Corporate Syntheses: Consumers' Role in Mergers and Acquisitions

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The classical finance-based view of Mergers and Acquisitions (M&As) pays attention to financial factors. But, “Who’s thinking about customers and critically-the brands? At the moment no one (Basu, 2002).” This paper investigates consumers’ reactions to M&As and suggests two key factors: degree to which the two corporate images match, and naming strategy. The more (less) the two corporate images match, the more consumers prefer companies to operate under a combined (separate) name. Following the “losses loom larger than gains” rule, consumers are more likely to support the separate naming strategy in the low matching case than the combined naming strategy in the high matching case. Managers should first understand consumers’ perceptions of the “matching” between the two corporate images and choose the naming strategy accordingly.

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In order to analyze the results of Study 1, we used orthogonal contrast codes comparing (1) the similar reviewer condition to the ambiguous reviewer condition and (2) the ambiguous and similar reviewer conditions to the dissimilar reviewer condition. We found, as predicted, that participants in the similar reviewer (M=5.99) condition showed no difference in likelihood of trying the recommended restaurant compared to participants in the ambiguous reviewer condition (M=6.00), F(1, 216)=0.00, p>.95. However, compliance with the recommendation was significantly lower for the dissimilar reviewer condition (M=5.37) compared to the similar and ambiguous reviewer conditions, F(1, 216)=11.01, p<.01. In order to demonstrate that the differences we find in restaurant trial are indeed caused by differing perceptions of similarity, we compared participants’ ratings of similarity in the similar versus ambiguous reviewer conditions. As expected, participants perceived the reviewer in the ambiguous condition to be equally similar to themselves (M=5.42) compared to the reviewer in the similar reviewer condition (M=5.59), supporting our false consensus explanation. Further, the difference in perceived similarity between the dissimilar reviewer condition (M=4.46) and the other two conditions mediated the relationship between the dissimilar versus similar and ambiguous reviewer conditions and likelihood of trying the restaurant, z=3.93, p<.01.

The goal of Study 2 was to provide additional evidence that these results are driven by the false consensus effect. We hypothesize that alerting participants to the potential bias of the effect (i.e., warning participants about the tendency to see oneself in ambiguous others) decreases compliance with an ambiguous reviewer’s recommendation. Hence, Study 2 used the same restaurant review context and three-level (ambiguous reviewer vs. similar reviewer vs. dissimilar reviewer) variable and added a two-level warning variable (such that participants were either warned about the false consensus effect or not warned).

The results of Study 2 support our predictions; we found a significant interaction between the warning variable and the similar reviewer versus ambiguous reviewer contrast, F(1, 286)=2.90, p<.01. With no warning about the false consensus effect, the results of Study 1 were replicated such that there was no difference in compliance with the recommendation between the similar and ambiguous reviewer information condition (M=6.17 for both conditions). However, when participants received a warning about the potential impact of the false consensus effect, they were significantly less likely to try the restaurant in the ambiguous reviewer condition (M=5.18) than in the similar reviewer (M=6.35) condition, thus providing additional evidence that the false consensus effect drives our results.

References

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Mergers and Acquisitions (M&As) have been a major trend over the past three decades; companies internationalize and strengthen their presence by acquiring profitable targets. In 2005, the total value of M&As worldwide was $2.7 trillion, an increase of 38% compared to that of the previous year (Ettenson 2006). Thus, very few topics have gained as much attention in media and business research as M&As. However, even though the total value and number of M&As continue to increase, a recent Mc Kinsey report (1997) notes that only one in five deals manages to create shareholder value.

Conceptualization
Research in various disciplines such as finance and strategy has investigated M&As. Existing research examines post-acquisition financial performance and points to a poor conclusion: “acquisitions do not create superior post acquisition performance for acquiring firms” (King et al. 2004).

One of the failures of the finance-based view of M&As is that managers pay little attention to the way they should present the M&A to consumers. Ettenson and Knowles (2007) notice that prior to an M&A deal, managers try to identify only the “hard” assets- property, equipment, patent, and drilling rights, but very rarely discuss the “relational” assets- corporate reputation, consumers’ goodwill, and brands. Basu (2002) wonders “who’s thinking about customers and critically-the brands? At the moment no one”. However, the success of an M&A also depends on how external stakeholders and more specifically consumers perceive the M&A. They could either like it and support it, or dislike it and abandon their support towards the company after the M&A. Therefore, researchers and practitioners call for moving from “deal breaker-factors that prevent a deal from closing” to “deal maker-factors that enhance the chances of success after the merger” (Ettenson and Knowles 2007).
This paper suggests two main antecedents for consumers’ attitudes and behavioral intentions after the M&A: 1) consumers’ perceptions of the degree to which the two corporate images match, 2) naming of the company.

Corporate Image Matching
Broniarczyk and Alba (1994) extend the brand extension literature suggesting that in their brand extension evaluation, consumers consider the psychological similarity between the two brands (perceived similarity between the associations of the two brands). Broniarczyk and Alba (1994) and Park et al. (1991) suggest that the effect of consumers’ perceived “fit” between the two brands dominates the effects of brand affect and category similarity. Similarly, this paper suggests that in their M&A evaluation, consumers consider the degree to which the two corporate images match.

Corporate Name
Cohen and Murphy (1984) investigate the attribute formation when two concepts come together to form a composite concept. The two authors report a minimum rule for the attribute formation of a composite concept: “if something is not a ‘good’ A, it cannot be a ‘good’ AB”. In the M&A case two companies come together to form a new company. Following Cohen’s and Murphy’s (1984) minimum rule, when the matching between the two corporate images is low, the use of a combined name (i.e. after the FedEx UPS merge, both companies will operate under the FedEx UPS name) may be confusing and harm consumers’ attitudes.

Cohen and Murphy (1984) and Hampton (1987) report a maximum rule; when a constituent of a composite concept is salient on a particular attribute, then this attribute will also be salient in the composite concept. Applied in the M&A context, when the two corporate images match, both companies’ images will be stronger in the event that both companies start to operate under a combined name.

Tversky and Kahneman (1981) suggest that consumers are “less willing to accept a surcharge than to forego a discount.” In other words, the two authors suggested that losses (negative events) loom larger than gains (positive events). In the M&As context, the low matching pair of companies could be perceived as a negative event (loss) and the high matching pair of companies as a positive event (gain). This paper suggests that consumers are more likely to support the separate naming strategy in the low matching case- loss case (each company continues to operate under its own name) than the combined naming strategy in the high matching case- gain case (both companies start to operate under a combined name).

Methodology
We used a 2 (high/ low matching) x 4 (4 naming strategies) within-subjects experimental design, with 107 college students participating. The experiment was conducted in two phases. First, we asked participants to provide the associations that came to their minds upon the presentation of one pair of companies. We used two pairs of companies: Starbucks-Dunkin Donuts and FedEx-UPS. Each participant was randomly assigned to one pair. Participants were also asked to rate the degree of matching between the two corporate images. Afterwards, participants were informed that the two companies merged and were asked to express their attitudes and behavioral intentions toward each one of the four naming strategies: Strategy 1: both companies start to operate under a combined name (i.e. FedEx UPS), Strategy 2: both companies start to operate under the name of the first company (i.e. FedEx), Strategy 3: both companies start to operate under the name of the second company (i.e. UPS), Strategy 4: each company continues to operate under its own name (i.e. FedEx, UPS). At the end, potential covariate measures were collected.

Results
The data were analyzed in a regression framework. The dependent variables were the differences between consumers’ attitudes and behavioral intentions vis-à-vis the four alternative naming strategies (for example: consumers’ attitudes vis-à-vis Strategy 1- consumers’ attitudes vis-à-vis Strategy 2, consumers’ behavioral intention vis-à-vis Strategy 1- consumers’ behavioral intention vis-à-vis Strategy 2). The independent variable was the degree to which the two corporate images match (High/Low). The results provided broad support for our conceptualization.

Consistent with our predictions, consumers preferred naming strategy 1 (combined naming) in the high matching case and naming strategy 4 (separate naming) in the low matching case (βstr.1-str.4 =.477, Pstr.1-str.4=.000). Consumers also preferred naming strategy 1 (combined naming) in the high matching case and naming strategies 2 and 3 (names of the 1st and 2nd company) in the low matching case (βstr.1-str.2 =.348, Pstr.1-str.2=.000, βstr.1-str.3 =.228, Pstr.1-str.3=.025). Finally, consumers preferred naming strategies 2,3 in the high matching case and naming strategy 4 in the low matching case (βstr.2-str.4 =.246, Pstr.2-str.4=.014, βstr.3-str.4 =.295, Pstr.3-str.4=.004). Matching had an expected analogous effect on consumers’ purchase intentions. Consumers are more likely to purchase when naming strategy 1 is used in the high matching case and matching strategy 4 is used in the low matching case (βstr.1-str.4 =.319, Pstr.1-str.4=.003, βstr.1-str.2 =.145, Pstr.1-str.2=.112, βstr.2-str.4 =.234, Pstr.2-str.4=.021, βstr.3-str.4 =.280, Pstr.3-str.4=.002).

As expected, consumers were more likely to support the separate naming strategy in the low matching case than the combined naming strategy in the high matching case. More specifically, in the low matching case, 69% of consumers chose naming strategy 4 (separate naming) as the most appropriate, whereas 27% of consumers chose naming strategy 1 (combined naming) as the most appropriate in the high matching case (if y is our dependent variable and x our independent variable, y = 1.877x + 0.509, for x = 0 - high matching-, y0 = 0.509 and for x = 1 – low matching-, y1 = 1.368, ly1 ly0 is significantly higher than ly0).

Implications
Both researchers (Basu 2006; Ettensohn and Knowles 2007) and practitioners (Knowles and Ettensohn 2007) begin to acknowledge that marketing could play a beneficial role when companies negotiate an M&A. More specifically, this paper proposes two key factors that influence consumers’ reactions to M&As: degree to which the two corporate images match and naming strategy. Apart from the financial analysis that managers should do when considering an M&A, they may also need to think of more marketing-oriented assets such as consumers, corporate images and rebranding. This paper suggests that the matching between the two corporate images as well