McCcafe...Sub-Brand, Para-Sub-Brand Or Co-Brand?

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Abstract

This paper focuses on the issue of organisational co-branding, and in particular, whether a sub-brand can perform the dual function of a co-brand. It is proposed that within a specific environment this apparent contradiction of terms is possible. This phenomenon is examined through the example of the McDonald's/McCafe co-branded franchising arrangement, which evolved in Australia though the 1990s and early 2000s. This paper attempts to clarify the limited discussion in literature regarding sub-brands and co-brands with regard to the McDonalds/McCafe brand relationship and also highlights some of the differences between a promotional/product based co-branded relationship and co-branding in an organisational context. Hence, a theoretical perspective is formulated representing a brand portfolio structure that intrinsically links the parent brand synergistically at the sub-brand level to achieve a more complex co-branded arrangement

Keywords: co-branding, sub-brand, franchising, brand extension

Introduction

Co-branding, especially within business format franchising, has been a relatively recent phenomenon in Australia that has attracted little attention in the academic literature. Attention has instead focused on ingredient or product specific co-branding rather than retailer or organisational co-branding. Different definitions of co-branding exist at a promotional, ingredient, product and organisational level. These definitions appear to vary depending on the point of exchange at which the co-branded arrangement occurs with the relevant consumer groups that are targeted. However, most agree that co-branding involves combining two or more brands to create a single offering to further interests of both brands (Washburn, Till, & Priluck, 2000). This paper is concerned with franchise system co-branding, and contributes to the development of current theory for *organisational co-branding* and seeks to clarify this theory with the example of McDonalds/McCafe with regard to sub-branding and co-branding.

Co-branding

Co-branding occurs when two or more brands are combined, in various forms, to synergise a business, product/ingredient or promotional offering. Each brand attracts customers discretely through a strategic alliance, joint venture, or partial/complete merger (Aaker & Joachimsthaler, 2000; Blackett & Boad, 1999; de Chernatony, 1998; Young, Hoggatt, & Paswan, 2001). The focus of the literature has discussed the cobranded arrangement around a single new target market that consists of either a completely new segment or a combination of previous target markets compiled from each brand's historical contribution (Aaker & Joachimsthaler, 2000). A normative explanation of co-branded arrangements has been made at master level giving some focus to the operationalisation of master brands in a co-branded environment (Aaker, 2004) but this still appears to only partially explain the phenomenon of co-branding at organisational level.

In its most refined and complex form, co-branding at an organisational level embraces a collaborative venture constructed to further the interests of two or more organisations (as brands) in a planned, strategic format (Aaker, 1996; Aaker & Joachimsthaler, 2000; Blackett & Boad, 1999; Keller, 1998). While this definition focuses on the organisational function of co-branding, the customer focus is different to other forms of co-branding and brand associations or synergies. Co-branding, therefore encompasses a number of brands being joined to reach target audiences of similar interest *simultaneously* (Keller, 1998, 2003; Temporal, 1999, 2002). That is, a new target audience for the combined entity and/or a combination of previously targeted market segments that can interact at retail level *simultaneously*.

Organisational co-branding is dominated by businesses that provide synergistic convenience benefits to different segments of consumers at the retail point of exchange (Leuthesser, Kohli, & Suri, 2003). Hence, we observe examples of fast food franchises teaming up with service stations and grocery stores, as demonstrated by McDonald's and Hungry Jacks with Shell and BP, and Subway with 7-Eleven. McDonald's has created its own brand in McCafe to achieve precisely this objective. However, the discussion of McCafe as a co-brand requires explanation in this context.

Sub-brand or co-branding?

A brand extension occurs when an organisation uses an established brand name to introduce a new product. For example, when Coca-Cola introduced its vanilla flavour the focus was to create a new target market within the same product category (Keller, 2003) thereby extending the master brand attributes of Coca-Cola. When the parent brand is used to enter a different product category from that currently served by the parent brand, such as Virgin into credit cards, this is known as a category extension (Keller, 2003). Again in these situations the extension intrinsically relies on the master brand to provide virtually all of the attributes for the product to connect with the new target audience. Extensions help fulfill two objectives of brand architecture: leveraging brand assets, and creating synergy by generating brand exposures and associations in different contexts (new target markets) (Aaker & Joachimsthaler, 2000). When a new brand is combined with an existing brand the brand extension can be called a sub-brand.

Sub-brands are often confused with product brands, and tend to be used in industries where position requirements differ for different offerings, and single brand attributes are insufficient. Sub-brands do not tend to be used when the main corporate brand can cover all products and services. Hence, sub-brands by definition, should be able to operate discretely from the parent brand with the brand association existing in the mind of the consumer with little overlap between brand territories (Temporal, 2002). Sub-brand discussions also tend to focus on product categories rather than organisational brands (Keller, 2003). When the company as the brand becomes the major identity of the organisation it is treated in a different context than that of product-related brands by espousing the culture of the organisation (Kapferer, 1997). It this context it is essential to understand the differences between brand portfolio, brand extension, sub-brand and co-branding. A brand portfolio is described as the group of brands, including sub-brands and co-brands (which also includes other companies' brands that are used in a co-branded situation) that a company creates to offer to the market (Aaker & Joachimsthaler, 2000). Brand extensions are created to

take the parent brand into completely new markets and remain different to the evolution of the core product and associated products to increase customer satisfaction, more commonly known as range extension (Kapferer, 1997). The concept of a sub-brand has also been discussed in the literature where it is defined as a focus on brands that are created to derive a strong association with the parent brand to augment that brand association to a pre-determined target audience (Keller, 2003). Hence, a sub-brand cannot be separated from the parent brand whereas a co-brand could conceivably be separated and utilised independently. This is the case with McDonald's and McCafe even though respondents acknowledge that this is unlikely to occur.

Methodology and Data Collection

Given the contemporary nature of the phenomenon of co-branding and its limited, but growing, appearance within the Australian retailing sector and the exploratory nature of the research question, a case study method was adopted as the research tool by which data were gathered (Yin, 2003). Case study research is an appropriate design as the current research focuses on a contemporary set of events, investigating phenomena over which the researcher has no control. Therefore, this method allows the investigation to retain the holistic and meaningful characteristics of the real life events (in an organisational setting) that are being explored. Initially, for this study, a single embedded design was utilised which has provided the basis for a broader investigation using a multiple, holistic case study design. McCafe was chosen as the initial case for theoretical, not statistical, reasons (Eisenhardt, 1989; Goulding, 2002). It was decided that McDonald's/McCafe was a collaborative venture constructed to further the interests of the two brands in a planned, strategic format. It has attracted multiple market segments simultaneously to patronise a range of facilities provided by the combined retail entities. This strong customer focus differentiates co-branding from other forms of brand associations such as brand extensions.

An important factor in any research design is establishing methodological soundness (Eisenhardt, 1989). It is generally perceived that qualitative research does not provide the level of external validity and reliability of qualitative research. However, strong measures can be taken to build strength in case study research at the research design, data collection and data analysis stages (Carson, Gilmore, Perry, & Gronhaug, 2001) as illustrated below. Three tactics were used in this research to address the issue of construct validity: the use of multiple sources of evidence; establishing a chain of evidence; and having the key informants review their interview transcripts. In addition, the tactics used to address internal validity were pattern matching and addressing rival explanations (Patton, 2002). External validity was not a concern in this pilot stage of the research, but the ultimate use of a multiple case strategy will address concerns about external validity via the application of replication logic using analytical generalisation (Yin 2003). Case study tactics used to ensure reliability of results in this research were: the use of a case study protocol; use of a semi-structured interview protocol; and the development of a case study database (Carson et al., 2001).

Data analysis is central to building theory from case studies, but also represents the most difficult and least codified part of the process (Eisenhardt, 1989; Goulding, 2002). In the current pilot study, a within-case analysis took place (Yin 2003) with data collection and data analysis occurring simultaneously. Data were coded and analysed using qualitative software (QSR NVivo). Evidence for the case study was

collected from multiple sources in the McDonald's corporation. This includes information provided from internal company documents, as well as interviews with key players in the McCafe operation who were selected on the basis of organisational representation. These people were the Vice President of McDonald's (a strategic view), the Franchise Operations Manager (an organisational perspective) and the first franchisee to open a McCafe operation in an existing suburban McDonald's restaurant (day-to-day functions).

McDonald's/McCafe Background

While McDonald's enjoyed significant growth through the 1980s and 1990s broader societal concerns emerged that saw McDonald's stall in sales and growth over the latter part of the 1990s and early 2000s (Georgieva & Lombardi, 2003). McDonald's inability to evolve its image in parallel with these consumer trends also kept mature customers from frequently patronising the retail outlets of the organisation. Consumers were finding the image of the restaurant stale and uninviting, reinforcing the concept that the organisation was out of touch (Kincheloe, 2002; Smart, 1999). Hence, developments occurred organisationally to provide a more appealing range of products to its customer. For example, the McCafe concept in 1999 was adopted as a mainstream initiative for McDonald's (after significant development over a six year period) and in 2001 the New Tastes Menu was introduced throughout Australia. These initiatives were developed to reinvigorate the McDonald's brand. As a result, many mature customers began revisiting McDonald's (Wright & Frazer, 2005). McCafe has developed over a twelve-year period within the McDonald's organisation. Initially the central business district (CBD) version of McCafe was created in 1993 as a coffee pot on the counter of the McDonald's situated at Swanson Street, Melbourne for peak hour commuters. This version evolved into more sophisticated retail offerings in the ensuing six years until the development of the fully integrated suburban McDonald's/McCafe in Brisbane in 1999 (McDonald's, 2003).

Findings

In light of this discussion four conditions exist that appear to synergistically represent a powerful argument for McCafe to transcend the appearance of sub-brand (para-sub-brand) into the status of co-brand.

(1) McCafe has a strong association with the parent brand – similar to a sub**brand.** When asked if there were advantages or disadvantages with the use of "Mc" in McCafe the general response from interviewees was represented by this statement made by the Vice President: "The development of McCafe wasn't scientific and it wasn't a set of management/genius circumstances.... If we were starting today with what we know about brand and brand management maybe we wouldn't have called it McCafe. There were some concerns...that we might have been competing or even over-shadowing the golden arches. Research tells us, however, that that is not the case. That is an internal perception and internal bias but the golden arches are well and truly strong enough to carry a sub-brand.... Would we change now? Obviously we wouldn't because there is too much time and money in developing that brand. That brand now is global." This movement of the McDonald's brand from company as brand to a master brand position (parenting its own brand equity and that of McCafe) in a brand hierarchy scheme explains the shift from a single brand to that of a brand portfolio (Keller, 2003). This satisfies the sub-brand requirement but has no relevance to a co-branded arrangement.

- (2) McCafe has separate brand equity dealing with a new target market similar to a sub-brand function. McDonald's executives recognised that McCafe had developed its own brand equity discretely from the McDonald's master brand. While some attributes of both brands were seen as similar (for example, service delivery components) it was clear that separate personalities and identities for both brands had been established within the organisation focussed on discrete customer segments (Keller, 2003; McDonald's, 2003). Clearly the development of another brand using the "Mc" has taken a great deal of management and a significant amount of cultural change for the brand to be adopted successfully within the corporation. This dilemma was also exacerbated over a period of time when senior management felt that the McCafe brand equity would erode the credibility of the 'golden arches'. This is an important part of the co-branding function. It provides separate values to the respective target audiences whilst combining the experiences of both brands at the point of exchange, yet it also satisfies a basic sub-brand attribute of separate brand equity (Kapferer, 1997).
- (3) McDonald's/McCafe simultaneously offer and deliver both brand formats developing separate brand equity for each (as for a co-branded arrangement). McDonald's/McCafe can be seen as a collaborative venture constructed to further the interests of two brands in a planned, strategic format. It has attracted multiple market segments simultaneously to patronise a range of facilities provided by the combined retail entities (McDonald's, 2003). While the interviewees call McCafe a sub-brand, they also state that McCafe cannot and would not operate in a discrete retail location from McDonald's, thus automatically differentiating the brand away form the traditional perspective of a sub-brand. The interviewees reinforce this by stating that they will never offer McCafe to new franchisees outside of the current McDonald's system. This function is integral to a co-branded arrangement but does not relate to a sub-brand role.
- (4) Synergistic results are delivered from the co-branded arrangement. McCafe was created to significantly boost the ailing qualities of McDonald's rather than derive a positive brand association from the parent brand, (McDonald's, 2002). The synergistic basis for the development of McCafe is reinforced by comments made by all interviewees that state McCafe contributes both to sales and profitability for both brands. Competitive forces were found to be less significant after the introduction of McCafe (for example, when Hungry Jacks opened in Gladstone McDonalds/McCafe regained its original sales after only one week instead of the normal 6-12 weeks). This evidence satisfies an important condition of co-branding but is not relevant to a sub-brand role.

Conclusion

It is clear that McCafe has a strong association with its parent brand and has developed significant individual brand equity thereby reinforcing an initial perception of it being a sub-brand. However condition 1 becomes irrelevant as it represents a cosmetic focus on the relationship between the two brands when not taken into account with conditions 2, 3 and 4. These subsequent conditions nullify the sub-brand component. Hence, there appears to be sufficient evidence to classify the McDonald's/McCafe relationship as a new type of co-branding arrangement that includes a strong association with the parent brand. The operationalisation of McCafe incorporates all the characteristics of co-branding by focussing on a separate context but simultaneously assisting the brand portfolio of McDonald's to focus on multiple target markets at the retail point of exchange in a synergistic fashion. As an

atypical example of co-branding McDonald's/McCafe it is hoped that this discussion brings about some clarity to the branding literature.

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