Will You Stay the Same? Examining Customer Reactions to Acquisitions

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Background and Research Purpose: In the fashion industry, acquisitions have become commonplace across company types, from established luxury brands to startups. In 2018, 38% of all M&As in 12 luxury sectors ranging from apparel to hotels were carried out in the apparel & accessories and watches & jewelry sectors (Deloitte, 2019). One example is US group Michael Kors’ acquisition of Italian label Versace in 2018. Recently, big corporations have been acquiring select startups. For example, Bonobos, a men’s clothing brand founded in 2007, and ModCloth, a women’s clothing brand founded in 2002, were acquired by Walmart in 2017. From the acquired company’s perspective, the acquisition allows access to resources needed for growth (Porter, 1987). However, for existing customers, such a major organizational change creates uncertainty about the company’s business continuity, particularly whether future product offerings will continue to meet their expectations. For example, upon the acquisition announcements, the customers of Bonobos and ModCloth expressed concerns about the product design becoming generic and the deterioration in quality (Bain, 2018). Since then, Walmart has seen losses in its e-commerce division, including Bonobos and ModCloth, which have led to layoffs at Bonobos (Nassauer, 2019) and Walmart’s divestment of ModCloth in 2019 (Thomas, 2019). Despite the potential negative effects of acquisitions, research on customer reactions to acquisitions is scant.

Based on signaling theory, which explains consumer behavior amidst imperfect information and informational asymmetry, the study posits that customers will seek information or signals to anticipate how the acquisition will affect future product offerings. This study identified three signals customers may rely on: post-acquisition operational independence of the acquired company, involvement of the acquired company’s founder/CEO, and organizational fit between the acquiring and acquired companies. If these signals lead customers to make favorable inferences about future product offerings, their re-patronage and WOM intention will be high. As such, the purpose of this study is to propose a research framework to examine how the three signals lead consumers to form expectations for future product offerings, which in turn can influence re-patronage and WOM intention.

Theoretical Background

Signaling Theory: Signaling theory explains how people seek to reduce uncertainty caused by imperfect information and informational asymmetry (Spence, 2002). In consumer research, the theory was utilized to explain how consumers seek to reduce the risks of making a purchase in a market where imperfect information about products and information asymmetry between consumers and sellers exist. The premise is that consumers rely on market signals to evaluate unobservable product attributes, such as product quality. This study proposes operational independence, founder/CEO involvement, and...
organizational fit as signals that are “easy-to-acquire informational cue, extrinsic to the product itself, that consumers use to form inferences about the quality or value of that product” (Bloom & Reve, 1990, p. 59).

**Operational Independence**: Operational independence is defined as the extent to which the brand operates independently from the acquiring company. The level of operational independence is reasoned to hold a signaling value because more autonomy (i.e., operational independence) indicates more control over the business and the brand’s ability to continue business as usual, including product development and quality control.

**Founder/CEO Involvement**: The founder/CEO’s involvement is defined as the extent to which the brand’s founder/CEO is involved with its management. It is reasoned to hold a signaling value because if the founder/CEO continues to head the brand, it is more likely that the brand’s focus that drove its initial success – whether it be high product quality or unique product designs – will continue to define its business.

**Organizational Fit**: Organizational fit is defined as the extent to which the acquiring company’s product category focus is perceived to be similar to that of the acquired company. Organizational fit is reasoned to hold a signaling value because if the acquiring company’s industry scope is perceived to be similar to that of the acquired brand, it is more likely that the acquiring company will be perceived to have a deep understanding of the acquired brand’s product category and, thus, the capability to manage the brand well.

**Conceptual Framework and Proposition Development**: Drawing on the extant literature on signaling theory, a conceptual framework with six propositions is proposed (Figure 1).

![Proposed Conceptual Model](https://example.com/image.png)

**P1**: Higher operational independence will positively influence customer expectation of future product offerings because customers will perceive it as evidence of little to no intervention by the acquiring brand and thus business as usual. As a result, customers will likely believe that the brand’s products will continue to meet their expectations as they have done previously.
P2: Higher founder/CEO involvement will positively influence customer expectation of future product offerings because customers will perceive it as evidence of business continuity and consistency in product offerings, as the founder is the one who shapes the brand’s values to customers.

P3-a and P3-b: Higher organizational fit will weaken the negative effect of low operational independence (P3-a) and low founder/CEO involvement (P3-b) because it would indicate to customers that the acquiring brand has the expertise to manage the acquired brand well, including the product development domains, even with little input from the acquired brand’s founder.

P4 and P5: More favorable expectation of product offerings will positively influence repatronage (P4) and WOM intention (P5). If customers infer from the signals that the product will meet their expectations, whether it be product quality or design, they will be more likely to shop the brand continuously. Additionally, if they believe that the brand will deliver superior results, customers will be more likely to engage in positive WOM.

Contributions and Implications: There are very limited studies on the effect of acquisition on consumer behavior, and this conceptual model provides a foundation for future research. From an industry perspective, the results can show potential effects of acquisitions in terms of important retail outcomes, providing further support for important considerations in choosing an acquisition partner, and highlighting the need for preemptive communication with existing customers so that the uncertainty around future product offerings does not alienate them. In short, this study can inform companies what they should do to maintain and protect brand equity, which may be threatened by the otherwise sound growth strategy.

References


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