Watch the Company You Keep

Case Study: Reebok and CrossFit

Co-branding has become a popular emergence amongst large corporations, such as Apple and Nike's collaboration on Sports Kit. Today, co-branding partnerships are being practiced in companies of all sizes. Of course, in order for companies to consider this tactic feasible, the agreement must create equal value for both parties.

Why do already successful companies join forces to co-brand? The purpose of this technique is to affiliate the positive brand recognition of one company with another to create a new composite brand, or to generate synergy with current brands while attempting to reach a new market segment that previously may have been untapped by one or both companies. Co-branding agreements can offer a powerful way of introducing one company's products and services to the loyalists of another. Simply stated, co-branding is the leveraging of brand equity.

IN 2010, REEBOK AND CROSSFIT AGREED TO PURSUE A CO-BRADNING STRATEGY, AND SYNERGISTICALLY IT WORKS SINCE THEY ARE ***UNITED BY FITNESS***

Image Credit (15)

Reebok and CrossFit are currently in year 3 of a 10 year co-branding agreement.

Equal Value to Both Companies

If it is already in your corporate DNA, why reinvent the wheel? After Reebok dominated the fitness and aerobics wave/movement in the 1980s with groundbreaking products and marketing, the company signed a long-term partnership with CrossFit, a core strength and conditioning program, in 2010 (1, 2). Now, three years later, Reebok is back on track to become THE fitness brand with the goal to empower consumers to be fit for life (3).

When Reebok and CrossFit agreed to pursue this co-branding strategy, they understood the synergistic nature of their collaboration since they are *united by fitness*. Their agreement can also be view as a complementary co-alliance, since both brands are in the fitness industry.

Weighing Co-Branding Benefits versus Risks

There are benefits as well as risks associated with co-branding. By taking a deeper look into the Reebok and CrossFit relationship, we will discover the various advantages and hurdles each brand encounters.

Co-Branding Benefits

Cost Sharing

Co-branding partners can split expenses for advertising, production, distribution, and operation; they can leverage each other's resources to reduce overhead. Launching new products costs less when a company can easily access two customer bases rather than one. The relationship forged by Reebok and CrossFit is one in which cost sharing represents one of the greatest benefits.

Advertising is another area where companies like Reebok and CrossFit experience significant savings; they are able to split costs with combined marketing strategies of co-branded products. In fact, when the co-branding strategy was first introduced during the 1980s, its initial objectives included offsetting rising advertising costs for launching new products. In addition to pooling resources for advertising and marketing, the companies also pooled their knowledge and reputation to produce new, higher quality products and services that could reach a wider range of consumers (4).

Increased Brand Recognition and Market Segment

Increased brand recognition comes with increased market segment. ESPN airs CrossFit games; CrossFit athletes now wear Reebok attire while competing. Reebok reaches CrossFit enthusiasts who tune in, and because Reebok/CrossFit apparel is sold in Reebok's stores and on the Reebok website, CrossFit may become the workout of choice for a Reebok customer.

Simultaneously, CrossFit has expanded into Reebok markets, specifically their CrossFit apparel and products sold at Reebok locations and on the Reebok website. For example, there is a CrossFit training program located at Reebok headquarters to train CrossFit coaches, and Reebok employees who participate in the program.

Customer Loyalty

Consumers seek to have "cognitive consistency" in that they want their beliefs and attitudes to be in harmony (5). If two companies share similar values and behaviors, as Reebok and CrossFit do, consumers will find it easy to be loyal to both. The "halo of affection" refers to the same affection and admiration bestowed on one brand or product to be extended to its complementary brand or product, thereby yielding greater customer trust and loyalty.

Increased Revenue

When done correctly, co-branding can generate incremental sales and raise product awareness. There is potential for increased revenue since both companies are being exposed to new markets. Co-branding expands the reach toward new customers with new products and this can result in increasing the brand value of both companies. Along with increased brand recognition and advertising efficiency, royalty income also increases.

Co-Branding Risks

Legal Liability

One of the greatest risks to consider before entering into a co-branding partnership is legal liability and potential damage to your brand. Co-branding is a form of trademark licensing. Accordingly, the potential product defect liability inherent in any trademark licensing arrangement is also a factor in co-branding alliances. Each company involved in co-branding should be aware that affixing their brands to a product could make them co-parties in a product liability lawsuit.

A co-branding alliance includes rights, restrictions and obligations on behalf of both parties that should be clearly defined in a binding co-branding contract. The purpose of this contract is to protect both participating companies, and to clearly define the limitations of the agreement. These restrictions typically include market plan strategy and specifications, branding specifications, licensing, payments and royalties, representations and warranties, exclusivity, liability, term and termination, confidentiality, disclaimers and indemnification (6).

Product Safety Concerns

The safety of CrossFit workouts has been questioned by many, including the Department of Justice, according to Greg Glassman, owner of CrossFit (17). People concerned about conditions resulting from the intensity of CrossFit workouts, such as rhabdomyolysis, a condition wherein muscle tissue breaks down to the point that it starts poisoning the kidneys, may shy away from the brand altogether. (7).

Consumer Brand Perception

Another important risk to consider is consumer brand perception. Opposite of the "halo of affection" is the "halo of infection". Negative feelings toward one brand or brand owner may extend to its co-branding ally affecting its own brand integrity and reputation. Some people perceive CrossFit owner, Greg Glassman as unconventional, contrarian and "rough-edged" -- and his libertarian views carry the potential for negative reactions. "Glassman doesn't behave the way he's supposed to. Sometimes he rebels out of cunning, other times for the sheer petulant fun of it" (9, 14). If consumers choose not to pursue CrossFit products simply because they do not like Greg Glassman, this can negatively affect Reebok as well.

Others may question Glassman's management style. While there is a training program in place for affiliate gym owners (referred to as "box" owners), the quality and experience of coaches and the method of delivery differ throughout each box since there is no defined management system in place. Moreover, each CrossFit box has its own structure. This could potentially be problematic due to inconsistencies, quality issues, lack of defined CRM systems, and limited communication amongst boxes. Consumers may have a bad experience at one box, causing a bad impression of all CrossFit boxes, and consequently the "halo of infection" could spread to Reebok.

Brand Dilution

If consumers begin to see CrossFit as part of Reebok or vice versa, when the partnership ends in 2020 it may be difficult for each to be recognized as its own brand. It is important to ensure brand messaging remains consistent so that it does not become diluted in consumers' minds. It's possible for original brand messaging to get lost in co-branding at the risk of losing core customers.

Mitigation of Risks

Management of Co-branding

In a recent conversation with Bryant Mitchel, Reebok Affiliate Relationship Manager, he stressed the importance of regular communication between upper management of both parties in establishing clear goals of the co-branding alliance and in working toward those goals for achieving optimal results. Also crucial is a good legal team who acts on behalf of each company, making certain the co-branding contract passes legal guidelines and is acceptable for both parties involved. Clear guidelines and contractual agreements that provide safeguards for participating companies are essential. These safeguards should include indemnification, warranty, and termination clauses that specify protection in worst-case liability scenarios.

Keys to Successful Co-branding

Communication

Communication is the glue that keeps a successful co-branding initiative together. It allows both companies to identify key issues and offer solutions before problems arise. Reebok and CrossFit executives must work cohesively to create a product or service that meets the needs of the established target market and generates equitable returns on behalf of each company. Poor communication may lead to unmet requirements causing a breach of contract, and can have a significant impact on management, operations, production and finances – virtually every aspect of the business.

"To avoid conflict later on, the appearance and positioning of the respective brands should be discussed at length during the initial contracting stage. Additionally, sophisticated companies usually have trademark use policies, and it is important to ensure that the policies that your company has developed to protect the legal integrity of corporate marks are strictly followed in connection with a co-branded product or service" (2).

Performance Analysis

In order to have records of performance measures, both companies should track the progress each step of the way. This allows companies to identify what they are doing right or wrong, and can act as a benchmark for future performance goals.

Figure 1 defines four co-branding strategies:

- *Reaching in* to achieve greater market penetration by choosing a partner that adds significantly to the co-brand's core bundle of benefits.
- *Reaching out* to tap new markets by choosing a partner that adds significantly to the co-brand's core bundle of benefits, while bringing in a new customer base.

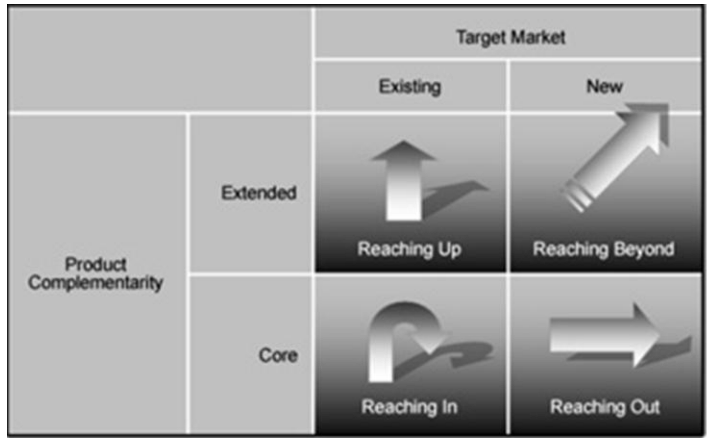

Figure 1 Co-branding strategies

Image Credit (16)

- *Reaching up* to achieve greater market penetration by choosing a partner that contributes positive brand image and associations that, while not essential to the core functioning of the co-brand, nevertheless significantly elevate the co-brand's image and value.
- *Reaching beyond* by choosing a co-branding partner that brings both a strong image and greater access to new customers (10).

Analyzing the effectiveness of each of these strategies will determine whether brand equity is reflected in market response – sales, profits, and market reach.

Brand Synergy

Successful co-branding, and branding in general, is living the brands; passion for the brands; and each company believing in the other's brand. If there are opposing core values and missions, co-branding will be a poor fit. There needs to be an alignment with the prospective company. For example, Reebok and CrossFit are in the same industry, and have similar core values and cultures. Both companies value group fitness, viewing it as a lifestyle, and envision incorporating fitness into the lives of others, externally with consumers and internally with employees. Reebok has more than 1,000 employees who participate in the CrossFit Games or are 'CrossFitters' on a weekly basis. Prior to striking a deal with Reebok, CrossFit had been approached by other major companies over the years but hadn't found the right fit until Reebok came along, according to Jimi Letchford, CrossFit's chief of branding. "We started talking with Reebok, and it turned out that their chief marketing officer, their head of sports and fitness, and a number of their athlete ambassadors were CrossFitters," says Letchford, noting, "That really hit home with us" (11).

"FIT PEOPLE AND STRONG COMMUNITIES CAN CHANGE THE WORLD." ***Greg Glassman, Founder/Owner, CrossFit***

Image Credit (17)

"TODAY, REEBOK HAS A FITNESS CULTURE THAT RIVALS ANY OTHER COMPANY IN THE WORLD" ***Matt O'Toole, Chief Marketing Officer, Reebok***

If we compare Reebok's Mission & Values with the beliefs of CrossFit we see meaningful synergies between the two companies which helps promote a successful and mutually beneficial co-branding strategy.

Know Your Partner

It is important to get to know your co-branding partner. If they are involved in other co-branding agreements, you should learn about their other partners as well. As in any licensing opportunity, track record and market penetration are key components. In addition, it is also important to understand that more involvement may not be better from a liability perspective. For example, entering a new industry may entangle your company in unfamiliar government regulations. Sometimes, a co-branding deal should be just that, rather than an opportunity for companies to combine operations or involve each other extensively in production or manufacturing processes.

Of equal importance is familiarizing yourself with the operations of your co-brander, especially if your co-brander is the party responsible for manufacturing or bringing the goods to market. Co-branding is sometimes an opportunity for untested brands and newer companies to make a splash in the market by aligning themselves with more prestigious brands. If your company is aligning your brand with such a company, make sure that you are comfortable with their product safety track records and OEM relationships (2).

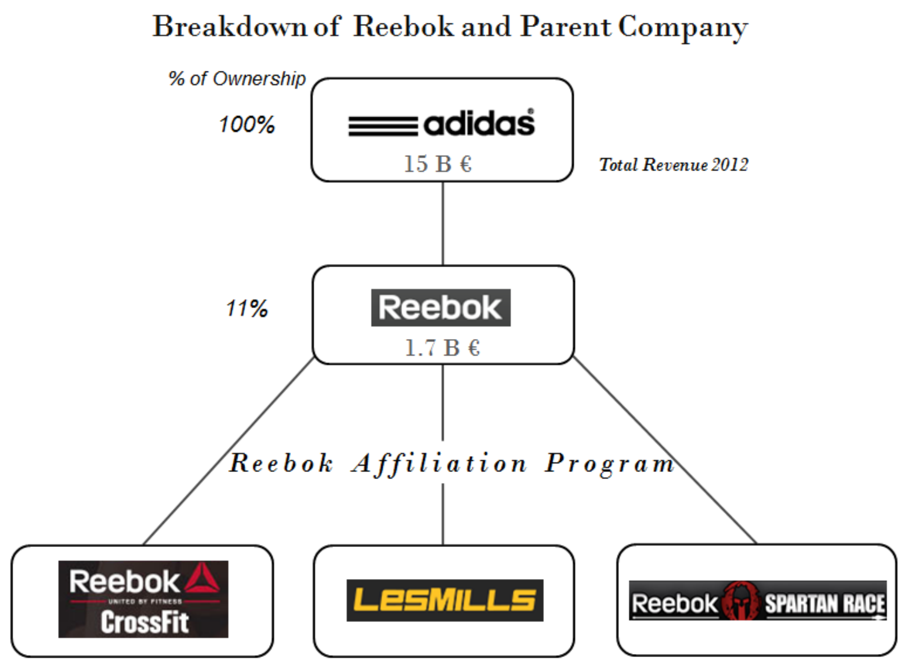

Image Credit: Riverview Capital Advisers, Marketing Dep.

Conclusion

There are many custom co-branding partners for just about any type of business, whether you serve a local geographical area or a national vertical market. The key is to think creatively about products or services that complement yours in some way and that will enhance the appeal or credibility of your offering. From national corporations to small local businesses, co-branding partnerships provide a way for companies to think creatively as well as progressively about how to serve its customers in a new way and appeal to vertical markets.

When evaluating co-branding options, considering three criteria can help you minimize your risk. First, co-brand only with companies that share complementary values. Second, co-brand only with products that hold best-in-class status. Third, co-brand only in situations where you can retain full review and approval rights on all elements of communications (12).

As stated previously, communication is the glue that keeps co-branded companies together. In contrast, unmet expectations due to lack of communication can be a deal-breaker. Surely, a co-branding agreement doesn't last forever, and like all good things, it too must come to an end. Before the *co-brandingship* is over, it is important to have a post co-branding plan in place for carrying out your brand on its own, and moving onto the next stage of your company's lifecycle.

Co-branding is often overlooked as a strategy by which the whole can truly be greater than the sum of its parts. While it should be used sparingly and judiciously, it could generate a new level of interest and excitement around your products and services. If planned and executed properly, co-branding creates more value to each company, and each target market, than if each company were standing alone.

At Riverview Capital Advisers, our advisors and network of outside professionals are here to help you achieve your goals. Let us know if we can assist as you consider the concept of co-branding.

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