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The Case for Co-branding Alliances

Happily ever after?

by - Dale Buss
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Take Columbia Pictures and Mercedes-Benz, for example. Placing the Mercedes E500 as the hot car in the Hollywood movie *Men in Black II*, and participating in a variety of co-promotions, made them two of last summer's (2002) hottest brands and greased the skids for further cooperation in the inevitable *MIB-III* sequel.

But also consider the case of American Airlines and America Online. They ambitiously launched a joint consumer-loyalty program nearly three years ago, flush with conviction that it would set a new standard in brand synergy. Separately beset by problems and dissatisfied with what the venture had accomplished, however, the companies pulled the plug last year.

Nevertheless, it seems that no number of ugly divorces between brands is enough to discourage marketers' tendency to want to get them together. "The reason is that when categories get saturated with brands and products, companies are looking for ways to stand out and to make efficient use of marketing resources, and a brand alliance can help them do that," says Ned Pfeiffer, senior brand strategy consultant for branding consultancy Landor Associates in Chicago.

With that in mind, here are three basic dynamics of co-branding that govern success or failure:

Good or bad partners: Whether brands instinctively fit together can comprise more than half the battle. There's nothing that can be done with some co-branding ventures if the fit is a poor one, or one or both companies fail.

Orbit Whitening Gum "powered by Crest" seems to be a natural fit. "It's kind of like 'Intel on the inside,' " says Bryan McCleary, global brand manager of external relations for Procter & Gamble's oral-care brands, which include Crest. "We could have -- and actually did work on -- bringing our own gum to market, with Crest branding. But we came to the realization that that wasn't our core area of expertise, and that if we really wanted to create a great product, we needed someone who had great experience within the product category, with gums and flavors and taste and production -- and also had great distribution networks for gum.

"We didn't have those things, but we did have great knowledge of the oral-care business -- and the specific whitening ingredient that is similar to the whitening agent in our best toothpaste."

Similarly, Coca-Cola Co. and wine and spirit producer Brown & Forman seem to have found a new dovetailing. Jack Daniel's and Coke, of course, have been partners for a long time. But the companies' fledgling co-branding effort unites Coke's KMX energy drink and the distiller's Finlandia vodka. In an effort to compete with Red Bull in the growing consumption of mixed energy drinks in bars and nightclubs, KMX and Finlandia created a new branded drink called Blue FX, which they're test marketing -- with reported success -- in Atlanta.

"The stars lined up for us because our objectives line up," says Eric Lewis, KMX's brand manager. "Finlandia is a great vodka, but it doesn't have an industry-leading reputation, and it is skewing to an older audience than they want it to. They have an interest in bringing in the younger consumer, and I can help them with KMX to bring in 24 to 29-year-old consumers. By pooling our resources, we get more buck for the brands."

But while hindsight is 20/20, perhaps some ill-fated co-branding could have been avoided had more sober minds prevailed. Online credit-card issuer NextCard Inc. and Amazon.com lashed themselves together in late 1999 at the very height of the dot-com craze, in a deal in which Amazon offered co-branded credit-card accounts on a customized website, with NextCard paying Amazon an origination fee for each of those accounts

-- plus renewal fees on each account’s anniversary date.

The US$ 100-plus million that NextCard would have owed Amazon over the five-year course of the deal likely would have proven a cumbersome burden. But federal regulators seized NextCard’s bank early last year and then cut off its credit-card operations in July after the company had issued too many cards to deadbeat borrowers. Now Amazon, which owns eight percent of NextCard, is just another creditor under its US$ 10.5-million suit against NextCard for alleged breach of contract.

Not ending quite as badly, but still ignominiously, was the partnership between AOL and American Airlines. While American pioneered frequent-flyer programs with its AAdvantage program more than two decades ago and now has about four million AAdvantage members, the AOL AAdvantage program was hatched in 2000 during the heady days of AOL's merger with Time Warner Inc. It intended to capitalize in the loyalty-program arena on the same kinds of synergies that AOL Time Warner was supposed to generate for each of the previously independent media companies in areas like selling advertising and subscriptions and sharing content.

“The original goal was to broaden mileage-accrual and redemption opportunities,” recalls Tim Kincaid, an American Airlines marketing manager. Consumers could accrue AAdvantage miles by enrolling in various services offered by AOL to its subscribers, such as “You've Got Pictures,” “My Calendar” and participation in opinion polls and surveys.

But AOL and American had to pull the plug last March (2002) because, says Kincaid, “the program never met any of our expectations.” He blames the softening of the economy in 2001 “and then September 11 and all that.”

Some outside analysts, however, aren't willing to let them off the hook so easily. “It was a pretty big failure, which is surprising considering American's success record with loyalty programs,” says Rob Leathern, senior analyst of marketing programs with Jupiter Media Metrix, in New York City. “There were a lot of different content areas and some multi-billion-dollar partners, but they never really did anything interesting with it and didn't seem to commit to it.”

In some ways, Leathern believes, the AOL AAdvantage initiative simply may have fallen victim to AOL's general inability to capitalize on what it believes are synergistic opportunities. The entire AOL-Time Warner merger, in fact, is in grave danger of becoming marked a failure because the company hasn't been able to figure out how to get its various media properties to work together to produce a whole greater than the sum of the two companies.

Strategic or short-term: Effective co-branding can last as little as a few weeks, essentially in a co-promotion, or it can be strategic and long-term. “It’s easier to gauge the success of short-term co-promotion because typically they’re aimed at short-term sales gains, up to six months,” Pfeiffer says. “But with the ones that are formed to build long-term loyalty, it’s harder to say. The true measure may be at the end of a year or two.”

Clear winners in a short-term co-branding arrangement were Walt Disney Co. and Hawaiian Airlines when they teamed up last year for a promotion centered around Disney’s animated movie *Lilo & Stitch*, which was “set” in Hawaii. Hawaiian Airlines focused especially on the southern California family-vacation market, softening up holidaymakers with billboards that featured the Stitch character from the movie. Once they got the captive audience onboard an airplane, the partnership peppered passengers with a movie-themed Hawaiian map with special discount offers, the showing of a Disney-produced movie about Hawaii, a feature about *Lilo & Stitch* in the in-flight magazine, and even themed lapel pins on the flight attendants.

Voila! The movie became the twelfth-biggest grosser of 2002, and Hawaiian Airlines’ traffic in California increased by strong single-digit and double-digit percentages.

On the other hand, Coca-Cola has formed a new alliance with health and research institute The Mayo Clinic to provide healthy-living tips on the side panels of cartons of Minute Maid Premium orange juice. It makes sense that Coke’s intentions are long-term, because nutritionally oriented beverages are a stronger growth area for Coke than carbonated beverages these days. On the other hand, The Mayo Clinic is trying to find effective ways to leverage its venerable brand. Minute Maid’s sponsorship of a food and nutrition information center on The Mayo Clinic’s website is also featured in Minute Maid print ads and point-of-purchase materials in the refrigerated juice case.

Equivalence or disparity: How brands measure up in the eyes of consumers determines whether a co-branding venture is between equals or whether there's a dominant partner. "Both types can work," says Landor's Pfeiffer, "as long as both sides understand their roles."

Galaxy Nutritional Foods Inc., for instance, and PepsiCo's Tropicana juice unit have agreed to market a new product combining soymilk and juice, calling it Ultra Smoothie, Made with Tropicana Juice. The single-serve product will be placed largely in produce sections of natural-foods supermarkets, while a version of Ultra Smoothie will also sell into the foodservice market -- both segments in which Tropicana currently is vastly underrepresented.

"They're areas of the market that we don't have expertise in," says Kristine Nickel, a spokeswoman for the PepsiCo juice unit based in Florida. "They're an efficacious product marketed in places where we might not have full entrée: health-food stores. And it's a market that is growing."

Yet Tropicana clearly is the dominant partner here. It isn't doing any marketing of Ultra Smoothie, and it took several months before Tropicana agreed to the deal. "They're a goliath," says Chris New, Galaxy's chief operating officer. "It takes lots of steady reassurance to work with them. We needed to demonstrate that we can produce the product, that we have high quality and systems. Tropicana did quality-control audits and quality-assurance audits and business-plan assessments to make sure they felt comfortable that they would license in this category only to us."

The *Men in Black II* co-branding with Mercedes-Benz was more of a partnership of equals. The automaker had been burned by a co-branding effort a few years ago with another movie, *The Lost World*, in which its vehicles ended up playing a far-second fiddle to the flick. So this time, Mercedes made sure the two brands were completely integrated. The two brand owners co-presented the E500 at auto shows throughout Europe and at Mercedes dealerships and designed co-branded web games. They even held special screenings of *MIB-II* for long-time Mercedes owners and prospects.

The result: The movie had the highest July-fourth opening ever, at US$ 84 million, and Mercedes has a two-year backlog of orders on E500s. Over 30 percent of *MIB-II* audience members polled said that themed promotions had prompted their attendance. All in all a successful honeymoon and on course to settle into a prosperous marriage.

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