

NESTLÉ: BRAND ALLIANCES IN DEVELOPING MARKETS

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ABSTRACT

Branding concepts often find a place in introductory marketing textbooks. However, given time and space considerations, covering those concepts with a comprehensive industry perspective is typically unachievable. Thus, supplementing textbook content with brief company cases can help students gain a better appreciation for the material with meaningful application. This paper presents a synopsis of brand alliance concepts appropriate for introductory marketing students. It then goes on to provide several examples of how the Nestlé Company uses these alliances as a competitive advantage particularly in developing markets. The conclusion includes questions for class discussion to stimulate further understanding and analysis of brand alliances in the marketplace.

INTRODUCTION

With increasing frequency, companies are undertaking brand alliance partnerships. This is where two different companies pair their respective brands in a joint marketing effort (Kapferer 2008). Co-branding in particular is often used as a strategy to establish a competitive advantage. It can strengthen the brand portfolio, leverage established brand equity, provide a mechanism for the brand to enter future growth categories and reach important consumer segments. Co-branding has demonstrated its place as a competitive advantage as reflected by the Interbrand top 100 listing the most valuable global brands (Uggla and Åsberg 2010).

The Nestlé Company knows this well and has made great strides to capitalize on the merits of solid brand alliance efforts. *Good Food, Good Life* sums up Nestlé's philosophy as it creates inroads with nutrition and health. Today Nestlé is evolving with brand alliances while remaining loyal to its heritage as it develops from the world's leading food company into the world's leading food, nutrition, health and wellness company in established and developing markets (Nestlé Management Report 2003).

BRAND ALLIANCE CONCEPTS

Branding

A brand is defined as a combination of name, symbol, term and/or design that identifies a specific product (Ferrell

and Hartline 2010). A brand gives a product a unique identity that differentiates the product from other competing products in the marketplace. It lessens the risk of purchasing the product in the minds of customers and also signifies quality. Customers remain loyal and committed to a brand as long as the perceived value creates a sense of satisfaction and benefit. For the company, a brand becomes an asset that can be leveraged to gain a competitive advantage in the marketplace (Armstrong and Kotler 2011).

Brand Alliances

A brand alliance can be defined as a cooperative association between two or more companies based on joint branding strategies. Brand alliances can result in co-brands, co-opetition, new brands or joint ventures to name a few (Ferrell and Hartline 2010). Co-opetition occurs when competitors co-operate to achieve mutually beneficial goals (Kotzab and Teller 2003). New brands often come from two companies collaboratively entering a new product category (Armstrong and Kotler 2011). Joint ventures are created when two companies pool resources to form a new company with shared ownership (Grewal and Levy 2010).

A key factor in the success of any brand alliance is selecting the right partner. Although selecting the right market, product, and adapting to local preferences are worthy of notation, successful brand alliances are premised on a natural fit between the companies and their brands. This is particularly the case for co-branding where

selecting the right partner maximizes exposure in the target market (Dickinson and Heath 2006). Co-branding will be explored more in depth given the increasing use of this brand alliance strategy to reach developing markets.

Co-Branding

Co-branding is using two or more brands to promote one product. This form of alliance tends to leverage the brand equity strength of multiple brands to create distinctive products with distinctive differentiation (Ferrell and Hartline 2010). For example, Figure 1 shows a VISA credit card co-branded with Citibank and Jet Airways.



Co-branding can increase awareness of the lesser known brands: Having a more recognizable brand appear on the same product or service can serve as an endorsement from the established name (Keller 2008). Co-branding can be communications-based, product-based, have multiple sponsors or be based on two brands from the same company (Kotler and Keller 2009).

Communications-based branding is used to promote products or events. One brand may be used to endorse or recommend the other for the mutual benefit of both (Jobber 2007). Product-based branding can work as ingredient-based where one brand is a component in the manufacture of the other. It can also take the form of parallel co-branding where two independent brands work together to create a combined brand product. Brand licensing is also possible, particularly in developing markets where one company allows another company to use its brand name, logo, or symbol on a non-competing product for a fee (Ferrell and Hartline 2010). The licensing company receives payment while the licensee uses the brand equity of the licensing company to increase awareness and sales.

Domestic versus International Co-Branding

Some brands are considered global as the product is ubiquitous in its functionality. Such is the case with cars,

furniture, and computers. Other product categories thrive on differentiation as variety is inherent in the manufactured goods. Health and food products are among those that vary significantly by item and by geographic location. Opportunities to develop various branding strategies are more abundant for these products. However, introducing an established brand from one market to a developing market does not necessarily mean it will be received. Domestic brands may have little to no value in developing markets thus a co-branding strategy may be essential to gain access or build primary demand for the entering product. As will be discussed below Nestlé has capitalized on this approach in a number of developing market ventures.

Co-Branding Opportunities and Risks

Successful co-branding only happens when both brands add value to the alliance. This value prospective is gauged by analyzing how the brands will complement each other with potential customers (Batra, Lenk, and Wedel 2010). Research suggests that consumer attitudes do not change much when strong brand names co-brand as compared to lesser-known brand names (Uggla and Åsberg 2010). However, attitude is just one aspect of measurement. The true benefit of co-branding can be assessed by examining revenues, profits and market share (Keller 2008). Other advantages of co-branding include easier access to retailer shelf space via the already established brand, sharing promotional costs and extending consumer segment reach.

Co-branding also has inherent risks. It can have a dilutive consequence as the benefit of one product brand is divided between two separate brands or companies. It could be worse if the co-branded product is negative for one, as it could reflect negatively on the other brand as well. More specifically, co-branding poses the threat of making one brand look weak due to the fault or negligence of the other (Kahuni, Rowley, and Binsardi 2009). Many times, co-branding results in new ideas for products or services, which leads to the entrance of new competitors who combine the features of both brands into one. Co-branding can also result in confusing consumers with new products or services if the two partnering brands are not perceived as having a natural fit (Helmig, Huber, and Leeftang 2008).

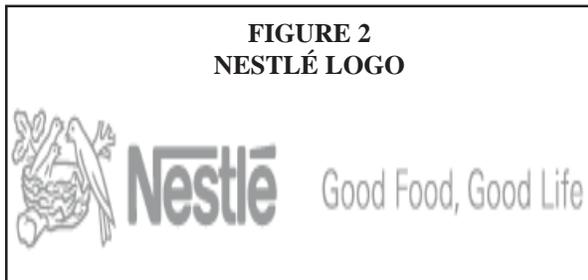
BRAND ALLIANCE CASE: NESTLÉ

Company Background

Nestlé is the world's leading nutrition, health and wellness company headquartered in Vevey, Switzerland. It is ranked 44 in the 2010 Fortune top 500 list of global companies. Its vision of nutrition, health and wellness involves the concept of 60/40+ whereby the company

aims to make products that achieve at least 60% consumer taste with the added 'plus' of nutritional advantage. Nestlé was founded in 1866 by Henri Nestlé. Today Nestlé manufactures over 10,000 different products and employs some 250,000 people. It sells over one billion products every day to people in 130 countries across the world. It also invests approximately US\$1.4 billion in research and development every year.

"Henri Nestlé endowed his company with the symbol derived from his name. His family coat of arms, the nest with a mother bird protecting her young, became the company's logo and a symbol of the company's care and attitude to life-long nutrition. Nestlé's nest represents nourishment, security, and sense of family that are so essential to life" ("About Us" 2010). The company logo is displayed in Figure 2.



Nestlé is built on the foundation of several hundred strong brands under its portfolio which range from categories like bottled water, baby food, and chocolate confectionaries to pet care, nutrition and health. Figure 3 shows some of the more recognizable beverage brands. Nestlé's product and brand portfolio exhibits strong market positions, often leadership. It is focused and at the same time diverse: focused in that 75% of sales are accounted for by 30 brands; diverse in that Nestlé has strong local brands in a variety of categories.

Nestlé takes pride in its brand portfolio. Brand management is thus an integral part of the company's marketing efforts. The company employs a number of successful

brand alliance concepts. These concepts are elaborated with examples below.

Communications-Based Co-Branding

The National MILO® Marathon (in Manila, Philippines) is a perfect example of communications-based co-branding in a developing market. In this case promotional efforts are shared by two organizations to bring greater attention to the branded event. Nestlé MILO® is a chocolate malt energy drink fortified with vitamins and minerals. Its nutritional content is focused on giving confidence, energy and spirit for active living. The National Marathon started in 1974, but ten years later MILO® succeeded in popularizing *running* as a sport, with a growing number of runners participating in the MILO® Marathon.



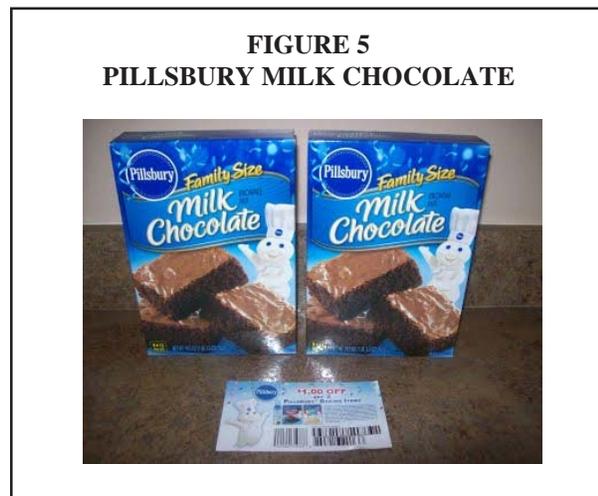
The National MILO® Marathon has become the biggest running event in the country attracting runners of all ages. For the 2009 annual event, the organizers had two venues and over 40,000 runners registered. A large number of young runners do not have shoes, so in 2011 the MILO® Marathon will distribute running shoes to thousands of underprivileged school children. The organization will use a portion of the registration fees to help fund the



project. Sales at Nestlé Philippines have grown at a steady 4% for the last 10 years showcasing the success of Nestlé's association with the MILO® Marathon. This growth also shows that Nestlé selected the right product, market and partner for this brand alliance effort.

Product-Based Co-Branding

Sometimes two businesses work together in a brand alliance to co-brand a product manufactured by one of the companies with at least some component product from the other. This was the case with Nestlé and General Mills. However, some history on how the ingredient-based co-branding partnership emerged is in order. On August 19, 1999, Nestlé USA and The Pillsbury Company formed a 50–50 joint venture comprised of the Nestlé USA novelty ice cream business and Pillsbury's U.S. Häagen-Dazs frozen dessert business. The alliance did not include international operations or the Häagen-Dazs U.S. shop system. This joint venture was named Ice Cream Partners USA and provided an opportunity for significant incremental growth from the combination. Each brand represented a distinct segment of the ice cream category. Häagen-Dazs is perceived as super premium packaged ice cream and Nestlé has a unique novelty line.

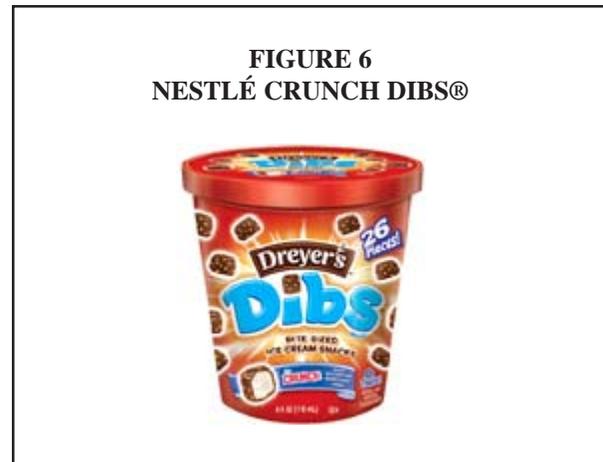


At the end of 2001, Nestlé USA acquired the remaining fifty percent ownership stake in Ice Cream Partners USA from General Mills. This acquisition was made possible through General Mills' acquisition of Pillsbury, which triggered a change of control provision in the joint venture agreement. Nestlé now holds a 99-year license for use of the Häagen-Dazs brand in the U.S. This also includes the licensing agreement with Pillsbury for Häagen-Dazs products in Canada. As of today, Nestlé still holds alliances with General Mills through co-branded products. For example, Nestlé is involved in an ingredient co-brand with Pillsbury® Deluxe Chocolate Brownie Mix that uses Nestlé's chocolates. With this, Nestlé demonstrated the importance of selecting and implementing a

brand alliance strategy that helps the company grow in the long run.

Same-Company Based Co-Branding

A same company co-branded product is created when a company making two different product brands bundle the brands together to make a new product (Wright, Frazer, and Merrilees 2007). The Dibs® bite-sized ice cream snack is an example of this with Dreyer's Grand Ice Cream and Nestlé Crunch Bars.



In 2005, Dreyer's Grand Ice Cream introduced Dibs® bite-sized ice cream snacks. The line sold nearly \$40 million in its first six months to become the #13 top novelty brand (Reyes 2006). In 2006 Dreyer's became a wholly-owned subsidiary of Nestlé and no longer a publicly traded company. At this time, Nestlé led novelty desserts with four brands and a 16.6% market share (Reyes 2006). For this same company co-branded effort, Nestlé selected the right product mix as evidenced by its sustainable market share.

Multiple Sponsor Co-Branding

Co-branding arrangements can involve two or more entities to bring greater distribution and sales for each sponsor. In June 2010, Nestlé Waters brand Perrier completed 33 years as the prominent sponsor at the French Open tennis championship Roland Garros. Perrier and the French Tennis Federation renewed its partnership this summer for another five years. The partnership dates back to 1928, but the first contract was signed in 1978. At the time, the alliance concentrated on the exclusivity of the tournament and Perrier cool boxes on the court. Later on the sponsorship changed to focus on the Perrier brand alone, where visibility was seen by tennis fans in the player's rest area and marked on the umpire's chair in 1996.

**FIGURE 7
PERRIER – PREMIUM
SPARKLING WATER**



However beyond this brand visibility that helps maintain the international recognition of Perrier, Roland Garros is a huge sales opportunity. During the tournament, around 57,000 bottles of Perrier are sold to the public. This translates to 30,000 liters and an extra 18,000 liters for the organization and players. The French Open is one of the four

major tennis tournaments and Perrier will continue to benefit from this relationship as a result of selecting the ideal brand alliance partner.

Co-Opetition

Nestlé and Coca-Cola also developed a unique co-branding relationship. *Nestea* is a trademark of Nestlé and is distributed under license by Coca-Cola. Nestea is related to co-branding as it is a perfect example of *co-opetition* which describes the combination of competition and cooperation (Kotzab and Teller 2003). Being late entrants in the iced tea beverage industry, Nestlé and Coca-Cola decided to unite against Unilever's market-leading Lipton brand. Nestlé created and marketed the product while Coca-Cola managed product distribution. In this way both companies benefited from the expertise of the other without compromising the sales of other competing brands.

**FIGURE 8
NESTEA PRODUCTS**



New Brand

One of Nestlé's most innovative and successful co-branded products includes creating the new brand, Innéov with L'Oréal. In 2002, Nestlé and L'Oréal formed a 50-50 joint venture to begin to develop what they called a

"functional food" (Charles 2002). Innéov is a nutritional supplement for cosmetic purposes taken orally, with the purpose of protecting, correcting and stimulating skin, nails and hair cellular processes. Examples of Innéov products are shown in Figure 9.

Innéov is one of the first major brand alliances

**FIGURE 9
INNÉOV PRODUCTS**



between a food and a cosmetics company. The product benefits from the nutritional research of Nestlé and the dermatological research from L'Oréal. Innéov is based in France and launched in pharmacies in November 2006. L'Oréal did the marketing due to its current expertise in promoting cosmetics. This new brand shows that Nestlé selected the right product and the right partner to enter an industry that makes food for the skin rather than food for consumption.

Joint Venture

On Feb 8th 2010, Nestlé announced that it will set up a joint venture company (JVC) with Yunnan Dashan Drinks Ltd., with Nestlé holding 70% of the share and Mr. Shan, Dashan's founder and General Manager holding the remaining 30%. The name of the new company will remain unchanged. After the setup of the JVC, YUNNAN



SPRING will continue to be manufactured as a high-end product. In the meantime, a small portion of products will also be sold under a Nestlé brand in three years.

As to the setup of the JVC, Nestlé clearly expressed that Dashan is a well-known brand in Yunnan and the first priority of cooperation is to ensure the sustainability of Dashan's business. The ultimate goal is to benefit consumers. Using its expertise in product research and development, and marketing, Nestlé hopes to propel the continuous development of Dashan while at the same time spur growth of its own regional water brands. The joint venture shows Nestlé's reach into developing markets is enhanced by a brand alliance with an established company in the new market segment.

CONCLUSION AND SUMMARY

A brand alliance can be thought of as a cooperative marketing activity involving the combination of two or more individual brands. Co-branding could be represented physically by using two or more brands on a product (e.g., Pillsbury Brownies with Nestlé chocolate) or symbolically by associating brand names, logos or other brand assets in marketing communication efforts. Co-branding leverages brand name recognition however, the effects of multiple brand alliances on consumer evaluations of the individual brands are still not well understood (Voss and Gammoh 2004). It is known that various forms of brand alliances can enhance brand equity, sales growth and market share.

Nestlé has had several success stories in brand alliances. The MILO® Marathon continues to have strong brand association. The new brand venture with L'Oréal also stands out as Innéov has confirmed its number one position in oral cosmetics in Europe. Nestlé's joint venture with DaShan also shows promise in giving Nestlé access to a developing market. However, not all brand alliances end with mutually beneficial results. Thus caution must be exercised when two companies consider a brand alliance to gain a competitive advantage.

CLASS DISCUSSION QUESTIONS

1. Describe the various bases of co-branding available to companies.
2. List several advantages and disadvantages to brand alliances.
3. Why is a good fit so essential to a successful brand alliance?
4. Name a few situations where a brand alliance strategy would be valuable for Nestlé.
5. How could a company like Nestlé determine if a brand alliance arrangement has worked well?
6. What is your evaluation of Nestlé's co-branding strategies given the relative advantages and potential pitfalls of each?

CLASS DISCUSSION QUESTION POTENTIAL RESPONSES

1. Co-branding can be communications-based, product-based, have multiple sponsors or be based on two brands from the same company. New brands, joint ventures and brand licensing area also possibilities particularly in developing foreign markets.
2. Advantages to brand alliances include: (a) cost savings with shared advertising, (b) increased sales in a common market with brand synergy, (c) quick transfer of status, recognition and approval of one brand to another, (d) each partner in a brand alliance brings a customer base, which potentially becomes available to the other, (e) easier access to retailer shelf space when one brand already has such access, and (f) gaining access to a developing market that may not have been reachable otherwise. Disadvantages of brand alliances include: (a) individual brand liabilities are transferred to other brands, (b) control of important product characteristics, including image are placed in the hands of the brand alliance partner, and (c) customer dissatisfaction because of being associated with an unfavorable brand.
3. The key here is that both brands must add value to the brand alliance. The value can be manifested in access to retailers or customers, manufacturing processes and distribution, promotions strategy or brand image, as well as enhanced customer service and satisfaction. The two organizations must also be able to work well together focused on a common goal. A high level of trust is needed in that any detrimental situations faced by one partner will inevitably affect the operations of the other.
4. Nestlé would benefit from a brand alliance situation where the partnership, in a developing market for example increases its chances for success compared to going it alone. This is the case where it would be difficult otherwise to reach a particular target segment. Thus Nestlé gains access to another company's competencies while bringing its own expertise to the partnership.
5. Assessment of brand alliance success level should focus on examining revenues, profits as well as consumer attitudes. Consumer perspective relative to each brand individually and the brand alliance will provide a gauge for the likelihood of future success. It is hoped that there is a synergistic effect in that customers view the brand alliance to a greater degree than the sum of each brand individually. This is particularly telling

when the status of one brand has been compromised by being associated with another.

6. Nestlé has been very successful in launching a variety of brand alliance strategies. Joint promotion with the communications-based co-branding strategy led to having the National Marathon in Manila, Philippines to be more commonly referred to as the Milo Marathon. Multiple brand sponsors run the risk of compromised brand equity when one brand has a misstep in its image. This is very unlikely with Perrier and Roland Garros as the French Open Tennis Competition has enjoyed a solid reputation for years.

There potential pitfalls in creating new brand as was the case with Innéov with L'Oréal. However, Nestlé recognized an opportunity with minimal risk to its own brand name. It brought expertise in promotion to couple with the research and product proficiency of L'Oréal. Nestlé has also been careful to only move ahead in joint ventures with established brands in developing markets. This was the approach taken with Yunnan Dashan Drinks in China. The arrangement gives Nestlé time to understand and develop the Chinese market over a three-year period when it can then introduce its own brand to complement the high-end brand status of Yunnan Spring.

ENDNOTE

An online article in Bloomberg Businessweek provides 20 additional co-branding examples with pictures of the co-branded products for additional class discussion (see "Two brands trumpet one product" by Crawley and McKee 2009).

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