Chapter 45
Leveraging Reputation for Product Innovation Through Strategic Co-Branding

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ABSTRACT

In this chapter, we describe how the cooperation between an original equipment manufacturer and the supplier possibly influences consumers' product perception. In particular, this chapter focuses on joint brand appearance of the product and explains under which conditions the reputation of an innovative supplier affects the decision-making of consumers. Building on ingredient branding literature, we develop a model explaining the effect of the appearance of the manufacturer and the supplier on the final product as cue, influencing the consumers' quality judgment. The chapter contributes to a new and ongoing discussion on the management and strategic potential of ingredient branding offerings, their potential application fields with regard to practical examples, as well as the associated limits and risks.

INTRODUCTION

Consumers perceive certain products as leading-edge technologies, innovative solutions or superior in functionalities. This perception is a result of the respective consumer's experience with the product or the word-of-mouth concerning a certain product and a firm's marketing communication. Option formation without having used the product before is an important driving force for consumers' desire and their eventual purchase decision. Most people, in this respect, identify key features of, for instance, cars or premium home sound electronics without driving such car and without listening to the hi-fi systems. To understand consumers' cognition, it is vital to understand the option formation process on which a successful marketing strategy can be built.

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In this regard, one special aspect is the well-established fact that the majority of product improvements are an economic failure in the market place, even if they are technically advanced with respect to functional and featured characteristics (Ren, 2009). Ljungberg & Edwards (2003) investigated this issue by referring to the acceptability of innovations depending on a variety of reasons. These reasons can be divided into technical and nontechnical as well as physical and metaphysical reasons.

According to this distinction, physical or materialistic product attributes encompass the functions and the technical fulfillment of certain aims, such as lifetime, durability, and recyclability. The metaphysical reasons for innovation failure are beyond technical appearance as metaphysical product characteristics are related to how individuals recognize and understand a product based on their senses, imagination, knowledge, experiences, and preconceived ideas. Innovation has become an important topic for management research, while "hard" facts like the functionalistic features continually have dominated the attention of scholars and practitioners.

Until the last decade, we have observed a trend in innovation research attempting to integrate the consumers' demands and perceptions by focusing on the less tangible aspects of innovation. In this respect, the metaphysical product attributes received more attention. One reason for this development is a constantly increasing complexity of new products (i.e., more features and variants, new technologies, interconnectedness of products, mixtures of online and offline solutions etc.), which according to Closs, Jacobs, Swink, & Webb (2008) leads to a situation in which the average consumer cannot fully comprehend the functionalities of the product anymore. Accordingly, "soft" factors with the ability to reduce the complexity gain importance as a source of making the buying decision, as these factors simplify the decision for the average consumers.

One very prominent example is Apple's launch of the iPhone and other brand products, which from the application side did not require and, therefore, from the production side of the company did not include a user manual, which had been the standard practice for technical products all along. While producers of technical tools have developed their abilities in R&D and new product development, they often struggle in trying to understand the consumers' perception of the more metaphysical, intangible product characteristics. Therefore, their marketing strategy remains inconclusive and stays behind the actual potential of their innovation.

In order to address this aspect, we in this chapter elaborate how the consumers' perception of certain product features depends on cues associated with the final product, and how these cues shape their opinion. In particular, we discuss how components from a highly reputed supplier are manufactured into a final product and how they serve as a cue for product quality. Such cooperation between the supplier and the manufacturer is combined under the term 'co-branding', or more precisely 'ingredient branding', in which the component or the ingredient of the supplier is marked in the final product and communicated to the end consumer with the intention to influence his/her buying decision. The associated theoretical underpinning of this strategy explains how the cooperation with a supplier serves as a cue for enriching the final product with metaphysical attributes such as loyalty, innovativeness, or trustworthiness. We argue that expanding the producers' horizon from the direct purchaser (i.e., from the suppliers' perspective: the original equipment manufacturer) to the retailer and final user provides the opportunity for all involved parties to benefit from a positive consumer perception. The main objective of this chapter, hence, is to clarify the effect of strategic co-branding between the manufacturer and the supplier in leveraging the consumers' perception of product innovations.

This chapter hereby is structured as follows: we first present ingredient branding as a strategy for manufacturers to benefit from suppliers with a high reputation (i.e., for innovation). In the subsequent

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