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Ingredient branding for a luxury brand: The role of brand and product fit☆

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ABSTRACT

Many firms adopt an ingredient branding strategy when introducing new products, whereby a host brand integrates a branded ingredient. Research suggests that perceived fit between the host and ingredient brands should influence the success of such brand partnerships. Not all firms, however, may be able to find appropriately fitting branded ingredients, such as luxury brands which may find it nearly impossible to partner with other luxury brands and therefore need to consider non-luxury partners. The current research examines consumer responses to a real-world ingredient partnership between a luxury host brand (TAG Heuer) and non-luxury ingredients (Intel and Google), who have come together to produce a new product (a luxury smartwatch). Results of a study find that fit between the brand partners (based on both brand image and product category) positively influences purchase intentions with consumer's perceptions of a brand's luxury nature moderating observed effects. The research provides implications for product strategy and marketing of luxury brands.

1. Introduction

A popular trend in the marketplace is the incorporation of a branded ingredient within the product(s) of a different brand (e.g., Desai & Keller, 2002), such an ingredient branding strategy serves as an important marketing tactic for brands to enhance market competitiveness. Firms integrate branded ingredients in a variety of product categories ranging from durables (e.g., Ford's consumer-facing electronic systems are branded by Microsoft) to non-durables (e.g., Breyer's ice cream contains Reese's Pieces candies). This strategy provides value to both brands, in terms of relationship benefits such as mutual cooperation and knowledge sharing (Erevelles, Stevenson, Srinivasan, & Fukawa, 2008). For example, a host brand (such as Ford) may enjoy an enhanced market reputation, while the ingredient brand (Microsoft in this case) may benefit by reducing the probability of entering competition.

Academic research on ingredient branding has examined the determinants of success for this strategy (e.g., Desai & Keller, 2002), as well as subsequent spillover effects on the host and ingredient brands (e.g., Rodrigue & Biswas, 2004). This research finds that the branded ingredient can influence consumer attitudes toward the host brand both positively and negatively (e.g., Balachander & Ghose, 2003; Votola & Unnava, 2006). In contrast to its prevalence in practice, ingredient branding has received relatively little attention in the literature (especially, compared to related topics such as brand extensions and brand alliances). The current research addresses this situation by exploring how perceived fit between the host and branded ingredient can influence consumer reactions to ingredient branding partnerships—an issue untested within the literature.

Research demonstrates fit to be an important factor in the success of brand extensions and brand alliances. For example, research on consumers' responses to brand extensions finds that higher (lower) degrees of fit between a parent brand and its extension positively (negatively) influences consumers' attitudes toward the extension (e.g., Sattler, Völckner, Riediger, & Ringle, 2010; Sjödin, 2008). A meta-analysis by Völckner and Sattler (2006) find that fit is the most influential factor in terms of brand extension success; an important finding given that 8 of 10 new products fail upon introduction. Fit captures the similarity between two brands (e.g., the parent brand and its extension) in one of two ways: Product fit reflects the extent to which consumers perceive the product categories of the two brands to be compatible (e.g., the parent brand and its extension). On the other hand, brand fit is a consumer's perception regarding the degree of consistency between the two brand images (Czellar, 2003; Simonin & Ruth, 1998). The current research proposes that due to the unique collaborative nature of ingredient branding strategies, fit (as studied in the brand alliance and extension literatures) is applicable to ingredient branding and should be a factor that host brands consider when deciding who to include as a branded ingredient.

While fit between the host and ingredient brands is likely to be an important factor for the selection of partners, not all firms may be able to find perfectly fitting branded ingredients. An example is the producer of luxury brands (one of the most profitable and fastest-growing brand segments; Kim & Ko, 2012) who may find partnering with other luxury

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manufacturers extremely difficult. Indeed, given the relatively few luxury brands within product categories (as reduced supply helps build the symbolic image of the brand; Park, Jun, & Shocker, 1996), luxury brand manufacturers may need to look to non-luxury brands as potential partners. A recent marketplace example of this situation is TAG Heuer's brand partnership with Intel and Google to produce the world's first luxury Android-based smartwatch (IntelPR, 2015). Of the various smart devices, the smartwatch (which includes various functions ranging from pulse detection to messaging via voice commands) is one of the strongest growing product variants. TAG Heuer's decision to partner in this category perhaps comes as no surprise given the quickly growing market for wearable devices, which may top $32.2 billion by 2019 (up from $18.9 billion in 2014; Kharif, 2015) and the need for technology beyond that of a typical manufacturer of luxury watches. Although partnering with Intel and Google is a reasonable decision for TAG Heuer, a possible disadvantage of such a partnership is the potential lack of fit between the luxury branded watchmaker and the technology-oriented partner brands. Thus, the current research delves into this situation by exploring how the fit between a luxury host brand and non-luxury branded ingredient can influence consumers' reactions to a new product.

The structure of this paper is as follows. In the next section, ingredient brand and relevant branding literatures are reviewed, followed by the development of hypotheses regarding the effect of ingredient brand fit on consumers' responses to a new luxury product. Building on the TAG Heuer example, the method, data and results of a study are reported that test focal hypotheses. Finally, managerial implications and future research directions are outlined.

2. Conceptual framework and hypotheses

2.1. Luxury brands

The global market for luxury goods has grown over the past two decades. Although the number of firms within this industry is small, the industry has considerable potential due to its increasing sales volume (Ko & Megehee, 2012). Total revenues of luxury goods in 2014 was $282 billion representing a 29% increase from 2013; this in the face of weakening demand in China (the number 1 luxury goods buyer) and economic weakness in Europe (the number 2 buyer; Reuters New Agency, 2014). Marketing of luxury goods is complex and frequently counter-intuitive compared to marketing of non-luxury goods (Tynan, McKechnie, & Chhuon, 2010), prompting some to comment that “classical marketing is the surest way to fail in the luxury business” (Kapferer & Bastien, 2009, p. 2). For example, Albrecht, Backhaus, Gurzki, and Woisetschläger (2013) argue that luxury brand extensions differ in key aspects from the extensions of non-luxury brands. Similarly, Park, Lawson, and Milberg (1989) argue that memory representations of non-luxury brands are based on concrete attributes whereas associations for luxury brands are more abstract, a difference that might lead to different modes of cognitive processing.

Given the market importance of luxury brands, academics are beginning to explore a variety of topics regarding these unique brands. Current research on luxury brands has studied the nature and definition of luxury goods (e.g., Vigneron & Johnson, 2004), the online presence of luxury brand marketing (e.g., Kim & Ko, 2012), the perceived value of luxury brands by consumers (e.g., Shukla & Purani, 2012), the management of luxury brands (e.g., Albrecht et al., 2013), luxury consumer behavior (e.g., Bian & Forsythe, 2012), and counterfeiting of luxury brands (e.g., Randhawa, Calantone, & Voorhees, 2015). Despite the emerging literature on luxury brands, little research has examined the role of brand partnerships for luxury brands, even though real-world examples of ingredient brand partnerships exist for luxury brands (e.g., the currently available Apple and Hermes smart watch). In response, the current research takes up this issue by examining the value of a brand ingredient strategy for luxury brands.

2.2. Ingredient branding

Ingredient branding in which key attributes of one brand are incorporated with a host brand is a popular strategic marketing tool (Desai & Keller, 2002). Ingredient branding can be an essential growth driver for brands due to increased product differentiation and greater market share (Swaminathan, Reddy, & Dommer, 2012). The association between the host and ingredient brand can enhance firm performance, as ingredient branding involves the transfer of knowledge and emotions between the two brands. For example, the host can benefit by overcoming weaknesses it may have in a product category and broaden its appeal by association with the branded ingredient (Park et al., 1996). The ingredient brand may also benefit from greater awareness by becoming part of the host; well-known brands such Intel, Gore-Tex, and NutraSweet have achieved prominence in part due to their being ingredient brands (Kotler & Pfoertsch, 2010). Further, both brands can reduce new product development costs by sharing knowledge required for new product development and launch.

Extant research on ingredient branding has examined a variety of topics, including the determinants of ingredient branding success (Desai & Keller, 2002), spillover effects on the parent brand subsequent to an ingredient brand partnership (Simonin & Ruth, 1998), strategic competency of the branding strategy (Park et al., 1996), and the impact of these branding strategies in a B2B context (Erevelles et al., 2008). Given evidence provided by prior research, an ingredient banding strategy offers potential for brand managers to increase profits and enhance the images of their brands, along with providing products that create value for customers. However, in spite of this emerging literature on ingredient branding, little research has examined the use this strategy for luxury brands.

While research has yet to explore luxury ingredient branding, examples of such partnerships are not uncommon in the market with luxury brands serving as both the host and the ingredient. For example, Bentley (the luxury car manufacturer) offers Wilton carpet options as an ingredient brand in its automobiles, but also serves as an ingredient (in terms of custom designed seating) at the luxury Pankhurst London barbershops. The logic of these partnerships is expressed well on the Bentley website noting that: “Both Bentley and Pankhurst London share a commitment to peerless quality, contemporary style and modern luxury which combine to make the partnership one of true excellence (Bentley Motors, 2013).” Not all ingredient brand partners, however, are between two luxury brands. For example, Panasonic and Leica have had a long-standing partnership, whereby Panasonic (a non-luxury brand) contributes digital technology to Leica (a luxury brand) and Leica contributes its lenses as an ingredient to Panasonic cameras. This synergistic relationship has allowed both companies to boost product competitiveness by combining strengths of each partner (i.e., Leica's optical technology and Panasonic's digital technology).

Partnerships between a luxury brand and a non-luxury ingredient brand (such as the partnership between Leica and Panasonic) are not surprising, given the limited number of luxury brands in the marketplace; this is especially the case regarding technology where there are few, if any, true luxury technology brands. As noted earlier, however, prior research indicates that fit between an ingredient brand and its host is critical to the success of the strategic partnership (Swaminathan et al., 2012). Given the lack of research on the topic and variance in ingredient branding strategies among luxury brands, the current research explores consumers' reactions to the use of non-luxury ingredients in the product of a luxury brand.

2.3. Brand image and product category fit

The brand extension and brand alliance literatures report extensive research on the concept of perceived fit (e.g., Lafferty, Goldsmith, & Hult, 2004; Park, Milberg, & Lawson, 1991; Völckner & Sattler, 2006). This research clearly suggests that perceived fit is critical