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Should the Acquired Brand Be Dumped After the Merger?

Tommy Hsu, Tarleton State University

Abstract

This research dealing with mergers and acquisitions investigates the effect of branding strategy (keeping or dumping the acquired brand) on the consumers' attitude toward the acquiring brand. Attitude toward the merger is identified as the mediating variable, and perceived fit between the two brands and consumer knowledge as moderating variables. Using the experimental study, this paper aims at understanding the effectiveness of keep or dumping the acquired brand and investigating the moderating and mediating effects. Based on our findings, managerial implications and future research directions are discussed.

Keywords: Mergers, Acquisitions, Branding, Perceived Fit, Product Knowledge, Consumer Perception

Introduction

Mergers and acquisitions (M&A) is an often used business practice in the corporate world. For example, Fenwick & West LLP, one of the biggest law firms in the United States, has completed M&A transaction worth more than $200 billion from 2006 to 2011. Further, in several of these M&A transactions, firms paid significant prices to acquire targeted companies. For example, in 2009 Pfizer Inc. acquired Wyeth for 68 billion dollars and Hewlett-Packard paid 24 billion dollars to acquire Compaq, including 1.5 billion dollars just for Compaq's brand. Since so much money has been involved with the mergers and acquisitions, post-merger/acquisition performance is critical for the acquiring firms.

Generally, performance measurements can be classified into financial performance indicators and non-financial performance indicators (Venkatraman and Ramanujam 1986). Financial performance measures are described as indicators, "such as sales growth, profitability (reflected by ratio like return on investment, return on sales, and return on equity), earnings per share, and so forth" (Venkatraman and Ramanujam 1986). These financial performance measures have generally been the focus of studies within economic perspective. As for operational performance, it includes measures as market share, new product introduction, product quality, marketing effectiveness, manufacturing added values and other measures of technological efficiency (Venkatraman and Ramanujam 1986). For more marketing-oriented firms, the market share, sales, growth, and profitability (the mean of returns on sales and return on assets) are basic

elements for measurement (Bahadir, Bharadwaj, and Srivastava 2008). In addition to returns on assets, asset intensity, defined as fixed assets divided by total sales, is also included to control for performance variation due to differences in internal capital utilization and market positioning of the firm (Bahadir et al. 2008).

Therefore, extant literature regarding mergers and acquisitions has focused on financials, management, legal systems, and marketing activities (Homburg and Bucerius 2005) with little research looking into companies' branding strategies in M&A transactions (Jaju, Joiner, and Reddy 2006). This is very surprising given the fact that a huge amount of money involved in M&A transactions. Importantly, Jaju et al. (2006) note that one of the reasons many mergers and acquisitions fail or result in less than expected performance is that corporate images and corporate branding are not paid adequate attention. Therefore, in this research, we investigate the effects of using different post merger branding strategies on consumer responses and the boundary conditions of these strategies in terms of different moderators. Specifically, we address the managerially relevant question of the conditions under which managers should keep or dump the acquired brand.

Literature Review

A corporate brand has many constituencies. Externally, it provides consumers the basis of the formation of image and expectations. Generally, for firms that have a variety of products, the corporate brand stands for overarching consumption values (e.g., reliability and hi-tech for Yamaha, which serves product markets as varied as concert pianos and motorcycles). Internally, a corporate brand provides identity for its own employees and helps to build trust and loyalty by offering a continued and consistent set of values (Basu 2006). Corporate brands can also be seen as strategic assets. They are valuable and relevant for the performance of companies. The value of brands can account for up to 70 % of the market value of a company (Bauer, Matzler and Wille 2011).

As Jaju et al. (2006) mentioned that individuals react differently to mergers employing different redeployment strategies and brand equity related to corporate brands is often decreased as a result of M&A activities. One of the reasons many mergers result in less than expected performance is that inadequate attention is paid to corporate image and corporate branding. Brand mergers are too frequently driven by short-term goals or by personal agendas leading to mistrust and failure (Basu, 2006). A recent report claims only one in five brand mergers succeed (Basu, 2006). Actually, a survey by Accenture reports that "58-69% of consumers in the categories of consumer products, telecommunications and banking believe they do not benefit from M&As and that mergers cause higher prices and declining customer service" (Thorbjørnsen and Dahlén 2011).

Therefore, the interest in the role of corporate brands in M&A transactions on the part of academic researchers has been increasing gradually (Machado et al. 2012). However, even with this increasing interest, there is still very little empirical research that has examined how different branding strategies influence individuals' corporate associations and behaviors (Jaju et al., 2006). This is very surprising given the frequency of these M&A activities and the costs involved (Jaju et al., 2006).. In the current study, we focus on the impact of corporate brand name strategies (e.g., Sony and Dell) after M&A activities from the perspective of individual customers. Specifically, we investigate the effectiveness of keeping or dumping a acquired brand in the M&A activity.

M&A Branding Strategy

According to previous M&A studies, there are four branding strategies that are considered by companies after a M&A: (1) keep one brand and discontinue the other, (2) use a joint brand of the acquirer and acquiree, (3) keep both the acquirer and acquiree's brands, and (4) create a totally new brand (Jaju et al. 2006). However, since a joint brand or a new brand can be rarely found through the M&A history, in the present study, we only focus on two different branding strategies: keeping one brand and keeping both brands. In the one-brand strategy, only one brand is kept after M&A. It is usually the case that the acquiring firm keeps its brand name and discontinues the acquiree's brand.

On the other hand, in the both-brand strategy, the acquiring firm keeps not only its own name but also the acquired brand. Since previous studies have found contradictory results on the effect of branding strategies, we hypothesize that attitude toward the merger mediates the relationship between branding strategy and attitude toward the brand. Besides that, both perceived fit and product class knowledge positively moderate the relationship between branding strategies and attitude toward the merger and that between attitude toward the merger and attitude toward the acquiring brand.

The Mediating Role of Attitude toward the Merger

Some literature has suggested that consumers' attitude toward the merger influences related behaviors (Arnett et al., 2010). When consumers perceive that the merger is a success, their attitude toward the merger itself are more positive, which impact their behaviors. On the other hand, if consumers think the merger is a failure, they have negative attitude toward the merger, which negatively influences their behaviors. Therefore, we propose that attitude toward the merger positively impacts consumers' attitude toward the brand and their purchase intention.

H_1: Attitude toward the merger positively mediates the relationship between M&A Branding Strategy and (a) Attitude toward brand and (b) Purchase Intention.

The Moderating Role of Perceived Fit

Perceived fit is defined as the degree to which consumers perceive that the relationship between two companies is logically appropriate and consider the two companies to be well matched (Arnett et al., 2010). Previous literature has shown that consumers have positive evaluation of the merger when they perceive the two companies are similar and a good match (Jaju et al. 2006; Arnett et al., 2010). Regardless of the manner in which fit is conceptualized, as perceived fit increases, consumers can more confidently transfer their favorable associations of the current brand to the acquired, which in turn contributes to the formation of positive evaluations of one-brand strategy and reduces the perceived likelihood of negative outcomes (DelVecchio and Smith 2005). Accordingly, we expect to see a positive relationship between fit and the price premium consumers are willing to pay for a brand extension.

The strategy of brand alliances assumes that combining the brands' equities will create a positive synergistic effect (Arnett et al. 2010). In successful alliances, positive associations (e.g. affect) are transferred between the brands (i.e. assimilation effects occur). Therefore, from the consumer's perspective, he/she may perceive that the synergy can be maximized when those two brands merge and eventually become just one brand. Thus, unlike previous research, we propose

that an one-brand strategy will generate a more positive attitude toward the merger when perceived fit is high and a two-brand one will be preferred when perceived fit is low.

H_{2a}: When the consumer's perceived fit of the M&A is high, branding strategy A generates more positive AM than branding strategy B.
H_{2b}: When the consumer's perceived fit of the M&A is low, branding strategy B generates more positive AM than branding strategy A.

Similarly, perceived fit also positively moderates the relationship between attitude toward the merger and attitude toward the brand/purchase intention.

H_{3a}: When the consumer's perceived fit of the M&A is high, higher attitude toward the merger leads to higher attitude toward the brand, but the effect is smaller.
H_{3b}: When the consumer's perceived fit of the M&A is low, higher attitude toward the merger leads to higher attitude toward the brand, but the effect is stronger.

The Moderating Role of Product Category Knowledge

Additionally, in terms of product class knowledge, more knowledgeable consumers process information differently from less knowledgeable ones (Chang 2004). A consumer's prior knowledge has been shown to facilitate information processing. Therefore, high-knowledge consumers and low-knowledge consumers differ in how they process information. High-knowledge consumers are more likely to process information analytically by applying decision criteria that should be readily available from memory and are less likely to rely on heuristic cues when they make product inferences than are low-knowledge consumers (Park, Mothersbaugh and Feick 1994).

According to Chang (2004), high-knowledge and low-knowledge consumers differ in how well their product representations are structured. In contrast to lowly knowledgeable consumers, high-knowledge consumers have better-developed and more complex schemata with well-formulated decision criteria. Due to these differences, when highly knowledgeable consumers process information, less cognitive effort is required and relevant knowledge structures can be activated automatically, resulting in the availability of evaluation criteria and rules for product assessments (Chang 2004).

In the present research, we hypothesize that more-knowledge consumers understand the product and brands, so they are more likely to appreciate the difference between the two brands and prefer a two-brand strategy. On the other hand, less-knowledge consumers don't know and care about which brand should remain on the market. Therefore, for such less-knowledgeable consumers, there is no significant difference in the effect of the two branding strategies on their attitude toward the merger.

H_{4a}: When the consumer's knowledge about the product category is high, branding strategy B generates more positive AM than branding strategy A.
H_{4b}: When the consumer's knowledge about the product category is low, there is no significant difference between effects of branding strategy A and B on AM.

Similarly, product knowledge also positively moderates the relationship between attitude toward the merger and attitude toward the brand/purchase intention.

H_{5a}: When the consumer's knowledge about the product category is high, higher attitude toward the merger leads to higher attitude toward the brand, but the effect is smaller.
H_{5b}: When the consumer's knowledge about the product category is low, higher attitude toward the merger leads to higher attitude toward the brand, but the effect is stronger.

Pre-Test

The objective of the pretest is to see if participants really perceive the high-fit and low-fit scenarios differently. Participants were 29 business undergraduate students in a large public university in the United States. Students were given extra course credits for their participations. They were provided a web link which contained the questionnaire posted online and were asked to complete the study within three weeks beginning from the day they received the link. Use SPSS to compare means between these two groups on 8 different perceived fit items and overall perceived fit scores. The results show that the manipulations of different high-fit/low-fit scenarios work very well to our participants. Therefore, we have decided to use the same manipulations for the rest of our studies.

Table 1: Pretest – Company Profiles in High/Low Fit Scenarios

(High Fit)

Company A (Brand A)	Company B (Brand B)
One of the largest computer manufacturers in the world with 7,000 employees. • Well known for their reasonably priced computers and technology products. • Weak reputation for customer support • Weak reputation for technical support • Products sold at electronic stores such as Best Buy and Amazon.com • Company offers limited one year warranty for its products	A large computer manufacturer with 5,000 employees. • Well known for their medium priced technology products. • Not a strong reputation for customer support • Not a strong reputation for technical support • Products sold at electronic stores such as Best Buy and Target • Company offers limited one year warranty for its products

(Low Fit)

Company A (Brand A)	Company B (Brand B)
One of the largest computer manufacturers in the world with 7,000 employees. • Well known for their reasonably priced computers and technology products. • Weak reputation for customer support • Weak reputation for technical support • Products sold at electronic stores such as Best Buy and Amazon.com • Company offers limited one year warranty for its products	A small computer manufacturer with only 400 employees. • Well known as the ne of the best technology solutions providers. • Strong reputation for customer support • Strong reputation for technical support • Products sold only on its website • Company offers an unlimited five year warranty for its products

The Main Study

Participants were 127 business undergraduate students in a large public university in the United States. Students were given extra course credits for their participations. They were provided a web link which contained the questionnaire posted online and were asked to complete the study within three weeks beginning from the day they received the link.

Design/Procedure

The main goal of this study is to investigate the moderating effects of perceived fit on the relationship between the branding strategy and the mediator, attitude toward the merger, which are stated in Hypotheses 2a and 2b. We also investigate the moderating effects of perceived fit on the relationship between attitude toward the merger and two dependent measures, attitude toward the acquiring brand and purchase intention, which are stated in Hypotheses 3a and 3b. Additionally, we further investigate the moderating effects of consumers' product class knowledge on both relationships between branding strategy and attitude toward the merger and between attitude toward the merger and two dependent measures, which are stated in Hypotheses 4a, 4b, 5a, and 5b. Lastly, this study also investigates the mediating effect of attitude toward the merger on the relationship between branding strategy and two dependent measures, which is stated in Hypothesis 1.

To test our hypotheses, we conducted an experiment in which a 2 (branding strategy: one-brand/two-brand strategy) x 2 (perceived fit: high/low fit) between-subject design is used with branding strategy and perceived being manipulated and participants' product knowledge being measured. In this study, we use the computer brands as the stimulus because we think it's the industry where mergers or acquisitions occur more frequently in recent years.

In the beginning of the process, subjects are randomly assigned to two different branding strategies, keeping the acquiring brand and keeping both brands. In the beginning of the questionnaire, the subjects read the following statement:

> *Imagine you plan to buy a computer and you know that Company A is producing Brand A computers and Company B is producing Brand B computers. In addition to other brands, you are considering buying Brand A or Brand B. In the last few days, you heard about the news that Company A has acquired Company B.*

For subjects in situation of keeping the acquiring brand (dumping the acquired brand), they read the following statement: "*after the merger, the merged company decides to replace Brand B by Brand A. Therefore, Brand B is no long available on the market*". For subjects in situation of keeping both brands, they read the following statement: "*after the merger, the merged company decides to keep both of Brand A and Brand B. Therefore, both of Brand A and Brand B will continue to be available on the market*". On the other hand, perceived fit is manipulated by different fit scenarios which are tested in our pretest.

Measures

Manipulation Check. Manipulation check for perceived fit is measured through 8 items using a seven-point scale proposed by Keller & Aaker (1992) and DelVecchio & Smith (2005). The 8 items are "how similar do you think Company A and Company B are in terms of product

prices/distribution channels/company reputations/product warranties?", "do you think Company A and Company B portray the same image?", "I can associate Company A with Company B.", "Overall, Company A and Company B are similar.", and "Overall, Company A and Company B fit well".

Product Class Knowledge. Product category knowledge is measured through 3 items using a seven-point scale proposed by Park et al. (1994). The 3 items are "when compared to other people, I know a lot about this product category", "my friends consider me an expert regarding this product category", and "I consider myself very experienced with this product category".

Attitude toward the Merger. Attitude toward the merger (AM) is measured through 5 items using a seven-point scale proposed by Aaker & Keller (1990). Subjects are asked "after reading the information about the two companies and the merger situation, how do you feel about the merger between Company A and B?". Those five items are bad/good, disapproved/approved, mismatched/matched, negative/positive, and unpleasant/pleasant.

Mediation Analysis

Based on Baron and Kenny (1986), to test for mediation, one should estimate the three following regression equations:

- Regressing the mediator on the independent variable;
- Regressing the dependent variable on the independent variable; and
- Regressing the dependent variable on both the independent variable and on the mediator.

Using the procedure developed by Baron and Kenny (1986), we also find that attitude toward the merger perfectly mediate the relationship between branding strategy and attitude toward the brand, but not purchase intention.

Table 2: The Mediation Effect of Attitude toward the Merger

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Dependent Variable: Attitude toward the Merger					
Constant	-2.411	1.241		-1.943	.054
Branding Strategy	3.359	.777	1.092	4.324	.000
Perceived Fit	3.855	.796	1.253	4.844	.000
Branding Strategy * Perceived Fit	-1.984	.497	-1.412	-3.989	.000
Dependent Variable: Attitude toward the Brand					
Constant	-.889	1.130		-.787	.433
Branding Strategy	2.583	.707	.942	3.652	.000
Perceived Fit	2.825	.724	1.031	3.900	.000
Branding Strategy * Perceived Fit	-1.407	.453	-1.123	-3.107	.002
Dependent Variable: Attitude toward the Brand					
Constant	1.078	.955		1.129	.261
Branding Strategy	.391	.526	.143	.744	.458
Perceived Fit	-.062	.726	-.023	-.085	.932
Attitude toward the Merger	.557	.169	.625	3.287	.001
Branding Strategy * Perceived Fit	-.092	.331	-.074	-.279	.780
Attitude toward the Merger * Perceived Fit	.081	.120	.196	.676	.500

Results

The hypotheses are tested with a 2x2 between-subject design with branding strategy and perceived fit as two manipulated factors and product class knowledge as the measured factor. We manipulate M&A branding strategy by stating that either both brands or only one brand will remain on the market after the merger. Perceived fit is manipulated by developing profiles of two companies that represent two different fit situations (high fit/low fit) in terms of company size, prices, and customer services. The results of a pretest indicate that the manipulation worked. As expected, we find that a one-brand strategy generates more positive attitude toward the merger when the perceived fit is high and a two-brand strategy generates more positive attitude toward the merger when the perceived fit is low. Hypotheses 2a and 2b are supported. However, the interaction effect of branding strategy and product class knowledge on attitude toward the merger is not significant. Hypotheses 4a and 4b are not supported.

Additionally, as expected, we find that perceived fit also positively moderates the relationship between attitude toward the merger and attitude toward the acquiring brand, but not purchase intention. Hypotheses 3a and 3b are supported only for attitude toward the brand. Besides that, the moderating effects of product knowledge on the relationships between attitude toward the merger and attitude toward the acquiring brand and purchase intention are both not significant. Therefore, Hypotheses 5a and 5b are not significant.

Table 3: The Moderating Effect of Perceived Fit & Product Class Knowledge

Dependent Variable: Attitude toward the Merger

Source	df	Mean Square	F	Sig.
Branding Strategy	1	2.016	1.006	.318
Perceived Fit	1	18.145	9.056	.003
Product Class Knowledge	1	3.989	1.991	.161
Branding Strategy * Perceived Fit	1	27.776	13.863	.000
Branding Strategy * Product Class Knowledge	1	0.440	0.220	.640

a. Level of Significance: .05

Table 4: The Moderating Effect of Perceived Fit

Dependent Variable: Attitude toward the Brand

Source	df	Mean Square	F	Sig.
Attitude toward the Merger	1	74.720	63.413	.000
Perceived Fit	1	1.012	.859	.356
Attitude toward the Merger * Perceived Fit	1	5.320	4.515	.036

a. Level of Significance: .05

Conclusions and Discussions

We developed a conceptual framework to address the research gap on companies' branding strategies when they try to acquire other companies and their brands. We also further investigated the effects of two potential moderators that could help explain the mixed results found from previous research. The two moderators studied in this paper were perceived fit (high/low) and consumers' product class knowledge (high/low). From the main study, we found that attitude toward the merger perfectly mediates the relationship between branding strategy and attitude toward the acquiring brand. We also found that the acquired brand should be dumped when the perceived fit between two brands is high and it should be kept when the perceived fit is low.

This paper also provides several important managerial implications. First, the findings suggest that consumers' perception about the merger plays an important role in influencing their attitudes toward the acquiring brand. Consumers basically evaluate the merger based on the firm's branding strategy first, which then impacts their attitudes toward the acquiring brand. Secondly, the results also suggest that if the acquiring and acquired firms are perceived to be similar by consumers (like Continental Airlines and United Airlines), the acquiring firm should discontinue the acquired brand and just keep its own brand. On the other hand, if consumers think that the two firms are different (like Amazon.com and Zappos.com), both brand names should be kept to serve two distinct markets.

We hope this study not only can advance our current understanding on the effectiveness of different M&A branding strategies, but also create a new research stream that specifically addresses whether the acquired brand should be kept or dumped. However, there were some limitations in the present paper. First, of the empirical study, we didn‟t investigate the interaction effect of perceived fit and product class knowledge. Based on our findings, it is important to explore this possibility to generate more comprehensive understanding regarding these two moderating factors. Secondly, both moderators are individual characteristics. We didn‟t consider product characteristics like hedonic versus utilitarian products or industry characteristics like market dominance and industry crowdness. In the future, we also believe that these variables are certainly worth being investigated by marketing researchers to make this research stream more complete. Third, we used the computer as the stimulus of the studies. It would be interesting to see whether the effectiveness will be the same if other product classes are used. Therefore, to generalize our findings, using brands in different product categories in future studies is also a promising direction for this particular research stream.

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