Consumer Response to a Startup Acquisition: The Role of Consumer Lay Theory and Acquirer Reputation

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Research Background and Purpose: In the fashion industry, digitally native startups are growing in number and popularity. These brands sell and market directly to consumers through digital channels, such as online stores and social media. Select successful brands have sold their businesses to big companies for further growth. For example, in 2017, True&Co, a lingerie brand founded in 2012, sold its business to Phillips Van Heusen, a fashion conglomerate that owns Calvin Klein. For startup brands, the acquisition offers access to valuable resources needed for growth. However, consumers may perceive this decision as a departure from the brand's initial identity and question whether the brand will remain true to its founding values and thus maintain brand authenticity (Gulati, 2019).

Although consumers' limited access to information regarding the acquisition may lead them to rely on heuristics, such as consumer lay theories, heuristics have not been explored in the merger and acquisition (M&A) context (Raghunathan et al., 2006). In addition, while prior research has examined acquirer reputation as a critical predictor of consumer responses, such as purchase intentions (e.g., Fong et al., 2013), its impact on brand authenticity is less understood. Drawing from the heuristic-systematic model (Chaiken, 1980) and the extant literature on consumer lay theories, we propose two research models that examine 1) a consumer lay theory relevant to the M&A context (i.e., heuristic processing) and 2) its effect on brand authenticity, which is expected to affect purchase intentions, in addition to the moderating effect of acquirer reputation (i.e., systematic processing: Figure 1).

Theoretical Background

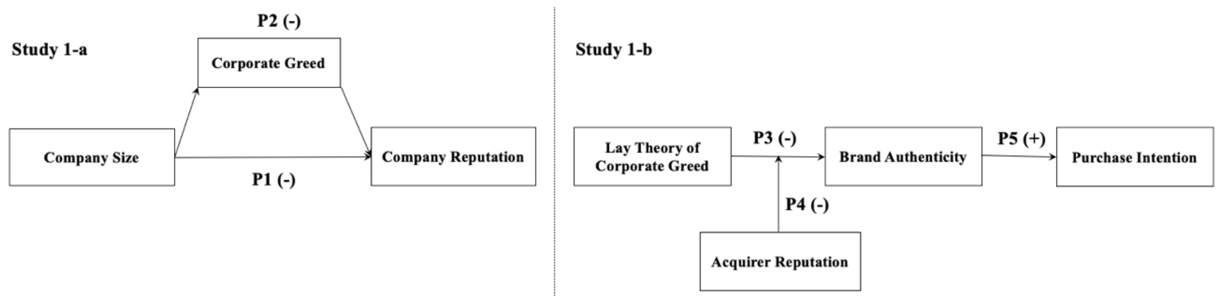
Heuristic-Systematic Model: The model proposes two modes of processing information: systematic and heuristic processing (Chaiken, 1980). Systematic processing entails a thorough analysis of available information, whereas heuristic processing relies on salient information associated with simple decision rules, known as heuristics (e.g., relying on the credentials of a speaker and making a quick judgement, based on an "experts know best" heuristic). In the M&A context, prior research has established acquirer reputation as a systematic informational cue that consumers use to evaluate an acquired company (e.g., Resciniti et al., 2019). The findings showed that a positive acquirer reputation led to more favorable responses, such as higher purchase intentions (Fong et al., 2013). This study proposes company size as a heuristic cue that can shape consumer responses based on past work that showed the consumer tendency to make size-based evaluations of corporate behaviors (Green & Peloza, 2014). For example, compared to small companies, large companies are perceived to be less concerned with others' needs (Yang & Aggarwal, 2019).

Consumer Lay Theory: As a type of heuristic, consumer lay theories refer to the generally accepted guidelines that are believed to be true in most circumstances but can bias decisions if indiscriminately applied, such as the price-quality heuristic (Gneezy et al., 2014). Consumers rely on lay theories to make sense of missing information. Consumer lay theories stem from a combination of salient personal observations and external sources, such as the media. For example, Haws et al. (2017) argued that a lay theory that healthy food is expensive likely comes from consumers' exposure to the value pricing of unhealthy food products, such as fast food (i.e., personal observations), as well as media coverage, including online articles on budget-friendly ideas for healthy eating. This study proposes a size-based lay theory in which consumers believe that big businesses are greedier than small businesses and more interested in making profits above all else (hereafter, lay theory of corporate greed).

Brand Authenticity: When a brand is placed in a new context, such as a change of ownership, the question of whether it will remain faithful to its core values becomes salient. This notion of remaining faithful to core values is at the heart of brand authenticity, a construct broadly conceptualized as a consumer "perception of the extent to which an entity corresponds to a referent" (Moulard et al., 2021, p. 99). In this study, the entity is the startup brand, and the referent is the brand's founding values. Brand authenticity is a significant determinant of several retail outcomes, including brand loyalty (Choi et al., 2015).

Conceptual Frameworks and Propositions: Drawing on the heuristic-systematic model and the extant literature on consumer lay theories, two conceptual frameworks with five propositions are proposed (Figure 1). Study 1a establishes a novel consumer lay theory relating to company size, which is the independent variable in Study 1b.

Figure 1. Proposed Conceptual Frameworks



P1 and P2: This study posits that consumers hold a lay theory related to company size, in which they believe that big companies tend to place profits above all else (i.e., poor company reputation; P1) because they tend to pursue their own gain at the expense of other stakeholders (i.e., greedier; P2). This belief is based on personal observations regarding the role big businesses play in the capitalist economy, in particular key historic events demonstrating the negative consequences of corporate greed on people (e.g., the 2008 financial crisis). It also stems from consumers' exposure to messages from external sources consistent with this view, such as investigative journalism exposing socially irresponsible corporate behaviors, as in the case of the collapse of the Rana Plaza factory building in Bangladesh (Lantieri & Chiagouris, 2009).

P3: Consumers who strongly subscribe to the lay theory of corporate greed may believe that a startup company acquired by a big company will not be able to maintain brand authenticity because the acquirer, being the greedy big business, is unlikely to allocate the resources needed for the startup brand to be able to remain true to its founding values, whether it be superior quality or consumer-centricity (Chernev, 2007).

P4: The heuristic-systematic model suggests that the systematic cue, such as acquirer reputation, can attenuate the influence of heuristic processing (i.e., consumer lay theory) (Chaiken, 1980). If the acquirer has a positive reputation whereby the company is known for making sustainable profits by serving the interests of not only its shareholders but also its suppliers, employees, and customers, then consumers may be more willing to give the business the benefit of the doubt. As a result, consumers might favorably adjust their expectations regarding the likelihood that the startup brand will maintain brand authenticity.

P5: Prior research has shown the positive effects of brand authenticity on purchase intentions (Lu et al., 2015). Consistent with prior findings, if consumers believe that the acquired brand is more likely to remain true to the founding values that define its products and services, they may be more willing to shop from the brand following the acquisition.

Contributions and Implications: Important predictors of consumer responses to an acquisition remain under-identified, and the proposed models offer new avenues for future research. For both startups seeking an acquisition partner and prospective acquirers, the results can reveal important considerations that can shape consumer responses to an acquisition from the branding perspective, allowing for a holistic assessment of whether the acquisition deal is a worthwhile pursuit.

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