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BP and Wild Bean Cafe: A Case Study on franchised co-branding arrangements.

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Key Words: co-branding, franchising, case study, BP, Wild Bean Café, McDonald's, McCafe

Abstract

This paper presents a study of the co-branding arrangement between BP (service stations) and Wild Bean Café (a café concept created by BP in Australia in 2004). Co-branding is an increasingly popular form of growth in a maturing franchise sector. This case study presents an organisational view of co-branding. Thus extending existing literature that has previously focused on product specific co-branding. The study reveals that motivations for introducing the Wild Bean Café brand into existing BP service stations include alignment of a suitable business model with existing BP products, risk aversion to the use of externally owned brands, reinvigorating the BP brand, and stimulating sales growth for appropriate outlets. This investigation represents further research into co-branded franchising arrangements from a similar study on McDonalds/McCafe.

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Introduction

With macro economic forces and the federal regulation of the sector affecting the franchising sector in Australia a stage of saturation and maturity has been reached (Wright & Frazer, 2004). Early theories of franchising, which attempt to explain why this method of distribution flourishes, are examined and found to be inadequate in accounting for current trends in the sector. This paper proposes that the wide variety of franchising arrangements that have evolved (for example, multiple concept and multiple unit franchising) have occurred in response to the sector's need for continued growth outside the prototypical model of a franchise and a company's underlying intrinsic reasoning to franchise.

The main focus of the following discussion is the recently developed phenomenon of *co-branding* and its impact on the Australian franchising sector. Co-branding, especially within business format franchising as a dominant method of retailing, has been a relatively recent phenomenon in Australia and it has attracted little attention in academic literature. Instead, attention has focused on product specific co-branding rather than *organisational co-branding*. To begin to address this deficiency, this paper reports a case study of the introduction of the Wild Bean Café concept in Australia as a starting point for further exploration of the motivations for co-branded arrangements in franchising.

Explanations of Franchising

Studies of franchising established theoretical explanations as to why companies expand using franchising as a growth mechanism. *Resource constraints* theory posited that franchising was a source of capital used for expansion by the franchisor (Caves & Murphy, 1976; Hunt, 1973; Oxenfeldt & Kelly, 1969). Hence, franchisees provided much needed financial and human capital, thus allowing the network to achieve rapid growth. *Administrative efficiency* theory stated franchising overcame agency problems associated with rapid geographic expansion (Norton, 1988; Rubin, 1978). Franchisees were found to provide high levels of focus on ownership and hence greater control over managerial functions. These theories have provided some insight as to why companies looked at franchising initially for growth purposes as opposed to company owned units (Lafontaine & Kaufmann, 1994; Norton, 1995). The choice to franchise versus a company owned expansion model within these parameters has traditionally focussed on a simple business concept that allows for rapid replication with operators who are inexperienced. These theories have global application to franchising, but what of the Australian context? A number of macro environmental occurrences have influenced franchising in Australia (Frazer, 2000; Frazer & Weaven, 2004). A brief discussion of these will provide a clearer perspective for discussion of this case study.

Historically franchising has existed in Australia with little government intervention. However, extensive compliance has been required under the Australian Franchising Code of Conduct (1998) (The Code) since 1998. This led to slower system growth because franchisors were more likely to face difficulties in attracting and recruiting suitable franchisees (Frazer & Weaven, 2002). Simultaneously, stagnating retail growth and high levels of franchising per capita were also principal *causes* of maturity within the sector (Frazer, 2000). This maturation emanated from the retail sector, where the majority of franchising existed (True, Pelton, &

Strutton, 2003). This level of maturity significantly changed the franchising relationship by increasing the cost of franchising for franchisors and inhibiting profits to current franchisees but does not appear to have influenced franchisors away from franchising (Wright & Frazer, 2004).

Rather than find alternatives to franchising, which would appear to be the logical step when maturity was reached, franchisors sought and developed new strategies within the sector as a means of continuing a franchised expansion process. These alternatives appeared quite different and more complex growth in nature rather than the prototypical single unit franchising model in order that had historically been accepted (Kaufmann & Dant, 1996). These strategies include mobile franchising arrangements (Chow & Frazer, 2003), multiple unit franchising (Kaufmann & Dant, 1996; Weaven & Frazer, 2003), conversion franchising (Hoffman & Preble, 2003) multiple concepts, multiple systems and co-branded franchising (Justis & Judd, 2002; Young, Hoggatt, & Paswan, 2001). This evolution phase has clearly occurred in response to the more mature status of the sector, but techniques seem to have been adopted in an experimental rather than systematic fashion.

Co-branding

Co-branding occurs when two or more brands are combined to synergise a single business, product or promotional offering. Each brand attracts customers discretely and in some cases a strategic alliance, joint venture, or partial or complete merger is formed for the purpose of attracting and maintaining new customers (Aaker & Joachimsthaler, 2000; Blackett & Boad, 1999; de Chernatony, 1998; Keller, 2003; Young et al., 2001). The approach in branding literature has been to focus on developing synergies through co-branding of specific products

or ingredients in the area of fast moving consumer goods. An emerging theme in literature is the merging of entire organisations (Wright & Frazer, 2005).

Although organisational co-branding has occurred in the United States since the 1980s, it is a relatively new phenomenon in Australia. Franchises in Australia operating in a true synergistic co-branded format (two or more merged entities controlled by the same holding company or franchisor and operated by a single franchisee) are gaining momentum. Examples of co-branding can be observed in fast food outlets with service stations such as Hungry Jacks and McDonald's with Shell and BP.

Further to this discussion it is essential to understand the differences between brand portfolio, brand extension and co-branding as some confusion has occurred with new retail branding processes in the franchising sector (Wright & Frazer, 2005). 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). The result of an initial co-branded arrangement can create a rudimentary brand portfolio.

Brand extensions are created to take a single brand into associated or completely new markets. This can occur through line extensions, as an evolution of the core product (eg., Commodore Executive/Lumina/Equipe) which can increase customer satisfaction (Kapferer, 1997; Keller, 2003). Extensions can also occur by category in the case of Virgin into airlines, superannuation and mobile phones for the purpose of entering new markets but with similar competitive advantages (Aaker, 2004).

The concept of a sub-brand is defined as a brand that is created to derive a strong association with the parent brand to augment that brand association (Keller, 2003). For example, in the case of the Toyota Camry, Camry cannot exist without a strong association to its parent brand, Toyota and the product that is represented by the name Toyota Camry is focussed on one target market. This strategy was created in order to extend the parent brand into new markets thereby increasing overall market presence and sales (Kapferer, 2004).

This distinction between other forms of brand extension and co-branding is important to delineate between each form of the branding process. In its most refined form co-branding embraces a collaborative venture constructed to further the interests of two, or more, brands in a planned, strategic format (Aaker & Joachimsthaler, 2000; Blackett & Boad, 1999) or the creation of a separate brand within the brand portfolio of the parent company, such as McDonalds and McCafe (Wright, Frazer, & Merrilees, 2005). While this definition focuses on the organisational function of co-branding there must be combined customer interaction at a specific location to differentiate co-branding from other forms of brand associations or synergies. Co-branding, therefore, must encompass a number of brands being joined to create an offering to reach target audiences of similar interest at the point of consumption but where each brand can subsequently be separated and utilised discretely (Temporal, 2002; Wright et al., 2005).

Finally, branding literature cites the motivations to co-brand as the use of another brand's equity to assist in the attraction of customers to a particular combined product offering. Use of both brand's equity is beneficial to the organisations involved to alleviate costs in order to enter new markets (Aaker, 2004; Kapferer, 2004; Keller, 2003). While these motivations have universal application a distinction between product branding and organisation branding (or

retail branding) should be made in order for all motivations to be identified (Wright & Frazer, 2005). Previous research has identified further motivations as follows.

McDonalds/McCafe Case Study

In previous research aligned with this current case it was found that McCafe was created internally to significantly boost the ailing qualities of the McDonald's brand (Wright & Frazer, 2005). Strong alignment with McDonald's as the parent brand was derived and hence, could be mistaken for a sub-brand (Wright et al., 2005). 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, McDonald's restaurants are now part of a brand portfolio that includes the McCafe 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. This is an atypical example of co-branding McDonald's/McCafe brought about by the need for McDonald's to create a new brand that more suited its needs. A comparison of the findings from this case study will be made with BP/Wild Bean Café later in this discussion.

Methodology and Data Collection

Co-branding is a recent phenomenon with a limited, but growing, appearance in the Australian franchising sector. Hence, for this exploratory type of research question a *case study* method for data collection and analysis is most appropriate (Yin, 2003). Case study research is a research design that focuses on a contemporary set of events, investigating phenomena over which the researcher has no influence. Therefore, this method allows the

investigation to retain the holistic and meaningful characteristics of the situation that is being explored. Initially, for this study, a single embedded design was utilised which will provide the basis for a broader investigation using a multiple, holistic case study design.

BP and Wild Bean Café were chosen as a case for theoretical, not statistical, reasons (Eisenhardt, 1989). It was decided that BP/Wild Bean Cafe was a collaborative intra-company 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 combined customer focus by both brands at an integrated retail location is what differentiates BP/Wild Bean Cafe co-branding from other forms of brand associations (Aaker & Joachimsthaler, 2000; Keller, 2003).

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 quantitative research. However, strong measures were taken to build strength in this research process at the 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). In the current study, a within-case analysis took place (Yin, 2003) with data collection and data analysis occurring simultaneously. Ultimately, when multiple cases are considered, theoretical saturation or convergence will occur (Carson et al., 2001; Eisenhardt, 1989). Data were stored and analysed using qualitative software (QSR NVivo).

Evidence for the case study was collected from multiple sources in BP. It includes information provided from internal company documents as well as interviews with senior executives from Queensland, New South Wales, and Victoria. These parties were selected on the basis of organisational representation and were able to provide a strategic overview of the development of both brands involved.

Findings

Several themes emerged from this case study, illustrating possible motivations for the development of co-branding in a franchised organisation. Each of these is discussed below.

Risk aversion to the use of externally owned brands. While there is a constant need to align with high profile brands such as McDonald’s in specific locations (such as high volume highway sites) the focus remains on reinvigorating the BP brand at smaller inner city sites without the capital expense of alignment, and the subsequent financial risk, with other franchise systems. Further, previous experience with other less known brands such as Eagle

Boys Pizza highlighted a deficiency in the co-branding concept of capital investment versus "pulling power" of the external brand and the ensuing conflict that emerged post integration. Comments such, "they could not deliver the sales in the time frame that the offer was made" (eg., the sales of pizza only at dinner time could not justify the cost of the co-branded relationship).

Search for a suitable business model with the existing BP retail offering. Significant emphasis was placed on the value a potential business model (i.e., a potential retail brand and the subsequent offering) would provide to current BP service station sites. The motivation behind this theme was to extend the BP retail format by adding another brand rather than extending the merchandise range. Interviewees stated that evaluation of potential brands involved the following criteria. Firstly, grading the brand into category A, B, or C. This categorisation process was deemed subjective by the interviewees but was best represented by judging if the brand was nationally known or not. Secondly, interviewees focussed on the suitability of a potential business to the BP offering. Criteria used were trading hours, product merchandise, fit with current operations, culture and systems, site location and size, were all considered in conjunction with the grading process. This theme crystallised from one statement made by one interviewee who stated, "None (no other brand) had the sort of offer that covered the 24 hour spectrum... Our operation is 24 hour and you need a partner that can do that." While brands such as McDonalds and McCafe were considered, and in some cases utilised in specific sites, the creation of a new brand wholly owned by BP overcame many hazards associated with co-branding external to the organisation.

Strengthening the BP brand. The reinforcement of the BP brand has been assisted by strategic decisions in target segmentation and positioning utilising the Wild Bean Café brand.

All interviewees saw the addition of Wild Bean Café as a strengthening of the overall BP portfolio offering by incorporating the new retail concept and thereby adding unit sales without reinvention of the current operations system. This was highlighted by statements such as, “the concept could be managed without addition of new staff and could be run off current rosters.”

Stimulating add-on sales growth for appropriate outlets. System expansion has been a key incentive to adopt the Wild Bean Café concept. Wild Bean Café enables individual units to improve their sales and profitability without additional BP units and with little change to the current operational matrix at retail level. Hence, because of the limitation in new site development a strategy of investing in current sites was developed in order to improve current system performance by increasing the unit sale rather than additional drive-thru traffic.

In summary, several themes have emerged from this case study that provide further insights into co-branding within the franchising sector. BP and Wild Bean Cafe brands have different attributes, but the co-location of the two provide synergy to support firstly, the development of the new Wild Bean Cafe brand and secondly, to reinvigorate the BP brand. The current research will be further extended to include other examples of co-branding in franchised arrangements, such as the co-branding of McDonald’s with BP and BP with Hungry Jacks. It is intended to build a grounded theoretical analysis of co-branding when multiple case examples are fully explored.

Comparison with McDonalds/McCafe

Several themes have emerged from the two case studies completed to date, illustrating possible motivations for the development of co-branding in franchising. These are summarised below.

Table 1
Identified motivations for co-branding in McDonalds/McCafe and BP/Wild Bean

McDonalds/McCafe	BP/Wild Bean Cafe	Comparison
Attracting customers		McDonalds created McCafe in order to attract old and new customers
	Alignment of a suitable business model with the existing BP retail offering	BP created Wild Bean Café in order to increase sales from existing customers
Internal and external competition		McDonalds franchisees became keen to add McCafe to each location to avoid negative effects from other McDonalds/McCafes as well as external competitors
	Risk aversion to the use of externally owned brands	Both McDonald's and BP created their own brands in order to avoid the use of external brands and thereby decrease potential risk/conflict and manage costs
Culture		McDonalds actively promoted McCafe in order to assist cultural change. BP wanted to avoid any cultural change at retail level.
Reinvigorated brand equity	Strengthening the BP brand.	Both McDonalds and BP have sought to strengthen the parent brand
Growth incentives	Stimulating add-on sales growth for appropriate outlets	Both brands have sought sales growth but from different perspectives.

When a comparison is made between cases it is clear that the intention to co-brand has similar foundations to other forms of co-branding. However, the particular method of co-branding (creation of a new brand) has a strong focus within both organisations. It is clear that culture, systems and capital investment, with a focus on risk aversion, play a vital function in the co-branding process and are serious considerations to co-brand and in what format, whether it be an internal process or a combined effort with a strategically aligned partner.

Implications

It is clear that further research needs to take place for clarification of the findings to date. The franchising and branding literature does not adequately explain the motivations for co-branding in a franchise environment nor the processes involved. As stated, a larger grounded theoretical approach is being conducted to adequately explain this phenomenon.

Managerial implications, especially those in franchising, can derive benefits from this research such as the formulation of an operations process incorporating a more strategic approach to co-branding in specific environments. This research shows that large organisations with the resources would rather create a new brand than facilitate an external co-branding process to avoid the risks involved. Hence, if some of the barriers to co-branding can be overcome, smaller organisations can make themselves more attractive for this process.

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