Ingredient Branding with Branded Service

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INTRODUCTION

In today's global economy, the customer service industry, which provides service to customer before, during and after a purchase for enhancing the level of customer satisfaction, has shown huge market potential. As the service level shows increasing power in influencing consumers' purchase decisions, more and more service firms separate from the host firms to become independent agencies, and even form their own brands for the service product. We limit our study to service products which satisfy the following characteristics: (i) complementing tangible products; (ii) having brand image; and (iii) having a significant effect on differentiating the product. Examples can refer to post-sales service and logistics transportation services. When consumers purchase the bundled product of tangible product and service, the total price of product and the service level will play an important role in sales. We consider the goodwill of a service firm among consumers as a signal of service level. It is intuitive that consumers are usually willing to pay a higher price for the product with higher brand awareness. Because of that, many service firms have started to improve their service brand reputation by using some innovative marketing strategies. Ingredient branding strategy is a widely used approach to achieve this purpose, under which the important ingredients such as key components or services, are branded in the tangible products.

As a well-known marketing strategy, the ingredient branding strategy has attracted much attention among both practitioners and researchers. The most famous ingredient branding program is the "Intel Inside" campaign launched by Intel in 1991. This campaign is supported by thousands of PC computer firms who are licensed to place the Intel Inside logo on their computers. The Intel firmhas obtained huge success owing to this program and dominates the computer processor market. Besides the tangible ingredients, ingredient branding strategy also occurs between service firms and end product manufacturers, such as Microban and its original equipment manufacturers. Microban is a full service antimicrobial solution company. It provides its partners or manufacturers with full service support including regulatory assistance, quality assurance, etc. The Microban brand stands for high quality and reliability, so Oreck, Sunbeam and other manufacturers who cooperate with it through an ingredient branding strategy benefit from its well-known brand image and display added value to their end users. Similar examples can also refer to BestBuy's use of the Geek Squad brand to sell after-sales service. In general, the purpose of the ingredient

DOI: 10.4018/978-1-4666-5202-6.ch111

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branding strategy is that the end product manufacturers utilize the well-known brand image of the ingredient or component to show added value to their end users. In academic area, there exist numerous publications on ingredient branding strategy, such as Norris (1992), Rao and Ruekert (1994) and Rao et al. (1999), Bartlett et al. (2004), Luczak et al. (2007), and Erevelles et al. (2008). However, most of them focus on the conceptual framework while rarely making an empirical study or proposing an analytical model. To contribute to the ingredient branding research, this chapter proposes an analytical model to investigate both the ingredient branding strategy and channel members' pricing strategy.

Extending the traditional ingredient branding strategy, this chapter investigates the InBranding strategy which has been referred to by Luczak et al. (2007). In a supply chain consisting of a manufacturer selling the tangible products and a service firm offering complementary services, the service firm advertises directly to consumers and the manufacturer labels the service brand logo in the tangible product to capture the halo effect of the goodwill of the service product. We assume that consumers are required to purchase the product and service together, thus the InBranding strategy of the service firm can directly influence the final product sales. The two channel members' dynamic pricing strategies are considered as a coordinated tool to implement the service firm's InBranding strategy and the service firm's advertising efforts on its goodwill levels are modeled in a modified Nerlove-Arrow framework. A differential game model is utilized to formulate the above issues and the feedback form of the optimal price and the advertising efforts are finally obtained.

In this chapter, several managerial implications are derived, including: (i) InBranding strategy has positive effects on both channel members' pricing strategy; (ii) the service firm will always invest in the advertising of the service product when the InBranding strategy is implemented, and (iii) when the ingredient branding strategy is initiated, the service firm may adopt two different advertising strategies related to different market segments.

BACKGROUND

NutraSweet, as a visible advocate of ingredient branding, has been used in 5000 food and beverage brands that brings it annual revenues of nearly $1 billion and net income of over $160 million (Shapiro, 1992). For another successful proponent, DuPont, ingredient branding creates a powerful consumer pull effect for its Lycra and Teflon technologies. Among these successful ingredient branding examples, improved pricing and coop marketing dollars are usually utilized to encourage the brand utilization, similar to what is done by Dolby and Intel.

Owing to the hugely successful application of ingredient branding strategy in industrial practice, many researchers have paid much attention to theoretical research on it. Kotler and Pfoertsch (2010) summarized the related research and defined the ingredient branding as the branding or labeling of components or ingredient in their final products. In early research, Norris (1992) distinguished the ingredient branding into the types supplier-initiated and manufacturer-initiated. The former is initiated by the input producer (component or ingredient supplier) for building awareness and preference among consumers; the latter is initiated by the final product manufacturer who seeks to benefit from the recognized brand. The existing research on the ingredient branding is mainly focused on the conceptual framework research and seldom addresses empirical and analytical perspectives.

From the conceptual framework stream, Norris (1992) explained and evaluated ingredient branding, showing that ingredient branding, if successfully implemented, could be very beneficial to both partner brands. Hillyer and Tikoo (1995) examined how ingredient branding influences

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