A Consumer Theory of Acquisitions

Elisa Maira, Erasmus University Rotterdam, The Netherlands
Christoph Fuchs, TU Munich, Germany
Stefano Puntoni, Erasmus University Rotterdam, The Netherlands

Despite being a popular growth strategy, acquisitions can backfire in terms of consumer response. We show that attitudes towards the acquired firm can decrease substantially after an acquisition and propose identity loss of the acquired firm as the process driving this effect.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/1021704/volumes/v44/NA-44

[copyright notice]:
This work is copyrighted by The Association for Consumer Research. For permission to copy or use this work in whole or in part, please contact the Copyright Clearance Center at http://www.copyright.com/.
A Consumer Theory of Acquisitions

Elisa Maira, Erasmus University Rotterdam, The Netherlands
Christoph Fuchs, TU Munich, Germany
Stefano Puntoni, Erasmus University Rotterdam, The Netherlands

EXTENDED ABSTRACT

Acquiring other firms is a common way for companies to grow. In 2015, the global value of acquisitions was five trillion dollars, a record since the late 2000s’ financial crisis (J.P. Morgan 2016). What draws the attention of acquirers is often the brand and market position that the target firm was able to develop. Acquirers often possess the resources to create new brands, but they find it difficult and time-consuming to build brands with unique identities. Given the weight of brand assets in motivating acquisitions, one would expect that academic research on the topic carefully examined how acquisitions impact consumers’ attitudes towards acquired brands. However, the extant literature on acquisitions—in accounting, finance, strategy, organizational behaviour, and in marketing—adopts a predominantly internal, supply-side view on acquisitions (e.g., Capron and Hulland 1999; Moeller, Schlingemann, and Stulz 2005). Therefore, the literature is silent regarding the impact of acquisitions on consumer response towards the acquired brand.

In this paper, we address this gap by focusing on consumer reactions to acquisitions.

Given today’s ease of access to information about companies via the Internet and social media, it is particularly important to study if and how acquisitions have downstream consequences for consumer behavior.

From an information economics view, we would expect that consumers respond positively to acquisition news. According to signaling theory (Boulding and Kirmani 1993; Spence 1974), consumers should interpret an acquisition as a quality signal regarding the acquired firm and reason heuristically (“if the firm was bought up, it must be good”). As a consequence, they should exhibit increased attitudes and purchase intentions.

However, we argue that acquisitions do not only prompt positive but also negative consumer reactions. In particular, we hypothesize that acquisitions lead to decreased attitudes towards brands and products of acquired firms that operate in identity-relevant product categories. The reason for these negative responses is that acquisitions dilute the identity of the acquired brand in the eyes of consumers. Thus, the very asset that motivated the acquisition—the brand—can be damaged by it.

Six studies document the existence of a negative effect of acquisitions on a series of consumer response measures (i.e., attitude towards the acquired brand, choice, online posting behavior), and support identity loss as the process driving the negative effect of acquisitions. The pattern of results in our study allow us to rule out alternative explanations for the negative effect of acquisitions such as consumers’ sympathy towards small firms.

Study 1 shows that consumers’ preference for products from independent vs. acquired firms is contingent on the identity relevance of the product category in which the acquired firm operates. In product categories characterized by high identity relevance, participants preferred products sold by independent firms, while in categories low on identity relevance they opted for products sold by acquired firms.

Study 2 documents the negative effect of acquisitions on product choice in a real setting. When asked to choose between two chocolate brand—one acquired and one non-acquired—the majority of participants chose the non-acquired brand. Revealing that an acquisition took place was detrimental because it reduced the choice share of the acquired brand compared to the non-acquired one.

Study 3 complements the results of Study 2 and provides evidence that the negative effect of acquisitions holds in the field. To test our main prediction, we retrieved user comments on online newspaper articles about craft beer. Using sentiment analysis, we find that the sentiment expressed in user comments is more negative when the main subject of the news article is craft beer acquisitions rather than craft beer in general.

Study 4a shows that when consumers are informed that founders are still involved in the acquired firm after the acquisition, the negative effect of acquisition is attenuated.

Study 4b provides further support to our identity loss account by showing that the identity of the acquired brand becomes weaker as a result of the acquisition, and such weakening brings forth a decrease in consumer attitudes.

Study 5 shows that consumers’ reactions to acquisitions vary depending on the positioning of the acquired brand. We find that an acquisition is especially detrimental for a brand that leverages identity-related aspects (e.g., uniqueness or style) in its positioning. That is, however, not the case for a brand with a positioning focused on non-identity-related aspects (e.g., technological sophistication).

In sum, this set of studies advances research on acquisitions by giving insights on the consumer perspective, which, despite its importance, has been largely ignored by previous literature.

REFERENCES