STRATEGIC ALLIANCES WITH INTANGIBLE ASSETS: SPECIAL REFERENCE TO BRAND ALLIANCES

Jaime Bonache*, Julio Cerviño** and Ignacio Cruz Roche**

Abstract
Brand alliances are more widespread than current academic research would seem to suggest, and the reality seems to indicate that this type of alliances between companies will undergo unsuspected growth in the years to come. This paper will attempt to help fill this literature gap by analyzing and developing the concept of the brand alliance on the basis of Williamson’s transaction cost theory and the brand identity models presented by Aaker (1996), Upshaw (1995) and Kapferer (1992). In addition, it will discuss the problems inherent in this type of alliance, primarily as regards complementarily and consistency between the brands. To this end, an analytical model will be developed based on Kapferer’s “Identity Prims” (1992) and Rao and Ruekert’s brand alliance evaluation model (1994). This model will be used to select potential brands for a possible alliance, evaluate this selection and track the alliance’s value. Finally, we will discuss the limitations inherent in this work and will suggest potential future areas of research that would be of interest within the field of brand management.

* Universidad Carlos III de Madrid, Departamento de Economía de la Empresa, C/ Madrid, 126, 28903 Getafe (Madrid) Spain. Phone: 34-1-624 95 78. Fax: 34-1-624 96 08. Email: bonache@emp.uc3m.es

** Universidad Autónoma de Madrid.
STRATEGIC ALLIANCES WITH INTANGIBLE ASSETS: SPECIAL REFERENCE TO BRAND ALLIANCES

Jaime Bonache (1), Julio Cerviño (2) Ignacio Cruz Roche (2)
(1) Universidad Carlos III de Madrid
(2) Universidad Autónoma de Madrid

ABSTRACT

Brand alliances are more widespread than current academic research would seem to suggest, and the reality seems to indicate that this type of alliances between companies will undergo unsuspected growth in the years to come. This paper will attempt to help fill this literature gap by analyzing and developing the concept of the brand alliance on the basis of Williamson’s transaction cost theory and the brand identity models presented by Aaker (1996), Upshaw (1995) and Kapferer (1992). In addition, it will discuss the problems inherent in this type of alliance, primarily as regards complementarily and consistency between the brands. To this end, an analytical model will be developed based on Kapferer’s "Identity Prism" (1992) and Rao and Ruekert’s brand alliance evaluation model (1994). This model will be used to select potential brands for a possible alliance, evaluate this selection and track the alliance’s value. Finally, we will discuss the limitations inherent in this work and will suggest potential future areas of research that would be of interest within the field of brand management.

1. Introduction

Academic research in the field of brands has mainly focused on the value and management of brands with an individual identity clearly separate from others (Aaker 1991; Keller 1993; Kapferer 1992), or on the brand as an asset that forms part of a complete portfolio of individual and interrelated brands that must be jointly managed (Barwise and Robertson 1992; de Chernatony 1991; de Chernatony and McWilliam 1990). However, recent years have witnessed the launching of products that use two individual brands for the purpose of gaining a greater competitive advantage on the marketplace. This phenomenon is much more widespread than current research would seem to suggest, and the reality seems to indicate that this type of alliances between companies will undergo unsuspected growth in
the years to come. It is estimated that the number of strategic brand alliances and other related programs, such as co-branding, dual branding (Karel 1991) or ingredient brand strategies (Norris 1992), will grow worldwide at a rate of 40 percent a year, primarily in consumer products, services and the component and/or ingredient sectors (Stewart 1995). In the U.S. and Europe this trend is obvious if we observe some of the new products on the market. There are Häagen-Dazs icecream with Bailey’s Irish Cream and Amaretto di Saronno; General Biscuits’ “Lu” brand with Danone cream filling; Bulova Benetton watches, Cereal boxes with General Mills’ brand names and Nestle corporate brand; Visa and Master Card credit cards with the U.S and European airline’s logos and names; or the creation of new product categories by combining the identity and image of two brands such as in the case of Yolka ice-cream (Frigo and Danone in Spain and Motta and Danone in France - both Frigo and Motta are local brands from Unilever).

On the other hand, there is extensive literature on the subject of strategic alliances. However, it has mainly focused on alliances in production, technology transfers and distribution (Porter 1986; Porter and Puller 1986; Harrigan 1986; Hennart 1988; Pisano et al. 1988; Hamel, Doz, and Prahalad 1989; Ring and Van de Ven 1992), and to a lesser extent on the area of joint research and development (Shapiro 1985; Shapiro and Grossman 1986; Spencer 1986; Ouchi and Kremen Bolton 1988). Recent works on strategic alliances in the area of marketing do not even mention brand alliances (Shamdasani and Sheth 1995). In this respect, the literature on strategic alliances covers all processes from research and development up to joint exploitation of markets and distribution channels. Brand alliances effectively close the cycle of the value chain, as they are the last point of contact with the end customer and the critical phase for creating value for the company. However, since it is such a novel strategy, joint use of brands through brand alliances is a field that has still not been developed in depth by academic literature, and only very recently some work has been done to empirically support the benefits of brand alliances (see Park, Jun and Shocker 1996).

This paper will attempt to help fill this literature gap by analyzing and developing the concept of the brand alliance on the basis of Williamson’s transaction cost theory (1985) and the brand identity models presented by Aaker (1996), Upshaw (1995) and Kapferer (1992).
In addition, it will discuss the problems inherent in this type of alliance, primarily as regards complementarily and consistency between the alliance brands and their strategic objectives. To this end, an analytical model will be developed based on Kapferer's *Identity Prism* (1994) and Rao and Ruekert's brand alliance evaluation model (1994). This model will be used to select potential brands for a possible alliance, evaluate this selection and track the alliance's value. Finally, we will discuss the limitations inherent in this work, which are fundamentally due to the lack of empirical references that would be useful in comparing theoretical formulations and also indicate potential future areas of research that would be of interest within the field of brand management.

2. **Strategic Brand Alliances: Concepts and Definitions**

Strategic alliances can involve a wide variety of agreements through which two or more companies agree to join their resources to seek or achieve market opportunities or specific market objectives. These agreements may include joint production ventures, joint research and development ventures, technology transfer, direct investment, licenses and other types of agreements of cooperation and joint use of complementary and/or specific assets such as distribution channels and industrial property rights (Harrigan 1988; Jorde and Teece 1992; Gulati 1995; Varadarajan and Cunningham 1995). Jorde and Teece (1992) define a strategic alliance as "a bilateral or multilateral relationship characterized by the commitment of two or more partner companies to a common objective". There is a large body of literature that documents the environmental motives and factors that explain the proliferation of this type of corporate relationship, including the growing national and international competition, reduced product life cycles, rapid technological change and dissemination, protectionist barriers, a considerable increase in research and development costs, and the high risks involved in launching new products and penetrating new markets (Contractor and Lorange 1988; Harrigan 1989; Hamel 1991). The objectives sought by companies through alliances are also varied and on occasion interconnected. Villeneuve and Kaufman (1992) indicate the following objectives: financing, risk diversification, access to new technologies and knowhow, access to new distribution channels and customer segments, access to productive capacity, creation of new productive capacity, preventing or limiting competition
and, on occasions, merging or acquiring the partner. Atik (1993) also adds the objective of enhancing reputation and credibility on the marketplace.

The academic and business definitions of brand alliances and the products resulting from them are varied. According to Rao and Ruarkert (1994), when two or more products with their own brand are integrated into one and the same product in which each keeps its original brand, they form products with associated brands that are perceived by the public as interrelated products. This brand relationship or alliance can either be via a physical product integration in which one product cannot be used or consumed without the other (as in the case of IBM and Intel), or via the promotion of complementary use in which the products can be consumed separately (as in the case of Coca-Cola and Bacardi Rum, or Whirlpool and Ariel). Therefore, within the concept of brand alliance, these authors also include joint advertising in that, irregardless of the nature of the association, the perception that the two brands are linked to each other as a result of the joint advertising leads to the brand alliance phenomenon (Rao and Ruarkert 1994). In this respect, Greagh (1994) also develops the concept of shared promotions between non-competitive and non-substitutive brands, which could be considered as an alliance of sorts aimed at acquiring greater recognition or mental impact, greater ability of incentivization and motivation and decreased promotion costs for the companies involved.

Other authors, including Carpenter (1994), McManus (1994), Lefton (1993), Lucas (1993) and Norris (1992), describe brand alliances as product "cobranding", defining them as the simultaneous use of two different brands in a new product or service for the purpose of enhancing the brand's value and image and differentiating the product and/or of entering or creating a new market segment. Park, Jun and Shocker (1996) use the term Composite Branding Alliances when a combination of two existing brand names is used as the brand name for a new product. According to all these authors, the principal objective of brand alliances is focused more on developing or launching new products with their own identity than on the field of joint or complementary promotion of a product or service. This is the focus that we will use in this paper, and thus we will exclude typical shared promotions that, owing to their time dimension and repercussion on both brands, are more tactical than strategic.
On the other hand, alliances are also defined and classified on the basis of their organizational structure, i.e. whether or not there is an independent partnership and what type of agreement is established (vertical or horizontal). Thus, a differentiation can be made between strategic alliances strictly speaking, which are also defined as contractual joint ventures, and equity joint ventures (Hennart 1988), in that the former do not require the constitution and joint ownership of a legally separate entity that exploits the technologies and assets targeted by the alliance. Brand alliances can be structured in any way. Based on the classifications of Hennart (1988), Pisano (1989), and Jarillo and Echezarraga (1991), we can find brand alliances in which no independent entity of brand owners is constituted and in which the alliance is legalized by means of a contract for the joint use of the asset, and those in which an independent legal entity is established to exploit the ownership rights of the new brand names and manage the new products developed under the brand alliance. The former case would be properly defined as a strategic alliance or contractual joint venture, which in the area of brands is primarily developed via brand licenses and ingredient brand policies, and the latter case would be an "equity joint venture", i.e. an independent entity in which the partners have shares in the capital. In addition, using Jarillo and Echezarraga's strategic alliance classification, brand alliances can be divided into the two basic types developed by these authors: horizontal type agreements (e.g., brand alliance between Danone and Unilever) or vertical type agreements (e.g., IBM and Intel - "Intel Inside" program, or NutraSweet and Coca-Cola). If we use the classifications of Varadarajan and Cunningham (1995), we can also find brand alliances in most of their industry, geographic and functional alliance's classification. Thus, following their example of General Mills and Nestle, this could be classified as a brand strategic alliance between market follower (G.M. in U.S.) and market leader (Nestlé in Europe), a international brand alliance between a U.S. and European company, and from a functional scope perspective, may also be considered a brand strategic alliance involving joint product development and co-marketing functions.

Irregardless of the organizational and contractual basis of the brand alliance, in the eyes of the consumer the resulting product or service will be clearly supported by two brands, either with a new name (such as the case of the new Yolka product of Danone and Unilever), or with a combined name or synthesis of the two brands (e.g., Peugeot 205 Lacoste, American Airlines Visa Credit Card). In other words, the resulting product will
be a synthesis of two differentiated identities with the benefits and risks that this entails, although it is to be expected that an alliance between two brands will be implemented when it obviously benefits the consumer, the distribution channel and the companies (brands) in question.

3. Strategic Motivations Behind Brand Alliances

There are different theories that explain the existence of complex economic organizations and institutions such as companies. The theory of transaction costs, which begins with Coase (1973) and is extensively developed in the works of Williamson (1975, 1985, 1991), has become the dominant theory to explain the existence of companies in situations of imperfect competition, i.e. why certain transactions are not carried out on the market and are internalized within the company. Based on the analysis of Williamson's theory of transaction costs (1985), the new organizational forms represented by strategic alliances can also be explained (Hennart 1988; Pisano 1989; Atik 1993).

This type of organization appears as an intermediate point between the market and the corporate hierarchy (Thorelli 1986). The fact that it is being increasingly developed in all types of sectors and transactions seems to indicate that in certain circumstances and/or transactions, this type of organization is superior or more efficient than exchanges made on the market and than internalization within a single company. Thus, it could be expected that companies will establish this type of agreement when the transaction costs associated with a given exchange are intermediate and not high enough to justify vertical integration (Gulati 1995). In addition, the type of alliance contract will more nearly approach either the market structure (contractual alliance or joint venture) or the hierarchy (equity joint venture) depending on the magnitude of the transactions costs: the higher the transaction costs, more hierarchical will the contract be (Pisano 1989). Since the most important transaction cost within an alliance is the possibility of the other partner displaying opportunistic behavior, this is effectively minimized by a share in the alliance ownership structure (Doz, Hamel and Prahalad 1989; Kogut 1989; Gulati 1995). Therefore, in view of the risks associated with the alliance, the type of contract will reflect the risks perceived by each partner.
According to Hennart (1988), strategic alliances are formed to acquire or share assets with two main characteristics: i) they are company specific assets, in the sense that they cannot be easily dissociated from it, and ii) they are public goods, in the sense that they can be shared at a very low marginal cost. If the asset is a public good, it will then be more expensive to create or produce it than to purchase it, but if in addition it is a specific asset, it will also be more difficult to obtain independently of the other corporate assets. Hennart (1988) understands that a hybrid structure of the type found in strategic alliances can allow for jointly sharing/using these valuable assets, thus avoiding the unnecessary or unwanted purchase of other company assets.

From this standpoint, brands could be considered as public goods, in that once the awareness, image and prestige of a brand are established, the additional costs of using it in other complementary or similar products would be very low or even negative, on the assumption that the new product helps to improve the brand’s value and identity. Use of the brand in other categories of products would be a more problematic issue, as discussed in the literature on brand extension (Tauber 1981; Roberts and McDonald 1989; Aaker and Keller 1990; Sullivan 1992; Sunde and Brodie 1993), since the negative aspects would have to be considered and consequently the costs that would be incurred if the extension failed.

Likewise, brands are company specific assets, more from a marketing than from a legal point of view, since legally the brand property rights can be sold without having to sell any other company asset and therefore, as they can be sold independently of the rest of the company’s operations, they would not be specific to the company. However, from a marketing perspective and of brand valuation above and beyond its legal entity, the brand can be a very company specific asset as it is directly linked to company resources and capabilities. In fact, brands synthesize for the market and the consumer the series of competitive advantages embodied in the organization’s products and services. The brand’s value and identity are formed by a series of interrelated facets that emanate from the organization itself (Aaker 1991, 1996; Upshaw 1995; Kapferer 1992). Thus, since the brand’s value and identity are sustained by the organization’s resources and capabilities, its acquisition by a third party can only result in competitive advantages if the purchasing
company has the resources and capabilities to maintain and increase the value of the purchased brand. Otherwise, the advantage that the brand can provide will only be short-term, until the market and the consumers see that their expectations of the brand are not being fulfilled. By means of a brand alliance, each partner has access to and share in the value and synthesis of meanings of the other partner's brand, and in the case of equity joint ventures a "quasi-internalization" of each partner's resources and capabilities may even be attained.

The reasons for establishing a brand alliance may to a certain extent be inductively postulated by asking why this institutional mode of shared access is preferable to market contracts (brand purchase or brand single license) and/or internalization (brand extension or creation of own brand). The increasing use of brand alliances seems to minimize transaction costs under certain circumstances, and at the same time they sustain the monopolistic returns that these specific assets generate, since the trademark property rights of each brand continue to be independently linked to each one of the companies.

Brand alliances offer one more alternative to traditional brand strategies and furthermore they are constituted within a inter-company cooperation mechanism that may go beyond the joint use or utilization of brands, depending on the degree of strategic commitment acquired by each brand. Therefore, to launch a new product or enter a new category, the company can choose between several alternatives: internally create a new brand or extend one of the existing brands in its portfolio (internalization), or purchase or license a brand on the marketplace that is suited to the new product or category (market contract). Between these two situations, the spectrum may include licensing a famous brand on the market or legalizing an agreement with another brand to develop and launch the product on the market jointly with the company's own brand (alliance). We will analyze below each of these alternatives.

3.1 Purchasing or Licensing a Famous Brand

In the purchase or licensing of a famous brand, there are very important costs of negotiation and information asymmetry stemming from the problems of brand valuation. The
selling company may perceive the asset value very differently than the purchasing company. In fact, the brand may have a different value for each of the potential purchasers or licensees (Wood 1995). The value of a new brand for the company will depend on how easy it is to integrate it into its brand portfolio, its relation to the organization's distinctive competencies and the synergies that it can create with other corporate brands and/or products (Barwise and Robertson 1992). In addition, information asymmetry is important since it is the brand owner and not the potential purchaser or licensee who best knows the real value of the brand and its market strengths and weaknesses. On the other hand, in addition to information asymmetries, we should add the lack of universally accepted evaluation methods both in the area of marketing and in the economic-financial field, which complicates even more the negotiation process. Furthermore, in the case of a brand license, there is always the underlying possibility of opportunistic behavior by one of the partners. It is the owner in the end who maintains control of the brand, and it can affect the brand value through its communication policy or product quality. For example, it can affect the license value ex post facto by cutting back on investment in brand communication. The licensee can also affect the brand value if it does not comply with contractual obligations and clauses, which would consequently increase the costs of monitoring and fulfilling the contract terms. An additional problem would be finding a brand that actually has all the attributes that the company strategically needs to successfully launch the new product. As Kapferer (1992) indicates, there are very few brands in which all facets of identity are well developed, and therefore on some occasions (such as alliances) these weakness must be supplemented with attributes embodied in other brands.

Finally, as regards the alternative of purchasing a famous brand on the market, there is a problem linked to the company's financial ability to undertake the acquisition. The strategy of acquiring very famous brands has undoubtedly been widely used by companies in recent years (Murphy 1990; Barwise and Robertson 1992; Kapferer 1992). However, on analyzing the amounts involved in these acquisitions and the economic appraisals made by consulting firms of the major brands, it is obvious that this option is limited to large corporations, which take advantage of the strong leveraging of their brand portfolios and distribution channels to generate important synergies between their brands. In any event, due to the associated information asymmetries mentioned above, the question always remains of
whether the price paid is higher or lower than the investment required to launch a brand of similar characteristics.

3.2 Launching a New Brand or Brand Extension

At the other end of the spectrum, the company has the alternative of launching a new brand on the market or undertaking a brand extension. In the former case, brand internalization may involve very high costs for the company. Creation of a brand with market power is the result of a timely accumulative process and considerable investments. It is not easy to create a prestigious brand that also commands recognition in all markets, or even more that has reputation and credibility (Semprini 1995; Kapferer 1992; Herbig and Milewicz 1993; Aaker 1991). This is a time consuming process that requires a constant, considerable investment in product innovation and communication, as well as adequate management of its overall value and identity. In addition to the necessary investments, an additional weakness of this strategy is the slow rate of product penetration and dissemination on the market. In a marketplace characterized by rapid, aggressive competition, many companies cannot strategically afford the time required to consolidate a new brand in a given segment or category and must use the value and strength of an already established brand. On the other hand, and this is an additional problem when deciding whether to create a new brand, success is not guaranteed beforehand and the risk is always high, as demonstrated by the failure rates in launching new products and brands on the marketplace (Crawford 1977; Booz, Allen and Hamilton 1982; Murphy 1987; Aaker and Keller 1990; Bissell 1994; Bossu 1995).

Finally there is the brand extension strategy, which in principle would be the most logical alternative for most companies. From a strategic point of view, the company will select those products-markets where it can most effectively use and exploit its competitive advantages, even when this decision leads to a "second best choice" (Bakker et al. 1994). Recent literature on strategic management has identified the brand as an intangible asset source of sustainable competitive advantage (Coyne 1986; Itami and Roehl 1987; Barzel 1989; Aaker 1989; Hall 1992; Mahoney and Pandian 1992, among others). A fundamental feature of brands is that they are susceptible to multiple, simultaneous uses in accordance
with the public good nature of information (Itami and Roehl 1987), and they are liable to offer potential access to a wide range of markets. This multiple use of the brand and the strategy of exploitation and accumulation of its value will often explain the choice to diversify the company and to transfer and use this asset in related business activities (Mahoney and Pandian 1992; Lemelin 1982; Prescott and Visscher 1980). Thus, a brand with market value offers the possibility of being used via brand extension for entry into new markets and new product categories.

Brand extension is the strategy most used by companies in recent years, as indicated by the analyses of Buday (1989) and Kapferer (1992). There are several reasons for the growing use of extensions: the high rate of failure of new brands on the market, reduced R&D investments in new products, economies of scale in communication and promotion, greater ease in gaining distribution and shelf space, and competitive pressures to launch new products on the market (Tauber 1981, 1988; Roberts and McDonald 1989; Hastings 1990; Aaker 1991; Kapferer 1992). In short, they facilitate the introduction of new products while reducing inherent risks and costs. Another fundamental purpose of an extension may be that it has a multiplying effect that increases and accumulates the brand’s value (Aaker 1991).

The decision to extend is primarily evaluated by determining the suitability of the perceived quality and reputation of the brand in its original context to the new category (Aaker and Keller 1990; Sunde and Brodie 1993), the complementarity of products and transferability of technological knowhow (Tauber 1988), and the suitability and coherence of the brand’s identity in the new category (Kapferer 1992; Upshaw 1995). Nevertheless, as indicated by Aaker (1991) and Kapferer (1992), brand extensions can also have neutral effects, create negative associations or attributes in the new product and even damage the brand’s value and image in its original context. As we have mentioned above, the negative aspects and costs would have to be considered if the extension failed. As Itami and Roehl (1987) pointed out, on occasions it is incompatible to use the brand as input and output in company operations.

Limits on brand extension are imposed by the very concept of brand identity\(^7\), which goes beyond the sphere of technological knowhow and quality attributes and encompasses
other facets such as culture, relations, positioning and personality of the brand. Defining the
brand identity, its strengths and weaknesses, and its perception in the market (brand image
analysis), is the basis for managing its communication and extension to other product
categories. Furthermore, knowing the brand’s identity is the prior phase required to develop
a suitable brand strategy consistent with the corporate marketing strategy (Kapferer 1992;
Upshaw 1995; Aaker 1996). Thus, the concept of identity reminds us that the brand cannot
access all categories and/or positions. With time, the brand develops its symbols and
communications and acquires its own autonomy, meaning and territory, and consequently its
own territorial limits. For this reason, the brand identity prohibits certain extensions and
ensures others. In those cases in which identity analysis does not permit or ensure the
success of the extension or endangers the brand’s value in its original context, the company
will have to develop another brand strategy to enter the new product category.

Thus, if we analyze the brand identity of Lacoste and Benetton brand names and the
attributes/facets that constitute the meaning of these two brands, we can observe how these
facets will limit in which product categories each brand can extend. So, the characteristics
of young, creative and social criticism of the Benetton brand, do not allow it to enter the
category of formal and classic clothing. However, the Lacoste brand could perfectly extend
to this category.

4. Basic Principles of a Brand Alliance Strategy

Due to the information asymmetries and negotiating costs involved in purchasing or
licensing brands, the necessary economic investments, the high rates of failure in launching
new brands and brand extensions, the increasingly high costs of introducing a new brand in
the market, the competitive pressures involved in launching and disseminating products, and
the limitations that the very brand identities impose on extensions, companies are increasingly
forced to develop shared brand strategies and brand alliances.

The reasons are different in each case, although the benefits and synergies sought are
the same (Carpenter 1994; McMucus 1994; Lefton 1993; Lucas 1993; Norris 1992): higher
added value and buying confidence for the customer, enhanced product differentiation, diversification and reduction of the risks of developing and launching new products, economies of scale in marketing, generation of synergies between two brands to create a value higher than the individual sum of the two, accumulation of market value for each brand, and greater leverage with the distribution channel. In addition, if the alliance is an equity joint venture, other additional benefits may originate from the economies of scale in production and R&D, as well as from the organizational learning effects (Hamel, 1991).

Carpenter (1994) makes the following recommendations for successfully developing a brand alliance:

1. Seek brands and companies that offer complementarily with the product in question. The relationship between the two brands and the new product must provide more meaning to the product, i.e. open a new market segment for the product or strengthen the product’s position in its current markets/segments.

2. Develop brand alliances whose resulting product offers greater added value and is more desirable and convincing to the customer.

3. Treat both brands equally as regards advertising, packaging or any other product promotion measure.

These three principles must be based on mutual trust and convenience between both brands (McManus 1994), as well as on establishing common long-term objectives, displaying the same enthusiasm for the joint project, compatibility of payment dates in the distribution channel and willingness to make the investments required to sustain the joint brand’s growth and value (Stewart, 1995). Again, the possibility of opportunistic behavior in this type of alliance always exists, although it will be minimized as the alliance increasingly internalizes the partners (equity joint venture type alliances).
Furthermore, brand alliances contain the basic characteristics to provide the partners with a sustainable competitive advantage. The nuclear source of this sustainable advantage are the two (or more) intangible assets involved in the alliance: the brands. Brands fulfill with an alliance the five conditions pointed out by Day (1995). They are legal rights (e.g., trademarks) and relational assets (e.g., brand equity, brand identity) that provide value to the customers and other company stakeholders, show negative depreciation if managed properly and therefore are durable, legally protected from imitation and duplication, and embedded with a high degree of causal ambiguity, both to competitors and to some degree to the brand owners. All these conditions are synergistic multiply through a brand alliance if the brands are complementary and the partners have the commitment to increase value in the alliance.

5. Evaluation of Brand Alliances

Rao and Ruekert (1994) developed an analytical model based on the concepts and principles of strategic alliances between companies and on the concept of "economies of information", in order to study and analyze the suitability of a brand alliance and predict the success of this decision. Based on the concept of the brand as product quality indicator and assurance, Rao and Ruekert argue that the presence of a second brand in a product should likewise constitute an indicator of at least the same, if not of a higher, level of quality as that of the other product brand. From this point of view, Rao and Ruekert believe that the fundamental aspect of brand value is perceived quality, where this is understood to be the perception that consumers have of quality in general or of product or service superiority over other competitive products or services. The importance of the perceived quality variable to the brand's value and to other company assets and variables has been analyzed and validated by several authors by using the PIMS database (Buzzel and Gale 1987, and Jacobson and Aaker 1987). In addition, Kirmani and Zeithaml (1993) determine, on the basis of different studies and investigations made by other authors, that the brand (brand-name) is frequently the signal that is most commonly used from among intrinsic and extrinsic signals to determine product quality. On the basis of these studies and of Aaker's brand value analysis (1991), it can be argued that the model developed by Rao and Ruekert, based on the perceived quality of brands and the use of a second brand as an additional quality
signal, is an acceptable analytical model for evaluating the suitability and utility of a brand alliance.

According to the Rao and Ruekert model and its classification of products into products with internal "non-contrastable" qualities and products with external "contrastable" qualities (or with a very low experimentation risk), brand alliances are formed for the former type of product to emphasize and ensure the quality perception and assure the consumer that product quality is real\textsuperscript{11}, and for the latter type to provide the consumer with information on the existence of additional and/or complementary attributes that make the final product more attractive. In the former case, the alliance will be formed between one brand that needs to communicate and assure its quality to the market and another brand that already has this reputation for quality (e.g., SEAT and Porsche). In the latter case, the alliance will be established between one brand that needs attributes that are difficult to develop or purchase and another brand that possesses these sought after attributes, knowhow or functions (e.g., IBM and Intel, Sony and Dolby, Benetton and Bulova).

For Rao and Ruekert (1994), the purpose of alliances is to profitably improve the perception of quality. However, the brand's value (and by definition its identity and image) has a much broader meaning than perceived quality. The brand's market value includes the concepts of quality, value and attitudes, as well as brand associations, personality, culture and other kinds of feelings. In other words, the concept of brand equity and identity is more multidimensional than perceived quality and therefore is at a much higher level of abstraction (Kirmani and Zeithaml 1993). In fact, in Kapferer's Identity Model, product quality is one but not the only source that configures and create the brand identity. In fact, in many product categories, communication (mainly advertising) is a source of brand value more important than real product quality.

Thus, the Rao and Ruekert model can explain the alliance of Benetton with Bulova (watches) but not the Timex (watches) and Timberland (boots and shoes) alliance. In the case of Benetton, the brand did not have the technical knowhow attributes required for extension to the watch category and needed the alliance with Bulova to be able to transmit the quality attribute and combine it with the design and color attributes. In this same realm,
the Camel brand did not have these technical attributes either, but it did possess other dimensions of brand personality, culture and image that were qualitatively superior than the technical attributes, thus permitting a successful brand extension to the watch category. Timex, on the other hand, commands the technical attributes and quality perception in this category, but unlike Camel, its own brand identity did not allow it to enter the segment of sports-adventure watches and it had to join its brand with Timberland to do so. Therefore, when evaluating the necessity and suitability of brand alliances and their possibilities of success, it will be necessary to develop a model that more fully addresses the multidimensional nature of the brand.

Furthermore, the Rao and Ruekert model (1994) is a static, ex post facto model, i.e. once it has been decided what secondary brand could be the ally, the suitability of this alliance is evaluated. However, a preliminary phase for any kind of alliance is to determine the need for a joint launching with another brand, select the possible allied brand and, once the selection and alliance are made, evaluate and strategically manage the alliance on the basis of the identity and image of the joint product and/or brand resulting from the alliance, analyzing whether this identity reflects the communication and positioning philosophy and strategy being sought.

In this respect, we believe that the brand identity models developed by Kapferer (1992), Upshaw (1995), and Aaker (1996) more accurately address the multidimensional brand concept. Together with the Rao and Ruekert evaluation model (1994) and Aaker's brand value management model (1991), they can serve as the basis for establishing a conceptual brand alliance selection and evaluation model. For this paper, we have selected Kapferer's "Identity Prism" model (1992), because of its graphic representation and because we consider that it does not differ substantially from the Aaker and Upshaw models. This conceptual model is shown in Figure 3.

[INSERT FIGURE 3]
The *Identity* analysis is used to examine the brand in detail and observe its strengths and weaknesses. In this respect, this analysis is much more thorough than those limited solely to the external appearance of the brand and image, or those based on perception and positioning of the brand. The identity analysis provides information on the different facets of the brand and in which ones the brand has a greater competitive advantage as well as its main disadvantages when the brand has to enter a new category, allowing us to consider the need of a second brand and define what the characteristics of a potential allied brand should be. This brand would have to remedy or cover the weakest parts reflected in the identity analysis, as well as leverage its core advantages.

Once this analysis is performed for the primary brand, the following phase would be to select the possible allied brands. For this selection, an identity analysis similar to the one performed for the primary brand would have to be carried out for each potential alliance brand. The ideal alliance would be one formed between brands that complement and remedy their weaknesses and develop and consolidate their strengths. Therefore, the selected allied brand would be one that covers up the weak areas of the primary brand (if there are any) and complements the other areas of the *Prism* without conflicting with its position and image. This complementarily can be evaluated with the Rao and Ruekert model, either in general terms based on perceived quality or else (and more preferable) in relation to the dimension or attribute to be leveraged in the alliance.

This model also suggests that the respective identities and positions of both brands should be respected and the power and image of each brand in the new product or service should be adequately appraised. As Carpenter indicates in his analysis of Intel’s alliances with computer brands, when one brand is linked to another with a much greater value, the former may to a certain extent become covered up or overshadowed by the latter’s power and image. For example, in many branded cronic-computers, their brands go unnoticed because of the famous "Intel Inside" logo. In the case of the new Yolka frozen yoghurt, there is an almost perfect balance between the Danone and Unilever brands (Frigo in Spain and Motta in France); the complementary attributes that each brand needs are found in the other, both are leaders in their respective categories, and the two logos and brands are displayed with
the same size and in the same location on the packaging, thus offering a quasi-perfect balance.

Finally, once the alliance is formalized, a mechanism must be established to protect and accumulate value in each alliance brand and to evaluate and manage the alliance proper. This alliance evaluation must be a dynamic feedback process that permits appropriate adjustments in the sources of brand identity, in order to fashion the message conveyed by the alliance (or by its respective brands) for the purpose of establishing the alliance brand's value and identity and the competitive advantages sought through the alliance.

6. Conclusions

In the years to come, a significant increase is expected in the launching of products and services under brand alliances. These alliances will be of different kinds: consumer product brand alliances (e.g., Frigo and Danone, Coca Cola and Nestle, Bulova and Benetton), ingredient brand alliances (e.g., Intel and IBM, NutraSweet and Coca Cola, Häagen-Dazs and Baileys), service sector alliances (e.g., Visa and American Airlines, MasterCard and AT&T, Shell and MasterCard) and alliances of retailers/distributors brands with other companies (e.g., 7 Eleven and MCI, and alliances at the European and North American level between credit cards and the large retailers). These alliances will become what Bossu (1995) calls "win-win product relations", in that they improve the products' competitive advantage by combining and complementing the competitive advantages of both brands.

As discussed above, the risk of launching new products and brands on the market is increasingly high, but it is necessary for companies to survive. Brand alliances, the result of mutual trust and convenience between two companies and of complementarily between the identities of two brands, offer the opportunity of spreading the risk and, of even strategically more important, the possibility of attaining important synergies for strengthening the value and image of both brands to offer greater added value to the customer, which will lead to a greater competitive advantage on the market.
The conceptual model developed herein synthesizes the most current concepts and valuations of the brand and, more than a reference model, it is intended to be a model that encourages academic discussion and allow for in-depth study of this new, emerging area of marketing.

7. Limitations and Areas of Potential Interest

As we mentioned in the introduction, a limitation on this work and in general on this area of marketing is the lack of empirical references that permit a comparison of the ideas, models and theoretical postulates set forth herein. On one hand, this is a novel subject in brand management and policy with scant academic references. Most references in this area are found in professional journals that do not have the required academic rigor and depth. On the other hand, although this type of strategy is increasingly forming part of corporate marketing decisions, there is still not a significant number of constituted alliances that would permit in-depth quantitative and qualitative analyses on the basis of which models and theories could be developed. In this respect, an initial area of investigation in this field will be a followup, with in-depth qualitative analyses and case studies, of the relevant brand alliances being established in our countries, in order to create a suitable database that can be used to accurately analyze the strategic advantages (positioning, image, trademarks, patents, etc.) achieved by the alliance, as well as other significant variables such as market shares, investments made and profits obtained.

On the other hand, joint brand use is also obvious in other areas of corporate decision-making, such as in company merger and takeover processes and processes of rationalizing product and brand portfolios within a company. Following is a brief summary of the circumstances of these two situations.

Mergers and Acquisitions

The use of two brands in a single product has also been employed as a product adaptation policy in processes of company mergers and acquisitions. For example, when the North American firm Whirlpool purchased European Philips' appliance division, the
purchase contract contained an agreement to use the Philip’s brand for a period of ten years. New Whirlpool products were progressively introduced into Europe by using the two brands in all products marketed during the early years (first "Philips Whirlpool" and later "Whirlpool Philips"). Once Whirlpool was well enough known in the sector, the Philips brand was abandoned. Black & Decker’s purchase of General Electric’s small appliances division in 1984, and Nestle’s purchase of Unilever’s refrigerated products division in Europe (LRF) in 1985 are similar cases. In the latter case, the "Creola" products of LRF and "Chamby" Chambourcy products of Nestlé, respective leaders in different countries, were gradually merged to end up with the "Creola of Chambourcy" brand.

Corporate Product and Brand Portfolio Rationalization

In order to establish stable, low prices policies, one of the strategies used by some multinational companies such as Procter & Gamble in the last few years has been to rationalize their brand portfolio by withdrawing some of their brands from the market and repositioning others, and combining some of their secondary or "weak" brands with their stronger ones. In the latter case, the brands are combined into a single brand, such as the combination of the oil brands Puritan and Crisco, to become the Crisco Puritan brand. This policy is used to reduce the cost of maintaining different brands without running the risk of losing each brand’s loyal customers.

1. See Stewart, A.L. "Cobranding just starting in Europe", Marketing News, March 1995, p. 5. Also, in a market research undertaken in June 1994 by Scarborough Custom Research in the U.S.A., interviewing 89 leading brand managers in different product categories, a 39% answered that in the next years, they will use brand alliances in order to increase market share and improve their competitive position. See Benezra, K. "How They Plan to Reach Consumers", Brandweek, July 25, 1994, p. 36.

2. For example, in the former case we could situate ingredient brand alliances, such as the ones developed by Coca-Cola and Nutrasweet, or IBM and Intel. Also, other alliances such as Peugeot 205-Lacoste, Ford-Eddie Bauer, American Airlines-Visa, and other based on joint promotion (Coca-Cola and Bacardi, Whirlpool and Ariel) would be classified in this category. Within brand alliances where an independent legal entity is established is the alliance between Unilever (with its different local European icecream brands) and Danone for the launching of Yolka’s frozen yoghurt, the alliance between Coca-Cola and Nestlé for the launching of Nestea and Pepsico and Lipton for the launching of Liptonice.

3. For example, the brand "Benetton" has such a strong image and reputation in the market so that, the brand itself, is a very important intangible asset for the company. The opening of a new shop with this brand will automatically pull in a good number of potential customers. However, the brand "Benetton" per se, is not the only source of competitive advantage for the company. The company’s competitive advantage resides in a combination of interconnected resources (Hunt and Morgan, 1995). Those are the brand and the company’s
capabilities to manufactured and distributed new colorful fashion products with the design, quality and price expected and accepted in the market. These design, manufacturing and distribution capabilities have been developed through complex technological development processes, supplier networks and organizational learning. These capabilities, that are specific of the Benetton organization, are also source of its competitive advantage. In this case, the role of the Benetton brand is to synthesize for the market and the consumer these capabilities and communicate the essence, identity, style, quality and variety of the organization’s products and services. In fact, the brand communicates the competitive advantages embodied in the Benetton organization.

4. A clear example is the case of the Lacoste brand in the USA. At the beginning of the eighties, the brand had a value, measured on sales volume, of approximately 500 million dollars. However, due that the U.S. licensee did not support the brand image (mainly marketing communications and product quality), the brand fell to 60 million dollars in 1992, losing its value and prestige image in the U.S. market and affecting its global value. See "Anemic Crocodile", Forbes, August 15th, 1994, p. 116.


6. As Barwise and Robertson (1992) pointed out, Ford’s acquisition of Jaguar may promise some of the advantages of leveraging brand portfolios, but the issue remains whether Ford overpaid. Competitor Toyota built its brand portfolio in the car premium brand segment with the launching of Lexus for an estimated $2.0 billion, versus Ford’s acquisition price of $2.6 billion plus some $2.0 billion further investment to upgrade Jaguar’s quality and technology to reach world class standards. Without question, the Jaguar brand have a high cachet, "but perhaps not enough to justify the price Ford paid". See Barwise, P. and Robertson, T. "Brand Portfolios", European Management Journal, Vol. 10, n° 3, September 1992, p. 278.

7. Brand identity is the configuration of words, images, ideas, and associations that form a consumer’s aggregate perception of a brand. Brand identity is part of the total brand equity, but it refers to that part of the equity that reaches outward to offer benefits that make it more attractive as the object of a possible purchase. Brand identity is a product of the melding of a brand’s positioning and personality, and is played out in the product/service performance, the brand name, its logo and graphic system, the brand’s marketing communications, and in other ways in which the brand comes into contact with its constituencies. For a in depth analysis of the concept of brand identity, brand valuation and brand equity see Upshaw, L. B. (1995): Building Brand Identity, John Wiley and Son, Inc.

8. Brand alliances facilitate the access to distribution channels, in the sense that distributors can obtain higher operating profits (through product differentiation not based on price), higher product turnover, an additional promotion factor (a second brand on the product) and reduce uncertainty at the time to place a new product on the shelf, because the product will be supported by two companies (two brands) instead of one.

9. The complementary principle in strategic alliances is the main characteristic of the alliances described by Bleeke and Ernst (1995) as "Alliances of Complementary Equals". These type of alliances refer to the market power equilibrium among the partners as well as the complementarity of their business (product and technology) and strategies. Of the six types of alliances described by these authors, this type enjoys the higher possibilities of success and long term existence. Among other examples, the authors pointed out the alliance of PepsiCo and Lipton for the development and selling of tea based drinks, joining the distribution power and brand image of PepsiCo in beverages and the know-how, manufacturing experience and brand image of Lipton in the tea sector. See Bleeke, J. and Ernst, D. "Is Your Strategic Alliance Really a Sale?. Harvard Business Review, January-February, 1995, pp. 97-105.

10. As Arrow (1974) indicates, trust is perhaps the most efficient mechanism for the management of economic transactions. Trust among partners can really expand the possibilities and coverage of the alliance and allow the partner companies to enter in new collaborative agreements, that otherwise would be impossible to establish, even with the most detailed management and control contracts.
11. This situation was observable when the Spanish automaker SEAT launched its first in-house designed and manufactured car (SEAT Ibiza), after departing from its former licensor FIAT. Product information and communication emphasized the Porsche designed engine of the new car, utilizing the quality positioning and prestige of the German brand as a quality guarantee for the new model.
REFERENCES


HENNART, J-F. 1992. "Explaining the Swollen Middle: Why Most Transactions are a Mix of 'Market' and 'Hierarchy'." Organizational Science 2:


ANALYSIS OF PRIMARY BRAND

SELECTION OF POSSIBLE/POTENTIAL BRANDS

CHOICE OF SECONDARY BRAND

EVALUATION OF ALLIANCE (PERCEPTION OF ATTRIBUTES)

BRAND ALLIANCE MANAGEMENT

ANALYSIS OF PRIMARY BRAND

PHYSIQUE

PERSONALITY

CULTURE

RELATIONSHIP

CUSTOMER'S REFLECTION

CUSTOMER'S SELF-PROJECTION

PRISM OF IDENTITY

BRAND A

BRAND B

BRAND C

BRAND D

BRAND E

BRAND F

BRAND B (SECONDARY)

GENERIC PRODUCT

PRIMARY BRAND PRODUCT (P)

SECONDARY BRAND PRODUCT (S)

BRAND ALLIANCE PRODUCT P+S

THE PRISM OF IDENTITY AND MANAGEMENT OF ALLIANCE'S VALUE

FEEDBACK

(Analysis of image and positioning)