Ingredient Branding

Making the Invisible Visible

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CHAPTER 2

Basics of Ingredient Branding

Ingredient Branding has only started to thrive[1] since the late 1980s as an accepted marketing concept.[2] In the global economy, companies need to not only establish, but also maintain, their competitive advantage, as well as create commercial success in their market and provide criteria for their customers to differentiate them from their competition.[3] Until the early 80s, most companies were focused on tangible resources due to material or production technology restraints. Now, however, we see a considerable shift towards a focus on intangible resources such as brand management[4] and customer loyalty. Many current publications consider one of the most valuable assets for any firm as the intangible asset represented by its brands.

Companies and organizations are beginning to embrace Branding efforts that create value for both the consumer and the company. With the establishment of brand management, companies attempt to attract and retain customers by creating and promoting value for money, image, corporate social responsibility and other values important for the understanding and use of the product. Including brand identity in their offering enables companies to differentiate themselves in a continuously overcrowded market. With the entry of new participants in the market, existing manufacturers must continually search for new and better means of exploiting their existing brands.

According to recent publications, the two strategies, which are most commonly used in order to maximize brand potential, are **brand extension** and **co-Branding**.[5] As mentioned previously, Ingredient

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Branding is a more recent strategy, which fits under the umbrella of co-Branding. Early research in this area has shown both positive[6] and negative effects for the brands, which employ an InBranding strategy, as well as an impact on consumer product evaluations.[7]

The newest research, in contrast, illustrates that Ingredient Branding offers a potential for successful brand management and increased profits for companies along with product offerings that create added value for the customer.[8] If a customer knows and understands the function, features and benefits of a component (ingredient), he or she will pay more attention to this offering, and, if it creates a unique product offering, this can lead to loyal and profitable customer relationships.[9]

This approach surpasses the limitations and dangers of a too narrow and single-sided customer-supplier relationship.[10] The traditional B2B (Business-to-Business) brand strategy of marketing activities is only geared towards the next link in the OEM value chain, but Ingredient Branding can help to overcome this. The Intel Corporation demonstrated the marketing possibilities of Ingredient Branding for both component manufacturers, as well as the manufacturers of finished goods.[11] Since then, numerous suppliers have tried to implement their own marketing concepts modeled on the Intel case in order to escape anonymity and substitutability of supplying a part or a component.

2.1 Theoretical Basis for Ingredient Branding

In both theory and practice, InBranding is often defined as the **marking** or labeling of components or other industrial goods.[12] A more detailed view of the particular goods considered possible targets for InBranding is given in the following systematic classification approach for industrial goods. According to this approach, industrial goods can be distinguished according to the criterion "institutional whereabouts" in capital goods and consumer goods.

In general, **industrial goods** can be InBrands, depending on functionality and the importance to the end user. Hence, materials and parts, which enter the end product, unchanged or are fabricated, further are possible targets for InBranding.[13] Materials and parts, for instance, can be raw materials, e.g. wool (example **Woolmark**) or manufactured materials and parts, (bicycle gears **Shimano**, sweetener **NutraSweet** or microfiber **Gore-Tex)**.[14] **Consumer goods**, on the other hand, serve as end products for the immediate satisfaction of human needs and are not considered as possible targets of InBranding. Examples of these goods are food, clothes, television, and private cars.

In addition to the Branding of materials and parts, it is also possible to brand the manufacturing company as an "institution". In this case the Branding approach is part of **corporate Branding**. InBranding and corporate Branding are not mutually exclusive so there is the possibility of an **overlap of both approaches**. An example is McNeil Nutritionals NutraSweet Inc. By labeling their products with the logos "NutraSweet", they market the contained materials and their company, at the same time.

Most businesses, however, develop independent brands for their products, making it rare to find a correlation of ingredient and corporate Branding. InBranding in the automobile industry is an exception to the rule and is covered in more depth in chapter 5 of this book.

Ingredient Branding is strategic brand management for materials, components, parts, services, etc.[15] In recent years the Branding efforts have increased and cover not only components, but also manufactured parts and services, Ingredient Branding applications lead to more sophisticated applications and they have gained more complexity (see Fig. 4).

For simplicity's sake, we will use the term "components" or "ingredient" synonymously. By labeling **single component parts** or **component systems**, a company can draw the attention of end users and customers to their InBrands within the manufacturer brands. The majority of suppliers and other preliminary product manufacturers form an essential part of the finished goods, yet become invisible to the following market stages.[16]

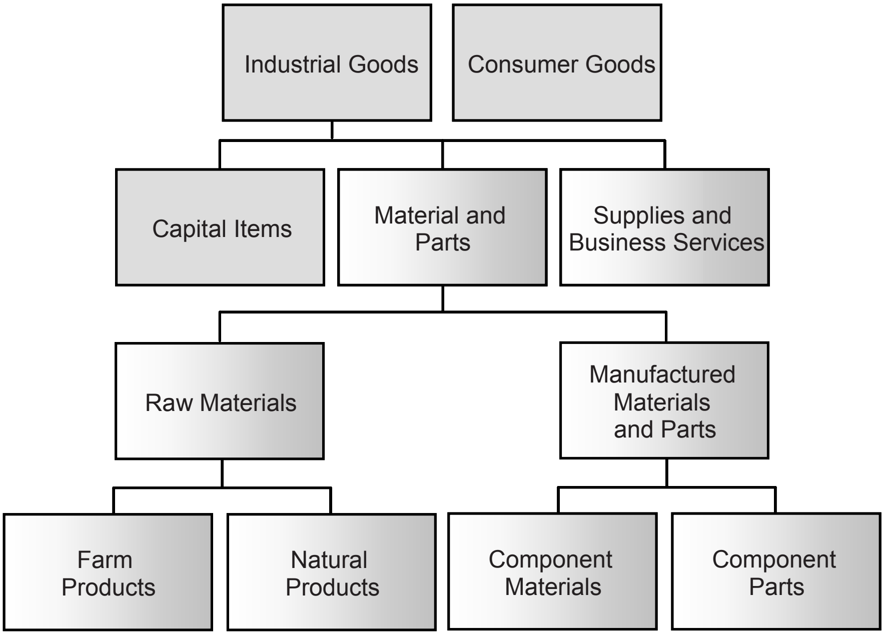

Fig. 4. General targets of InBranding

By the implementation of a multi-stage (multi-level) brand policy, component manufacturers strive for a significant **competitive advantage**. As suppliers, they want to escape the interchangeability of their products and develop, strengthen, and extend their market position.[17] InBranding also opens up opportunities to the manufacturers of finished goods – they can further enhance their products by using branded components. This form of Ingredient Branding is called "Inverse Ingredient Branding" in marketing literature. As mentioned previously, the Intel Corporation was one of the pioneers in the area of Ingredient Branding. Intel has defined InBranding briefly and concisely as the "…Promotion of a brand within a brand to the end user. "[18] Another possible definition of InBranding is focused on the increased brand value of the supplier component: "Pars pro toto". A part represents the whole: in some cases, an unknown (invisible) component of a product becomes more well-known (visible) than the product itself. Thereby **the part becomes the trigger for the buying decision** in favor of the final product.[19] A more comprehensive definition is found in the following:

> **Ingredient Branding** is the brand policy (goals, strategies, instruments) concerning a branded object (necessary condition) of materials, components, or parts (raw materials, component materials, or component parts) that represents a brand for the respective target group (sufficient condition).[20]

Some authors consider components as an Ingredient Brand when they cannot be sold separately, but we experience in practice that most of the InBrands did not followed this rule; instead most of them sold their products separately, particularly in the aftermarket for automobiles.

Stages of Development

After analyzing many of the existing Ingredient Brands, we developed an understanding of the likelihood of success for components or ingredients. As we mentioned earlier, the customers' perceived value of the benefits of the particular ingredient is the most important factor. Yet the customer must also be able to hear, see and/or feel these benefits. Therefore, the seller or producer has a chance to make their Ingredient Brand visible.

For new and innovative products, the chances for market success in the early phase of the product lifecycle are the most obvious. Consider, however, that the component could be part of a new application. Ingredient Branding can also start in a **later stage of the product life cycle**. Actually, the Ingredient Branding concept can be implemented over the whole lifecycle of a particular product. One example is the **Makrolon** brand, from **Bayer Material Science**. They only began Branding their product, polycarbonate branded as Makrolon, to the final user after fifty years of existence, and it worked very well. We discuss this case in more detail in chapter 6.

By examining the classic InBranding examples **Intel**, **Dolby, Lycra, Gore-Tex, CoroWise, Solae, Splenda**® and **NutraSweet** we can see that they began early in the product lifecycle. Various factors are important to create an InBrand, position in the product lifecycle is just one. Ingredient Brands can come and go; therefore it is crucial to **understand the strategic implications** of the possible development of an InBrand. With this purpose in mind, it is important to consider four stages over time (see Table 1). These stages indicate the movements that unknown InBrands have to run through on their way to **establishing brand equity**.

In the **first stage**, a component manufacturer enters into a **co-operative agreement** with the end product manufacturer as part of its Ingredient Branding strategy. Part of this cooperation is the agreement that the supplier's components are labeled on the end product. The supplier hopes to profit by the joint presentation of his new InBrand and the already established brand of the finished product. As trade-off, the manufacturer of the end product receives certain incentives like **price reductions** or **advertising expenditure subventions** from the supplier. This process step is referred to as building up credit and exploitation of well-known brands, respectively. As a result, the InBrand profits from piggybacking the reputation of the end product and becomes known by itself after some time.

In **stage two**, the **breakthrough** occurs. An Ingredient Brand can finally step out of the shade of its host product. In this phase, continual promotion to the end user and a careful cooperation with partners are necessary.

In the **third stage**, the **InBrand pays back** the "loan" to the host product manufacturer; the host is profiting now from the increased brand value. In this phase both brands are regarded as equally important.

In the **last stage**, the **brand value of the Ingredient Brand** has finally excelled the **brand value of the end product manufacturer**. As a result, the InBrand does not depend on brand awareness of the end product anymore. As a result of its own brand equity, it can choose the direct buyers in the B2B business, and is even in the position to dictate the market prices for products in their respective industrial area.

The main point in this 4-Stage-Model of Ingredient Branding (see Table 1) is that the **brand value of the InBrand will eventually exceed the brand value of the host product manufacturer brand** and, therefore, needs to be monitored critically. It is assumed that a long-term, equal partnership of both brands is rarely feasible. Hence, the danger in the statement of this theory is that a lot of end product manufacturers avoid cooperation with InBrands from the beginning, simply to avoid being on the losing end of such a partnership.

Table 1. Four stages of Ingredient Branding

	Stages	Description
1.	Building up credit, Exploitation of well-known brands	Unknown InBrand profits from piggybacking already established brands
2.	Breakthrough and market proven	Unknown InBrand becomes known or even famous
3.	Payback, Synergy	Known InBrand supports former partners and other users of their brand.
4.	Fiesco-Effect	Known InBrand is omnipresent and could not be used as a differentiator and is pushing former supporters into price wars.

Not every brand relationship has to end with a **Fiesco-Effect**[21]. Intel, for example, is present in more than 80% of all computers, and in 2006, they changed to a corporate master Branding concept and kept the Ingredient Branding on the product level (e.g. **Intel Centrino Inside**). Like Intel, Microsoft has achieved a similar position. However, it is important to keep in mind that many other factors, in addition to the brand, were important to achieve this.

Most companies with less powerful market positions have to take precautions. One rather illustrative example is **Gore-Tex**. After trying various Branding concepts with their partners, they developed a distinct set of criterion for partnership and joint Branding. Today, they limit partners to certain applications (cycling, sailing, etc.) and certain industries or regions. With these restrictions and regional limitations, they avoid weakening the partners' possibilities for differentiation.

When defining Ingredient Branding, it is common practice in marketing literature to include similar themes like **co-branding** and **inverse Ingredient Branding.** They are helpful to better explain and define the marketing partnership that emerges in the process of cooperation between the supplier and end product manufacturer.

Correlation to Co-Branding

The concept of Branding, including both InBranding and co-Branding, is built on the foundation of Information Integration and Attitude Accessibility theories[22]. The informational integration theory describes the process in which two stimuli, or in this case, brands, are combined to form consumers' attitudes toward a product. These attitudes are used in interpreting and evaluating specific brands and manifest themselves through consumers' purchase behaviors. The theory of attitude accessibility suggests that the more salient the brand attitude, the more likely that attitude will be used in the creation of a consumer's evoked set. The positive attributes of a brand in a co-Branding strategy can result in the consumer electing to include a particular product in his or her evoked set and ultimately lead to the purchase of that product.

Over the past 15 years, a considerable amount of research has shown that Branding can help consumers to recall important product advantages. For example, the associations between a brand name and a particular product benefit can help a person to understand the product's positioning; and the association between a brand name and a product category can help a person to **recognize potential usage situations**.[23] This conceptualization of a brand name as a recall prompt has been used to hypothesize how people create evoked sets, evaluate alternatives, and make decisions about the appropriateness of **brand extensions**.[24]

Co-Branding is defined as the combination of two brands to create a single, unique product. This association between the brands can be either long or short-term and can be represented by physically combining two or more brands or symbolically associating the brand names. The first strategy consists of associating the host brand with a secondary brand in order to give it **symbolic additional attributes**. The second strategy incorporates key attributes of one brand into another brand as ingredients.[25] The purpose of co-Branding is to capitalize on the equity of the brands and enhance the success of the product. Prior experience with these brands provides consumers with a certain level of quality assurance.

The following example of the computer and memory chip manufacturer Infineon Technologies shows, on the one hand, that the exact definition and differentiation of certain terms is not a priority for businesses in their day-to-day work, on the other hand, that the conceptual differentiation of Ingredient Branding from other forms of partner marketing is still very difficult. Under the auspices of "co-Branding" **Infineon** requests its business partner … "to put the Infineon Technologies trademark into a product and/or its package and user manuals to signal that this product contains the semiconductor solutions of Infineon Technologies."[26]

This might give the (mistaken) impression that co-Branding and In-Branding are the same. This confusion has been nurtured by the fact that, in marketing literature, the same defining approach is used, in part, for both ingredient and co-Branding.[27] In one definition of co-Branding, for instance, it is enough if an already company-owned branded product or service is marked by an additional brand name.[28] Also, Brandchannel's online brand encyclopedia defines **co-branding** as "The use of two or more brand names in support of a new product, service or venture."[29] Nevertheless, these broad definitions are far too general, since they can also be used for paraphrasing the process of InBranding.

From our perspective, categorizing is important to determine the possible actions of the various players involved. In every co- or In-Branding activity, there are at least two companies involved, and, therefore, their Branding strategies determine the outcome of the approach. If there are two compounds with the same types of products involved, and both of them want to promote their product together, we recommend defining it as co-Branding strategy.

A good example of this is **Bentley Motors** luxury cars and **Breitling** watches. In one promotion campaign, they advertise both products together although they have two different products. The common denominator is the same image and similar messages, and together, they help each other **strengthen their respective brands,** while simultaneously remaining distinct from each other. It can be a bit complicated when the products are actually put together, like a club or bankcard with a credit or debit card function. The membership or the club works together with **Visa**® or **MasterCard**® and offers two products as one. If the product cannot be sold separately and/or is a component/ingredient of another product, such as a stereo system in a car, the Ingredient Branding strategy should be applied. We'd like to refer the reader to the example of Intel and Microsoft with Hewlett Packard (HP) computer to illustrate this point.

Some large manufacturers own product brands which they use to enhance their final product offerings, like **Trinitron** from **Sony**, **Quattro** from **Audi**, **Northstar** from **Cadillac** and many more. Here we talk about Ingredient Branding through **self-brands**.

It is especially interesting that according to this classical definition of co-Branding and Ingredient Branding, both strategies overlap at one point. Certain brand alliances of finished products and components can be assigned to both strategies at the same time. This correlation of both definitions is one of the most important reasons why both terms are used as synonyms in many discussions about brand strategies. We keep them separate, but consider InBrand as a form of co-Branding where the ingredient provider is approaching the final customer and help the other brand to become successful, too. It is a long-term relationship and can be terminated easily. Fig. 5 shows the possible dimensions of single/multiple product/brand combinations.

Multiple Products	**Separate Brands**	**CoBrand**
Single Products	**Single Brands**	**InBrand**
	Single Brand	Multiple Brand

Fig. 5. Dimensions of single/multiple product/brand combinations

Inverse Ingredient Branding

Another form of partner marketing, or InBranding, which is frequently mentioned in marketing literature, is inverse InBranding. It simply means that the impulse and incentive for a co-operation comes from the end product manufacturer. By enhancing the finished product with one or more well-known and established supplier/component brands, their actual market position is improved and strengthened.[30] This implies strong competition in the respective industrial sectors in which the performance and quality of the produced goods rarely differ from each other. In that case, the additional Branding of component brands offers end product manufacturers the attractive possibility to differentiate themselves from the competition. In contrast to Ingredient Branding, **the major driving force of Inverse Ingredient Branding is the manufacturer of the finished products**.

There are several good examples in the car industry to illustrate inverse InBranding. Some of the most well-known component systems in this industry are: the antilock brake system (ABS) and the electronic stability program (ESP), offered worldwide by **Bosch**, **Continental**, **TRW Automotive**, and **Delphi**. Their component systems provide a vehicle with features that represent a decisive factor in the buying decision of a customer.

For the purposes of inverse InBranding, **car manufacturers (OEM)** try to enhance the demand of their products by choosing product quality and brand strength of certain supplier and communicating this by labeling the component systems in their vehicles, thereby achieving a competitive advantage.[31] However, it is important to take into account when considering this example that the market leading OEMs of a particular market predominantly use component systems of the same brand or the same manufacturer, making product differentiation in terms of inverse InBranding almost impossible. In Europe, for instance, car manufacturers predominantly use the components systems of **Bosch** and **Continental** in their cars; while, in North America, companies such as **TRW Automotive** and **Delphi** dominate in this respect.

Push- and Pull-Principle: Basis of InBranding

The basic underlying market principles of Ingredient Branding are the **push and the pull**.[32] The pull principle takes effect when the manufacturers of the Ingredient Brand direct their communication efforts directly at the end consumers, bypassing the manufacturers of the finished product. The main idea is to create consumer demand for the ingredient at the retail level, so that they pull the product through the distribution channel, forcing middle stages to use this ingredient.[33]

A **push strategy** means that an ingredient manufacturer concentrates his marketing efforts on promoting his products to the next step in the value chain (e.g. manufacturers of the finished goods).[34] This approach is especially important if a supplier hasn't yet established a strong market position and the demand for his products is still low. By applying the pull strategy, on the other hand, component manufacturers leap one or several market stages in order to direct their communication and marketing efforts to the final customers.[35]

Ingredient Branding harnesses both principles within the scope of its multi-level marketing strategy. By applying the push principle on the one hand, the next level in the supply chain is convinced to buy those products; simultaneously implementing the pull principle on the other hand, directly to the end users, will result in a **demand pressure** making their components irreplaceable to the manufacturers of the end product. In order to support the branded ingredient most effectively, a manufacturer should always use a coordinated push and pull program as shown in Fig. 6.

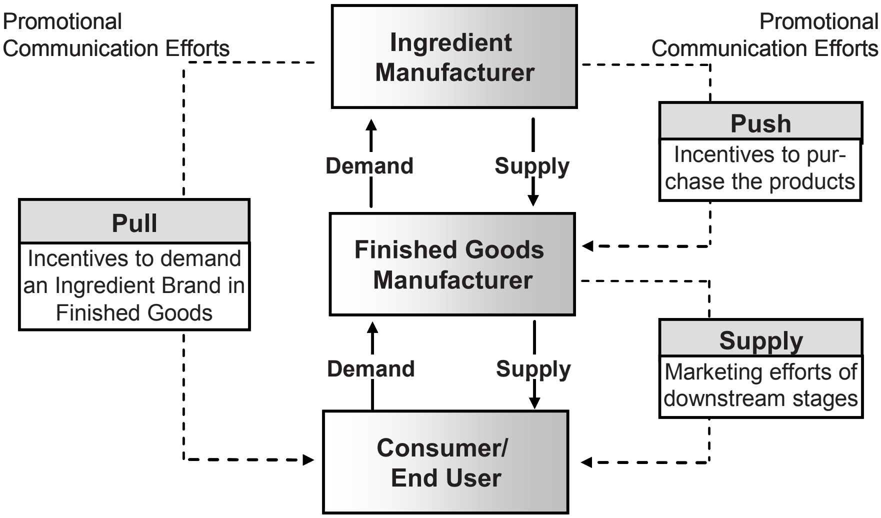

Fig. 6. Push- and pull-principle of Ingredient Branding

The potential of applying a **push- and pull strategy** depends heavily on the resources and products of the respective supplier. Many suppliers do not have the financial capabilities at their disposal to market a product brand at multiple levels across the value chain directly to end customers. The nature, composition, and exchangeability of the components can also prevent the successful application of a push- and pull strategy in the first place.

2.2 Principles of InBranding

Ingredient Branding is a special form of brand alliance, based on cooperative design and delivery of a product, with particular emphasis on the possibility to identify the components in the final product.[36] Ingredient Branding occurs when a component part or service is promoted to the final user. The promotion can be seen from two perspectives: the manufacturer or the supplier.

It is an advanced Branding concept that, if successfully implemented, can be beneficial to both partner brands. However, the motivation behind Ingredient Branding has traditionally been from the host brand's perspective. The host brand wishes to differentiate itself from the competition through the inclusion of the Ingredient Brand into the final product. The perspective of the host brand, using ingredients as brand extensions has been researched and documented as a proven concept.[37]

In manufacturing-initiated Ingredient Branding, the manufacturer usually chooses an ingredient with an existing brand that already has strong brand awareness. The manufacturer promotes the fact that this ingredient is part of the end product in the hopes of persuading end users that their product has certain positive attributes, which are associated with the Ingredient Brand: "The value of Branding has also been recognized by suppliers who produce ingredients or components that are incorporated into final products."[38]

Supplier-initiated Ingredient Branding occurs when a supplier of a component part or service initiates the promotion of its ingredient, which is part of the end product, to the final user in an effort to create brand awareness. The supplier hopes that their investment in brand awareness will result in the consumer's request or "pulling" the Ingredient Brand from the manufacturer. This supplier-initiated Branding is what the authors of this book refer to as "InBranding."

The concept of InBranding has received minimal attention in literature on the topic of Branding. The distinguishing factor between InBranding and traditional Ingredient Branding is the motivation behind the strategies. The motivation behind traditional Ingredient Branding revolves around the host brand and usually extends or modifies an attribute of the host brand in an effort to enhance consumer brand evaluations.[39] The motivation behind InBranding revolves around the Ingredient Brand or component brand forming an alliance with a **product manufacturer** in an effort to create brand awareness for the Ingredient Brand and generate pull effects through the value chain. It is the distinction between consumer and manufacturer behavior that separates them. Consumer behavior creates pull and manufacturer behavior creates push. Consider push and pull effects as parts of marketing mix decisions. Supporting pull and push increases the probability of coordination. The combination of the **push and pull creates synergy** for the complete marketing mix. The supplier offers a component or service to his customer, the OEM. Thus, the supplier has a **B2B relationship** with the producers of such products as automobiles and electronic products. The OEM produces a product that is to be used by their customer, the final user. The final user buys the product or service in a pure **B2C relationship** with the OEM.

According to this principle, there are two **separate stages of customer relationship**: supplier with OEM, OEM with final user. With InBranding, the two stages are interconnected: Step (2) follows step (1), and step (3) occurs, where the supplier informs the final user that a particular ingredient is part of the product offering, which makes the final user choose this product over competitive offerings.

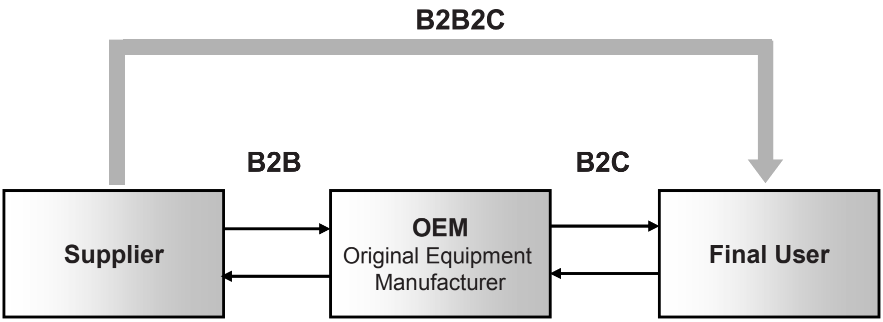

Fig. 7. InBranding framework

In this step (4), the final customer "pulls" the product because the particular ingredient component is desired. This is a continuous process of push and pull, with a high success rate if done appropriately. The following InBranding model illustrates these processes (see Fig. 7).

Even companies with strong consumer brands can use InBranding to enhance or protect their competitive position, as Chevron does with TEXTRON, and GM with Northstar, to power up its Cadillac brand for the performance-oriented customer segments[40] with racing components in their luxury cars. In Fig. 8 we show four possible stages for Ingredient Branding in a real-life example. **LION Apparel** provides functional apparel for firefighters, with branded fibers and laminates that provide superior protection. DuPont and 3M deliver base materials for suppliers and together with branded suppliers like **Gore-Tex**. In this and many other cases, we have to consider more stages: components, modules, systems, integrations with

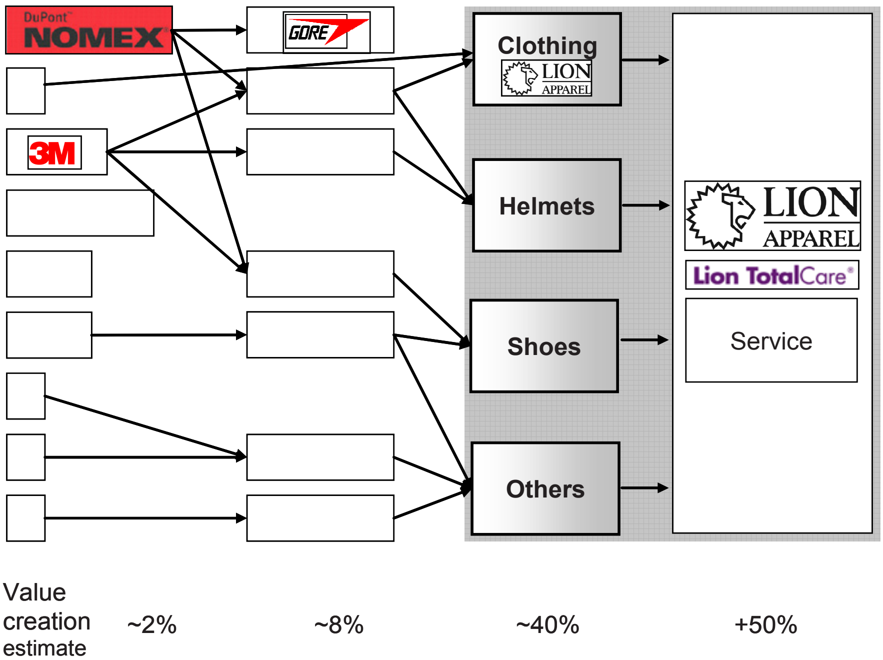

Fig. 8. Textile InBranding example

software and services, etc. This means that all up-stream markets have to be considered, including the end customers who are being included in the marketing of the component. As opposed to multi-stage Branding, single-stage Branding only promotes the brand to the player at the next stage in the value chain.[41]

Another important aspect to mention is the position of the ingredient in the value chain. Due to various factors, InBranding can occur in an early or later stage of the value chain, depending on the importance of the particular functionality to the end user, or the situation in the industry.

This can be illustrated with the example of an end user who needs a high-performance outdoor jacket that is very light but also water-resistant but breathable. Sports enthusiasts with this kind of requirement are often cyclists or sailing fans. The preferred vendor for sailing clothing is **MURPHEY** and **NYE**, sponsors of the America Cup team[42].

W. L. Gore & Associates (Gore) supplies to a module or system supplier. They manufacture inlays or part of the jackets, as well as supplying directly to the jacket manufacture or supplying the final product to the retailer where it is possible for the end user to purchase it. **Gore** illustrates the possibility of a 5-layer approach to InBranding throughout the value chain. This is shown in Fig. 9. Therefore, Gore needs to inform all the players in the value chain about the high performance of their product offering.

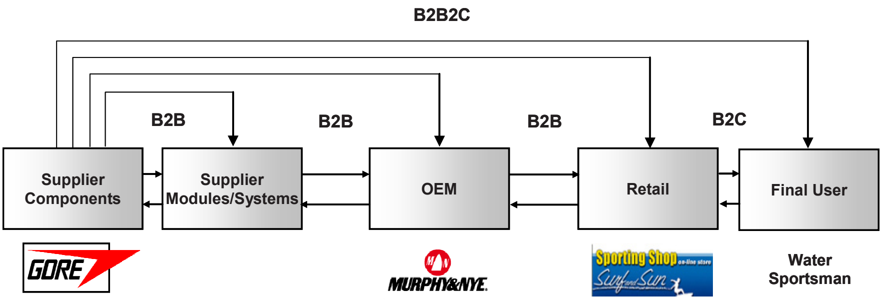

Fig. 9. Multiple layers of InBranding

Single-Level and Multi-level Branding

Ingredient Branding is a form of multi-level Branding of industrial manufacturers of parts and/or components. This means that all downstream markets including the end customer are being comprised in the marketing of the component. Contrary to multi-level Branding, single-level Branding is only addressed to the next following stage in the value chain. To avoid confusion, it is necessary to mention that the terms of **multi-level Branding** and multi-level marketing as well as **single-level Branding** and single-level marketing are used synonymously in marketing literature.

On closer examination, the following differences can be detected between these terms: while the concept of Branding is only focused on

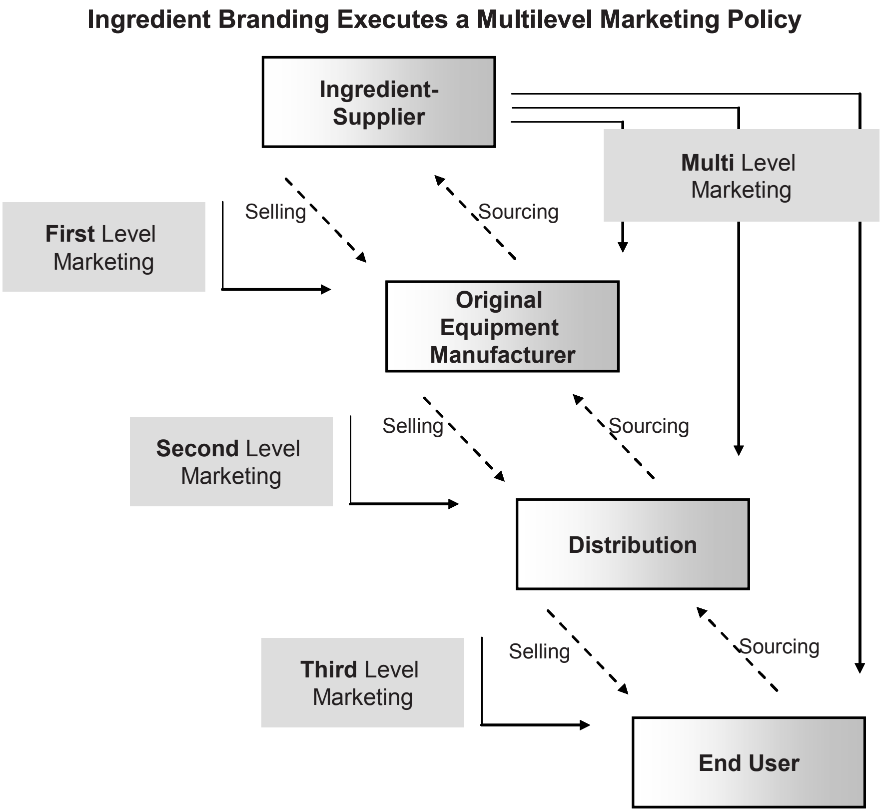

Fig. 10. Single-level and multi-level branding

the brand itself and brand value of the product, the marketing concept embraces all possible marketing instruments. Depending on the brand strategy, companies can follow different objectives for increasing their sales numbers. The multi-level brand strategy uses the pull-strategy to create consumer demand, so that the product is pulled through the distribution channel, forcing middle level to use this ingredient. Single-level Branding, on the other hand, employs the push-strategy with the intent to create a demand pull through the request of the customer and distributor, which will then necessitate the final product manufacturer to put the ingredient or component inside. Single-level and multi-level Branding are shown in Fig. 10.

2.3 Requirements for InBranding

Today's economy is affected, above all, by a strong **division of labor** in the production of products and services. Thus, it is common practice that the majority of goods have to go through numerous market stages, starting from the first production stage until the final consumption/use, and as they progress along this chain, they continuously increase in value.[43] Primarily, component manufacturer/supplying companies, demanders of preliminary products and the private end users are involved in this process of added value.

Component manufacturers are private businesses whose products and services are designated for industrial markets only. This means that their goods have to pass another market or processing stage before reaching – as final product – the private end user. Therefore, businesses demanding those preliminary products are not private consumers but **organizational customers**. These are categorized again into private businesses, state facilities, and public institutions. State facilities are military and police; while churches, hospitals, schools, and colleges/universities are assigned to the public institutions. Their own performance depends on the goods and services of component manufacturers.[44]

Private companies, on the other hand, can generally be classified into three groups: users, OEMs, and middlemen. Users, for instance, are businesses that demand machines to use in the production of their own goods and services. OEMs, on the other hand, incorporate the purchased materials, parts or components into their final products. In the automotive industry, for example, many parts of a car – sometimes even the whole assembly – are out-sourced by the car manufacturers. Therefore, the essential difference between them is the fact that OEMs enhance the value of the demanded goods before passing them on to the users at the end of the value chain. It is interesting to note, however, that manufacturers of preliminary products must also purchase the necessary resources for their production on the same market. Thus a component manufacturer can be – in contrast to a finished product manufacturer – supplier and customer at the same time.

A well-known OEM market is the computer industry. The **Intel Corporation** produces microprocessors, which are the centerpiece of every computer. Nevertheless, the actual computer manufacturer appears on the market as the sole manufacturer of the computer, although different suppliers produced numerous components of the PC. The automobile industry represents another well-known OEM market. Here, as well as with car manufacturers and the production of their vehicles, OEMs depend on components and other preliminary products from their suppliers.

Nevertheless, the **built-in components** are not usually mentioned in the marketing and sale of the vehicles, because car manufacturers only want to associate their own brand with the car. In addition to the OEM market, there is also a spare part market (**aftermarket**) for components. OEMs or their respective suppliers usually serve this market directly.[45]

The last group, industrial middlemen, is essentially composed of distributors, retailers, and wholesalers who distribute industrial goods *unmodified* from the manufacturers to users, to OEM's, and to other middlemen. They form the last part of the value chain. Although, they create **added value for customers** in this process, they are not valid targets for an Ingredient Branding strategy.

As already mentioned, companies only purchase on B2B markets in order to process these goods and services in their production and distribution of goods and services. The goods marketed in the business-to-business arena have to pass through at least one subsequent stage of processing, transformation, or retailing, before they reach in modified or revised form private customers.[46]

Therefore, in relation to the marketing of their products and services, component manufacturers face an **entirely different business environment** than manufacturers of finished products, whose marketing efforts are directed mainly at private consumers.

The marketing activities of component manufacturers are usually directed exclusively at the next market stage, which is composed of other private businesses, state facilities, and public institutions. This kind of component manufacturer single-level marketing is usually called industrial marketing or business-to-business marketing.[47] The kinds of customers in industrial marketing are shown in Fig. 11.

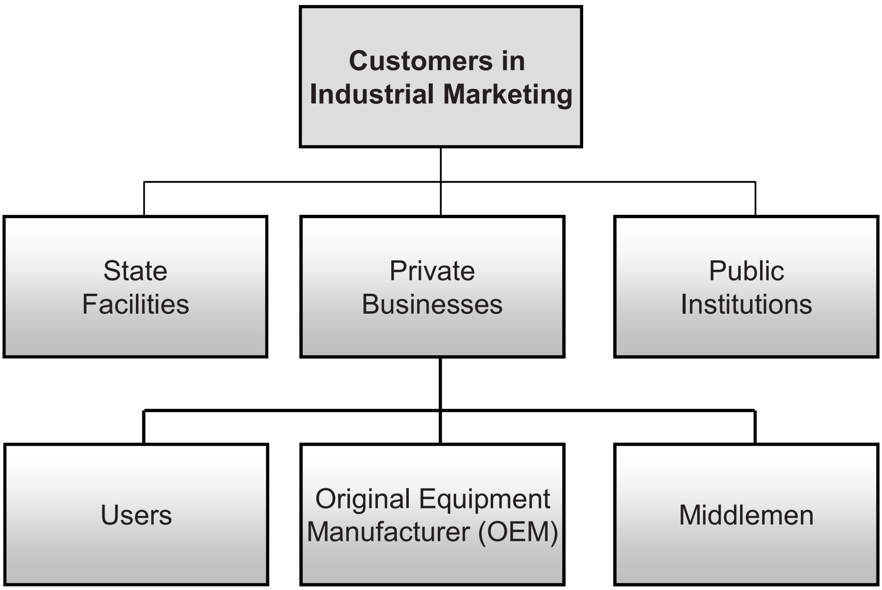

Fig. 11. Customers in industrial marketing

InBranding starts with this kind of single-level B2B marketing and expands it to a multi-stage marketing strategy. Therefore, the implementation **of an Ingredient Branding strategy** requires an **extensive reorganization** of the present marketing strategy for component manufacturers.

In an Ingredient Branding strategy, marketing efforts are no longer solely directed at the companies in the next market stage, but also at subsequent stages of the value chain, leading up to the end customers. In this way, the previously mentioned pull-effect is achieved: the demand for products containing the respective components increases.

Supply Industry

The supplier business in the B2B market differs from other commercial business relations (business type) in that there is a much stronger emphasis on the **continuity of the business relationship** between supplier and customer, as well as on the increased individuality of the performance for customers. Fig. 12 shows a systematic of business types.

The care and protection of business relationships, aimed at positively influencing the **repurchase behavior** of customers, takes the center stage of marketing in the supplier industry.[48] Customers are usually manufacturers of finished products that process the supplied goods and services into their own products. Thus the supplier industry is mainly characterized by organizations of suppliers who group together, into buyer associations, to buy or sell with economies of scale.

This encourages the development of long-term business relations between suppliers and organizational customers characterized by **customized performances**. Quite often, suppliers and customers jointly develop new product technologies that are specially produced by the supplier. The customized performances of suppliers in the automobile industry are a good example. This also means, however, that suppliers and customers are tied together for the duration of the product life cycle.

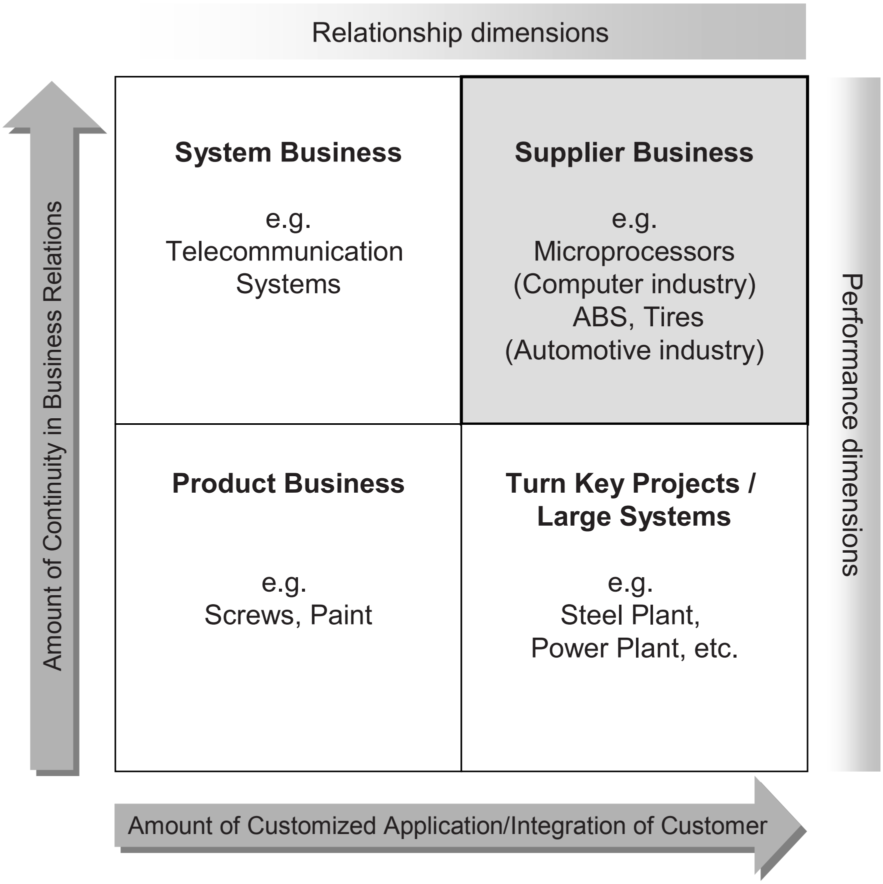

Fig. 12. Systematic of business types

Usually, OEMs exert strong market power over businesses in the supply industry. Due to intense competition in this arena, it is usually the OEMs that can enforce their own conditions over those of the component manufacturers. To break the OEM market power is one of the major opportunities offered by implementing an Ingredient Branding strategy for suppliers.

Procurement Process/Industrial Buying Process

The industrial buying process is of significant importance in the supply industry; it can therefore also influence the Ingredient

Branding strategy of a supplier. Before establishing an Ingredient Branding strategy, it is essential for component manufacturers to analyze its customers' procurement process. It is especially important to check whether the reputation and image of the final product brand can be positively used to support a supplier's own marketing activities in the context of InBranding.

Before an **end product manufacturer** (OEM) can become an ideal business partner for a potential InBrand, there are several obstacles that have to be overcome in the industrial buying process by the component manufacturer. Extensive decision making processes form the basis of procurement in the supply industry. The majority of these decisions are rational decisions based on much more criteria (e.g. price, features/functionality, service) than in the consumer goods area.[49]

In contrast to consumer markets where products or services are demanded directly by end consumers, the industrial buying process is characterized by multiplicity. Any industrial buying decision is a complex process. Due to the complexity, an organizational purchase usually involves inputs from many different departments in the organization. People from different disciplines, at various levels in an organization, contribute their expertise to assure the selection of the best solution for the organization.[50] Because so many different individuals use such a wide-range of aspects in the decision-making process, the duration can be extended significantly.

Buying Center

As mentioned above, the buying process of business customers differs in many ways from the buying patterns of private consumers. The main reason for this difference can be found in the multiplicity of the procurement process, which is characterized by a **collective decision**.[51] Depending on the respective buying situation, there are several participants involved in the purchasing decision, forming the so-called **buying center**.[52] Its size and composition varies greatly depending on the complexity of the respective need that has to be satisfied.[53]

A buying center is usually composed of several participants who decide on which materials, components, or parts to buy. Such a buying center can include up to 20 representatives from different levels and departments (e.g. finance, production, users, purchasing, engineering, external consultants, management etc.) within an organization.[54] The buying center is the relevant target group for any marketing efforts of the supplier.

In practice, though, due to cost and time reasons, it may be extremely difficult for a component manufacturer to direct focused marketing efforts at all of the different representatives of such a buying center. Therefore, most marketing activities and efforts are directed at merely one or two people. Usually, deciders, buyers, and users are the most important targets within a buying center.[55]

The **decider** tends to be someone in an executive position who makes the final decision for a product or a supplier. **Buyers** are formally authorized to pre-select suppliers and arrange the purchase terms before the actual purchase and to negotiate the final contract after the decision has been made.[56] The **user** is the person inside the company that will directly use the purchased products. The influence of the user on the buying decision depends on their sector of activity as well as the corporate culture. The more qualified the user, the more weight is given to his/her opinion. The experiences of these three targets are usually decisive in the success or failure of the purchased products.[57]

Successful implementation of Ingredient Branding not only depends on the right execution of the InBranding strategy, but also on the current conditions of the industry or company. In order to determine the strategy, it is necessary to first analyze certain market conditions to help predict the outcome. Therefore, it is very important to have a clear picture of the current situation in your particular industry.

This does not mean that conditions could change, as we have seen illustrated by the examples given. For many years, the automotive industry was very reluctant allow any component brands to get near their customers minds. However, today you find **Bose sound systems**, **Brembo** brakes or **Recaro** seats in many automobiles.

The electronic industry is very different from the car industry. Many components help to enhance the product performance for the end user. The power situation has changed even in this industry. Corporate suppliers are driving the innovation and pricing conditions. Other industries have their distinct conditions for InBranding. Clothing and consumer electronic industries have been particularly successful in this respect, as well as chemical and food industries.

If you begin to analyze the role of established brands in the industries mentioned, you can determine the dominant position of the product performance for the customer. Domination is seen in certain industries by the applications and ingredient suppliers, or by the product functionality, such as the laminates in the cloth industry or the microprocessors in the computer industry. You can find a similar situation in the soft drink industry where sweetness determines the product favorability. NutraSweet was very dominant for many years until a generic alternative became available.

There are also industries in which components and their suppliers do not play a key role. This could easily change however as component suppliers begin to understand ways in which they can bring their brands into the minds of customers. There are more options out there, even when you "own the market" like the **Almond Board of California** who owns 75% of the world's total production of almonds. The almonds are grown in Northern California in the San Joaquin and Sacramento valley, where, not so long ago, the Almond Board started a campaign: **'Almonds are in'**. They did not understand the potential for customer loyalty as the customers started asking for **"California Almonds"**, and therefore did not develop an Ingredient Branding strategy.

Competition Intensity

The competitive intensity is another influential factor. Considering these situations in the earliest of our Ingredient Branding concept, it could help to not waste efforts and investments if, in a particular industry, competition is fierce and price-cutting dominates over innovation and quality improvement. In such a situation, an Ingredient Branding strategy would be a risky undertaking. To cut through multiple layers of the value chain and fight off lower prices can be a difficult endeavor. If component suppliers operate in a market environment, however, with less competition triggered by a limited number of suppliers and a large number of OEMs, then the situation may be more suitable for implementing an Ingredient Branding strategy. The competitive conditions for InBranding are shown in Fig. 13.

The main condition for application of successful InBranding is the possibility to differentiate the component for the final product. When the end user also recognizes this, and its perceived value is high, then the chances are high.

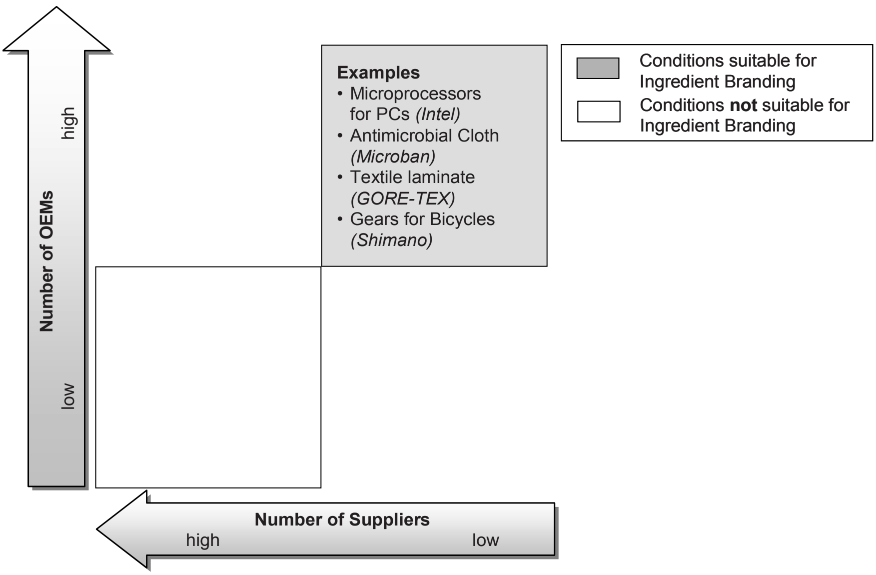

Fig. 13. Competitive conditions for InBranding

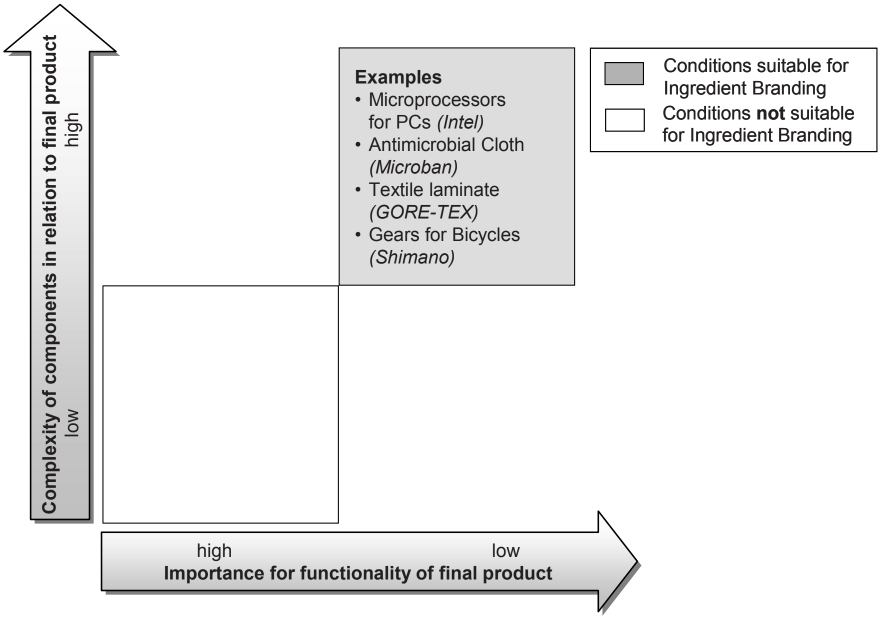

Fig. 14. Suitability array for InBranding

Another pre-condition is component complexity in relation to the final product. If this is high and the importance of the functionality to the final product is high, Ingredient Branding has a strong starting position. The suitability array for InBranding is shown in Fig. 14.

By analyzing the majority of Ingredient Brand strategy formulation, it can be seen that at the origination of the concept only a few competitors were present. First mover advantages were capitalized mostly on low markets and applications. Increased customer sophistication and knowledge of the product features is the ultimate facilitator of InBranding efforts. Understanding this is preeminent for any further action.

In established markets and existing product categories, other aspects are also important. Researchers have found that efforts on the part of the component supplier for the OEM are an important stimulator to the success of InBranding. In contrast with low brand value of the final product, this could lead to high customer appreciation. Using an example from industrial end users, like construction companies or building contractors, Chinese construction equipment, powered by **Perkins Engines**, or **Bosch Rexroth Hydraulics** equipment, could boost the success of the OEM.

Similar situations can be found where a secondary market exists, like in the automotive industry with their "aftermarkets". Customers replace components when they are worn out or for better performance with product supplies that have superior quality or better features. An example of this is the **Recaro** seats in cars (see Fig. 15).

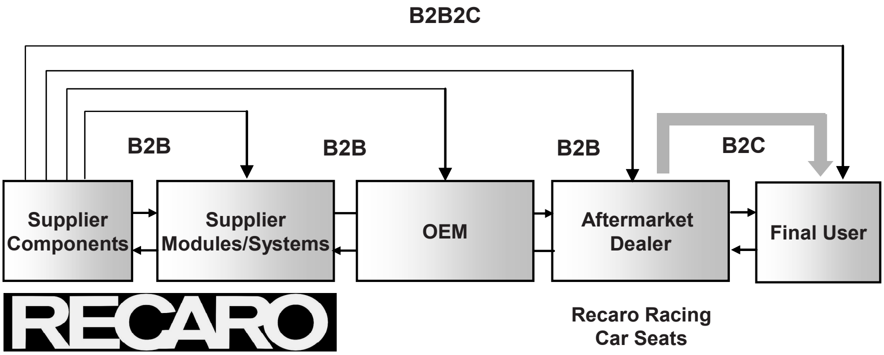

Fig. 15. From aftermarket selling to InBranding

As mentioned previously, the situation in an industry and its competitive environment are influential factors on the amount of influence a particular company has at a certain point in time. They have to understand the environment and the given product constellation. With a deep understanding, and with the help of product and Branding innovation, the situation can be changed.

InBranding is not beyond reproach. It can create complicated partnerships in which the balance of power could change over time, resulting in tension-filled relationships between partners. For example, in the automotive industry there are only a few companies that have managed to keep their brands mentally and visibly present for end customers, or their brand visible in the automobile.

In Europe, examples of this include, **VDO** with fittings, **Bosch** with electronic parts, **Blaupunkt** and **Becker** with car radios and **Recaro** with car seats. Quite often, these suppliers provide many other components that are part of a finished automobile, yet they are not able to make them visible to the end customers. In addition, there are numerous other suppliers in the automobile industry who are not able to accomplish what the aforementioned examples have achieved due to their lack of positioning power in the industry.

As system and module suppliers rise to the challenge and grasp technological advancements and promote leadership through innovation, they are increasing their position of power in their industry. This is being increasingly perceived by car drivers due to extensive investments in marketing communications. Car drivers are beginning to demand specific Ingredient Brands at the retail level. As a result, the influence of systems and modules to the image of the end product car is growing steadily with the OEM bearing the financial burden of this. Suppliers are challenged in terms of brand strategy and end customer contact.

InBranding offers a way to inform consumers about the additional benefits they are receiving from superior component brands and prime offerings. In one of our preliminary analysis in 2004, we found that end customers are indeed supporting this notion: Every third car buyer makes his decision based on the origin of parts and components.[58] The right component brand names translate into guarantees of safety, comfort and ideal cost/performance ration.

It took five years for Intel to first achieve results from its InBranding strategy and ten years to reach market supremacy. Intel showed the world that InBranding could make a difference. They understood their position as a component supplier for electronic components in the computer industry and used the opportunities in the market to become known by the public. By creating market awareness at the end user, Intel increased their market power versus OEMs and **established an outstanding market position.** They created chances for competitive differentiation and established entry barriers for competitors. Over the years, this strategy increased customer loyalty and created the necessary demand-pull, resulting in establishing themselves as irreplaceable. For their partner, Intel created a positive image of the OEM brands and achieved the price-/volume premium, particularly for the tech-savvy segments, in the early product life cycle stage. One can see here the pull-creation having had its full effect. As a result of their efforts, Intel has achieved the creation of brand equity comparable to the level of consumer goods.[59]

2.4 Benefits and Risks

Despite the risks, the 'Intel Inside' campaign proves that InBranding can be an excellent strategy to help suppliers:[60]

- Capitalize on the positive image of end products
- Increase awareness among end users
- Establish entry barriers in their sector
- Increase customer loyalty
- Establish a price premium for their product and
- Increase their brand equity.

Establishing brand value is the result of a time-consuming learning process. Competitors may need years in order to catch-up and create their own brand image.

It is also important to consider the asymmetry of this process: a brand image can be destroyed rather quickly. A good example for this is the "Elk test". When the **Mercedes-Benz** small model A-class car rolled over during a test at market introduction, it needed a long time to become re-established. Similarly, when Olestra with the brand name **Olean** came under fire for potentially causing gastrointestinal problems, Pringles, a product-brand that used **Olean** (fat replacement), also suffered. Additional risks associated with InBranding include:[61]

- Vulnerability of the Ingredient Brand to negative publicity involving the host brand

- Possibility of loss of host brands' customer base to the Ingredient Brand partner
- Lack of sustainable competitive advantage of host brand if there is no exclusive agreement between partners
- Host brand may copy the Ingredient Brand and ultimately become a competitor

The initial perceived quality of and attitude toward the partner brands might have implications on the outcome of an Ingredient Branding strategy, as well as on the selection of Ingredient Brands by host brand managers.

Despite these factors, there are still many opportunities for ingredient suppliers. Recent years have shown that particularly in the food industry, where soy based products and sugar replacement (Xylit, Splenda, etc.) products have made their way to the market. There are also the well-being and care product categories which have ingredients playing a bigger role in the mind of the customers: **Nanotex**, **Ingeo**, **CoroWise**, **Z-trim**, **Amicor**, etc.) Many of these companies are small or medium-sized and they are looking for ways to differentiate. Ingredient Branding is their chance. They will have the opportunity to:

- Become known to the public
- Create chances for competitive differentiation
- Establish entry barriers for competitors
- Increase customer loyalty
- Establish pressure on demand
- Establish protection from interchangeability
- Create a positive image for the OEM brand
- Achieve a price/volume premiums
- Pull-creation
- Increase their market power versus the OEMs

These are all very good reasons, but there are also major risks involved for the suppliers of ingredients, when they start putting their names on the final product. The biggest risks for the suppliers are:

- Increased dependency on quality problems of the OEM
- High cost and management time
- Increased need for quality assurance
- Become visible targets for competitive attacks
- Can be affected by the negative image of the OEM
- Heavy resistance from industrial customers

So the stakes are high for the supplier to initiate Ingredient Branding, but after cutting through the multi-layer value chain, the benefits are high as well.

The possible pull-effect can change a whole industry, as we have seen with microcomputers. Even in the automotive industry, specialty suppliers like **Brembo** (brakes) or **ZF** (gear boxes) are investing heavily to get recognized. **Texas Instruments** invested in its **DLP** In-Brand in the NASCAR series and hoped to create the pull. This may not have been the most recommended course of action as current developments have shown. However, these component suppliers cannot do it alone. They need the cooperation of the OEM or other participants in the value chain. This could be, for example, VAR (Value Added Reseller), which uses components and delivers specific systems or product modules to the market. Another example is **Kohler Industrial Division**, which sells auxiliary power units to their large customers. **Kohler** purchases all diesel engine products from **Cummins Engines**; they can also get this power supply unit with a **Deutz** engine. The OEM or VAR creates a variety of benefits, such as:

- Enforce a positive image
- Differentiate from other competitors
- Lower marketing costs
- Increased product value

However, all this has a price. There are increased risks and conflict potentials. In many cases, it is a question of judgment and understanding of future prospects.

When Dr. Dieter Zetsche from the former **DaimlerChrysler AG** was in charge of **Chrysler**, he avoided any dilution of the Chrysler brand. After his departure and after the split off from the merger, **Chrysler's** high-performance models like 200 CSR T8 were factory fitted with Brembo braking systems. Land Rover and many other car manufacturers followed this example and made Brembo one of the most respected brake manufacturers in the world. Now its other rivals, such as Bosch, are forced to improve their end user reputation as well.

An interesting example of this is **Torsen Inc**. For a company with a huge Ingredient Brand potential, it missed the mark largely due to their changing ownership. Toyota trucks are only putting the Torsen brand sticker on their off-road vehicles. **Torsen** supplies to most of the other off-road cars, like **Audi**, with the name **Quattro** or **Syncro** at **VW (today 4Motion)**. They even supply to the **GM Hummer, Mazda, Ford, Lexus BMW** and many others, but with no brand recognition.

Summary

- **Establishing brands in a B2B environment is different** from Branding to the general public. The role and the mechanism of an industrial brand strategy have to be more focused than those pursued and implemented in consumer markets.
- Using Ingredient Brands as a **brand extension** concept for host brands is only one way of using the power of Ingredient Brands.
- Ingredient Branding concepts from the supplier side (InBrands) provide a new way to make the component brand relevant for the final user.
- The final user will accept InBrands when their functional features provide them with additional benefits for the usage and enjoyment of the final product.

- In recent years Branding efforts have increased and created large amounts of InBrands in different industries (see Chapter 5 & Appendix).
- The Intel Inside campaign created visibility for the Ingredient Branding concept, but for many companies it was difficult to copy this success.
- Brand cooperation can be accomplished in many ways of co-Branding; Ingredient Branding is just one form of them.
- Consumer brand companies can also create their own **self-Ingredient Brands** to communicate their advanced component offerings in the final stage (**reverse Ingredient Branding**).
- The understanding of the **push- and pull** principle is important to create the foundation for an InBrand.
- The InBranding framework can provide a conceptual basis for developing and implementation but it **requires the understanding of a multi-level Branding concept** for consumer products.
- **Consumer brands** (e.g. Northstar and Cadillac, Quattro and Audi) can also use InBrands to enhance their brand recognition with a combination of the **push- and pull principle.**

Understanding both the B2B and the B2C market environment is necessary to conceptualize an **Ingredient Branding strategy,** and the use of secondary markets (e.g. aftermarket for automobiles) is one way to get consumers attention for the component supplier.

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