

## **Mutual value creation in component co-branding relationships**

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## **Mutual value creation in component co-branding relationships**

### **Purpose**

This paper explores the process of mutual value creation in a component co-branding relationship between an unknown component supplier and a well-known Original Equipment Manufacturer (OEM). In particular, the purpose of this study is to investigate the antecedents of parties' willingness to engage in mutual value creation, thus enriching Grönroos and Helle's (2010; 2012) model of mutual value creation.

### **Design/methodology/approach**

An in-depth longitudinal analysis of a single case study in the cycling wear industry is presented based on data gathered from several sources, including long interviews with managers of a component supplier and an OEM, promotional materials, press releases and articles in cycling-related publications and on web portals, and online conversations among amateur cyclists.

### **Findings**

Four antecedents of the willingness to engage in mutual value creation are identified: mutual trust; the perceived easiness of alignment between the supplier's and OEM's processes and resources relevant to value creation; the expected creation of a substantial level of additional mutual value; and the expected value gains for each party.

### **Research limitations/implications**

The study analyses only one case in a single industry and adopts a dyadic perspective.

### **Practical implications**

This study suggests that—contrary to the traditional view—when specific antecedents for mutual value creation are present, the component co-branding strategy is available to many innovative small and medium-sized firms without strong brands.

### **Originality/value**

Beyond enriching Grönroos and Helle's (2010; 2012) model, this study explains why co-branding relationships can be established even in the absence of a strong component brand.

**Keywords:** component branding, ingredient branding, co-branding, relationship marketing, service logic, business relationships, business-to-business (B2B) branding.

**Paper type:** research paper

## Mutual value creation in component co-branding relationships

### 1. Introduction

Service logic has recently shed new light on our understanding of relational business engagements (Grönroos, 2011; Grönroos and Helle, 2010; 2012). In particular, Grönroos and Helle (2010; 2012) have developed a model of mutual value creation, which conceptualises the process of creating and sharing the joint productivity gains between a supplier and a buyer. Despite the effectiveness of this model in conceptualizing and measuring mutual gains from the relationship, the role and the importance of the various antecedents of parties' engagement in mutual value creation (i.e., why the two parties are willing to engage in mutual value creation) should be developed and empirically studied—as suggested by the authors themselves (Grönroos and Helle, 2012).

The purpose of this paper is to fill this gap by exploring the antecedents of this engagement in mutual value creation in the case of a relationship between a component supplier and its immediate customer (i.e., the Original Equipment Manufacturer (OEM)), who have decided to start a component (or ingredient) co-branding strategy (Bengtsson and Servais, 2005; Ghosh and John, 2009; Kalafatis *et al.*, 2012). Although the few available studies on component co-branding (e.g., Norris, 1992; Norris, 1993) have not adopted the relational approach (Håkansson and Snehota, 1995), we suggest that the relational perspective and service logic may increase our understanding of component co-branding and, in turn, highlight the antecedents of the parties' willingness to engage in mutual value creation.

In addition, this study intends to contribute to available literature on component co-branding (e.g., Norris, 1993), which has failed to explain why co-branding relationships can be established in the absence of a strong component brand. In fact, according to the traditional view, the component supplier commonly initiates a component co-branding strategy by investing a large amount of resources to build sufficient brand awareness among downstream customers (e.g., Norris, 1992). A strong brand will then “force” the OEM to incorporate the branded component into its product (Desai and Keller, 2002; Norris, 1992; Norris, 1993; Venkatesh and Mahajan, 1997).

Nonetheless, several component suppliers with unknown brands are able to engage in successful component co-branding relationships with well-known OEMs. This is the case, for example, for Brembo, an Italian producer of braking systems, which is often cited as a

successful component brand (Kotler and Pfoertsch, 2010). Initially, Brembo's ability to enter supply relationships for branded braking systems with many famous vehicle producers (such as Porsche, Mercedes, Lancia, BMW, Nissan and Chrysler) was not the result of previous intense branding investments among car users but the result of a focus on product innovation. Since its establishment in 1961, Brembo's priority has been to design cutting-edge braking systems. As a result, in 1972, Brembo became Moto Guzzi's supplier. At that time, Brembo had 80 employees and approximately \$550,000 in revenue (Itolli, 2011). By 1985, Brembo was able to enter into similar relationships with Ferrari and many other vehicle producers, earning approximately \$35 million in revenue and employing 335 employees (Itolli, 2011). However, no brand-building activities had been carried out among vehicle users. Through these relationships, Brembo has become a well-known component brand, and its revenue reached approximately \$2 billion in 2012 ([www.brembo.com](http://www.brembo.com)).

Drawing on these premises, in this study we analyse the case of a successful component co-branding relationship in the cycling wear industry, involving a component supplier lacking both a strong brand among downstream customers and the resources to build one and a well-known OEM. Therefore, using the relational approach and service logic to study the antecedents of parties' engagement in mutual value creation via a component co-branding relationship between an unknown supplier and a well-known OEM, this paper aims to enhance our understanding of component co-branding and to enrich Grönroos and Helle's (2012) model of mutual value creation.

This research also presents promising managerial implications because it clarifies the antecedents that make the component co-branding strategy suitable for firms with limited resources for branding, such as small and medium-sized enterprises (SMEs) (Sandbacka *et al.*, 2013). This strategy could also help many SMEs avoid selling valuable component patents to larger firms or agreeing to unbranded outsourcing or licensing agreements (De Rassenfosse, 2012; Ghosh and John, 2009), thus potentially appropriating a higher share of value (Duhamel *et al.*, 2014; Purcarea *et al.*, 2013; Wagner *et al.*, 2010). From a broader perspective, the results of this study also extend our knowledge of the variety of business-to-business (B2B) branding strategies available to firms (Glynn, 2012; Jalkala and Keränen, 2014; Keränen *et al.*, 2012; Leek and Christodoulides, 2011; Mäläskä *et al.*, 2011; Sandbacka *et al.*, 2013), particularly SMEs.

The remainder of this paper is organised as follows. First, the paper introduces the conceptual model of mutual value creation in relational business engagements and presents a review of the findings of previous studies regarding component co-branding. Second, it describes the

method, the research setting and the results and discusses the findings. Conclusions and limitations complete the paper.

## **2. Literature review**

### *2.1 Mutual value creation in relational business engagements*

When establishing a relational business engagement, the supplier and the customer expect mutual benefits and their relationship can only work effectively in the long term if they both “feel like winners, or at least that they gain from the relationship” (Gummesson, 2002, p. 53). In other words, the relationship should allow the parties to achieve superior results than those that could have been achieved without forging that relationship (Ulaga, 2003). Therefore, the two parties must be able to first expand the joint benefits (Jap, 1999) and to then share them (Jap, 2001) in a way that makes both parties feel “like winners”. Several frameworks have been suggested to conceptualise how joint benefits are created and shared (e.g., Ghosh and John, 1999; Hammervoll, 2009).

In particular, the new service logic (Grönroos, 2008; Grönroos and Gummerus, 2014; Gummesson and Grönroos, 2012; Vargo and Lusch, 2004; 2008) has dissolved the traditional goods/service divide, thus setting the foundation for a novel understanding of mutual value creation based on service (Grönroos and Helle, 2010; 2012). According to this perspective, the assumption that the value is embedded in the products designed by the supplier and then offered to the customer does not capture the essence of value creation (La Rocca and Snehota, 2014).

Drawing on these premises, Grönroos and Helle (2010; 2012) have developed a model to conceptualise value creation in a relational business engagement. This model suggests that value is a “mutually created phenomenon” (Grönroos and Helle, 2010, p. 566), which requires that the processes, resources and competencies of the supplier that are relevant to the customer’s business are aligned (Corsaro and Snehota, 2011) with the corresponding customer’s processes, resources and competencies (Grönroos and Helle, 2010). Such an alignment, labelled as the “practice matching process”, influences the extent to which value is created in the customer’s and the supplier’s business processes (Grönroos and Helle, 2012). A successful matching process would result in joint productivity gains, which occurs when the additional customer’s value-in-use (e.g., additional revenues), attributable to the relationship itself, is able to cover all the customer’s and supplier’s costs to align their processes, resources and competences. The joint productivity gains are then shared between the

customer and the supplier through a price mechanism, determining the value for the customer and the value for the supplier (Grönroos and Helle, 2010; 2012).

Hence, Grönroos and Helle's model (2010; 2012) effectively conceptualises the process through which mutual value is created, from practice matching to value sharing. Nonetheless, it does not focus on the emergence of the parties' willingness to engage in mutual value creation. Therefore, "the various antecedents, and how they have an impact on the practice matching process should be further developed and empirically studied" (Grönroos and Helle, 2012, p. 354). This study aims to identify the antecedents of the parties' engagement in mutual value creation in the case of a component co-branding relationship between an unknown supplier and a well-known OEM. Therefore, in the next section, we introduce component co-branding and review the studies available on this issue.

## *2.2 Component co-branding*

Component (or ingredient) co-branding represents a specific case of co-branding in which the companies involved belong to the same supply chain and are linked by a supplier-buyer relationship (Bengtsson and Servais, 2005). This strategy refers to the branding of a component in a product aimed at downstream customers (Hillebrand and Biemans, 2011; Kotler and Pfoertsch, 2010), who may be either final consumers (e.g., Desai and Keller, 2002) or firms (e.g., Ghosh and John, 2009; Worm and Srivastava, 2014).

The few studies available on this issue disagree about the conceptual boundaries of component co-branding. Some authors argue that component co-branding involves components that are physically incorporated into an OEM's product, that are integral to its proper functioning and that can be sold only to OEMs but not to downstream customers (Ghosh and John, 2009; Norris, 1993). Other authors (e.g., Kotler and Pfoertsch, 2010) state that cases in which branded components are sold both to other companies and directly to downstream consumers (for example, in the aftermarket) are part of the component co-branding strategy. The first perspective is adopted in this study.

Available studies indicate that the impulse to initiate a component co-branding relationship comes from either the component supplier or the OEM. According to the prevailing view (Saunders and Watt, 1979), the component supplier takes the initiative by investing a considerable amount of resources to promote its brand among downstream customers. Drawing on its brand strength, the component supplier will be able to persuade the OEM to enter into a component co-branding agreement. Supplier-initiated component co-branding consists of six steps (Norris, 1992): (1) the supplier conducts research on downstream

customers' consumption behaviours to decide how to position the component's brand; (2) the supplier begins promoting its component brand among downstream customers to create an awareness of the component brand; (3) the OEM agrees to collaborate with the supplier in promoting the component brand, leveraging the component's brand strength; (4) the supplier seeks to expand the number of OEMs that use the branded component in their products; (5) the supplier and the OEM may eventually initiate non-promotional collaboration (e.g., in new product development); and (6) the supplier continues brand promotion activities among downstream customers. A few other studies (Desai and Keller, 2002; Ghosh and John, 2009; Vaidyanathan and Aggarwal, 2000) suggest that the initiative is taken by OEMs seeking components with strong brands that can add value to their products (Simonin and Ruth, 1998). Despite their different perspectives, both approaches agree on one point: component co-branding requires that the component brand has been promoted among downstream customers to the extent that it is sufficiently strong to add value to the OEM's product. This central finding is confirmed by a careful review of the few available empirical studies on component co-branding (Table 1). Previous analyses consider only cases of strong and well-known component brands and agree that these brands can improve downstream customers' attitudes towards component co-branded products when the OEM's brand image is either strong (Desai and Keller, 2002; McCarthy and Norris, 1999; Norris, 1992; Norris, 1993; Venkatesh and Mahajan, 1997) or weak (Vaidyanathan and Aggarwal, 2000; Venkatesh and Mahajan, 1997).

**(Table 1 – about here)**

To the best of our knowledge, no study has examined the case of a component co-branding relationship involving a well-known OEM's brand and a component whose brand is unknown among downstream customers when the branding cooperation is initiated. Nonetheless, some of these cases can be observed in the market. Moreover, several component brands that are currently undoubtedly strong were unknown at the time that they began their first component co-branding collaborations with famous OEMs.

In addition, a careful review of the literature about component co-branding reveals that the relationship between the component supplier and the OEM has been largely overlooked because the main focus of the available studies has been to measure the effects of the co-branding on the downstream market. Interestingly, the few analyses considering the supplier-OEM relationship do not adopt a relational perspective (Håkansson and Snehota, 1995), as they focus on the effectiveness of proper contractual mechanisms to reinforce commitment

and collaboration between the component supplier and the OEM (Ghosh and John, 2009). For example, a supplier may decide to grant an OEM exclusivity rights to use the branded component in one or more product categories (Norris, 1992). A few other studies suggest that a balance in the benefits of the component supplier and those of the OEM (Erevelles *et al.*, 2008; Norris, 1992) is important, but this balance is not always perfect (Venkatesh and Mahajan, 1997). In addition, an equal, long-term partnership between two brands is rarely feasible (Kotler and Pfoertsch, 2010). Finally, Worm and Srivastava (2014) suggest that a component supplier may leverage power-dependence relations to extract higher prices from OEMs because of its increased power.

Hence, none of these studies adopts a relational approach, and none of them focuses on the process of mutual value creation and on the antecedents of the OEM's and the supplier's willingness to engage in this process. In this study, we suggest that the service logic and the relational approach are able to explain a component co-branding relationship between an unknown supplier and a well-known OEM, which has been overlooked in the available literature. In particular, drawing on Grönroos and Helle's (2012) model, we intend to identify and study the antecedents of the parties' willingness to engage in mutual value creation, thus contributing both to our understanding of component co-branding and to the refinement of Grönroos and Helle's (2012) model.

### **3. Methodology**

Following B2B traditions and considering the limited knowledge on the issue under investigation, we chose to perform an in-depth analysis of a single case study (Beverland and Lindgreen, 2010). The parties involved in the relationship were a supplier of fabrics and a producer of sports knitwear (the OEM) with a strong brand in the cycling market. Both parties are located in Bergamo in northern Italy. The parties agreed that the supplier would provide the OEM with fabric processed with an innovative waterproof treatment to produce cycling jerseys and that both the component's and the main product's brands would appear on such jerseys. The product was introduced to the market in late summer 2010 for the autumn-winter 2010-2011 season.

We selected the case study method because it is useful when the purpose of an investigation is to explore the "how" and "why" aspects of a phenomenon. Such an approach is also recommended when knowledge about an issue is scarce and for theory building purposes (Eisenhardt, 1989). Through the case study method, it is possible to gain "a deep



understanding of the actors, interactions, sentiments and behaviors occurring for a specific process through time” (Woodside, 2010, p.6).

To obtain a rich understanding of the case under investigation, data were collected by employing several data collection techniques. First, we interviewed the managers in charge of the component co-branding cooperation from each side of the dyad, i.e., the sales manager for the supplier and the managing director for the OEM. Both managers were interviewed twice. The first round of interviews occurred in July 2011, approximately 9 months after the co-branded product’s introduction to the market. The second round of interviews was conducted in October 2012, shortly after the two-year exclusivity rights allowed by the component supplier to the OEM had expired and the supplier could begin selling the branded waterproof fabric to other sportswear producers. The long interview approach was applied (McCracken, 1988; Woodside, 2010); this approach involves a face-to-face interview of two or more hours in the respondent’s life space, in which he or she is asked open-ended, semi-structured questions and to explain emerging issues. Based on the long interview procedure, a draft of the questions was sent by email to the respondents in advance. Lasting approximately two hours, each interview occurred at the interviewee’s office and was recorded. Transcriptions were then sent back to the interviewees, asking them to verify whether their opinions had been correctly reported. Subsequently, the contents of the interviews were analysed and coded to identify the most relevant concepts and recurring themes.

In addition, to triangulate the data (Ravenswood, 2011), we collected the promotional material for the component co-branded products and the following documents for the 2009-2014 period: the OEM’s product catalogues, press releases and articles in cycling-related press and on web portals (such as detailed product reviews on the component co-branded products published on [road.cc](http://road.cc) – Pedal Powered and [www.cyclonline.com](http://www.cyclonline.com) – The Web Cycling Magazine). In addition, we gathered 11 pages of comments on the co-branded products from discussions among amateur cyclists on the online forum at [www.bdc-forum.it](http://www.bdc-forum.it). All data collected from the cyclists have been analysed through netnography, which is “a way to understand the discourse and interactions of people engaging in computer-mediated communication about market-oriented topics” (Kozinets, 2002, p. 64). The purpose of this analysis was to find evidence of final customers’ reactions to the co-branded product. Moreover, we discussed the results of our analysis with the director and a researcher from the Research Unit of Confindustria Bergamo, which is the local branch of the main organisation representing Italian manufacturing and service companies. The director of this unit has direct knowledge of the two companies and their managers dating back several decades.

## 4. Results

The analysis of the collected material confirmed that when the component co-branding agreement was signed, the brand of the waterproof component was completely unknown among cyclists. This lack of awareness was confirmed by the content of several product reviews published in autumn 2010 defining it as “Brand New” (e.g., on [road.cc](http://road.cc) – Pedal Powered) and by many comments posted during the same period on [www.bdc-forum.it](http://www.bdc-forum.it) by amateur cyclists asking other cyclists about this product. Indeed, the interviews with the two managers confirmed that the component’s brand was specifically introduced in the market through their partnership in 2010. Similarly, all the collected evidence confirmed that the OEM’s brand is well known among amateur cyclists as a supplier of high-quality sports knitwear in the cycling market because the OEM is the official supplier of many professional cycling teams and has sponsored the Union Cycliste Internationale (UCI) since 1994.

Moreover, the market performance of the co-branded products was described as successful by both interviewees. The analysis of cyclists’ online conversations confirms that customers reacted positively to the new product. For example, after trying the new product, an amateur cyclist recommended it to peers on [www.bdc-forum.it](http://www.bdc-forum.it): “It is light, comfortable [...] it protects you very well [...] actually, I didn’t catch a very heavy rain, but this technology performed pretty well” (2 November 2010).

Given its success, the supplier and the OEM decided almost immediately to extend the component co-branding cooperation from jerseys to several other sports garments for cyclists. From the OEM’s 2014 product catalogue, it can be noted that the waterproof-branded component is now used for jerseys, bib-tights, bib-shorts and jackets.

By analysing all of the collected evidence, we identified four antecedents, which explain the parties’ willingness to engage in mutual value creation. These factors are described below.

### 4.1 Mutual trust

The component co-branding collaboration was initiated when the supplier invented a new waterproof treatment for fabrics to be used for sports knitwear. The supplier then had to identify an OEM with which to cooperate to develop and introduce the product to the market. The supplier specifically decided to ask this OEM to try the new product because there was a high level of trust between them:

*“We decided to ask this OEM and not other OEMs to work together on the new component because we have known each other for a long time, and they are a very reliable partner. We*

*are friends. We have mutual respect. It's like a progressive engagement" (the supplier).*

In particular, we found that the trust bonds between the two firms were rooted in the personal friendship between the supplier's sales manager and the OEM's managing director. Indeed, the component co-branding cooperation was first imagined and discussed by these two persons. Once having tried the new product, the OEM was satisfied with it, and the supplier and the OEM decided to engage with each other to develop and customise the product.

*"We have known each other for a long time. When they showed us the new treatment, we were excited to work together on it. We were very pleased that they thought of us first when they had to decide which customer to develop the new product with" (the OEM).*

Thus, both parties perceived the decision to initiate component co-branding cooperation emerging naturally from their mutual trust. On this point, the supplier and the OEM remarked that it is impossible to clearly identify whether the impulse for this decision arose from either the supplier or the OEM. Both parties were aware that they would need to work together to develop, customise, and successfully introduce the product to the market:

*"It's clear that you can only expect to cooperate successfully together if there is a common willingness, a strong harmony with the customer. This is fundamental because starting the component co-branding process means that we have to meet more frequently and discuss a lot of details. We have to share some confidential information and understand each other" (the supplier).*

Hence, not surprisingly, trust emerged as a key antecedent of the parties' willingness to engage in mutual value creation through component co-branding. This point is consistent with Grönroos and Helle (2010; 2012), who have stated that mutual value creation requires a successful practice matching process and, in turn, that a successful practice matching process requires that the parties are willing and able to align their processes and resources. To this end, the parties must share confidential information and trust each other. Interestingly, trust is not related with any aspects of the product itself. On the contrary, trust supports the expectation that the parties will be able to engage successfully in the process of mutual value creation. This finding is consistent with service logic, according to which value is not embedded in the product but requires mutual support to emerge (Grönroos, 2008; La Rocca and Snehota, 2014).

#### *4.2 The perceived easiness of alignment between the supplier's and OEM's processes and resources*

The supplier's and OEM's belief that relevant processes and resources of the two

organisations could be aligned with limited efforts was another driver of their willingness to engage in mutual value creation through co-branding. More specifically, the easiness of aligning three relevant processes and resources for mutual value creation emerged: R&D, marketing and product-component quality levels.

First, as regards R&D, both parties were aware that they had to interact with one another when adapting the waterproof treatment to develop successful waterproof jerseys. Despite the high level of required coordination, the parties were not concerned, as they knew that a significant level of alignment between their R&D departments already existed. Referring to the R&D activities, the supplier noted the following:

*“It’s fundamental that people from my company and from the other company are already used to working well together” (the supplier).*

Second, both the supplier and the OEM were aware that they had to launch strong marketing efforts to build recognition and awareness of the new co-branded product. In particular, they not only had to support each other’s marketing investments but also to coordinate and quickly adjust the marketing activities. The alignment between the marketing activities of the two organisations was therefore crucial for quick adaptations. The two interviewees decided that they would have to be personally involved in the marketing decisions. Therefore, even if the marketing departments of the two organisations had not worked together before, the two interviewees were not concerned about the alignment of their marketing activities. Some things would have also been decided in advance; for example, the supplier would have supported the OEM’s marketing activities, by providing the OEM with the labels for the jerseys. The parties also decided to reinforce their marketing cooperation through the two-year exclusivity rights allowed by the supplier to the OEM in the sportswear product category; thus, the supplier committed to sell this innovative waterproof-treated fabric only to this specific OEM for two years.

Third, the consistency between the quality of the ingredient and the main product was a fundamental driver of the decision to engage in mutual value creation:

*“My firm’s quality standards are fundamental. The OEM is willing to work with me because they know that the high-quality treatment that I provide to them will increase the quality of their jersey. Any quality inconsistency would result in consumer complaints, and our relationship with the OEM would be terminated” (the supplier).*

*“We try to give our consumers something innovative. Hence, it is fundamental that the component supplier also provide us with something innovative. Otherwise, the final product will result in contradictory perceptions from customers” (the OEM).*

Therefore, the interviewees noted that the alignment of these resources would not have required too much effort. In particular, the high degree of innovativeness of the component was pivotal for the willingness to start the co-branding strategy because it was perfectly consistent with the OEM's position as a provider of high-quality, innovative sportswear.

In sum, the respondents suggest that the practice matching process (Grönroos and Helle, 2010; 2012), in the case of the component co-branding analysed in this paper, should mainly involve three elements: R&D processes, marketing processes and product-component quality levels.

These findings not only corroborate the importance of the practice matching process included in Grönroos and Helle's (2010; 2012) model, but they also suggest that, before engaging in mutual value creation, the parties evaluate the easiness of aligning the processes and resources that are relevant for mutual value creation. Through such an evaluation, each party tries to anticipate the efforts required to align their processes to successfully support the other's practices. The analysis suggests that the parties evaluate the existing alignment between their activities, resources and actors (Håkansson, 1982) and assess to what extent existing links may be reused in the co-branding cooperation (Holmen *et al.*, 2005). If a high-level of alignment already exists and extra efforts to align relevant processes and resources are perceived as limited, the parties are more likely to engage in mutual value creation. Finally, trust and the evaluation of processes and resource alignment represent two distinct antecedents of mutual value creation. While trust is about the perception of the parties' reciprocal willingness to engage in mutual value creation from a win-win perspective, the evaluation of alignment is about the "technical" easiness of aligning the processes needed for mutual value creation.

#### *4.3 The expected creation of a substantial level of additional mutual value*

The assessment of the additional mutual value attributable to the component co-branding relationship represented another important driver of their engagement in the co-branding strategy. Both parties agreed that the collaboration was only worthwhile if it could provide substantial additional value compared with the status quo.

The additional value was mainly expected in terms of the customer's incremental value-in-use, in terms of more sales of (premium priced) jerseys.

*"Every season, we introduce several new fabrics and treatments, but, of course, we do not brand or co-brand each of them. That would be nonsense. On the contrary, the waterproof treatment was so innovative and offered such a substantial improvement in the performance of the sports knitwear [...] that both we and the OEM felt that the component co-branding was*

*useful to mark the new benefits offered to cyclists” (the supplier).*

*“We expected that the new co-branded product [...] had a plus that our final consumers were able to appreciate [...] Through the component co-branding, you give a history to the product, you show the customers that you took care of all the steps along the value chain to offer them a value-added product” (the OEM).*

Actually, the market reacted very positively to the new product, confirming the creation of a substantial level of additional value. For example, a product review on [www.ciclonline.com](http://www.ciclonline.com) concluded that the technical quality of the waterproof treatment was among the main benefits of the product. Similarly, a review on [road.cc](http://road.cc) rated the quality performance of the product as 9/10, concluding with the following description: “[it’s a] stretchy, breathable jersey in a highly water-resistant fabric – a useful addition to your winter wardrobe”. The analysis of the online conversation also shows that amateur cyclists are taking considerable care in the selection of their sportswear. Cyclists carefully evaluate the performance of the available alternatives and want to know details about the production process for the product and its characteristics. The interviewed managers noted that the presence of two brands gives cyclists more detailed information about the quality and innovativeness of both the final product and its technical components.

Interestingly, the interviews revealed that the relationship also created incremental mutual value in terms of additional brand awareness. In particular, both parties were aware that the collaboration with an OEM with a leading brand in the cycling market would provide the component supplier with an opportunity to reach a large audience with its new component brand, thus building a remarkable level of brand awareness.

*“We have hundreds of customers, but we selected this OEM because we think they are the leader in their market. Of course, you can successfully only opt for this strategy with customers that have a strong brand” (the supplier).*

This finding enriches Grönroos and Helle’s (2010; 2012) model, according to which mutual value may be created in relational engagements either by increasing the customer’s effectiveness (value-in-use) or by improving the internal efficiency of the customer’s/OEM’s organisations. Our case suggests that additional mutual value may also be created by enhancing the supplier’s effectiveness. In fact, through the current co-branding relationship with this OEM, the component supplier will be able to accumulate a stock of brand equity that will increase its future effectiveness in the relationships with other OEMs.

#### *4.4 The expected value gains for each of the parties*

The fourth driver of the engagement in mutual value creation is each party's expectation of receiving a satisfying share of the mutual additional value after the value sharing process. Both the supplier and the OEM reported that they believed that the component co-branding relationship would provide a higher share of additional value to their counterpart:

*"Of course, we are the leader brand in the market; thus, the supplier can gain a high value in terms of visibility" (the OEM).*

*"As usual, the supplier has to make more of an effort to work with the customer, but there are opportunities for more value for both of us" (the supplier).*

Interestingly, the OEM also noted the following:

*"In this kind of situation, you cannot measure the reciprocal benefits on a scale [...] the important thing is that both parties win" (the OEM).*

The findings show that the expectation of receiving a satisfying share of the additional value is a driver of the willingness to engage in mutual value creation. In the case analysed in this paper, it should be noted that the additional value is not shared only through price mechanisms, as suggested by Grönroos and Helle's (2010; 2012) model. In fact, while the parties shared the additional customer's value-in-use through price mechanisms, the supplier's additional value, deriving from the enhanced brand awareness, may be captured by the supplier in future interactions with other OEMs. When we conducted the second round of interviews in October 2012, shortly after the two-year exclusivity rights had expired, the component supplier stated that the cooperation had generated remarkable awareness of the component's brand among cyclists and that the company had already signed contracts with other OEMs to supply the waterproof fabric.

## **5. Discussion and implications**

By studying a co-branding relationship between an unknown supplier and a well-known OEM, this paper has enriched Grönroos and Helle's (2010; 2012) model by highlighting the antecedents of parties' willingness to engage in mutual value creation. Drawing on the relational approach and on service logic, four antecedents have been highlighted: mutual trust; the perceived easiness of the alignment between the supplier's and OEM's processes and resources; the expected creation of a substantial level of additional mutual value; and the expected value gains for each party.

In addition to enhancing Grönroos and Helle's (2010; 2012) conceptualisation, these antecedents are able to explain why, contrary to traditional knowledge about component co-

branding (Norris, 1992; Norris, 1993), the co-branding strategy is accessible to suppliers, even if they do not have a strong component brand. In particular, the study suggests that a) when trust between the supplier and the OEM already exists and b) when the alignment between the parties' relevant processes for value creation is easy to obtain, the parties are willing to engage in a component co-branding relationship as long as such a relationship provides substantial additional value (joint value and value for each party). When relationships exist between unknown component suppliers and well-known OEMs, the additional value is particularly related to the high degree of the component's innovativeness, which has a substantial impact on the customer's value-in-use. In these cases, contrary to previous knowledge about component co-branding (e.g., Desai and Keller, 2002), it's not fundamental that the supplier can provide OEMs with already available and strong brand associations; rather, these associations are built during the co-branding collaboration.

Therefore, the findings of this study suggest that the process leading to the engagement in mutual value creation in co-branding relationships when the supplier is unknown is different from the co-branding process described in traditional analyses. Table 2 compares the results from the case analysed in this study with the traditional view of the component co-branding process.

**(Table 2 – about here)**

As Table 2 shows, the traditional view emphasises that the component co-branding strategy is initiated by the component supplier through large promotion investments to position its brand in the minds of downstream customers. Hence, adversarial relationships initially prevail over collaborative relationships (Norris, 1992; Norris, 1993). However, our research found that even when the component's brand is unknown, there is nonetheless an opportunity for relational engagements for mutual value creation.

In addition to the contribution to the literature on mutual value creation in relational business engagements, this research also extends available knowledge regarding B2B branding strategies. This stream of studies (Cassia and Magno, 2012; Keränen *et al.*, 2012) has primarily focused on B2B branding principles (e.g., Cretu and Brodie, 2007; Mudambi, 2002) and strategies in general (e.g., Glynn, 2012), with a few contributions on specific brand strategies (Jalkala and Keränen, 2014). Our study sheds new light on component co-branding, showing that this strategy is available not only to a few large firms but also to firms that have invented highly innovative components (even if they have not yet developed a brand).



Consequently, we extended the suggestions of Mäläskä et al. (2011) and Sandbacka et al. (2013) that brand alliances and co-branding through networking with relevant stakeholders represent strategic opportunities for small and medium-sized firms operating in B2B markets. The managerial relevance of these findings is emphasised by the fact that investing in branding is one of the most common actions taken by successful B2B firms to cope with the current economic crisis (Nickell *et al.*, 2013). In particular, this study suggests that the component co-branding strategy could be a viable alternative to either selling the patents for SMEs' most innovative components to larger firms or entering unbranded outsourcing or licensing agreements (De Rassenfosse, 2012), thus reinforcing their competitive positions (Golden and Dollinger, 1993). Managers should also note that this strategy may not be equally effective in all industries. In fact, component co-branding may produce better results in industries that particularly emphasise innovation and differentiation.

## **6. Conclusions and limitations**

The aim of this paper was to identify the antecedents of the parties' willingness to engage in mutual value creation, thus enriching Grönroos and Helle's (2010; 2012) model. In particular, this study has analysed this issue in the case of a component co-branding relationship between an unknown supplier and a well-known OEM, with the intent to also contribute to available knowledge about component co-branding.

The analysis developed in this paper highlights two relevant points. First, four antecedents of mutual value creation have been identified: mutual trust; the perceived easiness of alignment between the parties' processes and resources; the expected creation of a substantial level of additional mutual value; and the expected value gains for each party. Second, in the specific case of component co-branding between an unknown supplier and a well-known OEM, the absence of a component brand is not an obstacle to the component co-branding strategy as long as there is mutual trust between the parties; the alignment of the processes needed for value creation requires limited efforts; and there is the possibility of creating additional value thanks to that relationship and of sharing it in a way that satisfies both firms. More interestingly, this study identifies a six-step process (an alternative to the traditional view) that describes the development of co-branding relationships based on service logic and on relationship marketing. These findings should encourage an increasing number of suppliers of innovative unbranded components to attempt to implement the component co-branding strategy.

This study presents several limitations that represent future research opportunities. First, the analysis is based on an in-depth longitudinal investigation of only one case of component co-branding in the cycling wear industry. This industry has some distinctive features, including the fact that amateur cyclists carefully evaluate the product and its technical characteristics. Hence amateur cyclists are able to appreciate the innovativeness of the component without relying on a strong component brand. Other cases in other industries should be considered to identify the contexts in which this branding strategy is most promising. In addition, it would be interesting to extend the analysis of mutual value creation from the dyad to the network (Mele, 2009), as this study has shown that the relationships between the supplier and other OEMs are relevant in understanding mutual value creation. It would also be useful to study the effects of co-branding relationships in the medium and long term on the growth of small and medium-sized component suppliers.

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**Table 1. A summary of the studies on component co-branding**

		<b>Strength/Awareness of the OEM's brand</b>	
		<b>Low</b>	<b>High</b>
<b>Strength/ awareness of the component brand</b>	<b>High</b>	Venkatesh & Mahajan (1997) Vaidyanathan & Aggarwal (2000)	Norris (1992) Norris (1993) Venkatesh & Mahajan (1997) McCarthy & Norris (1999) Desai & Keller (2002)
	<b>Low</b>	Not significant	Gap in available studies

**Table 2. The component co-branding process: traditional view vs. this study**

<b>Steps</b>	<b>Traditional view (Norris, 1992)</b>	<b>This study</b>
1	The supplier conducts research on downstream customer consumption behaviours to decide how to position the component's brand	Trust arises between the OEM and the supplier through previous collaborations
2	The supplier begins promoting its component brand among downstream customers to create awareness	The supplier invents a highly innovative component and looks for an OEM to engage in mutual value creation
3	The OEM agrees to collaborate with the supplier in terms of promotion, leveraging the component's brand strength	The parties evaluate the efforts required for the practice matching process (alignment between the supplier's and OEM's relevant processes and resources for mutual value creation)
4	The supplier seeks to expand the number of OEMs that use the branded component in their end products	The parties evaluate the potential additional mutual value that may be created through their relationship and the value gains for each party
5	Eventually, the supplier and the OEM may start non-promotional collaboration (e.g., in new product development)	If the previous evaluations are positive, the parties engage in the practice matching process, in the mutual value creation process and in the value sharing process.
6	The supplier continues brand promotion activities among downstream customers	As a result of the success of the cooperation, the component supplier may leverage the increased brand awareness and engage in value creation with other OEMs