Whether it's with celebrities, like Tiger Woods and GM's Buick line, or with trusted institutions, like the American Dental Association and Crest toothpaste, the approach keeps the relationship simple. It remains at the level of fees and marketing activities, yet it can result in significant brand enhancement.

Sponsorship sometimes leads to unplanned opportunity. Motorola's sponsorship of the National Football League in the United States led to a request to create a more effective and more comfortable set of headphones for coaches to wear on the sidelines. The new headphones, with a prominent logo placement, increased Motorola's visibility as a company capable of solving communication problems.

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Ingredient Co-Branding

When many executives think co-branding, they think "ingredient." This is partly because the partners in ingredient co-branding tend to be distinct, and partly because the logical partners for this type of co-branding are readily apparent: the company's current suppliers or largest buyers. Easy access to offerings and well-established relationships keep the level of investment required lower than for other types of more creative co-branding.

This kind of co-branding can be critical to the enduring success of certain ingredients. Intel's partnership with computer makers is a classic example, particularly the company's "Intel Inside" campaign. Many people are familiar with it, but few know that before 1989, the chipmaker marketed its product directly to computer manufacturers and design engineers, not to consumers.

Noticing that chips were increasingly playing a defining role in personal computing, Intel marketing executive Dennis Carter decided that the company needed a better way to communicate with end users. But Carter's efforts to find and bring to market an approach that really met this objective were stymied for two years while the company attempted traditional umbrella branding approaches across its line of processors.

After failing to secure trademark protection for its 386 and 486 processors, Carter went back to the drawing board and, in a single weekend in 1991, came up with "Intel Inside." This ingredient co-branding approach garnered quick support – first from the company, then from customers. Partners such as Dell and Compaq reaped the benefits of newly generated consumer awareness and demand for Intel components by taking advantage of the chipmaker's offer of co-marketing dollars for companies that included the Intel Inside logo in their advertising. To date, more than $7 billion has been spent on this advertising program by the more than 2,700 computer makers licensed to use the Intel Inside logo.

The success of an ingredient brand relies on being distinct, either through patent protection, like NutraSweet or LYCRA, or by being a dominant brand, like Ocean Spray in the cranberry market. NutraSweet has been so successful as an ingredient in other products that it has retained consumer demand long after its label has come off most packaging.

In undifferentiated markets, however, being first mover can be a big advantage. An attempt at ingredient co-branding by a second leading chip company – which focused on the video game market, as well as on personal computers – met with dramatically less success than the Intel campaign.

Value Chain Co-Branding

A third kind of co-branding opportunity can come from other players in the value chain, both horizontally across links and vertically within a link. These players often combine to create new experiences for the customer – as opposed to simply new flavors of product – generating a level of customer value and differentiation not possible with promotional or ingredient co-branding. Among the many possibilities, three forms of value chain co-branding are important for companies to consider: product-service, supplier-retailer, and alliance co-branding.

Product-Service Co-Branding

Product-service co-branding allows partners to share industry-specific competencies, while at the same time opening previously inaccessible customer bases. Yahoo! and SBC Communications are combining their brands to make their shared value chain shorter and stronger. The deal combines Yahoo!'s brand name and high-speed Internet portal service with SBC's phone lines and know-how in running data networks. This fits Yahoo!'s new strategy of diversifying its revenue base and reducing its dependence on advertising sales. Yahoo! plans to increase its number of paying customers in the coming years twenty-fold – from 500,000 to 10 million – with co-brand customers from partners like SBC promising to be a significant portion of these.

Supplier Retailer Co-Branding

Some co-branding partnerships seem so natural that executives might wonder why they didn't initiate them years earlier. U.S. retailer Target had established itself as a purveyor of attractive, good-quality products, but it wasn't until a few years ago that Target asked designer and architect Michael Graves to create a new line of co-branded products with the store. The Target-Graves co-brand has been a significant revenue generator for both partners, and Target's association with a world-class design talent has enhanced its brand.

Other value-chain co-branding partnerships might be less obvious. Espresso and high-speed wireless Internet access may seem like an odd couple. But Starbucks has recently partnered with wireless provider T-Mobile and Hewlett-Packard to offer customers cable-free broadband Internet connection in its participating stores. T-Mobile and HP now get exposure in upscale coffee shops on Main Streets around the world, while Starbucks gets publicity for being on the cutting edge of technology.

What does this have to do with selling coffee, which is, of course, Starbucks' core business? The company believes wireless Internet access will bring in additional revenue by attracting more paying customers outside the morning hours, when Starbucks does the bulk of its business.

Co-branding can even bring traditional rivals together to meet important strategic objectives – like gaining a new position within the value chain or leading a financial turnaround.

Offline bookselling giant Borders recently teamed with its online competitor, Amazon.com, to create a co-branded Web site. Before partnering with Amazon.com, the Borders Online Web site had lost more than $18 million. After the launch, however, the co-branded site, called "Borders teamed with Amazon.com," quickly became profitable.

Though the two companies are still fierce competitors, the deal helped both advance toward their strategic goals. Borders gained an online presence that serves its customers well and drops profits, not losses, to its bottom line. Amazon, for its part, gained an additional revenue source and also took a valuable step toward establishing itself as a viable supplier of outsourced online retailing capability. And both companies have ended up better positioned against common entrenched rivals.

Alliance Co-Branding

Another potential source of value chain co-branding is vertical co-branding – forming alliances with similar companies. Airline alliances Oneworld and Star Alliance are examples, as is FTD in flower delivery. Companies must ask themselves whether globalization, or simply the chance to create a better, broader offering through cooperation, is making this a critical time to consider co-branding opportunities in their industry. This is almost certainly the case in rapidly consolidating industries like health care and financial services.

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Innovation Based Co-Branding

In this approach to co-branding, partners co-create entirely new offerings to provide substantial increases in customer and corporate value. More than other approaches, it offers the potential to grow existing markets and create entirely new ones. Because both partners are seeking a higher level of value creation, the rewards and risks are often an order of magnitude larger than those created by other co-branding approaches. For that reason, innovation-based co-branding requires a higher level of senior executive attention and organizational collaboration.

Virgin Mobile USA and high-tech conglomerate Kyocera Wireless recently sought to capture a new market by co-creating and co-branding a wireless phone aimed at the 15- to 30-year-old-customer segment, which analysts have described as the last unpenetrated wireless market in the United States. The phones are tailored to the target market's entertainment and social interests through innovative functionality. For example, the phones include "rescue rings," an automated feature that calls a customer's phone at a selected time to provide an easy excuse for exiting a disappointing date or party.

The phone partnership was also designed to enable additional partners to piggyback onto the offering to create subsequent co-branding partnerships. For example, since the U.K.-based Virgin Group didn't own a telephone network, an additional partnership with Sprint positioned the company to enter the U.S. market as the first virtual network operator – a business model already highly successful in Europe.

Because co-branding enables partners to gain competencies rapidly, it is particularly well-suited for targeting the mercurial, fashion-conscious under-20 market segment. For example, research conducted by boating-shoe manufacturer Sperry Top-Sider revealed that an increasing number of younger boaters were wearing sneakers instead of the company's classic boat shoes. Sperry knew it had little in-house capability to come up with the innovation its customers demanded, so it quickly turned to New Balance, the athletic-shoemaker, as a co-branding partner. The result? A co-created athletic boat shoe that was quick to market.

Focusing on Process

As Peter Drucker has pointed out, innovation is hard work. Whether it is sought by a lone inventor in a garage, by an R&D organization in a large pharmaceutical company, or through a co-branding partnership, potential innovators need to focus on process, not just results. While even the most auspicious partnerships cannot guarantee innovation, they can build upsides into processes before deals are inked.

In an effort to capture a larger share of Japan's youth market, Toyota and several partners, including consumer-products giant Kao and Japan's largest brewer, Asahi Breweries, co-created the WiLL marketing program. WiLL brought a range of Japanese lifestyle products, from candy to cars to beer, under a single brand name.

Since its launch in 1999, however, the concept has yet to achieve the expected level of attention and cross-product tie-ins. But while two of the original partners are now opting out of WiLL for this reason, both proclaim that the program achieved another valuable strategic objective. Significant partner collaboration – a process goal programmed into the initial deal – enabled departing Asahi "to learn marketing targeted at the younger generation, horizontally," according to a spokesperson.

Although upfront investments are often small for co-branding activities, the associated risks can be much greater. Celebrity endorsements, for example, which sometimes require no more than a quantity of free product, can quickly become a liability if the celebrity, trimmed from headband to sweat socks in the sponsor's logo, behaves badly on camera.

Co-branding creates at least two other, more significant types of brand risk: dilution and devaluation.

Dilution

Dilution occurs when a brand loses its meaning to customers. This was the risk the Cleveland Clinic recognized and mitigated when it merged with 10 local community hospitals in the 1990s to create the Cleveland Clinic Health System. Concerned with how best to lend its superior brand recognition to these institutions without diluting its reputation for excellence, the Cleveland Clinic developed a highly structured, four-tiered program. The first tier is made up of core entities with full rights to the brand; the second tier includes owned entities with their own brands. These partners are allowed to use the system's Cleveland Clinic Health System logo, but only at half size and under their own logos.

Third-tier partners, which include Cleveland Clinic departments in non-owned hospitals, are prohibited from using the logo, significantly reducing the brand's exposure. The fourth tier recognizes outside affiliations of the Cleveland Clinic and allows logo usage, but only in conjunction with other partners' logos, thereby limiting the implied level of association. Because co-branding so often covers multiple offerings and entities, companies would do well to emulate the Cleveland Clinic's granular approach toward mitigating dilution risks.

Devaluation

Brands are also exposed to the risk of devaluation, sometimes virtually overnight. At times, both companies can be affected, as in the case of a partnership between a discount chain and an upscale housewares company. At first, the co-brand created significant earnings for both companies – in one year generating more than $1 billion in sales. But when the discounter filed for bankruptcy the announcement depressed the partner company's stock. It also caused the investment community to question the partner about its contingency plans – an unexpected challenge for a co-brand.

Subsequent bad press about possible criminal activity by the houseware brand's CEO had similar effects and raised similar questions for the discounter's managers. Shortly after the allegations were made public, a consumer tracking firm reported that nearly 20 percent of the upscale manufacturer's customers said that now, because of the negative media attention, they would be less likely to buy the company's products.

Beyond brand risk, leading practitioners have also learned to look for threats to operations, and to address those risks with flexibility. Though brands can be the best of friends, it can often be much harder to make the underlying organizations work well together.

One fast-food chain that serves mostly sandwich fare had unsuccessfully tried co-branding with Italian and Mexican restaurant chains. While these partnerships created great brand synergies, operational friction was created because the co-branded restaurants attracted customers at the same time of day – during the lunch and dinner rushes. The chain went ahead with the deals anyway, overburdening its staff and diminishing the in-store customer dining experience. Finally, the company learned its lesson, and its most recent co-branding partner is a breakfast-food chain.

Another risk of co-branding is believing that the partner brand is omnipotent, particularly when taking on entrenched competitors. One large beverage maker, hoping to successfully enter the children's boxed-juice market, partnered with a global entertainment company to use its cartoon character brands. Nevertheless, the co-branding agreement yielded disappointing results. One brand manager at the beverage company noted the co-brand's pronounced difficulty in gaining consumer trial when challenging well-entrenched, competitively priced alternatives. As a result, the drink-maker has given up hopes of achieving significant margins, cut its product line by one-third, and slashed the cost of some offerings from $2.99 to 99 cents.

Though not all contingencies are foreseeable, many can be overcome with a strategy that's a surefire winner in almost any relationship: choosing a flexible partner. Virgin credits Kyocera's willingness to create an entirely new product – as opposed to repositioning existing products – with making that deal work.

Few businesses have made co-branding work like payment-card leader Visa, which has leveraged each of the four types of co-branding described here to place its offerings everywhere its customers want to be. With more than 1 billion cards in use today in 130-plus countries and territories, Visa's shared network supports nearly $2 trillion in transactions annually. This level of global success makes Visa – a name chosen because it is pronounced the same in almost every language – a highly potent co-brand.

Visa, whose sponsorships have helped it gain worldwide recognition as a brand – most notably with the Olympics, but also with others such as the National Football League and horse racing's Triple Crown – is continuing to build its stable of sponsor relationships. Visa also serves as the key ingredient in numerous affinity-card products, like United Air Lines' Mileage Plus Visa. These highly successful programs offer reward points and airline miles tied to purchases, and include partners ranging from hotel chains and airlines to universities and charities.

Visa created innovation-based co-brand value when it partnered in January 2001 with Palm, VeriFone, and French point-of-sale terminal maker Groupe Ingenico to enable purchase transactions without a Visa card – using instead the infrared port on a Palm handheld computer. This kind of partnering is helping Visa prepare for a time when carrying a plastic card may no longer be the way people shop.

Side by Side

Many benefits from co-branding are hard to quantify, including the increase in brand equity created in the consumer's mind when one brand is associated with another. Take the Ford-Eddie Bauer relationship. A spokesperson for sportswear retailer Eddie Bauer has said that while the company is unable to put a dollar figure on the payback, he is sure the chain's exposure has improved as a result of the partnership. In fact, the relationship is so strong that it just recently passed the 20-year mark, surviving more than 16 model changes at Ford and selling more than a million rolling billboards. Other benefits of co-branding are seen immediately in top- and bottom-line improvement. Allied Domecq has seen annual sales at stand-alone stores jump to more than $1 million after it combined its Dunkin' Donuts, Baskin Robbins, and Togo's brands under one roof, from an average of roughly half that when they are separate stores. Other co-branders, from credit cards to catalogers, have reported similar results, sometimes crediting co-branding with saving their companies.

For businesses looking for new, rapid growth, it may be time to join or create your own brand club. ■

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