Single Brand with Multiple Country Images: The Effects of M&A and Offshoring on Apparel Brand Credibility and Prestige across Brand Tiers

Hongjoo Woo, Auburn University, USA
Byoungho Jin, The University of North Carolina at Greensboro, USA

Keywords: Country image, M&A, offshoring, brand tiers

Background and Purpose: Increasingly common practices in the global apparel industry are *Cross-border Merger and Acquisition (M&A)* and *offshoring*. For example, an Italian brand, Valentino, was acquired by a Qatari company and outsources products from China (Weiteng, 2015). In this case, Valentino has three discrepant country images in one brand: Italy as COB (*country-of-manufacturing*), Qatar as COC (*country-of-company)*, and China as COM (*country-of-manufacturing)*. As with this example, when an apparel brand's country of ownership or made-in country is an "unexpected" country and mismatches with the brand image, what psychological reactions would occur in consumers' minds, and how would those reactions change brand credibility and prestige? Is consumers' reaction to the country image changes more severe to luxury brands than to mass market brands? Understanding such reactions are critical to lessen possible negative impacts after M&A and offshoring; yet, scant research have been conducted. Built on *cognitive dissonance theory* and *social exchange theory*, the purpose of this experiment study was to examine how country image changes resulted from M&A and offshoring influence on consumers' perceived brand credibility and prestige, and to compare those effects by two brand tiers (i.e., luxury brands vs. mass market brands).

Literature Review and Hypotheses: Festinger's (1957) cognitive dissonance theory proposes that when consumers are exposed to two inconsistent elements of one object, cognitive dissonance occurs in their minds, which motivates them to modify their attitudes toward the object. Likewise, when COC and COM are discrepant from COB, dissonance may occur in consumers' minds, thus their attitudes toward the brand may change; particularly, consumers' perceived credibility and brand prestige, highly determined by consistency and clarity in brand attributes (Baek et al., 2010), may change. More specifically, brand credibility and prestige would *decrease* when COC/COM moves *downward* from a developed country (e.g., Italy) to a developing country (e.g., China), while those would *increase* when COC/COM shifts *upward* from a developing country (e.g., China) to a developed country (e.g., Italy). Thus, H1-H4 are: **H1.** In **luxury brand downward M&A**, the downward transition of COC **decreases** brand credibility (**H1a**) and brand prestige (**H1b**). **H2.** In **luxury brand upward M&A**, the upward transition of COC **increases** brand credibility (**H2a**) and brand prestige (**H2b**). **H3.** In **luxury brand downward offshoring**, the downward transition of COM **decreases** brand credibility (**H3a**) and brand prestige (**H3b**). **H4.** In **luxury brand upward offshoring**, the upward transition of COM **increases** brand credibility (**H4a**) and brand prestige (**H4b**).

However, such changes in consumer perception may differ by brand tiers. According to Homans's (1958) social exchange theory, consumers' level of expectations tends to be lower toward mass market brands than toward luxury brands, since their expectations toward the brand depend on the amount of the costs they spend. For instance, consumers may be very disappointed after learning the fact that luxury Valentino is owned by a Qatari company or produces products in China, while they may not be surprised about the fact that a Walmart t-shirt is made in China. In this logic, this study hypothesized that changes in brand credibility and prestige due to downward/upward transitions of COC/COM through M&A or offshoring would occur in the luxury brand context, but not in the mass market brand context: **H5-H6.** In **mass market brand downward M&A**, neither downward (**H5**) nor upward (**H6**) transition of COC influences brand credibility. **H7-H8.** In **mass market brand downward offshoring**, neither downward (**H7**) nor upward (**H8**) transition of COM influence brand credibility.

Methods, Results, & Conclusions: Hypotheses were tested by within-subject experiments. To manipulate downward/upward transitions, Italy and China were selected as sample countries following previous studies (Chung et al., 2014). Images of four fictitious apparel brands (i.e., Italian and Chinese luxury and mass market brands) were created with eight scenarios of luxury/mass market brands' [2] downward/upward [2] M&A/offshoring [2]. A series of pretests (pilot interview and pretest survey) confirmed that (a) the images of luxury and mass market brands are perceived as a luxury and a mass market brand (t=14.69, p<.001), (b) the scenarios are read as purposed, and (c) the country images of Italy and China are significantly different (t=7.40, p<.001). Using these stimuli and scenarios, in the main experiment, 426 participants were randomly assigned to one of the eight scenarios and their changes in perceived brand credibility and prestige before and after reading the scenario of M&A/offshoring were compared.

Overall, results of repeated-measure ANOVA revealed a clear contrast between downward and upward changes and similar effects by M&A/offshoring across brand tiers. In the luxury brand context, a downward transition of COC and COM significantly decreased both the brand credibility and prestige of luxury brands (H1a-b & H3a-b supported) while an upward transition improves neither (H2a-b & H4a-b rejected). Similarly, in the mass market context, a downward transition of COC and COM significantly decreased the brand credibility (H5, H7 rejected) while an upward transition does not have any influence (H6, H8 supported).

In conclusion, regardless of whether it is resulted from M&A or offshoring, once a country image moves downward brand credibility and prestige were diminished significantly, supporting cognitive dissonance theory. On the contrary, an upward transition could not improve any. These findings imply that consumers tend to be more sensitive to downward country image changes than to upward. This pattern was identical for luxury and mass market brands, refuting the assumption of social exchange theory. This suggests that careful brand image management post M&A or offshoring is critical, especially when such transitions are made to be downward.

References

Baek, T. H., Kim, J., & Yu, J. H. (2010). The differential roles of brand credibility and brand prestige in consumer brand choice. *Psychology & Marketing, 27*(7), 662-678.

Chung, K., Youn, C., & Lee, Y. (2014). The influence of luxury brands' cross-border acquisition on consumer brand perception. *Clothing and Textiles Research Journal, 32*(4), 219-234.

Festinger, L. (1957). *A theory of cognitive dissonance*. Stanford, CA: Stanford University Press.

Homans, G. C. (1958). Social behavior as exchange. *American Journal of Sociology, 63*(6), 597-606.

Weiteng, L. (2015, March 20). Begging rights. *China Daily*. Retrieved from http://usa.chinadaily.com.cn/epaper/2015-03/20/content_19929564.htm