Brand Partnerships and the Determinants for Success

by

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Abstract

Brand partnerships are increasingly common as the cost of developing new products and brands is expensive in terms of both monetary outcomes and potential negative spillover effects to existing brand and products in a firm’s portfolio. This dissertation explores how the risk associated with such brand partnerships can be reduced. In the following three essays brand partnerships in the form of brand acquisitions and co-brand arrangements are explored. Essay 1 focuses on brands joining together through brand acquisitions and the impact on firm value in terms of cumulative abnormal stock returns is used as the outcome variable of interest. In both Essay 2 and 3 co-brand arrangements are explored and the impact on consumer recall and evaluation is the outcome of interest. In all cases, managerial insights are provided to help improve the decision making process of forming such a partnership.
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1.0 INTRODUCTION

Pairing brands together has become a common practice among firms. One cannot grocery shop (i.e., Giant Eagle with Starbucks; Breyer’s Ice Cream with Reese’s Peanut Butter Cup), take a commercial flight (i.e., United Airlines partnership with XM Satellite Radio), or go to a sporting event (i.e., Heinz field hosts the Pittsburgh Steelers) without being inundated with co-brands and strategic alliances. Such brand partnerships span a spectrum from being completely fused together in form and function like component branding (Intel microprocessor inside a Dell computer) or entirely self-standing such as in co-promotion (American Airlines and Hertz). These partnerships can develop in numerous ways including: a firm bringing two or more of its own brands together (Procter and Gamble has combined Febreze with Tide); two or more firms bringing brands together (Eddie Bauer and Ford); or when a firm purchases another brand (FedEx and Kinkos).

While research has looked at various reasons to form such brand partnerships (e.g., Rao, Qu and Ruekert 1999; Varadarajan and Rajaratnam 1986) and has separately explored different types of partnerships such as ingredient branding (e.g., Desai and Keller 2002), co-location (e.g., Iyer and Pazgal 2003), and brand acquisitions (e.g.; Jaju, Joiner and Reddy 2006) very little research has explored what characteristics a firm should look for when choosing a partner based on the specific type of partnership created. One overarching goal of this dissertation is to explore what characteristics of a brand and its partner help facilitate a successful relationship depending on the
type of relationship formed. For example, in Essay 1, I find that in the absence of a brand management system, a high level of fit between the target brand and the acquiring firm’s products produces larger cumulative abnormal returns than if fit was low. In Essay 2 and Essay 3, I explore how hedonic similarity and functional complementarity between the partnering brands in a co-brand increase brand recall and evaluation; however, the impact of these constructs is more important for very highly integrated partnerships such as ingredient branding versus lesser integrated types such as co-promotion.

**Essay 1.** Mergers and acquisitions involving multiple brand names are one type of situation when the characteristics of partnering brands play an important role in the success of the partnership. For example, why was the purchase of Vitamin Water by Coca-Cola in 2007 for $4.1 billion a resounding success, and the purchase of Snapple in 1994 by Quaker Oats for $1.6 billion such a horrible failure. Exploring this issue is important as such transfers of brands and other resources from one firm to another are commonly used as a strategic option for firms that are seeking to expand (e.g., Porter 1987).

The first essay of my dissertation, “When Brands Trade Hands: Factors Influencing Value Creation Following Brand Acquisition Announcements” explores the brand and firm characteristics for both the target and acquirer which facilitate the successful purchase of another brand. In this paper, I investigate the role of brand acquisitions in influencing the value of the acquirer from the perspective of the financial markets. Using the resource-based view of the firm, I argue that the value creation effect of brand acquisition announcements is a function of the target brand strength, the brand strategy used by the acquiring firm, the fit between acquirer and target brand, the acquirer’s degree of diversification, and the presence of a brand management system.
Using a sample of brand acquisitions, the model is tested via an event study approach. Overall, brand acquisitions provide significant positive cumulative abnormal returns to the acquiring brand while acquisitions in the same industries for reasons such as products, research and development or distribution do not. The cumulative returns for the brand acquisitions are then used in a regression analysis and the results show a significant positive effect for brand strength. When the target brand is strong, abnormal returns are larger. Also, two significant three-way interactions are explored. The first is between the presence of a brand management system, fit between the target and acquiring brands, and brand strategy. When a brand management system is absent, the fit between the acquiring firm and target firm is more important for an acquiring firm with a corporate brand strategy than a house of brands strategy. The second interaction between the presence of a brand management system, fit, and diversification shows that in the absence of a brand management system, fit is extremely important when the acquiring firm has a low level of diversification.

Essay 2 and 3. The second and third essays of my dissertation focus on co-branding; or the strategy of intentionally pairing existing brands together and presenting them to consumers (Kotler and Keller 2009). Many of the papers in this research stream fail to provide managerial guidelines that address how and with whom a firm should partner over various partnership types. For example, Park, Jun and Shocker (1996) find that when partnering brands have complementary attributes the joint product is better perceived by consumers; yet this research only looks at highly integrated partnerships such as ingredient branding. Would this result hold for a lower level of integration such as co-promotion? I attempt to address this gap in the literature in Essay 2 and 3 of my dissertation by linking the level of partnership integration with multiple outcome variables.
Completely conceptual, Essay 2, “Co-Branding Arrangements and Partner Selection: A Conceptual Framework and Managerial Guidelines” presents a typology of co-branding formed from insights gained from personal interviews with managers, real world examples and current academic literature. This typology, summarized below, ranks the levels of co-branding from most to least integrated.

- **Co-Development**: the highest level of co-branding where firms pool their resources to *co-create* the product which is completely blended in form and function and it is practically impossible to separate the two brands.

- **Ingredient Branding**: the second highest level (e.g., Desai and Keller 2002). In this scenario two products are developed separately and then combine into one product. In this situation, as in Diet Coke with Splenda, the consumer cannot separate the brands.

- **Component branding**: the third highest level, is similar to ingredient branding; however, the consumer can separate the individual brands (Venkatesh and Mahajan 1997).

- **Brand Bundling**: moving further along the typology, brand bundling is a form of co-branding that positions two functionally compatible, yet separate brands together which are sold as a package (e.g., Stremersch and Tellis 2002).

- **Co-Promotion**: the second lowest level occurs when two brands have standalone value, but participate in an incentive program for joint purchase (e.g., Varadarajan and Rajaratnam); however the consumer is not required to buy both products.

- **Co-Location**: the final, and lowest level of co-branding integration (e.g., Iyer and Pazgal 2003) occurs when two brands are self-standing. Purchasing both may provide more variety or reduce search costs, but there is no monetary incentive to buy both brands.

A series of propositions is then developed which utilize both the mechanisms of attribution and categorization to understand the implications of co-branding integration, in terms of the impact on brand evaluation and brand accessibility. Further, I consider the moderating effects of hedonic congruence and functional complementarity among the partners, as well as the partnering brand’s breadth, on the outcome of the co-branding arrangement. The propositions provide normative guidance on which co-branding arrangements a firm should pursue, and what attributes the co-brand partner should possess, in order to enhance evaluation or accessibility of
its brand. The Managerial Implications section examines how the outcomes of evaluation and accessibility map onto brand and market development goals. Directions for future research are also discussed.

Essay 3, “Co-branding Integration and the Impact on Brand Evaluation and Recall” sets out to experimentally test many of the propositions outlined in Essay 2. Depending on the level of integration between co-brand partners, the importance of different partner characteristics will gain or lose importance. As the level of integration increases, the brands become more dependent on each other and the cause of positive and negative attributes of the jointly branded product are harder to untangle; making the impact on brand evaluation stronger. Also, because the brands are more closely related, the associations in memory should be stronger and recall will increase. Two experiments were conducted which show promising results. While the main effect of integration on recall was not significant there were significant results for the impact on integration on evaluation. The essay concludes with directions for moving forward with additional studies to continue this line of research.

The remainder of this dissertation is structured as follows: Essay 1, 2, and 3 are presented next in separate chapters. A final conclusion is then presented, which discusses the overall implications for this work and directions for moving forward.
ESSAY 1: WHEN BRANDS CHANGE HANDS: FACTORS INFLUENCING VALUE CREATION FOLLOWING BRAND ACQUISITION ANNOUNCEMENTS

General Mills acquired Pillsbury for $10.5 billion in 2000. Coca-Cola acquired Glaceau, producer of Vitamin Water, for $4.1 billion in 2007. These are two instances of acquisitions undertaken specifically to acquire one or more brands. Such transfers of brands and other resources from one firm to another are increasingly used as a strategic option by firms seeking to expand (e.g., Dyer, Kale and Singh 2004; Makri, Hitt and Lane 2010; Hitt, Hoskisson and Ireland 2001). But do they add shareholder value?

Although brand acquisitions are an important strategic tool in marketing, there is limited research as to the impact of brand acquisitions on the financial value of an acquirer. Previous work has shown the impact of brand acquisitions on the value of the target brand (Bahadir et.al. 2008), but little work has explored how the acquiring firm is affected. There are two exceptions to this. The first is a working paper by Wiles, Morgan and Rego (2011) which identifies several variables leading to abnormal returns for firms acquiring brands. Abnormal returns increase for buyers that have strong marketing capabilities and buyers that have identified cost synergies with the acquired brand. Additionally, higher returns are shown when a brand with a high quality position is purchased. Our work takes a more detailed approach of exploring what marketing factors lead brand acquisitions to be successful such as a brand management capability and the brand name strategy of the acquiring firm. The second paper by Mizik, Knowles and Dinner
(2011) explores how changes to the brand names of the target and acquiring firms effect market reactions. For example, firms that combine brand names such as FedEx Kinkos show a better return than those that subsume the target firm’s brand name or keep the target firm’s brand name as a separate entity as P&G did with Gillette. Our work differs from this in that we explore how the branding strategy and capabilities of the acquiring firm (not the firm’s actual brand) impacts market returns when a brand is purchased. Taking the perspective of the acquiring firm is important as the ultimate financial success or failure of the transaction is measured by the market reaction and change in stock price of the acquiring firm.

The broader literature on mergers and acquisitions has examined the impact of acquisitions on acquirer and target value. The results are mixed in this regard. Most previous work in the context of mergers has shown that many acquisitions do not create value for the acquirers (e.g., Dyer, Kale, and Singh 2004, Marks and Mirvis 2001). However, other studies have found that mergers and acquisitions can be a major source of firm value under specific circumstances (Bradley, Desai and Kim 1988; Hitt et al. 2009; King, Slotegraaf and Kesner 2008; Makri et al. 2010; Jensen and Ruback 1983; Malatesta 1983; Seth 1990). For example, King et al (2004) argue that some types of acquisitions lead to more positive returns than others, and specific characteristics of acquisitions can influence whether value creation occurs; however many of these have yet to be discovered. In this work we will show that while many acquisitions within the industries of Health and Beauty, Pharmaceuticals, and Food and Beverage do not lead to positive results, those acquisitions described as “brand acquisitions” lead to positive abnormal returns.

1 Throughout the paper, the term “value” or “value creation” is in reference to the cumulative abnormal returns (CAR) accrued after the acquisition. CAR result from the positive (or negative) perception of the transaction in the marketplace.
The brand acquisitions are then explored further using research on mergers identifying various factors that may contribute to acquirer value. For instance, one factor that has received a lot of attention in the literature is fit between target and acquirer. Despite its acknowledged importance, a review of the literature suggests that there is a lack of consensus as to when such target-acquirer fit plays a role in creating value for the acquiring firm (Kim 2004). Whereas some research demonstrates the importance of fit between merging firms (e.g., Shelton 1988; Datta et al. 1992; Singh and Montgomery 1987), other research suggests that differences or lack of fit across merging entities or complementarity is more valuable (Harrison et al. 1991; King et al. 2008; Larsson and Finkelstein 1999; Makri et al. 2010). Reconciling these divergent findings, Swaminathan, Murshed and Hulland (2008) suggest that the impact of fit (or relatedness) may depend upon the objectives of the merger.

Building on this cornerstone idea that target-acquirer fit critically affects subsequent acquirer value, we identify three factors that can interact with fit to attenuate or strengthen its impact on firm value in the acquisition context: (1) acquirer brand name strategy; (2) extent of acquirer diversification; and (3) acquirer brand management capability. First, we suggest that investors are more likely to be concerned about lack-of-fit when the acquirer has a house-of-brands strategy (i.e., multiple distinct brands are supported) compared to a corporate brand strategy (i.e., all products are sold under the same brand). An acquired brand that fits well can be easily rolled into an existing brand portfolio when a house of brands strategy is used. In contrast, when a corporate brand strategy is employed, the target brand, whether it fits with the existing portfolio or not, is more likely to be eliminated or otherwise subsumed under the acquirer’s corporate brand, having negative implications for brand acquisition success (Jaju, Joiner and Reddy 2006).
Second, the acquirer’s degree of diversification can moderate the role of fit between acquirer and target in value creation. When the acquirer has a narrow focus and has typically focused on a single industry, a brand acquisition involving an unrelated industry may raise concerns about the acquirer’s ability to manage unrelated acquisitions. In contrast, a diversified acquirer has a proven ability to manage unrelated businesses, which may alleviate investor concerns about the acquirer’s ability to successfully integrate the acquired brand(s) into its existing brand portfolio.

Finally, we build on work in the strategy field showing the critical role of capabilities as a catalyst for acquisition success (Makadok 2001). Within marketing, scholars have focused on the impact of acquirer marketing capabilities on merger success (e.g., Bahadir, Bharadwaj and Srivastava 2008; Capron and Hulland 1999). In this paper, we look more carefully at the acquirer’s brand management capability, and consider it as an important boundary condition for the above effects. We posit that this capability is a critical success factor that influences the success of a brand acquisition and moderates the aforementioned interactions of fit with both acquirer brand name strategy and acquirer diversification.

In summary, the focus of the present research is on developing and testing a framework of value creation (as perceived by the market place) following brand acquisition. We focus on brand-intensive industries such as packaged goods, pharmaceutical, and healthcare. Further, we identify target brand strength, fit between target and acquirer, brand name strategy of the acquirer, the acquirer’s degree of diversification, and the acquirer’s brand management capability as factors that influence the acquirer’s value. We go beyond the main effects of these factors and examine their interactions, thereby extending recent research that has sought to examine mergers and acquisitions from a marketing perspective (e.g., Bahadir, Bharadwaj and
Srivastava 2008; Capron and Hulland 1999; Homburg and Bucerius 2005; Jaju, Joiner and Reddy 2006; Prabhu, Chandy, and Ellis 2005). For example, the brand name strategy of the acquiring firm plays an important role in the reaction of the market; however, it does not play a role when there is a strong brand management capability present.

The rest of the paper is organized as follows. In the next section, we present the results of our event study. We then explore the theoretical background for the key issues outlined and develop the hypotheses. The method and results are presented next. In the final section, a summary and discussion outlining the limitations, implications and areas for future research of this work is included.

2.1 THEORY AND HYPOTHESIS

Do Brand Acquisition Announcements Lead to Abnormal Returns?

From the perspective of the resource based view (RBV) acquisitions are a method of obtaining new and expanding existing assets and capabilities. Obtaining such assets and capabilities can be quicker and possibly more cost effective than creating them (e.g., Haspeslagh and Jemison 1991). While value may be created if synergies exist between the acquirer and target firms (e.g., Dyer, Kale and Singh 2004); generally, investors do not always react positively to an acquisition announcement, and acquisitions are not found to create shareholder value (for a comprehensive review see King et.al. 2004). When investors react to new information about a company and the stock price change is significantly different than what would be expected without the information this is an abnormal return. Abnormal returns can be either positive or
negative and when they are summed over a number of days this is referred to as the cumulative abnormal return (CAR).

Typically, research has shown that acquiring firms do not have abnormal returns when the target is either related or unrelated in product, market or technology areas as resources are often underutilized (Singh and Montgomery 1987). While acquiring capabilities in R&D, a new product line, or a manufacturing facility may seem beneficial, firms show zero or a small insignificant negative return because the market does not expect synergies to be realized. For example in the area of R&D it has been shown that internal R&D knowledge helps facilitate innovation by moving the appropriate project forward as well as incorporating external knowledge into the firm (Arora and Gambardella 1994; Cassiman and Veugelers 2002). Also, when R&D is acquired instead of grown organically, the firm actually invests less in innovation (Hitt et.al. 1991). Previous research makes it apparent that organic growth in these areas, while risky and expensive, may be more beneficial in the eyes of the financial markets compared to acquiring these resources (King et.al. 2004).

It has also been shown that positive returns will accrue to a target firm but not to the acquiring firm (Bahadir et al. 2008). Additional research calls for more studies, similar to that of King and co-authors (2008), which identify particular situations when acquisitions will create value for shareholders (King et. al. 2004).

One such situation where acquisitions have been shown to create value is when a brand name is involved in the transaction (Wiles, Morgan and Rego 2011). More specifically the authors show brand acquisitions in 31 industries create value when a marketing capability is present in the acquiring firm, cost synergies exist, and a large brand is purchased (Wiles, Morgan and Rego 2011). Marketing resources are an important part of the overall resource base of a firm
(Day 1994; Dierickx and Cool 1989), and some marketing resources – particularly those that are intangible, such as the equity associated with brands (e.g., Keller 1993) – are rare, valuable, imperfectly imitable, non-substitutable and immobile (Capron and Hulland 1999). The primary objective of a brand acquisition is to gain access to the valuable resources that a particular brand provides. Brands provide name recognition, reduced switching behavior, reduced costs, and provide a price premium (Srivastava et al. 1998). These benefits provided by the brand have a strong positive relationship with stock price behavior (Aaker and Jacobson 2001; Barth et al. 1998; Rego, Billet, and Morgan 2009) and will translate into favorable investor reactions to a brand acquisition announcement. Confirming previous results we propose:

**H1a:** There will not be significant cumulative abnormal returns for acquisitions when the announcement is related to research and development, distribution and manufacturing, and products.

**H1b:** There will be significant cumulative abnormal returns for an acquisition when the announcement includes a brand name.

*What Factors Impact the Return of a Brand Acquisition Announcement?*

Due to their intangible aspects, acquiring brands is not simply a matter of transferring resources from one firm to another (Srivastava, Shervani, and Fahey 1998). Rather, a number of conditions must be present in order to ensure the successful transition from a target to an acquiring firm. Specifically, we argue that target brand strength, acquirer brand strategy, fit between acquirer and target industries, acquirer brand management capability and acquirer
diversification interact with each other to create value following a brand acquisition. A summary of the proposed framework is provided in Figure 1. We outline our arguments for various components of the conceptual framework and provide hypotheses below.

**Focal Main Effect**

- Brand Strength (H2)

**Other Relevant Variables**

- Fit
- Acquirer Brand Management Capability
- Acquirer Brand Name Strategy
- Acquirer Diversification

**Focal Interaction Effects**

- Fit * Acquirer Brand Management Capability
- Acquirer Brand Name Strategy (H3)
- Fit * Acquirer Brand Management Capability * Acquirer Diversification (H4)

**Control Variables**

- Industry Size Ratio
- Acquirer's Age
- Target Industry Growth Rate
- Acquirer's Sales and Advertising Expenditures
- Acquirer’s Operating Margin

![FIGURE 1: Conceptual Model of Brand Acquisition Success](image-url)
**Brand Strength.** There is substantial evidence that investors reward firms with strong brands. Strong brands have been shown to strengthen positive reactions to brand extension announcements (Lane and Jacobson 1994) and contribute positively to stock returns (Aaker and Jacobson 2001; Barth et al. 1998); further, strong brands can also minimize the risk associated with stock returns (Rego, Billet and Morgan 2009). These results suggest that there is a strong, positive relationship between brand strength and stock market value.

There are various reasons why the acquisition of strong brands results in greater firm value. Strong brands help signal a level of quality, encouraging loyal consumers to make repeat purchases (Erdem 1998). This brand loyalty can create significant barriers to entry that result in greater competitive advantage (Keller 1998). A well-differentiated brand can be a foundation from which to launch new products, improve relationships with channel partners and help to earn higher distribution clout in the marketplace. An acquired brand can also offer opportunities for co-branding and cross-selling with existing brand offerings, thereby creating valuable spillover effects on an acquirer’s products (Keller 1998). Additionally, the acquired brand can appeal to new market segments and ensure greater market coverage (Basu 2002). Past research has shown that in a hypothetical merger situation, brand equity (or brand strength) explains a significant portion of the variance in the perceived value of the merger (Mahajan et al 1994), and also affects target brand value (Bahadir, Bharadwaj and Srivastava 2008). To the extent that investors are aware of these positive effects of brand strength on firm performance, we expect the following:

**H2:** The strength of the target brand has a positive impact on acquirer’s firm value following the announcement of a brand acquisition.
Other Independent Variables

As indicated in Figure 1, while we anticipate a main effect of brand strength on firm value, the effects of the remaining independent variables are expected to interact. Before discussing the two key interactions shown in this figure, we first individually introduce and describe these other independent variables (fit, brand management capability, brand name strategy, and diversification) in the sections below.

Fit. The degree of fit between the acquired brand and the acquirer’s product portfolio has important implications for the success of the brand acquisition. Research looking at the similarity between firms has been a focus of previous research in the mergers area (Rumelt 1974; Salter and Weinhold 1979; Singh and Montgomery 1987; Swaminathan, Murshed, and Hulland 2008) and focuses on relatedness as reflected in the transfer of functional skills between businesses (such as R&D, marketing, production and distribution). Rumelt (1974) considered merging businesses to be related if they serve similar markets, use similar production technologies, or exploit similar scientific research. Fit has been shown to lead to positive dollar gains (Shelton 1988) and positive cumulative abnormal returns (Singh and Montgomery 1987). There are three benefits that arise from relatedness: economies of scale, economies of scope and market power. Economies of scale are realized when merging firms have the same products. Economies of scope arise when resources are shared across more than one product (e.g., brand names). Market power benefits arise when merging firms operate in the same industry. Marketing integration between the acquirer and target has also been shown to positively affect the value of the transaction (Homburg and Bucerius 2005).

What this means in the brand acquisition context is that acquired brands can create more value when they are related to a firm’s core business than when they are not. When acquired
brands “fit” with existing brands, the opportunities for shared production facilities, marketing activities, and knowledge may result in greater efficiencies. Arguments regarding the importance of fit (or relatedness) can also be made from a consumer behavior perspective. For example, using a categorization view, greater fit between brands makes it easier for consumers to transfer affect from one object to another (Aaker and Keller 1990). Given this, consumers’ reactions to ownership changes of brand names may depend on the degree of perceived fit between the new owners and the acquired brand names.

*Brand Management Capability.* Acquiring a strong brand creates a competitive advantage for a firm, but a superior brand management capability is also needed to maintain this position (Day 1994). For example, Hulland, Wade, and Antia (2007) show brand management capabilities are a significant driver of sales and performance in the online retailing industry. In the brand acquisition context, possession of a superior brand management capability will help overcome a firm’s natural tendency to focus on its existing brand portfolio (which it understands); furthermore, the lack of a superior brand management capability may result in inadequate attention being dedicated to the acquired brand.

A company with a brand management structure is likely to have management of brand equity as a corporate goal, recognizes brands as critical assets, has integrated brand management into its corporate strategy, and is willing to devote considerable resources to managing brands (Shocker, Srivastava and Ruekert 1994). Lee et al. (2008) show that a more organized, developed, and efficient brand management system leads to increased brand performance.

More important, brand management capability should be viewed in conjunction with other brand acquisition characteristics in order to fully understand its value creation impact. We describe these subsequently.
Brand Name Strategy. Another factor influencing brand acquisition success is the brand name strategy of the acquirer. The brand name strategy employed for products can range from using a corporate name for all products (e.g., Sony) to using individual brand names that are completely unrelated to the corporate name (e.g., Crest, Tide, and Oil of Olay are all brand names for products manufactured by Procter & Gamble). A mixed strategy can also be used when some products fall under a corporate name (e.g., Johnson & Johnson) but the firm also owns products under individual names (e.g. J&J also owns Aveeno, Neutrogena, etc.).

Rao et al. (2004) investigate the role of the aforementioned branding strategies (i.e., corporate branding versus house-of-brands) on firm value; they find that firms using a corporate branding strategy in general are valued more highly (i.e., they have higher Tobin’s q values). Extending this to a brand acquisition context, it can be argued that when the acquired brand has a corporate name strategy, the acquisition of a target brand will eventually result in a name change for the target brand as the brand gets integrated into the umbrella brand of the acquirer company. For instance, when Marriott Senior Living acquired Sterling Senior Living, the naming strategy of the acquirer (i.e., use of the Marriott corporate name) implied that a name change had to take place following the acquisition. Such a name change (e.g., Sterling Senior Living changing to Marriott Senior Living) invariably implies an accompanying change of other key brand elements (e.g., logo, trademark), implying substantial target brand redeployment.

On the other hand, when the acquiring firm uses a house of brands strategy, the likelihood of the acquiring firm making changes to the key brand elements associated with the target brand is lower. By preserving the foundations of the target brand, the risks inherent in making changes to the key brand elements and damaging the equity of the brand is minimized.
Acquirer’s Degree of Diversification. A high degree of acquiring firm diversification is likely to weaken the value creating effect of brand acquisitions. The literature on the ‘diversification discount’ argues that firms should focus their businesses around core competencies and empirical findings have demonstrated that diversification can weaken firm value (e.g., Burch and Nanda 2003; Dennis, Dennis and Yost 2002). In the marketing context, Varadarajan et al. (2001) suggest that firms that engage in “deconglomeration” by selling or divesting unrelated businesses actually gain significant advantages in terms of greater customer and competitor orientation and by being more innovative. The key feature distinguishing conglomerate and deconglomerate firms is that the former is largely composed of unrelated businesses (i.e., highly diversified) rather than fewer, related businesses (i.e., low degree of diversification).

Interaction Effects

As noted earlier, a crucial determinant of post-acquisition success is the acquirer – target fit. However, past research suggests that fit in isolation explains only part of the story (e.g., Hitt et al. 1991; Swaminathan, Murshed, and Hulland 2007), and that its interaction with other constructs must also be considered. We have already identified the acquirer’s brand management capabilities as a critical success factor that influences the success of a brand acquisition, and that moderates both the interaction of fit with acquirer brand name strategy and the interaction of fit with acquirer diversification. Both of these three-way interactions are described more fully next.

Fit, Acquirer Brand Management Capability, and Acquirer Brand Strategy. The impact of fit on firm valuation is likely to vary based upon the brand name strategy of the acquiring firm. When the acquiring firm uses a corporate name, all of the products in its portfolio are branded with the same name and tied to the consumers’ perception of the firm (Jaju et al. 2006).
When this link between brand and firm is strong, as in the case of a corporate brand name strategy, it is more likely that spillover effects will negatively impact the acquiring firm if a product in the portfolio performs poorly (Simonin and Ruth 1998). In a corporate branding situation it is extremely difficult to incorporate a new brand into the product portfolio even if it is closely related to the other products in the portfolio as a brand name change will most likely occur. Even if the new brand fits well with the existing products a name change implies a loss of equity and investors will not reward this situation (Jaju et al. 2006).

Conversely, when the acquired brand name has a house of brands strategy, there is no apparent link between the individual name and the corporate name. In such cases, the consumer’s need to process information regarding the corporate-individual name link is lower, and the chance of a negative association between the corporate name and its branded products is reduced. Therefore, we suggest that there is an interaction between fit and brand name strategy such that the impact of fit is greater when the acquired brand has a house of brands strategy and lower when the acquired brand has a corporate brand strategy (e.g., Jaju, Joiner and Reddy 2006).

Furthermore, this interaction between fit and brand name strategy will differ based on the presence (or absence) of a strong brand management capability in the acquiring firm. The presence of a strong brand management capability in the acquiring firm should facilitate the redeployment of resources of the target brand under all conditions (Bahadir, Bharadwaj and Srivastava 2008). Conversely, when a weak brand management capability is present, it is difficult for the acquiring firm to accommodate an ill-fitting brand (Jaju et al 2006).

To illustrate this point, consider the following two examples. In 1998, Ocean Spray acquired Nantucket Nectars, a strong player in the “new age” beverage market with a 35% gross
margin and strong growth potential. After the acquisition, sales remained below $100 million and profits were slim. By trying to avoid a fate similar to that of Quaker Oats and Snapple, Ocean Spray followed a “hands-off” approach and let the founders of the Nantucket Nectars company continue to operate the firm independent of Ocean Spray. Unfortunately Nantucket Nectars lacked the resources necessary to capitalize on the brand’s strengths and grow the business. Due to a struggling parent brand, Ocean Spray did not step in to help, and just 4 years later, Ocean Spray sold Nantucket Nectar’s to Cadbury.

In contrast, the acquisition of St. Joseph’s aspirin by Johnson & Johnson was a resounding success. Purchased from Schering-Plough Corp in 2000 for only $2.5 million, St. Joseph Aspirin was a dormant brand with miniscule revenue. Historically, St. Joseph Aspirin had been a strong brand in households in the 1940s and 1950s; however, in the 1960s the product suffered when aspirin related products were linked to Reyes syndrome in children. Attempting to capitalize on the childhood memories and nostalgia of baby boomers, J&J revitalized the brand as a once-a-day medication to reduce the risk of heart attacks. Within a year of the acquisition, St. Joseph’s distribution increased from 12% to 95% and sales were $20 million.

When comparing these two examples, it is clear that the brand management capability of J&J was much stronger than that of Ocean Spray. J&J was able to capitalize on the expertise of marketers in their firm, appropriately design and implement advertising and promotional strategies to their target market, and gain access to retailers and shelf-space to due existing relationships. We postulate that when the acquiring firm has a strong brand management capability, the acquiring firm will be better able to transition a newly purchased brand into the firm’s existing product portfolio than if a brand management capability is weak. Additionally, based on our earlier argument that it is harder to incorporate a newly purchased brand into a firm
with a corporate branding strategy versus one with a house of brands strategy (Jaju, Joiner and Reddy 2006), it seems logical that the presence of a brand management capability can ease this transition and lessen any negative effects. A strong brand management capability can overcome the challenges posed by lack of fit. Therefore, we posit:

\[ H_3: \text{ There is a three-way interaction between brand management strength, fit and brand name strategy. Specifically, we posit that the two-way interaction of fit and brand name strategy will vary based on the presence of the strength of the brand management capability in the acquirer firm such that:} \]

\[ H_{3a}: \text{ When the acquirer’s brand management capability is weak, the interaction of fit and brand name strategy will be significant. Specifically, a high (low) level of fit has a greater positive (negative) impact on abnormal returns when the acquirer employs a house of brands strategy versus when the acquirer uses a corporate brand strategy.} \]

\[ H_{3b}: \text{ When the acquirer’s brand management capability is strong, the interaction of fit and brand name strategy will not be significant.} \]

_Acquirer Brand Management Capability, Fit and Acquirer Diversification._ The fit between the acquired brand and the acquirer has a lower impact when the acquirer has a highly diversified portfolio. A diversified acquirer is likely to be viewed as having a proven ability to succeed in managing a variety of unrelated businesses, thereby minimizing the role of fit. In this case, investors are likely to evaluate a poor fitting brand acquisition less harshly than when the acquirer has a narrower portfolio.

Furthermore, it is likely that an acquiring firm’s brand management capability will also moderate this relationship between fit and diversification. Because a strong brand management capability allows the acquiring firm to better integrate a new brand into its product portfolio, the impacts of fit and diversification will be much less important. The acquiring firm can use its...
currently available resources to capitalize on the strengths of the target brand. For example, J.M. Smuckers Co., a firm with a moderate to low degree of diversification purchased Jif peanut butter and Crisco from Procter & Gamble in 2001 for $1 billion. While it may be argued that Jif “fit” with Smuckers due to the classic complementarity between jelly and peanut butter, Crisco was certainly a very different type of product. However, due to their excellent brand management skills, Smucker’s was able to exploit the brand strength of Crisco and Jif, and profits rose 87% in the first quarter of 2002.

When a strong brand management capability is missing, an acquirer with a high degree of diversification is likely to have established an ability to manage unrelated businesses, compensating for the absence of a superior brand management capability. Given their diversified portfolios, such firms should be equally capable of managing both high and low fit brand acquisitions. In contrast, when the brand acquiring firm has a narrow portfolio, its ability to manage a high fit brand acquisition is likely to be greater than its ability to manage low fit brand acquisitions. It could be that a firm with a narrow portfolio (i.e., less diversified firm) is organized around one or two core competencies critical to its success within a given industry; when acquiring a target firm within the same industry, it is in a better position to apply these core competencies to derive greater success from the brand acquisition. Therefore, we posit:

\[ H_4: \text{There is a three-way interaction between brand management strength, fit and diversification. Specifically, we posit that the two-way interaction of fit and diversification will vary based on the presence of a brand management capability in the acquirer firm.} \]

\[ H_{4a}: \text{When the acquirer’s brand management capability is weak, the interaction of fit and diversification will be significant. Specifically, a high (low) level of fit has a greater positive (negative) impact on abnormal returns when the acquirer has a low level of diversification versus when the acquirer has a high level of diversification.} \]
H4b: When the acquirer’s brand management capability is strong, the interaction of fit and brand name strategy will not be significant.

2.2 METHOD

We use an event study approach to investigate when acquisitions create value. The use of event study methodology to study the effects of marketing announcements is widespread (e.g., Chaney, Devinny and Winer 1991; Jarrell and Peltzman 1985; Lane and Jacobson 1995; Swaminathan and Moorman 2009). Because of market efficiency, the examination of abnormal or excess stock returns provides unbiased estimates of the future earnings (change in market value) generated by the announcement event (Fama 1970). The methodological assumptions -- grounded in financial theory and supported by empirical research -- are that investors will: (1) rapidly assimilate the implications of an acquisition announcement; (2) collectively predict long-term future cash flows (both on the revenue and cost sides); and (3) either buy or sell, depending on whether their expectations indicate that the stock price is too high or too low. Thus, the change in stock price following a brand acquisition announcement provides a market-wide, unbiased estimate of the future long-term earnings from the acquisition.

Data

We use a comprehensive dataset of acquisition announcements drawn from the SDC Platinum Database. The initial sample contained all mergers and acquisitions from 1990 to early 2009 in three business-to-consumer industries that traditionally offer branded products (health and beauty, food and beverage, pharmaceutical industries). We chose these industries because firms within them typically undertake a large amount of marketing activity towards consumers,
and as a result brands can potentially play a strong role in influencing consumers’ purchases. In order to estimate the excess stock returns, the sample was reduced to be comprised of acquirer firms publicly traded in the United States. The sample was then coded based on the announcement of the transaction. Each acquisition was labeled based on the deal synopsis as dealing with brands, products, research and development, manufacturing and distribution or unknown. The agreement between two coders was 92% and all disagreements were resolved by discussion. Fortunately no announcements contained more than one reason for the transaction.

843 acquisitions were discarded because the announcement did not describe the reason for the transaction. Because many of the target firms were not public companies additional data points were discarded due to lack of data for the independent variables. For example 122 brand acquisitions were coded; however 27 were discarded as the price or cost of the transaction was not released and the target brand strength variable could not be calculated. Ten additional brand transactions were discarded due to the lack of data for various other variables. The final sample consisted of 68 acquisitions for products, 38 for R&D, 48 for manufacturing and distribution and 85 brand acquisitions.

Measures

Dependent Variable: Cumulative Abnormal Returns (CAR). Using standard event study methodology, a firm’s abnormal returns that are the consequence of an acquisition announcement can be calculated using the Fama-French model (Carhart 1997). We use daily data (drawn from the CRSP database) on the stock market returns for each of the firms in our sample over a 255-day period ending 90 days prior to the event day (see Brown & Warner 1985) to estimate the following market model (see Fama and French 1993):
\[ r_{it} = \alpha_i + \beta_{it}r_{mt} + \epsilon_{it} \]

In the above model, \( r_{it} \) denotes the daily returns for firm \( i \) on day \( t \), \( r_{mt} \) denotes the corresponding daily returns on the value weighted overall market index, \( \alpha_i \) and \( \beta_{it} \) are firm specific parameters, and \( \epsilon_{it} \) is distributed \( \sim N(0,1) \). \( SMB_t \) captures the return differential between small and large market capitalization stocks and \( HML_t \) captures the differential between value or high- and growth or low-book-to-market ratio stocks. The estimates obtained from this model are then used to predict the daily returns for each firm for the event day, where \( \hat{r}_{it} \) is the predicted daily return. The daily firm-specific excess returns can be calculated as:

\[ \hat{\epsilon}_{it} = r_{it} - \hat{r}_{it} \]

Cumulative abnormal returns, \( CAR_{it} \), are then the firm’s abnormal returns summed across the event window. For this study we follow general practice and define the event window as the day of the brand acquisition announcement plus the next day. (Alternative event windows were also calculated; our results are robust across the choice of time frame.)

**Independent Variables**

*Brand Name Strength.* There is no single approach to measurement of brand strength in the literature, and a variety of methods have been proposed (e.g., Simon and Sullivan 1990; Park and Srinivasan 1994). Therefore, we used two separate approaches to measure brand name strength of the target brand, and then combined them via a principal components analysis to create a single index of target brand strength.

The first input measure involves using the monetary value of the acquisition paid for by the acquiring firm (Mahajan, Rao and Srivastava 1994). The value of the transaction was found using several methods including 10K, 10Q, and 8K reports along with popular press releases.
However, this use of total acquisition value as a measure of brand strength is incomplete, because it does not account for tangible assets that may accompany the acquisition (e.g., plant, equipment); these tangible assets are not attributable to brand name strength. In order to correctly account for tangible assets, similar to the approach suggested by Simon and Sullivan (1991), we divide the acquisition value by total assets, which creates an index of intangible target value similar to Tobin’s q. In order to compute this measure, we needed to obtain data on tangible assets that were included in the transaction. Data on this is not uniformly available for all the acquisitions in our sample, because many target firms within the sample are privately owned. Therefore, we difference the acquirer tangible assets in the quarter prior to and following the brand acquisition. This difference is treated as a proxy for the target tangible assets acquired in the transaction.

Using this measure of tangible assets, we divide the acquisition value by the change in total assets for the acquiring firm before and after the acquisition. The use of total assets in the denominator allows us to compare the intangible value of the brand across various brand acquisitions after accounting for tangible assets that were exchanged as part of the brand acquisition. This difference in acquirer total assets (proxy for assets acquired in the transaction) was pulled from the Compustat database. This methodology provides a reasonable although imperfect proxy of the brand name strength of the brand in an acquisition context.

The second measure of brand strength we employ is a qualitative measure. Specifically, two brand experts were given a list of the brand acquisitions used in our study and asked to rate the acquired brands or set of brands as either strong (1) or weak (0). Agreement between the raters was 92%, and all differences were resolved through discussion. The two measures which were correlated at .13 were subject to principal components analysis and the first principal
component (with an eigenvalue of 1.13) was used as an overall operationalization of brand strength.

Fit. Fit was assessed based on whether the acquirer’s primary industry is the same as that of the target. Compustat reports the 4-digit SIC code associated with each public acquirer. A search of Hoover’s database, library sources and various websites yielded specific information regarding the industry description and classification for the acquired brand. The industry description was matched with existing Compustat category descriptions to assess the relevant 4-digit SIC code. When both the acquirer’s 4-digit SIC code and the brand’s SIC code matched the first 2 digits (e.g., 2834 and 2844), we created a dummy variable that took on the value 1 and remained 0 otherwise.

Brand Name Strategy. Brand name strategy of the acquiring firm was gauged by creating a dummy variable. The dummy variable was coded as either having an individual (house-of-brands) strategy (0) or a corporate or mixed name strategy (1). Independent coders classified the brands into categories. The agreement between the coders was 94% and all disputed cases were discussed and resolved. 64% of the acquisitions involved a house of brand name strategy whereas 36% involved a corporate or mixed strategy.

Acquirer’s Degree of Diversification. SDC’s Mergers and Acquisitions database provides a list of all industries, in the form of 4-digit SIC codes, from which a given firm derives its sales for a given year. The acquirer’s degree of diversification was judged based on the number of distinct 4-digit SIC codes reported in SDC for the acquirer name. Due to a very large variance in this variable and the small size of our sample, this variable was transformed using a median split into high diversification (1) and low diversification (0).
Brand Management Capability. The presence of brand managers or a system of brand management was used as evidence for the presence of a brand management capability (see Nath and Mahajan 2008 and Lee et. al. 2008 for a similar conceptualization). Hoover’s was used to determine if the acquiring firm had a brand management system in place at the time of the acquisition. A dummy variable was used, with 1 being the presence of a system (strong brand management capability) and 0 being no brand management system (weak brand management capability).

Control Variables

Following the work of others (e.g., Rao et al 2004), we include various control variables to better estimate the effects of our independent variables: an industry size ratio, age of the acquiring firm, target industry growth rate, the acquirer’s sales and advertising expenditures, and the acquirer’s operating margin. We include these variables to ensure that there are no systematic causes of the abnormal returns beyond the impact of the independent variables we study.

Industry Size Ratio. The number of firms (both public and private) listed for the primary SIC code of both the acquiring firm and target firms are used to capture the size of the industry and level of competition within which each is operating. This information was collected from the Mergent Online database. A ratio was then created, with the number of competitors in the acquirer’s industry divided by the number of competitors in the target’s industry to create a measure of relative competition. If the ratio is small, the acquiring firm participates in an industry with a small number of competing firms and is purchasing a brand that competes in an industry with a larger number of firms. For ratio values greater than unity, the acquiring firm has a larger number of competitors than the target. As this ratio gets larger, it is expected that
abnormal returns will also increase, since the acquiring firm will be better able to handle the target brand’s competition.

*Acquirer Age.* As the time a firm has been in business increases, the accuracy of market evaluations of the firm improves. This is due to the fact that investors typically have greater knowledge about the firm. It has also been postulated that brand equity may increase as awareness and loyalty grow over time (Rao et al. 2004). Thus, we include the age of the acquiring firm at the time of the acquisition, because an increase in age may lead to a greater abnormal return. The age of the firm was calculated by subtracting its founding date from the year of the acquisition announcement. The founding date for the acquiring firm was captured using several resources including company websites and *LexisNexis*.

*Target Industry growth rate.* A higher industry growth rate leads to the expectation of larger future returns. The growth rate of the target firm’s industry is included as the compounded average of the last three years of sales growth prior to the brand acquisition. Sales data for public firms with the same primary SIC code as the target brand were collected from the CompuStat database. A higher growth rate is expected to have a positive impact on the acquiring firm’s abnormal return.

*Acquirer Marketing Expenditures.* A firm’s marketing expenditures can act as a proxy for the resources available for marketing and managing an acquired brand. From Compustat, total selling and general administrative expense for the four quarters before the merger or acquisition announcement was used as a proxy for marketing expenditures (e.g., Dutta et. al. 1999).

*Acquirer Operating margin.* We expect abnormal returns to be larger when the acquiring firm has a high operating margin. Past research has shown high brand values are associated with
high operating margins (Barth et al. 1998). Operating margin is calculated as the net income divided by revenue.

Model Development

A regression model was estimated to test the hypothesized effects. The dependent variable is the abnormal stock returns accruing to the focal firm on the date of the announcement and one day following the announcement date (CAR$_i$):

\[
\text{Abnormal Stock Returns}(\text{CAR}) = \beta_0 + \beta_1 (\text{Brand Strategy}) + \beta_2 (\text{Target Brand Strength}) + \beta_3 (\text{Acquirer Diversification}) + \beta_4 (\text{Fit}) + \beta_5 (\text{Acquirer Brand Management Capability}) + \beta_6 (\text{Fit*Manage}) + \beta_7 (\text{Strategy*Fit}) + \beta_8 (\text{Fit*Strategy*Manage}) + \beta_9 (\text{Fit*Diversification}) + \beta_{10} (\text{Fit*Manage*Diversification}) + \beta_{11} (\text{Industry Size Ratio}) + \beta_{12} (\text{Acquirer Age}) + \beta_{13} (\text{Target Industry Growth Rate}) + \beta_{14} (\text{Acquirer Advertising}) + \beta_{15} (\text{Acquirer Operating Margin}) + \varepsilon
\]

2.3 RESULTS

Event Study

An event study was conducted separately for each of the types of acquisitions. The results of the event study for those acquisitions with the goal of acquiring resources in R&D, products, or manufacturing and distribution are summarized in Table 1. Supporting H$_{1a}$, the acquisitions categorized as R&D (M = .7%, n.s.) and manufacturing and distribution (M = 1.0%, n.s.) did not have significant abnormal returns for the day of the transaction (Day 0) plus the next day (Day +1). Those acquisitions dealing with products did have marginally significant positive returns (M = 1.0%, p< .10). Overall, however, the results of the event study for the acquisitions in this sample are consistent with previous results (King et.al. 2004; Mulherin and Boone 2000).
TABLE 1
Cumulative Abnormal Returns for Various Acquisition Motivations Across Various Event Windows
Fama-French Three-Factor Model

<table>
<thead>
<tr>
<th>Acquisition Type</th>
<th>Event Window</th>
<th>Mean CAR</th>
<th>t-Value</th>
<th>Generalized Sign Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>(-2,+2)</td>
<td>.006</td>
<td>.642</td>
<td>.804</td>
</tr>
<tr>
<td></td>
<td>(-1,+1)</td>
<td>.005</td>
<td>.802</td>
<td>.804</td>
</tr>
<tr>
<td></td>
<td>(0,+1)</td>
<td>.010</td>
<td>1.852*</td>
<td>.319</td>
</tr>
<tr>
<td>Research and Development</td>
<td>(-2,+2)</td>
<td>0</td>
<td>-.005</td>
<td>.560</td>
</tr>
<tr>
<td></td>
<td>(-1,+1)</td>
<td>-.001</td>
<td>-.130</td>
<td>-.089</td>
</tr>
<tr>
<td></td>
<td>(0,+1)</td>
<td>.070</td>
<td>.925</td>
<td>.236</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>(-2,+2)</td>
<td>.009</td>
<td>.694</td>
<td>.342</td>
</tr>
<tr>
<td>and Distribution</td>
<td>(-1,+1)</td>
<td>.011</td>
<td>1.07</td>
<td>.920</td>
</tr>
<tr>
<td></td>
<td>(0,+1)</td>
<td>.010</td>
<td>1.17</td>
<td>.053</td>
</tr>
</tbody>
</table>

The symbols *, **, and *** denote statistical significance at the 0.1, 0.05 and 0.01 levels, respectively, using a one-tailed test.

Because the focus of the hypotheses is subgroup of acquisitions involving brand name transfers, we focus on this subset of mergers for the rest of our discussion. Because the transactions involving brands will be explored in greater detail it is necessary to ensure that the announcement date is accurate. To confirm the dates we searched news sources (e.g., Wall Street Journal) for any information regarding the brand acquisition in the six months preceding the formal news release. This enabled us to accurately pinpoint the first date when the announcement regarding the brand acquisition was made, and also account for any leakage of information.

Details of the brand acquisitions in our sample are provided in Table 2 and descriptive statistics are provided in Table 3. Figure 2 highlights the firms’ returns for 10 days before and after the event (e.g., Geyskens, Gielens, and Dekimpe 2002; Tellis and Johnson 2007). Using a t-test (Brown and Warner 1985) and a one-tailed generalized Z-test statistic, our results show that cumulative abnormal returns are positive and significant over a number of time periods.
supporting H1b. Table 4 reports these statistics and significance levels for various alternative event windows. As noted earlier, our reported model results are based on a (0, +1) window (i.e., a window that encompasses the day of the event (day 0) and the next day (day +1)). For this window (across all firms in our sample) the acquisition announcement increased stock returns by 1.8% (t = 4.535, p < .001; z = 3.354, p < .001). In contrast to the results highlighted in Table 1 for acquisitions for various reasons, Table 4 indicates that the cumulative abnormal returns for brand acquisitions are significant across various alternative event windows. Thus, our results are robust to the choice of an event window, and this is substantiated by subsequent robustness checks using alternative event windows.

**TABLE 2 : Brand Acquisition Sample Characteristics (n=85)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Price of Acquisition</td>
<td>$681 Million</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Number of Brands Sold in each Transaction</td>
<td>1.7</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Acquisitions per Industry:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health and Beauty</td>
<td>30</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food and Beverage</td>
<td>54</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>17</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Size of Acquiring Firm (Market Cap)</td>
<td>$15.3 Billion</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 3**

Descriptive Statistics for Brand Acquisitions (n= 85)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cumulative Abnormal Returns</td>
<td>0.019</td>
<td>0.084</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Brand Name Strategy</td>
<td>0.353</td>
<td>0.481</td>
<td></td>
<td>-0.010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Brand Strength</td>
<td>0.400</td>
<td>0.493</td>
<td>0.219</td>
<td>0.050</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Acquirer Diversification</td>
<td>0.459</td>
<td>0.581</td>
<td>-0.295</td>
<td>0.012</td>
<td>0.212</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Fit</td>
<td>0.788</td>
<td>0.411</td>
<td>0.246</td>
<td>-0.280</td>
<td>0.058</td>
<td>-0.101</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Acquirer Brand Management Capability (BMC)</td>
<td>0.376</td>
<td>0.487</td>
<td>0.081</td>
<td>0.036</td>
<td>0.010</td>
<td>-0.033</td>
<td>-0.013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Industry Size Ratio</td>
<td>1.451</td>
<td>4.716</td>
<td>0.323</td>
<td>0.187</td>
<td>0.173</td>
<td>-0.102</td>
<td>0.197</td>
<td>-0.092</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Acquirer's Firm Age</td>
<td>47.01</td>
<td>2.35</td>
<td>2.048</td>
<td>0.360</td>
<td>0.375</td>
<td>0.327</td>
<td>-0.153</td>
<td>-0.032</td>
<td>0.036</td>
<td></td>
</tr>
<tr>
<td>9. Target Industry Growth Rate</td>
<td>0.063</td>
<td>0.140</td>
<td>0.014</td>
<td>-0.009</td>
<td>0.087</td>
<td>0.396</td>
<td>-0.046</td>
<td>-0.012</td>
<td>-0.070</td>
<td>0.116</td>
</tr>
<tr>
<td>10. Acquirer's Selling &amp; General Admin Expenditures (SGAE)</td>
<td>21.10</td>
<td>49.33</td>
<td>-0.091</td>
<td>-0.176</td>
<td>0.086</td>
<td>-0.147</td>
<td>0.008</td>
<td>-0.028</td>
<td>-0.013</td>
<td>0.382</td>
</tr>
<tr>
<td>11. Acquirer's Operating Margin</td>
<td>0.032</td>
<td>0.244</td>
<td>0.095</td>
<td>0.107</td>
<td>-0.032</td>
<td>0.009</td>
<td>-0.057</td>
<td>0.165</td>
<td>0.072</td>
<td>0.234</td>
</tr>
</tbody>
</table>

Note: Numbers in boldface are significant at p < .05. Numbers in italics are significant at p<.10
TABLE 4
Cumulative Abnormal Returns for Brand Acquisitions
Across Various Event Windows
Fama-French Three-Factor Model

<table>
<thead>
<tr>
<th>Event Window</th>
<th>M</th>
<th>SD</th>
<th>t-Value</th>
<th>Generalized Sign Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>(-2,+2)</td>
<td>.026</td>
<td>.107</td>
<td>4.057***</td>
<td>2.486**</td>
</tr>
<tr>
<td>(-1,+1)</td>
<td>.019</td>
<td>.094</td>
<td>3.841***</td>
<td>1.617*</td>
</tr>
<tr>
<td>(-1,0)</td>
<td>.014</td>
<td>.062</td>
<td>3.453***</td>
<td>2.269**</td>
</tr>
<tr>
<td>(-2,+1)</td>
<td>.025</td>
<td>.095</td>
<td>3.374***</td>
<td>2.269**</td>
</tr>
<tr>
<td>(-1,+2)</td>
<td>.020</td>
<td>.095</td>
<td>3.489***</td>
<td>2.269**</td>
</tr>
<tr>
<td>(0,+1)</td>
<td>.019</td>
<td>.085</td>
<td>4.535***</td>
<td>3.354***</td>
</tr>
<tr>
<td>(-3,+1)</td>
<td>.021</td>
<td>.097</td>
<td>3.335***</td>
<td>1.836*</td>
</tr>
</tbody>
</table>

The symbols *, **, and *** denote statistical significance at the 0.1, 0.05 and 0.01 levels, respectively, using a one-tailed test.

FIGURE 2: Average Daily Abnormal Returns Surrounding a Brand Acquisition Announcement
Regression Analysis

Our overall model (reported in Table 5) is significant ($F_{(17, 67)} = 3.39$, $p < .001$). The overall $R^2$ of .46 and adjusted $R^2 = .33$ suggests that the model has good explanatory power. Among the control variables, the only one that is significant is the industry size ratio ($\beta = -.008$, $p < .0001$). None of the other controls (target industry growth rate, acquirer age, acquirer’s sales and advertising expenditure, acquirer’s operation margin) is significant.

**TABLE 5: Factors Influencing Abnormal Returns After a Brand Acquisition (N=85)**

<table>
<thead>
<tr>
<th>Parameter Estimate</th>
<th>Standard Error</th>
<th>t-value</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-0.146</td>
<td>0.052</td>
<td>-2.81</td>
</tr>
</tbody>
</table>

**Brand Strength (H₂)**
- Brand Name Strategy | 0.072 | 0.049 | 1.47 |
- Acquirer Diversification | 0.104 | 0.053 | 1.96 | <.1 |
- Fit | 0.207 | 0.054 | 3.83 | < .01 |
- Acquirer Brand Management Capability (BMC) | 0.346 | 0.093 | 3.72 | < .01 |
- Brand Name Strategy * BMC | -0.242 | 0.099 | -2.44 | < .05 |
- Fit * BMC | -0.376 | 0.095 | -3.96 | < .01 |
- Fit * Strategy | -0.133 | 0.055 | -2.42 | < .05 |
- Fit * BMC * Strategy (H₃) | 0.265 | 0.107 | 2.48 | < .05 |
- Acquirer Diversification * Fit | -0.171 | 0.056 | -3.05 | < .01 |
- Acquirer Diversification * BMC | -0.162 | 0.079 | -2.05 | < .05 |
- Acquirer Diversification * Fit * BMC (H₄) | 0.203 | 0.087 | 2.33 | < .05 |

**Control Variables**
- Industry Size Ratio | .0077 | 0.0019 | 4.05 | < .01 |
- Acquirer's Age | 0.0003 | 0.0003 | 1.00 |
- Target Industry Growth Rate | -.0322 | .06 | 0.54 |
- Acquirer's Sales & Advertising Expenditure | -.000002 | .000002 | -1.00 |
- Acquirer's Operating Margin | .035 | .034 | 1.03 |

**R-Square** | 0.463 |
**Adjusted R-Square** | 0.326 |
**F-value (17,67)** | 3.39 | < .01 |
Turning to the independent variables, the results show that the effect of brand strength on abnormal returns is significant ($\beta = .018$, $p < .05$), supporting H2. As brand strength increases, positive abnormal returns increase as well. Also, confirming previous findings we find several conditional effects to be significant including the fit between the acquiring firm and target brand (e.g., Singh and Motegomery 1987) ($\beta = .207$, $p < .001$), and the presence of a brand management capability for the acquiring firm (Day 1994) ($\beta = .346$, $p < .001$). The level of diversification of the acquiring firm is marginally significant ($\beta = .104$, $p < .10$), while the type of brand strategy implemented by the acquiring firm is not significant ($\beta = .072$, $ns$). Regarding the interaction effects, significant two-way interactions exist between the acquiring firms level of diversification and its brand management capability ($\beta = -.162$, $p < .05$) and the acquirer’s brand strategy and its brand management capability ($\beta = -.242$, $p < .05$). Also, we find three significant two-way interactions involving the acquiring firm - target brand fit variable -- between (1) fit and the presence of a brand management capability ($\beta = -.376$, $p < .001$); (2) fit and the acquirer’s brand strategy ($\beta = -.133$, $p < .05$); and (3) fit and the acquirer’s level of diversification ($\beta = -.171$, $p < .01$). However, the two way interactions are of only marginal interest as the three-way interactions discussed next allow for a more detailed understanding of the factors influencing abnormal returns surrounding a brand acquisition.

Most importantly, the two 3-way interactions predicted by H3 and H4 are significant. First, the three-way interaction between the fit, acquiring firm’s brand management capability, and brand strategy variables ($\beta = .265$, $p < .05$) is significant, supporting H3. Second, the three-way interaction between fit, brand management capability, and diversification is also significant ($\beta = .203$, $p < .05$), supporting H4.
To more fully understand the nature of these three-way interactions, we conducted additional analyses using the procedure recommended by Aiken and West (1991). As can be seen in Figure 3a, when the brand management capability is strong, the interaction of fit and brand strategy is not significant ($\beta = .048, \ ns$), as predicted by H3b. In contrast, and as seen in Figure 3b, when the brand management capability is weak, there is a significant interaction between fit and brand strategy ($\beta = -.153, p < .05$). Analysis of simple slopes reveals that when a firm has a weak brand management capability, the impact of fit between acquirer and target firms is significant when the acquirer also follows a house of brands strategy ($\beta=.072, p < .05$).

As can be seen in Figure 3b, acquirer firms with a house of brands strategy benefit significantly from having a high fit with the target versus acquiring firms with low fit ($M_{\text{low fit}}=-.13$ versus $M_{\text{high fit}}=.12, p<.05$). This implies that for an average firm in our sample with a market capitalization of $14.8$ billion, an acquisition of a low-fitting brand when brand management is weak will result in a loss of $1.93$ billion, versus an acquisition of a brand with high fit which leads to an increase of $1.78$. In contrast, acquirers with a corporate brand strategy benefit to a lesser extent from brand acquisitions of targets with a high fit ($M_{\text{low fit}}=-.07$ versus $M_{\text{high fit}}=.03, \ ns$). Taken together, these results provide strong support for the hypothesized effects under H3.
A. Fit, Brand Name Strategy and Firms with Strong Brand Management Capability

B. Fit, Brand Name Strategy and Firms with Weak Brand Management Capability

FIGURE 3
Using the same method (Aiken and West 1991) we also explored in greater detail the nature of the three-way interaction between fit, the brand management capability, and the acquiring firm’s level of diversification. Looking at Figure 4a and 4b, one can see that in the presence of a strong brand management capability, the interaction between fit and acquirer’s diversification is not significant (β = -.006, ns). In contrast, and as shown in Figure 4b, when the brand management capability is weak, there is an interaction of fit and diversification (β = -.212, p < .01). Analysis of simple slopes reveals that when the acquirer is highly diversified, fit does not have a significant impact (β = .030, n.s.). In contrast, when the acquirer has a narrow scope and is less diversified, there is a significant impact of fit (β =.078, p<.05). As can be seen in Figure 4b, when the brand management capability is weak, narrowly focused acquirers experience higher abnormal returns under high fit than under low fit (M_{low fit}=-.12 versus M_{high fit}=.11, p<.05). In monetary terms, an acquisition of a low-fitting brand when brand management is weak will result in a loss of $1.78 billion, versus an acquisition of a brand with high fit which leads to an increase of $1.63 billion. In contrast, when the brand management capability is weak, acquirers that are highly diversified experience no significant increases in cumulative abnormal returns from high fit (M_{low fit}=-.05 versus M_{high fit}=.01, ns).
A. Fit and Acquirer Diversification for Firms with Strong Brand Management Capability

B. Fit and Acquirer Diversification for Firms with Weak Brand Management Capability

FIGURE 4
In summary, when a management capability is weak, the impact of fit is greater; specifically, when brand management is weak and fit is low, brands belonging to less diversified firms experience greater negative abnormal returns than when fit is high. These effects do not hold when brand management capability is strong. Taken together, the above results provide strong support for the hypothesized effects under H4.

2.4 DISCUSSION

A company’s brand portfolio serves a critically important role in connecting it with customers and markets, in protecting it from competitors, and in providing an important source of value (Morgan and Rego 2009). Historically, brand portfolios were largely built internally by firms. However, the costs of internal brand development have skyrocketed (e.g., the costs of developing a new product internally for a packaged goods firm in the U.S. ranges from $100-$200 million, while costs in the pharmaceutical industry ranges from $600 to $800 million). Furthermore, there are significant risks associated with product failure; specifically, it is known that approximately 50% of all new products introduced in a given year fail (e.g., Business Week 1993; Zirger and Maidique 1990). In contrast, brand acquisitions offer an efficient way for firms to expand into new target market segments and enhance their product portfolios while following a lower risk strategy (i.e., the acquired brands have already proven themselves in the marketplace, and have an existing consumer base that accept the brand).

Despite its importance as a corporate strategy, the external acquisition of brands presents its own set of challenges. The acquired brand(s) must be managed carefully and integrated into the product portfolio of the acquirer. Issues of synergy and fit must be considered carefully prior
to the acquisition. Given this, the present research offers some insights regarding the value creation potential of brand acquisitions. Using the stock market’s reaction to brand acquisition announcements as a guide, we attempt to model the difference between success and failure of a brand acquisition. Successful brand acquisitions, it appears, depend on a variety of acquirer and acquisition characteristics. Previous work by Wiles, Morgan and Rego (2011) found that overall firm marketing capabilities increase the abnormal returns of a brand acquisition. Our work builds upon this finding by specifically looking at many of the brand variables which may be either subsumed or absent from the “marketing capability” variable. We have found that brand name strategy, brand management capability, brand strength, diversification, and fit all play a role in the success of a brand acquisition. Most importantly the two three-way interactions between brand management capability, diversification, and brand name strategy and between brand management capability, fit and brand name strategy provide a more in-depth analysis of when a brand acquisition is successful from the standpoint of investors.

Past research within marketing has typically focused on issues of fit from a consumer perspective (e.g., Simonin and Ruth 1998) or from a strategy perspective (e.g., Swaminathan et al. 2008). However, the present research suggests that the importance of fit can vary based on the type of brand name strategy employed and the acquirer firm’s characteristics (diversification and brand management capability). Firms with a strong brand management capability can overcome lack of fit in a brand acquisition. Thus, distinct from past research (e.g., Hitt et al. 2001, Makri et al. 2010), we argue that lack-of-fit between the acquirer and target may not necessarily be a hindrance to acquisition success. Firms can compensate for lack of fit by having a strong brand management capability.
Our results also extend the prior work by Rao, Agarwal and Dahlhoff (2004) on corporate name strategy. Rao et al. demonstrate that use of a corporate branding strategy is associated with higher shareholder value (in the form of Tobin’s $q$), and that use of a mixed branding strategy is associated with lower firm value. They conclude that using a corporate brand name outperform a house-of-brands approach, perhaps because the financial community has a greater awareness of corporate brand names than the smaller brands that comprise a typical house-of-brands portfolio. We show here that the impact of the brand name strategy used by the acquirer may have implications for brand acquisition success as well. Specifically, when the acquiring company has a single brand name for all its products, a newly acquired brand will have to be renamed in order to fit with this strategy. Stated differently, the acquisition of a new brand is akin to introducing a brand extension for the acquirer’s corporate brand name and is much more difficult than if the acquiring firm followed a house of brands strategy. Therefore, we support previous work in the context of brand extensions (e.g., Aaker and Keller 1990; Keller and Aaker 1992), by demonstrating the contingent role of fit within the brand acquisition context. We also extend the consumer-based findings of Jaju, Joiner and Reddy (2006) to a stock market setting. We demonstrate that expectations of investors concerning potential name changes implied by a brand name strategy can have significant implications for value creation.

What happens when the acquirer follows a house-of-brands strategy? The financial community may be less concerned about potential changes in brand name of the acquired brand when the acquirer follows a house-of-brands strategy. Given that the acquirer follows a strategy where each brand has its own distinct brand name and identity, the financial community may perceive that the newly acquired brand will also be allowed to retain its separate brand identity (both name and other important brand elements). A well-fitting brand will be easily incorporated
into the portfolio. We find that there is a significant impact of fit when the acquirer has a house-of-brands strategy and when there is a weak brand management capability.

Our results also point to the important role of the acquirer’s diversification in moderating the impact of fit among firms with a weak brand capability. Previous strategy research has shown that diversified firms are not valued highly by the financial community (Anand and Singh 1997, Montgomery 1985; Rajan, Servaes, and Zingales 2000). We extend these findings by showing that diversification does not always weaken firm value. Specifically, if the firm has a strong organizational structure that supports brand names, then neither diversification nor fit appear to weaken the value created following brand acquisition announcements. In contrast, when the firm does not have an organizational structure focused on managing brands (e.g., a formal brand management system), then issues of fit and diversification become important. Specifically, the value creation potential is highest for a narrowly focused firm that acquires a highly related brand (i.e., fit is high), and lowest when a narrowly focused firm acquires an unrelated brand. Although there is an effect of fit with high-fitting brand acquisitions outperforming less-fitting brand acquisitions, the impact of fit in the case of a diversified firm is a lot lower than its impact for a narrowly focused, less diversified firm. Presumably, the financial community views a firm’s track record of managing disparate businesses as a useful indicator of its ability to minimizes the negative consequences of acquiring a poor-fitting brand.

When brand management capability is weak, senior managers contemplating an acquisition must place particular emphasis on synergies between the acquirer and target. Brand managers must evaluate these synergies differently against the backdrop of the organization’s characteristics (e.g., diversification) and its brand name approach (corporate branding versus house of brands); we demonstrate that these factors moderate the role of synergy in an
acquisition context. We focus on a particular type of synergy, i.e., the extent to which the acquirer and target are in similar industries. However, other sources of synergy (type of brand positioning strategy, synergy in advertising and pricing strategy) should also be evaluated carefully.

Limitations and Future Research

The findings presented here provide a framework for managers who use brand acquisitions to grow their product portfolio. Because managing brand equity is important in an acquisition context, it is important for a manager to develop an in-depth understanding of the drivers of brand equity of the target. In other words, what brand elements (e.g., brand name, slogan, jingle, logo, or packaging) are essential to maintaining the brand equity of the target brand? How integral is brand name awareness to maintaining the brand equity of the target? What brand associations are fundamental to the vitality of the brand? As the Snapple case study illustrates, misjudging the drivers of brand equity can result in failure of a brand acquisition. Therefore, companies which have a capability for brand management, wherein brand managers are responsible for continually managing a brand’s equity, may be well-placed to manage an acquisition as well. Future research should examine the role of brand managers in enhancing the success of brand acquisitions.

One direction for future research would be to explore the relationship between brand management capabilities and fit in greater detail. While the results of this work do not show a significant interaction when brand management capability is high, the plots of the results (Figures 3a and 4a) lend one to ponder if there is in fact an impact of fit that is not being captured. In both the case of brand name strategy and diversification, the “low fitting” acquisitions are outperforming those of high fit. This contradicts previous research which has
shown that an increase in diversification is usually not rewarded. It may be possible that when brand management capabilities are high, investors are actually rewarding the expansion of the firm’s product or brand line because the acquiring firm has the capabilities in place to incorporate the new brand into the product line. This seems especially true for firms using a house of brands strategy (Figure 3a). The firm is already handling multiple brand names, so it is assumed that they also can handle a varied product line was well.

One limitation of this work is that we look only at three broad product categories. It may be possible that the effects of this study would change for other industries. By looking at only health and beauty, food and beverage, and pharmaceutical industries, we are focusing on industries that have traditionally relied heavily on the use of brands and other marketing tools to sell products to end consumers. Brand mergers and acquisitions that take place in the business-to-business context may not be affected by the same firm characteristics (or in the same way that they are here). We also only look at physical products and not service industries. One possible avenue for future research, then, would be to determine if the factors affecting firm value following a brand merger or acquisition are different when both the acquiring and target firms are in a service industry or if the factors differ when the firms differ on a product versus service focus. The marketing and brand management resources needed to successfully manage a service differ compared to a product, and this may have implications for how investors view such acquisitions.

Further, we focus on only one aspect of synergy between the target and acquirer (i.e., the match in industry type). There may be other sources of synergy between the firms that may influence value creation. For instance, cultural differences between the acquired brand and the target may cause issues in the post-acquisition integration phase. Often, pooling of production
facilities, distribution or media are simply not possible due to culture clashes between the two organizations. Thus, future research should focus on an expanded operationalization of the various forms of synergies that are important in the brand acquisition context.

CONCLUSION

Brand acquisitions are a popular strategy for firms that want to limit development costs and reap the benefits of existing brands. However, such brand acquisitions often fail, and must thus be undertaken wisely, with a keen understanding of the type of brand and how it should be managed. We have provided a framework for brand acquisition success based on brand strength, brand fit, brand name strategy, firm diversification, and brand management capability. These, in addition to other previously identified considerations can make the difference between success and failure in the brand acquisition context.
AT&T’s iPhone-based calling plans, Disney toy characters at McDonald’s, Nike sneakers with iPod hook-ups, and Lenovo laptops with Intel Inside are all examples of co-branding, a strategy in which two or more brands are intentionally “combined into a joint product and/or marketed together in some fashion” (Kotler and Keller 2009, p. 337). Use of two or more brands in combination can take various forms, and they can all influence brand evaluation and accessibility by leveraging the core competency of the partner, deterring competition, appealing to new market segments, and, more generally, creating synergy (Blackett and Boad 1999). However, firms must proceed with caution because “if [the customers’] experience is not positive – even if it is the other brand’s fault – it may reflect negatively on [the focal brand]” (McKee 2009, p. 3.).

While prior research has outlined the costs and benefits of co-branding, (e.g., Park, Jun, and Shocker 1996; Simonin and Ruth 1998), this article aims to provide a more integrative understanding of co-branding leading to managerial guidelines on “how” and “with whom” to co-brand (i.e., the type of co-branding arrangement and the characteristics of the partner). We do

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2 This definition is consistent with others in the literature. For example, Blackett and Boad (1999) define co-branding as a strategy that encompasses “a wide range of marketing activity involving the use of two (and sometimes more) brands.” Rao, Qu, and Ruckert (1999, p. 259) define the synonymous term “brand alliance” as “all circumstances in which two or more brands are presented jointly to the consumer.” According to Simonin and Ruth (1998, p. 30), it is “the short- or long-term association or combination of two or more individual brands, products, and/or other distinctive proprietary assets.” Consistent with these definitions, a straightforward retail pass-through (e.g., Pringles through Wal-Mart) is not considered co-branding.
this by drawing on a range of co-branding examples, interviews with managers, research on co-
branding and related strategies, and work on attribution and categorization for a conceptual
rationale for the choice of co-branding arrangements and partners under different conditions.

In particular, we note three aspects of this research that contribute to the co-branding
literature. First, we develop a typology based on the degree of integration in the co-branding
arrangement. The co-branding literature typically focuses on particular types of co-branding.
Park, Jun, and Shocker’s (1996) example of Slim-Fast cake mix by Godiva represents a new, co-
developed product in which the brands are completely integrated in form and function. Similarily, Helmig, Huber, and Leeflang (2008) focus on long-term alliances that result in a
single co-branded product (e.g., Sony Ericsson mobile phones). In contrast, Samu, Krishnan,
and Smith (1999) consider co-promotions such as Fruit of the Loom and Dodge Ram
advertisements, which are the joint presentation of brands that retain their separate form,
function, and identity. Affinity partnering (Swaminathan and Reddy 2000) works in similar
fashion. Venkatesh and Mahajan’s (1997) component branding problem examines Compaq PCs
with Intel Inside, a case in which the brands are physically distinguishable but functionally
intertwined, and Stremersch and Tellis (2002) study bundles that contain separate products, such
as Dell PCs with Lexmark printers, in which the brands have both individual and joint utility.

This range of possible co-branding arrangements provides the impetus for our typology in
which we identify six possible levels of co-branding based on the degree of integration of the
partnering brands. We draw on this typology, along with two other dimensions of the co-
branding arrangement—exclusivity (single versus multiple partnerships) and duration—to derive
propositions about the impact of the type of co-branding arrangement on the evaluation and
accessibility of the focal brand – the brand (or its manager or manufacturer) that is seeking
answers to the type of co-branding arrangement it should pursue and the type of brand(s) it should choose to partner.

Second, from a process standpoint, we apply the mechanisms of attribution and categorization to the co-branding context. Specifically, attribution theory (e.g., Folkes 1988; Kelley 1967) provides the conceptual anchor for our propositions related to the impact on focal brand evaluation, and categorization serves as the theoretical support for our propositions on focal brand accessibility. While categorization has been invoked in the brand extension literature (e.g., Desai and Keller 2002; Morrin 1999), we are not aware of the application of attribution in a co-branding context. In this regard, consider a co-promotion between Hilton and Delta Airlines. The degree of integration between the partners is low, and the locus of attribution for any observed outcome is arguably with one brand or the other. Thus, an unsatisfactory experience on a Delta flight is unlikely to induce a customer to assign any blame to Hilton. In contrast, in the case of a more highly integrated relationship, (e.g., Ford Explorer with Firestone tires), it is more difficult to assign or allocate blame in the event of poor performance of the co-branded offering, causing even the “innocent” brand to suffer (as in the rollover incidents in 2000). Similarly, the two other dimensions of the co-branding arrangement—exclusivity and duration—are related to the attribution elements of locus, control, and stability.

Categorization provides an understanding of how customers organize objects (Loken, Barsalou, and Joiner 2007) and how they store product-related information in memory and retrieve it later (see Alba, Hutchinson, and Lynch 1991). The type of co-branding arrangement has a bearing on the strength and number of linkages among category elements. A memory- or stimulus-based cue of one brand could aid the retrieval of the other and thus affect brand accessibility.
Third, we develop a set of theoretically grounded propositions that examine the direct link among three dimensions of the co-branding arrangement—integration, exclusivity, and duration—and the outcome measures of evaluation and accessibility from the focal brand’s perspective. We posit that a co-branding arrangement that is highly integrated, exclusive, and long-term is more likely to enhance (or diminish) focal brand evaluation. A highly integrated, long-term co-branding arrangement, with multiple partners, is likely to enhance focal brand accessibility. Additional propositions consider the moderating influence of three partner characteristics—namely, the symmetry between the partner and focal brands on hedonic and functional attributes (Hirschman and Holbrook 1982) and the breadth of the partner brand(s) (diversity of association with product categories). Together, these propositions guide managerial decisions on the choice of co-branding arrangement and partner(s).

Our focus is not on whether firms should co-brand but rather on how and with whom to form a co-branding arrangement. We limit our attention to demand-side drivers of co-branding and thus do not cover supply-side factors, such as technology, production, and financial synergies. Though driven by real-world examples and perspectives from practicing managers, this research is entirely conceptual, and the propositions we develop on the basis of our framework are meant to be normative in nature.

We note three distinct components to our research approach. First, we created a “large” pool of co-branding examples from the real world. For each example, we found at least one article from the popular press that detailed the rationales for co-branding and/or the performance outcomes. The inspiration for our typology of co-branding arrangements came primarily from this effort. Second, to develop our theoretical underpinnings, we reviewed the related literature on social psychology and consumer behavior, paying particular attention to the work on causal
We further drew on research on co-branding and brand management. This effort clarified the processes that might facilitate or inhibit the success of co-branding and the variables that moderate the main relationships. Third, with a view toward more firmly relating our work to business practice, we conducted personal interviews with 26 managers and one former business school dean, all of whom had firsthand experience in co-branding involving their own brands. A list of the interviewees’ backgrounds, the interview process, and the interview protocol appears in the Appendix. (We refer to salient insights from these interviews throughout this article.)

The rest of the paper has the following structure: We first develop our typology of co-branding arrangement types. Next, we define our outcome variables and discuss the underlying processes of attribution and categorization in the co-branding context. In the following section, we propose our conceptual model and develop propositions on co-branding arrangement types and partner characteristics, including the impact of moderating effects. We then discuss the managerial implications of our conceptual framework and propositions. We conclude with a summary of our contributions and an examination of avenues for further research.

3.1: A TYPOLOGY OF CO-BRANDING ARRANGEMENTS

To address questions regarding how and with whom a firm should co-brand, we must identify the range of co-branding arrangements and the associated mechanisms. In this section, we present three dimensions of the co-branding arrangement: integration, exclusivity, and duration. We view our categorization scheme based on the degree of integration of the partnering brands as original and significant. As we discussed previously, most co-branding articles focus on particular types (or a subset of types) of co-branding, such as co-promotion.
Varadarajan and Rajaratnam’s (1986) article on symbiotic marketing takes a broad perspective and proposes various structural elements of co-branding. Two of that study’s variables, number of relationships and time frame, correspond to our dimensions of co-branding (exclusivity and duration). Beyond our distinctive typology based on co-branding, our work differs significantly in that we take a normative focus on which co-branding arrangements a focal firm should pursue, drawing on process mechanisms (attribution and categorization) to argue why alternative co-branding arrangements may or may not work.3

Co-branding Integration

The degree of co-branding integration captures the extent to which the brands are interconnected in form and function. Although co-branding is the joint presentation of two or more brands with a strategic or tactical intent, the extent of integration can span the spectrum from (almost) completely self-standing to completely fused together. Co-location exemplifies one end of the spectrum, in which the two brands are completely separated in form and function. At the other end, co-development represents brands that are highly integrated or conjoined in multiple ways.

3 Helmig, Huber, and Leeﬂang (2008) also compare alternative branding strategies; however, our conceptualization differs in meaning and scope. In contrast with our typology and associated implications, they restrict their view of co-branding to long-term alliances “in which one product is branded and identiﬁed simultaneously by two brands” (p. 360, emphasis added). Furthermore, their typology of branding strategies is based on differences in types of expenditures, while our co-branding integration typology has entirely different underpinnings.
<table>
<thead>
<tr>
<th>Hierarchy of Types</th>
<th>Characteristics of the Cobranded Offering</th>
<th>Real-World Examples</th>
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<td>Co-created</td>
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<td>• Nike + iPod Sport Kit for workouts</td>
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<td>• Tide with Downy fabric softener</td>
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<td>• Frito-Lay chips with KC Masterpiece BBQ sauce</td>
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<td>• Diet Coke with Splenda</td>
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<td>• Dell PC with Intel Xeon processor</td>
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<td>• Ford Explorer with Goodyear tires</td>
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<td>• Clark Gable and Vivien Leigh in <em>Gone with the Wind</em></td>
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<td>• Bacardi Rum and Coke</td>
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<td>• McCain–Palin and Obama–Biden presidential tickets</td>
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<td>• McDonald’s with Disney toys</td>
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<td>• Hilton’s reward miles on American Airlines</td>
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<td>• BP gas stations’ cross-ruff coupon for tickets to Disney’s <em>Wall-E</em></td>
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<td>• Barnes &amp; Noble with Starbucks</td>
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<td>• Toys R Us e-store at Amazon.com</td>
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<td>• KFC–Taco Bell–Pizza Hut freedom-of-choice outlets</td>
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* TABLE 6
Co-branding Types Tied to Degree of Integration and Associated Characteristics

- Co-creation
- Ingredient branding
- Component branding
- Brand bundling
- Co-promotion
- Co-location

- More Variety/Less Search

- Degree of Co-branding Integration: High → Low
We propose a hierarchy of six types of co-branding, from the most to the least integrated, which defines each type in terms of presence or absence of certain characteristics, including co-creation of the co-branded offering, physical and/or functional separability, tie-in sales, discount for purchasing the partnering brand, and greater variety and/or reduced search:

1. **Co-development**: The firms pool their resources to *co-create* the product, which, similar to a biological offspring, shares the parents’ traits in a fully blended fashion. In form and function, it is practically impossible to separate the two brands (e.g., Amaldoss et al. 2000).

2. **Ingredient branding**: Unlike co-development, the ingredient is developed separately by one brand manufacturer and has a stand-alone form. However, in the co-branded product, the brands are physically and functionally inseparable (e.g., Desai and Keller 2002).

3. **Component branding**: Shares the characteristics of ingredient branding, except that the component is physically distinguishable and separable in the co-branded product. If a defect can be traced to the component, it alone can be replaced to restore product functionality (e.g., Simonin and Ruth 1998; Venkatesh and Mahajan 1997).

4. **Brand bundling**: As with component branding, the two brands are functionally compatible with and complementary to each other and are sold as a specially priced package. However, unlike component branding, each brand has stand-alone value; that is, each can be purchased and consumed independently (e.g., Stremersch and Tellis 2002).

5. **Co-promotion**: Similar to brand bundling, the products have stand-alone value, and there is a monetary incentive to facilitate joint purchase. However, unlike brand bundling, consumers are not forced to buy both brands; the brands need not be functionally compatible or complementary (e.g., Varadarajan and Rajaratnam 1986).

6. **Co-location**: As with co-promotion, the two brands are self-standing, and purchasing both may provide more variety or reduce search costs. Yet, unlike co-promotion, there is no monetary incentive to buy both brands (e.g., Iyer and Pazgal 2003).

Table 1 includes examples for each of the six co-branding types. The managers we interviewed also reported examples of each co-branding integration level.

**Co-branding Exclusivity**

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4 We recognize that co-certification, as in J.D. Power’s top rating of cars, has some elements of co-branding. However, the term does not fully meet our definition because both brands do not need to agree to this arrangement. Rather, one brand can provide the certification without coordination with the other brand.
Co-branding exclusivity captures whether the focal brand has one or many partners for a similar type of co-branding arrangement. This dimension resonated with the interviewees in several ways and implied linkages to the mechanisms of attribution and categorization (which we discuss subsequently):

- CRM Director of Grocery Chain: “In [state X] we are exclusive with [ABC] Bank whereas in [state Y] we have traditionally worked with seven different banks. With exclusivity we have more control and can do more co-marketing.” This interviewee also noted that less exclusive relationships in [state Y] allowed the chain to work with multiple customer segments.
- VP (Sales) of major supplier to the steel industry: “We are very conscious of our reputation in the market. ... We have gone exclusive with a partner who provides the service and support that we desire.”

Co-branding Duration

We define co-branding duration as the length of time the partners commit to pursuing a co-branding arrangement. The relationship could be short-term (e.g., Disney’s Lion King co-promotion with Burger King for that movie only) or long-term, encompassing multiple generations (e.g., Pixar’s partnership with Disney to co-produce multiple movies, finally leading to the merger of Pixar and Disney; generations of Dell PCs with Intel microprocessors) or long life cycles (e.g., Diet Coke with NutraSweet). The duration of the relationship was pertinent to how the executives thought of co-branding:

- Sales VP of a sports goods manufacturer: On a long-term relationship with the NBA… “Over time, 95% of the products we shipped were NBA licensed ... We couldn’t take away the mark easily because our very brand name was associated with the NBA.”
- Director of heritage brands at a B2C food manufacturer: Referring to how longstanding relationships have helped establish composite products … “Nearly half of Bacardi Rum is consumed with Coke. Same with [a popular brand of whiskey] and Coke.”

Although Voss and Gammoh (2004) consider the implications of having one versus two partners, their two-partner case involves having a single ally in each of two categories (e.g., Sony in personal digital assistants, Hewlett-Packard in printers). In contrast, our co-branding exclusivity (more versus less) is in a single category (e.g., Intel microprocessors co-branded with multiple PC brands).
3.2 DEPENDENT VARIABLES AND UNDERLYING PROCESSES

With our propositions, presented in the next section, we attempt to make the case that the type of co-branding arrangement a brand enters into has a bearing on its evaluation and/or accessibility in the co-branding context. In the following subsections, we discuss these two outcome variables and the customers’ mental processes underlying these outcomes.

Brand Evaluation

Brand evaluation, or how favorably a brand is perceived by customers (Brunner and Wanke 2006; Gürhan-Canli 2003; Labroo and Lee 2006), is based on its performance and/or attribute-level impressions (e.g., nice taste versus high calorie content, as in the case of Godiva chocolate; Park, Jun, and Shocker. 1996). In a co-branding context, brand evaluation can be affected when the characteristics of the partnering brand are perceived as fusing with, influencing, or rubbing onto the characteristics of the focal brand (Simonin and Ruth 1998). This spillover effect can be either positive or negative causing enhancement or dilution effects respectively (Keller and Aaker 1992; Loken and John 1993). The executives we interviewed were clearly sensitive to the potential impact of co-branding on brand evaluation:

- Sales VP at a consumer products firm: “Ford and Eddie Bauer did a good co-brand. Ford used Eddie Bauer on higher priced cars … a nice, upgraded line of vehicles … helped Eddie Bauer broaden their brand.”
- Marketing Director of major PC brand: “We do a lot of storage business … Credibility is very important in our business … If your system collapses then the data are gone. The client has to trust you and put the data on your storage. So [we have] aligned with EMC – a very credible and established storage company.”

The process of attribution underlies how people assign credit or blame for the observed performance (Folkes 1988) or, equivalently, how they evaluate the partnering brands. Customers may identify as the source of good or bad performance the focal brand alone, the partnering brand alone, the brands jointly, or neither brand (but some extraneous factor instead). In
developing our propositions, we clarify that the nature of the co-branding arrangement (in terms of integration, exclusivity, and duration) has a bearing on customers’ likely attributions of performance, thus clarifying the impact on focal brand evaluation.

The managers we interviewed were sensitive to customers’ attribution of performance and its implications for brand evaluation:

- VP (Sales & Marketing) of paintball manufacturer: “One of the concerns we had co-branding with the army is if the American public would see it as a negative on our brand. We did the research ... the reality was nobody had negative feelings about the Army and soldiers ... the negative feelings if any were toward the government.”

- Commercial Manager at optic fiber manufacturer: “We are selective in partnering because if something goes wrong, we would be hurt. We need to be very careful taking a risk on someone else’s brand. We do the risk assessment first and then look at the pros and cons of co-branding with the firm.”

The three dimensions of attribution—locus, stability, and control—are central to inferring how customers will evaluate the brands (Klein and Dawar 2004). Locus represents whether the cause (of good or poor performance) is viewed as internal or external to the perceived source (Teas and McElroy 1986). Stability focuses on the constancy of the cause tied to the outcome (Russell 1982). Controllability (or control) refers to whether a particular brand is (or was) in a position to drive or avoid the performance outcome (Weiner 2000). Locus and controllability may often point to the same brand (e.g., when the locus is within McDonald’s, it should be able control the quality of its burgers).

The extant literature (e.g., Johnston and Kim 1994; Teas and McElroy 1986; Weiner 2000) guides how these dimensions of attribution link with evaluation. For example, a brand’s strong (or weak) performance across co-branding situations is likely to point to an internal locus: As an illustration, if AT&T’s wireless plans work well independent of the partnering handset brands, the cause is more likely to be internal to AT&T, and its evaluation is likely to be more favorable. Attributions that point to a locus internal to a brand should influence that brand’s
evaluation more than external attributions. Furthermore, attributions based on information over time should influence brand evaluation more than snapshot evidence about a brand.

**Brand Accessibility**

Brand accessibility represents the retrievability of a brand from memory (Holden and Lutz 1992). Though internally generated, accessibility can be influenced by external cues that activate specific information in memory (Nedungadi 1990) and “bring to mind” associated ideas and events (Alba, Hutchinson, and Lynch 1991). The accessibility of a brand is distinct from how a customer might evaluate a brand. For example, Nedungadi (1990) argues that while changes in a brand’s value influence its evaluation, accessibility does not need to be value driven (see also Berger and Mitchell 1989).

Our focus on brand accessibility as a dependent variable is motivated in part by related work in the brand extension literature. Morrin (1999, p. 523) shows that the extension affects the accessibility of the parent brand, especially when the parent brand is not strong or when the extension has a natural fit with the parent category. Meyvis and Janiszewski (2004) suggest that accessibility of the parent brand can positively affect that of the brand extension. Our interviews with managers suggest parallel implications in a co-branding context. Suggesting that its co-branding partner could affect the focal brand’s accessibility, a customer relationship management director at a grocery chain stated:

- “I used to think of Sears as appliances and tools ... however, I have reconsidered Sears for casual clothing because I really like the Lands’ End brand. It is the only retail outlet where I can buy the clothing without having to order it off the catalog.”

The process of categorization is fundamental to brand accessibility (Cohen and Basu 1987). Categorization is the process of organizing objects, including brands, into category
structures (Lajos et al. 2009) and drawing on these representations while encountering new products, marketing stimuli, and/or consumption situations (Loken, Barsalou, and Joiner 2007; Ratneshwar and Shocker 1991). The work of Tulving and Thomson (1973) on memory encoding and retrieval suggests that in a co-branding context the accessibility of one brand is likely to increase the accessibility of its partner, while preempting that of a third brand unrelated to the first (see also Van Osselaer and Alba 2003).

Broadly, categorization and its link to brand accessibility are contingent on at least three elements. First, the “strength of association” between objects helps determine how these are eventually retrieved (Jain, Desai, and Mao 2007). In our context, a higher degree of co-branding integration and longer co-branding duration enable a stronger association between partner brands, enhancing accessibility. Second, the “incidence” or frequency of association between objects affects whether the objects are in one category structure and how cuing one aids the accessibility of the associated brand (see Morrin 1999). The co-branding exclusivity dimension is tied to the incidence of association, with lower exclusivity pointing to multiple bonds that would facilitate brand accessibility. Third, the “fit” as observed in the nature of symmetry between partners can influence the strength of association and related inferences (Kumar 2005; Park, Jun, and Shocker 1996).

### 3.3 PROPOSITIONS DEVELOPMENT

We will first present two propositions on the main effects of the co-branding arrangement on the focal brand’s evaluation and accessibility. We then introduce three moderator variables that characterize the partnering brand (in relation to the focal brand), and present six related propositions. Each proposition is to be seen on *ceteris paribus* basis. Collectively, these help
address which co-branding arrangement and type of partner a focal brand should pursue. Figure 1 provides a parsimonious representation of our conceptual model.

**FIGURE 5: A Parsimonious Representation of the Conceptual Framework**

3.3.1 **Main Effects of Co-branding Integration, Exclusivity, and Duration**

*Effect on focal brand evaluation.* The focal brand entering a co-branding arrangement has a certain baseline (i.e., prior) evaluation. Our dependent variable is the extent to which a particular co-branding arrangement shifts the evaluation of the focal brand from this baseline. Without loss of generality, the baseline evaluation can be set to zero.

Consider co-branding integration. Lower integration is when the brands are more separated in form and function as, say, in co-location. The performance (and realized value) of each brand is closer to what the brand might offer in its standalone or baseline condition. With higher integration, the brands become more interdependent, and the observed performance is increasingly the joint performance of the partnering brands. Therefore, the higher the integration,
the more difficult it is to attribute the source of good (or bad) performance to just one brand (Greenwald 2001). Because of the difficulty in identifying the locus of performance when the brands are more highly integrated, both brands are more likely to share the credit (or blame) in the event of good (or poor) performance (see Teas and McElroy 1986). Thus, higher integration is likely to cause a greater shift in how the focal brand is evaluated vis-à-vis its baseline level. Thus:

P1a: *The higher the co-branding integration, the greater its impact (positive or negative) on the evaluation of the focal brand.*

Turning to co-branding exclusivity, consider a focal brand that co-brands with a single partner (high exclusivity) rather than with multiple partners (low exclusivity). Under high exclusivity, the information about this single co-branding arrangement represents all the information relevant to make attributions. Because no other (outside) brands can be credited or blamed in this case, attributions are likely to be internal to the focal brand (and its partner), and the impact (positive or negative) on the focal brand’s evaluation is likely to be greater. In contrast, if a customer is aware that a focal brand has multiple partners (e.g., Ford Explorer with multiple brands of tires), poor (or good) performance of one co-branding arrangement (e.g., Ford with Firestone) represents partial information only (Johnston and Kim 1994; McArthur 1972). Attributions internal to the focal brand are unlikely to be as strong in a low exclusivity condition compared to an exclusive arrangement unless the good (or poor) performance extends across the multiple co-branded offerings. Thus, the impact of co-branding on focal brand evaluation is likely to be weaker when a focal brand pursues a less exclusive arrangement.

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6 In our propositions, we provide the possibility of a negative impact for completeness. It is self-evident that if a firm expects co-branding with a particular partner to have a negative outcome, it will avoid the partnership unless there are mitigating circumstances.
While the main effect of exclusivity is easy to see under the high integration condition, it also applies under low integration. To illustrate, consider a setting in which a focal retailer co-locates with only one partner retailer across stores (e.g., Barnes & Noble with Starbucks Coffee). Suppose the partnering retailer is faced with an ethical or product quality controversy, consumers are more likely to call into question the focal retailer’s co-location decision under high exclusivity than if the focal retailer had multiple, retail partners. Reinforcing this point in the low integration context of celebrity endorsements, it has been shown that negative (or positive) information about a celebrity has a greater impact on customer evaluation of the endorsed brand (Amos, Holmes, and Strutton 2008), and the impact of any one particular endorser is limited when other endorsers are also present (see Mowen and Brown 1981). Thus:

\[ P_{1b} \text{: The greater the co-branding exclusivity, the greater its impact (positive or negative) on the evaluation of the focal brand.} \]

On the impact of co-branding duration, stable attributions depend on information (or expectation) of performance over an extended period (see Folkes 1984). A short co-branding relationship does not provide customers with the information needed to assess the consistency (over time) of good or poor performance. Therefore, unstable attributions to the focal brand are more likely to be made (Lane 2000). In this case, the impact on brand evaluation is not as strong as that in long-term relationships, which enable consumers to make more stable attributions (Weiner 2000, p. 384).

We note that making stable attributions does not require the performance itself to be stable over time. Stability in attribution focuses on the constancy of the cause tied to the outcome (Russell 1982). As a yardstick for assessing stability, Weiner (1985, p. 557 and p. 559)
invokes the requirement of greater certainty in predicting future events tied to the cause (see also Folkes 1988, p. 551). Thus, an increasing (or even a declining) path in the outcome variable can lead to stable attribution of the cause because the future outcome is consistent with expectation. And if these drivers continue to be present, the expectation would be that the growth will continue. Thus:

\[ P_{1c}: \text{The longer the co-branding duration, the greater its impact (positive or negative) on the evaluation of the focal brand.} \]

**Effect on focal brand accessibility.** A high degree of co-branding integration suggests greater co-dependence in function and form between the partnering brands, thereby reinforcing the association between them. This stronger bond implies that the brands are likely to be co-categorized (Johnson and Lehman 1997), and so an exposure or cue of the partner brand is likely to enhance retrieval of the focal brand (Nedungadi 1990, p. 264). Thus, accessibility of the focal brand is likely to be greater under higher levels of integration. On the other hand, in a low integration co-branding arrangement, the use or performance of one brand is less related to the other brand, and the bond between the brands is weak. Thus:

\[ P_{2a}: \text{The higher the co-branding integration, the greater the accessibility of the focal brand.} \]

With regard to co-branding exclusivity, when a brand forms multiple relationships, customers are likely to categorize and thereby access the focal brand in multiple ways. The categorization literature suggests that when customers categorize a brand under multiple headings, they may recall or access it when encountering or remembering any of the associated objects or brands (Keller 2003; Morrin 1999). Therefore, a customer’s exposure to or recall of
any of the partnering brands is likely to facilitate the accessibility of the focal brand (see also Nedungadi 1990). Conversely, a more exclusive co-branding arrangement restricts the categorization structure, thus reducing accessibility of the focal brand. Therefore:

\( \text{P}_2b: \text{ The lower the co-branding exclusivity, the greater the accessibility of the focal brand.} \)

With regard to co-branding duration, a longer-term arrangement results in repeated exposure of the partnering brands, strengthening the link between the brands in the customers’ categorization structure (Alba, Hutchinson, and Lynch 1991; Loken, Barsalou, and Joiner 2007). Cuing or remembering any partnering brand increases the likelihood of recall and accessibility of the focal brand. However, when the co-branding relationship is short-term, the bond between the brands in the categorization structure is not as well established, lowering accessibility. Thus:

\( \text{P}_2c: \text{ The longer the co-branding duration, the greater the accessibility of the focal brand.} \)

\( \text{P}_1 \) and \( \text{P}_2 \) examine the direct effects of co-branding integration, exclusivity, and duration on focal brand evaluation and accessibility. We next examine moderating factors that add more nuanced implications and, more importantly, guide the choice of appropriate partners.

**Partner Characteristics**

The characteristics of the partnering brand relative to the focal brand are likely to moderate the direct effects of a co-branding arrangement. From our review of the literature and discussions with managers, we identified three key variables: functional symmetry (Park, Jun, and Shocker 1996), hedonic symmetry (Helmig, Huber, and Leeflang 2008), and brand breadth
(Meyvis and Janiszewski 2004). We first define and motivate our choice of these variables and then present related propositions.  

*Functional symmetry.* Functional (or utilitarian) attributes, such as printing speed or the ability to fight cavities, pertain to how a product or component performs or how convenient or practical it is to use (Chitturi, Raghunathan, and Mahajan 2008; Dhar and Wertenbroch 2000). The (prospective) partnering brand and the focal brand could be symmetric (i.e., similar) on the functional attributes or asymmetric, in which one brand is weak on the attributes on which its partner is strong. (Symmetry and asymmetry represent anchors of a continuum.) One of our interviewees observed the following on functional asymmetry:

- “Pillsbury and Nestle is a strong combination – each is strong in its domain of expertise.” (Product planner at a business-to-business firm)

*Hedonic symmetry.* Hedonic attributes, such as luxury (e.g., Gucci) and glamour (e.g., Revlon), capture the sensory or emotional feelings evoked by the partnering brand (Aaker 1997; Hirschman and Holbrook 1982). Partnering brands can be symmetric or asymmetric on the underlying hedonic elements. Two brands are hedonically more symmetric when they convey similar sensory feelings, such as luxury, whereas they are more asymmetric when they convey inconsistent or dissimilar images (see Broniarczyk and Alba 1994; Völckner and Sattler 2006). Relating this variable to a co-branding context, two of our interviewees noted:

- “It is very important for us to have a partner with the same image as ours… American, squeaky clean, non-political, non-religious … we have to share similar attributes. Picking a partner is much more important when we launch a product together than it is when we do a short-term fundraiser.” (Ex-marketing manager for a national non-profit)

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7 While we have not considered an aggregate, brand level construct such as relative brand equity, we look at customer perceptions at the attribute level, namely, symmetry between the brands on hedonic attributes and functional attributes. Prior studies (e.g., Batra and Ahtola 1991; Voss, Spangenberg, and Grohmann 2003) have noted that the hedonic and utilitarian dimensions of an offering are distinct, and both can be relevant in consumer decision making.
• “Jaguar and Ford didn’t work because their images were not congruent; Jaguar didn’t seem luxurious anymore.” (Product planner at a business-to-business firm)

Brand breadth. Brand breadth refers to the diversity of product categories with which a brand is associated (Boush and Loken 1991; Meyvis and Janiszewski 2004). For example, the Harley-Davidson brand is narrow in its breadth, because it focuses on “muscular” motorcycles. In contrast, the General Electric brand has far greater breadth, because its offerings span a wide assortment of product and service categories. A brand manager for a fast-food chain we interviewed noted the following on brand breadth:

• “Co-branding with a broad brand [diverse portfolio] is a viable unit growth strategy especially in quick service restaurants as unit development is a meaningful way to gain the added market penetration.”

3.3.2 Moderating Effects of Partner Characteristics on Focal Brand Evaluation

To recall P1, co-branding has greater impact (positive or negative) on focal brand evaluation under higher integration, greater exclusivity, and longer duration. The central argument pertains to the higher likelihood of stable, internal attributions when co-branding is highly integrated, exclusive, and long-term. We now discuss how the characteristics of the partner brand might amplify or temper customers’ attributions and the related impact on focal brand evaluation.

Functional symmetry. Functional asymmetry in co-branding can alleviate customers’ concerns with a brand that is relatively weak on a functional attribute (Park, Jun, and Shocker 1996). In a traditional economic sense (see Cheng and Nahm 2010), an extreme analogy of functional asymmetry would be of the left and right shoes that perform better jointly than two left shoes. We posit that the positive influence of functional asymmetry varies according to the nature of the co-branding arrangement.
P1a implies that the evaluation of the focal brand (relative to its baseline level before co-branding), is prone to greater impact when it is more highly integrated with its partner. Here customers see a shared locus between the brands. Improving joint performance is more critical. Thus, under high integration, functional asymmetry can help achieve significant superior joint performance (relative to that under functional symmetry) and make internal attribution more favorable.

Functional asymmetry can bring added benefits under lower levels of integration as well (e.g., co-location of Taco Bell and KFC offers variety and balance; see Oxenfeldt 1966). But because customers are less likely to apportion credit or blame due to the partner brand to the focal brand under low integration, the moderating role of functional asymmetry is weaker in this condition. Thus:

P3a: The more asymmetric the partnering brands on functional attributes, the stronger the positive impact (and weaker the negative impact) of co-branding integration on evaluation of the focal brand.

The exclusivity—evaluation main effect in P1b is based on the greater likelihood of internal attributions under greater exclusivity. As the associated praise or blame on the focal brand is likely to be higher under greater exclusivity, it is more critical for the focal brand to ensure that its partner(s) can compensate for its shortcomings and help provide superior overall performance. By improving the combined performance of the brands, functional asymmetry is likely to make internal attributions more favorable (or conversely make unfavorable attributions less unfavorable), thereby strengthening the positive impact (or weakening the negative impact) of exclusivity on focal brand evaluation. In contrast, functional asymmetry under low
exclusivity is likely to be less effective. The availability of many options, each with a somewhat different case of functional asymmetry (e.g., Diet Coke with brands of aspartame, sucralose, and neotame), may confuse customers (Iyengar and Lepper 2000), and so positive attribution internal to the focal brand is likely to be weaker. Thus:

**P3b:** *The more asymmetric the partnering brands on functional attributes, the stronger the positive impact (and weaker the negative impact) of co-branding exclusivity on evaluation of the focal brand.*

The co-branding duration—evaluation main effect in P1c is based on the argument that stable attributions are more likely when the duration is greater, and so greater is the impact (positive or negative) of duration on focal brand evaluation. To make the stable attributions more positive (or less negative), it is vital to have a functionally asymmetric partner that can compensate for the focal brand’s shortcomings and deliver better overall performance. On the other hand, functional asymmetry is less critical (albeit still desirable) in shorter relationships, with less stable attributions. Thus:

**P3c:** *The more asymmetric the partnering brands on functional attributes, the stronger the positive impact (and weaker the negative impact) of co-branding duration on evaluation of the focal brand.*

**Hedonic symmetry.** Gwinner and Eaton (1999) show that hedonic symmetry or congruence between a sporting event and sponsor leads to more favorable outcomes and better image transfer than an asymmetric pairing. Consistently, Meenaghan (1991) find that asymmetry slows favorable outcomes. The work of Ellen, Moore and Webb (2002) and Kamins and Gupta (1994) underscore that hedonic symmetry between a product and endorser leads to
greater believability of the message and a more favorable view of the product. While there is some evidence (e.g., Hastie 1988) to suggest that hedonic asymmetry might cause greater elaboration, this latter stream also finds that enhanced information processing by customers under hedonic asymmetry eventually leads to greater skepticism about the pairing (see Lee and Hyman 2008; Rifon et al. 2004). Thus, the evidence strongly supports a favorable effect of hedonic symmetry on brand evaluation, although the strength of this effect depends on the type of co-branding arrangement.

Under high co-branding integration (P_{1a}), we argued that the brands’ intertwined form and function are likely to make customers see a shared locus between the partnering brands, strongly impacting focal brand evaluation (relative to its pre-co-branding level), thus making it especially important (relative to the low integration condition) for the brands to fit well. Teaming up with a hedonically asymmetric brand under high integration is likely to invite skepticism which would turn to unfavorable attributions for the focal brand in the event of weak or equivocal performance (see Rifon et al. 2004). That is, hedonic symmetry is likely to make the positive integration—evaluation link in P_{1a} stronger (or make a negative link less negative). By contrast, in the case of low co-branding integration, consumers can more easily disentangle the benefits from either brand, and thus hedonic symmetry should impact the integration—evaluation link less severely. Thus:

P_{4a}: The more symmetric the partnering brands on hedonic attributes, the stronger the positive impact (and weaker the negative impact) of co-branding integration on focal brand evaluation.

The co-branding exclusivity—evaluation link in P_{1b} is based on the greater likelihood of attributions internal to the brands under greater exclusivity. To insure that these attributions are
more favorable (or less unfavorable), the focal brand is better off avoiding a hedonically asymmetric partner that would make customers confused and skeptical about the meaning of the pairing (see Broniarczyk and Alba 1994). On the other hand, when the relationship is less exclusive, the focal brand is less vulnerable to the outcome of any single co-branding relationship. Ensuring that a partner is hedonically symmetric becomes less critical in this setting. Thus:

\[ P_{4b}: \text{The more symmetric the partnering brands on hedonic attributes, the stronger is the positive impact (and weaker is the negative impact) of co-branding exclusivity on focal brand evaluation.} \]

In \( P_{1c} \), the co-branding duration—evaluation link was based on the greater likelihood of stable attribution when the arrangement is of a longer duration. To nudge the stable attribution in a more favorable direction, it is desirable to align with a hedonically symmetric brand so as to reassure customers of a harmonious pairing. The downside of a hedonically asymmetric pairing is less severe in a shorter co-branding arrangement. Unstable attributions are more likely, and any customer skepticism is quickly overcome when the arrangement is ended. Thus:

\[ P_{4c}: \text{The more symmetric the partnering brands on hedonic attributes, the stronger is the positive impact (and weaker is the negative impact) of co-branding duration on focal brand evaluation.} \]

**Brand breadth.** Although brands with greater breadth have more benefit associations than narrow brands (Meyvis and Janiszewski 2004), excessive breadth can dilute a brand’s image (Keller and Aaker 1992; Loken and John 1993). A narrow brand has a more distinct image (Sheinin and Schmitt 1994) and so customers can more easily gauge what the brand does or does not bring to the co-branded offering.
According to P1a, under higher integration the co-brands closely share a locus of performance. A partnering brand with less breadth (i.e., a more focused image) is likely to magnify the match (or mismatch) of the co-brands. Under co-branding, aligning with a narrow brand could significantly enhance the evaluation of the focal brand or underscore the incongruity, resulting in an unfavorable attribution that significantly lowers focal brand evaluation. Conversely, brands with greater breadth are better able to withstand the threat of brand dilution when forming new extensions (Nijssen and Agustin 2005). This suggests that partnering with a brand with greater breadth tempers the downside of negative evaluation while softening the upside potential for the focal brand. Under lower integration, on the other hand, brand breadth is less significant because the locus is separated and attributions are less influenced by the nature of the partner. Thus:

**P5a:** *The greater the breadth of the partnering brand, the weaker the impact (positive or negative) of co-branding integration on evaluation of the focal brand.*

In P1b, the link between co-branding exclusivity and focal brand evaluation is premised on stronger internal attribution in the case of high exclusivity. Greater breadth of the partner brand(s) would diffuse the meaning of what the co-branding represents (see Meyvis and Janiszewski 2004 on brand extensions) and is likely to make the internal attributions less favorable. By contrast, a partner with a tight (or narrow) focus (in the same high exclusivity condition) would make it clear to the customers what the co-branding represents, even if that message of clarity is one of incongruity (Sheinin and Schmitt 1994). As a result, the internal attribution under narrow breadth of the partner would be stronger (or loosely, more extreme) under greater exclusivity, and strengthen the exclusivity—evaluation link. Under low exclusivity, the significance of each partnership is diffused to begin with due to the multiplicity
of partners. While partners with less breadth still give clarity to the co-branding partnerships, the effect is likely to be not as strong as in the high exclusivity condition. Thus:

**P₅b:** The greater the breadth of the partnering brand, the weaker the impact (positive or negative) of co-branding exclusivity on evaluation of the focal brand.

The posited co-branding duration—evaluation link in **P₁c** is based on the greater likelihood of stable attribution for longer relationships. When the partner has greater breadth and correspondingly a more diffused image (Meyvis and Janiszewski 2004), the stable attribution is likely to be weakened. Therefore, the impact of longer duration on focal brand evaluation is likely to be weaker than when the partner brand has a narrow breadth. On the other hand, shorter co-branding arrangements are primed for less stable attribution, with lower impact on focal brand evaluation. Thus, while consumers’ attributions will be clearer when the partner brand has less breadth, the role of breadth is muted due to shorter co-branding duration. Thus:

**P₅c:** The greater the breadth of the partnering brand, the weaker the impact (positive or negative) of co-branding duration on evaluation of the focal brand.

3.3.3 Moderating Effects of Partner Characteristics on Focal Brand Accessibility

**P₂** posits that greater co-branding integration and duration, but lower exclusivity, lead to greater focal brand accessibility. We now discuss how the partner brand’s characteristics moderate these effects on focal brand accessibility.

**Functional symmetry.** In **P₁₅**, the co-branding integration—accessibility link is based on stronger bonds between the brands under higher integration owing to their co-dependence in form and function, which facilitates co-categorization and retrieval. Greater asymmetry among the functional attributes, in which a brand’s functional strength on an attribute overcomes the
partner’s lack of strength on the same attribute, points to additional complementarity at both the
category and the brand level (Park, Jun, and Shocker 1996). In a co-advertising context, such
functional asymmetry is shown to lead to greater awareness of the brands (Samu, Krishnan, and
Smith 1999). The related cognitive assessment of fit is likely to facilitate better retrieval of the
focal brand under higher integration (see Meyers-Levy and Tybout 1989). By contrast,
accessibility under lower integration is not likely to benefit as much by functional asymmetry of
the brands because of the weaker interdependence in form and function. Thus:

P₆ₐ: *The more asymmetric the partnering brands on functional attributes, the stronger the
positive impact of co-branding integration on accessibility of the focal brand.*

P₂₆ points to greater accessibility of the focal brand when it has multiple partners. There
are simply more linkages between the focal brand and its co-categorized partners in this case,
increasing the number of ways in which the focal brand is cued or retrieved. In a brand extension
context, Aaker and Keller (1990) show that complementarity between the parent and extension
brands facilitates the associations customers make. The complementarity arising from functional
asymmetry thus strengthens the multiple bonds in the categorization structure under the low
exclusivity condition, augmenting accessibility. While functional asymmetry strengthens the
bond(s) in the high exclusivity condition as well, there are fewer bonds, reducing the boost to
accessibility when there are few partners. In sum, the negative relationship between exclusivity
and focal brand accessibility is likely to be strengthened under functional asymmetry. Thus:

P₆₈: *The more asymmetric the partnering brands on functional attributes, the stronger the
negative impact of co-branding exclusivity on accessibility of the focal brand.*
The positive link between co-branding duration and accessibility in P$_{2c}$ is based on stronger bond(s) between the brands due to repeated exposure in a longer relationship. Extending the arguments tied to P$_{6b}$ above (e.g., Aaker and Keller 1990), the repeated exposure is augmented by the meaningfulness of the exposure due to the complementary nature of the brands under high functional asymmetry, enhancing retrieval and focal brand accessibility (see also Samu, Krishnan, and Smith 1999). By contrast, in a shorter relationship the bond is weaker, reducing the leverage from functional asymmetry. Thus:

P$_{6c}$: *The more asymmetric the partnering brands on functional attributes, the stronger the positive impact of co-branding duration on accessibility of the focal brand.*

**Hedonic symmetry.** The case for P$_{2a}$ on the co-branding integration—accessibility link is based on the stronger bond between the brands when they are closer in form and function under high integration. But because hedonic asymmetry underscores the discord at the level of image or feeling, customers are prone to feel skeptical about the brand partners if there is hedonic asymmetry, which leads to discord at an emotional level (Rifon et al. 2004). This, in turn, should have an adverse effect on encoding and retrieval, and weaken the accessibility advantage arising out of high integration (see also Alba, Hutchinson, and Lynch 1991). Under low integration, the disjointedness of the brands in form and function limits the ability of hedonic symmetry to strengthen the bond, and the leverage on focal brand accessibility is weaker. Thus:

P$_{7a}$: *The more symmetric the partnering brands on hedonic attributes, the stronger the positive impact of co-branding integration on accessibility of the focal brand.*

The negative impact of co-branding exclusivity on accessibility in P$_{2b}$ is tied to the limited number of bonds leading to the focal brand in the high exclusivity condition. With many
partners (low co-branding exclusivity), the multiplicity of ways in which the focal brand can be
categorized, cued and retrieved is likely to increase its accessibility. Hedonic symmetry within
these multiple partnerships, which conveys the message of believability and concordance, should
strengthen the multiple bonds and facilitate retrieval (see Rifon et al. 2004). Hedonic symmetry
also strengthens the fewer bonds in the high exclusivity condition, improving accessibility, but
with fewer partners, the leverage from hedonic symmetry is not as much. Therefore, hedonic
symmetry is likely to strengthen the negative relationship between exclusivity and focal brand
accessibility. Thus:

**P7b:** The more symmetric the partnering brands on hedonic attributes, the stronger the
negative impact of co-branding exclusivity on accessibility of the focal brand.

In P2c, longer co-branding duration is posited to lead to higher accessibility by increasing
familiarity with, and connectedness among, the partnering brands, facilitating their co-
can strengthen this link in two ways. First, it makes the co-branding more believable, thereby
facilitating encoding and retrieval. Second, hedonically symmetric brands are inherently more
likely to be co-categorized (e.g., Bentley cars and Naim car audio for top end riding experience)
(see Ozanne, Brucks, and Grewal 1992), and if they partner over a longer time the encoding and
accessibility are likely to get stronger. This boost from hedonic symmetry will have limited
impact if the arrangement is only for a short duration. Thus:

**P7c:** The more symmetric the partnering brands on hedonic attributes, the stronger the
positive impact of co-branding duration on accessibility of the focal brand.
Brand breadth. In P\textsubscript{2a}, recall the argument based on a stronger bond between the brands under higher integration and its favorable impact on accessibility. When the partner brand has greater breadth, the number of associations tied to the focal brand also increases (Joiner 2006), thereby offering more ways in which focal brand could be cued and retrieved (Meyvis and Janiszewski 2004). In contrast, a narrow partner brand may provide the customer with a clearer understanding of what the association represents, but does not increase the number of linkages. Stated differently, greater breadth coupled with higher integration combines more effectively the strength and multiplicity of linkages, compounding the effect on accessibility. While the multiple associations under greater breadth with also improve accessibility under low integration, the core bond is weak to begin with and the impact will therefore be smaller. Thus:

P\textsubscript{8a}: The greater the breadth of the partnering brand, the stronger the positive impact of co-branding integration on accessibility of the focal brand.

The negative link between co-branding exclusivity and accessibility in P\textsubscript{2b} is predicated on fewer bonds (under high exclusivity) to aid the process of cuing, encoding and retrieval. With multiple partners, there are more bonds to begin with. All else being the same, a brand with greater breadth has more associations (Meyvis and Janiszewski 2004; Morrin 1999). Thus, if the multiple partner brands also have greater breadth, the number of associations will multiply and further enhance cuing and retrieval, enhancing accessibility. The benefit of increased accessibility from the broader partner brand(s) will also accrue under high exclusivity. However, because of fewer bonds to begin with under the high exclusivity condition, the boost in accessibility is not likely to be as much. Taken together, the negative relationship between exclusivity and focal brand accessibility should become more negative under greater breadth of the partnering brands. Thus:
P\textsubscript{8b}:  The greater the breadth of the partnering brands, the stronger the negative impact of co-branding exclusivity on accessibility of the focal brand.

Turning to P\textsubscript{2c} on the co-branding duration—accessibility link, recall that the argument was tied to a stronger bond between the partners when their association is long-term. The strength of association is complemented by the number of associations when partnering a brand with greater breadth. The repeated exposure under greater duration means the multiple linkages become more familiar to customers, in turn facilitating accessibility through better encoding and retrieval (Nedungadi 1990). The positive boost to accessibility under a partner’s greater breadth is not likely to be as high when the co-branding duration is short. There is limited time for the customers to grasp and internalize the existence of the multiple linkages, thus weakening the positive boost to accessibility. Thus:

P\textsubscript{8c}:  The greater the breadth of the partnering brand, the stronger the positive impact of co-branding duration on accessibility of the focal brand.

With the above propositions in place, we will now step back to discuss the meaning and significance of the posited relationships for managers.

### 3.4 MANAGERIAL IMPLICATIONS

Our compilation of co-branding examples and our interviews with managers underline the sheer volume and variety of co-branding partnerships in practice. Our conceptual framework and the propositions posit the impact on a focal brand’s evaluation and accessibility by customers in the event that the brand enters into a co-branding arrangement, based on the dimensions of the arrangement (integration, exclusivity, and duration) and the characteristics of the prospective
partner (symmetry between brands on functional and hedonic attributes, and partner brand breadth).

In this section, we articulate more explicitly the managerial implications of our conceptualization and normative propositions for decisions involving the choice of an appropriate co-branding arrangement and partner. Specifically, we focus our discussion on three issues: (a) relating our conceptual framework to the co-branding decision-making process, including mapping dependent variables from our conceptual model onto managerial objectives; (b) elaborating on the implications of the propositions by recognizing that real world managerial decision-making must consider uncertainty in outcomes and tradeoffs between objectives; and (c) addressing issues of implementation of co-branding arrangements with partnering brands.

The Co-branding Decision Making Process

Co-branding objectives. While managers can relate intuitively to our two dependent variables, evaluation and accessibility of the focal brand, we note that these two variables map onto the strategic objectives defined in terms of product- (or, in our case, brand-) and market-related goals (Amaldoss and Rapoport 2005; Ansoff 1957). Improvement in brand evaluation is related to brand development, while an expansion of brand accessibility leads to greater consideration, contributing to market development. Brand development implies greater brand value, which firms can leverage to command higher prices and/or secure greater share of the current target market. Greater brand accessibility implies that customers in the focal or partner brand’s current market are more likely to retrieve the focal brand. This allows for market expansion by enlarging the potential size and/or penetration of the target market without necessarily influencing brand evaluation. These strategic objectives are apparent in statements made by managers in our study:
• “Forming partnerships helped us maintain a premium priced product.” (fiber optics)
• “We bundle solutions to provide greater value to the customer ... greater than the sum of the parts.” (health care information technology)
• “The biggest value is to expand the market.” (activated carbon-based treatment systems)
• “We wanted to bring in our current nonusers.” (ready-to-eat cold cereal)
• “We co-branded with a vendor of injection equipment ... because it clearly adds value to the customer. It also opens up opportunities in areas where we don’t do business in.” (specialty chemicals for the steel industry).

The last quote illustrates the case of the manager seeking both brand development and market development objectives, a strategy that Ansoff (1957) labels as diversification, which involves improving brand evaluation and increasing brand accessibility simultaneously. Thus, in practice, the co-branding decision may often involve prioritizing or trading off between the brand- and market-development objectives, with implications as discussed below.

Co-branding arrangements and partners. Our conceptualization focuses on the choices of co-branding arrangement and partner. Designing a co-branding arrangement with a prospective partner involves three important structural components of the arrangement: its type, exclusivity, and duration. In practice, the type—which our proposed hierarchy captures according to the level of integration; see Table 1—may be determined (or at least heavily influenced) by the specific co-branding opportunity under consideration. For example, for Intel’s microprocessors, component branding would be the logical choice of the type of co-branding arrangement. In this sense, the level of integration may be viewed as the more fundamental decision, and the exclusivity and duration decisions may follow subsequently. While the latter decisions are separate from the arrangement type, they must be internally
consistent, and based on the nature and extent of commitment involved. Thus, managers must first be clear about the desired type of co-branding (in terms of the level of integration).

The characteristics of the partnering brand can strongly influence the impact of the chosen co-branding arrangement on the ultimate outcome. Analyzing the fit between the focal brand and a prospective partner requires that both brands be evaluated and compared separately on dimensions of functional performance and emotional appeal. We discuss these issues from an implementation perspective subsequently. The prospective partnering brand’s breadth is another key consideration, with the correct decision depending on the co-branding objectives, as seen below.

The Propositions as a Guide to Making Co-branding Decisions

Before examining the implications of specific propositions, we note the following:

- **P1** posits the strength, but not the direction, of impact of the co-branding arrangement variables on focal brand evaluation. Thus, higher integration, greater exclusivity, and longer duration of the arrangement can each help boost evaluation if the impact turns out to be positive, but hurt in case the impact turns out to be negative. To the extent that the outcome cannot be predicted with certainty at the time the co-branding decision is made, risk must be factored in to the decision, even if the expected impact on brand evaluation is positive. This applies to **P3-P5** as well, since they extend **P1** by including the moderating effects of partner characteristics on the co-branding arrangement – focal brand evaluation relationship.

- Greater exclusivity of the co-branding arrangement strengthens the impact on focal brand evaluation but weakens the impact on focal brand accessibility (**P1b** and **P2b**). Likewise,

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8 A number of real world examples underscore that greater integration by itself does not require an exclusive co-branding arrangement. Under high integration, while iPhone with AT&T wireless plan (until recently) and Rolls Royce Trent engines in Airbus A380 aircraft are examples of exclusivity, we also find less exclusive arrangements as in BlackBerry customized for Verizon, Sprint and others, and NutraSweet in a variety of diet soft drinks.
greater breadth of the partnering brand weakens the impact of the co-branding arrangement variables on brand evaluation but strengthens the positive impact of integration and duration (and the negative impact of exclusivity) on brand accessibility. Thus, decisions made with regard to these variables will impact evaluation and accessibility in opposite ways, implying that managers must prioritize their co-branding objectives in order to make the best decision.

Implications of the main effects of co-branding arrangement variables \((P_1 \text{ and } P_2)\). Co-branding arrangements with higher integration and longer duration require a greater commitment on the part of the focal brand, and exclusive arrangements can be risky because further options are limited. \(P_1\) implies that such arrangements, if successful, are likely to have a stronger positive impact on the brand’s value. However, if the partnership fails, the loss of brand value may be magnified. Thus, such arrangements are likely to increase expected returns but with higher risk. Greater due diligence is called for in structuring the arrangement and choosing the exclusive partner to minimize downside risk. Managers with low tolerance for risk may, for example, choose to hedge their bets by choosing multiple partners, incorporating “escape” clauses in contracts so that unsuccessful partnerships can be terminated, and/or even starting with a less integrated arrangement to test the waters before stepping up the level of integration. As a former marketing manager for a national non-profit organization noted, partners must be chosen more carefully in a product co-development arrangement than in a short-term co-promotion. Other managers reinforced the importance of careful risk assessment.

Greater integration and longer duration support the goals of both brand and market development, albeit with possible risk to brand value if the relationship fails. However, greater exclusivity, though recommended for brand development, is not the preferred option for market development \((P_{2b})\). Thus, if market development is the more important goal, multiple co-
branding partners would be the way to go. Even in this case, managers may choose to test the market with a single partner before scaling up to multiple partners, thereby reducing the risk of a possible dilution of brand value. For example, as the marketing director of a major PC brand noted, “You have an exclusive relationship initially, that becomes more inclusive over time.”

Another approach for dealing with the different implications of co-branding exclusivity for brand evaluation (P1b) and accessibility (P2b) would be to pursue greater exclusivity at one level (e.g., Northwest Airlines co-branding exclusively with KLM, until recently, arguably to improve evaluation through higher integration and functional asymmetry) and a less exclusive form at another level (e.g., Northwest offering affinity programs with multiple hotel chains to plausibly to increase accessibility or consideration).

**Implications of the moderating effects of partner characteristics (P3 – P8).** The managerial implications of P3–P8 pertain to the partner selection decision—specifically, the brand characteristics that allow for a potentially successful partnership. The managerial “bottom line” is clear: The brands should complement each other on their functional attributes but be congruent on the hedonic attributes (that drive the brand’s emotional appeal or image) to obtain the most favorable outcomes in terms of both brand evaluation and accessibility. This ensures (a) a stronger, more positive, impact if the co-branding arrangement decision is successful in increasing brand value; (b) an ameliorating effect if the decision does not work out and threatens to decrease brand value; and (c) a positive reinforcement of market development.

Operationally, this means that in evaluating prospective co-branding partners for potential fit, managers must identify how these brands are perceived on functional and hedonic attributes relative to their own (focal) brand. When the partnering brands are strong on different functional attributes, there is the opportunity to enhance value by combining functional strengths.
In contrast, incompatibility on hedonic attributes is almost guaranteed to hurt brand value. Underlying this point is the product planning manager’s observation that Pillsbury and Nestlé form a strong combination because of strong domain expertise, while the partnership between Jaguar and Ford is not congruent. As the latter case proves, even if there are compelling supply-side reasons for a partnership, care should be taken not to present the two brand names together.

Beem (2010) provides examples of successful co-branding partnerships that Cold Stone Creamery (of which he is president) has entered into that illustrate these ideas: “…We have successfully combined our ‘Ultimate Ice Cream Experience’ with such complementary brands as Oreo, JELL-O Pudding, and Jelly Belly. The combination of these premium brands and iconic flavors are a draw for our customers and a natural fit in quality and reputation.” This is a case of ingredient branding involving brands with consistent hedonic attributes, with the objective of brand development. Beem also provides examples of successful co-location initiatives involving Tom Horton’s and Rocky Mountain Chocolate Factory in co-branded stores, leveraging complementary functional attributes in terms of the brands generating store traffic at different times of day (in the case of Tom Horton’s) and different seasons of the year (Rocky Mountain Chocolate Factory). Both partnerships have increased store traffic and profitability, with the primary objective of market development.

The breadth of the partnering brand (as measured by the number of distinct product categories) is an important consideration because it impacts brand evaluation and accessibility in opposite ways. All else being equal, if brand development is the primary goal, managers should choose a narrow brand (focused on one or a few categories). Conversely, a broad brand with a dispersed presence across several categories is helpful when managers’ goal is primarily market
development. However, managers should assess the risk of brand dilution in the latter case before deciding on the partner(s).

**Implementation Issues**

Given the stakes involved, the first question on the co-branding checklist is: does co-branding make sense at all? A successful co-branding arrangement must add net value to both partners, after accounting for the costs of co-branding. As a business development manager at a bearings manufacturer noted, “One plus one must equal three—if both companies cannot create more value by co-branding compared to going ahead alone, we will go ahead alone, because it is easier to manage.”

Along with assessing the net benefit of co-branding, managers must identify the best co-branding arrangement and the best partner(s) for that arrangement. Indeed, the former assessment needs consideration of the latter factors. In the context of co-branding as a brand transition strategy, Abratt and Motlana (2002) conclude that the implementation process should involve the following steps: (1) understand consumer brand perceptions, (2) consider product fit of both brands, (3) leverage company strengths of both brands, (4) consider the packaging of the co-brand, and (5) consider the timing of transition.

Typically, the stakes are higher with more integrated and longer-term partnerships, in terms of potential benefits, costs, and risks. In addition to greater diligence in conducting the cost–benefit analysis to evaluate both the possible arrangements and potential partners, firms should define guidelines that govern the co-branding arrangement between partners. For example, 3M Corporation defines co-branding as “the use of one or more trademarks from two or more companies for the marketing of specific goods, services, and events” and provides clear standards for enhancing and protecting 3M and partner brands for the following co-branding...
relationships: ingredient branding, joint ventures, joint marketing, licensed merchandise, and sponsorships (see http://solutions.3m.com/wps/portal/3M/en_WW/Corp/Identity/Alliances/Co-branding/). In a nonprofit setting, United Way of Greater St. Louis specifies guidelines for member agencies to develop co-branding opportunities (http://www.stl.unitedway.org/co-branding.aspx).

Correct implementation is critical to ensuring that co-branding is a win–win strategy for both partners. This requires a clear roadmap with specific guidelines to arrive at the right choice of co-branding arrangement and partner(s) and, ultimately, an unambiguous agreement (usually in the form of a formal contract) between the partners to ensure smooth execution.

### 3.5 CONCLUSION AND NEXT STEPS

Despite the pervasiveness of co-branding in the real world, academic research has barely scratched the surface. Co-branding is a nuanced and multi-layered concept, yet extant articles have either treated it as a single, unified idea or have explored only particular subtypes. On the practitioner side, our interviews suggest that even managers with firsthand co-branding experience have only partly recognized the strategic options within co-branding and the interplay between structural elements of co-branding and partner selection. Against this backdrop, we have proposed a new categorization of co-branding types and offered a series of propositions on how and with whom a firm should co-brand. Our preceding “Managerial Implications” section has elaborated on the meaning of our conceptualization and propositions for brand and market development.

From a process standpoint, our study is arguably the first to apply the mechanism of attribution to clarify when or how co-branding might work. Although attribution as a process is backward looking, because it involves making sense of events that have already occurred, we
argue that firms should make decisions by being forward looking and anticipating customers’ possible attributions under specific co-branding arrangements. While prior research has drawn on categorization in the context of ingredient branding, we discuss its relevance in other co-branding situations as well, and in turn the impact on brand accessibility.

Most of the extant studies on co-branding are anchored almost entirely in the consumer behavior literature (e.g., Simonin and Ruth 1994) or in the marketing strategy literature (e.g., Varadarajan and Rajaratnam 1986). Our study has integrated consumer behavior theories (e.g., categorization) and concepts (e.g., brand evaluation), attribution theory from social psychology, and brand management concepts such as brand accessibility and fit. Doing so has yielded a series of propositions that, we hope, appeal directly to managers.

**Future Research Agenda**

Beyond its popularity, the topic of co-branding is rich and complex, and warrants additional research. In proposing potential avenues for future work, we first discuss opportunities closest to the current study.

While our approach is centered on how to pursue co-branding, we have not examined when and how a firm should withdraw from a co-branding situation. Such occasions may arise when an important partner brand’s reputation is threatened (for ethical or quality reasons), when the partner ups its demands, or when the focal brand itself wants to reposition. Our interviews with managers suggest that abandoning co-branding is not easy when the brands are strongly co-categorized in customers’ minds. While co-branding with multiple partners is one way to mitigate the fallout with a single partner, multiple relationships may make it even harder for the focal brand to disband co-branding. This issue is both important and underexplored.
In exploring the main effects of co-branding integration, exclusivity and duration, we have not considered how these antecedents might have an interactive influence. While higher integration and duration are both posited to have a greater impact on focal evaluation, what if integration is low but the co-branding is of a very long duration? This is seen, for example, in retailing where luxury brands (e.g., Prada) have tightly aligned themselves over extended periods with high-end outlets (e.g., Neiman Marcus). From the standpoint of brand evaluation, does an extra long partnership mitigate the need for higher co-branding integration? What if a competing luxury brand (say, Coach) not previously offered through the high-end retailer, co-develops and retails a product through this chain? How will the Coach brand be evaluated vis-à-vis Prada? Such interplay seems worthy of future research and would require empirical work.

Empirical validation of our conceptual model would be a much needed next step. Taking our model to data will help in a better appreciation of the various effect sizes. For example, while we have proposed a hierarchy of co-branding types based on the degree of integration, it would help to quantify what the change in the outcome variables might be as the partners upgrade their relationship. If co-located Barnes & Noble and Starbucks decide to co-promote, how would that impact evaluation and accessibility? Instead of component branding with an already developed Intel microprocessor, what is the additional value to Apple and Intel of co-developing a processor for a MacBook? Further, on the empirical side, much of the research to date is based on controlled experiments. Significant opportunities exist to develop or refine the measures of key constructs such as the level of co-branding integration, functional symmetry, hedonic symmetry, and brand breadth, along with the outcome measures of brand evaluation and accessibility.
We have posited the likely impact of hedonic symmetry and functional symmetry, but we did not explore whether or how hedonic and functional attributes interact. The work of Gill (2008) in the context of convergent products suggests an interaction between the hedonic and the functional (or utilitarian) elements of the product. In terms of co-branding, it would be worthwhile to examine which specific hedonic and functional attributes of the focal brand and its partner interact with each other and why.

Our framework and propositions are based entirely on demand- (i.e., customer-) side drivers and rationales. Supply-side and competitive factors are also important in co-branding decisions, but have been underexplored in the literature (except in a mergers and acquisitions context). Research in transaction cost economics and industrial organization would suggest that capacity considerations, bargaining power of the prospective partners, entry deterrence, and opportunistic behavior in resource commitment under co-development can all influence the formation and evolution of co-branding arrangements. Consider entry deterrence. It would appear that Apple’s decision to offer the iPhone exclusively to AT&T (until recently) significantly influenced market structure and response. The eventual surge in smartphone innovation involving Dell, Google, Motorola and Samsung, among others, is in no small measure due to the desperation and participation of Verizon and Sprint in the race against AT&T and Apple. So was Apple right to have gone exclusive with AT&T in the first place? The interaction among demand-, supply- and competitor-side factors has the potential to spawn multiple studies.

It would also be insightful to examine which types of organizational cultures and resources are more conducive to stronger co-branding relationships. The work on mergers and acquisitions (e.g., Bahadir, Bharadwaj, and Srivastava 2008) and strategic alliances (e.g., Gerwin
2004) is relevant in this case. Applying our framework to brand acquisitions may also shed light on a complex topic (Wiles, Morgan and Rego 2011; Mizik, Knowles and Dinner 2011).

Our examples mostly pertain to U.S. brands. The increasing importance of overseas markets and the global supply chain demands an international and cross-cultural flavor to co-branding. Factors such as country of origin (Gürhan-Canli and Maheswaran 2000) and standardization versus customization (Zou and Cavusgil 2002) might require an adaptation of our managerial guidelines. We urge future work based on such international considerations.
4.0 ESSAY 3: CO-BRANDING INTEGRATION AND THE IMPACT ON BRAND RECALL AND EVALUATION

4.1 INTRODUCTION

Previous work in co-branding has focused on particular types (or a subset of types) of co-branding such as Park, Jun and Shocker’s work on composite brand extensions (1996), or Desai and Keller’s work on ingredient branding (2002). However, Newmeyer, Venkatesh, and Chatterjee (NVC from here forward) propose a typology of co-branding based on the degree of integration between the partnering brands (2011). The degree of co-branding integration captures the extent to which the brands are intertwined in form and function. While co-branding is the joint presentation of two or more brands with a strategic or tactical intent, the extent of integration can span the spectrum from (almost) completely self-standing to completely fused together. Starbucks Coffee co-located in Barnes & Noble stores exemplifies one end of the spectrum, with the two brands completely separated in form and function. At the other end, Sony Ericsson equipment, mostly cell phones co-developed by a Sony—Ericsson joint venture, represents two brands that are fully integrated in development, form and function.

The hierarchy proposed by NVC shows six types of co-branding, which defines each type in terms of the presence or absence of certain characteristics: co-creation of the co-branded offering, physical or functional separability, tie-in sales, discount for purchasing the partnering
brand, and greater variety and/or reduced search (NVC 2011). Refer to Table 6 on page 53 for the complete hierarchy.

From the perspective of the focal brand, or one brand of the pairing, NVC then propose a set of propositions which outline the impact on brand accessibility and evaluation based on the level of integration between partners. In general, as the level of integration increases, it is expected that the impact on both accessibility and evaluation will increase as well. The goal of this work is to expand on the theoretical foundation laid by NVC by testing several of the propositions through experimentation. First, using the associative memory model (see Anderson 1983) as our guide, we will test to see if the level of recall of the focal brand increases as the level of integration increases. Next, a negative scenario will be presented to subject to determine if one’s evaluation of the focal brand will vary depending on the given level of integration. This hypothesis will be based on the use of attribution theory.

Measuring consumers’ recall, consideration, choice, and evaluation of the focal brand is important to managers who are considering forming a co-branding arrangement. Knowing how consumers will react to each particular type of co-branding arrangement is a vital component when determining how and with whom to co-brand. In the following section the conceptual ideas and hypotheses will be developed. Next, our studies will be presented, and finally steps for moving forward will conclude the paper.

4.2 CONCEPTUAL DEVELOPMENT AND HYPOTHESES

Previous literature has showed us that consumers prefer co-branded products to single brand extensions (Desai and Keller 2002), yet we do not know how consumers respond to different types of co-branding arrangements. Because co-branding has become such a pervasive
marketing strategy, it is crucial for academic research to more clearly define the anticipated outcome of using different co-branding arrangements. This is important for two reasons: one, a firm must understand how the co-brand arrangement will affect the parent brand’s accessibility in memory as this can directly impact recall, consideration, and choice (Nedangadi 1990); two, understanding which brand of the partnership will receive the blame or credit for the outcome of the partnership can directly affect the evaluation of the parent brand. From this perspective, the work in this paper will focus on a “focal brand,” or one brand in the pairing, as the results will then be able to translate into direct managerial guidelines. From this point forward, the “focal” brand refers to the brand in the experimental arrangements which will be the basis for the measurements of the effects of the independent variables. The second brand in the partnership will be referred to as the partner brand.

**Focal Brand Recall**

Before a memory-based choice can be made, consumers must be aware of and able to recall particular brands and products (e.g., Lavidge and Steiner 1961). One factor affecting a consumer’s ability to recall a particular brand is the strength of the connection between the given brand and other information in memory. The ease with which a brand enters a consideration set depends on the ways in which it is linked with other objects or concepts (Alba, Hutchinson, and Lynch 1991; John et. al. 2006). For example, thinking about lunch could cue various restaurants, just as the thought of any of these restaurants might bring to mind the idea of lunch. Extending this to co-branding, the thought of one brand, such as Coke, may bring to mind other soft drink brands such as Sprite and Pepsi, but also co-brand partners such as NutraSweet or Splenda as these brands are all associated together with the brand Coke in memory (Alba, Hutchinson and Lynch 1991; Tulving and Thompson 1973; van Osselaer and Alba 2003).
Related work on memory retrieval (e.g., Morrin 1999, p. 518) points to a co-activation of connected nodes, such that in a co-brand context the retrieval of one brand in the partnership (i.e., Ford) may be cued when the partner is recalled (i.e. Eddie Bauer).

The brand is recalled by a process of retrieval from memory (Alba, Hutchinson, and Lynch 1991) and/or external cues (Lehmann and Pan 1994) like viewing the partner of a co-brand arrangement. Accessibility increases as the linkages in memory for a brand increase in number and in the strength of the association between objects or brands (e.g., Hutchinson 1983), which in turn should increase the rate of recall (Ozanne, Brucks, and Grewal 1992; Kumar 2005). The association could arise through concomitant usage (Desai and Hoyer 2000), fit in salient attributes (Park, Jun, and Shocker 1996), and repeated exposure (Lane 2000), or as NVC propose the level of co-brand integration. Co-branding of any type increases the number of links in memory as the focal brand is linked to another; additionally, as the degree of integration increases the partners are more tightly fused in form and function so the links created in memory by a higher level of integration should be stronger because there will be more concomitant usage and salient attributes of the partnership (Desai and Hoyer 2000; Park, Jun and Shocker 1996). For example, in a highly integrated context consumers willing to consider one brand (e.g., Breyer’s) would be more likely to recall and choose its highly integrated partner as well (e.g., Reese’s). Lower integration works in a more benign manner to bring about accessibility and consideration through exposure and association of the partner (e.g., Taco Bell and Pizza Hut): customers seeking one brand alone are not forced to choose or even recall the other since each is a separate entity. Thus:

**Hypothesis 1**: *As the degree of co-branding integration increases, the greater the likelihood of recall of the focal brand.*
To this point, this research has been focused on how the differing levels of integration will affect recall, consideration, and choice. We will next take this one step further to explore how the level of integration will affect brand evaluation. While work on memory has explored prior brand evaluations (e.g., Lynch et.al. 1988), no research has yet explored how different levels of co-brand integration effect changes in brand evaluation. For this, we turn to attribution theory.

**Brand Evaluation**

Brand evaluation represents the opinion or assessment of the value of a brand (Brunner and Wanke 2006; Gürhan-Canli 2003; Labroo and Lee 2006) by a consumer, possibly built on attribute level impressions (e.g., nice taste vs. high calorie content, as in the case of Godiva chocolate; Park et al. 1996). In a co-branding context, focal brand evaluation can be impacted when the characteristics of the partnering brand are seen to fuse with, influence, or rub onto the characteristics of the focal brand (Ahluwalia and Gurhan-Canli, 2000; Simonin and Ruth 1998). Attribution, a process of causal reasoning, is an apt lens to examine the impact on focal brand evaluation in a co-branding situation.

A foundation of attribution theory analyzes how individuals determine the cause of a particular outcome; specifically how individuals determine the locus of performance, or who or what made the outcome occur (Weiner 1986). NVC propose that the degree of co-branding integration has a bearing on how consumers may determine the locus of performance, and in turn attribute strong or weak performance of the co-branded offering. In the co-branding context, consumers may identify as the source of good or bad performance the focal brand alone, the partnering brand alone, both brands jointly, or neither (but some extraneous factor instead).
Attribution, being a process of cause identification and inference, is an appropriate mechanism to explore the impact of co-brand integration on focal brand evaluation.

A higher degree of co-branding integration means the partnering brands are physically and functionally more inseparable. Thus, it is harder to attribute the source of good (or bad) performance to just one brand. The difficulty in identifying the locus of performance when the brands are more highly integrated implies that both are likely to share the responsibility in the event of good (or poor) performance when the locus is internal to the product (Teas and McElroy 1986). Conversely, in the case of lower integration such as with co-location in the Barnes & Noble – Starbucks example, the locus of a poorly brewed cup of coffee is clearly with Starbucks, and the responsibility, if any, assigned to Barnes & Noble is likely to be minimal. Thus:

**Hypothesis 2:** For a positive (negative) event, as the degree of co-branding integration increases, evaluation of the focal brand will increase (decrease).

### 4.3 STUDY 1

*Experimental Design.* Following a pattern similar to that of Nedungadi (1990), Study 1 attempts to measure recall, consideration and choice for the focal brand in the co-brand pairing. Using a mixed design, the experiment varied a sub-set of integration types (i.e. ingredient branding, bundling, and co-promotion) over multiple categories (i.e. food, cell phone components, and computers). This method allowed the rates of choice, consideration, and recall can be compared both within and between subjects (Nedungadi 1990). It is expected that the subjects given the brand pairing which exhibited a higher level of integration would recall, consider and choose the focal brand more often than the same pairing at a lower level of integration.
Only a sub-set of integration types were used in the experiment for multiple reasons. Logistically, using all six types would have required a much larger sample size, and realistically, creating believable pairings with the same brands across all six types would be close to impossible. Due to the variance across form and function, yet the ease of creating realistic pairings, ingredient branding, bundling, and co-promotion have been chosen for the stimuli.

The subjects included 138 undergraduate students from a public university in the Northeast. Each subject was presented with a description of a new product. The order presentation of the product descriptions of the co-brands (ingredient, bundle, or co-promotion) were randomly assigned to each subject through the online survey tool. The product was a co-brand that consisted of one fictitious (the focal brand) and one real brand name. It is the hope that by using a fictitious name for the focal brand any confounds associated with using real brand names such as prior evaluation and familiarity will be eliminated. Similarly to the experiments run by Nedungadi (1990), the stimulus was presented to the subjects three times for different product combinations and each time the given co-brand randomly varied in integration. The variables of interested were measured after each product description. The product combinations which are outlined in Table 7 included ice cream and chocolate bars, cell phones and MP3 players, and backpacks and water bottles. For an example of the stimulus please see Appendix B.
TABLE 7: Product Combinations

<table>
<thead>
<tr>
<th>Partner Brand</th>
<th>Focal Brand</th>
<th>Ingredient</th>
<th>Bundle</th>
<th>Co-Promotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ben and Jerry’s ice</td>
<td>CocoaLoco chocolate</td>
<td>A new flavor of Ben and Jerry’s ice cream containing CocoaLoco chocolate pieces</td>
<td>Ben and Jerry’s ice cream sold with a bar of CocoaLoco chocolate</td>
<td>Ben and Jerry’s ice cream sold with a coupon for a bar of CocoaLoco chocolate</td>
</tr>
<tr>
<td>ice cream</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LG Cell phone</td>
<td>Tunes2Go MP3 player</td>
<td>A new LG phone containing a Tunes2Go MP3 player</td>
<td>A new LG phone sold as a bundle with a Tunes2Go MP3 Player</td>
<td>A new LG phone sold with an in-store instant rebate for a Tunes2Go MP3 player</td>
</tr>
<tr>
<td>North Face Backpack</td>
<td>HydroPlus water bottle</td>
<td>A new North Face pack containing a HydroPlus bottle</td>
<td>A new North Face pack sold as a bundle with a HydroPlus bottle</td>
<td>A new North Face pack sold with an in-store instant rebate for a HydroPlus bottle</td>
</tr>
</tbody>
</table>

To measure the outcome variables, subjects were first asked to list what brand they would choose in the product category of the focal brand (i.e., MP3 players), they then listed other brands they considered selecting in that category, and finally, they were asked to list all of the brands within that category that come to mind. The results were then coded as 1 when the brand was chosen, considered or recalled and 0 if it was not. Using a 7 point Likert scale several additional variables were also measured including familiarity with the product category, opinion of both brands and opinion of the brand combination. The scales were anchored by “very familiar, not at all familiar” and “has many positive attributes, has few positive attributes” respectively. Several demographic variables were also measured.

Results. Unfortunately, the results of the experiment are inconclusive. Conducting a within subjects design was impossible as no subject chose or considered the focal brand for any of the 3 categories. Because subjects did not choose or consider the focal brand only recall was able to be analyzed between subjects. A simple ANOVA analysis was conducted to compare the
number of times the focal brand was recalled in each of the co-branding categories. When analyzing the data using a between subjects design, significant results did not exist for either CocoaLoco or HydroPlus in the ice cream/candy bar and backpack/water bottle co-brands respectively. However, close to significant results are present for recall of the Tunes2Go brand in the cell phone/MP3 product category. The ANOVA analysis shows that the recall rates do vary by integration level ($F_{2, 130} = 2.16, p = .11$, partial $\eta^2 = .031$), but they do not vary as predicted. Unexpectedly, the bundled co-brand is recalled significantly more often than the ingredient co-brand ($M_b = .25, M_i = .09; p < .05$). The difference between the recall rates of the ingredient and co-promotion and bundle and co-promotion products is not significant.

![FIGURE 6: Recall Rates for Differing levels of Co-Brand Integration](image)

1 = ingredient, 2 = bundle, 3 = co-promotion
Further exploratory analysis was conducted using general linear models. Instead of using recall as the dependent variable, it was included as an independent variable and the subjects’ opinion of the focal brand was used as the dependent variable. The opinion of the focal brand was measured using a 7 point Likert scale after the subject was asked to recall brands in the focal brand product category. Similar to the results of the ANOVA, a simple model using the opinion of the focal brand as the dependent variable was found to be close to significant ($F_5, 130 = 1.83, p = .11$ and $R^2 = .066$). Interestingly, there is a marginally significant interaction between the level of integration and recall of the focal brand on the opinion of the focal brand ($\beta = 10.98, p < .10$, partial $\eta^2 = .04$). When the focal brand is recalled in the bundled context the opinion of it is rated very low; however, when the focal brand is not recalled in the bundled context, it is rated much higher ($M_r = 2.18$, $M_n = 3.55$, $p < .01$). In contrast, the opinion of the focal brand is not dependent upon recall in either the ingredient ($M_r = 3.25$, $M_n = 3.2$, n.s.) or the co-promotion ($M_r = 3.13$, $M_n = 2.87$, n.s.) situation. When the bundled co-brand is not recalled the mean of opinion of the focal brand is also significantly higher than that of co-promotion ($M_{rb} = 3.55$, $M_{np} = 2.87$, $p < .05$), but not the ingredient pairing ($M_{rh} = 3.55$, $M_{ri} = 3.21$, n.s.). Due to the small number of subjects that recalled the focal brand the difference between the opinion of the bundled product is not significantly different than either the ingredient ($M_{rb} = 2.18$, $M_{ri} = 3.25$, n.s.) or co-promotion ($M_{rb} = 2.18$, $M_{np} = 3.13$, n.s.) situation. These results are highlighted in Figure 2.
FIGURE 7: The Opinion of the Focal Brand based on the Level of Integration and if It Is Recalled or Not

Discussion. While the lack of significant results is disappointing, it is somewhat reassuring to find some significant effects for the degree of integration and the level of recall. Several explanations for the lack of results will be explored in the future directions section.

The results of this exploratory analysis do lend credence to the use of attribution theory as a mechanism for explaining how co-brands effect brand evaluation. It appears that brand evaluation is changing based on the level of integration due to the significant interaction effect with integration and opinion of the brand. This idea will be explored further in Study 2.

4.4 STUDY 2

Experimental Design. Study 2 was designed to measure the evaluation of the focal brand. Subjects were given a description of two brands (CakeMix and CandyBar), the joint product
which the two brands formed, and a description of the negative outcome of the partnership (See Appendix A for an example). Fictional brand names were used to prevent bias due to existing opinions of real brands. Similarly to study 1, the level of integration was randomly varied by subject and included ingredient, bundles, and co-promotion arrangements. Because a between subjects design was used, each subject received a product description containing only one of the possible three levels of co-brand arrangements.

The dependent variable (evaluation of the focal brand) was measured by asking each subject to rate their evaluation of the focal brand (CandyBar) after reading about the poor performance of the co-brand. The evaluation of the brand was measured using a 7 point Likert scale anchored with “I have a negative/positive view of this brand.” It is expected that the subjects given the co-brand with a higher level of integration (ingredient versus bundling or co-promotion) would evaluate the focal brand worse than the brand pairs with a lower level of integration, as it is harder to attribute performance to one brand alone as they are tightly joined in form and function. Along with evaluation, attribution variables such as percentage of responsibility, consistency, control, and duration were also measured for each of the brands separately. The percentage of responsibility was measured by asking students how responsible CandyBar is for the product performance. The values were restricted to be between 0 and 100. A 7 point Likert scale was used to measure the additional variables. The subjects included 168 undergraduate students from a large public university in the Northeast.
TABLE 8: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candy %</td>
<td>168</td>
<td>0</td>
<td>85</td>
<td>36.42</td>
<td>15.397</td>
</tr>
<tr>
<td>responsibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>duration</td>
<td>168</td>
<td>1</td>
<td>7</td>
<td>4.45</td>
<td>1.459</td>
</tr>
<tr>
<td>consistency</td>
<td>168</td>
<td>1</td>
<td>7</td>
<td>3.86</td>
<td>1.305</td>
</tr>
<tr>
<td>control</td>
<td>168</td>
<td>1</td>
<td>7</td>
<td>4.02</td>
<td>1.356</td>
</tr>
<tr>
<td>evaluation</td>
<td>168</td>
<td>1</td>
<td>7</td>
<td>4.46</td>
<td>1.049</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>168</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Results. Using general linear models and focal brand evaluation as the dependent variable the model is significant (F = 3.91, p < .01 and R² = .108); however, focal brand evaluation did not vary over the level of integration (β = .296, n.s.). Attribution variables such as responsibility (β = 9.87, p < .01, partial η² = .046) and consistency (β = 4.05, p < .05, partial η² = .02) do explain significant variance for focal brand evaluation lending support for the use of attribution theory as a mechanism to explain evaluation of the individual brands in a co-brand arrangement. See Table 3 for descriptive statistics of the included variables.

Exploring the relationship between attribution and co-brand integration further, additional GLM analysis was conducted using the percentage of responsibility placed on the focal brand as the dependent variable. Consistent with attribution theory, consistency, duration, and control were used to predict responsibility for the outcome (Teas and McElroy 1986). Additionally the level of integration was also added to the model. Overall the model was significant (F = 14.38, p < .001 and R² = .386). A significant main effect was found for the accountability (β = 50.16, p < .001, partial η² = .228) and the effect of consistency (β = 6.99, p < .05, partial η² = .04). As subjects rated CandyBar for having more control of the situation and the situation occurring repeatedly the amount of responsibility for the outcome of the co-brand arrangement placed on
CandyBar increased. The effect of duration on the amount of responsibility placed on CandyBar was not significant (β = -0.84, n.s.).

Using the co-promotion as the reference category, there was also a significant main effect for the ingredient category. Unfortunately it is in the wrong direction (β = -5.66, p = .05, partial η² = .02). The negative value shows that the percentage of responsibility placed on the focal brand actually decreases in an ingredient situation compared to a co-promotion situation. This is counter to the arguments of NVC which states the level of responsibility or blame should increase with the level of integration. The focal brand of bundled co-brands appears to have more responsibility placed on it compared to co-promotions which is the prediction; however, no significant difference was found (β = 2.10, n.s.).

Discussion. The results of Study 2 suggest that the use of attribution theory as a mechanism for explaining changes with brand evaluation is correct. While the results for the relationship between brand evaluation and integration are inconclusive, the significant results of the elements of attribution signal that more work is needed in this area. Because responsibility was such a strong predictor of brand evaluation, and the level of integration helped predict responsibility, it may be possible that a system of equations is needed to explain the relationship between evaluation and integration. Additional directions for this research are described below.

4.5 FUTURE DIRECTIONS

Experimental Design Changes

For study 1, one possible explanation for the bundled product to be recalled more is that two physical products are much easier to interpret than an ingredient or a coupon. The bundled product is much more tangible than the other two cases and subjects may have an easier time
envisioning the bundled and co-promotion co-brand arrangement than the ingredient co-brand. The bundle product also acts as a 2-for-1 situation which may be more appealing than the ingredient product or in-store rebate. Additionally, the ingredient co-brand is one product while the bundle and the co-promotion are still separate products. When just looking at the recall rates of the bundled product and the co-promotion the results are in the correct direction with the bundled arrangement being recalled more than the co-promotion. One possible solution to this problem would be to have physical examples of the different types of co-brands instead of just written descriptions presented online. This may make the degree of integration in the various co-branding situations more palpable. Changing the stimuli for Study 2 may also help increase the strength of the results for the level of integration.

Another possibility for increasing the strength of the results for both Study 1 and 2 would be to actually manipulate the strength of dependence for one brand on another. This would act as a proxy for the degree of integration. As the dependence of one brand increased it would be similar to the degree of integration increasing. This may be easier for the subject to understand than just reading a description about an ingredient, bundle or co-promotion.

Moving forward it will also be necessary to increase the complexity of the studies. For example, Study 2 was constructed with only a negative outcome. To get a more complete view of the effects of integration on brand evaluation both a positive and negative outcome should be used. It may be possible that the effect of integration on evaluation will vary in strength or direction for various outcomes.

**Moderating Effects**

It is possible that additional variables may play a role in the recall and evaluation of the focal brand. On such variable is fit. The notion of fit is important in brand literature (e.g., Loken
et al. 2007), yet not always clearly defined. For example, Park, Jun, and Shocker (1996) suggest that Slimfast cake mix by Godiva can be a good fit because it connotes complementarity: the low calorie character of Slimfast is seen to be aided by Godiva’s rich taste. Others discuss fit as the similarity between the brands (e.g. Park, Milberg and Lawson 1991). Additional studies could be used to disentangle this confusion by looking at both hedonic similarity and functional complementarity separately.

The direct impact of the nature of the co-branding arrangement (the fundamental structural decisions to be made by the focal brand about the partnership) may be moderated by the characteristics and identities of the partnering brands individually and relative to each other (NVC). More specifically, consider the moderating effects of hedonic similarity and functional complementarity between partners. High level hedonic attributes, such as luxury (as in Gucci) or glamour (as in Revlon), capture the sensory or emotional images evoked by the brand (Aaker 1997; Hirschman and Holbrook 1982). In a co-branding situation, partnering brands could be similar or dissimilar on such high level hedonic elements. Functional (or utilitarian) attributes, such as printing speed or the ability to fight cavities, relate to how a product or component performs or how convenient or practical it is to use (Chitturi, Raghunathan, and Mahajan 2008; Dhar and Wertenbroch 2000). The partner brand could be similar to the focal brand on the functional attributes or complementary – by being strong on attributes on which its partner is weak. The focus on these factors is motivated by their importance as noted in the co-branding and brand extension literature (e.g. Helmig, Huber, and Leeflang 2008; Lei, Dawar, and Lemmink 2008; Meyvis and Janiszewski 2004; Park, Milberg and Lawson 1991; Ruth 2001).

An additional moderating variable may be the position of the individual brand names in the co-brand. Park, Jun and Shocker (1996) show that depending on how a composite brand
extension (ingredient co-brand) is labeled, the evaluation of the individual brands may change. The name which is positioned as the main brand is the header and the “ingredient” would be the modifier. In the case of study 2, CakeMix was used as the header or main brand and CandyBar was used as the modifier in the ingredient co-brand example. In the case of bundling and co-promotion the header/modifier roles do not exist. The results of the evaluation of CandyBar may change for the ingredient brand if the roles were reversed.

By adjusting the stimuli and adding moderating variables it is our hope that this research will provide more conclusive results on how the level of co-brand integration affects recall and evaluation.

4.6 CONCLUSION

In conclusion, by building on the previous work by NVC, we had hoped to show through experimentation that subjects’ level of recall and evaluation vary with the given level of co-brand integration. While the results were not as conclusive as expected some evidence was found to support the hypotheses that the level of integration of a co-brand arrangement affects recall and evaluation of a brand. Moving forward, changes to the stimuli and additional moderating variables should help clarify the effects. Continuing this research is important because, determining the effects of the type of co-branding integration offers managers better insight when forming a co-branding partnership.
5.0 CONCLUSION

Managerial Implications

Because new product development is very expensive, both brand acquisitions and co-branding has become a very popular mode of diversifying a product portfolio. In past years co-branding rates have grown by an estimate of 40% annually (Dickinson and Heath 2006) and merger and acquisition deals encompass trillions of dollars every year (Gupta and Gerchak 2002) making the research in this dissertation of great importance. Partnering with an established brand in either the case of co-branding or brand acquisitions reduces the risk of developing a new product or brand and targeting new markets. Determining the factors which create a successful partnership will save companies an exorbitant amount of money, brand equity, and human capital. For example the acquisition of Snapple by Quaker Oats cost the company approximately $1.4 billion dollars as Snapple was purchased by Quaker Oats for $1.7 billion in 1994 and sold to Triarc for $300 million in 1997 (Burns 1997).

Overall, the most important result for managers in all three essays of this dissertation is the information that will help in selecting the appropriate partner for the acquiring firm or focal brand. In the case of co-branding the choice of partner will depend on the firm’s goals. Is the firm looking to expand into new market segments or develop and/or change their brand image? To expand into new market segments a firm may choose a low level of integration with many
partners – perhaps a co-promotion with multiple retail chains. To develop or change brand image, a firm may choose a higher level of integration with only one partner. Before choosing how and with whom to co-brand a manager must have clear goals on what the co-brand is expected to accomplish.

In the case of brand acquisitions it is also important to be clear on the goals of the transaction; the choice of partners is determined by factors independent of this decision. The most important element of the decision to purchase a brand is to evaluate the capabilities of the firm’s brand management teams. If the firm has a strong brand management team then the choice of target brands need not be as selective. When a firm has a strong brand management capability this helps override the negative impact of poor fit, a corporate brand name strategy, or a low level of diversification. Conversely, if the firm lacks a brand management capability then it would be wise to purchase a brand if and only if the acquiring firm has a house of brands strategy, the brand fits well with the existing product portfolio, and the acquiring firm has a high level of diversification. As highlighted in Essay 1, the average difference between the positive returns of a successful acquisition versus the negative returns from a failure (from the perspective of the financial market) is over $3 billion. Executives and managers must be aware of how brand acquisitions may impact their firm’s stock performance.

Limitations and Future Directions

While each individual essay provides ideas for future research these apply specifically to the topics discussed in each paper. The broader research topic of brand partnerships contains many avenues to explore. One limitation of this work is that the acquisitions used in Essay 1 and most of the examples in Essay 2 and 3 are based in the United States. An interesting and
important direction for future exploration is the use of brand partnerships in an international context. To compete in the global marketplace companies must do business internationally and in turn make difficult entry decisions. Should they use direct investment, exportation, or a joint venture? If the choice is a joint venture should the corporate brand names be presented and advertised to the customer in the form of a co-brand?

First, using the ideas developed in Essay 1, a multinational firm may want to explore their level of diversification, brand name strategy and brand management capability, and fit with the partner firm before deciding to participate in a branded joint venture. If a branded joint venture is executed then the co-branding guidelines explored in Essay 2 and Essay 3 will help determine the appropriate level of integration, exclusivity and duration for the partnership. Additional work must be done in the international arena to obtain a more complete guideline for forming brand partnerships.

Exploring the impact of all three essays at an international level is important, but so is expanding the findings across business types as well. The current research focuses mainly (but not solely) on business to consumer products. Essay 2 does include some B-2-B examples; however, none exist in either Essay 1 or 3 due to the nature of the studies. In Essay 1 expanding the idea of brand acquisitions would be valuable in a B-2-B context as brands are also important to businesses as well as consumers. In both the B-2-C and B-2-B arenas acquisitions are used as a method of expansion. Additional brand acquisitions also take a firm from a B-2-B focus and expand into a B-2-C market (or vice a versa) such as the purchase of Kinko’s by FedEx in 2004 for $2.4 billion. It is interesting and necessary to determine if the findings highlighted in Essay 1 hold for brand acquisitions beyond those in the industries of health and beauty, pharmaceuticals, and food and beverage.
Expanding Essay 3 to also include B-2-B examples would also make the impact of the paper richer. While recall and evaluation have traditionally been explored in the business to consumer context the impact of such outcomes are also felt in the business to business realm. As many of the quotes in Essay 2 highlight, co-branding is not restricted to consumer goods and the impact of such partnerships on recall and evaluation should be explored across all possible situations.

An additional idea which was explored in all 3 essays is the notion of fit between brands, partners, or acquired firms. In literature involving mergers and acquisitions the notion of fit usually describes the relatedness between product categories and possible synergies that may exist between the acquirer and target brands/firms ((Rumelt 1974; Salter and Weinhold 1979; Singh and Montgomery 1987; Swaminathan, Murshed, and Hulland 2008). Differently, literature in consumer behavior, brand extensions, and co-branding tend to view fit as a match between brand images such a sophisticated (i.e. Coach) or rugged (i.e. Jeep) (Aaker 1997, Hirschman and Holbrook 1982). Both streams of research have also looked at fit in terms of a match of complementary skills (e.g., Park, Jun and Shocker 1996, Swaminathan, Murshed, and Hulland). It would behoove marketing and specifically branding research to more clearly define the construct of fit so it is consistent across all streams of research.

It would also be interesting to explore how different brand images may fit together based on their position in the co-brand arrangement. Currently Essay 2 and 3 treat both brands as equals in the arrangement. Park, Jun and Shocker (1996) found that the impact on an individual brand’s feedback effects and attribute profile change depending on if it is the “header” or “modifying” brand. Park and colleagues use the example of Slim-Fast cake mix by Godiva. In this case Slim-Fast is the header brand and Godiva is the modifier. I believe this work can be
extended by experimenting with different brand images in each position. For example it may be possible to modify a sophisticated brand with an exciting brand; however, it may not be possible to modify an exciting brand with a sincere one. Exploring this idea will further clarify the boundary conditions of forming a successful co-branding relationship.

A third issue which was only explored in Essay 2 is the number of partners a firm should pursue in a co-branding arrangement. Essay 2 explores the relationship between the number of partners in a co-branding situation and the effect on brand accessibility and brand evaluation. To summarize the findings, a large number of partners will have a positive impact on accessibility and a single number of partners will have a greater impact on evaluation. However, these findings are given as absolutes – one or many. In the case of accessibility this result is straightforward such that as the number of partners increase, the links in memory increase as well; therefore accessibility will increase. In the case of evaluation, using absolutes such as one or many may not provide all of the answers.

In Essay 2, I postulate that having many partners will reduce the impact on brand evaluation, because something may go wrong with one pairing, but additional pairings may remain successful thus mitigating any negative evaluations from the single failure. However, what if something goes wrong with multiple partners? This may actually lead to a more negative evaluation than a poor outcome with in an exclusive co-branding arrangement. The same question holds for a positive outcome as well. An interesting topic for future research would be to explore the threshold of negative to positive outcomes which still lead to an overall positive evaluation.
An additional limitation of both Essay 2 and 3 is that the results focus on the anticipated outcome of a co-branding relationship from the perspective of the consumer. It is also important to explore the outcome of the co-branding arrangement from the perspective of the financial market. Just as Swaminathan and Moorman explore abnormal returns in the case of marketing alliance announcements (2009), it would be possible to evaluate how the market reacts to co-branding announcements. It is quite possible that the partner characteristics outlined in Essay 2 and 3 not only will have an impact on consumer perceptions but market perceptions as well. Determining the financial impact (in terms of stock returns) is not only an important step in evaluating the success of a co-branding arrangement, but also validating the importance of marketing actions.

Building upon this issue, exploring the long-term outcome of both brand acquisitions and co-branding is important. Based on the efficient market hypothesis (Brown & Warner 1985; Carhart 1997; Fama and French 1993) event studies capture the long-term financial impact of the transaction for both brand acquisitions as described in Essay 1 or brand alliances as outlined by Swaminathan and Moorman (2009); yet, success can be measured by more than just stock returns. It may be possible to measure long-term changes in marketing variables such as brand equity, sales, or market share to more fully understand the overall long-term success of both brand acquisitions and co-brand arrangements. Showing success by more than one method will help support marketing actions as important business decisions.

In conclusion, I hoped to have provided insights into the world of brand partnerships for both academics and practitioners alike. Co-branding and brand acquisitions are both common ways for firms to expand and diversify their product portfolios. In both situations, it is vital to the success of the partnership to ensure that the chosen brand will enhance the existing
characteristics of both the partner brand and the firm as a whole. This work attempts to bring together topics from both consumer behavior and marketing strategy to provide a more comprehensive picture of the world of brand partnerships. All essays, but specifically essay 1, also build on marketing research which shows the impact of marketing actions. In the case of brand acquisitions determining if the target brand will be successful for the acquiring firm will save billions of dollars. Essay 2 and 3 build on this stream in a more abstract manner as they do not specifically outline cost savings, but lead to future research which may. It is my hope to have shed light on what characteristics of the partnering brands and parent firms are needed for a successful partnership to ensure success in a brand partnership.
### Personal Interviews with Executives: Profiles of Participants

<table>
<thead>
<tr>
<th>Profile/Characteristics</th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exchange Type</strong></td>
<td></td>
</tr>
<tr>
<td>Business-to-business (primarily)</td>
<td>16</td>
</tr>
<tr>
<td>Business-to-consumer (primarily)</td>
<td>11</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
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<tr>
<td>e-Commerce/information technology</td>
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<tr>
<td>Food</td>
<td>3</td>
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<tr>
<td>Consumer goods (fast moving consumer goods, nonfood)</td>
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<tr>
<td>Technology</td>
<td>5</td>
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<tr>
<td>Consulting</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
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<tr>
<td><strong>Position</strong></td>
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<td>Manager, senior manager</td>
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<tr>
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<td><strong>Function</strong></td>
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<tr>
<td>Marketing (including advertising)</td>
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<tr>
<td>Sales</td>
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<tr>
<td>Business consulting</td>
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<tr>
<td>Senior management</td>
<td>5</td>
</tr>
<tr>
<td>Corporate planning</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>27</td>
</tr>
</tbody>
</table>

*Interview Process*

Most interviews were conducted face-to-face, but several were over the telephone. Interviewees were assured that their identities and those of their firms would remain confidential. The interviews were audiotaped, except in a few instances when the interviewees expressed reluctance, in which case we made extensive notes during the discussion. Interviews lasted an
average of 45 minutes. The interviews were mostly free flowing, but a list of guideline questions was also asked during the interviews. We also asked follow-up questions in some cases. We also asked participants their views on our conceptualizing themes and variables of interest.

*Interview Protocol (Guideline Questions)*

- Could you talk about co-branding examples that your firm has pursued or overseen? Why did your firm pursue these relationships?
- How do your customers view your co-branding efforts? What do they stand to gain or lose?
- In the above examples, how would you assess the actual outcomes vis-à-vis the intended outcomes? What factors contributed to the success or failure of co-branding?
- How do you see the different types of co-branding? When and why would firms pursue these types of co-branding?
- What characteristics do you look for in your co-branding partners? Why? What if a partner is not interested in you?
Study 1: Stimuli Example

New Cell Phone

In the following section you will be asked to review a new cell phone model. Please review the new product and brands in the below description carefully.

Ingredient:  
LG a maker of high quality electronic devices has decided to partner with a new brand of MP3 players called Tunes2Go®. The new LG phone will highlight its music playing capabilities which include a Tunes2Go unit built directly into the phone as a single unit. LG phones, Tunes2Go MP3 players, and the single-unit LG Tunes2Go phone/MP3 player will be carried by most cellular service providers and sold by most electronics retailers in the United States.

Bundle:  
LG a maker of high quality electronic devices has decided to partner with a new brand of MP3 players called Tunes2Go®. The new LG phone will highlight its music playing capabilities which include a Tunes2Go MP3 player sold as a bundle, where the two products – the Tunes2Go MP3 player and the LG phone – will be sold as one package. LG phones, Tunes2Go MP3 players, and the bundled package of the LG phone and Tunes2Go MP3 player will be carried by most cellular service providers and sold by most electronics retailers in the United States.

Co-promotion:  
LG a maker of high quality electronic devices has decided to partner with a new brand of MP3 players called Tunes2Go®. The new LG phone will highlight its music playing capabilities and an in-store instant rebate will allow consumers to also receive a Tunes2Go player with the purchase of the LG phone. LG phones, Tunes2Go MP3 players, and the LG phone with the instant in-store rebate for Tunes2Go MP3 player will be carried by most cellular service providers and sold by most electronics retailers in the United States.

Study 2: Stimuli Example

The following product information is from two well-known brands that have been in business for many years. To eliminate potential consumer bias, the brands will be called CakeMix and CandyBar during this study.

CakeMix is a popular brand of dessert mixes such as cakes and cookies. The CakeMix brand also appears on other items such as icing and ready to bake items.
CandyBar is a popular brand of chocolate bars that comes in a variety of flavors such as milk chocolate and chocolate with almonds. The CandyBar brand also appears on additional products such as hot chocolate and cocoa powder.

Historically, the CandyBar and CakeMix brands have been rated positively by both consumers and third-party agencies such as Consumer Reports on taste, product quality, and value.

Ingredient: CakeMix and CandyBar recently teamed up to produce a co-brand, which is a joint venture that includes both the CakeMix and CandyBar brand names. In this case a brownie flavor was created which included CakeMix’s chocolate brownie mix and CandyBar’s original milk chocolate bar pieces as ingredients in the mix. The packaging stated that the brownie mix contained CakeMix and CandyBar ingredients.

Bundle: CakeMix and CandyBar recently teamed up to produce a co-brand, which is a joint venture that includes both the CakeMix and CandyBar brand names. In this case a bundled product was created where a box of CakeMix brownie mix was packaged and sold together with a CandyBar chocolate bar. The CandyBar bar was attached to the outside of the CakeMix box.

Co-Promotion: CakeMix and CandyBar recently teamed up to produce a co-brand, which is a joint venture that includes both the CakeMix and CandyBar brand names. In this case the companies produced a joint advertisement for both CakeMix’s chocolate brownie mix and CandyBar’s original milk chocolate bar. The print ad showed a box of CakeMix and a CandyBar chocolate bar side by side.

Unfortunately, the co-brand produced by CandyBar and CakeMix did not increase sales as expected and will be discontinued. While the companies refuse to state why the product failed, a recent survey conducted by a leading food magazine showed consumers’ perceptions of the co-brand were only mediocre, because of reasons related to the “unoriginal” or “boring” flavor of the brownies.
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