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Collective Brands

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1 Highlights

- There are many instances in which independent firms market their products under a shared brand label. Examples include Regional agricultural brands (e.g., Champagne, Parma ham and cheese , Roquefort Cheese, Jaffa oranges) and franchisees. We refer to this practice as collective branding. We show that collective branding can increase firms' incentives to invest in quality relative to stand alone firms.

- We consider markets for experience goods with two types of firms, 'high' and 'low'. The former produce high quality with high probability if they invest and with low probability if they don't invest. The latter produce high quality with only low probability whether or not they invest. When consumers have little information about individual firms' past performance, collective branding can enable consumers to better distinguish between firms of different types and thus increase incentives of the high type to invest.

- We model the effects of collective branding on investment under two alternative regimes. In the perfect monitoring regime, brand members' investment in quality is observable to other brand members and membership in the brand may be conditioned on individual investment. In this case, incentives to invest are shown to increase monotonically with brand size.

- In the ' no monitoring' regime, brand membership can't be conditioned on individual investment and thus incentives to free ride on investments of other brand members may limit the benefits from collective branding. Nevertheless collective branding can increase investment incentives, relative to stand alone firms, if the effect of investment on quality is sufficiently robust.