An Integrative View on Target-Brand Customers’ Reactions to Different M&A Brand-Name Strategies

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The paper analyzes consumer reactions to different brand-name strategies that companies can employ following Mergers & Acquisitions (M&A). Using SEM, we found support for indirect effects on target-brand consumers’ switching intentions including uncertainty, brand clarity, and reactance as mediators. Furthermore, we show premerger acquirer brand valence to moderate the effects.

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EXTENDED ABSTRACT

Given the evidence of high failure rates of M&A transactions (Homburg and Bucerius 2005), it is important to address the perspectives of stakeholders beyond management and employees to understand how consumers perceive and react to M&A announcements. This paper focuses on consumer reactions to different brand-name strategies that merging companies can employ. We concentrate on corporate brands. When two companies (A and B) merge, they can choose a predominance strategy (acquirer-dominant A or target-dominant B), a hybrid-brand strategy as a combination of the formerly independent brands (AB or BA), a recreation strategy with a completely new brand C, or they can avoid displaying the merger in the brand name and keep both brands independently (business-as-usual; A and B as before). In our analysis, we focus on the brand strategies A, AB, C, and the “business-as-usual” strategy (A and B as before) (Ettenson and Knowles 2006).

Previous knowledge about the impact of different brand-name strategies following M&A is fragmented. This paper aims to contribute to research by integrating the different perspectives in one systematic analysis. Following Thorbjørnsen and Dahlén (2011), we consequently consider real target-brand customers. The goals are threefold:

First, previous theoretical research on M&A brand-name strategies has suggested that decisions about the future brand signal or communicate “something” to consumers. Extending previous research, we analyze what consumers draw from the signals of the respective brand-name strategies. We consider two attributions – alteration of the firm (H1) and acquirer dominance (H2) (Ettenson and Knowles 2006).

Second, we analyze the mediating effects of brand-name strategies on target-brand customers’ switching intentions. For these mediators, we draw from different research sources, more specifically from organizational change theory, signaling theory, theory of psychological reactance, and research in dominance in social psychology and leadership. Our hypotheses H3 to H7 refer to indirect effects, from the brand name selection of firms to the switching intention of customers, and consider diverse simultaneous and sequential mediators. The most important element of our conceptual model is the differentiation between two streams of effects. One stream considers the paths that include perceived alteration of the firm. We expect indirect effects of brand-name strategies selected by firms on the perceived alteration of the firm that further influence consumer uncertainty (Homburg, Klarmann, and Staritz 2012), brand clarity (Erdem and Swait 1998), and psychological reactance (Brehm 1966, 2009; Thorbjørnsen and Dahlén 2011). For all of these paths, we expect undesirable effects (from a firm’s perspective) on switching intentions – mainly because of status quo bias (Samuelson and Zeckhauser 1988).

Another stream of effects pertains to the paths that include perceived acquirer dominance. Here, we draw from research in social dominance that has suggested “a double-edged sword role of dominance” (Chen, Jing, and Lee 2014, p. 27), meaning that dominance can lead to both desirable and undesirable effects. Undesirable effects from dominance are related to intimidation and coercion (Cheng et al. 2013), which may lead to psychological reactance. However, dominance may also lead to desirable outcomes, providing guidance, direction, and clarity (Foels et al. 2000; De Hoogh, Greer, and Den Hartog 2015). We assume that this is reflected in a higher degree of brand clarity which in turn will lead to a more positive attitude towards the new firm and will also account for a reduction in customer uncertainty.

Third, extending previous research on the influence of brand fit (McLelland et al. 2014; Jaju et al. 2006), we analyze how a positive vs. negative premerger acquirer brand attitude influences and moderates the effects mentioned above. In particular, we expect that a negative (compared to a positive) premerger acquirer attitude will increase the two concepts “perceived firm’s alteration” and “perceived acquirer dominance” (main effects, H8). For moderation, effects from the perceived firm’s alteration on customer uncertainty, brand clarity, and psychological reactance are expected to be stronger for a negatively (vs. positively) evaluated acquirer (H9). Additionally, the effect of perceived acquirer dominance on brand clarity is expected to be weaker, while that of perceived acquirer dominance on psychological reactance is expected to be stronger for a negatively (vs. positively) evaluated acquirer (H10).

Our empirical study employed a 4 (brand name: A, AB, C vs. business-as-usual) × 2 (acquirer brand valence: positive vs. negative) between-subjects design. As a stimulus, we used a fictive scenario regarding a possible merger between two existing brands (acquirer brand A, target brand B) in the German grocery industry (drugstores). We found differences in perceived firm’s alteration and perceived acquirer dominance between the brand strategies when compared to the business-as-usual strategy. Using SEM, we tested indirect paths and found support for the undesirable effects of perceived firm’s alteration, but (for the predominance strategy A) also for the different effects of perceived acquirer dominance (desirable while influencing brand clarity; undesirable while influencing psychological reactance). We also found moderating effects of a negative premerger acquirer brand attitude.

In sum, our results point to the advantages of a business-as-usual strategy; however, the results also indicate that brand name change strategies can compensate for the disadvantages in perceived alteration of the firm when brand clarity is increased through acquirer dominance (of a positively evaluated acquirer).

REFERENCES


