Co-branding: A sweet business strategy?

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In today's brand-centric world, co-brands are everywhere. From fast-food joints to credit card companies to fashion, co-branding has been making its mark on business strategy since at least the 1950s. When brands merge, the results can propel a brand's popularity and success to soaring new heights. But be careful — those same collaborations can sometimes leave a brand fighting to save a once-polished reputation from tarnish and disrepair.

Over the past 60 years, co-branding has been used to form a multitude of new partnerships. Popular examples of co-branding exist across a variety of marketplaces. Eddie Bauer, famed for quality clothing and adventure gear, paired with Ford Motor Co. to make a series of successful sport utility vehicles. The Girl Scouts of America partnered with Dairy Queen to sell a limited-edition Blizzard, mixing the famous door-to-door cookies in an ice cream shake.

Celebrity partnerships commonly make their mark on the co-branding world. Prominent examples include basketball legend Michael Jordan teaming up with Nike to produce a shoe. Through this co-brand, the Air Jordan became one of the most successful and widely recognized shoes on the market, with over 23 new versions produced since the original design was first sold in 1984.[1]

In a typical co-branding deal, two or more companies come together and strategically merge some of their own products, services, designs, colors or logos to come up with a new marketable product or service. A successful pairing results in automatic credibility in the eyes of the consumer, increasing popularity and sales for both of the partnered brands.

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A co-branded product usually crosses into a new marketplace for at least one of the brands involved, allowing both brands to reach a new audience. Martha Stewart's co-brand with Home Depot is a prime example of an expansion of a brand into a new customer arena. Martha Stewart Living is a predominately female-oriented home goods brand, while Home Depot is a classic home improvement store targeted at the "Mr. Fix It" male consumer. With the merger of these two brands, each company has the opportunity to speak to a new market segment.

Co-brands range from the intuitive and expected, like the popular TGI Fridays and Jack Daniel's menu offerings, to the unique and surprising.

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Benefits of co-branding

- Introduce loyal customers of one brand to the other.
- Build wider customer base for new products and advertising.
- Use another brand's strong reputation when trying something new or different.
- Save money.
- Create illusions of exclusivity through limited-edition or limited-duration products.
- Elevate brand's reputation, popularity and financial success.

Risks of co-branding

- Dilutive effect because two companies share success of the co-branded item.
- Relying on another brand's equity and reputation.
- Need to closely monitor the co-brand.

GOOGLE AND KITKAT

The most recent example of an unexpected co-brand is the new KitKat Android operating system put out by Google. Not surprisingly, this co-brand is the first time Google has paired with Nestle, a well-known culinary and baking brand, that produces the Kit Kat candy bar. Many didn't see the partnership coming, and this rare co-brand left some consumers wondering why either company would find it desirable to work together.

Google's Android OS already has over 1 billion activations, making it the leading mobile operating system in the world.

Both Nestle and Google are listed near the top of Forbes' "World's Most Valuable Brands" list, and both have a net worth of well over $200 billion.[2] It's fair to say that neither brand needs the financial boost or the increased popularity that this deal could potentially bring.

So why bother? Some analysts suggest that, through this co-brand, Google may have been trying to link its products to a message of availability for all. Others says this brand merger stands as a possible indication of lower prices on phones and tablets, selling the message to consumers using the tasty chocolate name. Yet others say this was just a fun and yummy way to advertise and build hype for the new system release.[3]

However, the system name Kit Kat is not as random as some may think. The Android OS, in fact, has a rather sweet naming history. Every version of the operating system after Android 1.0 has been named with a popular confection or bakery item. In addition to the naming trend, Google has purposefully named each OS version to begin with the next consecutive letter in the alphabet. For example, in 2009, Android 1.5 became known as "Cupcake," which was quickly followed by Android 1.6 named "Donut" later that same year, and the trend continued.

By the time July 2013 rolled around, Android 4.3 came out with the name "Jelly Bean." By late October, Google was ready for Android 4.4 and was on the hunt for a sweet name that began with the letter K. Android followers immediately suspected Key Lime Pie as the new OS name of choice, but they were as shocked as everyone else when Google announced the Nestle co-brand and the OS name of KitKat.

If you watch the promotional ads for the new operating system, you will catch the witty ways Google has turned its new Android OS release into a sweet deal, one you will surely want to break off a piece of for yourself.[4]

Most people would not immediately pair the two brands because they share no obvious commonalities between either their products or their potential customers, but this may have been just the thing that brought together these pop culture giants. The unexpected nature of this deal has paid off so far, at least in terms of social engagement. The KitKat Android OS generated more than 1.3 billion Twitter impressions and over 2 million YouTube views in less than 72 hours, according to Nestle executives.[5] Ultimately, this pairing seems like the perfect deal: low financial risk and a public relations and consumer awareness success.

FUTURE

Only time will tell if this deal ultimately leads to increased profit for either company, but what does this mean for other brands?

Most companies are not world brand giants like Google and Nestle, so they need a co-brand to be successful for many reasons, not just for smiles and fun. Luckily, co-branding does not discriminate; successful co-branding has occurred with both large and small companies, popular and unknown products, and regional and national entities. The idea is simply to respond to a changing marketplace in a way that will increase product revenue and generate consumer interest.

Co-branding has many benefits. It can introduce loyal customers of one brand to a new brand, building a wider customer base for new products and advertising. It also allows for brands to rely on the strong reputation of other brands when trying something new or different. This is often referred to as benefiting from a brand's "halo of affection" and is seen in many of the popular co-brands displayed in stores today.

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Sometimes, co-branding can even offer the benefit of cost-savings, which can be especially useful in times of economic downturns. Co-branding can give the illusion of exclusivity, such as limited-edition co-branded clothing lines or limited-duration product lines. This business strategy can transform an old, stale brand into something new and hip, sometimes by simply adding another brand name to the label. When done correctly, co-branding can elevate a brand's reputation, popularity and financial success to new levels.

But co-branding is not without its risks. If brands are not careful, a dilutive effect can occur. The success of the co-branded item is now being spread across two companies instead of just one. In addition, co-branded products are, by definition, relying in part on another brand's equity. If something negative happens to one brand, it may reflect poorly on the brand it is partnered with.

For example, a recent co-branding effort by superstar rapper Jay Z was temporarily on the rocks when, just before launching his brand "Shawn 'Jay Z' Carter" in collaboration with the retailer Barneys New York, an alleged incident of racial profiling occurred at Barneys that forced Jay Z to publicly comment on the scandal and consider removing his line from the store completely.[6] Although Jay Z had nothing to do with the incident and Barney's vigorously denied any wrongdoing, Jay Z's name and reputation, along with that of his brand, was quickly affected by the link to the idea that Barneys would engage in racial profiling.

When co-branding goes wrong, not only is a brand's reputation put into jeopardy, but unforeseen problems can occur, like the creation of new competitors. For example, when firearms maker Wild West Guns worked to facilitate a co-branding relationship with another gun company, Marlin Firearms, to add innovative levers to various designs, the plan backfired. What started as a strong co-brand opportunity left Wild West Guns fighting in court to keep Marlin Firearms from claiming and using the new gun lever design as its own.[7] Although a co-branding effort may start on the right foot, it is important to closely monitor the co-brand, or else a solid partnership can quickly turn into a big problem.

The risks are great in the world of co-branding, but when it is done correctly, the benefits can truly transform a brand and a business. If your company is considering a co-brand, don't dwell on the risks and problems that can come. Instead, be proactive and do your research. Think creatively about products and services in the current marketplace that could augment your own products or customer base. Research stores and brands that you trust and see where they had positive and negative co-branding experiences. Look for brands that fit with your company's own core values and business philosophies and then see if those brands would offer your company any new customers or an innovative approach to a product or process.

Co-branding Over the Years

Google Android

REUTERS/Beck Diefenbach

Nestle KitKat

REUTERS/Denis Balibouse

Basketball star Michael Jordan

REUTERS/Steve Marcus

Nike shoes

REUTERS/Lucas Jackson

Retailer Eddie Bauer

REUTERS/Rick Wilking

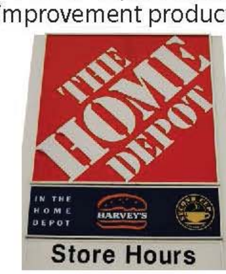
Ford SUVs

REUTERS/Wolfgang Rattay

Home goods maven Martha Stewart

REUTERS/Adrees Latif

Home Depot home improvement products



REUTERS/Mike Cassese

Rapper Jay Z

REUTERS/Andrew Kelly

Retailer Barneys New York

REUTERS/Eric Thayer

When considering if a certain partnership is appropriate, evaluate the reputation and financial stability of the possible partner brand. Additionally, look at the level of sophistication that the brand has, not only in its own products and services, but also in the customer market the brand maintains, to see if these levels match with your company.

Once a suitable partnership has been discovered, the negotiation of the co-branding deal begins. The Google–Nestle deal is rumored to have taken only a quick phone call and a day of paperwork, but for most co-brand seekers, the process will take much longer.[8] It is important to first determine what type of deal is going to be involved. There are various types of co-branding efforts, including ingredient co-branding, joint venture co-branding and multiple sponsor co-branding.

Once the co-branding type is determined, then the partnership can move forward with the elements of the deal. The parties should work together to define realistic goals of the co-brand and clearly lay out the terms of the co-branding agreement and the particular details of the cross-trademark license between the companies. Failure to include an appropriately worded license could result in negative consequences for one or both of the brands and, in the worst case scenario, a loss of trademark rights altogether.

Another important factor to consider is what happens when the partnership ends and the parties wish to go their separate ways with their brands intact. Brands sometimes forget about this step, which makes it almost impossible to stop a co-branded relationship if something goes wrong, like in the case of Christopher Norman Chocolates. Christopher Norman partnered with another chocolatier, Schokinag Chocolates, to co-brand special confectionary treats, but when problems arose between the companies, Christopher Norman wanted out of the deal. Unfortunately, because of the nature of the agreement in place, there was nothing that could be done to stop Schokinag Chocolates from continuing to sell the co-branded confections.[9]

Once the terms have been hammered out, it is crucial that both brands in the partnership stay committed to the co-brand for the duration of the partnership. A strong commitment will add value to not only the co-branded product or service, but also the partners' original brands.

Like any other business strategy, co-branding can be associated with risk, but as Google and Nestle are sure to see with the KitKat operating system, the rewards can be plentiful. If market trends are any indication, the use of co-branding will only continue to grow and expand between companies and brands. WJ

NOTES

[1] Deena Crawley & Steve McKee, *Twenty Co-Branding Examples,* Bloomberg Businessweek, *available at* http://images.businessweek.com/ss/09/07/0710_cobranded/19.htm.

[2] *The World's Most Valuable Brands,* Forbes, *available at* http://www.forbes.com/powerful-brands/list/.

[3] Leo Kelion, *Android KitKat unveiled in Google surprise move*, BBC News (Sept. 3, 2013), *available at* http://www.bbc.co.uk/news/technology-23926938; Scott Webster, *Android 4.4 KitKat: What's the point of co-branding?*, CNET (Sept. 3, 2013), *available at* http://reviews.cnet.com/8301-19736_7-57601154-251/android-4.4-kitkat-whats-the-point-of-co-branding/; Todd Haselton, *Android KitKat: No Financial Deal Between Google and Nestle, Just Plain Fun,* TechnoBuffalo (Sept. 3, 2013), *available at* http://www.technobuffalo.com/2013/09/03/android-kitkat-google-nestle-deal/.

[4] KitKat, *Android KITKAT 4.4 – The future of confectionery*, YouTube (Sept. 3, 2013), http://www.youtube.com/watch?v=OKOrkLxOBoY.

[5] Rebecca Borison, *Nestle exec: Kit Kat Android partnership drove significant social engagement*, Mobile Marketer (Nov. 7, 2013), http://www.mobilemarketer.com/cms/news/strategy/16550.html.

[6] Alan Farnham, *Jay-Z Defends Deal with Barneys After Fans Urge Rapper to Break Ties*, ABC News (Oct. 26, 2013), *available at* http://abcnews.go.com/Business/jay-defends-deal-barneys-fans-urge-rapper-break/story?id=20682761.

[7] *Marlin Firearms Co. v. Wild W. Guns LLC,* No. 3:09-cv-921, 2013 WL 2405510 (D. Conn. May 31, 2013).

[8] Haselton, *supra* note 3.

[9] *Christopher Norman Chocolates Ltd. v. Schokinag Chocolates N. Am.*, 270 F. Supp. 2d 432 (S.D.N.Y. 2003).

Blogger

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418 U.S. 323 (1974). In the former type of case, plaintiffs need to prove actual malice and, in the latter, they must prove that the defendant acted negligently.

Although this case involved Cox's First Amendment rights, the trial court judge never instructed the jury that Padrick needed to prove that she acted with fault, according to the appeals court opinion.

Obsidian and Padrick sued Cox for defamation based on this post and others.

U.S. District Judge Marco A. Hernandez of the District of Oregon found the other posts constituted Cox's hyperbolic opinion, but it allowed the claim about the Summit blog post to go to the jury, saying it could potentially be read as asserting reputation-damaging facts.

The jury found in favor of Obsidian and Padrick, awarding them $2.5 million in compensatory damages.

> Like a member of the institutional media, blogger Crystal Cox had a First Amendment defense to the defamation suit.

Without these key instructions, the jury improperly awarded Padrick and his company, Obsidian Finance Group, $2.5 million in compensatory damages.

Therefore, the appellate panel reversed the judgment and remanded for a new trial.

Cox blogs about corruption in the financial industry. She has been accused of seeking payoffs for retractions, according to the opinion.

She wrote a few blog posts about Padrick and his Obsidian, which advises financially distressed companies, implying that they committed fraud, money laundering and other illegal activities, the opinion says.

Cox published her posts on http://obsidianfinancesucks.com/ and http://bankruptcycorruption.com.

On Dec. 25, 2010, Cox blogged about Padrick's role as the court-appointed trustee in Summit Accommodators Inc.'s bankruptcy matter, the opinion says.

In her post, she alleged that he fraudulently withheld over $170,000 in taxes owed by Summit while he administered its Chapter 11 estate, and she called on federal and state tax authorities to investigate, the opinion says.

On appeal, Cox argued that the judge erred as a matter of law when he failed to instruct the jury about her First Amendment rights.

Her right to speak about a matter of public concern meant that Obsidian and Padrick needed to prove that she acted negligently or with actual malice when she published her blog post, according to Judge Hurwitz.

The plaintiffs responded that the negligence requirement applies to only institutional media outlets accused of defamation, not to lawsuits between private parties where a strict liability standard applies, the opinion says.

The 9th Circuit panel rejected this argument.

The First Amendment does not afford greater protections to certain defendants, Judge Hurwitz wrote.

Therefore, on remand, the lower court must instruct the jury that the plaintiffs must prove Cox's fault and actual damages, the appellate opinion said. WJ

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Related Court Document:
Opinion: 2014 WL 185376

See Document Section A (P. 19) for the opinion.