Branding alliances in the online marketspace

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Research objectives

Branding is considered an essential way to build market volume, market share, and customer loyalty in the online marketspace. In a branding alliance, two or more companies put their names on a product and thereby lend their reputations to it. A branding alliance can be seen as a reputation transfer in the online marketspace. In this work we develop and test a model for identifying some of the factors the make online branding alliances succeed.

Background

Alliances in the e-commerce sector

Most firms in the rapidly emerging e-sector of the economy are in "innovative entry mode" (Lancaster 1982) whereby many firms enter an industry with unproven profit potential, undeveloped markets, and no profits anticipated in the immediate or near future. To remain competitive, firms can no longer afford to invest millions of dollars into their technology development and marketing efforts without exploring gains that can be extracted from developing alliances. There has been a rapid spate of alliances in the e-commerce sector: in fact, alliances were the most popular subject in news articles on e-commerce in 1999 (eMarketer 2000). However it has been well documented that close to 70% of these alliances fail (Cross 2000). Most of these alliances tend to be horizontal across industry sectors, that is, between companies engaged in manufacturing or delivering comparable items, and are best characterized as "syncretic rent-seeking" (or coopetition). While firms may cooperate in developing or marketing one particular technology, they compete in all other product markets. For example, Microsoft and Sun Microsystems are involved in an alliance to develop XML, but they compete in operating systems and multimedia software markets. It is important to view alliances as a portfolio of options so that firms can successfully respond to unfolding events. Firms in the fast-evolving e-commerce sector are increasingly embedded in an environment of uncertainty, be it technological uncertainty (Which technology is likely to dominate the market?), demand

uncertainty (How and when is consumption likely to change?) and or competitive uncertainty (From whom and from where is our next competitive threat likely to emerge?). In this environment of uncertainty and tremendous information

asymmetry, firms have to invest in options that will increase their chances of securing their current and future competitive positions.

Alliances are common in high technology industries in which even the largest firms cannot hope to maintain cutting-edge positions across all technologies of interest to their end users. In turbulent marketing environments they aggressively seek partnerships with numerous firms (including competitors) to ensure that their core markets and products are linked advantageously to markets created elsewhere (Vardarajan and Rajaratnam 1986). Firms may be involved in a technology or branding alliance. A firm may join a branding alliance, which often includes more than two members, on the strength of either its resources or its reputation. For example, in September 1999 Ford and Microsoft forged an alliance that may have a big impact on the future of online car buying. Customers will be able to configure the Ford car of their dreams on Microsoft's CarPoint Website (in Fortune 2000).

Prior Research

Branding alliances figure prominently in today's e-commerce. Several previous studies have aimed at identifying the factors that may influence success. A summary of findings follows.

- Frequent opportunistic behavior leads to a relatively high rate of failure of alliances (Hamel, Doz, & Prahalad, 1989).
- Unbalanced interdependency is detrimental to alliance effectiveness (Bucklin and Sengupta, 1993).
- An increase in valuation due to an alliance may not be equally beneficial to all partners (Wernerfelt, 1988).
- Brand or reputation is an imperfect and immobile resource (Chu and Chu 1994).
- Branding alliances allow reputation transfer and alter valuation of a firm's products through the interactive influence of its partnering component (Rao and Reukert 1994).
- Resource-based alliances are perceived as increasing the value of a firm, whereas brand alliances are perceived as a signal of weakness, hence more vulnerable (Ramu 1996).
- Firms in brand alliance are more dependent on an alliance than firms in resource-based alliance because the former have fewer potential partners (Mohr and Spekman 1994).

Differences between resource- or technology-based alliances and branding alliances arise because of the inability to assess the ability to meet performance

expectations and because of the absence of clear goals. The ambiguity in evaluation of partner performance significantly contributes to the failure of branding alliance relationships.

Proposed hypotheses

While branding alliances have been studied in the marketing and strategy literature from a theoretical perspective there is very little empirical research on factors affecting success of branding alliances and how they differ from resourcebased or technology alliances. This research aims to address these issues. Based on the literature, we formulated five hypotheses to be tested.

H1. Satisfaction with one's own firm's performance has a positive effect on a decision to continue with a branding alliance.

H2. Satisfaction with partner's performance has a positive effect on a decision to continue with a branding alliance.

H3. Firms that perceive themselves to be more dependent on a branding alliance than their partners are more likely to continue with the alliance.

H4. Firms in branding alliances are less likely to stay in an alliance relative to those in technology alliances.

H5. Firms that perceive themselves more dependent on a branding alliance than their partners are more likely to continue with the alliance if dissatisfied with their partner performance than those in technology alliances.

Methods

We investigated our proposed hypotheses in the context of alliances in Internet Malls. Alliances between Internet Mall owners and their merchant and non-merchant partners were the focus of the research. Specifically, an alliance was defined as "a long-term relationship where participants cooperate and willingly modify their business practices to improve joint performance." The research design was unique in that both partners in an alliance were studied. The majority of alliances evolved from existing business relationships. Exactly half of the alliances used a written contract.

Sample

Key informants were identified in 446 alliance pairs in which both partners were in the online retailing sector. Each firm in alliance pair answered the questionnaire independently and was assured of anonymity.

Online survey design

An initial version of a web survey was piloted in August 1999 to develop and calibrate our measures with a group of 69 respondents but was not used in the final analyses. The final version of the survey was circulated in October and December of 1999. We received complete questionnaires from 892 respondents who were key informants in 298 firms that were involved in alliances. Note that each firm may respond to questionnaires for more than one alliance the firm is involved in. The response rate was 13%, and there were no significant differences between pilot study and final survey respondents with respect to variables considered in the study.

Results

Respondent Category	Internet Mall	Merchant Partners	Non- merchant partners	Total
Actual responses	47	182	69	298
Pure-Internet	29	123	21	173
Hybrid (Internet+Offline)	18	59	48	125
Av. # of alliance partners	42	18	37	24
Publicly-traded	21%	38%	89%	47%
Alliance type	0.76	1.68	2.46	1.89

Table 1 presents information about the firms considered in our sample.

#Brand/#Tech

Respondents were asked to rate themselves and/or their partners on a scale of 1 to 5 with respect to:

- relative dependence on the partner (DEPEND)
- satisfaction with their own performance (SATISOWN)
- satisfaction with their partner's performance (SATISPARTNER).

They were also asked to characterize the type of alliance (TYPE, tech=0, brand=1), and to assess, again on a scale of 1(=will certainly terminate) to 5 (=will certainly continue) with midpoint 3 (=undecided) their current willingness to remain in the alliance (STAY). Table 2 presents a regression analysis of the responses to the questions. In analyzing the data for correlations, STAY was taken as the dependent variable. The variables explain 31% (R^2=0.31) of the variability in the dependent variable STAY over the null model which does not include any explanatory variables. The second column shows the standardized coefficient of each variable. Hence an increase in SATISOWN rating by 0.18 leads to a unit increase in intention to stay in an alliance. The T-values for each variable indicate the effects that significantly affect decision to stay in an alliance. Satisfaction with partner performance has the largest effect on decision to stay in an alliance as expected, while degree of relative dependence does not have a significant effect and hence does not support our hypothesis (H3). However the interaction term with type of alliance does have a positive significant effect. Implications from H3 and H5 indicate that while dependency does not significantly affect decision to say in an alliance, it does affect decision to stay in a resource-based alliance more than a branding alliance.

Further, partners in a technology alliance are not more likely to stay in an alliance compared to those in branding alliances. The third column shows the mean and standard deviation for each variable (which indicates the extent of variation or variability among the values each variable can take).

Independent variable	Coef.Std.	T-values	Mean±S.D.	Inference
H1: SATISOWN	0.18	1.99	3.3±0.9	Supported
H2: SATISPARTNER	0.29	2.56	3.0±1.9	Supported
H3: DEPEND	-0.09	-1.17	-	Not supported
H4: TYPE	0.21	2.01	0.69	Not supported
H5: DEPEND*TYPE	0.26	2.31	-	Supported

Conclusions

Sixty-five percent of alliance partners who independently answered the questionnaire indicated that those partners intended to continue with their alliance (STAY>3). The perception of the gains in continuing the alliance differs across firms in alliance pairs. In 22% of alliance pairs both partners independently indicated they wanted to continue with the alliance (STAY>3). In 13% of alliance pairs both partners independently indicated they did not want to continue with the alliance (STAY<3).

Satisfaction with one's own and with one's partner performance are critical drivers in continuing with an alliance relationship. Relative dependency does not significantly influence alliance outcomes in terms of willingness to continue with the alliance although interaction effects with alliance type are significant.

Contrary to findings in traditional markets, resource-based alliances in the online retailing sector do not have significantly higher probabilities of survival compared to branding alliances. This discrepancy may be attributed to the fact that while objective measures to evaluate the value of a resource-based alliance can be developed, it is relatively more difficult to do so for a branding alliance. Most firms are in innovative entry mode and recognize that losses and huge investments in acquiring and retaining a customer base are imminent in the present period to reap profits in the future. In addition, uncertainty in market conditions, the rapid pace of change, and the absence of established standards leads to firms in this industry being more tolerant and persistent in maintaining alliance relationships. The development of alliances offers an option to distribute risks across multiple entities and gain strength in the quest to establish preferred standards.

Branding is essential in online marketspace where privacy and trust concerns are main barriers to online retailing and there is a need to build consumer confidence in an emerging channel. Brands act as signals of quality and reliability. Hence branding alliances allow entrepreneurial firms to legitimize their products and services to consumers. Firms in branding alliances that are in inferior position are more tolerant of short-run dissatisfaction with partner performance than those in technology alliances. This obervation can be explained by the fact that technology partners can be more easily replaced. On the other hand, branding alliances, once developed and executed in the minds of consumers, are relatively more difficult to replace. This is a paradoxical situation, since firms in inferior position need alliances most but are likely to gain less in probabilistic terms even if alliance is successful. If however, reputation transfer takes place in a way where the inferior firm gains a reputation of its own due the association, then dependence is reduced.

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