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Full Length Article

Impact of component supplier branding on profitability

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A B S T R A C T

In recent years, many business-to-business (B2B) component supplier (CS) firms have added branding to their marketing toolbox. By extending the logic of ingredient branding to B2B components, they aim to create “pull” from B2B end customers by building a strong CS brand image among their customers' customers. In contrast with the established “push” approach of building strong relationships with original equipment manufacturers (OEMs), it is unclear whether and under which conditions CS branding is a worthy strategy. On the one hand, anecdotal evidence suggests that suppliers can leverage strong CS brand image in negotiations with increasingly powerful OEMs to enhance their financial performance. On the other hand, many B2B managers believe that branding does not work in their industry context and erodes profitability. We build a data set consisting of survey measures and archival data across a broad set of industries. Our results indicate that the financial outcomes of CS branding largely depend on the characteristics of the CS and OEM industries. Unlike dyadic OEM–CS relationships, which enhance profitability invariably across industry contexts, CS branding is effective only in well-defined situations. CS branding initiatives can enhance return in CS industries with substantial levels of product differentiation and technology intensity. However, unfavorable results may arise in industry contexts in which OEM–end customer relationships or OEM brands are important.

1. Introduction

Many suppliers in business-to-business (B2B) or industrial markets have begun investing systematically in their brands, with the idea that branding strategies can help them stabilize or grow their profits in increasingly competitive markets (Wise & Zednickova, 2009). The most important branding option for B2B component suppliers (CSs) is CS branding, which represents an extension of the ingredient branding approach (Wiersema, 2012). CS branding can be applied to B2B components embedded in original equipment manufacturer (OEM) products that, in turn, are marketed to B2B end customers (i.e., OEMs' customers) (Ghosh & John, 2009). The strategy aims to create “pull” from B2B end customers for CS products by building a strong CS brand image.

The growing interest in CS branding is noteworthy because B2B marketers have traditionally relied on direct (i.e., “push”) marketing strategies and focused on building strong relationships with OEMs. The goal of these relationship-marketing efforts is to create superior value for OEMs by providing additional benefits or reducing costs (Cannon & Homburg, 2001; Frazier, Spekman, & O'Neal, 1988; Tuli, Bharadwaj, & Kohli, 2010; Ulaga & Eggert, 2006). In contrast with these tried-and-true approaches, it is not clear whether and in which situations pull created through CS branding affects CS performance when end customers are businesses (i.e., in “B2B2B” markets). On the one hand, anecdotal evidence from popular examples such as Intel (personal computers), Bose (automobile audio systems), and DuPont (Lycra, apparel) promises superior margins when end customers are consumers (i.e., in “B2B2C” markets; Kotler & Pfoertsch, 2010). On the other hand, many B2B marketers and senior managers remain skeptical about whether this approach can be successfully transferred to their own business contexts (ISBM/BMA, 2005). Indeed, failures often occur, particularly in CS industries with limited differentiation and innovation.

Despite an emerging body of literature on B2B brands (e.g., Cretu & Brodie, 2007; Homburg, Klarmann, & Schmitt, 2011; Wuyts, Verhoef, & Prins, 2009; Zablah, Brown, & Donthu, 2010), empirical research has paid limited attention to financial performance outcomes of CS branding. This is surprising not only given the significant resources required to build and sustain brand image (Keller, 1993) but also because CS firms may be less efficient in branding from a lack of experience. To the best of our knowledge, only the study by Ghosh and John (2009) looks at CS brands, but it does not examine financial outcomes.

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Against this backdrop, this study explores the following research questions:

1. How does CS branding in B2B markets affect CS profitability?
2. Under which conditions does CS branding pay off for CSs?
3. How does the impact of CS brand image on CS profitability compare to that of value created for OEMs with traditional relationship marketing?

This empirical study combines survey measures with archival data on supplier financial performance and industry-level competition, covering a broad range of CS and OEM industries. The results suggest that CSs can leverage strong CS brands to maintain or grow their profitability. However, several critical environmental factors related to the CS and OEM industries moderate the impact of CS brand image on CS financial performance. For example, CSs in industries characterized by differentiated products and technology intensity can leverage the CS brand asset successfully. In contrast, CSs selling into OEM industries in which OEM–end customer relationships and OEM brands are highly important find it more difficult to leverage strong CS brands (i.e., CS brands compete with OEM brands). The results also show that OEM–CS relationship quality and OEMs' value perceptions of CS have a positive, non-conditional effect on CS financial performance.

This study responds to calls for additional research on the firm-level, bottom-line financial outcomes of B2B marketing strategies (ISBM, 2010; Marketing Science Institute, 2008; Wiersema, 2012). The results advance the understanding on how strong CS brands help CSs cope with increasing marketplace pressures and thus complement existing research on how consumer brand image stabilizes financial outcomes (Johansson, Dimofte, & Mazvancheryl, 2012). Our findings also contribute to the emerging contingency perspective in the marketing discipline, which examines the environmental conditions under which marketing instruments and market-based assets lead to financial performance (e.g., Reibstein, Day, & Wind, 2009). The findings help the B2B marketers in CS firms to determine whether, in their situational context, CS branding is a promising strategy to invest limited resources. Contrary to managerial intuition, CS brand building is neither a suitable instrument to cope with commoditization in a CS industry nor a tool to help deal with OEMs, which "own" end customers through OEM–end customer relationships and OEM brands. In both cases, investing in value creation in the relationship with OEMs yields better outcomes because it is effective regardless of context. Furthermore, our findings should help B2B marketers better understand and communicate the contribution of their branding actions to senior management.

In the remainder of the article, we first review the relevant literature and highlight our contributions. To answer the research questions, we then develop a theoretical framework (1) to examine the mechanisms linking the OEM–CS relationship and CS brand image with CS financial performance and (2) to identify contingency conditions under which CS branding strategies are likely to be more or less productive. Next, we report our empirical study and estimate the range of gains and losses associated with CS branding initiatives. We conclude with a discussion of the results.

2. Related literature

Table 1 summarizes selected research on performance outcomes of brands in B2B settings. Extant research finds that B2B brands have an impact on a range of performance indicators, including buyer intentions and attitudes (Cretu & Brodie, 2007; Hutton, 1997; Wuyts et al., 2009; Zablah et al., 2010), relational outcomes (Ghosh & John, 2009), and financial performance (Homburg et al., 2011). In addition, several studies find that outcomes of B2B brands are contingent on the situational context (e.g., Zablah et al., 2010). Most research relies on brand awareness or brand image as customer mindset brand metrics. Zablah et al. (2010) and Ghosh and John (2009) use measures of brand strength that are consequences of brand image and awareness.

Table 1
Overview of selected B2B branding studies.

Study	Brand metric (IV)	Controlling for B2B relationship marketing metrics		Performance metric (DV)		Examine CS branding	Contingency of brand performance	Sample	Data
		Relationship quality	Customer-perceived value	Buyer intentions & attitudes	Financial performance metric				
Homburg et al. (2011)	• Brand awareness				• Return on sales (self-reported)		Yes	Multiple B2B industries	• Survey (suppliers)
Zablah et al. (2010)	• Brand preference			• Brand importance			Yes	Multiple B2B industries	• Survey (buyer firms)
Ghosh and John (2009)	• Differentiation			• Perceived Supplier opportunism		Yes		Three B2B industry sectors	• Survey (OEMs)
Wuyts et al. (2009)	• Brand awareness	Yes		• Consideration • Buyer choice			Yes	Single B2B industry (market research providers)	• Conjoint survey (buyer firms)
Cretu and Brodie (2007)	• Brand image		Yes	• Attitudinal loyalty				Single B2B industry (shampoo for hair salons)	• Survey (buyer firms)
Aaker and Jacobson (2001)	• Brand image				• Stock return • Return on equity (both archival)			Single B2B industry (computers)	• Archival data (financials) • Survey (buyer firms)
Hutton (1997)	• Brand awareness • Brand preference			• Willingness to pay • Attitudinal loyalty			Yes	Three B2B products (office supplies)	• Survey (buyer firms)
Current study	Brand image	Yes	Yes		• Return on sales (archival)	Yes	Yes	Multiple B2B industries (manufacturing)	• Archival data (financials, industry data) • Multiple-informant survey (mindset data)