Do acquisitions harm the acquired brand? Identifying conditions that reduce the negative effect

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Researchers from University of Leeds, University of Vienna, and University of Pennsylvania published a new *Journal of Marketing* article that examines why consumers develop negative reactions towards acquired brands and explains conditions that attenuate that negative effect.

The study is authored by Alessandro Biraglia, Christoph Fuchs, Elisa Maira, and Stefano Puntoni.

When Unilever acquired GROM, an Italian gelato company, 83% of consumers polled by a newspaper described the acquisition as "bad news." This reduced consumer interest led to the closure of several GROM retail outlets, including the ice cream maker's first store, four years after the acquisition. Similarly, consumer ratings for The Body Shop, a cosmetic brand, plummeted after L'Oréal acquired it.

Companies often engage in mergers and acquisitions to expand their portfolio and generate growth—the global value of acquisitions amounted to $2.3 trillion in 2019, according to JP Morgan—but there is plenty of anecdotal evidence suggesting that brand acquisitions can potentially generate negative reactions among consumers. Yet little is known about when and why brand acquisitions might trigger these negative reactions.

This new study explains why consumers develop negative reactions towards acquired brands in terms of lower brand choice and reduced purchase likelihood.

As Biraglia explains, "We find that, across product categories, consumers often see an acquired brand as having compromised the authentic values upon which it was founded. This perception is triggered not only when a big company acquires a smaller one, but also when the sizes of the acquirer and acquired brand are comparable. Furthermore, the negative effect appears even in the case of partial acquisition such as 15% of ownership."

Conditions that attenuate the negative effect of acquisitions

Across ten studies using different methods, research designs, product categories, and brands, the researchers demonstrate that negative brand reactions can be explained by the perceived loss of a brand's unique values. "Building on this values authenticity account, we find that the negative effect of acquisitions depends on the acquired brand's values, brand age, leadership continuity, and the alignment between acquiring and acquired brands," says Fuchs. The conditions that attenuate the negative effect of acquisitions are as follows:

- Consumers develop a lower purchase intention when a previously acquired brand is acquired again by another company, as the original values may have already been diluted during the first takeover.
- Consumers seem less concerned when the original leadership team remains in charge after the acquisition because this may act as a reassurance that the authentic values are retained.
- Consumers react less negatively if the values of the acquirer brand align with those of the acquired brand. The negative effect is mitigated if a brand that produces sustainable products is acquired by a brand with sustainability as a core value.
- Consumers react less negatively when the acquired brand has been established with a strategic orientation towards growth. In these cases, they don't see the takeover as a loss of the brand's authentic values. For instance, many start-ups are founded with the desire to get bigger and many communicate this in their statements (e.g., Bill Gates often mentioned his vision to have a "PC on every desk in every home"). Sometimes founders even invoke growth values as the reason for selling the company (e.g., the founder of Dot's Pretzels explained the acquisition by

Hershey's in November 2021 by saying she had "built the business with the idea of sharing them with everyone.")
- Consumers react less negatively if a young brand is acquired. Consumers consider the acquisition of a younger company less disruptive of values authenticity. Conversely, for older companies with a set of values crystallized over decades—or even centuries—we find a more severe negative effect.

Managerial Implications

***Before the acquisition*:**

- "Managers should examine the target brand's communications and identify whether the vision statement, advertising, social media accounts, and other forms of branding contain any references to growth or reaching a broader range of customers. Such cues may make the acquisition process more favorable in the eyes of consumers," explains Maira. Targeting brands aligned with the acquiring company's core values and making this alignment salient can benefit the acquisition process.
- Similarly, scouting for young, promising brands could prove beneficial, potentially giving the acquirer an aura of patronage and a reputation for investing in nascent businesses.

***After the acquisition*:**

- "Managers should carefully plan how to effectively frame acquisition announcements. If the founders/original owners will not be involved after the acquisition, managers may want to consider retaining long-term employees and highlighting this in communications," suggests Puntoni.
- When the acquirer has values that align with those of the acquired brand, highlighting this can boost perceptions of the

acquisition and nurture the acquired brand.
- If there is no strong alignment of values between the acquirer and the acquired brand, the research team suggests that managers focus on other aspects that can benefit from the acquisition. For example, an acquirer could highlight an increase in R&D facilities or a potential increase in product quality.

More information: Alessandro Biraglia et al, EXPRESS: When and Why Consumers React Negatively to Brand Acquisitions: A Values Authenticity Account, *Journal of Marketing* (2022). DOI: 10.1177/00222429221137817

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