The Impact of Retailers' Bankruptcy Filing on Consumer Perceptions and Behaviors

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Background, Literature Review, and Purpose

Financial performance is a subjective measure of how well a firm can use assets from its primary business model and generate revenues (Lin et al., 2020). Excellent financial performance indicates a stable, growing company. For the past several years, a long list of fashion retailers, including Ann Taylor, Payless, J.Crew, and JCPenney, had made headlines when they filed for Chapter 11 Bankruptcy for their financial troubles (CB Insights, 2020; Just- Style, 2020). Chapter 11 bankruptcy – one of the most commonly utilized forms of bankruptcy – allows these retailers to seek protection from their creditors and remain in operation while executing a reorganization plan (Thomas, 2020). Although these retailers can stay open and serve customers after filing for bankruptcy, the bankruptcy filing could reduce investors' confidence and negatively impact consumers' brand perceptions and purchase intentions (Mainardes, Mota, & Moreira, 2000).

A company's financial performance (financial reputation) is an important determinant of its overall reputation (Eberl & Schwaiger, 2005; Loock & Phillips, 2020). Empirical findings indicate that strong corporate reputation can reduce transaction costs and positively influence customer outcome variables, such as consumer trust and loyalty (Walsh & Beatty, 2007). Prior research has indicated that factors such as brand trust, reputation, perceived quality, and risk of purchase can be influenced by consumers' perception of the financial situation of a company from which they have already purchased or will purchase products or services in the future (Mainardes et al., 2000). On the other hand, information about a company's financial difficulties (e.g., bankruptcy filing) can represent negative connotations in the consumers' imagination.

When a retailer files for bankruptcy, the negative financial performance information can harm the reputation of the retailer and negatively affect consumers' evaluations of the products and services offered by the retailer. Filing bankruptcy could also mean that it is difficult for consumers to reclaim money or services owed to them by the retailer in bankruptcy, leading to a higher level of perceived risk. To our knowledge, few studies have examined the potential detrimental effect of corporate bankruptcy on consumers.

Thus, there were two primary objectives of this study:1) Examine the impact of retailers' bankruptcy filing on consumers' perceived quality, perceived risk, brand trust, and purchase intentions. 2) Examine the moderating role of brand reputation and brand price level on the impact of retailers' bankruptcy filing. The conceptual model is shown in *Figure 1*.

Research Design and Methodology

The experiment we conducted used a 2 x 2 x 2 fractional factorial design. Eight scenarios were developed to manipulate three independent variables: the financial situation of an apparel company, brand reputation, and price level of the firm's brand (see *Table 1*). Specifically, the information of the company's financial position (financially stable *or* filed for Chapter 11 bankruptcy), brand reputation (good *or* poor), and brand price level (high *or* low) was embedded in each version of the company profiles. An example of the simulation scenarios is provided in *Figure 2*. Participants were recruited from students enrolled in two large public universities in the US. 180 participants completed an online survey through the survey platform Qualtrics. Each participant was randomly assigned to one of the eight versions of ads. Participants were first asked to review the assigned advertisement carefully. After ad exposure, participants were told to complete an attached questionnaire that collected information on the dependent measures, manipulation check, as well as standard demographics. Of the 180 collected questionnaires, 165 responses were considered valid and were used in the study. The majority (91%) of the participants were aged 18-24 years, and 85% of the sample were females.

Results and Implications

We conducted a multivariate analysis of variance (MANOVA) on four dependent variables. From the results shown in *Table 2*, we could find that *financial situation has a statistically significant main effect on purchase intention,* confirming that bankruptcy filing can decrease consumers' intent to purchase from the company. This implies that consumers are more willing to buy products from a retailer that is in good financial shape than from a retailer that is in financial distress.

The results of MANOVA also suggest that *there is a significant positive relationship between brand reputation, brand trust, and purchase intention*, indicating that the positive reputation associated with a retailer can help to develop customer trust and increase consumers' purchase intentions from the retailer (Dodds, Monroe, & Grewal, 1991; Grewal, Krishnan, Baker, & Borin, 1998). Besides, *there is a significant two-way interaction between brand reputation and brand price level for purchase intention*. The subsequent analysis and simple effects tests indicate that college-aged consumers are more willing to purchase products from a retailer with a good reputation and selling fashion products at affordable prices.

Our research is the first empirical effort to investigate the negative implications of corporate bankruptcy for consumer behavior in the apparel retail context. Thus, this research can contribute to a better understanding of how apparel retailers' bankruptcy filing can influence consumer perceptions and purchase behaviors. In the same vein, a better understanding of the effect of an apparel company's financial situation on its customers can help inform managers and other stakeholders so that they can develop better marketing strategies to help ameliorate the detrimental effects of bankruptcy filing on their consumers.

FIGURE 1: The Conceptual Model

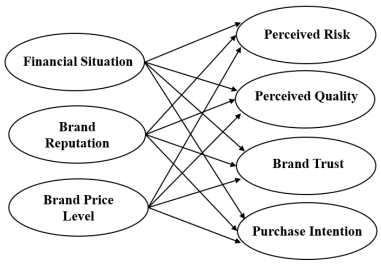

TABLE 1. Fractional Factorial Design

Attributes	Levels
1. Financial situation	**1. Good**: financially stable **2. Poor:** recently filed for Chapter 11 Bankruptcy
2. Brand reputation	**1. Good:** has a good customer satisfaction score *(4.5/5 stars)* **2. Poor:** has a poor customer satisfaction score *(1.8/5 stars)*
3. Brand price level	**1. High:** a premium fashion brand (jacket prices range from $300 to $2,000) **2. Low:** an affordable fashion brand *(jacket prices range from $40 to $150)*

FIGURE 2: An Example of Simulation Scenarios

Brand X Profile *5*

Brand X is an American fashion retailer of apparel, shoes, and accessories for men and women. As of 2020, the company operates 296 retail stores, 65 factory outlet stores, and its online business.

Financial Situation: **Brand X recently filed for Chapter 11 Bankruptcy** to deal with unmanageable debts. Chapter 11 bankruptcy allows Brand X to ***remain in operation while executing a reorganization plan***, which includes reducing costs and closing struggling stores.

Brand Reputation: **Brand X had a customer satisfaction rating of *4.5/5 stars***, indicating that most customers are generally satisfied with their purchases with Brand X.

Type of Brand: **Brand X is a premium fashion brand**. Brand X jacket prices range from ***$300 to $2,000.***

TABLE 2. MANOVA and Univariate Results

Variable	MANOVA Results		Perceived Risk		Perceived Quality		Brand Trust		Purchase Intention	
	Wilks' Lambda	*F*	Mean Square	*F*	Mean Square	*F*	Mean Square	*F*	Mean Square	*F*
Financial Situation (A)	0.93	***3.05****	0.66	0.03	0.10	0.01	6.77	0.46	99.14	***11.96*****
Brand Reputation (B)	0.59	***26.72*****	14.80	0.76	33.25	1.93	417	***28.53*****	745.01	***89.88*****
Brand Price Level (C)	0.99	0.43	17.94	0.92	20.87	1.21	8.56	0.59	5.26	0.63
A x B	0.98	0.98	0.94	0.05	10.23	0.59	15.17	1.04	0.60	0.07
A x C	0.96	1.36	29.00	1.49	0.01	0.00	8.30	0.57	0.03	0.00
B x C	0.90	***4.20*****	1.88	0.10	25.53	1.48	11.53	0.79	100.82	***12.16*****
A x B x C	0.99	0.44	5.40	0.28	3.39	0.20	18.65	1.28	1.09	0.13

***NOTE:* *p ≤ .05; **p< .01; ***p< .001**

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