УДК 338.5

CO–BRANDING IMPACT ON MARKETING COSTS OF THE COMPANY

Киевич Диана Александровна, магистрант,
Национальный исследовательский университет
"Высшая школа экономики" (Москва)
Diana A. Kievich, undergraduate,
National research university Higher School of Economics (Moscow)
diana.kievich@yandex.ru

Abstract. From the last century in marketing sphere has been considerable interest in new methods of reducing costs of the company though the formation of strategic brand alliances. Co-branding is collaboration of two or more brands in order to launch a new product that features both brands' names. It is a widely applied approach that enables company to develop new markets with minimal costs. However, nowadays there is still no practical evidence of its impact on marketing costs on the Russian market. The current study attempts to address this gap by constructing the regression model. The results seem likely to confirm the hypothesis that co-branding strategy offers potential marketing cost savings.

Keywords: co-branding, marketing costs.

Nowadays in conditions of fierce competition every company, regardless of its activity, uses marketing tools for the successful functioning and satisfaction of market demand. In order to increase the profitability of sales it is necessary to practice rational marketing activities, but sometimes excessive use of them does not bring the desired effect since they significantly enhance the company's costs without creating the preconditions for increasing sales. That is why companies need a critical approach to the costs on realization marketing programs.

In recent times an increasing number of companies around the world have switched to a new form of business relations between market participants - the concept of joint marketing. In such cases most of them often found a co-branding project, that entail a set of measures aimed at creation of a product or service that combines both brands' names. In Russia co-branding has begun to develop recently, meanwhile it could be called a great advantage in struggle with competitors; it also helps companies to expand their niche in the market, etc. For this reason issues associated with co-branding programs seem to be very relevant.

However, there is no reliable data of measuring co-branding impact on Russian companies. Our purpose is to fulfill this gap by gathering empirical base on Russian market and building a regression model for comparing data from the financial statements of the companies that are involved in co-branding projects and not.

Marketing Instruments and their Impact on Costs. *The efficiency of the entire company depends directly on the effectiveness of marketing activities. Philip Kotler is one of the founders of marketing science and according to him marketing activities are aimed at product development and product policy; there are also activities directed to promotion of the products and providing market research and analysis. The author emphasizes the fact, that marketing costs are not related to the volume of business operations of the company but depend on the decisions of the management. Therefore company leadership can regulate them through the usage of special methods. Nowadays there is a huge set of them, though the most popular strategy for companies is the formation of strategic brand alliances. So companies could imply the licensing of the brand (e.g., advertising one brand on the packaging of another), cross-marketing or cross-selling (joint promotion), such as distribution of discount coupons for products from another brand. However, he comes to the conclusion that the most interesting and perspective of them is co-branding. [1] [2]*

Co-branding. *In the early 90's the concept of co-branding started to spread globally and became popular among the large companies very quickly. The commercial success of one company often depends on the activities of another one, which forms the basis for joint branding. Co-branding is collaboration of two or more brands in order to launch a new product that features both brands' names. That definition was offered by Fleck and Michel (2012). Another approach to defining co-branding is proposed by Panda (2001) and consists of combining two brands in order to increase sales and recognition of each of them. In addition, co-branding promotes customer loyalty and provides the potential of sales. [3] [4]*

A key problem with much of the literature in relation to co-branding is that it has most often been studied in terms of customer loyalty and fit between the associated brands. Kumar (2013) has found out how consumer preferences and interests while buying a product of any brand influence the organization strategy. His proposal is based on the research of the effect of involved in cooperation brand images among the consumers. The main weakness in the authors' study is that it is focused mainly on relations of organizations with the customers and offered no explanation for the impact of alliance on the company itself. [2]

The impact of co-branding strategy on customer perceptions from utilitarian focus also was evaluated by Wason and Charlton (2015). The authors trace the influence of brand positioning of partner brands on co-branding outcomes. It has been suggested that managers should carefully consider whether impending brand partners are fit with each other, because in another case it may lead to terrible consequences, such as appearance of negative impact of one brand on the overall product. This might occur due to the incompatibility between the partners as a result of differences between the business cultures. [5]

Nevertheless, as noted, the advantages of co-branding are greater than the possible risks. First of all, co-branding enables company to develop new markets with minimal costs. Secondary, joining leads to emergence of new sources of funding, as costs now are divided between the partners. Then, several brands could easily broaden the geographical spread of the product and intensify exposure of mass media. The level of brand recognition also increased. And in the case of occurrence of adverse conditions partners would share possible risks with each other. [4]

However, to our knowledge, the literature has not discussed the empirical relationship between co-branding and marketing cost of the company. But the co-branding strategy offers potential marketing cost savings. [6]

The usage of number of brands in co-branding projects aims to obtain synergy. A synergistic effect is the increase of efficiency in the result of the connection, merging individual components into a coherent system. Synergistic effect of co-branding depends on several factors, such as how well his structure is built, how compatible are platforms of brands, and whether brands make each other stronger or weaker. However, besides the synergistic effect co-branding saves companies money in marketing by spreading the direct costs between both businesses' marketing budgets. The launch of a similar product or service by one brand alone would still require a marketing effort of the same size to achieve equal results, but with one company shouldering all the costs.

Costs on attracting new customers are often in many times greater than costs on retaining old customers. Co-branding allows the solution to this problem. The most interesting co-branding partners are companies that already have formed a base of loyal customers, which could be a potential audience for another brand, for example a network of cafes and restaurants, shops, airlines, mobile operators. Clients of the partner know, like and trust their brand, and this is a key factor in attracting new customers. Consequently, the author concludes that as a result of cooperation the conversion of both partners increases. [6]

In most cases co-branding projects involve two or more commercial firms. An alternative option, the so-called charity co-branding between commercial and charitable organizations, can contribute to improvement of the public attitude to the company. Unfortunately, it does not lead to direct cost reduction, but give an opportunity for a commercial partner to attract customers. [4]

Co-branding implies the maximization of profits from specific activities that promote a common product on the market. Only that project might be called successful whose costs during the process of implementation are properly paid off. However, return in cash is not obligatory required; a far greater role for the company can play an image component. Image benefits are not so easy to estimate, as they are not obvious at first sight. However, image and reputation are essential components of the financial result, notwithstanding their effect is delayed in time. Many experts contend, on the other hand, that this evidence is not conclusive. [3]

Another assumption that seems to be realistic is that co-branding has the potential to reduce costs, but not every co-branding opportunity assures success. Companies with very different values or business cultures may look like a good fit in terms of product offerings but find they cannot reach a consensus about the right strategy. All these could turn the entire process into a large financial loss. [6]

It should be noted that on the territory of the Russian Federation today co-branding is presented mainly in the service market, although successful projects can be found in other markets. However, there is no reliable data of measuring co-branding impact on Russian companies that is why it is rather difficult to evaluate its effect on marketing costs. Gathering empirical base on Russian market and building a regression model seems to be the best solution considering our case.

The instrument employed to assess the significance of co-branding influence on marketing costs was the linear regression model as it is compliant with research norms. Observed dataset include information from consolidated financial statements of 12 public companies represented on the Russian market in various industries. The five-year time period was chosen from 2011 to 2015. [7]

The criterion for selecting companies was their participation in co-branding projects. However, ordinary independent companies also remain in the sample. As the result, in the model each company got special sub-index assessed as «1» or «0», where «1» was appointed to company with the presence of co-branding project.

Extreme caution must be taken when we choose what variables should be included in the model. It was decided to involve such parameters as the name of the company, the reporting year, marketing and advertising costs (in thousands RUB), annual revenue (in thousands RUB), net annual profit (in thousands RUB), general, commercial and administrative expenses (in thousands RUB), and binary variable «Cobranding». [7]

As soon as these steps have been carried out, regression with fixed effects for company and year was constructed. Estimation of parameters of such regression could be carried out using the ordinary method of least squares.

However, since we have the observation of some number of objects for several time periods, we used dummy variables for each year and each company, except one which was taken for benchmark. Statistical significance of the variables was analyzed through the use of the software package «Stata».

Tests revealed that the model is significant. R-squared in the regression is equal to 0,976. That is a very good indicator, since 96% of the variability of «Marketing_costs» can be explained due to the influence of the selected characteristics.

The variable responsible for the company's participation in co-branding projects is significant at the 10% level. Therefore, we can conclude that if the company has at least one co-branding project, the marketing costs of the company decrease by 1 810 734 RUB. In our view the result emphasizes the validity of the model.

Given that our findings are based on a small number of companies, the results from such analyses should be treated with considerable caution. We also cannot exclude the fact that there might be some missed important variables to which we have no access.

Though the regression results support our major hypothesis, which predicts that co-branding could significantly reduce marketing costs.

Undoubtedly evaluation of the role of such complex phenomenon in the formation of company’s costs – a task that requires deeper analysis with the addition in the model some extra factors. Nevertheless this study may be considered as a basic model that later can be modified and applied in various fields.

References:

1. Kotler, P. (2015) Principles of Marketing. *Pearson Education, 720*.

2. Kumar, A. (2013) Effectiveness and scope of cross-selling and co-branding among the consumers and organizations. *Dublin Business School.*

3. Fleck, N., Michel, G. (2012) The dual process of co-branded new products: why fit is not all that matters. *Insead, The Business School for the World, August 22.*

4. Panda, T. (2001) Strategic advantage through successful co-branding. *Marketing Indian Institute Management, 1-10.*

5. Wason, H., Charlton, N. (2015) How positioning strategies affect co-branding outcomes. Retrieved December 02, 2016, from: http://eprints.kingston.ac.uk/33311/1/Wason-H-33311.pdf

6. Dontigney, E. (2015) Does co-branding save money in marketing? Retrieved November 29, 2016, from: http://smallbusiness.chron.com/cobranding-save-money-marketing-69412.html

7. Киевич Д.А. Кобрендинг как инструмент уменьшения маркетинговых издержек / Киевич Д.А. // Современные аспекты экономики. –2016. – № 11 (231). С.45-53.