Brand Mergers and Acquisitions

Contents

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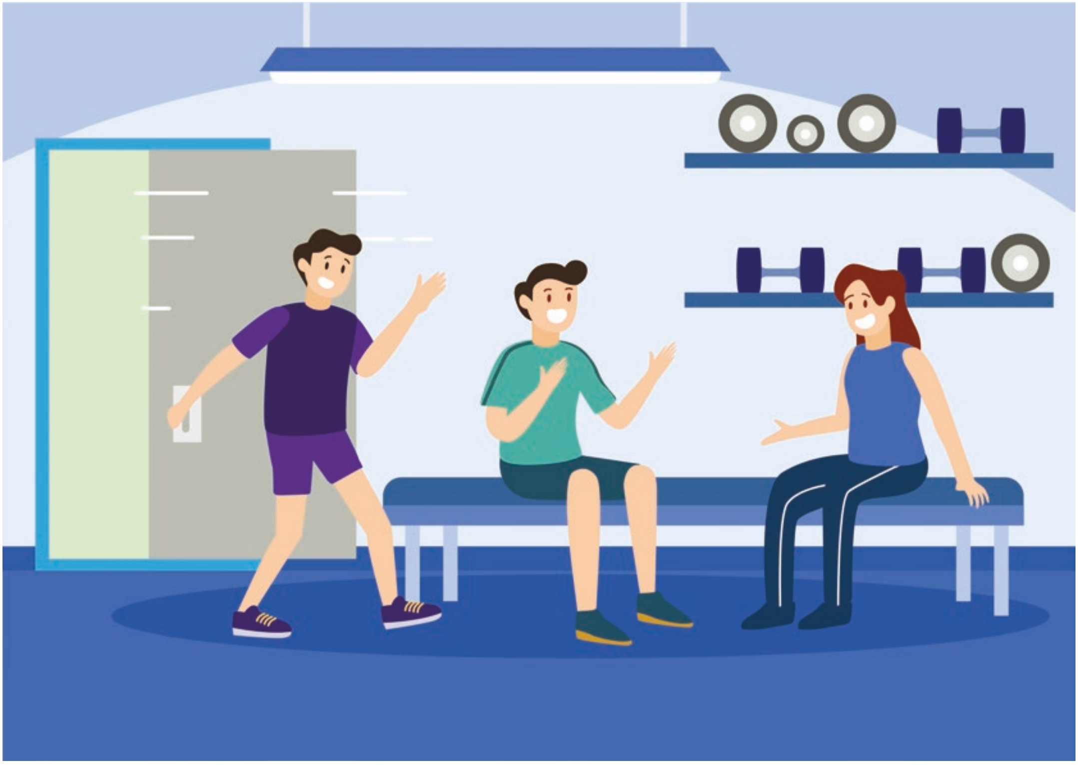


Code arrives late the following week as they have just attended a meeting. The meeting was about considering whether to acquire a small consumer goods manufacturer that makes apple juice. Code initially planned on extending their existing product line, but then came the opportunity to purchase the other company. This is a more natural way for the company to enter the new market. However, Code is concerned about the values and working principles of the brand. Alex reassures Code that it will be fine, that they barely knew each other ten weeks ago, but have now shared experiences and they have shared values. Code feels it is essential that the company is still well positioned after the acquisition. Sam shares their experience in acquiring a brand in a different country, and how it was hard work, but that the work paid off. While Sam and Alex are both excited for Code and feel it will be a worthwhile expansion of the brand, it is important to recognise that choosing to merge with another brand or acquire another brand can be a very difficult decision for a brand. While Code may be positive about the acquisition, the staff of the brand being acquired may have a different perception and even the shareholders may be reluctant. A successful brand merger or acquisition will require an effective brand management strategy to ensure that all stakeholders are listened to and their concerns are addressed. Ultimately the commercial viability of the brand remains important. For both a small brand like Code's and a multinational global brand employing Sam, there are key brand management implications that need to be understood and addressed by all stakeholders.

Overview

To grow the brand, beat the competition and gain more market share, brands may decide to acquire or merge with a competitor brand. In some cases as well, when a brand is no longer profitable, they may be acquired by a bigger and more established brand. The management of this process is critical, as it can influence the success of the merger or acquisition. Brand mergers and acquisitions create multiple brand entities, which are uniquely positioned and directed at a segment. This strategic decision brings the possibility of growth, but can mean streamlining the brand portfolio, reducing the number of brands and making the portfolio more manageable. In this chapter we will explore branding from a holistic perspective, with a focus on brand management. As many brands come together, through merger or acquisition, there is a need to manage these brands and integrate them accordingly. Mergers come with operational and financial challenges, but our focus here is the business challenges. Which is to understand the motivation for mergers, understand the challenges and discuss how to deal with them.

Key Question

How do brands manage the process and aftermath of mergers and acquisitions?

Learning Outcomes

At the conclusion of this chapter, you will be able to

- describe the concepts of brand acquisition, merger and demerger;
- describe the stakeholder brands in mergers and acquisitions;
- recognise the benefits of brand acquisition, merger and demerger;
- give examples of different naming structures for a brand after a merger; and
- explain the brand implications and role of a brand manager in brand mergers and acquisitions.

10.1 Introduction

According to Mergermarket, a leading provider of M&A data and intelligence, there were 19,322 mergers and acquisition deals in 2019 worth US$3.33 trillion. The average size of deals was US$389 million, with a disclosed value which was up from US$353 million in 2018 (Mergermarket 2019). Mergers and acquisitions are a strategic decision that can also be referred to as brand transfer in some cases. Brand mergers and acquisitions create multiple brand entities which are uniquely positioned and directed at a segment.

Mergers or acquisitions can lead to the creation of worldwide companies. It is an important strategic decision of companies aiming to reposition and remain viable (Lee et al. 2011). Some mergers change market dynamics in ways that can lead to higher prices, fewer or lower-quality goods or services, or less innovation and this is the reason they have to be monitored, and in some cases investigated, by regulatory authorities. While mergers may be considered as a business strategy for bigger brands, it is essential to understand that, smaller brands as well are not exempted from merging and the subsequent branding challenges. Advertising agencies and law firms can merge, and even charities can merge. Both big and small brands can try to merge with complementary brands.

As many brands come together and get acquired, there is a need to manage these brands and integrate them accordingly. Hodgson (2017) note that behind every great merger, there is a great merger branding strategy. In this chapter we explore the motivation for mergers/acquisitions, the brand management challenges and how to deal with them.

10.2 Stakeholder Brands in Mergers and Acquisitions

For successful mergers and acquisitions, it is essential to have both parties on board, with a shared interest and willingness for the deal to go through. Four key stakeholders could be involved in mergers and acquisitions processes. They are: the brand that is trying to acquire another brand, the brand being acquired, merged brands, and demerged brands. We will discuss these stakeholder brands below to gain a better understanding of their challenges and the brand management implications.

10.2.1 The Acquiring Brand

This is the brand with the upper hand in the negotiation. This is the brand making a move to acquire (buy) another company. The acquiring brand has a bigger say in the negotiation. They can decide to retrench some brands (of the acquired brand), change the name of the acquired brand or close their operations. Microsoft was the acquiring brand when it bought LinkedIn. Likewise, Google was the acquiring brand when it bought YouTube. The acquiring brand has a strategic reason for making a move to acquire another brand; often, this is to complement their products and services. While it can be assumed that the acquiring brand will be bigger and have more substantial equity, it may not always be the case. Kraft Heinz tried to acquire Unilever, a significantly larger competitor in a proposed £115 billion bid which would have been one of the largest deals in corporate history. Likewise, a smaller and less known brand may decide to buy a bigger brand. Even more so, a newer brand may be willing to acquire more established and older brands. There are various possibilities and motivations for acquiring brands.

10.2.1.1 Reasons for Acquiring

Complement Existing Strength

Often the main reason for a brand to acquire another brand is to complement their existing strength; the acquiring brand wants to retain its position in the market and brings in other brands to help achieve that. MasterCard, a card provider, complemented their existing strength in financial services by acquiring a tech-driven, open banking start-up company, Fincity (a Utah-based fintech open banking firm). Similarly, Visa bought financial services API start-up Plaid. Access Bank, a Nigerian bank, acquired Kenya's Transnational Bank. The top-tier Nigerian bank has operations in seven African countries, and this acquisition further established their presence in new terrain but in the same market.

Sometimes, even when an acquiring brand has failed in an area of the market, they want to acquire a more established brand to strengthen their weak point. After Google's failed attempt with Google Glass, Google acquired North, a pioneer in human-computer interfaces and smart glasses. Rakuten, one of Japan's largest internet companies, acquired Cyprus-based messaging platform and app maker Viber to "become the world's No. 1 Internet services company." Australian job board SEEK also acquired JobStreet, an online employment business with its headquarters in Malaysia.

Extending into another Market

A brand may acquire another brand to enter a new market. Rather than starting a new business or investing in research and development, they may decide to purchase another brand with expertise in that area and that allows the acquiring brand to get a foothold in the new market. For example, with Microsoft's acquisition of LinkedIn, they were able to extend into the social media scene and did not have to worry about starting up a new company. Foreign companies may buy a local company with the objective of entering a new market without investing in building the business from scratch. eBay expanded into the Asian market through its acquisition of Gmarket, Korea's leading online marketplace.

Eliminate Competitor

The acquiring brand may have noticed a competing brand gaining recognition and market share. If this competing brand is left alone, they may become bigger and overtake the acquiring brand. Therefore, to eliminate this competing brand, the acquiring brand decides to acquire it and bring it under their brand portfolio. This suggests that instead of both brands competing, they end up working in synergy to gain a bigger market share. AB InBev, a large brewing and beverage company, acquired British multinational competitor SABMiller. Similarly, Ola Cabs in India acquired its smaller rival in the taxi aggregator space, Taxi for Sure. Acquiring to eliminate a competitor may be restricted due to regulatory concerns and the implications for consumers and the market as this can change the market dynamics and leave the consumers with fewer options.

Diversifying Brand Portfolio

Brands can be motivated to acquire another brand in order to diversify their brand portfolio. This acquisition may not necessarily be geared towards entering a new market but towards expanding on what they have already. The acquiring brand can extend its brand portfolio by buying other brands that are closely related to their existing collections. This acquisition fits with the current brand architecture, and the brand can use its existing distribution network and marketing strategy to integrate the new brand. This allows for more sales and revenue with reduced expenses on distribution and marketing. Microsoft acquired both UK-based firm Metaswitch Networks and Affirmed Networks in the same year. These are companies which are 5G-focused, specialising in cloud-based communications software and so it was Microsoft's effort towards diversifying their brand portfolio, expanding their approach to empower operators and partners with network equipment providers and deliver on the promise of 5G. In a push to remain relevant in a smoke-free world, Altria, one of the world's largest producers and marketers of tobacco and cigarettes, acquired a stake in Juul Labs, an electronic cigarette company.

10.2.1.2 Challenges for the Acquiring Brand

Acquiring a brand is not always easy. It is not a guaranteed deal; many acquisitions fail to deliver on their projected benefits because many challenges can inhibit the process. These challenges can come from the shareholders, regulators, or the customers. This section identifies critical problems for acquiring a brand with the intention of expanding the brand portfolio.

Willingness to Be Acquired

What if the brand to be acquired objects to the acquisition? The acquiring brand may be interested in buying the brand, but the brand may not be willing to be acquired. This may be because of possible legal implications (antitrust laws); shareholders feel they are undervalued, or the public interest is not aligned with the acquisition. If there are objections, the acquiring brand may present an improved offer for the shareholders, highlighting structural and organisational changes for the acquired brand. Cadbury workers from across the United Kingdom and Ireland once protested to stop the hostile Kraft acquisition of the brand.

Duplication

While a brand may decide to acquire another brand to complement its existing strengths or to diversify its brand portfolio, there is the possibility of duplications in the brand portfolio. This could be across the same market, consumer group or country. Understanding this challenge ensures an inclusive brand architecture (Uggla 2006) to monitor the type of brands in the portfolio. For example, if a brand owner already has a toothpaste brand in its portfolio and acquires another brand that makes cosmetics but also toothpaste, there will be two toothpaste brands to be managed by the brand. This duplication may cause the brand owner to sell one of the toothpaste brands or discontinue it. This can be a strategic decision that is taken seriously and can be a difficult one. The management needs to decide which brand to stop. In addition to the duplication of brands, there will be duplications of roles, two CEOs, two chairpersons and many other overlaps. Likewise, there will be factory duplication and this may necessitate the need to close some of the factories. These duplications will have strategic implications for the manager who needs to integrate and manage the brands and their assets.

Brand Damage

Acquiring a brand can also damage the acquiring brand. This is crucial in cases where both brands do not share the same values and philosophy. The acquiring brand may think they have a brand they could acquire cheaply and then expand their portfolio, but it can also come with negative baggage and perceptions which may be transferred to the new brand. It is therefore essential for brand managers considering acquiring another brand to ensure there are shared values, and the acquisition of another brand will not bring their brand into disrepute. To compete with Google in the display advertising business and help maximise the digital advertising opportunity, Microsoft purchased Seattle-based advertising technology firm aQuantive for $6.3 billion in cash. It renamed it Microsoft Advertising, and this, however, did not work out as planned. In understanding the reason why, Bilton (2015) posited that advertising was a bad fit for Microsoft's culture and business, as Microsoft, at its heart, is a software company and was never a media company. Google acquired Motorola with the promise of accelerating innovation and consumers getting better phones at lower prices, but they did not live up to their promise. Google had to sell the brand they bought for $12.5 billion in May of 2012, to Chinese PC maker Lenovo for $2.91 billion, 2 years later in 2014. Sterling (2014) noted that Google had to simply cut its loses and make peace with Samsung, its most important Android partner, by no longer being a direct competitor.

One thing to consider here is the fact that, brand damage can lead to loss of customers, dwindling quality, reduced brand trust and brand loyalty (Chung and Kim 2019). Brand damage can be caused by external factors (such as sabotage or intentional misinformation) or internal factors. The latter is the case when the communication of brand values is not coherent, or a company makes strategic mistakes.

Legal and Regulatory Limitations

Legal and regulatory requirements can pose challenges when acquiring a brand. Often this could be in a regulated industry or where the competition might be disrupted, and a monopoly will result. The United States' Federal Trade Commission (FTC) reviewed over a 1000 mergers in a year with the majority filings presenting no competitive issues. The Competition and Markets Authority (CMA) of the United Kingdom will usually investigate acquisitions if the business being taken over has a UK annual turnover of at least £70 million or the combined companies have at least a 25% share of any reasonable market. This is to ensure that the acquisition is fair and not leading to a substantial lessening of competition within any market or markets. Section 7 of the Clayton Act, which defines unethical business practices, prohibits mergers and acquisitions when the effect "may be substantially to lessen competition, or to tend to create a monopoly." The FTC challenged the Edgewell Personal Care Company's proposed $1.37 billion acquisition of its key competitor, Harry's, Inc. The Commission's complaint alleges that the proposed combination would eliminate one of the essential competitive forces in the shaving industry, subsequently, Edgewell terminated its merger agreement with Harry's, Inc. In the United Kingdom, the CMA blocked Sainsbury's acquisition of Asda Group.

10.2.2 The Acquired Brand

This is the brand that has been bought by the acquiring brand. Often, they are smaller and are easily acquired by a bigger brand. Though they may lose their identities, their shareholders and investors are often well compensated. The acquired brand may remain in the market for a while, but after some time, their brand may be integrated into the acquiring brand portfolio. LinkedIn was the acquired brand; YouTube was the acquired brand. These brands were acquired because they have a role to play in the strategic position of the acquiring brand. This, however, is not always the case as the anticipated role of the acquired brand in the acquiring brand portfolio may not be feasible. eBay first bought Skype with the hope of integrating it into their auction, but that did not work. It was later sold to Microsoft. There are, therefore, implications for the managers of an acquired brand as they navigate the acquisition process and hope to remain relevant.

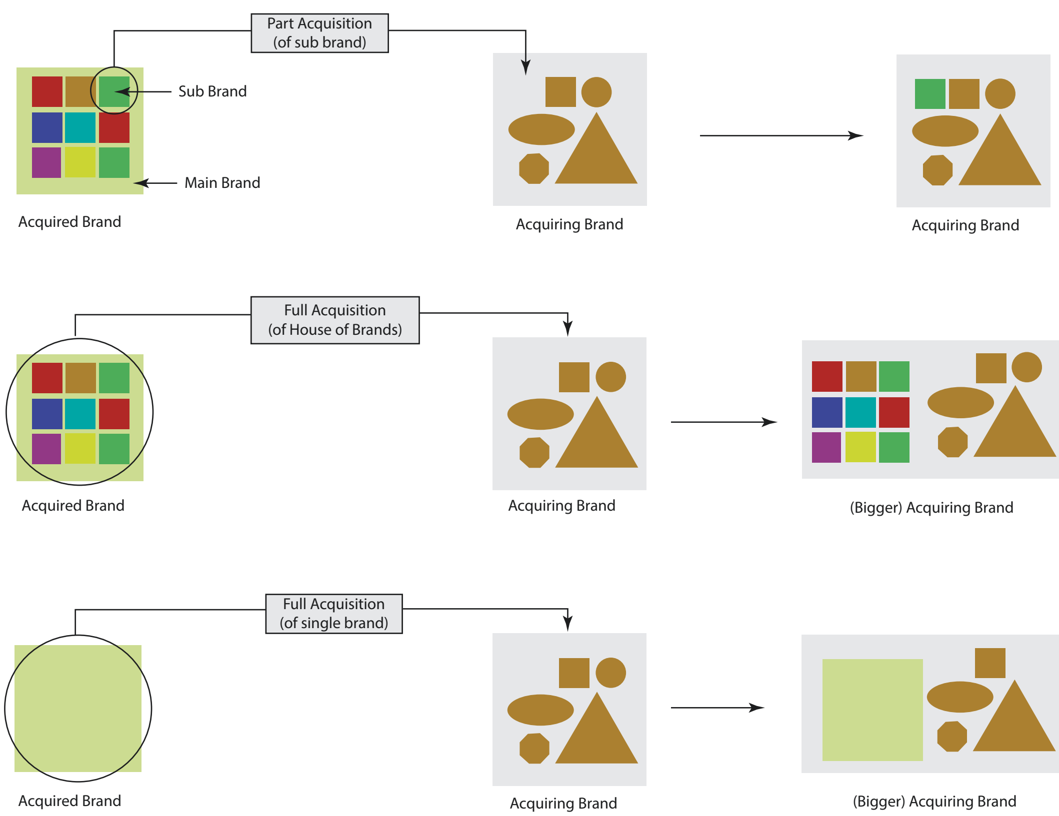
10.2.2.1 Reasons for Selling

There are many reasons for selling a brand, and this decision is not made lightly but it is often strategic, for the positioning of the company. It is important to note that there may be many brands within a brand (we will discuss this in the next chapter under brand architecture).

As illustrated in the figure below, there could be part-acquisition whereby a sub-brand is acquired by the acquiring brand and integrated into their existing portfolio. While GlaxoSmithKline is a big brand on its own with many other sub-brands, it sold off its Horlicks drinks brand in India to Unilever. Also, there are possibilities for full acquisition whereby the whole brand and its sub-brands are bought into the acquiring brand. Smaller, stand-alone brands can be purchased in full by an acquiring brand and integrated with other brands like Facebook did with WhatsApp and Instagram (◘ Fig. 10.1).

Repositioning the Brand

On a positive note, a brand may decide to make a part-acquisition to streamline the brands and make the structure more accessible and manageable. The brand is repositioned when a company decides to change a brand's status in the common marketplace. This typically includes changes to the marketing mix and the 4Ps—price, place, production and promotion. Repositioning is done to keep up with consumer wants and satisfy all their needs. A brand that has acquired many sub-brands over the years and across the world may decide on a strategic direction to focus on one type of product and therefore be willing to sell off some brands, even though they may be doing well. This is an attempt to reposition their brands, and often the acquired brand has a bigger say and can command more value because they are not selling a non-performing brand. They can dictate how much they want and possibly sell to the highest bidder. For



◘ **Fig. 10.1** The acquiring and acquired brand. (*Source*: Author) example, Sainsbury's supermarket sold its pharmacy division with 281 pharmacies to LloydsPharmacy.

Non-performing Brands

A brand may decide to make a part-acquisition in order or let go of a non-performing brand. There may be a sub-brand that is not be adding value to the bigger brand, and therefore the management/brand owners decide to sell it off, perhaps to another company where it may fit in properly. Going the route of part-acquisition may not be an indication of a financial problem with the brand, it is often seen as a way of remaining financially sustainable. The acquiring brand may also be on the lookout for other vulnerable brands that may complement their existing brand structure. Unlike selling a brand with the purpose of repositioning the main brand, selling a non-performing brand may not command much negotiation power as the brand itself is already less valuable.

Financial Difficulties

No doubt, brands can find themselves in financial difficulties, and they need to make important strategic decisions. They may decide to go into administration and go bankrupt which will have a lasting effect on shareholders, customers and suppliers, or to get acquired by another brand (King et al. 2004). The concerns here may be: whether there is any brand willing to acquire the struggling brand; if the acquiring brand is paying the right value for the brand and if the brand is ready to be acquired and to relinquish all rights. Selling the brand may be a better option than going into administration, but the sale price will be quite low.

Legal Expectations

To make sure a brand is not too big after acquisition, the regulatory bodies may instruct the acquiring brand to sell off some of its assets and brands. So these are acquisitions resulting from legal requirements rather than to streamline and position the brand. After the Dow and DuPont merged, they were expected to sell substantial assets, and they further separated into three independent, publicly traded companies: agriculture (Corteva Agriscience), materials science (Dow), and a speciality products company (DuPont). Likewise, when AB InBev, a brewing and beverage company acquired British multinational competitor SABMiller; SABMiller had to sell its stake in the SABMiller and Molson Coors joint venture formed in the United States. This sale means that the market share of AB InBev around the world has been reduced as Molson Coors took full ownership of the Miller brand portfolio outside of the United States.

Global and Political Crisis

Many brands may put themselves up for sale to leave a country while it is still financially possible to do so. This sale may be due to political unrest in the country or changing legislation. The law firm Baker McKenzie predicts that the merger and acquisition activity in the United Kingdom is likely to slip dramatically because of Brexit-induced uncertainty. Considering European laws may not be applicable in the United Kingdom, some corporate organisations may decide to sell their brands to be protected by the right law in the right place. Likewise, in global crises, like the coronavirus pandemic, many brands will no longer be sustainable and may consider selling off (Mogaji 2020). This is not through any fault of their own, but unfortunately, they might want to sell the brand. These vulnerable companies can be acquired at a low price. It is not surprising to see that US lawmakers are planning to introduce a bill that would ban company mergers during the pandemic crisis, stopping companies "taking advantage" of the weakness in the economy to "prey" on smaller and more vulnerable enterprises. The proposed "Pandemic Anti-Monopoly Act" would not allow mergers and acquisitions made by companies and financial organisations with more than US$100 million in revenue or market capitalisation.

10.2.2.2 Challenges of the Acquired Brand

For a brand that is being acquired, there are many challenges for the management team, the staff, customers, shareholders, and regulators. Depending on the type of brand, these challenges may even be more severe.

Stakeholders' Resistance

For a bigger brand, shareholders may present a resistance to the deal. They do not want to lose out and may ask the acquiring brand to increase their offer which they may not want to do and then the plan will fall through. For start-up companies with a smaller team of founders, it might be easy to acquire and make a deal faster. For a charity organisation, the stakeholders and the people they support, the trustee and regulatory bodies may challenge the move, especially if they feel there are better alternatives than being acquired.

Management and Staff

For the management, there is the feeling of not being able to salvage the situation and sustain the brand, mainly if a competitor within the market has acquired it. It can be seen as a losing brand, but this is not always the case as the brand can guarantee its survival by getting acquired. There are also challenges with job losses. This is not just limited to the brand managers working on these different brands, there are also implications for the leadership team who may not get a seat in the acquiring company. Many agencies linked to the acquired brand may also lose their account. Advertising agencies and branding agencies working for this brand may not be able to provide the same services to the brand in the acquired form.

Regulatory Expectations

In the case of a hostile takeover, where the acquiring brand is making a hostile and intensive effort to acquire the brand, the regulatory authority can come on board to investigate the deal and make a decision. Similarly, the regulatory bodies can challenge the acquisition and disrupt the business arrangement, perhaps if they feel the purchase will give too much market control to the acquiring brand. Delays in the merger and acquisition processes can cost both brands a considerable amount of money in human resources managing the deals and on the stock market.

10.2.3 The Merged Brands

Merging is when two brands come together to form a new brand. In this case, both parties have almost equal rights at the negotiation table. They can decide to share things as equally as possible. The arrangement recognises that both brands are valuable and robust, so the negotiation and brand management take a different turn. Importantly, they could also be both weak brands with plans to merge and become a stronger brand. Brand management for merged brands will involve managing the integration of both brands, rejuvenating, and reintegrating the new brand. A merger is not limited to big corporations, start-up companies or agencies, charity organisations can merge to provide better service and streamline their business operations. In 2019, Leuka and Leukaemia UK merged, bringing together two of the United Kingdom's leading leukaemia and blood cancer charities to create one charity dedicated to innovative research and care for people affected by blood cancers.

10.2.3.1 Reasons for Merged Brand

Survival

Many brands on the brink of failure might decide to merge with another brand to guarantee their survival. They may be forced by their shareholders to act and merge with another company to increase their wealth, create more value by delivering cost savings operations and make use of the combined resources. This need to survive could also result from the future leadership direction of the company. For example, a small family business owner who has not been able to identify a suitable successor may decide to merge with another company, then cash out the investment and guarantee the continuation of the legacy. It is, however, essential to carry out due diligence to understand the implications of the merger, especially with regards to financial records and the culture of the organisation.

Synergies

Brands may decide to merge to create a synergy for their business, and they can become stronger when they combine their strength, ensuring their overall performance is more effective, saving costs and making the brands more profitable. For example, two advertising agencies merging can bring in more clients, and they have more work to do and additional resources at their disposal. They can expand their service offering to reach out to more clients. This can also be an effort to reposition the new brand to have a more significant share of the market; they become more recognisable and can influence supply chain management. Kakao Corp, maker of KakaoTalk, South Korea's top messaging service and Daum, one of South Korea's largest Internet portals, merged to create one of South Korea's largest internet companies, making it easier to compete against Naver, South Korea's largest internet portal.

Going Global

Brands can merge to expand their business operations into another market and go global. They can merge with companies in another country to create a much bigger multinational organisation. In November 2013, the Chinese-Australian firm KWM merged with London law firm SJ Berwin to create a $1 billion global business with 30 offices comprising over 2700 lawyers and headquartered in Asia. Such mergers can allow organisations to have access to a global clientele, through many offices and branches around the world, increasing their global market share and brand awareness.

Eliminating Competition

Brands can merge to eliminate competition, the feeling of, why be enemies when we can be friends? They can both come together to position themselves as the leader within the market. This is an effort towards consolidating their businesses and gaining competitive advantage.

10.2.3.2 Challenges for Merged Brands

Resistance from the Shareholders

The resistance from shareholders is often recognised as one of the key challenges of brand mergers, as the shareholders may not be willing to let go of their shares in the company and this may hinder the merger. Often the shareholders may feel they will lose their identity and values when they merge with another brand. They may also feel there is no congruence between the two brands and therefore resist the merger. In most cases, the brands may have to make some financial compromise to make shareholders agree to a deal.

Due Diligence

The merger requires an understanding of the parties and brands involved, and that is why due diligence is carried out. This may involve brand evaluators and brand consultants (as previously discussed in ► Chap. 1 under brand management stakeholders). These consultants and the brand owners may have to check the credibility and suitability of the merging brands. The fact that a company is proposing a merger does not mean it will automatically go through. Due diligence involves understanding the business operations, the financial records, customers' perception of the brands, the brand values and equity and if the brands are compatible in terms of strategic vision, culture, and governance. This information is needed to make sure the brands are making the right decision, and possibly to convince the shareholders. In some cases, brands end their merger plan when the results of the due diligence are not convincing.

Regulatory Limitations

Even if the results of the due diligence are convincing and the brands see potential in their merger, the regulatory body might still pose a challenge. Like all mergers and acquisitions that can shape the size and dynamics of the market, the regulatory authority can also hinder a merger when they feel the new brand will be too big and then create a monopoly. The regulatory body may ask the brands to sell off some sub-brands to diversity the market. This regulatory intervention is not limited to companies and corporations. Charity organisations' planned mergers may be scrutinised by the Charity Commission to ensure that the new charity is in the best interests of the organisation and its beneficiaries.

10.2.4 The Demerged Brand

While new brands may be brought into the fold, into the branded houses, some brands may be demerged and removed from the organisation. Brand demerger happens when a business sheds off one of its businesses/brands to enable better management. This is also the business technique wherein a company transfers one or more of its business undertakings to another company. This is a form of corporate restructuring to make the organisation more profitable. The quest to demerge is often based on financial decisions, especially when the brand is no longer financially sustainable (non-performing brand as a reason for brand acquisition), and no one is willing to buy it. So instead of servicing the brand, the business may decide to remove it from the market.

A brand can also be demerged if the customers' interest is declining, and the organisation can no longer invest money in pushing the brand. Many food companies and restaurants have removed some brands and menus from their offering because the products were difficult to source and due to changing consumer behaviours. Subway stopped offering roast beef and rotisserie chicken while McDonald's National Owners Association took all-day breakfast off McDonald's menu permanently.

The Australian airline Qantas separated its international and domestic operations as it looked to restructure its business. The brand's international operations were experiencing a downturn; meanwhile, its domestic operations were growing and enjoying a substantial market share. In 2012, Qantas announced changes to create four business units within the Qantas Group; Qantas International, Qantas Domestic, Jetstar and Frequent Flyer. Three years after the massive restructuring of the business to reduce costs and increase efficiency, the group posted a record underlying profit before tax of AU$1532 million.

Some brands may be expected to demerge and break up the business into a small and manageable brand for regulatory reasons. This demerging could either be for the brand to function on its own, to be sold or liquidated. For example, a local company could demerge from a parent multinational enterprise (MNE) to function as an independent company in the country. Openreach used to be a functional division of British Telecom (BT). It maintains the telephone cables and connects nearly all homes and businesses in the United Kingdom to the national broadband and telephone network. Being part of BT, the arrangement was considered a monopoly for BT, and it hinders competition and opportunities for other providers. The UK telecoms regulator, Ofcom had to mandate BT to separate Openreach and make it a legal entity and separate from its parent with its own independent identity, employees and board which could be regulated by Ofcom. Openreach Limited is now wholly owned by BT plc's parent holding company, BT Group plc. This arrangement is like allowing a sub-brand to move out of the branded house and stand-alone as another brand (These concepts will be discussed more in the next chapter). As of 2020, BT is now considering selling the debranded Openreach.

Demerging has its challenges, especially for shareholders who may be losing on their investment, staff who may be laid off and customers who may no longer see and enjoy their favourite brand. Brand managers will have to engage with stakeholders and effectively communicate the brand's action.

◘ Table 10.1 presents a summary of the stakeholder brands in mergers and acquisitions.

Table 10.1 Summary of the stakeholder brands in mergers and acquisitions

Questions	Acquiring brand	Acquired brand	Merged brands	Demerged brands
Description	Bigger brand going out to buy a smaller brand	Smaller brands being bought by a bigger brand	Almost the same sized brands coming together to be a bigger brand	Bigger brand splitting and or removing a brand from its portfolio
Motive	*Why acquire another brand?* To complement existing strength To extend into another market To eliminate a competitor To diversify the brand portfolio	*Why get acquired?* To perform better on a larger platform Financial resources Dwindling market share Dwindling brand equity	*Why merge?* To gain bigger market share. Customer and vendor consolidation To avoid being acquired Synergy and value creation To revitalise brands	*Why demerge?* To restructure the brand To remove non-performing brands To acquire a new brand that fits To avoid being acquired For regulatory reasons
Challenges	No willingness to sell Duplication Brand damage Perception as a hostile takeover	No willingness to sell Poor valuation Resistance (staff, shareholders and regulators)	Incongruent values Duplication Conflicting objectives Resistance (staff, shareholders and regulators) Ratio of mergers	How to divide Management of the division Brand damage Which brand to let go
Brand management implications	Integrating into the brand portfolio Duplicates Brand awareness Brand architecture Consumers' perception Ownership of brand assets, including patents and trademark	Loss of brand identity Loss of brand Loss of brand management team Consumers' perception. Transfer of brand assets including patents and trademark	Business and brand synergy Brand management Brand identity Brand architecture Brand philosophy	Restructuring into different brands Management of different brands Brand identities

10

Case Study 10.1

Odwalla is a beverage brand, which has been in business for over 40 years but was acquired by the Coca-Cola Company for US$181 million in 2001 as part of Coca-Cola's push into the non-carbonated premium drink market. Odwalla became a wholly owned subsidiary of the Coca-Cola Company. However, in July 2020, it was announced that the brand would be discontinued. Citing changing consumer tastes, increased competition in the bottled smoothie and juice space, and the impact of the coronavirus pandemic, it made business sense to discontinue brands no longer profitable to the company. Coca-Cola CEO James Quincey said smaller brands that account for over half of the company's portfolio, only generate around 2% of its revenue. Coca-Cola plans to discontinue more brands as they streamline their business to ensure future sustainability.

Reflective Questions

- Do you think it was a good business decision for Coca-Cola company to debrand Odwalla?
- Would you expect another brand to buy Odwalla?

10.3 Brand Management Implications

It is essential to recognise that there are brand management implications when brands are acquired. The brand owners and the brand manager have a role to play in the success of brand mergers (see the section on key stakeholders in ▶ Chap. 1). The brand manager working with the acquiring brand has the responsibility to make sure they make an informed business decision, to understand how the acquired brand will fit into the existing framework and the practical changes that need to be made.

10.3.1 Questioning the Decision

As a brand manager, you may be on different sides of the table at any time. Yesterday, you may have been acquiring a brand, today you are merging with another brand and tomorrow you may be acquired. You may be the brand owner, responsible for the direction of the company or perhaps you are a brand consultant working on a merger and acquisition. In whichever position you find yourself, it is always important to question the decision. To evaluate, from a branding perspective, if it is worth it. This questioning may depend on your role and involvement. A manager at SABMiller may not have as much decision-making power as the Chief Marketing Officer when discussing the AB InBev acquisition.

It is important to evaluate the options, to understand if there is a coherence between the brands – to examine if the brands have shared values before they are merged. You must maintain your position which requires you to ask and check if due diligence has been carried out. Questions should also be asked about the trademark registration and the transfer of brand ownership, perhaps if the rebranding can be done in-house or you need a consulting agency. What are the project plans, milestones and who are the identified individuals to lead the overall process?

10.3.2 Brand Leadership

The leadership of a brand after a merger or an acquisition is an essential brand management consideration. Who will lead the new brand? Who will leave? Following the idea of CEOs as brand custodians, Erdoğmuş and Esen (2018), argue that it becomes essential to understand who will lead the new venture. When PSA, the French multinational manufacturer of automobiles merged with Fiat Chrysler Automobiles, Carlos Tavares, chief executive of PSA became the chief executive of the new company, while the Fiat chair, John Elkann became its chair. Often it might be the CEO of the acquiring brand taking over the leadership, but in the case of a merger, it might take a different direction.

10.3.3 Brand Organisation and Architecture

Having a new brand in the business presents a challenge for brand managers, especially with regards to the organisation of the business' brand portfolio. It becomes essential to understand how the acquired brands fit into the brand portfolio to avoid any negative spill over (Lei et al. 2008). In the case of mergers, it is necessary to look at how those brands relate to each other. While there might be duplications as earlier discussed, the brand manager needs to decide which brand takes priority and which brands need to be withdrawn. This also presents a key implication for brand marketing and budgeting.

10.3.4 Brand Communication

Communicating with stakeholders is essential during and after brand mergers or acquisitions, creating a coherent perception of the brand in the minds of its various stakeholders (Einwiller and Will 2002). There will be concerns shared by the staff, customers, competitors and even the regulators. The brand manager needs to ensure that all the stakeholders are carried along. It is not surprising to see companies writing blog posts to explain and share the merger news with their customers and staff. These communications also involve brand integration and advertisement to ensure that people are aware of the new brand. It is necessary to create new brand guidelines and ensure that all stakeholders adhere to them (Mogaji 2019).

10.3.5 Brand Name and Identity

Depending on the arrangements, there is likely to be a need for a new identity. The brand identity may involve choosing a new name, creating a new logo, designing a new website, and changing the staff's uniform. The acquiring brand may decide to change the identity of the acquired brand(s) to reflect the integration into the new brand architecture (Gaustad et al. 2019). For a merger, there may be a reasonable need to retain one of the reliable brands or create a new brand and identity altogether. With regards to local/international brands, sometimes it might be better off to retain the local name rather than integrating it with the parent brand. The local brand might be a legacy that is best kept that way. Consumers may be emotionally connected to these brands. The following are some examples of brand naming options.

10.3.5.1 Staying the Same

This is when there are no changes to the name and identity of all the brands involved in the merger or acquisition. The acquiring brand decides to retain the name and visual identity of the brand even though it now exists within the acquired brand's portfolio. This can sometimes be done to keep the emotional attachment and connection with the old brand name. This type of naming arrangement leads to a brand relationship spectrum described as House of Brands (Aaker and Joachimsthaler 2000). For example, there are many brands, each with its own identity under the P&G brand.

10.3.5.2 The Fusion

This naming strategy appeals more to brands coming together and blending and strategically fusing their identity. Remember, brand identity includes the name and visual elements like the icon, colour, and typeface of the logo. Here the brands have different options to choose from with regards to their new brand identity. The figure below illustrates four possible options.

Straight Combo

This is when both brands combine their names. Often this is the standard way to merge, and it can be varied with the use of colour and typesetting. An example is the merger between Exxon and Mobil to form ExxonMobil. In some cases, the new brand might use the colour of one of the brands while using the name of another.

Refreshed Fusion

With a successful merger, both companies may decide to have a new identity for their merger. While the name may be retained or blended, the visual elements in terms of colours, typesetting and icons are changed. The new brand can create and integrate a new identity as they move on with the brand. This is done to ensure no sense of entitlement from either of the brands or their former customers.

Hybrid Fusion

Unlike the combo which involves using both names, hybrid fusion allows the use of different elements from the brands. This could mean using the name of one brand and using the icon of another brand. Standard Trust Bank acquired United Bank of Africa in Nigeria, the new brand retained the name United Bank of Africa but used the red colour and icon of STB. Likewise, when Boeing Co., the world's largest commercial aircraft maker acquired its long-time rival, McDonnell Douglas Corp, in 1996, the new company used the Boeing name but adopted the icon of McDonnell Douglas.

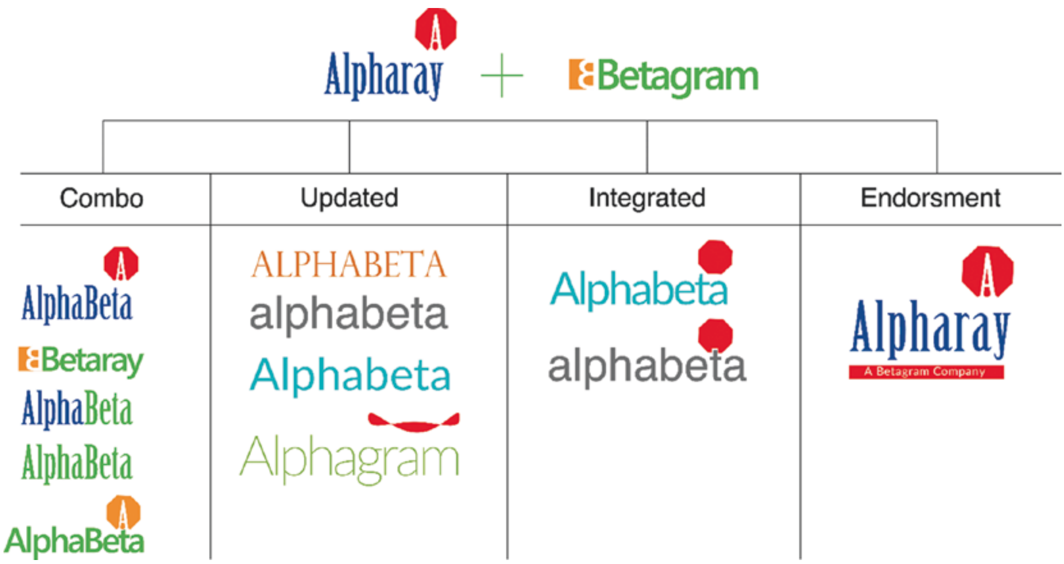


Fig. 10.2 The fusion brand naming and identity. (*Source*: Author)

Endorsed Fusion

The parent company, most likely the acquiring brand, endorses the acquired brand while still retaining the names. Often the acquiring brand will put "an XXXX company" under the logo to indicate it is part of the group. Aruba, a networking solutions company, acquired by HP, was rebranded to include "a Hewlett Packard Enterprises company" on the logo. This endorsement strategy allows the acquired brand to enjoy the goodwill of the acquiring brand, and the acquiring brand can indicate its ownership (Fig. 10.2).

10.3.5.3 Stronger Brand

This naming strategy suggests that the stronger brand is in the driving seat of the identity for the new brand. Perhaps in the case of a merger, the strong brand's name is retained while the other brand is removed from the new identity. The decision will have to be based on the existing brand heritage, brand awareness, customers' knowledge and possibly the customer base size.

Standard

This is the basic form of the stronger brand naming strategy. When two brands come together or a brand is acquired, the stronger brand's name is retained. A common example was when DHL acquired Airborne Express in 2003, and the Airborne logo was not in any way integrated into the new DHL logo as the stronger brand (DHL) retained its name and identity. Likewise, when Leuka and Leukaemia UK merged, bringing together two of the United Kingdom's leading leukaemia and blood cancer charities to create one charity, the brand identity of the stronger of the two, Leukaemia UK, was retained. Pharmaceutical giants Pfizer and Allergan merged to form the world's biggest drug company by sales, but the Pfizer name, which was the stronger brand was kept.

Reverse

While it may be considered standard for the acquiring brand to retain its identity, there is the possibility that the acquired brand may have its identities adopted instead. This may be because the acquired brand is well recognised and vibrant enough to appeal to the target audience. This could also be an opportunity to refresh the new brand while highlighting its values and heritage.

Updated

Mergers can present an opportunity to refresh and update the brand identity. While the strong brand's name might be retained, it could also be updated to signify a new direction for the brand. DuPont merged with Dow in 2017 and rebranded afterwards with an updated logo and identity.

10.3.5.4 New Brand

This is at the end of the brand naming strategy; it can be the most aggressive option for branding after mergers or acquisitions as it creates a new brand entirely. Deutsche Telekom and France Télécom merged their respective UK ventures T-Mobile UK and Orange UK to form a new brand called Everything Everywhere which was later rebranded to EE. Adopting a new brand could signify an intention to start again and appeal to a broader audience with new marketing communications.

10.3.6 Financial Implications

Mergers and acquisitions are not cheap, and there are substantial financial implications. These are brand orientation decisions with considerable impact on financial performance. (Gromark and Melin 2011). The internal human resources and professional consultants/advisors, time, techniques that are required to make the merger process a success, the financial cost of developing a new identity, rebranding the organisation and creating awareness about the new brand all require a lot of money and investment (Stuart and Muzellec 2004). It is not surprising to see many brands do not change their identity immediately after merging or acquisition. McKesson Corporation acquired Celesio AG in 2014, but the leading healthcare provider continued to operate in the United Kingdom under its existing brand name until 2018 when Celesio UK changed its name to McKesson UK.

10.4 Conclusion

Brands will always continue to merge and acquire many others to ensure their sustainability, strengthen their market hold and strive for survival (Bhattacharyya 2019). Your brand may be acquired, making your role as a brand manager precarious, or on the other hand your brand could acquire another brand. These are the dynamics of the industry, and this presents a huge implication for the managers.

It is essential to understand what to expect in times of merger and acquisition. It is also important to ask the right questions to ensure that the business arrangement is made in the best interests of every stakeholder (Alvarez-González and Otero-Neira 2019; Mogaji and Danbury 2017). There will be a need to ensure that the new brand is well integrated and communicated to everyone and an ongoing need to manage the brands and their integration. Kakao and Daum merged in South Korea, the new company was renamed Daum Kakao but later adopted Kakao. The successful merger or acquisition is not the end of the job for a brand manager, for some time more, it will be essential to understand and evaluate how the brand emerges after the merger.

Rebranding and changing the brand identity will be a significant task, especially in the case of a merger. We have discussed the different naming strategies, ultimately the management must decide on which approach to adopt. It is also essential to understand that branding is not limited to big corporations; the understanding of these dynamics is also relevant when smaller brands are merging (Mogaji et al. 2020). Scrutinising the deal with the knowledge of its long- and short-term branding implications is essential for the brand manager and the concerned brands.

Key Points

- Brands can seek to acquire another brand because they want to complement their existing strength, extend into another market or diversify their portfolio.
- Brands can be acquired because they are facing financial difficulties, non-performing or because of legal expectations.
- A brand can merge to complement their strengths and position themselves to compete for a bigger share of the market.

- Brands can be demerged. This is often a restructuring strategy to shed non-performing brands that could not be sold or merged.
- Brand managers have a role to play in effectively communicating the new brand and managing the new brand and its integration into the existing portfolio.

► Student Activities

1. Why do you think a brand should acquire another brand?
2. What are the differences between brand merger and demerger?
3. What is the implication of selecting a CEO to lead the new brand?
4. How would you describe the role of shareholders in brand merging and acquisition?
5. Should charity organisations merge?
6. Discuss the possibilities of merging to go global.
7. What are the benefits of brand merger over acquisition? Would you advise a small, struggling brand to merge with another smaller brand, or would you recommend acquisition?
8. What would you consider as factors that can make a merger or acquisition fail?
9. What is the role of brand manager in an organisation that is being acquired?
10. What are the key brand name selection considerations for the new brand after the merger? ◄

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