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Leveraging brand equity in business-to-business mergers and acquisitions

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ABSTRACT

Every acquisition provokes a branding decision—should the acquirer absorb the acquired business by renaming it under its own name to convey to the market that ownership and the way of doing business has changed, or should it allow the acquired company to continue trading under its old name so as to avoid damage to its existing customer franchise? This is a complex management decision but one which apparently receives little attention. This paper draws on the B2B branding and M&A literatures to create a model of brand equity transfer. The model assumes that rebranding of an acquired company under the name of the new parent can yield positive benefits if the new parent has higher brand equity than the acquired company. A case study of an acquisition of a national construction materials company by a larger international group provides an illustration of the transfer process.

1. Introduction

Merger and acquisition (M&A) activity has increased exponentially over the last decade (Martynova and Renneboog, 2007; Hijzen et al., 2008). This wave of M&A activity has been a global phenomenon that has particularly affected industrial markets (Andrade et al., 2001; PriceWaterhouseCooper, 2007). The net effect for the individual companies involved in all of these M&A deals has been the accumulation of products, brands and locations with widely varying heritages and differing levels of value. This runs the risk of a dilution in the coherence of the original brand portfolio which sometimes reaches a point where a rebranding of all or some elements of the brand hierarchy becomes a managerial necessity (Muzellec & Lambkin, 2006).

A review of the available evidence suggests, however, that brand equity is typically not handled very well, tending to be treated as an after-thought compared to more pressing financial and operational matters (Hise, 1991; Kumar & Blomqvist, 2004; Homburg & Bucerius, 2005). It is usually given low priority in merger negotiations and is typically decided on the basis of simple expediency after the deal is concluded, to bring some order to the untidy collections of names and entities that are inherited as a result of combining two firms and their respective products and markets (Knudsen et al., 1997; Ettenson & Knowles, 2006).

Ideally, however, branding decisions should be driven by marketing considerations, to use the opportunity to signal a new strategic focus to the company's stakeholders and to extract synergies from the brand equities of the merged entities. In particular, branding decisions involved in M&A transactions should be subject to a kind of brand equity leveraging whereby a deliberate attempt is made to transfer the brand equity of the stronger partner to the weaker one, thereby adding value to the whole, combined entity.

The issues involved in the brand equity transfer process have received some attention in the B2C sector (Jaju et al., 2006; Muzellec & Lambkin, 2008), but it is yet to receive any exploration in a B2B context. This paper addresses this gap by focusing on the issue of brand equity transfer following mergers and acquisitions among B2B firms. It starts by reviewing research on brand equity in industrial markets and links it with the literature on M&A. It then proposes a model of brand equity transfer. A case study based on a large, international construction materials firm which acquired a relatively small, national firm is used to identify which brand equity variables may be successfully transferred in a situation where a dominant acquirer brand is applied to the weaker acquired firm.

2. Leveraging brand equity in B2B markets

Companies will likely differ in the levels of brand equity that they bring to a merger (Capron & Hulland, 1999; Bahadir, Bharadwaj & Srivastava, 2008). The most typical situation is one in which a large, strong firm acquires a smaller, weaker one with the expectation that the performance of the acquired firm can be improved by an infusion of skills and resources from the acquirer, thereby providing a gain for the combined entity (Capron & Hulland, 1999; Andrade et al., 2001; Bahadir et al., 2008).The challenge of managing brand equity in the context of M&A is to be able to identify and measure the differences in the brand equity of the individual firms before the transaction, and to find a way to transfer the brand equity from the stronger to the weaker firm after the

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deal is concluded. The next section considers how brand equity may be identified, measured and transferred in B2B mergers and acquisitions.

2.1. Identifying and measuring brand equity in B2B markets

Almost all conceptualizations of brand equity agree that it involves the 'value added to a product by consumers' associations and perceptions of a particular brand name (Aaker, 1991; Bendixen et al., 2004, Keller, 1993). Whilst the 'added value' of brand equity is viewed in differing ways, there seems to be a general agreement among all researchers that brand equity outcomes accrue to a product due to the set of associations symbolized by its brand name when compared with those that would accrue if the same product did not have that brand name (Keller, 2008).

The most widely accepted brand equity model in the literature is Keller's customer-based brand equity (CBBE) model (1993; 2008). Brand equity has two key components: a high level of awareness and strong, favourable and unique brand associations (Keller, 1993). A CBBE model for business markets, which focuses on the corporate brand as the unit of analysis has been adapted by Kuhn et al. (2008).

The corporate brand is emphasized for B2B companies because business customers tend to assess, value, and make purchasing decisions based on company-specific images/perceptions (Aspara & Tikkanen, 2008). The choice of a single corporate brand is also thought to reflect a customer emphasis on risk-reduction rather than on emotional benefits, leading them to choose well known brands from reputable companies as a risk reduction strategy (Mudambi, 2002; Beverland et al., 2007; Cretu & Brodie, 2007).

In a corporate brand dominant system, the constructs of brand associations and corporate reputation are intertwined (Argenti & Druckenmiller, 2004; Balmer & Greyser, 2006; Olins, 2000). However, since reputation is an aggregate construct with many components (Cravens, Oliver & Ramamoorti, 2003; Fombrun, Gardberg & Sever, 2000), it is useful to identify the key variables involved in the brand equity transfer process in business markets.

The challenge of managing brand equity in the context of M&A is to be able to identify and measure the differences in the brand equity of the individual firms before the transaction, and to find a way to transfer brand equity from one firm to the other.

2.2. Brand equity transfer in B2B mergers and acquisitions

Assuming that individual companies have different scores on the brand equity measurement model at any point in time, then the likelihood is that merging companies will differ in the levels of brand equity that they bring to the merger (Capron & Hulland, 1999; Bahadir et al., 2008). For example, in a study of large M&A transactions in the United States, Bahadir et al. (2008) found a very wide range of variation in brand value, from 49% of firm value at one end of the spectrum (in the case of P&G's acquisition of Gillette), to less than 1.51% in the acquisition of Latitude by Cisco Systems.

The source of heterogeneity in the target firm's brand value may be due to the fact that each brand involved in an M&A transaction has a different potential for generating future cash flows as a result of differences in brand specific factors which might be summarised as differences in brand equity (Srivastava, Shervani & Fahey, 1998; Bahadir et al., 2008). Another explanation is that firms with stronger marketing capabilities will attribute higher value to targets' brands because their expectations of future revenues from a brand portfolio will be higher than firms with lower marketing capabilities. This stems from the notion that acquirers with stronger marketing capabilities are able to deploy a target's brand portfolio more efficiently, which will affect the level, growth, and volatility of cash flow expectations from the target's brand portfolio (Bahadir et al., 2008).

The challenge of managing brand equity in the context of M&A is to be able to find a way to transfer the brand equity from the stronger to the weaker party so as to achieve a positive synergy for the whole combined entity.

2.3. Brand equity redeployment model

Existing research on post-merger behaviour and performance comes from several different disciplines making it quite difficult to develop a coherent picture of the current state of knowledge. Economists tend to consider structural factors such as relative firm size and the relatedness of the merged businesses as key variables likely to influence the pattern of resource deployment, the realisation of synergies, and post-merger/acquisition performance (Andrade et al., 2001; Kaplan, 2006). Management and organisation scholars tend to focus on the speed and effectiveness of the post-acquisition integration process, including the impact on the employees in the merged organisation (Haspeslagh & Jemison, 1991; Hitt, Harrison, Ireland & Best, 1998; Krishnan, Hitt & Park, 2007).

The limited work by marketing researchers on the subject of M&A has tended to focus on the pattern of marketing resource deployment following an acquisition (Capron & Hulland, 1999; Homburg & Bucerius, 2005), and on how customers and consumers might react to the new ownership, specifically, whether the result may be a gain or loss in loyalty, as measured by attitude or behaviour (Jaju et al., 2008).

In a large study of M&A transactions over 30 years in the United States, Andrade et al. (2001) found that the acquirers were 10 times larger than their targets, on average. This suggests a scenario in which large, strong firms acquire smaller weaker ones to expand their business and to exploit synergies in the combined entity (Capron & Hulland, 1999; Basu, 2006). In those situations Capron and Holland (1999) found that redeployment of resources tends to be asymmetrical, with a high proportion of redeployment from acquirers to targets but very little in the opposite direction. This sample of firms frequently redeployed innovation, manufacturing, brand name and marketing resources from acquirers to targets.

The general tendency in M&A therefore seems to be that a strong firm acquires a weaker one and seeks to leverage its strength to enhance the value of the target, and thereby the value of the whole combined entity. Translating this into the context of brand equity transfer, we can surmise that the likelihood of rebranding the target firm with the brand name of the acquirer would also be inversely correlated with relative size and strength as shown in Fig. 1 below. Thus, we would expect a transfer of brand equity from acquirer to target to be high for relatively small, weak targets and low for relatively large, strong targets.

2.4. Implementation issues

It is widely recognised that many M&As fail because they pay inadequate attention to "soft" issues such as vision and leadership,

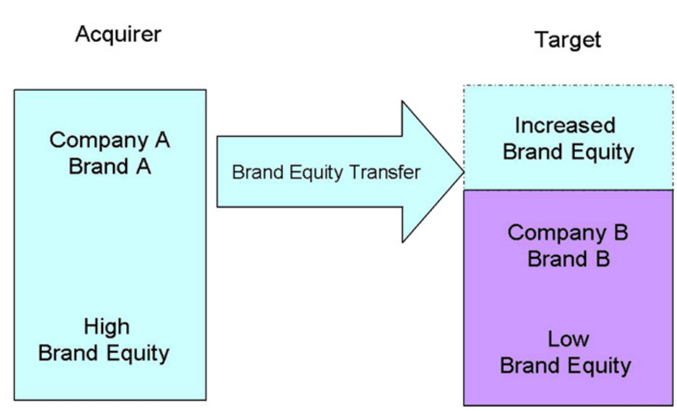

Fig. 1. Brand equity redeployment model.