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## **Value Creation in Brand Alliances: A Network Approach**

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**Competitive paper**

**Keywords: alliance, brand, governance, network, value**

## Introduction

The main objective of this paper is to propose an analytical framework for the study of brand alliances in using a network perspective. More specifically this paper deals with the conceptualization of networks seen as complex exchange systems, when two or more existing brands are combined together. Indeed, since the pioneering work of Bucklin and Sengupta (1993), the research upon brand alliances has been mainly focused on the impacts of such strategies on the consumer side. Few authors (i.e. Bengtsson and Servais, 2004; Dahlstrom and Dato-on, 2004) have developed research on the organizational side of brand alliances.

Theoretically, our research combines two streams of literature. In the tradition of network theory (Håkansson and Snehota, 1995; Håkansson, Harrison and Waluszewski, 2004), the first stream is the approach of value creation in networks (Henneberg and Mouzas, 2004). This approach helps considering networks as complex exchange systems and provides an overview of “all interactions and relationships that are value-relevant within the holistic value chain” (Henneberg and Mouzas, 2004:22). The network theory allows showing that, when entering a brand alliance, organizations at stake will modify their relationships in order to mitigate risks, to maximize overall value and to make the collaboration successful. This perspective is thus applied to brand alliances *per se*.

A second stream of literature is mobilized: the governance value (Ghosh and John, 1999, 2005a, 2005b) and relational governance analyses (Claro, Hagelaar and Omta, 2003). In this governance literature, brands are considered through the lens of the institutional matrix and device: partners entering into a brand alliance will craft inter firm agreements such as contractual rules, social norms and so on, to protect their specific investments and safeguard the joined value of their brands. Indeed the specific investments developed in such an alliance need to be efficiently managed. This body of literature is helpful in the sense that it provides a precise apparatus (i) to describe the diversity of inter organizational relationships linked to brand alliances with a common theoretical grid (Blois, 2002), (ii) to explain and understand the rationale at work for the (inter) organizational choices and the design of an optimal governance structure, through the search for efficiency.

From these theoretical antecedents, we propose a three-step analytical framework applied to two types of brand alliances. The analysis is conducted for ingredient/host brands and for association/individual private brands. At the empirical level, we show, on the one hand, the wide organizational diversity of brand alliances, and on the other hand, some of the managerial and strategic implications of this diversity.

The paper is organized as follows. In the first part of the paper we will define precisely what a brand alliance is and we will put the notion in the context of previous research on the same subject. In a second part, we will consider the starting point of a network perspective on brand alliances: the question of value and value creation. We show that several authors, in applying the concept of value creation to inter organizational relationships provide valuable insights for the study of brand alliances. In a third part, we will consider another stream of literature, governance value analysis. This literature is a way to link the search for organizational efficiency and the optimal design of a brand alliance from an organizational point of view. Then we propose in a fourth part our analytical framework, applied to two types of brand alliances. Managerial implications and concluding comments follow.

### **Brand alliances: definition and core concepts through a survey of literature**

Following Keller, we will consider that a brand alliance occurs “when two or more existing brands are combined into a joint product or are marketed together in some fashion” (Keller, 2003:360). Thus the creation *ex nihilo*, by two companies, of a new brand combining attributes and/or technology features is excluded. The term alliance refers explicitly to the bundling of the brand itself, conferring to this type of alliance specific characteristics.

Most of the research on brand alliances has been devoted to the impacts and consequences of such alliances for consumers and customers. For instance, in their study of the spillover effect in brand alliances, Simonin and Ruth (1998) show that this effect did not apply to all brands equally. In the same vein, Rao, Qu and Ruekert (1999) provide an original view in addressing the question of brand alliance formation. While many reasons of the interests of brand alliances have been explored (such as market access, spill-over effects etc.) other reasons have been underestimated. Among other reasons, they suggest that brand alliances are able to serve quality as signals when an individual private brand is unable to successfully signal quality independently. The authors show that a brand ally, within a

brand alliance, could be an efficient mean to reveal and create credible information about this unobservable quality. Brand names are then conceptualized as signals and the brand alliance is a mechanisms where “the second brand (the brand ally) can assist in credibly signaling high quality to the marketplace” (Rao, Qu and Ruekert, 1999:261). An important consequence of their research is to show that the motivations for brand alliances can be extended towards economic and reputational benefits.

Considering the category of strategic alliances, the research by Vaidyanathan and Aggarwal (2000) is an excellent introduction on such perspectives. Their framework for the study of brand alliances is proposed in order to explain whether a national brand may benefit a private label brand without hurting its image (of the national brand). This typical research upon consumer perceptions following a brand alliance shows that “the association with a private label product actually enhanced value perceptions of the nationally branded product.” (Vaidyanathan and Aggarwal, 2000:224). But at the same time, the authors show that there is no significant increase in price. We will see further that this trade-off between price and image is a necessary component of the analysis of brand alliances.

To sum up, these works on brand alliances provide valuable conclusions for marketers. Among other things, the results show that the benefits, seen from the consumer side, of brand alliance must encompass several dimensions: impact on brand equity, on market share, on prices, possible negative image on the partner brand.

Let us now consider the authors who study organizational aspects of brand alliances. The seminal work of Bucklin and Sengupta (1993) on co-marketing alliances opens the way on organizational perspectives on brand alliances. Some of these works focused on managerial impacts and consequences of brand alliances, while others are oriented towards conceptualization of the organizational side of branding strategies. In their article, Bucklin and Sengupta identified all forms of co-marketing alliances, including brand alliances, as working partnerships. They added: “this organizational form leverages a firm’s unique skills with specialized resources of its partners to create a more potent force in the marketplace” (Bucklin and Sengupta, 1993:46). Interestingly, they suggest that co-marketing alliances may provide at the same time benefits and opportunism, especially when one of the partners tries to gain market position or to build technological skills at the expense of the other partner. They propose a framework based upon the mutual benefit as a measure of alliance success.

Following this path breaking work, other authors have extended our knowledge on organizational aspects of brand alliances. For instance, Bengtsson and Servais (2004) in their study on co-branding in industrial markets show the importance of connected relations and network position in the success of co-branding strategies. They suggest that co-branding can be a viable strategy when co-branding is a way to establish a long lasting relationship between the partners. Their empirical study is a demonstration of how two companies will modify their network positions through the co-brands, even if the market position is not clearly improved. According to the authors, “especially in the case where a new comer enters into a network where the existing actors within the network has no knowledge of this newcomers’ attractiveness and its resources and activities, co-branding could have a significant impact” (Bengtsson and Servais, 2004:709).

The impact of co-branding on organizational dynamics is also highlighted by Dahlstrom and Dato-on (2004). Their study is focused on retail co-branding (i. e. when two or more retail concepts are available at the same retail location). The authors developed an extended framework of the retail distribution network as a ‘network of buyer-seller relationships’. They show how two retail companies will create “sets of long-term exchange relationships whose maintenance is critical to the success of the channel” (Dahlstrom and Dato-on, 2004:5). The authors start their study in focusing on the brand owner, considered as the focal unit. Consequently they analyze the different steps of the relationship formation. Their theoretical framework is one of the most complete studies on how inter organizational relationships may affect the success or failure of any co-branding strategy. They recognize six business-to-business antecedents that can explain the rationale of network formation in a brand alliance context. For instance, the authors suggest that “the likelihood of establishing co-brand outlets is negatively associated with existence of human assets dedicated to the brand” (Dahlstrom and Dato-on, 2004:8). Interestingly, the authors suggest that these empirically-testable propositions must be linked with other variables such as the strategic objectives of the partners: these objectives could be similar, complementary or even contradictory. In other words, the value content of the alliance need to

be incorporated in the classical theories on inter organizational relationships (hereafter IOR), which usually did not consider these strategic dimensions.

A few other authors have specifically targeted their research on governance mechanisms linked to brand alliance. For instance, in their study of multibranding strategies, Gonzalez-Diaz et al. (2002) give an explanation of governance mechanisms in considering the multidimensionality of the quality of products. For instance food products such as fresh beef have to combine organoleptic quality (taste) and confidence characteristics (for instance fair trade or organic products). So how the competition of more than one brand name on the same product can be solved? To investigate this point, the authors consider that each brand has to find a solution for different types of quality problems. Each brand necessitates particular mechanisms: hierarchies are more appropriate for solving coordination problems, while markets are more appropriate for solving motivation problems. Then the authors provide an in-depth study of governance mechanisms adopted by beef producers when a geographical indication of origin and a private brand name are associated in the same products. Finally, for these authors, multibranding is not redundant but instead complementary, because there is a “specialization of functions which gives rise to an ideal assignment of property rights over the different attributes or dimensions of quality” (Gonzalez-Diaz et al, 2002:11).

In the same vein, Ghosh and John (2005a, 2005b), in their study of the component branding in original equipment manufacturers decisions, offer probably the most detailed analysis of organizational impacts of one type of brand alliance, ingredient branding. They develop a conceptual model that put the stress on three roles of ingredient brands: the differentiation (impact on consumers), the impacts on risks and on monitoring. Through the example of ingredient branding, the authors show that “inter-firm agreements should be crafted to safeguard hazards posed by specific investments while facilitating uncertainties at the least possible costs” (Ghosh and John, 2005a:9). The results validate their assumptions.

Van Durme et al. (2003), in their model on brand equity in cooperative business, give valuable arguments for a perspective on value in business networks. They start with the idea that more and more firms try to create value through cooperative arrangements. For them, brand extensions are not outside this phenomenon: cooperative agreements provide “unique benefits when compared to internally developed brand extensions strategies” (Van Durme et al., 2003:44). Among other benefits, such brand alliances offer “rapid access into new markets yet are less capital intensive when compared to internally developed brand extension strategies, new and multiple market segments can be accessed, economies of scale in marketing can be achieved” and finally “strong bargaining power in the distribution channel leading to charge higher prices (...), potentially greater shelf space” (Van Durme et al., 2003:44-45). But for these authors the benefits of brand alliances are not limited to brand attitude. They propose that “in a network of organizations, brand equity is partly determined by the equity of other brands in the network”. They “specifically include the ‘spill-over’ of the relational construct of trust and reputation”. Their model is defined as a holistic relationship brand equity framework. Finally, they suggest that brand equity “as a market based asset within a broader network structure and in doing so recognizes brand equity as a higher-order formative construct that symbolizes relationships between all stakeholders within the marketing system” (Van Durme et al. 2003:52).

Stemming from these pioneering works on value creation in networks, we will consider the brand alliance as a ‘network for value’: two (or more) companies put together tangible and intangible assets in order to create superior value for the customer, value being “the relationships of a firm’s market offering and price weighed by the consumer against its competitor’s market offering and price” (Kothandaraman and Wilson, 2001:380).

### **Brand alliances and value creation in inter organizational relationships**

The main statement of this research on brand alliances is to consider the *raison d’être* of their creation: the offering of a superior value for the customer. In the literature on brand alliances, relatively few authors pointed out the importance of value creation in brand alliances from a business to business perspective. Usually seen as a benefit, the brand alliance puts forward the meaning of any marketing strategy, which is the creation of value. For Henneberg and Mouzas (2004:7) “a focus on exchange is arguably one of the main ontological characteristics of marketing theory. Exchange in the market place is facilitated by providing an offer that has specific characteristics in the eye of the



customer/buyer, and these characteristics are manifested in the (tangible and non-tangible) attributes of the offer.” Thus “marketing management needs to understand the variables and interactions that are relevant in the whole process of value production as well as the contextual embeddedness of value perception and the characteristics of value considerations throughout the value creating chain.” (Henneberg and Mouzas, 2004:10-11). As suggests Håkansson (2004:253), “a world of interdependent actor systematically interacting concerning the ways partially unknown resources can be combined in order to create value”.

The question of value and value creation in IOR is thus a theoretical beginning of our research. Let us thus consider the notion of value in relation with IOR. As shown by Håkansson, there is an almost strict contingency between the way of organizing exchanges and the value creation process. In a classical market form of exchange, two firms will transact and exchange goods or services in a short term and discrete manner. In relationship exchange, the value is to be found in the process of combining resources in a specific way. The value is created by the exchange, and two key ideas will be of considerable interest for the study of brand alliances: first the idea of resources and resource-ties, second the idea of combination of resources and interrelationships (Håkansson, 2004:253).

The resources are defined, in the IMP tradition, as their design skills, production facilities and willing workers. It is necessary to consider that any resource needs to be activated, i.e. that the “resources of one company are likely to become oriented towards a specific use and will be tied to the resources of other companies” (Ford, 1998:43). So when it comes to the question of resource identification and description, we must understand these resources as a part of an interaction with other companies or actors. The brand alliance, its roles, its objectives, will activate a set of resources, creating resource-ties between the partners of the alliance.

The idea of combination of resources and interrelationships is more complex. The brand alliance has a specificity regarding this question: neither exclusively inter organizational nor only customer (or consumer) related, a brand alliance gives rise to a real ‘network effect’, which is supposed to be positive. Again, in the IMP tradition, no relationships exist in isolation. Within a brand alliance, two aspects have to be acknowledged: firstly, the type of combination that is developed by the two partners, or at least by one of them. This could be for instance a combination of symbolic attributes, with mainly intangible assets. Secondly, the whole process of new product development with shared investments in research and development could be involved.

Another important contribution to the understanding of the link between the value creation process and the nature (and form) of IOR is the concept of market form developed by Blois (2004). Interesting for the study of brand bundling, Blois suggests that it is necessary to relate value creation as “the objective of the marketing of a specific product (called the focal product)”. For Blois, profit is the aim of any firms but when one considers a specific product, this is more a question of value that is at stake. To create value, the company will engage in several categories of ‘exchanges’: some are directly and indirectly profitable, when others are more evasive in terms of profit but nevertheless necessary to create value for end consumers and customers. This is what Blois calls a ‘market form’ or an extended view of market: “a firm’s market form is comprised of those organizations whose activities it perceives: impact on its ability to create value; and, it can influence in a deliberate manner” (Blois, 2004:38). To study the brand alliances –and considering the focus on two brands acting as focal products- would consequently benefit from such a concept. Not only the two organizations working together are necessary to be considered, but more importantly it connects different types of organization whose roles will influence the value creation process.

A complementary stream of thought relevant for the study of brand alliances is the so called value network theory. Henneberg and Mouzas (2004), in the tradition of seminal works in network theory and value network approaches, propose a challenging conceptualization of value network. The starting point of their argumentation -consistent with the basics of marketing theory- lies on a new definition of value. For them, value is a multi-faceted concept that must encompass business-to-business as well as business-to-consumer relationships. For these authors “in gaining a clear understanding of the interactions between organizations and how these create value elements that contribute in a meaningful way to aspects of the customers’ value network, i.e. value realization itself.”

The resulting holistic value network is then disentangled in several components, each of them having a specific rationale for individual members or companies on the one hand, and for customers

on the other hand, within the network. Three levels of value creation are defined: the overall value, the derived value and the value captured. The overall value is the public value level, aiming at satisfying the final customer. The derived value element is the active part of any member of the network to create more overall value to the final customer. Indeed, any member in the network may add resources or new combination of resources that will benefit the final customer. In the words of Henneberg and Mouzas, it derived “from managing the ultimate aim of selling successfully to the final consumer.” Then, the value captured, or value appropriation, represents “the part of the overall income stream of a value chain that a company captures”. This view of value network is particularly relevant for our study of brand alliances. Conceptualized as value networks, the partners in the brand alliance act as a focal network with several other partners around them. Their role will be to create or to contribute to value creation.

A similar view has been developed by Helander (2004) in her research on value-creating networks. She shows that value is a conceptual construct at the crossroads of three notions: the content, the context and the process. The content element considers value as a “trade-off between benefits and sacrifices that are not only monetary but also non-monetary” (Helander, 2004:100). We find in this model the role of the end customer, close to the overall value of Henneberg and Mouzas’s model. Then Helander puts the stress on the process element, which is very similar to the derived value notion: value is more or less dependent on the successfulness of the whole chain. The last element of context gives room to a new notion, which is differential value: all value networks compete with each other. Consequently, the value creation process must also consider the capability of any holistic value network to constantly improve its competitive position.

These conceptual insights on networks seen as ‘value-centered constructions’ are at the basis of the analytical framework developed below.

### **Governance mechanisms and brand alliances**

We propose to complete and extend these challenging views on networks by another stream of theoretical backgrounds, which provides a renewed perspective on brand alliances and helps to a better understanding of their implementation and logic: the governance value analysis. This stream of thought traces back to the seminal work of Ghosh and John (1999).

Firstly, it is necessary to define precisely this notion of governance, and more specifically of governance of inter organizational relations. For Ghosh and John, the concept of governance is being defined as the “rules of engagement that apply to the exchange partners, particularly those rules that are specific to the parties as opposed to general and social rules of society. They include contractual rules, ownership rules, and social rules and norms” (Ghosh and John, 2005b:9). Several other definitions of the governance in networks have been proposed. For Anderson and Coughlan (2002:224), governance will define how the objectives are achieved between the parties: “the framework that are meant to insure orderly pursuit of goals and resolution of conflicts”. In a more recent work, Ghosh and John (2005a: footnote) proposed: “governance defines the explicit and implicit rules of exchange between economic parties. Vertical integration, formal and informal contracts as well as complete and incomplete contracts, and relational norms are example of governance mechanisms”. The link between governance value analysis and brand alliance is suggested by Ghosh and John (2005b): brand contracts, like all contracts “allocate ownership and decision control to the parties at hand, thus governance principles should apply to these contracts as well”. But this is probably Heide (1994) who provides the more complete definitions of governance. For him, governance is a “multidimensional phenomenon, encompassing the initiation, termination and ongoing relationship maintenance between a set of parties”. Governance will include “elements of establishing and structuring exchange relationships as well as aspects of monitoring and control” (Heide, 1994:72).

The interest of this perspective on brand alliances is that it allows their analysis as an institutional arrangement choice. Firms organize their branding strategies exactly as any other type of strategies as long as these decisions imply new modes of organization. As suggested by Ghosh and John (2005b), the core organizing principle of the governance of co-brands is a ‘three-way fit between firm resources, investments and governance that yields the highest net receipt’ (Ghosh and John, 2005b:9). This is especially as an extension of governance analysis towards the concept of ‘heterogeneous firms’ that governance issues seem relevant for the study of brand alliances.

Considering brand alliances, modes of governance will rely, as a first working hypothesis, on the same mechanisms as any other inter organizational relationships between parties. Following Heide, the common feature of any category of relationships is the notion of intentionality: the set of parties that decide to act together in some fashion will craft specific mechanisms. Indeed, following an author such as Mac Neil (Blois, 2002), Heide proposes a governance typology. With the notable exception of discrete exchanges (synonymous of market governance, in Heide's terminology), some form of relationship is crafted and "some deliberate or formalized governance apparatus has been designed to replace the 'invisible hand' of the market" (Heide, 1994:74). For these nonmarket governance forms, Heide makes an important distinction: a bilateral relation occurs when the parties "jointly develop policies directed towards the achievement of certain goals." In a unilateral (or hierarchical) relation, one exchange partner has the ability to "develop rules, give instructions, and in effect impose decisions on the other" (Heide, 1994:74).

Then, Heide (1994:76-77) proposes the fundamentals mechanisms organized in three phases (relationship initiation, maintenance and initiation) that must be briefly described (Heide, 1994:76-78)

- role specification: describe the manner in which decisions and functions are assigned to the parties in the relationships

- planning: refers to the processes by which future contingencies and consequential duties and responsibilities in the relationship have been made explicit ex ante.

- adjustment processes: changes in the relationship that can be mutual, short-term or a priori designed by one party.

- monitoring procedures: contractual compliance by externally measuring outputs or behavior, and internally by aligning the incentives of decision makers ex ante to reduce the need for performance measurement.

- incentive system: links between rewards and performance; wide diversity of the mechanisms, considering the different types of performance measurement, of rewards (prices, market access, exclusivity, share of rents etc.).

- means of enforcement: internal or external means, legitimate authority, legal system, levels of forbearance.

Considering the context of the research on brand alliances, we will summarize these governance mechanisms into three categories: brand ownership and decision rights over the brand, control mechanisms (and especially on the lists of specification related to the brands), and incentive mechanisms (price premium, royalties, fees, etc.)

### **A network perspective on brand alliances: synthesis and analytical framework**

As suggested by Henneberg and Mouzas (2004), "exchange in the marketplace is facilitated by providing an offer that has specific characteristics in the eyes of the customer/buyer". For co branded products, this fundamental assumption remains true: firms entering in a co branding strategy also have an objective of creating a superior offer than their competitors.

The basic idea of our analytical framework is that brand alliances are contingent to network formations seen as holistic value constructions. Two (ore more) independent companies seek to create a specific value for final or intermediate customers/consumers. This decision must be seen as a strategic one: indeed, in doing so, these companies will create and use specific assets, both tangible and intangible. From that assumption, and consistent with the governance value analysis, these partners will search for (inter)organizational efficiency, i.e. the best combination of ownership, contractual rules and social norms.

Following previous researchers in business network theory and governance value analysis (see supra), we suggest a three-step analytical framework: (i) Value creation processes, (ii) Network form, (iii) Governance mechanisms. We will develop successively these three points.

Considering the value creation processes, the main question is, first, what is the value added from the alliance for customers/consumers? And secondly, what are the key assets (tangible and intangible) necessary to create this value? This step will give a tool for the identification of the specific resources involved in the brand alliance. These assets can be indifferently tangible and intangible, inside or outside the two partners of the brand alliance. Allee (2000, 2002) gives a broad view of this question of assets. The idea of intangible and information exchanges, and its links to value networks has been developed by Allee (2004). For this author, intangible exchanges such as strategic

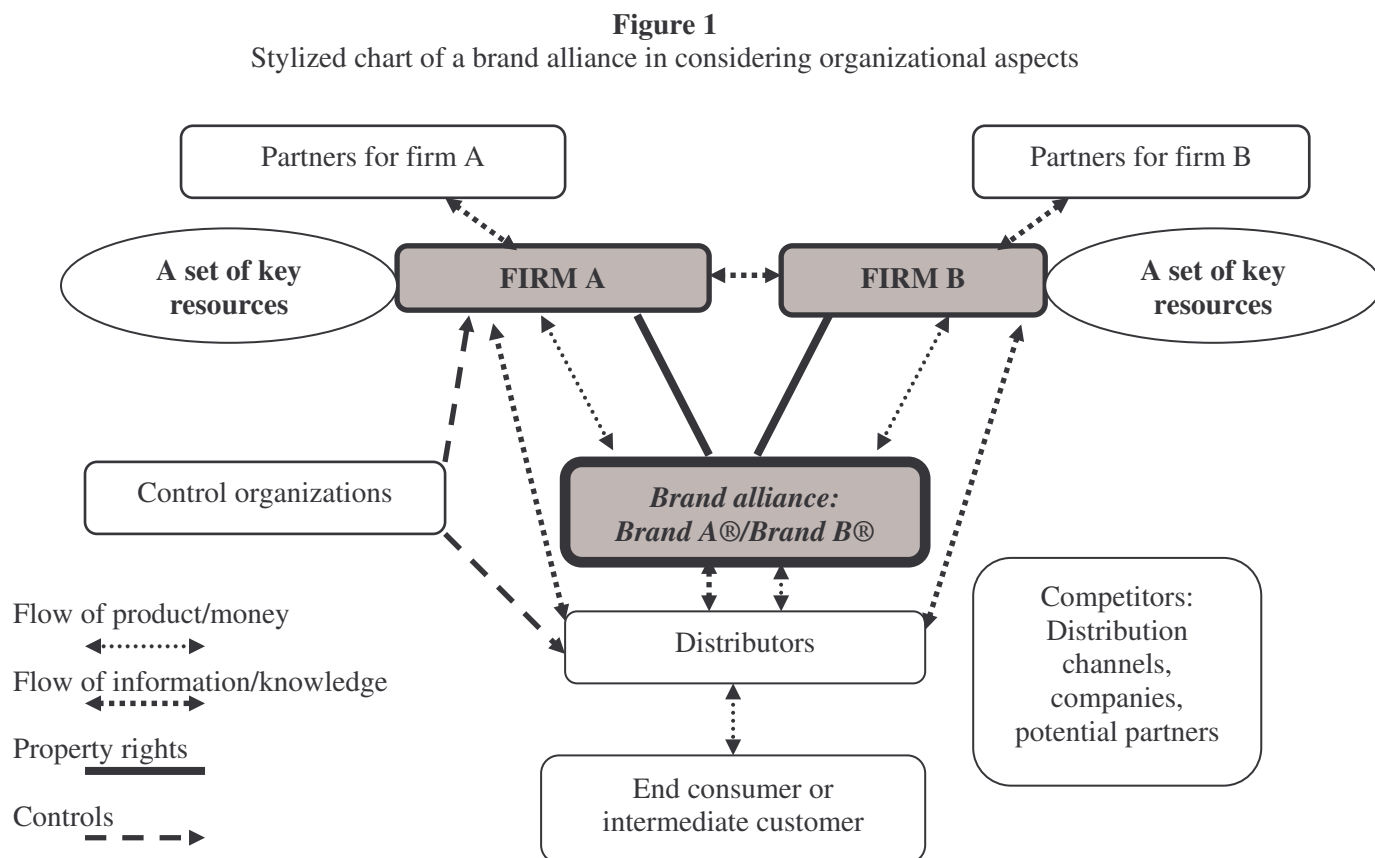


information, planning knowledge or technical know-how are central to modern economies and must be analyzed as real assets especially in their specific relationship to exchange. Indeed, not only real (meaning monetary) exchanges can add value, but also these intangible assets. While some intangible assets may go to market through a conversion to monetary value, some others will go through barter. For Allee (2002:5) barter is “basically a one-time negotiated deal that happens between two or more parties who each have something the other wants. Any time we agree to share or exchange knowledge or favors directly, in a reciprocal way, we are bringing intangibles to market in a form of barter”. This question of resources and core competencies has also been developed by Helander (2004). For this author, competencies are collective learning in the organization.

Secondly, let us consider the network form. The substance of any business relationships is: actors bonds, activity links and resource ties, in the well known meaning of Ford’s definition (1998:42). The network is defined as the set of individual companies and organizations involved in the process of value creation. More specifically, we need to put the stress on the focal network (Alajoutsijärvi, Möller and Rosenbröijer, 1999), i.e. the one where the resources previously identified are embedded. It is important to notice that the word ‘actor’ must be understood as a generic term: this could be a firm, an individual, an association, or even a research partner or a third party not directly involved in the business.

Finally, we will study the governance mechanisms. The allocation of (co)brands ownership and control needs an efficient governance response to exchange hazards. Consequently, the question is to identify and mitigate, by the proper governance mechanisms, all these hazards. Three types of devices will be detailed when studying governance mechanisms: ownership issues, monitoring devices and organizations, contractual issues and relational norms (Heide, 1994). Considering the network form, the question of governance mechanisms in a context of more than a dyadic relationship must be considered. Wathne and Heide (2004) suggest to broadening the existing models of this inter firm governance in considering its contextual setting.

Stemming from these theoretical considerations, we propose the following stylized chart of a brand alliance, showing in a descriptive manner the brand alliance as a source of value, the network form (focal firms, i.e. the partners, and other partners) and the relationships between them (figure 1).



### **Case studies of brand alliances: ingredient/host brands, association/individual private brands**

Research methodology: The empirical part of the paper develops a comparative analysis through two case studies of brand alliances with their afferent network forms, conducted according to the analytical framework. The methodology will combine the multicase study design (Yin, 2003) and the systematic combining approach (Dubois and Gadde, 2002; Dubois and Araujo, 2004). The research methods are mainly qualitative and abductive, with the case being at the same time a tool and a product (Dubois and Gadde, 2002). In opposition with deductive and inductive approaches, the objective of an abductive approach is to discover new variables and new relationships between variables. In the words of Dubois and Gadde, this approach “creates fruitful cross-fertilization where new combinations are developed through a mixture of established theoretical models and new concepts derived from the confrontation with reality” (Dubois and Gadde, 2002:559).

A specific feature of case study research is specifically well suited to our case studies: the question of the mutual boundaries of the case and the research question, that according to Dubois and Araujo (2004:221) “are the two sides of the same coin: it is not possible to arrive at one without the other”. They suggest that “the main part of the analysis of the case is a systematic mapping of the total resource constellation and the different kinds of impacts the focal products development has on related resource elements” (Dubois and Araujo, 2004:219). Translated in the context of brand alliances, the triptych elements of the analytical framework, value creation within the brand alliance/network form/governance mechanisms, is consistent with this view of case study research.

More specifically, the case study methodology followed the research protocol defined by Yin (2003). Considering the sample, the two case studies have been selected because of previous knowledge and contacts. An exploratory survey on the cases validates their interest, especially in comparison with other research works on brand alliances.

The case study protocol combined two steps: data collection and data analysis. Data collection was conducted in using several sources. Business sources such as market studies, articles in professional magazines, interviews with experts gave a global knowledge on the competitive context and specific knowledge on the companies involved in the brand alliances. Other specific sources such as direct (and single) interviews with the participants were the main source of information. According to the situation on the ground, interviews with managing directors, product managers, and operational managers were conducted in following a precise protocol in an iterative manner. The first part of the interviews was a structured questionnaire centered on a descriptive approach of the situation (structure and organization of the companies and of their relationships, facts about the brands, decision processes, strategy followed etc.). Then focused interviews, for each of the case studies, were centered on topics such as the benefits and pitfalls of brand alliances, on the motivations and objectives of the brand alliance. Data analysis was conducted using when necessary the qualitative data software InVivo.

Let us expose and detail the two case studies to be analyzed: a brand alliance between an ingredient brand and a host brand (case study 1) and a brand alliance between an association brand and an individual private brand (case study 2).

#### The case studies:

- Case study 1: Ingredient brand/host brand alliance. In this case, one firm produces a product that will incorporate an ingredient purchased from another firm. The final product or service will use at the same time the brand name of the host company as well as the one of the supplier of ingredients. Benefits and risks of ingredient branding for the host company and the ingredient brand company have been widely acknowledged in the literature (see for instance Desai and Keller, 2002; Rid and Sigurdsson, 2004). But organizational aspects such as marketing contracts, exclusivity, contractual hazards on value have usually been underestimated. The case study chosen is an ingredient brand originated from cactus and added in dietary food supplements. The co branded product has specific dietary attributes and is highly differentiated on the final market (see figure 2).

#### i) Brand alliance and value creation process

This first study concerns the alliance between the brand ingredient NeOpuntia® (Bio Serae company) and the dietary food supplements brand Sveltia, from the host company. NeOpuntia is a dehydrated cactus powder used for thinness. Thanks to its nutritional dietary ingredient, Bio Serae is present on the first market of dietary food supplements: the slimming market. The company invests most of its sales turnover on this market because it is a stable market which enables to increase the market share. By positioning itself on the market of dietary food supplements, Bio Serae looks for flexibility, innovation, a durable growth in time and credibility. The dietary food supplements Sveltia which contains the ingredient NeOpuntia releases dietetic virtues to the eyes of the end consumer, increasing the differentiation of the product.

The market of the dietary food supplements is also a very competitive market under the influence of the fashion effect within the food ingredient business, with a very short life cycle of about eighteen months. Indeed other companies specialized in the food ingredient such as Bierac and Bioland are also strong competitors on this market. So Bio Serae mobilizes key resources to create and maintain its value in the long term. It follows an aggressive communication policy in female magazines (such as 'Elle' magazine in France) and makes publications in scientific reviews. These scientific publications are based on the results of clinical studies which prove the effectiveness of the ingredient in food products. They are also in vitro effectiveness tests in research and development. A communication is also made on the Internet through the newsletters.

Bio Serae and the host company Sveltia chose a strong communication strategy to enable the identification of the product by the end consumer using selective marketing tools: illustrations, graphic charter, a selling argument on the final product which highlights the importance of thinness ingredient (100% vegetable food, natural and so on), with a clear inscription of the two brands names (NeOpuntia® and Sveltia®). All of these actions have led to the sales of more than 120 dietary food supplements based on NeOpuntia brand.

For this brand alliance, the value creation process is clearly in the spill over effects between the two brands, but at the same time depends upon the capacity of each partner to increase its own brand goodwill, while securing its own investments in marketing, research and sales force.

#### ii) The network form: partners and inter organizational relationships

Bio Serae has two main activities: trade, which consists in buying different kinds of raw materials and reselling it to the host companies which makes dietary food supplements and, more importantly, product development. Bio Serae develops an ingredient containing cactus (preparation of an active ingredient) to sell it to the host company. It is this second activity that concerns the alliance between NeOpuntia® and the dietary food supplement brand Sveltia. The commercialisation of the ingredient is done through Bio Serae's network of selected retailers chosen for their competencies and reputation.

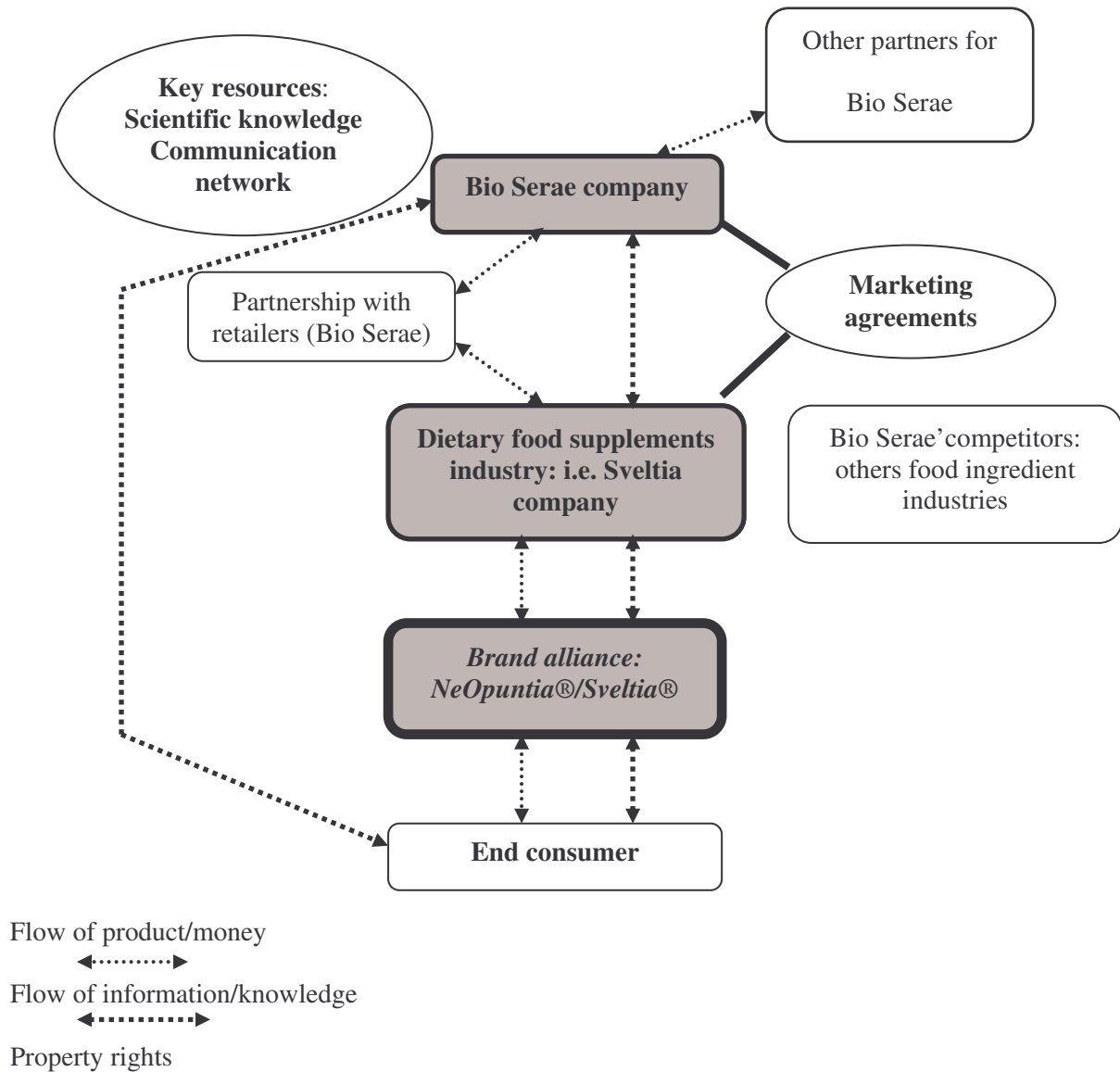
Then Bio Serae mobilizes its services (sales manager, marketing manager, direction of research and development) to develop the ingredient. The whole of the personnel of Bio Serae which is polyvalent and autonomous to making decision as for choice of brand name, receive an adequate training on ingredient. Also Bio Serae operates a good management of deliveries and conditioning of ingredient intended for sales.

Retailers of raw material maintain a real partnership with Bio Serae over a long period of time, unless environmental or political problems occur in some countries. As for dietary food supplement industries, their relationship with Bio Serae relates on the marketing of dietary food supplement containing NeOpuntia. These companies ensure themselves the communication toward consumers by integrating the information conveyed by Bio Serae on NeOpuntia®. Bio Serae can also promote the product. But the relationship between Bio Serae and the consumer is limited to contacts by phone or by Internet (newsletters).

Bio Serae catches the attention of the dietary food supplements industries through scientific papers and participations in conferences. Thus it tries to convince them with its key resources, namely knowledge about the product. Indeed, the dietary food supplements industry can change their decisions according to the evolution of the ingredient on the market. It means that they can decide to incorporate another ingredient in their final product if they estimate to have effectively conveyed the message relative to NeOpuntia in this dietary food supplement. There is no real partnership between Bio Serae and the host companies, the later being only Bio Serae's customers.

So this is important to consider that the core interorganizational relationship in the brand alliance is close to a market relationship, with a strong pressure from other competitors. At the same time, the network form around Bio Serae is similar to a communication network, in the sense developed by Allee (2002, 2004). It is also necessary to notice that Bio Serae wishes to develop its relational links with the end consumers through any means of communication.

**Figure 2**  
**Case study 1: a stylized chart of NeOpuntia®/Sveltia® brand alliance**



iii) The governance mechanisms: monitoring, ownership, control, incentives

First of all, there is of course a direct ownership of the two companies over their brands that allows for a direct control and residual rights over them. But some other mechanisms will modified this initial allocation of rights.

One of the main inter organizational governance mechanism of this brand alliance is a marketing agreement between Bio Serae and Sveltia. This contract delegates the right for Sveltia to use the knowledge over the brand and the brand name itself in following a precise list of specification. This list of specification notifies for instance the dietary properties of the product, the dietary allegations to be signalled, the logo and graphics to be used.

This agreement as well as the deposit of brand ingredient allows fighting against the untrue allegations that could be reproduced at the end product (the dietary food supplement). The marketing contract includes also denunciation clauses related to the non respect of the starting objectives. The beginning of the alliance is conditioned by an evaluation of the financial risks and respect of legislation about food ingredients and dietary food supplements. However, there are regularly reports (exchange of information) between Bio Serae and dietary food supplement industries concerning the evolution of sales, of competitive pressures, of information about final consumers (such as commentaries about the effects of the products).

To have the control of activity and a good reputation which lengthens the cycle of life of ingredient, Bio Serae renews regularly its clinical studies. Indeed it invests in research by selecting small structures made up of doctors in bio chemistry and in micro biology, of partners of distribution on basis of technical and scientific knowledge. Bio Serae waits in return of this investment a protection or an equivalent investment by these industries with which it shares information and makes negotiations about remuneration.

Concerning the incentive mechanisms, there is a strong commitment of the two actors to develop the sales: thus the price mechanism, through price premium and volumes (market share) is by far the main way to increase earnings for the two companies. As long as the differentiation of the final product is sufficient and that the reputation of the brand alliance is good, a virtuous circle is engaged.

- Case study 2: Association brand/individual private brand alliance. Some firms may initiate collective initiatives in order to develop, enhance and protect new and specific features in addition with the firm-specific brands. An association will be the owner of this sign and will organize the marketing and control activities. The main difference with a certification brand is that an association brand will stem from and is totally involved in the business, and has no mandatory aspects. But contrary to the previous case about ingredient brand, the association cannot be considered as a classical firm because it has no direct links with the market. Nevertheless the brand alliance that is created will face similar problems: moral hazards, opportunism, possible conflicts in using the collective trademark. The case study chosen will be an association of private firms (including all the stages of the chain, from the farmers to the processors and retailers) and built around flax. Indeed all products using flax are enriched in n-3 fatty acids (sometimes called omega-3), which is a nutritional benefit for the food products such as processed meat, eggs, bread and so on. Thus these products will be labeled with a specific logo in addition with their own brands (see figure 3).

#### i) Brand alliance and value creation process

This case study is about a brand alliance in diverse food and agricultural products, from flour, bread, processed meat (sausages, hams etc.), milk and dairy products, eggs. In this case the final products will join together a logo, which belongs to an association, with an individual private brand. Our case study will be focused on bread. Let us consider first this logo, called Bleu-Blanc-Coeur®. Created in 2002, this logo puts forward the benefits of flax. Indeed this product has a high content in n-3 fatty acids, which positive impacts upon cardiovascular disease have been widely acknowledged. Then flax can be used either for animal or for human consumption. In both cases it will enrich directly, through for instance flour and bread, or indirectly in feed for animals, the final products such as milk, butter, processed meat and so being enriched in n-3 fatty acids. It is important to consider that the benefits for health puts forward by the brand Bleu-Blanc-Coeur® concerns not only humans but also animals.

This brand alliance creates value for final consumers and direct customers. The value-creation process is complex because several stages of agrifood chains are involved. Let us detail some of key resources that are necessary to create the value. First of all, the positive role of Omega-3 for cardiovascular problems must be permanently demonstrated. The credibility of the brand is to be found in the links between the association, the researchers and the practitioners (MD for instance). Due to the wide range of final products that may include at the end of the chain n-3 fatty acids, and due also to indirect effects (i.e. human consumption of processed pork products stemming from pigs fed with feed containing flax), this research process is almost endless. Consequently the role of the scientific community is paramount: a scientific committee is also directly involved in the running of the association (cf. infra).



The value of the association stems also from spill over effects between the logo and the individual private brand. A market study conducted in 2006 shows these positive effects for consumers, but with significant differences between categories of food products.

ii) The network form: partners and inter organizational relationships

The partner owner of the individual private brand BienBon® is a milling company diversified in bakery products. The brand itself was created in 2005. The company joined the Bleu-Blanc-Coeur® association in 2005. The main objective of the company was to differentiate the product, on a market where margins are very low. Furthermore the sale of breads are decreasing in the long run, but on market segments such as specialty breads the situation is better. This company owns its brands and controls all aspects of its marketing strategy: prices, promotion, sales force, positioning and segmentation.

In 1993, a feed company, Valorex, started the research around flax and linseed: the objective was to develop the knowledge and promote the use of flax for animal and human consumption. Finally this company decided to promote flax through a collective action build around an association Bleu-Blanc-Coeur®, which was created in 2000. Members of the association can be moral or physical persons representing all the stakeholders: private companies, consumers, retail companies, international partners. The association is ruled by a board of directors. The main actions of the board of directors are to set and enforce the rules of the association, to define its activity and to promote its brand.

The general assembly of the members (230 members in 2006) is organized seven colleges of bodies: seed companies, farmers, breeders, food processors, retailers, consumers. Each college of body will elect annually two representatives for the board of directors. The board of directors is thus comprised of 14 members, plus one person representing the scientific council. This board will elect a CEO and a president every period of three years.

Two other committees are also part of the association: a scientific committee and a control committee. The scientific committee guides the association in its research choices and orientations; the control committee has a role of monitoring, enforcement and international recognition. The in-house development of technical and scientific competencies is an important feature of the network form. There is a complementary use of scientific knowledge, internal via the committee and external via the links with laboratories

Another association, called Districoeur, is in charge of the sales promotion and communication tools. This is a subsidiary of the association which role is at the same time to homogenize the communication policy around the brand name Bleu-Blanc-Coeur®.

Other partners are also of importance in the networks, and more especially a third party controlling organization called Certis. This organization is in charge of the control all along the food chain, concerning the use of the brand name and technical use of the flax during the production and processing activities.

iii) The governance mechanisms: monitoring, ownership, control, incentives

The main governance mechanism at the heart of the brand alliance is the direct ownership of the two partners, GMR company and BBC association over their respective brands. While this ownership is similar to any other individual private brand name in the case of BienBon bread, the situation is much more complex with Bleu-Blanc-Coeur brand name.

The association is the only owner of the Bleu-Blanc-Coeur brand. Thus it will provide the right of using the brand name to the members. The situation is very similar to franchising: the association has a licensed brand, thus act as a franchisor, while the members are the franchisees. Moreover, this ownership provides rights to the association over several strategic marketing decisions: communication, logo, list of specification, nutritional allegations, and relationships with research partners.

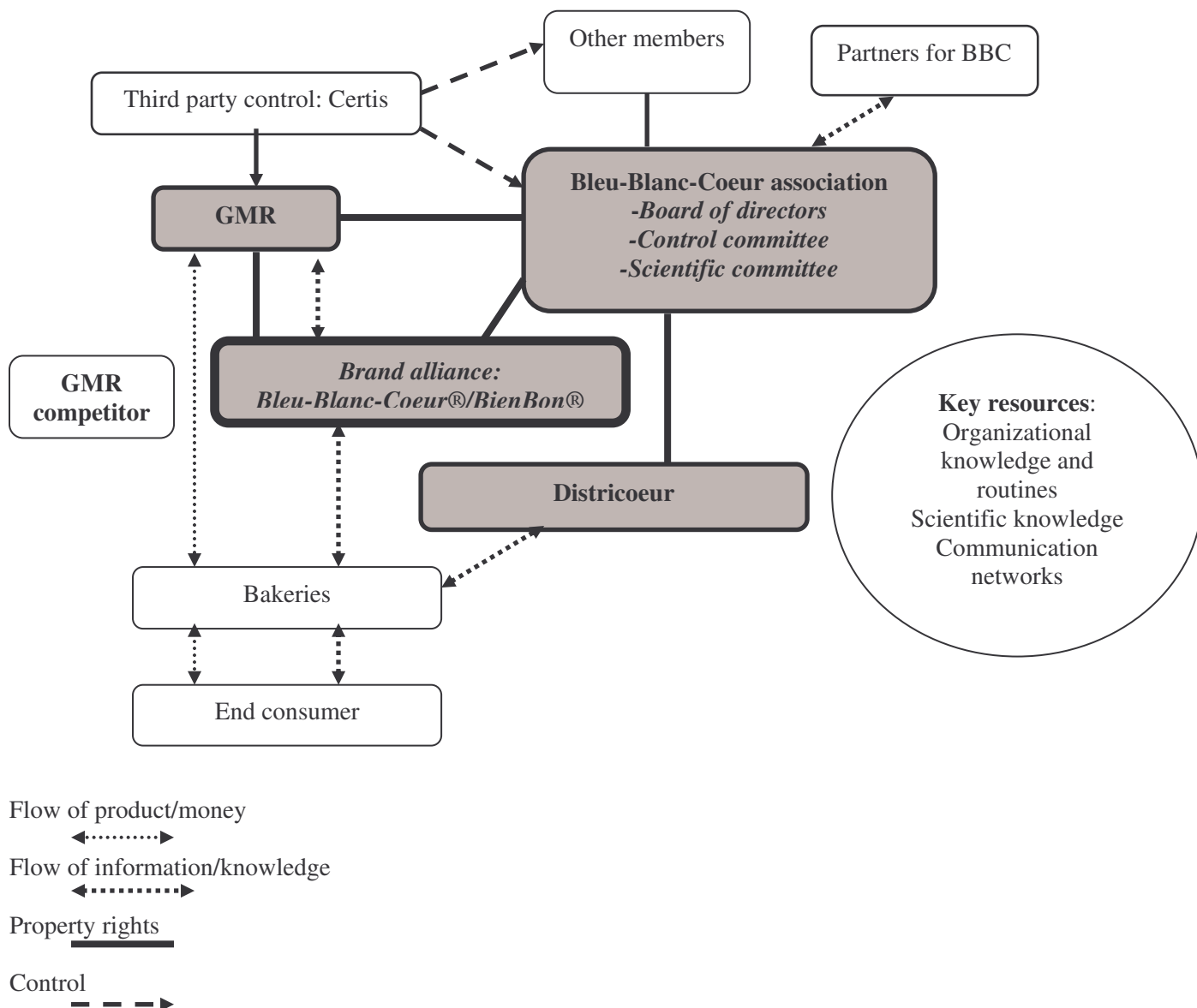
Another important governance mechanism is the right to control several aspects of the technical and marketing process of the host company. All the members are subject to a list of specification concerning the use of flax. Doing so, they have an obligation of using the raw material in their final products. Moreover their communication strategy must be consistent with the

communication charter of the association: rules about nutritional allegations, graphical materials are subjects to direct control.

A third party, the certifying body Certis, will control the respect of the lists of specification as well as the marketing plan. Third party controls are at the origin of the credibility of the brand name.

The incentive mechanisms are two sided. First of all, there is price a premium effect for the members in using the logo Bleu-Blanc-Coeur. Even if this price premium is low (approximately 15% for bread compared with basic products of the same type), it brings also a renewed image of the product and also some market access. Secondly, members have to pay a fee to enter the association plus a fixed amount of money per ton of flax used. Thus there is a balanced effect for the members in being part of the system, expenses versus earnings, which may weaken the link between the association and its members. Indeed the differentiation effect at the basis of the price premium depends upon the exclusivity of the members for their family of products (bread in our case study).

**Figure 3**  
**Case study 2: a stylized chart of Bleu-Blanc-Coeur®/BienBon® brand alliance**



Network forms, governance mechanisms and brand alliances: a synthesis (cf. Table 1)

The following table gives some insights on the two case studies concerning the value content of the brand alliance, its key resources, the network forms and governance mechanisms. We will summarize here a few general statements.

The two case studies show important common features. First of all, the process of value creation appears to be a complex phenomenon and is embedded in a large and somewhat open knowledge network. In the case study 1, the owner of the ingredient brand seems to control the key aspects of the resources and has developed an idiosyncratic community of research centers and scientific researchers. In the case study 2, the knowledge network surrounding the association brand owner is also very dense. At the same time, these two actors have no direct access to the final consumers, and their dependency towards their direct customers is high. We suggest that there is a trend towards internalization of these knowledge competencies that should be confirmed by a longitudinal analysis. This is especially the case in case study 2, where the association is willing to develop a complete and exclusive expertise about flax.

**Table 1**  
**Value content, key resources, network form and governance mechanisms in the two case studies**

|   | <b>Ingredient brand + host brand alliance (case study 1)</b>  | <b>Association brand + private brand alliance (case study 2)</b>   |
|---|---|--|
|   | NeOpuntia ingredient/ Sveltia dietary food supplements  | Bleu-Blanc-Cœur logo/BienBon bread   |
| <b>Value content</b>                                | <ul style="list-style-type: none"> <li>• Dietary effects of cactus</li> <li>• Price premium</li> </ul>  | <ul style="list-style-type: none"> <li>• Nutritional effects of omega 3</li> <li>• Price premium</li> <li>• Market segmentation</li> </ul>   |
| <b>Key resources</b>                                | <ul style="list-style-type: none"> <li>• Scientific knowledge on dietary properties</li> <li>• Market knowledge</li> </ul>  | <ul style="list-style-type: none"> <li>• Access to flax</li> <li>• Organizational routines</li> <li>• Scientific knowledge of nutritional benefits</li> <li>• Market knowledge</li> </ul>  |
| <b>Network form</b>                                 | <ul style="list-style-type: none"> <li>• The brand owners Bio Serae and Sveltia</li> <li>• The marketing agreement between the brand owners</li> <li>• The indirect partners: scientific community, laboratories for tests</li> </ul> | <ul style="list-style-type: none"> <li>• The brand owners: GMR mill and BBC association</li> <li>• Membership of GMR in BBC</li> <li>• Districoeur, subsidiary of BBC</li> <li>• Indirect partners: research centers, MD</li> </ul>                          |
| <b>Governance mechanisms 1</b><br><i>Ownership</i>  | <ul style="list-style-type: none"> <li>• Direct decision rights upon the two brands</li> <li>• Delegation of rights through the marketing agreement</li> </ul>  | <ul style="list-style-type: none"> <li>• Direct decision rights of the association over BBC brand name</li> <li>• Indirect decision rights (delegation) upon BBC, through the association</li> <li>• Direct decision right upon the BienBon brand</li> </ul> |
| <b>Governance mechanisms 2</b><br><i>Incentives</i> | <ul style="list-style-type: none"> <li>• Incentives through the price premium for Sveltia</li> <li>• Incentives through market access for NeOpuntia</li> </ul>  | <ul style="list-style-type: none"> <li>• Direct fees on flax for members</li> <li>• Promotional support for members</li> <li>• Price premiums</li> <li>• Image and market access</li> </ul>  |
| <b>Governance mechanisms 3</b><br><i>Control</i>    | <ul style="list-style-type: none"> <li>• Indirect control on Sveltia brand through tests in shops</li> </ul>  | <ul style="list-style-type: none"> <li>• Control over promotional materials</li> <li>• Control over nutritional allegations of BienBon</li> </ul>  |

The two other companies of case study 1 and 2 (dietary supplements company on the one hand, and the miller on the other hand) share a quite similar situation: a tight link with the market and a direct contact with the consumers. This direct link with the market provides at the same time an important flow of knowledge about the market (competition, consumer attitudes and so on) and strong

incentives to develop successfully the turnover. Let us suggest a hypothesis: the need in a brand alliance of a balanced and mutually situation between the two partners in order to limit opportunistic behaviors. Indeed, the two case studies show a relatively low direct control over several key resources, with the notable exception of course of the brand name capital (which is complete through the brand ownership).

An important distinction between the two case studies is the situation of the two partners regarding the incentive effect of the market price mechanism. In case study 1, the interest of the ingredient company to develop the sales is directly related to the volume of product (thus of ingredient) sold. For the association Bleu-Blanc-Coeur, this incentive is not so strong: an important part of its revenue comes from fees and from subsidies, which are not directly related to the volume sold.

Finally, we suggest considering also the type and perimeter of exclusivity between the partners entering in the brand alliance. Exclusive actors in a brand alliance may secure their benefits (especially through the price premium). But at the same time, this exclusivity may limit market access, thus volumes and finally turnovers. We find here a contradictory phenomenon commonly observed for brands such as Intel Inside® within the computer industry: effects of exclusivity (limitation of the market size but a strong incentive mechanism for the partner through its differentiation and high price premiums), versus effects of non exclusivity (large market access but erosion of the price premium effect thus of the incentives to co-brand). The similarities with this phenomenon will be further explored in the case studies, through an approach of organizational dynamics related to brand alliances.

### **Managerial perspectives and concluding comments**

The network approach of brand alliances gives the opportunity to put the stress on several managerial implications. We will focus on one aspect that could be relevant for managers, i.e. the identification of the major risks in terms of opportunism, and then we will relate these risks with the organizational dynamics of brand alliances and with the strategic objectives of a brand alliance.

The major risks of brand alliances should be clearly identified. We think that the value of the brand alliance is systematically related to key resources of the network because it is the *raison d'être* of this network: knowledge, organizational routines, market information, lists of specification, etc. We suggest that managers should consider neither the direct ownership nor the control of these key resources as important features of a brand alliance, but should instead focus on the mutually interrelated power relationships of their network organization.

The second point of our comment concerns the interorganizational dynamics of the brand alliance and its understanding in the long run. A brand alliance has, as any form of alliances, its life cycle. The origin of this interorganizational dynamics lies in the evolution of the process of value creation which is partly under the control of the partners (demand evolution, strategy of the competitors, etc.). Considering the previous point about the global equilibrium between the partners, a network perspective on brand alliances could give an interesting analytical tool to avoid the main pitfalls when entering a brand alliance, such as hold up problems over key resources or brand goodwill.

Let us then consider the organizational objectives of brand alliances. The network perspective on brand alliance serves as revealing a set of resources always distributed among different actors. We think, as a preliminary result of our investigation, that one of the key success factors of brand alliances in terms of strategic organization is the ability for the partners of the brand alliance to sketch their network position and insure that this position is always balanced and mutually dependent in terms of key resource access.

Theoretically our research proposes a framework for the study of brand alliances. In order to have a full picture of the phenomenon, we have suggested adding, in an integrative analysis, inter organizational components. In coherence with other frameworks of inter organizational relationships (Leuthesser, Kohli and Suri, 2003; Van Durme, Brodie and Redmore, 2003; Claro, Hagelaar and Omta, 2003; Ugglä, 2004; Helander and Ulkuniemi, 2006) our framework gives a holistic perspective on interrelationships surrounding the co management of brand assets. It suggests considering the question of value as the keystone of the analysis of brand alliances, especially when one will question organizational aspects.

Considering the diversity of co-branding strategies observed on the ground (Cooke and Ryan, 2000a, 2000b; Leuthesser, Kohli and Suri, 2003) and the potentially new types of branding strategies to be developed in the future in a context of constant search for differentiation, it may be useful to think of the supply network globally. Such a tool may help managers to identify how to design efficiently their partnerships when they decide to combine, with other companies, assets such as brands.

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