Title: Impact of Direct Marketing Actions by a Component Supplier on Sales and Ingredient Product Perception: Exploration within the Bicycle Industry

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Thesis

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Abstract

Purpose/Topic:
The proposed research explores impact of the direct marketing actions by component suppliers on (a) sales (objective measure) and (b) industrial customer’s perception (subjective measures) of the final product (c) and the market development. The proposed research will focus on the bicycle industry.

Research Question:
“To what extent Shimano’s component brands important to Shimano customer, and which actions can Shimano undertake to facilitate its brand’s further market penetration?”

Design/Methodology:
Two approaches were used to answer the main research question. First, existing literature on ingredient and co-branding was analyzed. Second, we conducted an experiment on a new direct marketing initiative by Shimano-Europe BV. The initiative is “Reliability” campaign that introduces a service logbook across 8 European countries.

Originality/Value:
There is no research to this date, which empirically examines the influence of component supplier on sales and perception of ingredient brand, especially in the bicycle industry. Role of service and service network is also examined as one of the crucial influences on ingredient brand management. This research provides the base for further exploration in the area of ingredient branding and give guidelines for Ingredient Brand Management. So far, ingredient branding has been studied in contexts of food, chemical and computer industries. This research examines market leader in bicycle industry on 8 different national markets in Europe. Products supplied by Shimano require service and those products differ from ingredients which are consumed in form of food or apparel (that does not requires any service).

Keywords | Ingredient Branding, Bicycle Industry, OEM, B2B
Acknowledgements

Conducting this research and writing the master study was a long and steady process supported by many people around me whom I would like to acknowledge in this chapter. It took me almost 6 months to collect data from the evaluation of Reliability Campaign. In the meantime, I received a Leadership Award for creating and implementing this campaign from the president of Shimano Corporation Mr. Yozo Shimano.

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During my travelling and implementation of Reliability Campaign I got strong support from my friend and companion Dr. Dennis Tsoukalas from Shimano Distributor company for South-East Europe, Eurotrade LTD. We travelled many weeks together in Romania, Bulgaria, Serbia, Slovenia, and Greece in order to promote the campaign and make the whole project a success. Many days on the road and travelling together we brainstorm a lot how to find a way to solve challenges.

I also would like to thank my superiors and my colleagues that performed as a perfect team with understanding for innovation and at the same time with a sharp critical eye. I would like to thank especially Senior Sales Manager Mr. Rene Veenhuizen and Marketing Manager Mr. Kim Edwards as well as my colleague Area Sales Manager, Mr. Clemens Ujetski for participation, initial support and believe in this project from the beginning. Moreover, I would especially like to thank Managing Director of Shimano Europe B.V., Mr. Frank Peiffer for his understanding of the value of the whole project, putting it on the priority list of the company and giving his kind recommendation for the Leadership Award.

Finally, I would like to thank my friends in the industry: bicycle products (OEMs) and Individual Bicycle Dealers (IBD) that participated in the Reliability Campaign and in the research itself. This text is not enough to name them all by name, but without their help the whole project would not be possible. Thank you my friends.
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### Abbreviations and terminology

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<td>IBD</td>
<td>Individual Bicycle Dealer is an independent retailer of bicycles and/or provider of services connected to bicycles</td>
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<td>(OEM)</td>
<td>An original equipment manufacturer or OEM is typically a company that uses a component made by a second company in its own product, or sells the product of the second company under its own brand</td>
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<td>(CS)</td>
<td>Component Supplier is the company that produces components or ingredients that are part of the product produced by other companies</td>
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<tr>
<td>(OTC)</td>
<td>(OTC) Over the Counter sales is form of sales that is done in retail. In our study, OTC term will be used for goods and services that are produced or provided by component supplier or OEM directly to consumer</td>
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<td>(SSB)</td>
<td>Shimano Service Book is a service book that keeps record of services and maintenances of the bicycle</td>
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<td>(RD)</td>
<td>The rear derailleur is component of bicycle drive train that moves the chain between rear sprockets and takes up chain slack caused by moving to a smaller sprocket at the rear or a smaller chain-ring by the front derailleur</td>
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<tr>
<td>(FD)</td>
<td>The front derailleur is the component of bicycle drive train that moves the chain side to side between the front chain-rings</td>
</tr>
<tr>
<td>(CS/MF)</td>
<td>Cassette/Multiple-freewheel is component of bicycle drive train in form of different size sprockets that accommodate different gear ratios</td>
</tr>
<tr>
<td>(SL/ST)</td>
<td>A shift lever is the component of bicycle drive train used to control the gearing mechanisms and select the desired gear ratio</td>
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<tr>
<td>(FC)</td>
<td>The Front chain-wheel, is the component of a bicycle drive train that converts the reciprocating motion of the rider's legs into rotational motion used to drive the chain, which in turn drives the rear wheel</td>
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<tr>
<td>(OT)</td>
<td>Outer-casing and cable is a type of flexible cable used to transmit mechanical force or energy by the movement of an inner cable relative to a hollow outer cable housing</td>
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CHAPTER 1: INTRODUCTION AND OVERVIEW

1.1. Background and Motivation for the Study

The subject of this study is ingredient branding. My interest in this subject comes from my everyday work and involvement in the Japanese Multinational Shimano. Shimano produces high quality bicycle parts and fishing tackle products for the worldwide market. My responsibility within Shimano is to manage sales and marketing activities for Bicycle Division in South-East Europe and Africa. From talking with my customers and customers of my customers, I realized that purchasing decision regarding the final product heavily depends on the components (or ingredients) that products have. At the same time, the purchasing decision of a product manager of an OEM that assembles the final product (in our case bicycle) depends on how consumers perceive components and parts built in the final product. These phenomena known in the literature as ingredient branding occupied my full attention and I made a decision to completely focus on this subject.

1.2. Objectives

The proposed research explores the impact of direct marketing actions by component suppliers on (a) sales (objective measure) and (b) consumers’ perception (subjective measure) on the components of the final product. The proposed research will focus on the bicycle industry. There are several reasons for this focus. First of all, there is hardly any academic research about the bicycle industry. Second, the bicycle industry is one of the key industries in which inter-organizational collaborative product development is common (Chu, Chang and Cheng, 2006). Third, there are currently very few articles, to our knowledge, that examine direct marketing initiatives of component suppliers (e.g., Intel, Bosch, and Xenon). Finally, increasing globalization and competition among component suppliers prompts them and us – researchers to think about how component suppliers can distinguish their product or service offers.

Our research will examine the case of the Japanese multinational Shimano. Shimano is the world’s leading manufacturer of bicycle components and producer of fishing tackle. Through a worldwide manufacturing and sales network, Shimano provides a wide range of products from which high majority are components for bicycle industry. In addition to producing bicycle
components and fishing tackle, Shimano also manufactures cold-forged products for the automotive and other industries, such as snowboards.

Given that production of Shimano parts takes place elsewhere, the European office of Shimano is mainly concerned with sales and distribution of Shimano parts across Europe. For this purpose, it establishes strong ties with large distributors in various European countries. These national distributors in turn work with local shops and smaller local sales and repair centers. These Original Equipment Manufacturers (OEMs) distribute Shimano products in three main ways: (a) as part of biking equipment (consolidated into a final product); (b) as spare parts during the repair of equipment; and (c) as products sold directly to customers over the counter.

Sales in bicycle industry are done through two markets: Original Equipment Manufacturers (OEM) market, where manufactures use components for assembly of bicycles and aftermarket or OTC (Over The Counter) (Isley and Roelofs, 2004). OTC sales channel usually serves as a service point for bicycle (IBD) Individual Bicycle Dealer.

The main objective of this study is to get deeper understanding of ingredient branding practice and academic research done on this subject as well as to provide the answer to the research question presented in the next section.

1.3. Research Question

During my work at Shimano, I was always coming back to the same point: The importance of the ingredient brand in the case of Shimano was directly influencing the final sales result. The higher brand influence we had in the country concerned the higher sales we would achieve. Taking into consideration the scope of my interest and the literature review I did in the study below, the research question can be defined as following:

To what extent Shimano’s component brands important to Shimano customer, and which actions can Shimano undertake to facilitate its brand’s further market penetration?

By answering to this research question we can transfer good practices used in Shimano’s ingredient branding to other industries. At the same time, we will provide solid ground for future research on the subject of ingredient branding in general.
1.4. Scope of This Study

The scope of this study is ingredient branding practice of Shimano. The study identifies the level of appreciation of Shimano brand among IBDs and consumers. At the same time, the study tries to explore to what extent Shimano can moderate communication between consumers and retailers in the positive way for Shimano.

The study is not concerned with the question: “to brand or not to brand ingredients.” This decision is already made. Nevertheless, we try to examine the ways to maximize the value of the ingredient brand by adding the value on the final product level. One of the specific characteristics of this research is examination of the service provision for ingredient branded components. First, the service and sales network of Shimano will answer questionnaires. We also have to take in consideration that Shimano parts (ingredients) are service intensive goods and require service, and maintenance during the usage life. The current academic literature was mainly concerned with branding of ingredients that are consumed together with the final products and do not need additional service during the product usage. The result of the research suggests that strength of the service network in the field is directly positively correlated with the brand image on the market.

1.5. Structure of This Study

This study is primarily structured to answer the main research question: To what extent Shimano’s component brands important to Shimano customer, and which actions can Shimano undertake to facilitate its brand’s further market penetration? In order to answer this research question we first need to understand the concepts of ingredient branding and co-branding through literature review and analysis of existing case-studies. Next, I created and introduced the marketing campaign in order to promote Shimano brand and create the demand for Shimano products. Defining and measuring the key performance indicators is a following step in the study. In this case I took and measured brand knowledge and objective sales results as key performance indicators. Finally, conclusions are made on bases of results and an answer to the research question is provided as well as suggestions for further research on the subject of ingredient branding (Figure 1).
Figure 1. The structure of the thesis

1. **Research question**

2. Understand concepts of ingredient branding and co-branding through literature review and desk research. Analyze all existing literature on the subject and compare it.

3. Create and introduce marketing intervention on the basis of interviews with OEMs and IBDs to promote Shimano brand on selected markets.

4. Define parameters for measuring brand knowledge on ingredient level and measure it on given markets.

5. Answer to the research question: “To what extent Shimano’s component brands important to Shimano customer, and which actions can Shimano undertake to facilitate its brand’s further market penetration?”
CHAPTER 2: THEORETICAL FRAMEWORK

In order to answer to our research question, we first need to establish key concepts of the study and their definitions. In this chapter, I review literature that:

- Defines the concept of ingredient branding
- Offers examples of the successful implementation of the ingredient branding concept in business
- Advances our knowledge about ingredient branding through empirical studies

This chapter concludes by examining the concept of ingredient branding in light of the value chain concept of (Porter, 2000).

2.1. Definitions

To better understand the concept of ingredient branding, we first need to understand the concept of brand. A brand is “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of the one seller or group of sellers and to differentiate them from those of competitors” (Kotler and Keller, 2006, p. 274). Therefore, a brand applies to a product or a service adding dimensions that differentiate it in some way from other products or services. These differences may be functional, rational, or tangible – related to product performance of the brand. They may also be more symbolic, emotional or intangible – related to what the brand represents. Thus, the company’s key objective for building a brand is to differentiate its product from one of competitors.

The definition of component brand slightly differs from the definition of brand. According to Freter and Baumgarth (1999, p. 462): “By Ingredient Branding one search a better understanding of the marketing purchasing strategy (raw materials, materials used and parts), which represents a brand from the view of the respective target group the brand targets. Freter and Baumgarth (1999) provide further classification of ingredient / component goods Figure 2 dividing goods by four different levels: Industrial (OEM) Sales Level, Consumption Value Level, Product / Component / Part Level and Processing Level as a part of Product or Component sub-group.
I define Ingredient Branding as a process of giving identity and recognition to goods or services through elevating the identity and recognition of its key ingredients or components through direct marketing communication with the final consumer and/or multiple parties on the market.

Consequently, Ingredient Brand Management is a science and practice of giving identity and recognition to goods or services through elevating the identity and recognition of its key ingredients through direct marketing communication with the final consumer and/or multiple parties on the market. Ingredient Brand Management may be used primarily by component suppliers and manufactures of the final goods (OEM). Ingredient Brand Management usage is
not limited by those parties; it can be also used by wholesalers, distributors and retailers as a strategy to increase sales, profitability and brand equity.

Component suppliers so far had a relatively second place in the final product. Only in the past two decades component suppliers began to have a more significant presence. In order to get stronger position on the market, companies begin to promote components directly to final consumers instead to OEMs and B2B customers’ partners only. Several components producers have introduced such action already (e.g. Tetra-Pack, Intel, Wool mark, Kevlar, Teflon, Gore-Tex, and Vibram). “The basic motivation for using ingredient branding is that it enhances the differentiation of the host brand from competition by characterizing the ingredient attribute in the host brand more specifically. Moreover, ingredient could enhance the equity of host brand by sending strong signal to consumers that the host product offers combined benefits of two quality brands in one” (Desai and Keller, 2002). In the case of Intel, the main goal of such action is to increase sales, to create more advertising in the industry, to put component producer logo on final products and to consumers pay more attention to components (Moon, 2005). However, there is only limited number of publications addressing this subject. In some literature we can find term branded components (Venkatesh and Mahajan, 1997), (Norris, 1992), (Rao and Puekert, 1994). At the same time we can find term ingredient branding, attribute branding or even in-branding which describes the same subject.

Ingredient branding is created to distinguish component producers from its competitors, as well as to distinguish the final product from the products of competitors adding value on the detailed level. According to Levin (1996), adding a recognized branded ingredient improved product evaluations of both unknown and recognized host brands more than when an unknown branded ingredient was added. Also, Vaidyanathan (1999) found out that adding a recognized brand of raisins to a private-label brand of raisin bran improved product attitudes and consumer’s perception of quality in comparison to a neutral strategy.

Norris (1992) also identified the multiple benefits of Ingredient branding strategy. He divided benefits in 4 different user groups Suppliers, OEMs, retailers and consumers. Benefits for supplier include: Better profit margins, stability and variety of consumer demand and long term consumer buyer relationship. OEM benefits include: Product promotion, access to distribution channels and derive of competitive advantage and sharing production and development costs. Retailer benefits include: Additional promotional support, better retail
operational margins and higher turnover of inventories. This research will wider the list of benefits for all 4 interest groups presented by Norris (1992). On the other hand, Norris (1992) presents the list of contra arguments for ingredient branding such as: Higher cost of promotion, loss over control over ingredient brand and questionable sustainability of the competitive advantage, potential for losing accounts, consumer confusion and possible supply shortages (in the case promotion is successful). Norris further concludes that ingredient branding can be strategy initiated by supplier or manufactures and distinguish those two as perspectives on Ingredient branding, what is also supported by Boumgarth (1999).

Ingredient or component suppliers are often pushed by corporate customers to decrease prices and lower their margins. Negotiation power of component suppliers is traditionally very low and component suppliers rely mostly on customer relationship. (Luczak et. Al, 2007) proposed a model of ingredient branding from supplier perspective, calling it in-branding. Similar process is described by Moritz Havenstein (1999) in the book Ingredient branding. First are the products that can be sold only as a part of other (final products). Second are the products that can be sold as a part of other (final products) as well as separately.

In terms of marketing, ingredient branding involves a mixture of industrial and consumer marketing. “Industrial marketing is marketing of the goods and services to industrial and institutional customers” (Webster, 1991). Consumer marketing involvers marketing to consumers, families and groups that use product and service in order to satisfy its own needs (Webster, 1991). Adding value to components (ingredients) on different levels brings ingredient marketing approach closer to the final product marketing. The issue for supplier is to empower the position of component supplier through direct communication with the final consumer, provision of service on the market and creation of strong ingredient brand. On the other hand the issue for manufacture is to strengthen its own brand through spill-over effect and create additional demand for the final product (Smith and Park, 1992). Current literature addresses the subject from fragmented points of view and does not offer comprehensive ground for further research. This research aims to provide the complete overview of ingredient branding literature and creates fertile ground for further research on this topic.

In this study we argue that in the highly competitive environment ingredient or component suppliers (SC) also need to get involved in the direct marketing to the final consumer and marketing initiatives. CS cannot afford waiting for OEMs to contact them with other
requests without making serious marketing and sales effort. There are already examples in various industries that show that marketing initiatives of component suppliers may be highly beneficial to both to CS and OEMs. Three successful examples are Intel, DuPont and Bosch.

2.2. Successful Implementation of the Ingredient Branding Concept in Business

In order to demonstrate importance and magnitude of the ingredient branding I will briefly mention a few well known cases. I will not go deeper in the analysis of cases, but rather use them as an illustration of ingredient branding practices in the real world. Furthermore, the below-mentioned cases will give reader a good introduction to the study of Shimano described in this thesis.

2.2.1 Intel

Evaluation of Intel’s marketing campaign “Intel Inside” shows that well designed marketing campaign of the component supplier can be multi beneficial for OEM and component supplier at the same time. Rather that concentrating on promotion of every product by itself, Intel managed to promote its products under “Intel Inside” umbrella, for ten years. Focus on customer feeling and emotion about brand gave more result than explanation of complicated technical details and performance factors. Intel addressed final consumer through marketing campaign and communicated the levels of improvement the company was implementing in the new products (chips). Simplicity of Intel’s communication gave results in high switching rate to new product and getting familiar with Intel’s product range.

The result of this marketing action maybe best illustrated by the following paragraph: “By the end of the decade, more than 2.700 PC makers were participating in the program, and well over $7 billion had been invested by Intel and its partners in advertising that carried the “Intel Inside” logo. (In 2001 alone, approximately 150 million Intel Inside stickers were printed and over $1.5 billion in Intel Inside advertising was generated.) Intel was ranked in 2002 as the sixth most valuable brand in the world, alongside consumer powerhouses such as Coke and Disney” (Moon, 2005, p.27).
2.2.2  **DuPont**

DuPont was founded in 1802 as a company that produces explosives only. That focus was held by next 100 years. From that point DuPont wider its range of activates to primarily innovative technologies in chemicals, energy and materials. DuPont provides product that can find usage in agriculture, communications, electronics, transportation and apparel, nutrition, safety and protection, home and construction.

In the case of Du-Pont next to Innovation, Ingredient branding is part of company strategy. Actually, Du-Pont created an ingredient branding with its trademark Teflon in 1946. Following about the same strategy company introduced many other products such as CoolMax (textile fibre for sport appeal), Cordura (textile fibre for tents), Kevlar (brand fibre for safety equipment), Lycra (spandex fibre) and so on. All above mentioned brands turned in success stories. DuPont achieved high level of consumer awareness by investing significant funds in advertisement and promotion. Due to this approach DuPont is consistently ranked among top tier of companies in corporate brand power based on consumer recognition and favourability (Lanning, and Glavin, 2002). DuPont’s turnover was $29.4 billion in 2007. Today the company employs 60,000 employees in more than 70 countries worldwide.

2.2.3  **Bosch**

Although Bosch is well known by supplier of automotive components and systems, Bosch Group also Bosch is also a supplier of industrial technology. In addition, Bosch is producer of complete final products such as power tools, security solutions and household appliances.

Bosch is a good example of ingredient branding strategy based on service network. Wide network of Bosch Service Centers plays roles of distribution and promotional structure as well. Basically, Bosch consumers feel secure if they know that Bosch Service Center is in their town or close by. On contrary, if Bosch would not have Service Center 100 km around from the place where potential consumer is situated, consumer would think twice before buying car with the Bosch pump. Bosch pumps are built in Mercedes-Benz, Volkswagen, Audi, Saab and other cars. Bosch Group, is still a private corporation, with a turnover of 46, 3 billion Euros in 2007. Just for an illustration, Bosch group employs 272,000 employees worldwide.
2.2.4. Findings

Ingredient branding is not a new phenomenon and research of similar case studies can help us to get deeper understanding of this subject. All three above-mentioned cases illustrate the scale of ingredient branding operations that were undertaken and their results. Component makers that establish its brand name on the consumer markets may count on demand from OEM side and side of industrial customers. While some researchers (McCarthy and Norris, 1999), argue that Ingredient branding is suitable only for low to medium valued brands of final products, examples of Bosch used by Mercedes-Benz, Volkswagen, Audi, Saab and other A brands in auto industry argues against this assumption. Similar examples can be found in the case study of Intel which used by Dell or Acer and case study of DuPont brands which are used in many A-branded clothes and shoes.

It is important to mention that all three companies Intel, DuPont and Bosch are market leaders and trend setters in their own industries. I assume that this statement invites the question of the reader: What about other thousands of companies that produce components and nobody know about them? The answer is hidden in the question itself: “Nobody knows about them” because they do not have name, face or brand that communicates their existence and importance. Indeed, branding is giving name, face and personality to product and service and as such helps to distinguish that particular product or service from competition. This strategy worked well in the examples of Intel, DuPont, Bosch, Shimano and many other famous component suppliers.

2.3. Empirical Studies on Ingredient Branding

In order to clearly identify what research is done until now in the field of ingredient branding, special table is prepared. This table examines existing studies on ingredient branding. The table addresses the studies’ focus, terms used for ingredient branding, findings, and offer an overview of the future research agenda. This means that every study will be analysed by means of the above mentioned sections. Finally, we will draw conclusions from findings and suggestions for further research.
### Table 1. Literature overview on Ingredient branding

<table>
<thead>
<tr>
<th>Authors</th>
<th>Focus</th>
<th>Key research question</th>
<th>Key terms</th>
<th>Findings</th>
<th>Future research</th>
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<tr>
<td>Venkatesh and Mahajan, 1997</td>
<td>Products with Branded Components An Approach for Premium Pricing and Partner Selection</td>
<td>Which combination should seller offer branded or unbranded component?</td>
<td>Branded Componen ts, Bundling, Pricing, H-function, Distribution</td>
<td>“Identification of most optimal bundle for the seller and its optimal price.” &lt;br&gt;“Product with branded components not always leads to win-win outcomes.”</td>
<td>“To what manufactures ingredient brand should be sold?”&lt;br&gt;“How do the optimal user prices influence on ingredient brand prices?”&lt;br&gt;“What is the impact on reservation values?”</td>
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<td>What are the optimal selling prices, revenues and profits when the seller chooses one of branded components along unbranded components?</td>
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<td>From the perspective of each of the branded component manufacture, with whom should they align?</td>
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<tr>
<td>Desai and Keller, 2002</td>
<td>The Effects of Ingredient Branding Strategies on Host Brand Extendibility</td>
<td>How ingredient attributes that make up a product should be branded or labelled, if at all.</td>
<td>Ingredient branding, extension,</td>
<td>Identification of self-branding as an alternative way of branding the attribute ingredient.</td>
<td>Explore designed implementation of ingredient branding strategies.&lt;br&gt;Managerial guidelines that suggest when and how to brand ingredients are badly needed</td>
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<td></td>
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<td>How ingredient branding affects consumer acceptance of novel line extinction?</td>
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<td></td>
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<td>Ability of brand to leverage that ingredient to</td>
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*Impact of Direct Marketing Actions by Component Suppliers on Sales and Brand Knowledge*

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<th>Future research</th>
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<tbody>
<tr>
<td>Norris, 1992</td>
<td>Ingredient Branding: Strategy Option with Multiple Beneficiaries</td>
<td>“Who benefits from Ingredient Branding?” &lt;br&gt;“What are the drawbacks of Ingredient Branding?” &lt;br&gt;“When is applicable to use Ingredient Branding?” &lt;br&gt;“How should an Ingredient branding strategy be implemented?”</td>
<td>Ingredient Branding, Strategy</td>
<td>Statements: &lt;br&gt;The paper offers Ingredient Branding strategy steps. &lt;br&gt;“Beneficiaries of ingredient branding include supplier, The manufacturer (OEM) who uses that ingredient, the retailer (or reseller for industrial goods) and the consumer who see added value the product” &lt;br&gt;Distinction between component supplier and manufacture (OEM) initiated ingredient branding strategy</td>
<td>N/A</td>
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<tr>
<td>Authors</td>
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<td>McCarthy and Norris, 1999</td>
<td>Improving competitive position using branded ingredients</td>
<td>&quot;If or when a brand alliance will improve competitive position compared to a non-aligned strategy.&quot;</td>
<td>Brands, Brand names, Product management, Brand equity, Competitive advantage, Marketing strategy.</td>
<td>&quot;Branded ingredients improve competitive position only in the case of moderate-quality host brands&quot;</td>
<td>&quot;How does the inclusion of the branded ingredient in so many different types of products affect the value of the original branded product; the value of the brand as an ingredient; and the various host brands?&quot;</td>
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<td>&quot;Does ingredient branding have more positive effects when the host and ingredient brands are similar in brand image?&quot;</td>
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<td>&quot;Would a serious product failure or problem on the part of the ingredient brand hurt the brand equity of the host brand or vice versa?&quot;</td>
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<td>&quot;Can a host or ingredient brand use a branded ingredient strategy in order to reposition itself?&quot;</td>
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<td></td>
<td>&quot;Could a private-label or store brand use a branded ingredient strategy to narrow the competitive gap with established national brands?&quot;</td>
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<tr>
<td>Vaidyanathan and Strategic brand alliances:</td>
<td>The basic question explored in this study is</td>
<td>Studies, Statistical</td>
<td>This study has empirically shown that</td>
<td>There are several possibilities for additional research on private</td>
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<tr>
<td>Aggarwal, 2000</td>
<td>implications of ingredient branding for national and private brand labels</td>
<td>Whether using a national brand ingredient can benefit a private brand without hurting the national brand?</td>
<td>analysis, Brands, Alliances, House brands, Statistical analysis, Brands, Alliances, House brands</td>
<td>the association of brand name ingredients with private-brand products can have a positive impact on consumer evaluations of an unfamiliar product. Respondents' quality perception and attitude toward a private-brand raisin bran cereal was significantly more positive when a brand name ingredient was used in it and highlighted on the product's packaging. There seems to be, therefore, significant benefits to private label brands in seeking out alliances with national brands for ingredients.</td>
<td>Brand/national brand alliances with attention being placed on different commodities and brands, such as, frozen foods, health and beauty aids, electronics, etc. Greater attention also needs to be placed on the potential risks associated with private brand and national brand alliances for all parties involved. Additionally, the findings reported here make additional research on the boundary conditions of the branding effect worthwhile. Also, given that a great deal of ingredient branding takes place in the grocery industry, it would be interesting to see whether the effect holds up under varying levels of involvement, product knowledge, and product usage.</td>
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### Table 2. Literature overview on Co-branding

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<tr>
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<tr>
<td>Bengtsson and Servais,</td>
<td>Co-branding on industrial markets Note: good literature review</td>
<td>How co-branding can be used on industrial markets to increase value?</td>
<td>Co-branding; industrial market</td>
<td>Co-branding on industrial markets is a viable strategy. A weaker brand gains some credibility through co-operation with a stronger brand. A stronger brand does not get any value, but gets a more trustful relation to the buyers.</td>
<td>To examine the effects of the co-branding strategy on industrial markets particular on the identity and position of firms in networks; To consider a broader stakeholder perspective when researching brand strategies and their potential effects.</td>
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<td>2005</td>
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<td>Kumar, 2005</td>
<td>The Impact of Co branding on Customer Evaluation of Brand Counter extensions</td>
<td>What is the impact of co-branded versus solo-branded extensions on customer evaluations of brand counter extensions?</td>
<td>Co-branding, Brand extensions</td>
<td>Co-branding not only improves the attribute profile of a brand's own extension but also helps protect the brand against counter extensions</td>
<td>How one brand’s choice between solo branding and co-branding influences the extension strategies of other brands in its category and the joint effect of their choices on the evaluation of counter-extension. Could counter-extension itself be co-branded and may be better accepted than a solo-branded counter-extension? Whether co-branding affects the evaluation of only solo-branded counter-extensions or that of co-branded counter-extensions as well?</td>
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<tr>
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<td>Keller, 2003</td>
<td>Brand Synthesis: The Multidimensionality of Brand Knowledge</td>
<td>“What in fact consumers know about a brand?” “How this knowledge might be affected by linking the brand to other entities?”</td>
<td>Brand knowledge, Brand equity</td>
<td>“Adoption of broader, more holistic perspectives that synthesize the multidimensionality of brand knowledge is critical to advance branding theory and practice, both in general and with brand leveraging in particular”</td>
<td>“How various entities should best be combined, from a consumer brand-knowledge perspective, to create the optimal positioning in the minds of consumers?”</td>
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<td>“How marketers can best integrate all of their various marketing activities to assemble the right brand-knowledge structures?”</td>
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<td>“How brand names are factored into constructive decision processes? Answer on challenge in developing mental maps for consumers that accurately reflect their brand knowledge is how best to incorporate multiple theoretical or methodological paradigms”</td>
</tr>
<tr>
<td>Uggla, 2005</td>
<td>The Corporate Brand Association Base, A conceptual model for the creation of inclusive brand architecture</td>
<td>”The purpose of this paper is to analyze and discuss the strategic positioning of associations that can be established between a corporate brand and entities in its surrounding network such as brands, product categories,”</td>
<td>Corporate branding, Brand management, Product endorsement</td>
<td>The paper offers the “corporate brand association base model” as a conceptual framework for brand-to-brand collaboration. The model structures how a corporate brand can</td>
<td>Research and further theory development about the nature and design of corporate brand alliances. Important areas for future research include development of more comprehensive brand architectures for brand collaboration, including various levels of positioning for</td>
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| Authors                  | Focus                                      | Key research question                                                                 | Key terms                                                                                       | Findings                                                                                      | Future research                                                                                                                                 |
|-------------------------|--------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Washburn, Till and Priluck, 2000 | Co-branding: brand equity and trial effects  | This research looks specifically at the strategy of co-branding, an emerging and popular branding strategy for consumer products marketers. This research investigates the impact of co-branding on the brand equity evaluations of both the co-branded product and the branded products that comprise it. | Brands; Brand equity; Brand names; Product testing.                                          | “This research examines the effects of co-branding on the brand equity of both the co-branded product and the constituent brands that comprise it, both before and after product trial” | “It appears that co-branding is a win/win strategy for both co-branding partners regardless of whether the original brands are perceived by consumers as having high or low brand equity.”
|                         |                                            |                                                                                       |                                                                                                |                                                                                               | “Low equity brands may benefit most from co-branding, high equity brands are not denigrated even when paired with a low equity partner.”
|                         |                                            |                                                                                       |                                                                                                |                                                                                               | “Positive product trial seems to enhance consumers’ evaluations of co-branded products, particularly those with a low equity constituent brand.” |

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<tr>
<td>Venkatesh, Chintagunta and Mahajan, 2006</td>
<td>Research note: sole entrant, co-optor, or component supplier: Optimal end-product strategies for manufacturers of proprietary component brands</td>
<td>“While the channels and licensing streams have considered the distribution of identical end products, the differentiation among our end products and the stickiness in consumers’ preferences for these products drive the problem. This is a fundamental difference because supply-side factors, such as improved production efficiency, play a critical role in extant studies, whereas demand-side factors, such as brand equity and perceived differences in product quality, influence the results.”</td>
<td>co-competitions; component branding; market structure; competition</td>
<td>“Paper shows that although each of the three roles has its unique domain of optimality, the co-optor role is the most widely optimal for the manufacturers of proprietary component brands; it is profit maximizing even when the end products are strong substitutes, an alternative component is available and the down-stream market is saturated. Optimal prices under the co-optor role are higher than under the other roles. Paper provides application of the model to three real-world settings.”</td>
<td>“The model is in a static setting. One could also think of the problem in a dynamic sense with the end-product penetration occurring over time. The issue would be to identify the alternative roles at different stages.”</td>
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"Co-branding strategies may be effective in exploiting a product performance advantage or in introducing a new product with an unfamiliar brand name.”

"Paper shows that although each of the three roles has its unique domain of optimality, the co-optor role is the most widely optimal for the manufacturers of proprietary component brands; it is profit maximizing even when the end products are strong substitutes, an alternative component is available and the down-stream market is saturated. Optimal prices under the co-optor role are higher than under the other roles. Paper provides application of the model to three real-world settings.”

"The model is in a static setting. One could also think of the problem in a dynamic sense with the end-product penetration occurring over time. The issue would be to identify the alternative roles at different stages.”

"Assuming a linear pricing contract, we look for the optimal roles and price levels. Future studies may explore the optimality of other contracts drawing on the rich literature on this topic.”

"Motivated by factors such as brand personality and heterogeneity in consumer tastes, paper is focused on a model of horizontal differentiation. Yet there could be product markets for which an additional consideration is vertical differentiation tied to heterogeneity in consumers preferences for quality.”
The summary of the literature review presented in Table 1 offers the following findings:

a) Existing literature is primarily concerned with basic issues of ingredient branding such as dilemma “To brand ingredient or not?”, who benefit from ingredient branding and what are the benefits of ingredient branding? Those questions are basic and they provide good ground for further research. Thus, the first concern should be “to brand, or not to brand the components.” From this point on we can investigate how to brand the components and how to use branded components in the final product. A similar dilemma is studied by McArthy and Norris (1999, p. 75). However they formulate the research question differently: “If or when a brand alliance will improve competitive position compared to a non-aligned strategy.” Moreover, the study of Desai and Keller (2002) next to yes or no dilemma investigated how to brand components that add value to the final product. Desai and Keller also went one step further and they investigated: “How ingredient branding affects consumer acceptance of novel line extinction? And what is the ability of brand to leverage that ingredient to introduce future category extension?” Norris comes up with quite comprehensive paper in 2002. He addresses questions such as: Who benefits from Ingredient Branding? What are the drawbacks of Ingredient Branding? In order to make the study complete basis question “Yes or No” is raised one more time: “When is applicable to use Ingredient Branding?” Moreover, for the first time Norris (1992, p. 4) arise the question: “How should an Ingredient branding strategy be implemented?” Vaidyanathan and Aggarwal in 2000 investigated Strategic brand alliances and implications of ingredient branding for national and private brand labels. The basic question explored in this study is whether using a national brand ingredient can benefit a private brand without hurting the national brand.

Reviewed literature gives a good base for our research. Moreover the literature encourages us to investigate deeper the relationship between Ingredient Brand Management and sales results.

b) With respect to the used terms, we found that a related term to ingredient branding that is widely used in empirical studies is co-branding. “Co-branding, sometime also referred to as brand alliance, is a comprehensive term that refers to co-operations between two or more marketable items that in one way or another connect representations of several brands in the marketplace” (Simonin & Ruth, 1998); (Washburn et al., 2004); (Bengtsson and Servais, 2005).
Literature on co-branding identifies a number of different strategies such as affinity programs, cause-related marketing, ingredient branding, co-operative advertising, dual branding, and joint sales promotion that can be used to increase the value of a product or a service (Coole & Ryan, 2000), (Rao & Ruekert, 1994) and (Bengtsson and Servais, 2005).

Partner brands might be ingredient brands, ingredient co-brands, co-brands or partner brands that are linked to the corporate brands together with a constellation of other brands. Ingredient brands are often linked downstream in the value chain to corporate brands and their products. Intel processors, GORE-TEX fabrics, NutraSweet artificial sweetener, DuPont Supplex, Lycra and VISA are all ingredient brands that cannot be bought separately. These ingredient brands can create strong associations for respected corporate brands through reinforcing core attributes of their products, such as Ecco (shoes) with GORE-TEX fabrics or DELL computer with Intel Inside (Uggla, 2005).

c) Regarding the findings of the research done until now, we can summarize results as following: Norris paper from 1992 offers Ingredient Brand strategy steps listed by this order: 1. Research on Consumption Behavior: Direct Consumer Promotion; 2. Collaboration with Manufacturer in Promotion; 3. Expansion of Manufacturer Usage Base; 4. Collaboration with Manufacturers in Non-promotional Areas; 5. Continuation of Direct Consumer Promotion. I need to highlight that we used the above-mentioned approach as a theoretical base in the design of the Reliability Campaign. Venkatesh and Mahajan (1997) describe the way to determine, the most optimal bundle for the seller and its optimal price. One of the findings is that Ingredient Branding is not suitable for all products and all ingredients. We have to be very careful in choosing to brand the ingredient and to use it in a final product. Desai and Keller (2002) examine the Effects of Ingredient Branding Strategies on Host Brand Extendibility. Primary finding is an identification of self-branding as an alternative way of branding the attribute ingredient. Thus, in this case OEM plays twofold role: OEM and Components Supplier in the same time.

The proof of importance of ingredient branding can be found in the study of Keller (2002) where the model of Secondary Sources of Brand Knowledge (presented below in figure 3). According to this model, 4 parameters influence on the brand perception: People, Places,
Things and Other brands. Ingredients are listed among other brands. Thus, Ingredient Brand does influence on the brand perception of a final product.

**Figure 3. Secondary Sources of Brand Knowledge model (Keller, 2002)**

![Secondary Sources of Brand Knowledge model](image)

A similar approach is offered by Uggla in 2005 under name “Corporate brand association base” see Figure 4. Examining the model of corporate brand association base model we can notice significance of partner association, which can be an ingredient brand (Uggla, 2005).
d) Most interesting sections for me were recommendations for further research in all above mentioned papers. Venkatesh and Mahajan (1997) in the paper "Products with Branded Components An Approach for Premium Pricing and Partner Selection" call for further research on three topics: OEM selection, Pricing and Reservation Values. However, we will not cover any of mentioned topics in our research. Desai and Keller (2002) in the paper "The Effects of Ingredient Branding Strategies on Host Brand Extendibility" call on exploration of designed implementation of ingredient branding strategies. That is exactly the point of our research and we are directly answering to this call. Desai and Keller (2002) also call on identification and creation of managerial guidelines when and how to brand ingredients. In this respect we provide one case study and give our contribution in this respect. The paper of McCarthy and Norris (1999) "Improving competitive position using branded ingredients" calls for investigation of changes in brand value of ingredient and host brands in ingredient branding practice. Such research invites longitudinal approach and we cannot provide such research on this occasion. However, we will repeat our research in 2 years time after initial measurement and drove our conclusion a part from this thesis. McCarthy and Norris (1999) propose that the direction of the further research should investigate whether similar brand image of ingredient and host brand result in more positive effects. On the other hand, they are urging the research on a negative effect of ingredient branding in the case of a serious product failure or problem on the part of the ingredient brand hurt the brand equity of the host brand or vice versa. McCarthy and Norris pose
the question if ingredient branding can be used in repositioning of a host brand? The example they give is a private-label or store brand competing with established national brands using ingredient branding strategy. Although, repositioning of the brand is different than increase of brand value, we can argue that once proved that ingredient branding increases host brand value, we can also use it in the repositioning process. This question is important because in the case that private-labels or store brands could narrow the gap with established national brands using ingredient branding, that would wider ingredient user base and help to ingredient brand supplier to be even more competitive with economy of scale (applicable to three case-studies: Intel, DuPont and Bosch). Vaidyanathan and Aggarwal (2000, p. 621) call for research “on private brand/national brand alliances with attention being placed on different commodities and brands, such as, frozen foods, health and beauty aids, electronics, etc.” Indeed, it would be interesting to see in which products brand alliances give highest results or if there are a certain areas where brand alliance does not give wanted results.

Recommendations for further research cover rather big area and some of them provide guidelines for our research. We have set our research drawing on Desai and Keller (2002) and this research will give an example of real life Ingredient Branding Management. Although it belongs to literature review section, I would like to discuss ingredient branding seen from the prism of Value Chain it the next chapter, due to its significance. (Porter, 1985)

2.4. Ingredient Branding Through the Value Chain Perspective

If we observe ingredient branding through the prisms of added value concept and value chain, we can observe that adding value is done through the whole distribution process. Starting from Primary Activities of supplier (Marketing and Sales, Services) and going through Value chain of OEM, Channel and Consumer Value Chain, value-adding process is very long and gives us various opportunities on many levels. At the same time, value chains of suppliers should also be considered in a distribution process. In light of Porter (1985) work, we can conclude that Ingredient Brand Management is an alignment of value adding practices trough complete Value Chain network. Figures 5 and 6 depict related models of Porter (1985).
Moreover, according to Lanning (1998), a company must design a competitively superior value proposition aimed at a specific market segment, backed by superior value delivery system.

In order to measure to what extent brand of ingredient influences the host brand of final product we would need to determinate brand equity of both ingredient and host product before and after market intervention. However, it was not possible to facilitate such scale of research for this thesis. Brand equity is “a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to
that firm’s customers” (Aaker, 1991, p.15). It has also been defined as the effect of brand knowledge on consumer response to the brand. As such, brand equity is the value of the brand name that has the potential of being extended either in the form of line extensions or in conjunction with other brand names as in co-branding (Rao and Ruekert, 1994).

Drawing on the work of Aaker (1991), Keller (2001) suggests that customers’ knowledge of brand may be described in terms of brand awareness and brand image. Keller (2001) further classifies different dimensions of brand knowledge in the form of a pyramid (see Figure 7). In other words, brand attachment stems from rational and emotional brand evaluations, which derive from functional and emotional brand associations, and which necessitate brand awareness (Chandon, 2003).

**Figure 7. The Brand Knowledge Pyramid (Chandon, 2003).**

For the purpose of this research we will measure brand dimensions of Shimano brand knowledge only. In this research I will use approach of Aaker’s (1991) utilizing the six brand knowledge dimensions (brand attachment, brand awareness, rational evaluation, emotional evaluation, functional image and benefits, and emotional image and benefits).
CHAPTER 3: EMPIRICAL EXAMINATION

In the first part of the thesis, I reviewed literature on ingredient branding. I found that ingredient branding brings benefits to all parties involved in the process itself. I also found that there is a wide area for future research on this subject and many calls for research of ingredient branding theory and practice.

In this part, I will conduct an empirical study on the case of Shimano, and answer to the research question posed at the beginning of this study: “To what extent Shimano’s component brands important to Shimano customer, and which actions can Shimano undertake to facilitate its brand’s further market penetration?”

3.1. Shimano

Our research will examine the case of Japanese multinational Shimano. Shimano is established in Osaka, Japan in 1920’s as a bicycle part manufacture. Today, Shimano is the world’s leading manufacturer of bicycle components and producer of fishing tackle. Through a worldwide manufacturing and sales network, Shimano provides a wide range of products from which high majority are components for bicycle industry. Shimano Corporation operates 14 factories in Japan, Singapore, Malaysia, Indonesia, China, USA, and Czech Republic. In addition, there are 34 Shimano offices in 21 countries worldwide. Shimano turnover was 211’767 Million Yen or 1’887 Million US Dollars in 2007. Shimano currently employs 7800 employees. In addition to producing bicycle components and fishing tackle, Shimano currently manufactures cold-forged products for the automotive and other industries. Just for an illustration, bicycle components sales contribute to total Shimano revenue by 72.10%. Fishing tackle sales makes 25.90% of total Shimano revenue. All other activities account only 2% of total income. Shimano Corporation is a global player and well known multinational worldwide. Major Shimano markets are Europe which accounts for 39% of total net sales and Asian markets that account for 27.2% of total net sales. USA and Japan account 16.5% and 15.10% of total Shimano net sales respectively. While, others contribute to the total net sales by only 2.3%. Shimano has a long history in contribution to cycling sport through sponsoring many top cyclists and cycling events. The future of Shimano
Corporation looks bright with growing cycling and fishing market fuelled by ever-growing concern for health issues and environment.

### 3.2. Hypothesis

In order to answer on our research question (next to the extensive desk research on the subject of ingredient branding presented in the theory section), we divided our research into 2 studies. Study 1 primarily concerns with the examination of Hypothesis 1.

**Hypothesis 1: “Shimano’s direct marketing initiatives will be only effective if IBD’s demonstrate strong brand knowledge”**

Study 2 was primarily concerned with the examination of Hypothesis 2.

**Hypothesis 2: Shimano’s direct marketing initiatives will moderate the relationship between IBD’s and consumer in such a way that it will be stronger, measured by the increase in sales (study 2)**

Study 1 consists of the presentation of the analysis based on data gathered by questionnaires from Individual Bicycle Dealers (IBD’s) in Czech Republic, Greece, Hungary, Romania, Serbia, Slovakia, Poland and Slovenia. At the end of chapter, correctness of hypothesis 1 and conclusion of study 1 is presented. Study 2 is a case study on marketing campaign “Reliability has a name… Shimano” Reliability Campaign is presented in detail and at the end objective results were used for reaching a conclusion and giving answer on relevance of Hypothesis 2.

### 3.3. Study 1: Examination of Brand Knowledge among IBDs in 8 countries

In the first part of this thesis we defined ingredient branding as a process of giving identity and recognition to goods or services through elevating the identity and recognition of its key ingredients through direct marketing communication with the final consumer or/and multiple parties on the market. In order to examine to what extent there will be an effect of the direct marketing communication by the component supplier Shimano on sales, we first examine IBD’s knowledge about Shimano. Basically, we conducted a market survey with questionnaires among
IBDs in the following countries: Czech Republic, Greece, Hungary, Romania, Serbia, Slovakia, Poland and Slovenia. Our hypothesis was: “Shimano’s direct marketing initiatives will be only effective if IBD’s demonstrate strong brand knowledge.” This assumption is based on the literature review discussed in part 1 of this thesis, and suggests that the initial brand knowledge of the ingredient among IBD’s is highly important for promoting the ingredient brand to the final customers. Thus in the case of a new supplier, ingredient branding defined as the processes of giving/addition identity to goods and services will not work in the case of a new unknown supplier. Thus, brand knowledge is a primary requirement for the effective ingredient branding.

In the following sections, I describe the study of the brand knowledge in Czech Republic, Greece, Hungary, Romania, Serbia, Slovakia, Poland and Slovenia.

### 3.2.1 Research Design

In order to examine Shimano Brand Knowledge among IBD’s we operationalized Keller’s (2001) “Brand Knowledge Pyramid” (see Figure 2). Using “Brand Knowledge Pyramid” we measured the six brand knowledge dimensions (brand attachment, brand awareness, rational evaluation, emotional evaluation, functional image and benefits, and emotional image and benefits.) by at least 3 items scales.

Countries covered by research include: Czech Republic, Greece, Hungary, Romania, Serbia, Slovakia, Poland and Slovenia. In order to find out differences in Shimano Brand we conducted research among Individual Bicycle Dealers in the above-mentioned countries. From 500 initially contacted IBDs, 177 completed questionnaires and send it back to us. We measured the perspective of retailers and final consumer using the same questionnaire. Data were collected by post and direct contact using questionnaires. Finally, I used SPSS program to analyze the data and compare results.

### 3.2.2 Data Collection

We gathered our data through the following procedure. First we translated questionnaires to local language. The translation was done by Shimano distributor, due to the specificity of the industry language. The second step was done by the independent translation agency that we used for
“back-translate” the questionnaires. After inspecting and correcting discrepancies in translation we got the final version of the translated questionnaire. We sent this final version of the translated questionnaire to IBDs by post and by e-mail. IBDs were selected randomly from customer database at Shimano distributor side. Some of the questionnaires were returned by post or by e-mail and the rest was collected by Shimano distributor’s sales representatives or IBDs brought them by themselves to Shimano distributors. Collecting the data was not an easy process and involved a lot of time and effort of Shimano distributors. Data were collected in the time span of 6 months.

The above described approach of collecting data appeared to be most realistic. Collecting data during the IBD’s meetings organized by distributor was not a very successful option. Shimano distributor organizes IBD (Dealer) meeting 2 times a year and invites around 100 IBDs in its own premises or other location. The content of the meeting is made of new product presentations and commercial discussions. We tried to collect data during breaks between sessions. However, dealers preferred to use that time for socializing and communication with each other, rather than filling in the questionnaires. On the other hand, dealers preferred to fill-in the questionnaire together with Shimano distributor’s sales representative and ask for additional clarification for some of the questions. In this way we avoided assumptions and misunderstanding that may arise from language differences. Finally, all collected questionnaires by Shimano distributor were sent by post to me for analysis. I analysed the data using SPSS. After the data analysis, I shared the results with distributors and with OEM customers. It is interesting to mention, that OEMs were not surprised by results and that they expected higher scores for Shimano brand values.

Although the short story about the data collection process sounds easy and smooth, the reality was a bit different. We faced 3 major challenges in the data collection process: Language barrier, wide spread of the territory and resistance and hesitation to provide the data.

First challenge was language barrier. Conducting research across 8 countries and 8 different languages represents the challenge by itself. At the same time, we had to use industry related technical expressions and can be only correctly translated by the people from the
industry. I strongly recommend the back-translation practice that we did, in order to avoid misunderstanding and transfer the correct meaning of the question to final respondent.

The second challenge was wide territory on which the research was conducted. Basically, we were conducting the research in Central, Eastern and South-Eastern Europe. Travelling long distances to explain the purpose of the research was essential part of the process. Although, a lot of work and communication can be done by e-mail and phone, still there is no method that can replace physical personal contact. When you meet people and explain the purpose of the research you get their attention, you involve them in some way and consequently get their commitment. This way was very helpful with dealing with the third major challenge, personal resistance and hesitation to provide data.

There are various researches these days that were sent to IBDs, starting from market research companies, commercial organizations such as Shimano till Governments and non-governmental organizations. This situation makes our research task even more difficult. People are less enthusiastic to answer on questionnaire if they receive multiple questionnaires every month. The good solution for this challenge is to find right time and right person collect data and explain one more time the importance of survey.

3.2.3. Measurements

In order to measure Shimano brand knowledge we operationalized all elements of the Brand Knowledge Pyramid (Chandon, 2003) such as Brand Awareness, Rational Evaluation, Emotional Evaluation, Rational Evaluation, Emotional Image and Benefits, Functional Image and Benefits and finally Brand Attachment. We used seven point Likert-type scales to measure the level of agreement. The answer choices were as follows:

1 – Strongly disagree 5 – Somewhat agree
2 – Disagree 6 – Agree
3 – Somewhat disagree 7 – Strongly agree
4 – Neither agree or disagree

Functional Image and Benefits was measured with a three-item seven point Likert-type scale (1- Disagree completely and 7- Agree completely). An example item is “Shimano

Impact of Direct Marketing Actions by Component Suppliers on Sales and Brand Knowledge
Author Igor Popovic / Supervisor Prof. Dr. Ernst Hollander, MBA in Marketing, Thesis 2009
University of Gävle, Department of Business Administration and Economics.
components work very well.” The Cronbach’s alpha of this scale was .747. Regarding the frequency, from total sample 177, there were 174 (98.3%) valid answers and 3 (1.7%) excluded answers. Mean score was 5.573 or Agree on the level of agreement scale. This means that Shimano’s Functional Image and Benefits are graded as strong and favourable, with unique brand associations. Standard divination was 0.17391.

**Rational Evaluation** was measured with a three -item seven point Likert-type scale (1- Disagree completely and 7- Agree completely). An example item is “Considering what I would pay for the bicycle equipped with Shimano components, I will get much more than my money worth’s.” The Cronbach’s alpha of this scale was .849. Regarding the frequency, from total sample 177, there were 174 (98.3%) valid answers and 3 (1.7%) excluded answers. Mean score was 5.328 or Somewhat Agree on the level of agreement scale. This means that Rational Evaluation of Shimano brand gave positive and accessible evaluations. Standard divination was 0.21525.

**Emotional Image and Benefits** was measured with a three -item seven point Likert-type scale (1- Disagree completely and 7- Agree completely). An example item is “I consider the company and people who stand behind Shimano brand to be very trustworthy” The Cronbach’s alpha of this scale was .788. Regarding the frequency, from total sample 177, there were 173 (97.7%) valid answers and 4 (2.3%) excluded answers. Mean score was 5.684 or Agree on the level of agreement scale. This means that Emotional Image and Benefits of Shimano brand are graded as strong and favourable, with unique brand associations. Standard divination was 0.16086.

**Brand awareness** was measured with a three -item seven point Likert-type scale (1- Disagree completely and 7- Agree completely). An example item is “My customers know about Shimano Brand.” The Cronbach’s alpha of this scale was .747. Regarding the frequency, from total sample 177, there were 174 (98.3%) valid answers and 3 (1.7%) excluded answers. Mean score was 6.182 or Agree on the level of agreement scale. This means that Brand Awareness of Shimano is graded as deep and broad. Standard divination was 0.14356.

**Emotional Evaluation** was measured with a three -item seven point Likert-type scale (1- Disagree completely and 7- Agree completely). An example item is: “In its status and style, Shimano brand matches personality of my consumers.” The Cronbach’s alpha of this scale was .867. From total sample 177, there were 171 (96.6%) valid answers and 6 (3.4%) excluded answers. Mean score was 5.530 or Agree on the level of agreement scale. This means that Emotional Evaluation of Shimano brand gave positive and accessible evaluations. Standard divination was 0.17703.
Brand attachment as a highest extent of brand appreciation was measured with a three-item seven point Likert-type scale (1-Disagree completely and 7-Agree completely). An example item is “I have positive personal feelings about Shimano.” The Cronbach’s alpha of this scale was .757. Regarding the frequency, from total sample 177, there were 174 (98.3%) valid answers and 3 (1.7%) excluded answers. Mean score was 5.697 or Agree on the level of agreement scale. This means that Individual Bicycle Dealers (IBDs) demonstrated intensive and active brand loyalty towards Shimano. Standard divination was .19459.

Findings
The main purpose of this study was to examine Shimano’s brand knowledge among IBDs in 8 countries: Czech Republic, Greece, Hungary, Romania, Serbia, Slovakia, Poland and Slovenia. The data analysis showed that across six examined dimensions most of the countries scored equally high on all of them: Brand Awareness, Rational Evaluation or (Value), Emotional Evaluation or (Trustworthiness), Rational Evaluation, Emotional Image and Benefits or (Personality / Social Image), Functional Image and Benefits or (Performance) and finally Brand Attachment. This may be explained by the geographical positioning of these countries. They all belong to the Central, Eastern and Southern Europe. In cross-cultural literature (e.g., Sagiv and Schwartz, 1995) most of these countries belong to one group of countries with similar cultural values and a shared set of fundamental beliefs about how things should be and how people should behave. Most of the countries examined in this study belong to the dimension “embeddedness,” which refers to “people as part of a collective.” The only county that shows somewhat different result than others is Poland. The reason behind this difference is not known to us and we cannot explain it at this point. In general, the total figures suggest that Shimano brand was evaluated positively with high brand awareness score 0.8637 and impressively high brand attachment score of 0.7829. Please note that although scales include 1-7 answer possibilities, the number reported in the following table and the chart were adjusted to the range of 1-10.
Table 3. Questionnaire results on Shimano Brand knowledge

<table>
<thead>
<tr>
<th>Country</th>
<th>Performance</th>
<th>Value</th>
<th>Trust</th>
<th>Brand Awareness</th>
<th>Personality</th>
<th>Brand Attachment</th>
</tr>
</thead>
<tbody>
<tr>
<td>CZ</td>
<td>0.7542</td>
<td>0.7059</td>
<td>0.7745</td>
<td>0.8105</td>
<td>0.7511</td>
<td>0.7402</td>
</tr>
<tr>
<td>Greece</td>
<td>0.9271</td>
<td>0.8021</td>
<td>0.875</td>
<td>0.9444</td>
<td>0.8635</td>
<td>0.8681</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.8308</td>
<td>0.7626</td>
<td>0.8409</td>
<td>0.8939</td>
<td>0.8323</td>
<td>0.8485</td>
</tr>
<tr>
<td>Poland</td>
<td>0.6028</td>
<td>0.4569</td>
<td>0.5783</td>
<td>0.7778</td>
<td>0.5714</td>
<td>0.5912</td>
</tr>
<tr>
<td>Romania</td>
<td>0.7991</td>
<td>0.8843</td>
<td>0.7991</td>
<td>0.9658</td>
<td>0.7527</td>
<td>0.7991</td>
</tr>
<tr>
<td>Serbia</td>
<td>0.787</td>
<td>0.919</td>
<td>0.8796</td>
<td>0.9468</td>
<td>0.8968</td>
<td>0.9282</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0.8122</td>
<td>0.791</td>
<td>0.875</td>
<td>0.8333</td>
<td>0.7774</td>
<td>0.8651</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0.8333</td>
<td>0.8667</td>
<td>0.9333</td>
<td>0.9778</td>
<td>0.8333</td>
<td>0.9222</td>
</tr>
<tr>
<td>Total</td>
<td>0.7621</td>
<td>0.7213</td>
<td>0.7807</td>
<td>0.8637</td>
<td>0.7549</td>
<td>0.7829</td>
</tr>
</tbody>
</table>

Figure 8. Brand Knowledge dimensions per country and total
Next, we measured objective business parameters such as sales of bicycles per category, percentage of bicycle sale per price level, sales per product, income structure, etc. Results in this part of the study were measured in quantity and percentage. Individual Bicycle Dealers (IBDs) were asked to fill in quantities or percentages depending on the question. One hundred seventy seven Individual Bicycle Dealers (IBDs) participated the survey and filled out questionnaires. However, some IBDs did not answer on some questions and for that reason every question has a different response. The table with IBD’s participation per country is presented below.

Table 4. IBD Participation in research by country

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>CZ</td>
<td>34</td>
<td>19.21%</td>
</tr>
<tr>
<td>Greece</td>
<td>16</td>
<td>9.04%</td>
</tr>
<tr>
<td>Hungary</td>
<td>22</td>
<td>12.43%</td>
</tr>
<tr>
<td>Romania</td>
<td>13</td>
<td>7.34%</td>
</tr>
<tr>
<td>Serbia</td>
<td>24</td>
<td>13.56%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>23</td>
<td>12.99%</td>
</tr>
<tr>
<td>Poland</td>
<td>40</td>
<td>22.60%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>5</td>
<td>2.82%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>177</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

From the Shimano’s point of view it is important to identify what kinds of bicycles are sold in particular markets in order to identify the size of the market and market potential. It appears that most of sales are done in the mountain bike (MTB) segment 55% of total. On the second place is trekking segment and it acquires 18% of the total bicycle sales. On the third place is a sale of children bicycles with 12% of total market. The city segment is on the fourth place with 9% of the total sales. The city segment also includes single speed coaster bicycles. Finally sales of road racing bicycles is only 6% and represents quite niche market in this area. 175 IBDs answered on this question.
In order to get a complete picture of the Eastern and South Eastern Europe market, we also investigated the average price of the bicycle sold at IBDs. It appeared that most of the sales were done in the entry level priced from 100 Euro up to 250 Euro. The percentage in this segment is 30% of the whole sales. Close to the entry level segment is the segment of bicycles priced from 250 Euro up to 500 Euro. It acquires 28% of total bicycle sales. This means that bicycles priced from 100 Euro till 500 Euro take 58% and majority of total sales. It is interesting to see that lowest price segment from 50 Euro till 100 Euro acquires 16% of the sales and it is approximately similar to the sales of children bicycles (12%) which are priced on this level. However, the higher we go with prices the share in total sales is getting less and less. Thus, bicycles priced from 500 Euro up to 700 Euro account for 13% of the total bicycle sales. Bicycles priced from 500 Euro up to 750 Euro account for 8% of the total bicycle sales. Bicycles priced from 750 Euro up to 1200 Euro account for 13% of the total bicycle sales. Finally, bicycles priced from 1200 Euro and higher account for only 5% of the total bicycle sales.
The source of IBD’s incomes consist of sales of bicycles, sales of aftermarket products or products sold over the counter (OTC) and provision of service for clients that bring bicycles for maintenance, repair or upgrade. It was very interesting to see that 55% of IBD income comes from sales of bicycles. A sale of OTC products is on the second place with 23% of total income. Very close to turnover of OTC products is provision of service with 22%. We also have to take into consideration the margins and mark-ups that are obtained from above mentioned sources in order to understand the participation the final profit of IBD and consequently the importance of those activities. We should not forget that service also brings replacements of the parts and consequently sales of OTC products. Thus, the role of a service provision in the income of IBDs is from paramount importance. 171 IDB answered on the question regarding the income.
In order to complete the picture about IBD’s business and sales, we also investigated what was the quantity of bicycles sold per year. It appears that IBDs sold 556 bicycles on average in 2004, 535 bicycles in 2005 and 614 bicycles in 2006.

Figure 12. Bicycle sales per Calendar year

Combining the above mentioned questions about IBD’s business we can easily estimate the average income of IBDs. We can calculate the average price of the bicycle from question related to figure 10. At the same time we can calculate the average annual bicycle sales per year from related to figure 12. Finally, we have the percentage of participation of bicycle sales in total IBD business. Thus, formula would look like this:

Average price of bicycle = X

Quantity of bicycles sold per year = Y

Percentage of participation of bicycle sales in IBD income = Z

\[
\frac{(X \times Y)}{Z} \times 100 = \text{Annual Income of IBD}
\]

The annual income of IBD is an important factor in the estimation of the total bicycle market and the total market potential for Shimano.
3.2.4. Conclusion of the Study 1

In this study (1) we sought to identify to what extent the IBD and consumer brand knowledge of Shimano are on high level. The hypothesis was: Shimano’s direct marketing initiatives will be only effective if IBD’s demonstrate strong brand knowledge.

After conducting research in Czech Republic, Greece, Hungary, Romania, Serbia, Slovakia, Poland and Slovenia, we found that Shimano is highly appreciated brand by IBDs and consumers on the given markets. Basically, all 6 brand knowledge dimensions (Brand Awareness, Rational Evaluation, Emotional Evaluation, Rational Evaluation, Emotional Image and Benefits, Functional Image and Benefits and finally Brand Attachment) were graded very high. Indeed, IBDs demonstrated strong brand knowledge in Shimano case. This further indicates that our hypothesis 1 is support.

Reflecting back on the Hypothesis 1, we can conclude that: In the study of Shimano brand knowledge among 8 countries, IBD’s demonstrated strong brand knowledge.

We also found the formula to identify the IBD’s income and the importance of different sources of IBDs income. Average IBD, sells around 568 bicycles per year. That amount accounts for 55% of the total income that comes from the shop. Service and Sales of OTC products account for the rest of the income. We have to take in to consideration that margin on OTC sales and Service is much higher than on bicycle sales thus the profit that comes from OTC sales and Service is primarily part in the IBD’s profit. However, we identified that on average IBD’s business is profitable enough to be a family business with few additional employees in the shop.

3.3. Study 2: Case-Study “Reliability has a name… SHIMANO”

Study 1 confirmed a relatively high Shimano brand knowledge among IBDs. Thus we now can turn to our second hypothesis that is:

“Shimano’s direct marketing initiatives will moderate the relationship between IBD’s and consumer in such a way that it will be stronger, measured by the increase in sales.”
This hypothesis stems from our definition of the ingredient branding, as a process of giving identity and recognition to goods or services through elevating the identity and recognition of its key ingredients through direct marketing communication with the final consumer and/or multiple parties on the market.

In the previous study we confirmed that the brand knowledge is satisfactory. In these conditions, we expect that any direct marketing campaign initiated by the ingredient supplier will moderate the relationship between IBDs and final customers. Figure 1 illustrates this assumption.

**Figure 13. Positive modulation of IBD communication with consumer, done by Shimano**

![Diagram showing positive modulation of IBD communication with consumer, done by Shimano](image.png)

To test this assumption, I designed a marketing campaign “Reliability has a name… SHIMANO”

The following sections describe the campaign and report about its effectiveness.

### 3.3.1. Introduction to Reliability Campaign

Shimano’s marketing focus is based on function and performance. This strategy was commonly accepted for the territory of the whole Europe. During my travelling and often visits to IBDs and market in Balkan region I got impression that basic buying motivation differs from Shimano marketing focus. In order to find out if my assumptions are correct I conducted a small scale market research which was among other subjects targeting buying motives. In short, customers in Balkan region highly appreciate trust to reputation of IBDs, durability and reliability of product. These results prompt me to think about other ways of marketing Shimano product.

My quest was to find a way how to promote reliability and durability of Shimano product with binding numerous benefits for all players in supply chain (OEMs, IBDs and consumers). In order
to perceive Shimano product as reliable consumers need to have some measurable constant to create such opinion. That measurable constant in this case is Shimano Service Book or SSB later in text. SSB is booklet, which should collect data of the bicycle’s main data about purchase, specification and maintenance. My expectation is to increase brand connection with reliability by providing the evidence of Shimano competitive advantage associated with reliability. More information about Reliability Campaign can be found on Home Page of Shimano-Europe Internet presentation: [http://cycle.shimano-eu.com/](http://cycle.shimano-eu.com/)

3.3.2. Requirements

Campaign was divided in two parts to fit better market requirements and cover wider part of the market. In order to participate in Shimano Reliability Campaign OEM needs to spec bellow mention components on bicycle. In order to fulfill the participation requirements in Gold Edition of Reliability Campaign bicycle should be equipped with Shimano RD, FD, CS/MF, SL/ST, FC and OT. For Silver Edition of Reliability Campaign bicycle should be equipped with RD, FD, MF/CS, and SL/ST.

3.3.3. Shimano Service Book (SSB)

One of the core ideas of the campaign was to equip bicycles produced by various OEMs with Shimano Service Book (SSB). Shimano Service Book (SSB) is a small booklet size (15X10cm), which consists three parts. The first part is a general part and tells Shimano corporate story and explains usage of the book itself. This part also explains all technical features of Shimano product such as SIS system, Mega-range technology and so on. The second part of the book is reserved for information about bicycle and contains following data: brand, model, frame number, size of frame, date of purchase, bicycle specification and comments. Most important part of this portion is indication of Shimano components on the bicycle, which prompt consumer to check and recognize Shimano quality in drive train. Finally, the third part is consisting of checklists for regular service with place for IBDs signature and stamp.

1 RD-rear derailleur, FD- front derailleur, CS/MF-cassette/multiple-freewheel, SL/ST-Shift lever, FC-front chain wheel, OT- outer casing
The service book is meant to be used by consumers and field in by service providers during the purchase, service, maintenance, repair or upgrade of the bicycle. This book would collect information about service life of bicycle and help out in identification of repeated technical problems.

The usage of service book is simple and it is pretty much the same as usage of already known car service book. Consumer buys a bicycle and Bicycle Dealer (IBD) fills-in the data of the bicycle and the point of the initial purchase. At the same time IBD explains to the consumer that bicycle needs to be serviced after some period of time and that service can be also be provided by the shop that sells bicycles. Consumer uses the bicycle and brings the bicycle for service after some time (depending on the usage). IBD service the bicycle and notify what the kind of service is done on the bicycle in the service book. Bicycle that features the service book will have a clear track of service history and maintenance. Therefore, the value of that bicycle will be higher than a value of the same bicycle without service and maintenance history. This means that depreciation of the bicycle equipped with the service book will be less over the same period of time. Consequently, this brings us to the point that the initial value of the bicycle equipped with the service book is higher comparing to the same bicycle without service book.

3.3.4. Benefits and Added Value

In order to distinguish clear benefits of Reliability campaign I divided interest groups into Shimano (supplier), OEM, IBD and consumers (Norris, 2002). In general, interests of the above-mention groups are divided and in some cases can go against each other. In this case I tried to align interests and groups toward common benefits, which led to the success of the whole campaign.

From the table 5 we can see that longest list of benefits is at IBD side. Indeed, IBDs are key to success in this operation. For that reason Reliability Campaign was focusing to add highest added value to IBD party. IBDs have power to demand certain specification or certain model of bicycles from OEMs. Thus, create “pull” from the market side. From the other side IBD have power to influence of consumer decision-making process by giving recommendation or word of advice (which is highly appreciated).
Table 5. Benefits of stakeholders in the Reliability Campaign

<table>
<thead>
<tr>
<th></th>
<th>SHIMANO</th>
<th>OEMs</th>
<th>IBDs</th>
<th>CONSUMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sales increase</td>
<td>Joint promotion of bicycles with high-end</td>
<td>Increase traffic in the shop</td>
<td>Prevention of thievery (proof of ownership)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>brand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Additional sales</td>
<td>Increase level of bicycle sold</td>
<td>Additional sales arguments</td>
<td>Guidelines for service</td>
</tr>
<tr>
<td></td>
<td>argument</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Increase brand</td>
<td>Increase the level of the market</td>
<td>POP, promo material</td>
<td>Increase price of second-hand bicycle with</td>
</tr>
<tr>
<td></td>
<td>awareness</td>
<td></td>
<td></td>
<td>service book</td>
</tr>
<tr>
<td>4.</td>
<td>Get additional</td>
<td>Improve quality,</td>
<td>Service check list</td>
<td>Longer life of bicycle if maintained</td>
</tr>
<tr>
<td></td>
<td>specifications</td>
<td>decrease QC problems</td>
<td></td>
<td>regularly</td>
</tr>
<tr>
<td>5.</td>
<td>Create standard on the</td>
<td>Get recognition on the market</td>
<td>Easy to explain to customers</td>
<td>Easy to recognize trustworthy IBDs</td>
</tr>
<tr>
<td></td>
<td>market (take initiative)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Ensure OEMs that they</td>
<td>Sales increase</td>
<td>Good image with participation in Shimano</td>
<td></td>
</tr>
<tr>
<td></td>
<td>are in secure hands with</td>
<td></td>
<td>action</td>
<td>Easy to recognize quality bicycle</td>
</tr>
<tr>
<td></td>
<td>Shimano</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Increase level of the</td>
<td>Get closer to IBDs</td>
<td>Increase customer retention</td>
<td>More information about product and service</td>
</tr>
<tr>
<td></td>
<td>market</td>
<td></td>
<td></td>
<td>(important for purchasing decision)</td>
</tr>
<tr>
<td>8.</td>
<td>Add value to the final</td>
<td></td>
<td>Educate customers about importance of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>product</td>
<td></td>
<td>service</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Free publicity</td>
<td></td>
<td>Additional arguments against Internet sales</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Increase price of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>second-hand bicycle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>with service book (add</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>value to new product)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td></td>
<td></td>
<td>Opportunity to sell more expensive bicycles</td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td></td>
<td></td>
<td>SSB is good complete with warranty card IBD</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>can monitor the history of the bicycle.</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td></td>
<td></td>
<td>Advertisement on back side of SSB</td>
<td></td>
</tr>
</tbody>
</table>
It was of crucial importance to address all players in campaign with arguments, which give answers on questions: Why should I participate in this campaign? And what is inside for me? Most important link in the whole distribution chain is IBD. Thus, I strongly recommend organizing IBD tour with only purpose explanation of Reliability Campaign. IBDs should be the one should explain to consumer why they should go for bicycle, which participate in the campaign. Giving a clear message to IBDs we can be sure that our idea reached the market in the way that we want.

3.3.5. **Pilot Project Bulgaria**

Pilot project in Bulgaria started in October 2005 and it was implemented in 2006. In this project we tested reliability concept in real market conditions. After introduction of project to OEMs and taking into consideration their opinion and their suggestions, we asked them to sign agreements in which they should indicate the forecast participation quantity. Every OEM signed agreement (presented in appendix 1) and dedicated certain production quantity to Reliability campaign. This pilot project was only a test before implementation of the campaign in 8 European countries in 2007. Basically, 6 OEMs joined the campaign as a pilot project: Cross LTD, Maxcom LTD, Velomania LTD, Balkanvelo AD, Leader -96 LTD and Passati LTD. Participation quantity was around 42,000 bicycles, from which 30% satisfied criteria for a golden edition and 60% satisfied criteria for a silver edition of the campaign.

I am not in position to report exact quantity of participation per company due to Shimano business ethics and keeping business secret policy. We promised to OEMs that every business aspect they share with us will be kept as a business secret. However, result of the pilot project was over our original expectation and an increase in sale was significant. Thus, Reliability Campaign was ready to be used in other countries as a concept for increasing Shimano brand knowledge and for busting sales results.

3.3.6. **Reliability Campaign in 2007**

After the positive experience with the Pilot Project Bulgaria, we decided to spread the campaign to Czech Republic, Greece, Hungary, Romania, Serbia, Slovakia, Poland and Slovenia. The
participation quantity rose to more than 50 OEMs and bicycle importers participating with more than ten times higher quantity of bicycles than it was originally in the pilot project.

A part from the Shimano Annual Report 2007 can illustrate the outcome of the campaign: “During fiscal year 2007, Shimano Group actively introduced new products, implementing a full model change for “Deore XT” mountain bike components and introducing the “ULTEGRA SL” line, an upgraded version of the “ULTEGRA” road bike components. Interest in environmental problems and health is increasing worldwide and a trend toward re-evaluation of the importance and value of bicycles has gained momentum, resulting in increased demand for all models in European markets and higher demand for medium-grade models, such as cross bikes, in the U.S., Asia, and Central and South America. Similarly, Japan’s bicycle market has been energized as middle-aged and older people choose middle-grade and high-grade sports bikes as a means of enjoying leisure time and people increasingly give importance to quality even in the case of city bicycles. For the above reasons, sales and profits from the bicycle components business increased. In Europe in particular, the impact of the Euro’s appreciation, rising incomes in Russia and Eastern Europe, good weather, and other favourable factors including Reliability Campaign boosted business results. As a result, sales increased 28.5% from the previous year to 157,839 million yen, and operating income rose 45.5% to 27,556 million yen.”

3.3.7. Reliability Campaign in 2008

Even further in 2008, we decided to continue the campaign in Czech Republic, Greece, Hungary, Romania, Serbia, Slovakia, Poland and Slovenia and spared it to Turkey, South Africa, Portugal and Ukraine. Once again participation quantity rose to more than 100 OEMs and bicycle importers participating with more than double quantity comparing to previous year. Reaching the quantity that was above our original target in the above-mentioned countries was a big success.

Reflecting back on the Hypothesis 2, we can conclude that: *Shimano’s direct marketing initiatives moderated the relationship between IBD’s and consumer in such a way that it became stronger measured by the increase in sales.*
CHAPTER 4: DISCUSSION

At the beginning of the thesis we split the study in two parts: study 1 and study 2 in order to answer to our research question. Now is the time to reconnect these two studies. Let’s reflect on both hypotheses and results of our study.

Hypothesis 1: “Shimano’s direct marketing initiatives will be only effective if IBD’s demonstrate strong brand knowledge”

Finding 1: IBD’s demonstrated strong brand knowledge. Thus, Shimano’s direct marketing initiatives proven to be effective.

Hypothesis 2: Shimano’s direct marketing initiatives will moderate the relationship between IBD’s and consumer in such a way that it will be stronger, measured by the increase in sales.

Finding 2: Shimano’s direct marketing initiatives moderated the relationship between IBD’s and consumer in such a way that it became stronger measured by the increase in sales.

Both findings are bringing us to 2 common conclusions:
1. Shimano brand is important to Shimano customer
2. Shimano can invest in direct communication with final consumer in order to facilitate further market penetration.

These findings also answer to the key question of this thesis.

If we take examples of Intel, DuPont and Bosch discussed earlier in this study, we can notice that all three companies are market leaders and trend setters in their own industries. Ingredient branding is the right way to distinguish particular product or service from competitors. Case studies of Intel, DuPont and Bosch served well to point the way for other famous component suppliers. Translating the practice of three above mentioned giants on Shimano, we can conclude that effort invested in the direct communication with final consumer does pay-off on the long run in form of derived demand and increased brand equity.

The purpose of this research was to demonstrate and to analyse Ingredient Brand Management practice on the case of Shimano from scientific point of view. I created and initiated Reliability Campaign within Shimano in order to share the benefits through the whole
supply chain in the bicycle industry. Indeed the list of benefits that apply for participants in the camping, prompt me to think to which extent Shimano Brand benefits from such an actions. Reviewing the literature on ingredient branding subject I could not find the clear answer on my question. Furthermore, I came across papers that invited research on this subject. Obviously there was a space for a contribution to the science. From the other side, conducting this research was a conclusion and an evaluation of the initiative that resulted in enormous sales of bicycles and bicycle components.

The study described in this thesis leads us to three important conclusions. The first conclusion is that Shimano Brand enjoys good reputation among IBDs and consumers in countries that participated in the research. The set of questions that investigated the brand knowledge gave us clear picture that consumers and IBDs highly appreciate marketing and sales support and clear communication with the component supplier (in this case Shimano). This result also points out that a marketing initiative such as Reliability Campaign contributes to the positive image of Shimano on the market.

The second conclusion is that understanding roles of participants in ingredient branding process is of crucial importance for success. With participants next to Shimano we also mean OEMs, Shimano Distributors, Retail and Service outlets or IBDs (Individual Bicycle Dealers) and consumers. True understanding means detection of most important parameters that are of added value to the participants. Quality and weight of the parameter should be the primary concern of the marketer that plans to brand the component. However, the longer the list of benefits for participants in the marketing campaign, the better communication can be executed during the implementation process. List of benefits and beneficiaries in the ingredient branding practice provided by Norris (1992) may be extended as proposed.

The third conclusion is that size and coverage of the service network of component supplier is positively correlated to component or ingredient brand perception on the market. This conclusion is valid for ingredients and components that need maintenance and service during its product life. Shimano built its own brand on strong service and distribution network during many years. Nevertheless, Shimano entered examined markets only few years ago and we have to take this into consideration when we observe the results of the questionnaire. Strong brand attachment

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can be traced in the outstanding quality of Shimano products and reliability in usage under all conditions. Reliability as a concept promotes also reliability of partnership with Shimano as a supplier and a business partner. Most of the IBDs examined are visited on the regular basis by a Shimano representative and a Shimano distributor. This fact also partly explains high score on brand dimension of Shimano. If we observe the model we propose from this perspective, we can find the confirmation of hypothesis that communication with all parties involved in distribution and sales of component supplier will lead to higher demand and better brand position of component supplier itself. This finding is important; because it shows for the first time on the real life experiment and with empirical results that ingredient branding is useful and beneficial strategy for a component supplier.

Reliability Campaign represented a clear intervention on the market and established the basis for Component (ingredient) Brand Management practice. The results of the questionnaire should be observed as an outcome of Component (ingredient) Brand Management. A wider overview on the whole subject of Component (ingredient) Brand Management will be described in my PhD thesis, which is in progress.

This study offers an approach to Ingredient Branding through the prism of organizational and inter-organizational Value Chain. I took Value Chain as a demonstration and identification tool to illustrate the importance and potential of ingredient branding. This approach is unique, and to my knowledge no other study uses it in relation to the ingredient branding. I do hope that practitioners and scholars will find Value Chain useful for ingredient branding practice or study.

It is important to mention that contribution to science is also reflected in the fact that all relevant literature is put together, analyzed and compared in order to create a common ground for the future research on the subject of ingredient branding. I used three different approaches to answer the research question: (a) literature review, (b) case-study analysis and (c) empirical study. Conclusions reached in this study are result of a combination of used approaches as well as practical knowledge gained on the field and in face-to-face communications with all players in the bicycle industry.
CHAPTER 5: RECOMMENDATIONS

Recommendations chapter can be divided in two parts: recommendation for Shimano in particular and recommendations for component (ingredient) suppliers in general.

5.1. Recommendations for Shimano in Particular

Basically, Shimano already set the standard of Component (ingredient) Brand Management to other component suppliers in the industry by example of Reliability Campaign. First suggestion is to continue the campaign and move it to the concept on the permanent basis. In this way Shimano will gain unique competitive advantage and improve its image on the market. We have to be very careful to transferring the meaning of campaign and communicate the benefits with other players on the market that participated in the whole project.

The second recommendation is to modify Reliability Campaign and Reliability Concept to meet local needs and to appeal to local tastes. A small example is a modification of promotional material for Iran. Among other countries we extended Reliability Campaign to Iran. Part of promo material is Shimano Service Book as explained in the previous text. We had to replace pictures of the females wearing sleeveless shirts and shorts because we would not be able to distribute such material on the Iranian marker. This is a small detail, but it can determine the outcome of the whole campaign for that particular market.

The third recommendation is to extend the campaign on other markets. Success achieved in past 3 years can be easily copied with small modifications to other markets. The example is extension of the campaign to South Africa in 2008. South African market is completely different than South East, East or Central Europe bicycle market. However, we managed to successfully introduce and implement the campaign among high end brands in South Africa such as Trek, Gary Fisher, Merida, Giant, Raleigh, Yeti, Jamis, 9-er, GT, Mongoose, Schwinn, Felt and local brand Silverback.

(http://www.melange.co.za/coolheat/welcome.php?mcat=RELIABILITY&scat=&link=341&wsSID=0t6o9kpg1msjm0edf1gdfdk2o6)
Finally, Reliability Campaign is just as a top of the iceberg in Component (ingredient) Brand Management practice. There is a great potential for a value creation through more structural approach by utilizing Component (ingredient) Brand Management within Shimano not only in the case of Reliability Campaign. Moreover, sharing information and practices with other Shimano offices like Shimano Latin America and Shimano China, it is possible to achieve synergies in terms of spreading success, improving business results and saving resources.

5.2. Recommendations for Component (ingredient) Suppliers in General

During the industrial revolution and booming of industry, component suppliers had very simple calculation to make. Basically, finding few OEMs was enough to sustain the profitable business in the growing market and developing economy. However, in the current situation when we face situated markets in most of the industries and influence of the down going economy, component suppliers need to look further than just to their immediate customers if they want to sustain and develop their current market position. Component suppliers need to answer to the following questions before they formulate their value proposition to the market:

- How can I contribute to OEM to sell its final product?
- How can I contribute to OEM to increase sales of its final product?
- How can I contribute to OEM to improve its value proposition?
- How can I contribute to Distributor in distribution process?
- How can I contribute to retailer and service providers of the final product that feature my components?
- How can I facilitate the aftermarket service for my components?
- How can I facilitate the aftermarket sales for my components?
- How can I appeal to consumers with my components?
- Where is the biggest potential for gaining additional market share (in OEM sales, in aftermarket sale or in service sales)?

All the above-mentioned questions bring component supplier closed to the concept of Component (ingredient) Brand Management as an answer. Indeed, developing your own approach as a component supplier can have beneficial consequences on the long run.
Component suppliers that choose to involve in the ingredient branding practice must count that benefits from this practice will be most likely visible in the long run. Expecting instant results is not something that we should count with ingredient branding. However, the effects of long run approach can have many benefits as mentioned by Norris (1991) and in the table of benefits above. Moreover, the brand knowledge on the market will last with the consumers target group that remembers and respect the brand itself giving to it even more weight.

Regarding the ingredient branding process, I will also recommend the usage of 6 steps strategy described by Norris (1992): 1. Research on Consumption Behaviour; 2. Direct Consumer Promotion; 3. Collaboration with Manufacturer in Promotion; 4. Expansion of Manufacturer Usage Base; 5. Collaboration with Manufacturers in Non-promotional Areas; 6. Continuation of Direct Consumer Promotion. Before we start getting involved in the ingredient branding, we need to learn what the pattern in the consumer behaviour is. Direct market research is one of the best ways to understand consumers’ behaviour. Next, a direct consumer promotion followed up by collaboration with manufactures is recommended. Expansion of the manufacture usage base and collaboration with manufacturers in non-promotional areas are part of the execution phase. While, continuation of the direct promotion to consumers is a closing of the whole ingredients branding strategy circle. I will also strongly recommend adding 7th step; actually this step should be added before the 6th step: Evaluation and control should be done before continuation of the direct promotion to consumers. We need to identify what are the effects of the previous before taking any new promotional actions. After identifying the results of previous actions we can make decision such as: continue, modify or stop.

Finally, I would recommend the usage of ingredient branding to component (ingredient) suppliers as a good and efficient way to increase sales, differentiate their offer and minimize the risk of substitution with other components / ingredients. Moreover, I would recommend to manufactures usage of branded components as a good way to signal higher value of their products or services, improve their sales, increase brand value of their own brand and benefit from join promotion activities.

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CHAPTER 6: CONCLUSIONS AND IMPLICATIONS

In this section I will critically reflect on the limitations of this research and give suggestions about arrears for further research in the field of ingredient branding.

6.1. Limitations of This Research

During the process of conducting the research, I never stop thinking about this section of my study. I tried to minimize the obstacles as much as possible. However, every research has its own limitations and that is also applicable for this research. The main limitation in this research is viewing the bicycle market as the market which sells bicycles and provides services through IBD channel only. Bicycles and bicycle gears are also sold through Mass markets, Sport chains, Internet and catalogue sales and other channels. Nevertheless, IBD sales channel is most important in the markets we investigated. Mass markets and Sport chains are still in the phase when they need to establish their business. Moreover, the sales quantity is still on the modest level. The second limitation is that collection of the data was done in the full bicycle season. Thus, many potential responders did not have time to spend it for answering the questionnaires while their shop was full with customers. The response could be much better, if we did research later in the year. However, due to the busy agenda and overbooked travel calendar that was not possible. The third limitation is concerned confidentiality policy of Shimano company. I was not able to report all collected data because I would breach Shimano business policy and my professional conduct. Some collected data were not taken into consideration within this thesis. This study does not measure the changes in the OEM brand equity before and after implementation of the campaign.

6.2. Suggested Areas for Further Research

Ingredient or Component branding is subject that takes a lot of attention in the real world. At the same time, research on this subject is limited to theoretical papers and small-scale experiments. It
would be useful to conduct a bigger scale research on the subject of ingredient branding and use conclusions for the development of Component (ingredient) Brand Management.

Component (ingredient) Brand Management can be developed by a network of scholars and provide guidelines for successful branding of components and ingredient products or services for professionals. I gave an example in this study that Component Brand Management is a very powerful practice. Moreover, I will also personally work on this subject in the future, upgrading this research into a longitudinal study. Basically, I will repeat the same research over 3 year period and compare results.

The role of service is also one of the subjects that deserve more attention. In particular, I would be interested in two roles of service in Component (ingredient) Branding. In the first role, service is provided in order to facilitate the component or ingredient. In that case service network of component supplier would play main role in distribution and promotion process. In the second role, the service would be component itself. General service of major service provider may feature branded services of other service suppliers that can have direct communication to final consumer through their own brand. Simple example is a famous musical band that plays in the local restaurant. Restaurant is a major service provider and clients come to the restaurant primarily to have a meal. However, the famous band has its own brand and its own public and clientele and increases chances of the restaurant to achieve higher turnover.

Measuring brand equity of OEM before and after usage of branded components can be a very interesting area for the further research. This study would give empirical evidence that an ingredient branding practice does not only increase sales but also increases the brand equity of the industrial customer of branded components or ingredients.
REFERENCES


Annex 1. “Brand Knowledge” Questionnaire – distributed among IBDs

**Performance (Functional Image and Benefits):**

P1 From Shimano components, I can expect superior performance of my product (bicycle).
P2 During the use, Shimano components are highly unlikely to be defective
P3 Shimano components are made so as to work trouble free.
P4 Shimano components work very well

**Social Image (Emotional Evaluation):**

I1 Shimano brand fits personality of my customers
I2 My customers would be proud to have bicycle equipped with Shimano components
I3 Bicycle with Shimano components will be well regarded by my friends
I4 In its status and style, Shimano brand matches personality of my consumers

**Value (Rational Evaluation):**

V1 Shimano components are well priced
V2 Considering what I would pay for the bicycle equipped with Shimano components, I will get much more than my money worth’s
V3. I consider Shimano brand to be bargain because of benefits I receive

**Trustworthiness (Emotional Image and Benefits):**

T1 I consider the company and people who stand behind Shimano brand to be very trustworthy
T2 In regards to consumer interest Shimano seems to very caring
T3. I believe that Shimano does not take advantage of consumers

**Attachment:**

A1 After using Shimano components, I am very likely to grow fond of them.
A2 I have positive personal feelings about Shimano
A3 With time, I will develop a warm feeling toward Shimano equipped bicycle.

*Brand Awareness: Brand Recall and Brand Recognition*
BA1. My customers know about Shimano Brand
BA 2. My customers ask me to equip bicycle with Shimano components.
BA 3. My customers ask me to replace original specification of bicycle by Shimano components.

Jeniffer Aaker, Keller (2001)
Annex 2. Article in "Bike Europe" – April, 2007 p.8

Shimano Expands 'Reliability Campaign'

NUNSPEET, the Netherlands – After its initial success over the last two years, Shimano’s Reliability Campaign will again take place this year and is being expanded into more Eastern European countries as well as Greece and South Africa.

The overall goal of the campaign is to make it easier for a consumer to distinguish quality bicycles in the market. At the same time, Shimano wants to emphasize the importance of service and increase customer retention at the independent bicycle dealer. Moreover, the campaign gives support to bicycle manufacturers through joint promotion and ingredient branding. In order to enhance consumer communication further, Shimano will provide the participating bicycle manufacturers with additional frame stickers carrying the Reliability Campaign logo, starting from this year.

Bicycle manufacturers can mark their bicycles as “Silver Edition” or “Gold Edition” according to a set of rules. Bicycles that are equipped with a Shimano rear derailleur, front derailleur, cassette and shifter can be recognized by the “Silver Edition” mark. Silver Edition status is also being given to bicycles with a Shimano internal geared hub and shifter. Bicycles that also have been equipped with a Shimano crankset and cables are labeled as “Gold Edition”. By selecting a Silver or Gold Edition bicycle it is always clear for a consumer that the bike is equipped with high quality Shimano components. The bicycles in the “Reliability Campaign” are provided with a Shimano service book that contains three parts: The first chapter explains the technical features of Shimano products. The second part is reserved for information about the bicycle itself such as brand, model number and frame number. The final part consists of checklists for regular servicing.

In the book, the dealer will record all regular service activities that took place on the bicycle, giving the consumer a perfect overview. Furthermore it will increase the value of the bicycle when the consumer sells it on and it can also be used as evidence of ownership.

Dealers participating in this campaign can be recognized by the “Reliability has a Name” metal plate, window sticker or poster. Shimano expects, together with the participating bicycle manufacturers, that this campaign will make it easier for consumers to select a bicycle that perfectly fits their needs and helps bicycle dealers to increase their business.

The campaign will run in the following countries this year: Bulgaria, Czech Republic, Greece, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, Turkey, Portugal, Ukraine, Macedonia and South Africa.
Annex 3. POP material for pilot-project Reliability Campaign 2006

- **Poster A1 (594 x 841 mm), 500 pcs.**
- **Doorsticker A4 (210 x 297 mm), 500 pcs.**
- **Hangtag (100 x 140 mm), 16 pages, 15,000 pcs. gold, 30,000 pcs. silver**