Re-engineering the Brand Portfolio Following Mergers and Acquisitions (M&A): A Conceptual Framework

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Introduction

Because the business environment is constantly changing, corporations have to regularly reformulate their marketing strategies to remain relevant, as illustrated by regular additions and deletions to product portfolios. Environmental change may open up opportunities to expand the product portfolio into new market segments, or it may cause some previously successful brands in the portfolio to lose their attractiveness (Hill et al. 2005).

The evolution of brand portfolios is most frequently accomplished through acquisitions and divestments of existing brands, rather than through organic growth, and mergers and acquisitions (M&A) are a regular phenomenon in numerous industries. It would be expected that, following M&A transactions, the newly combined businesses would undergo some restructuring, to integrate the newly acquired brands and to capitalise on potential synergies (Capron and Hulland 1999; Basu and Wadhwa 2013).

However, corporations may fail to pursue strategic renewal initiatives for repositioning or deleting suboptimal brands because of the *inertia* that prevails in many organizations (Hannan and Freeman 1984; Varadarajan et al. 2006). As a consequence, corporations often fail to maintain an ideal brand portfolio (Hill, et al. 2005). Drawing on organizational inertia and strategic renewal theories, this paper develops a conceptual framework which suggests that organizations use mergers and acquisitions as a means to overcome inertia and to re-engineer their existing brand portfolios through discontinuous strategic renewal.

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Background

Organizational Inertia

Organizational inertia has been described as the inability of organizations to adapt to the changing business environment (Hannan and Freeman 1984). Such inertia may set in many spheres of an organization such as structures, policies, managerial ideologies and competitive stance (Miller and Ming-Jer 1994). Inertia might exist in the management of the brand portfolio as well, and brand portfolio inertia may result in the existence of overlapping brands, marginally performing brands, or brands with little or no brand equity. Inertia may also cause companies to have gaps in the portfolio. In many corporations, a small number of brands in the portfolio contribute the lion's share of financial performance (Varadarajan et al. 2006). For instance, only 200 of Nestlé's 8,000 brands were profitable in 1996, and only 400 of Unilever's 1,600 brands were profitable in 1999 (Kumar 2003). Despite the suboptimal performance of all these brands, however, their owners still retained them in their brand portfolio for many years.

A number of factors contribute to the existence of inertia in the brand portfolio. The longer a brand is in a portfolio, the greater the possibility that it will remain in the portfolio, regardless of its poor financial performance (Varadarajan et al. 2006). For instance, Proctor and Gamble's first laundry detergent brand, Oxydol, was launched in 1927 and remained in the portfolio until 2000, even though its sales had declined to a mere USD 6.6 million, down from USD 80 million in the late 1980s. The brand did not receive any marketing support for a long time before being sold off to Redox Brands Inc. in 2000 (Advertising Age, 2000). Inertia in the brand portfolio may also set in because there is a relationship between the size of the brand portfolio and the status of the brand manager (Pandey et al. 2010). In other words, brand managers may retain brands with suboptimal performance in the brand portfolio to protect their status in the company.

Strategic Renewal

In contrast, proactive organizations embark upon deliberate *strategic renewal* initiatives to break out of organizational inertia. Agarwal and Helfat (2009) defined strategic renewal as "the process, content, and outcome of refreshment or replacement of attributes of an organization that have the potential to substantially affect its long-term prospects." Strategic renewal may be *incremental*, in keeping with the changing business environment, or *discontinuous* which has more profound performance consequences (Agarwal and Helfat 2009; Basu and Wadhwa 2013).

Strategic renewal can be carried out at all levels of an organization i.e. corporate, divisional etc. (Agarwal and Helfat 2009). At the brand portfolio level, it is assumed

that organizations will carry out *incremental* strategic renewal on a continuous basis to respond to environment change (Basu and Wadhwa 2013). D*iscontinuous* strategic renewal of the brand portfolio is expected to be a rare event in an organization as it requires a major reconfiguration of the portfolio. This kind of major reconfiguration of existing business is likely to be triggered by a significant event such as mergers and/or acquisitions (Capron et al. 1998). In other words, corporations will use mergers and acquisitions as a means for reconfiguration of their brand portfolio.

Strategic Renewal Following Mergers and Acquisitions

In practice, corporations often use multiple methods to achieve change, and an "interorganizational method," such as mergers and acquisitions, is possibly the most drastic method (Capron et al. 1999). Mergers and acquisitions are used by organizations as a route to faster growth compared to organic, internal development (Haleblian et al. 2009). The two most significant motives for mergers and acquisitions are synergy and diversification i.e. expanding geographic presence, and brand portfolio expansion (Capron and Hulland 1999).

Mergers and acquisitions often result in overlapping resources between the acquiring and target firm and thus a reconfiguration becomes imperative following the merger (Capron et al. 1998; Capron and Hulland 1999). Reconfiguration of resources calls for the sale of assets, addition of assets, and re-organization of existing resources (Capron et al. 1998). Acquisition of new brands will likely require some reconfiguring of the existing brand portfolio to realise synergies and to remove duplication so as to integrate the combined portfolio.

Re-engineering the Brand Portfolio Following Mergers and Acquisitions

Reengineering the brand portfolio may be defined as the "*addition, retention, deletion, and/or repositioning of brands in the portfolio so as to increase the coherence among the brands and thereby to maximise synergies in the combined brand portfolio*." Following mergers, the acquiring firm integrates some or all of the newly acquired brands into its existing brand portfolio but also re-engineers its existing brand portfolio by retaining brands with high brand equity, by selling off suboptimal brands, and/or by repositioning some of the brands. This yileds the first proposition:

P1: *The acquiring firm will use a merger/acquisition as a means to reengineer its brand portfolio following mergers and acquisitions*

Domestic Versus Cross-Border

It is further assumed that the extent of brand portfolio reengineering will be greater in the case of domestic mergers as compared to cross-border mergers, because of a greater overlap of brands between the target and acquirer's portfolio. It may therefore be proposed that:

P2: *The extent of brand portfolio reengineering will be greater in the case of domestic mergers as compared to cross-border mergers.*

Relative Size of Firms

The relative size of the target is considered to be an important variable in an M&A context (Haleblian et al. 2009). It is assumed that the acquisition of a relatively large target will have a considerable degree of impact on the acquiring firm because it will come with a large brand portfolio that needs to be assimilated within the acquiring firm's existing brand portfolio. Furthermore, the larger the portfolio of the combined firms, the greater the possibility of overlap between the two portfolios (DiMaggio and Powell 1983). It is thus proposed that:

P3: *The greater the size of the brand portfolio of the target firm, relative to the acquirer, the greater the probability that the acquiring firm will reengineer its brand portfolio following the merger.*

Similarity Between Firms

Earlier studies have shown that the similarity between the merging firms is an important variable and has a positive effect on post-merger performance (Altunbas and Marqués 2008). In a strategic brand management context, the greater the similarity between the brands, the greater the possibility of an overlap in market segments and positioning and the more brand redundancy. Therefore, it is proposed that:

P4: *The greater the pre-merger similarity between the merging brands, the greater the probability that the acquiring firm will re-engineer its existing brand portfolio following the merger.*

Price Paid

The acquisition premium, i.e. the premium over market value paid for the acquisition, is an important variable in an M&A context and has been investigated extensively (Haleblian et al. 2009). Acquisition premiums in the range of 30–50 % over

market value have been commonplace for many years. The M&A literature suggests that achieving revenue growth is the most compelling reason for paying such high acquisition premiums. It seems reasonable to assume that the new brands acquired at a high price will be retained and assimilated into the existing brand portfolio of the acquiring firm. It is therefore proposed that:

P5: *The higher the acquisition premium paid, the greater will be the probability that the acquiring firm will re-engineer its brand portfolio following a merger motivated by brand acquisition.*

Method of Payment

An acquirer usually pays for acquisitions in cash, stock or both. Research has shown, however, that firms usually pay in stock when their stock is overvalued and the target's stock is undervalued, and the acquiring firms use their overvalued stock to buy undervalued assets of the target firm (Haleblian et al. 2009). It may be argued that firms which pay in cash are more intersted in buying valuable assets i.e. brands with potential synergistic benefits. It is therefore proposed that:

P6: *When a firm acquires through cash, it will demonstrate greater propensity to re-engineer to keep the acquired brnads and assimilate them into the existing brand portfolio..*

Number of Acquisitions in the Past It is assumed that serial acquirers will not embark on strategic renewal initiatives after each and every acquisition. In other words, first time acquirers or organizations that have made fewer acquisitions in the past, have a greater probability of initiating brand portfolio reengineering programs following mergers. It is therefore proposed that:

P7: *As the number of acquisitions previously undertaken increases, an organization will demonstrate less propensity to reengineer its brand portfolio.*

Conclusion and Directions for Research

This paper developed a conceptual framework to show how corporations use mergers and acquisitions as a means to overcome brand portfolio inertia by reengineering their brand portfolio. The propositions suggested here are yet to be investigated and a preliminary investigation will be carried out via a multiple case study methodology. Four multinational companies in the FMCG sector with relatively large brand portfolios will be used as the case samples. These companies tend to be serial acquirers and also frequently sell non-core brand assets so should provide a fertile ground for examining the dynamics of brand portfolio reengineering.

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