MARKETING CO-OPERATION

(Compiled by Deep Banerjee, Marketingpundit.com)

Marketing co-operation is a partnership of at least two companies on the value chain level of marketing with the objective to tap the full potential of a market by bundling specific competences or resources. Other terms for marketing co-operation are **marketing alliance**, **marketing partnership**, **co-marketing**, and **cross-marketing**.

Marketing co-operations are sensible when the marketing goals of two companies can be combined with a concrete performance measure for the end consumer. Successful marketing co-operations generate "win-win-win" situations that offer value not only to both partnering companies but also to their customers.

Marketing co-operations extend the perspective of marketing. While marketing measures deal with the optimal organization of the relationship between a company and its existing and potential customers, marketing co-operations audit to what extent the integration of a partner can contribute to improving the relationship between companies and customers.

Importance:

The importance of marketing co-operations has significantly increased over the last few years: Companies recognize partnerships as an effective means for untapping growth potentials they cannot realize on their own. In the big merger and acquisition wave at the end of the nineties it became apparent, that co-operations (especially on the value chain level of marketing) often present a much more flexible approach with a more immediate growth impact than merging or acquiring entire business entities.

Studies show, that companies recognise the increasing relevance and potential of co-operations.

Objectives:

There are four main objectives of marketing co-operations:

- Build-up and/or strengthening of brand/image by implementing joint communication measures.
- Access to new markets/customers by directly addressing the co-operation partner's customers or by using its distribution points.
- Increase of customer loyalty by addressing own customers with value added offerings from the partner.
- Reduction of marketing costs by bundling marketing measures.

In some cases, co-operations are set up to address one of these objectives. In most cases, it is a combination of these.

Shapes

Marketing co-operations can take on many different shapes, for instance:

- Joint product development or Co-branding (eg. ICICI Bank – Bharat Petroleum credit cards).
- Joint communication or "Co-advertising" (eg. LG Laptops + Intel Centrino dual core processor).
- Joint sales measures or Co-promotion (eg. Buy Rs.300 worth of assorted FMCG brands from the same company at a discount and also get a bucket free).
- Co-marketing.
- Product bundling (eg. Get pre-installed Windows XP + an en encyclopedia free on purchase of certain brands of computer systems).

- Sponsoring (eg. Hero Honda – MTV Roadies).
- Branded Entertainment (eg. Amul Voice of India musical talent search on television).
- Product placement (eg. Hero Honda Karizma motorcycles in MTV Roadies reality show).
- Sales partnerships.
- Licensing (eg. Yum Restaurants operating the Pizza Hut and KFC brands of restaurants in India).

New Product Development (NPD) is the term used to describe the complete process of bringing a new product or service to market. There are two parallel paths involved in the NPD process : one involves the idea generation, product design, and detail engineering ; the other involves market research and marketing analysis. Companies typically see new product development as the first stage in generating and commercializing new products within the overall strategic process of product life cycle management used to maintain or grow their market share.

Product bundling is a marketing strategy that involves offering several products for sale as one combined product. This strategy is very common in the software business (for example: bundle a word processor, a spreadsheet, and a database into a single office suite), and in the fast food industry in which multiple items are combined into a complete meal. A bundle of products is sometimes referred to as a **package deal**.

The strategy is most successful when:
- there are economies of scale in production,
- there are economies of scope in distribution,
- marginal costs of bundling are low,
- production set-up costs are high,
- customer acquisition costs are high,
- consumers appreciate the resulting simplification of the purchase decision and benefit from the joint performance of the combined product.

Product bundling is most suitable for high volume and high margin (i.e. low marginal cost) products. Research has found that bundling was particularly effective for digital "information goods" with close to zero marginal cost, and could enable a bundler with an inferior collection of products to drive even superior quality goods out of the market place.

In oligopolistic and monopolistic industries, product bundling can be seen as an unfair use of market power because it limits the choices available to the consumer. In these cases it is typically called product tying.

Pure bundling occurs when a consumer can only purchase the entire bundle or nothing, **mixed bundling** occurs when consumers are offered a choice between the purchasing the entire bundle or one of the separate parts of the bundle.

Pure bundling can be further divided into two cases: in **joint bundling**, the two products are offered together for one bundled price, and, in **leader bundling**, a leader product is offered for discount if purchased with a non-leader product. **Mixed-leader bundling** is a variant of leader bundling with the added possibility of buying the leader product on its own.

Brand licensing is a contract between the owner of a brand and a company or individual who wants to use the brand in association with a product, for an agreed period of time, within an agreed territory. Licensing is used by brand owners to extend a trademark or character onto products of a completely different nature.

Brand licensing is well-established, both in the area of patents and trademarks. Trademark licensing has a rich history in American business, largely beginning with the rise of mass entertainment such as the movies, comics and later television. Mickey Mouse's popularity in the 1930s and 1940s resulted in an explosion of toys, books, and consumer products with the lovable rodent's likeness on them, none of which were manufactured by the Walt Disney Company.

The rise of brand licensing began when corporations found that consumers would actually pay money for products with the logos of their favorite brands on them. MTV Clothing, Superman merchandize, Apollo Gleneagles hospitals are good examples of brand licensing.

Brand extensions later made the brand licensing marketplace much more lucrative, as companies realized they could make good money renting out their equity to other manufacturers and service providers. Instead of spending crores of rupees to create a new brand, companies were willing to pay a royalty on net sales of their products to *rent* the product of an established brand name. Mariott and Sheraton hotels in India, Bajaj Electricals which used to make Black & Decker power tools, and Yum Restaurants promoting the Pizza Hut and KFC restaurant brands in India are only a fraction of the products carrying well-known brand names which are marketed under license by companies unrelated to the companies who own the brand.

Examples of marketing co-operations include:

- Apple Inc. and Nike Inc. have formed a long term partnership to jointly develop and sell "Nike+iPod" products. The "Nike + iPod Sport Kit" links Nike+ products with Apples MP3-Player iPod nano, so that performance data such as distance, pace or burned calories can be displayed on the MP3-Player's interface.
- The South Korean manufacturer of electronics products LG Electronics has teamed up with the luxury brand Prada in order to better tap the potential of the growing mobile phone high-end market by creating a Prada branded phone, the "Prada phone by LG".
- ICICI Bank and Bharat Petroleum have joined hands to promote a co-branded credit card.