UNDERSTANDING B2C BRAND ALLIANCES BETWEEN MANUFACTURERS AND SUPPLIERS

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The term "brand alliance" has been used rather loosely in both the trade and academic literature. In an attempt to clarify the potential confusion, we present a typology of the common types of brand alliances in B2C markets. In doing so, we distinguish between strategic alliances and brand alliances, and between brand alliances and co-branding. We next examine various types of composite brand alliances, including ingredient, umbrella, licensing and complementary brand alliances. Having done this, we focus on the theoretical rationale for manufacturer-supplier brand alliances in B2C markets. The analysis indicates that a manufacturer-supplier brand alliance benefits the supplier with a reduced probability of entry of competitors, while the supplier rewards the manufacturer with the lower wholesale price, thus increasing its profits. Future research directions are proposed.

INTRODUCTION

Brand alliances are often used to jointly present multiple brands to consumers. The assumption here is that the alliance would enhance the perceptions of each individual brand or the combined offering in the minds of the consumer. At a basic level, brand alliances are formed so that individual brands can *co-operate* in their marketing efforts for mutual benefit. For instance, "advertising alliances" between brands occur when multiple brands are jointly presented in the same advertisement. Similarly, "joint sales promotions" use multiple brands together to stimulate demand for each or all of them (Helmig, Huber and Leeflang 2007). Other examples of co-operative brand alliances include "dual branding," which occurs when two brands utilize the same facilities, such as restaurants where customers can choose either or both of these brands (Levin and Levin 2000). Similar alliances can also occur with multiple brands. In yet another example of a brand alliance, known as a "bundling alliance," multiple brands are simply jointly packaged, each brand usually representing an independent product that, when bundled, creates additional value in the minds of consumers. We term such forms of co-operative alliances as "non-composite brand alliances."

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However, brands can also be more intrinsically involved and go beyond mere provisional associations. In such cases, multiple brands may be integrated to form a new composite offering (Park, Jun and Shocker 1996; Monga and Lau-gesk 2007) that generates unique perceptions among consumers. We term such forms of intrinsically integrated alliances as "composite brand alliances." Composite brand alliances are created to facilitate an advantageous association of the composite offering in the minds of consumers (Dickinson and Barker 2007; Voss and Gammoh 2004). In practice, the duration of such brand alliances varies significantly between short-term and long-term (Dickinson and Barker 2007).

While a brand extension strategy deals with how a single brand can be extended into another product category, a brand alliance strategy is focused on how multiple brands can fit with each other to add value in the minds of consumers. Both brand extension and brand alliance strategies are widely used by marketers in practice. Despite this, research on brand extensions has been extensive in recent years (e.g., Oakley, Duhachek, Balachander and Sriram 2008; Shine, Park and Wyer 2007; Choi 1998), while there has been relatively little research on brand alliance strategies. Thus, although a large and growing number of firms are using brand alliance strategies, our theoretical and practical knowledge base is more focused on to how to extend a single brand into a new product category (Monga and Lau-gesk 2007).

A brand extension strategy usually involves the use of a *single* established brand name in one category to introduce products in a different category (Choi 1998). In a brand alliance strategy, by contrast, marketers have to deal with multiple independent brands simultaneously. In doing so, they need to understand the fit between the product categories of each partner brand (product fit), as well as whether one brand fits well with another brand (brand fit) in the joint offering (Simonin and Ruth 1998; Prince and Davies 2002). Thus, in general, in a brand alliance strategy, two or more independent brands are combined, so as to increase the perceived value of the composite offering to the consumer.

OVERVIEW OF PAPER

The paper is focused on brand alliances in B2C markets and is divided into three sections. In the first section, we define the concept of "brand alliances" and distinguish it from "co-branding." Having done this, in the second section, we identify, describe and develop a typology for the different types of composite brand alliances. In doing so, we also assess the state of the limited literature in the area. Finally, we focus on one type of composite brand alliance, ingredient brand alliances between manufacturers and suppliers. We attempt to analyze some basic questions about the dynamics of such alliances. We seek to understand why manufacturers and suppliers enter into brand alliances. More specifically, we attempt to explain why a manufacturer would enter into a brand alliance with a supplier that results in strengthening the supplier's position in the marketplace, which in turn could result in reducing the manufacturer's influence in the brand alliance. We also evaluate the profit potential for both the manufacturer and supplier.

It should be noted that this paper focuses on B2C markets and examines only "brand alliance" strategies. It does not examine "co-branding" relationships, which will be distinguished from brand alliances in the next section. Thus the analysis and discussion does not include joint-branding activities through advertising by the supplier in the marketing of the integrated product. This implies that the discussion focuses on an alliance "without advertising," as opposed to one "with advertising." This paper also does not examine B2B markets. Please see Erevelles, Stevenson, Srinivasan and Fukawa (2007) for an analysis of "co-branding relationships" in B2B markets. The model developed in this paper for "brand alliances" and the model for "co-branding" in Erevelles, Stevenson, Srinivasan and Fukawa (2007) share similarities on the foundation for association, but differ in the joint-branding activities involved.

Distinguishing Between Brand Alliance and Co-Branding Strategies

The strategy of brand alliances has in recent years enjoyed widespread use by marketers in B2C markets. However, the term "brand alliance" has been used rather loosely in both the trade and academic literature. Terms such as co-marketing, advertising alliances, joint-marketing, composite branding, and co-branding have sometimes been used to refer to similar or related marketing activities. In an attempt to clarify the potential confusion, we will, in this paper, distinguish between "brand alliance" and "co-branding" strategies and then discuss the common types of brand alliances in B2C markets.

A "brand alliance" can be defined simply as the association between two or more independent brands so that the perceived value of integrated offering is enhanced in the minds of the consumer. It does not involve explicit joint-branding efforts (through advertising) by the partners in the alliance, that seek to present the integrated offering as "one" entity in the marketplace. It also does not involve a change in the "meaning" of the integrated product, in such a way that the integrated product would effectively cease to exist in the absence of the brand alliance. The association between Mercedes-Benz and Bose is a good example of a "brand alliance" between a manufacturer and a supplier. Mercedes-Benz and Bose are widely considered as premium brands in their categories (Memmer 2002). Although the two brands enhance the reputation and profitability of each other through the brand alliance, there are no joint-branding (advertising) efforts that present the combined product as a single entity in the marketplace. Further, in the absence of a brand alliance, the combined product would not meaningfully cease to exist in the marketplace.

Co-branded products, on the other hand, constitute "a separate and unique" (c.f., Park, Jun and Shocker 1996) entity in the marketplace. They involve joint-branding efforts (through advertising) that seek to present themselves as a single entity. These efforts aim to create a new "meaning" for the integrated offering in the minds of consumers. Consequently, co-branding is considered by some as the ultimate form of brand alliance strategy (Helmig, Huber and Leeflang 2007; Kippenberger 2000). A good example of a manufacturer-supplier co-branding relationship is the one between Dell and Intel. The "Intel Inside" campaign involves substantial cooperative marketing activities in the form of advertising that seek to present the integrated offering as a single entity with a unique "meaning" and advantage in the marketplace. Since 1985, Intel has had a long-term commitment to support Dell with all types of resources, including monetary support for its advertisements (see Parker 1995; Hesseldahl 2005; Dell and Fredman 1999, p.13; Dell 2007; Cantrell 2006), to enhance the attractiveness of the integrated product in the marketplace. As a result of these efforts, by 1992, 80 percent of consumers preferred to purchase computers with Intel microprocessors (Arnott 1994). Whenever Dell buys an Intel chip, it also receives cash back from Intel in the form of a percentage of its ad budget (Hesseldahl 2005). Dell sometimes passes this incentive to the consumer in the form of lower prices (Mackenzie Financial Corporation 2005). Thus Intel, by assisting in lowering the price of end product, plays a further role in defining the integrated product.

COMPOSITE BRAND ALLIANCES

A strategic alliance is a relatively long-term collaborative arrangement between firms that share resources to achieve the individual targets of each firm (Parkhe 1993; Varadarajan and Cunningham 1995). Strategic alliances are a rapid and convenient way to access resources and skills that exist in other companies. In a broader sense, a strategic alliance serves to enhance the flow of knowledge among alliance partners. While motives for the formation of strategic alliances vary, the general reason for firms forming strategic alliances are the payoffs that are received from cooperation. With alliances, companies are able to improve their strategic positions, share costs and take bigger risks (Eisenhardt and Schoonhoven 1996).

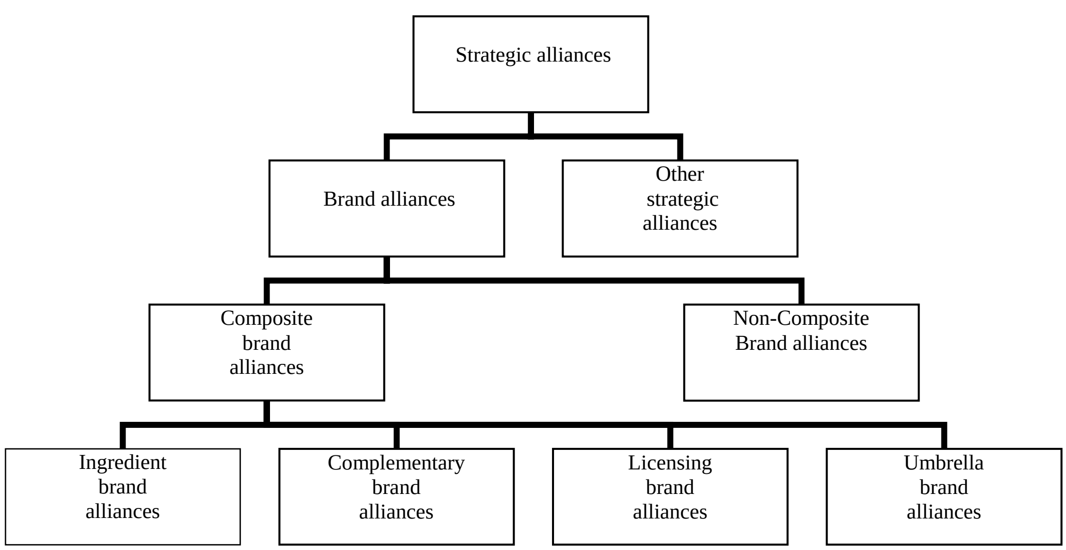
Brand alliances are one form of strategic alliance. As described earlier, a brand alliance is an association between two or more independent brands so that the perceived value of the integrated offering is enhanced in the mind of the consumer. Brand alliances include both composite and non-composite brand alliances. Non-composite brand alliances occur when individual brands co-operate in their marketing efforts for mutual benefit. Examples of such alliances have been described earlier. Composite brand alliances occur when multiple brands are combined to form a new integrated offering. There are four major types of composite brand alliances: ingredient brand alliances, complementary brand alliances, licensing brand alliances and umbrella brand alliances. In the following section, we distinguish and describe the types composite brand alliances. A typology of major brand alliances is presented in Figure 1. Table 1 summarizes the major types of brand alliances in B2C markets along with examples, while Table 2 summarizes some important characteristics of successful brand alliances.

Ingredient Brand Alliances

In ingredient brand alliances, "key attributes of one brand are incorporated into another brand as ingredients" (Desai and Keller 2002). In other words, ingredient brand alliances involve the integration of an ingredient brand (e.g., NeutraSweet) with a host-brand (e.g., Coca-Cola). See Table 3 for further examples of ingredient brand alliances in B2C markets. Ingredients are normally considered an "intrinsic" attribute of a product, while a brand name is normally considered an "extrinsic" attribute of the product (Richardson, Dick and Jain 1994). Thus, the idea of branding ingredients is unique in that it involves the addition of extrinsic cues (the brand name) to components that are usually considered as intrinsic cues (the ingredient). The goal is to enhance the perceptions of the combined brand in consumers' minds. Janiszewski and Osselar (2000) find that perceived quality for a high-quality host brand in an alliance with a high-quality branded ingredient will be higher than the perceived quality for the same host brand without the branded ingredient.

Norris (1992) suggests that an ingredient brand alliance strategy is either supplier-initiated or manufacturer-initiated. In a supplier-initiated brand alliance strategy, the supplier aims to establish its brand by the exposure of its brand name in the end product. On the other hand, in a manufacturer-initiated brand alliance strategy, a manufacturer uses the established brand name of the supplier to enhance attitudes towards its own product (Norris 1992). In some instances, a single brand can be involved in both a supplier- and manufacturer-initiated brand alliance. For example, the "Intel Inside" campaign was originally supplier-initiated. However, once Intel established its brand name, manufacturers of unknown brands started to use Intel's established brand name to enhance consumer perceptions for their own brands (Vaidyanathan and Aggarwal 2000), i.e., making it a manufacturer-initiated brand alliance. Cleverly, the "Intel Inside" campaign promoted the supplier's brand name itself rather than other aspects of the supplier's product (Prince and Davies 2002). As a result of Intel's enhanced visibility, unknown manufacturers, hoping to capitalize on Intel's brand name

FIGURE 1
Types of Brand Alliances in B2C Markets



entered the market, which in turn further enhanced Intel's sales.

In a manufacturer-initiated ingredient brand alliance strategy, a manufacturer could use the established supplier's brand to differentiate its own brand from competitors (Desai and Keller 2002). Clearly, the manufacturer should select a partner carefully by looking at several aspects of the partner brand, especially perceived quality and attitudes toward the supplier's brand (Abbo 2005). In an empirical study, McCarthy and Norris (1999) found that branded ingredients benefit manufacturer brands more when consumer quality perceptions towards the manufacturer's brand is moderate than it is high. Vaidyanathan and Aggarwal (2000) observe that established ingredient brands enhance the consumer evaluation of manufacturer brands. Specifically, they find that established national ingredient brands facilitate consumer evaluations not only when manufacturer's brand is a national brand but also when manufacturer's brand is a private label.

Although most research on ingredient brand alliances, especially for manufacturer-initiated ingredient brand alliances, deals with an established ingredient brand, it has been suggested that in some cases, a new ingredient brand may enhance evaluation of the manufacturer's brand (Desai and Keller 2002). Nunes, Dull and Patrick (2003) suggest that being distinctive in a market either through patent protection (e.g., NutraSweet) or by being dominant in a market (e.g., Ocean Spray in the cranberry juice market) are critical for the success of ingredient brand alliances. In some cases of ingredient brand alliances, there may be some long-term disadvantages for the supplier. Norris (1992), for example, notes that the costs incurred by a supplier in order to get exposure with the final consumer may be a prohibitively high burden to sustain over a long term. This is especially so if the supplier has a low margin, which is not uncommon in ingredient brand alliances.

TABLE 1
Major Types of Brand Alliances in B2C Markets

Types	Description	Examples
Complementary brand alliances	Provide more comprehensive or superior product or service, complementary features	FedEx - Kinko's FedEx Kinko's – Geek Squad Circle K convenience store -76 gasoline station Delta airlines Sky Miles credit card - American Express
Licensed brand alliances	Allowing brand identity elements to be featured in other organization's goods or service for a fee or royalty, resulting in expansion of the market or greater margins	Apple – Bose Disney to promote devices with Motorola Cinnabon - Lotta Luv Cosmetics (for cinnamon scented lip gloss and lip balms)
Umbrella brand alliances	The usage of one brand to name multiple products within a same organization to take advantage of parent brand awareness and associations	Citigroup - Smith Barney Pearson - Prentice Hall Kraft- Chese Nips Toyota Corolla
Ingredient brand alliances	The supplier's end-product or service becomes one of the ingredients of the manufacturer's offering	Mercedes - Bose Betty Crocker Fudge Brownies – Hershey's Dutch Cocoa Williams Sonoma cookware - Du Pont Teflon Pillsbury - M&Ms for cookie dough

Umbrella Brand Alliances

Umbrella brand alliances usually occur between parent and sub-brands within a single firm. Umbrella brand alliances can also occur when a firm with a well known brand name enters into a marketing alliance with another firm with a lesser known brand name. In this case, the well known brand usually becomes the parent brand in the brand alliance, with the goal of leveraging its awareness in the marketplace.

Umbrella brand alliances involve the labeling of multiple products with a single parent brand name. [See Sullivan (1990) for a discussion on umbrella branding.] In other words, firms aim to reduce their marketing costs and maximize their visibility by using the same brand name in multiple product categories (Erdem and Sun 2002). A firm usually jointly labels the sub-brand with the umbrella brand (parent brand), so as to leverage the awareness of the parent brand to the advantage of the sub-brand. In some cases, when a firm has a financial relationship with another firm, the two brands may enter into an umbrella brand alliance. For example, when General Motors acquired a 42 percent stake in Daewoo Motors in 2002, General Motors let Daewoo use its initials (GM) as the parent brand to increase consumer confidence towards the Daewoo brand, which was facing difficulties at that time. In other cases, after a firm has acquired a lesser known brand, an umbrella brand alliance may be created within the same organization. For example, Kraft, one of the top 10 umbrella brands (c.f., AC Nielsen 2006) takes advantage of umbrella brand alliances to maximize the use of its brand reputation. After obtaining the Cheese Nips brand, Kraft put its brand name on the label as the parent brand. This is believed to have dramatically increased the market share for Cheese Nips, which was in effect, endorsed by Kraft (Baar and Thompson 1998). On the other hand, a firm may decide not to have an alliance, even if it owns the sub-brand. This may occur if the firm aims to build a new brand with a completely different brand image. General Motors initially decided not to form an umbrella brand alliance between its parent brand (GM) and its new brand, Saturn (Aaker 1996, p.65), in order to create a new and unique image for the Saturn brand. Later however, it decided to form an umbrella brand alliance, though the wisdom of this move has been questioned (Munk 2005). An umbrella brand alliance strategy is also useful in global markets to facilitate the marketing of an unknown sub-brand in markets where the parent brand is well known or regarded (Datamonitor 2004).

In implementing umbrella brand alliances, it is important to understand the effects of independent marketing activities of the parent brand on the performance of the sub-brand. In this regard, Sullivan (1990) suggests a framework to analyze and measure these spillover effects, both positive and negative. In a similar vein, Erdem and Sun (2002) empirically investigate spillover effects of marketing-mix variables in umbrella brand alliances. Specifically, they investigate how promotional activity in one product category influences the market performance of the same umbrella brand in other product categories.

In general, the theoretical basis for the effectiveness of an umbrella brand alliance is consistent with signaling theory literature (e.g., Wernerfelt 1988). Kirmani and Rao (2000) suggest that two major types of signals exist. The first type can be termed "default-independent signals," and requires an immediate marketing expenditure, such as a promotion-mix expenditure, at the time of sending the signal. "Default-contingent signals," on the other hand, refer to the parent brand's implicit or explicit promise about the performance of its product, when it enters into a brand alliance. The conceptual basis for the functioning of default-independent signals is that since a firm needs to generate profits to justify its substantial initial expenditure for a brand, consumers would conclude that a firm would aim to ensure the performance of the product (sub-brand) involved in the brand alliance in order to ensure the future sales of the brand and its own reputation. In terms of the default-contingent signals, such as warranties, they argue that firms keep their commitment (e.g., guarantees of high quality) for its brand because breaking such promises would jeopardize its future revenue and increase costs (e.g., costs for repair). Montgomery and Wernerfelt (1992) further elaborate on the risk reducing aspect of umbrella brand alliances, observing that umbrella branding reduces the perceived risk for the same brand in a new or different product category.

Licensing Brand Alliances

The marketing practice of licensing brand alliances has increased substantially in recent years (Wiedmann and Ludewig 2006). In a recent study, the licensing industry was believed to be as large as $175 billion (Johannes 2006). Licensing brand alliances involve “contractual arrangements whereby firms can use the names, logos, characters, and other facets of other brands to market their own brands for some fixed fee” (c.f., Keller 1998, p. 288). Despite its popularity as a marketing activity, this practice is still considerably under-researched (Wiedmann and Ludewig 2006).

A licensing brand alliance is not just a method for revenue generation, but also a way for brand-building for both the licensee and licensor brands in the alliance. (O’Neill 2007). It is advisable for licensor brands to have a strategic purpose when entering into a licensing brand alliance, and focus on brand-building for the long-term, rather than on short term revenue generation. Too often, licensor companies enter into an excessive number of licensing brand alliances, as it results in increased and easy revenues without much investment. Consequently, the practice may sometimes have been misused when companies anticipate lower-than-expected earnings (Neff 2000).

Some (e.g., Petrecca and Snyder 1999) consider licensing brand alliances as just one of the many ways of brand building, similar in many respects to sales promotions, public relations or advertising. There is, however, a fundamental difference between brand-related promotional activities and a licensing brand alliance. While promotional or other marketing activities for brand building involve monetary expenditures, licensing, instead, generates revenue (O’Neill 2007) for both the licensor and licensee brands in the alliance.

Entering into licensing brand alliances has also grown as a popular way for launching new products. The use of licensing brand alliances and/or multiple trademark strategies for the introduction of new packaged products in North America has more than doubled from 4 percent in 2000 to 8.6 percent in 2005 (Datamonitor, 2005). In addition, more firms have started to license their corporate brands (Petrecca and Snyder 1999), sometimes to unrelated products (c.f., Keller 1998, p. 294). As of 2003, licensing brand alliances involving corporate brands accounted for 18.2 percent of the total licensing revenues in the U.S. (Riotto 2004).

TABLE 2
Important Characteristics of Successful Brand Alliances

Characteristics	Descriptions
Creation of new value	Use brand names of two different offerings on the same new offering to create distinct value from each original offering
Synergy effect	The use of two established brand names to get synergy effect or use of one established brand name to leverage on that value
Distinguishability	The combined offering is different or perceived to be different than its individual original parts
Perceived as single entity	The new offering is perceived as a single new entity that is distinguishable from its original components
Added value	The value of the new offering goes beyond the added value of two existing offerings

The degree of "fit" is an important variable in licensing brand alliances. It is important to choose a brand alliance partner that fits well with what the corporate brand represents (Jeffries 2007). If done right, a licensing brand alliance should result in products that are "indistinguishable from the licensor's own products" (Jeffries 2007).

Although licensing brand alliances may be an efficient way of generating revenues without a substantial new marketing investment, the practice of licensing comes with a risk. Oftentimes problems with poorly managed licensing brand alliances hurt not only the licensee, but also the licensor's brand as well (Reily 2005). For example, a controversial incident involving genetically modified corn in Taco Bell branded taco shells had an impact on Taco Bell restaurants rather than on the licensee, Kraft Foods, which actually manufactured the chips (Lueck, Merrick, Millman and Moore 2000). Consequently, a licensor needs to find a trustworthy partner, maintain a close relationship with it and retain a certain level of control in order to minimize this kind of risk. From a brand management standpoint, it is also preferable that consistency be maintained in package design and displays. Ford, for example, has rigid guidelines for its licensing brand alliances with the objective of maintaining consistency for "boxes, store-displays and end-caps" across multiple licensees (Greenberg 2003).

Perry and Groff (1986) study licensing dynamics in a monopolistically competitive environment. They find that licensing usually intensifies intrabrand competition and reduces the retail price of the product. They argue that when the associated fixed costs are brand-specific, firms in a licensing alliance can share those fixed costs, thus reducing price and possibly increasing consumer welfare. Further expanding on this discussion, Lane (1988) finds that although licensing alliances reduce prices for consumers and increase consumer welfare, it also discourages firms from implementing promotions to facilitate consumer trial, thus in a way decreasing consumer welfare. Thus, he argues that whether licensing increases consumer welfare or not depends both on the degree of the welfare increase due to the reduced price and the degree of the welfare decrease due to the reduced promotion for the brand involved in the licensing alliance.

Complementary Brand Alliances

Complementary brand alliances involve symmetric branding arrangements between or among brands that complement one another. The complementary brand alliances between FedEx Kinkos and Geek Squad or between Best Buy and Geek Squad are good examples of such arrangements. In the former case, both FedEx and Kinkos are well established brand names for different services. These two brands complement each other; FedEx helps Kinkos customers physically deliver the documents

TABLE 3
Examples of Ingredient Brand Alliances in B2C Markets

Brand Alliance Partners		**Product with Brand Alliance**
(Supplier)	**(Manufacturer)**	
KC Masterpiece ®	Frito Lay ®	Potato chips
Dove ®	Smuckers ®	Ice cream topping
NutraSweet ®	Coca-Cola®	Diet Coke®
Dolby ®	Sony ®	Stereo Systems
Gore Tex ®	North Face ®	Outerwear
Intel®	HP ®	Personal Computers

they created at Kinkos, while FedEx customers can create the documents at Kinkos prior to shipping them out via FedEx. In recent times, FedEx has initiated another complementary brand alliance with Geek Squad, a computer support company, whose brand is owned by Best Buy (Cheung 2007). Complementary brand alliances can be between brands owned by the same firm (e.g., Best Buy and Geek Squad) or between brands owned by different firms (Fedex and Geek Squad).

Each brand in a complementary brand alliance tends to supplement and support the brands involved in the alliance. Uggla (2004) describes a similar arrangement that involves reciprocal relationships among partner brands that he refers to as a "symmetrical" arrangement. Complementarity among brands involved in a complementary brand alliance facilitates its attribute profile more than the favorable evaluation of each brand, thus influencing consumers' choice and preference for the combined offering (see Park et al. 1996). Samu et al. (1999) describes complementarity as the degree to which "consumers' perception of the necessity of one product for the performance or use of the second product" occurs. Building on this description, complementarity in brand alliances can be described as the extent that consumers feel that a certain brand needs another brand for facilitating a more complete satisfaction of their needs.

Complementary brand alliances are significantly different from other types of brand alliances, where partner relationships are usually asymmetrical. For example, in licensing brand alliances, the licensee brand benefits from the licensor brand in return for a licensing fee to the licensor. In ingredient brand alliances, especially at its early stages, a supplier of the ingredient brand asks the manufacturer to identify its branded ingredient in the final product, thus effectively marketing itself to end users. In other words, a supplier tries to "reinforce a single attribute through the presence of a partner brand" (Uggla 2004). As Osler (2007) argues, "by their very nature as a discretionary additive, ingredient brands only ever account for less than 50 percent of the total brand equity that resides within the offer," implying the asymmetric relationship between the manufacturer's brand and the ingredient brand. In umbrella brand alliances, a firm often leverages its established parent brand to market its sub-brands. Thus a sub-brand benefits from its parent brand. Thus, the symmetrical relationships among partner brands in most complementary brand alliances are distinguishable from the relationships associated with other types of brand alliances.

To the best of our knowledge, the issue of complentarity has not empirically been examined in the context of brand alliances. In the context of brand extensions, however, Shine, Park and Wyer (2007) have empirically studied the the issue of complementarity. Not surprisingly, a synergy effect usually occurs when the extended product category shares similarities with the parent-brand category. However, Shine, Park and Wyer (2007) find that even when the extended category is not similar to the parent-brand category, consumers have a favorable evaluation if the extensions are complementary. In other words, they empirically demonstrate the positive effects of complementarity on consumer perceptions, when the parent-brand category and the extended-brand category are not similar. Undoubtedly, empirical studies on complementarity in a brand alliance context are needed.

INGREDIENT BRAND ALLIANCES BETWEEN MANUFACTURERS AND SUPPLIERS

Having described the different types of composite brand alliances, we now focus on one type of composite brand alliance: the ingredient brand alliance between manufacturers and suppliers. In most cases, such brand alliances occur when both brands are relatively well established (e,g., *North Face*-manufacturer and *Gore Tex* -supplier) and when there is a distinctive advantage to combine the strengths of both brands. The focus of this section is to conduct an initial examination on ingredient brand alliances between manufacturers and suppliers, to examine why such alliances even occur. Our objectives are to address the motives of the manufacturer and the supplier in an ingredient brand alliance in B2C markets. We would also like to examine how each party in an ingredient brand alliance benefits from the alliance. For an expansion of the analysis in this paper to a "co-branding" context, and a derivation of the functions involved, please refer to Erevelles, Stevenson, Srinivasan and Fukawa (2007). The following section summarized the dynamics of a manufacturer-supplier brand alliance.

Manufacturer- Supplier Brand Alliances

In a manufacturer-supplier brand alliance, the manufacturer faces a consumer-driven retail demand for the product, which may depend on the individual brand strengths of both the supplier and the manufacturer. Therefore, the choice of the appropriate brand alliance enables a supplier to influence consumer demand. Aghion and Bolton (1987) suggest that an incumbent seller who faces a threat of entry will sign a long-term contract to prevent entry of a competitor. Our model also considers the downstream demand faced by the manufacturer in response to the brand alliance with the supplier.

The supplier aims to maximize its returns, taking into account the behavior of the manufacturer. Initially, the supplier sets its wholesale price, "w" and the penalty, "f" that will be paid by the manufacturer if it breaks its contract with the supplier and selects a competing entrant instead. The manufacturer uses this information to decide whether to enter into the brand alliance or not. If it enters into the brand alliance, it then chooses the retail price, "p." The manufacturer then buys from the supplier at the agreed upon wholesale price, "w"; or switches to another supplier, paying a per-unit penalty, "f" to the incumbent supplier. Therefore, the competing entrant can sell to the manufacturer, if and only if its price is at least equal to the difference between the original supplier's wholesale price and the penalty for switching that must be paid by the manufacturer.

The manufacturer's challenge is to decide whether to enter and stay in a brand alliance consisting of a wholesale price, "w," and penalty, "f " with the incumbent supplier. If other competing suppliers enter the marketplace, the manufacturer has to decide whether to switch over to them and pay the penalty, "f" to the incumbent supplier. The manufacturer's objective is to maximize its profits. Thus, the demand for the product depends on the manufacturer's choice of retail price and the wholesale price from the supplier.

Analyzing the Manufacturer's Profits without a Brand Alliance

The manufacturer's expected profits without a brand alliance can be expressed as a function of the supplier's cost and the probability of entry by a competing supplier, if one is present in the marketplace. If entry occurs by a competing supplier, then the supplier and the entrant compete in prices. Consequently, prices are driven down to $\max\{c,c_e\}$. Therefore, the supplier makes zero profits, as wholesale prices are driven down to marginal costs. The manufacturer's profit function without a brand alliance, but with entry by a competing supplier is denoted by $\Pi_{M,\,NA1}$:

$$\Pi_{M,NA1} = \frac{(p-c)(\alpha-p)}{\beta} \qquad (4),$$

where "p" is the retail price offered to the consumer and "c" is the supplier's cost. The demand, "D," depends on the manufacturer's choice of retail price. The profit maximizing price thus is given by: $p = (\alpha+c)/2$, and the demand, $D = (\alpha-c)/2\,\beta$.

The manufacturer's profits thus are:

$$\Pi_{M,NA1} = \frac{(\alpha-c)^2}{4\beta} \qquad (5)$$

If there is no entry by competitors; the manufacturer faces monopolistic prices from the supplier. The supplier's monopolistic wholesale price is given by: $w_m = (\alpha+c)/2$. Therefore the manufacturer's profit function, $\Pi_{M,NC2}$, is given by:

$$\Pi_{M,NA2} = \frac{(\alpha-c)^2}{16\beta} \qquad (6)$$

The manufacturer's expected profit without a brand alliance is given by:

$$\Pi_{M,NA} = \phi \frac{(\alpha-c)^2}{4\beta} + (1-\phi)\frac{(\alpha-c)^2}{16\beta} \qquad (7)$$

where ϕ is the probability of entry. If entry occurs and there is no brand alliance in place, then both suppliers compete in prices and a price equilibrium ensues. Thus, entry occurs only if $c_e \leq c$. Therefore, the probability of entry is given by:

$$\phi = \text{Probability}(c_e \leq c) = \frac{[c-c_l]}{[c_h-c_l]}$$

Analyzing Manufacturer Profits in a Brand Alliance

When a brand alliance exists between the manufacturer and an incumbent supplier, the manufacturer's expected profits can be expressed as the same function of supplier's cost, both when there is entry by a competing supplier and when there is no entry. The manufacturer will switch to the entrant only if the latter offers at least as much profit potential as does the supplier. In the presence of a brand alliance consisting of a wholesale price, "w" and penalty, "f"; the manufacturer's profit, denoted by $\Pi_{M,A}$, is given by:

$$\Pi_{M,A} = (p-w)(\alpha-p)/\beta$$

The profit maximizing price is given by $p=(\alpha+w)/2$, which in turn implies that the manufacturer's optimal profit is:

$$\Pi_{M,A} = (\alpha-w)^2/4\beta$$

(The "optimal" profit represents the point at which returns from customer demand are maximized). Thus, the manufacturer's expected profits are given by:

$$\Pi_{M,A} = \phi' \frac{(\alpha-c)^2}{4\beta} + (1-\phi')\frac{(\alpha-c)^2}{4\beta} \qquad (8)$$

where ϕ' is the probability of entry in the presence of a brand alliance.

Analyzing the Supplier's Profits

The supplier's profit in a manufacturer-supplier brand alliance can be expressed as a function of the supplier's wholesale price and the supplier's cost. The supplier's profits without a brand alliance, denoted by $\Pi_{S,NA}$ is given by:

$$\Pi_{S,NA} = \phi.0 + (1-\phi)\frac{(\alpha-c)^2}{4\beta} \qquad (9)$$

The first term represents the supplier's profits when there is entry, and is zero, since the wholesale price is driven down to the marginal cost under Bertrand competition. The second term is the supplier's profit when there is no entry. Thus, the supplier's profits in the presence of a brand alliance are given by:

$$\Pi_{S,A} = \phi' f \frac{(\alpha-w)}{2\beta} + (1-\phi')\frac{(\alpha-w)(w-c)}{2\beta} \qquad (10)$$

where ϕ' is the probability of entry with a brand alliance. For an understanding of the solution and proof, please see Erevelles, Stevenson, Srinivasan and Fukawa (2007). The optimal wholesale price w* and the optimal penalty f* can thus be formulated as follows:

$$w^* = (\alpha - \frac{(\alpha-c)(1+3\phi)^{1/2})}{2} \qquad (11)$$

$$f^* = w^* - \frac{c}{2} - \frac{c_l}{2} \qquad (12)$$

Equations (11) and (12) provide the conditions for an interior solution consisting of a non-zero wholesale price, "w*" and a non-zero penalty, "f*." In other words, the supplier's profits are higher with a brand alliance than without a brand alliance. Thus, the supplier is strictly better off with a brand alliance, while the manufacturer is no worse off, given that its individual rationality constraint is satisfied. Further, the incumbent supplier exploits the manufacturer's uncertainty regarding the entrant's cost. By entering into a brand alliance, the supplier now becomes less vulnerable to the threat of entry from a competing entrant and, in return, rewards the manufacturer with a lower wholesale price.

In sum, the manufacturer enters into a brand alliance that may result in strengthening the supplier's position in a market in return for an increase in its profits. The supplier is better off with the brand alliance than without brand alliance partly because of a lower probability of entry by competing entrants. The manufacturer will benefit from the brand alliance through a lower wholesale price, which thus results in higher profits. Thus, due to "individual rationality" constraints both the manufacturer and supplier would better off in the brand alliance than without it. The above discussion involves a brand alliance model "without advertising." For an understanding of a co-branding model "with advertising," please see Erevelles, Stevenson, Srinivasan and Fukawa (2007).

CONCLUSION

The strategy of using brand alliances in B2C marketing has grown in popularity in recent years. However, the term "brand alliance" has been used in both trade and academic literature rather loosely to describe a variety of marketing activities. In an attempt to clarify the potential confusion, we have presented a typology of the most common types of brand alliances in B2C markets. We distinguish between "brand alliance" and "co-branding" strategies, and then conceptually examine the different types of composite brand alliances. We then more rigorously study one of them, B2C ingredient brand alliances between manufacturers and suppliers. Our analysis indicates that both the manufacturer and supplier benefit monetarily from a brand alliance. The supplier benefits from the brand alliance through a lower probability of entry from a competing entrant, while the manufacturer benefits from a lower wholesale price.

The discussion and typology presented in this paper may provide a foundation for further research on brand alliances, and helps highlight the different conceptual nature of each type of co-branding. Further, by distinguishing between "brand alliances" and "co-branding," this paper may help reduce the potential confusion and construct validity issues that may arise in future research. Finally, this paper makes a contribution by examining the theoretical rationale for why ingredient brand alliances between manufacturer and supplier occur. Thus, a basic foundation is laid for future study of this phenomenon.

Clearly, considerable future research is needed in the area of brand alliances for a more thorough understanding of the area. Among the four types of composite brand alliances, more empirical research is needed in the areas of complementary, umbrella, and licensing brand alliances. Also, researchers are encouraged to further investigate hybrid brand alliance strategies: a combination of two or more types of brand alliances or a combination of a brand alliance with another type of strategic alliance. Such types of hybrid alliances are becoming increasingly common, yet relatively little insight is available in the literature. Further, brand alliances also need to be further studied in a B2B context. The B2B market differs considerably from the B2C market in that institutions rather than individuals are involved in decision making. In addition, it is generally acknowledged that cognitive rather than emotional factors dominate decision making in B2B markets. It would be interesting to evaluate how these two factors (institutional decision making and cognitive decision making) affect customer responses to brand alliances. More research is also needed in the area of co-branding. As stated earlier, co-branding differs from brand alliances in that joint-branding efforts through advertising is involved. Readers with interest in co-branding are referred to Erevelles et al. (2007), where a co-branding model, using the same basis as this model but also including joint-branding efforts, is presented in a B2B setting.

The contribution in this paper should be considered an initial one. Research on brand alliances in B2C markets is still relatively in its infancy, especially when compared to research in other areas such as brand extensions. However, it is reasonable to conclude that this paper provides a useful conceptual framework that may be used as a foundation for future research.

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