So you want to buy a brand?

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So You Want to Buy a Brand?

A company's brand portfolio serves as its link to customers and markets, protects it from competitors, and provides it with a degree of channel power. Historically, brand portfolios were built, brand by painstaking brand, over decades. But the realities of today's fast-paced and highly competitive marketplace mean that companies cannot afford to rely solely on brands built from scratch. Consumer preferences change, yesterday's star brands are today's dogs, new segments emerge, and established competitors and nimble start-ups are quick to spot and respond to new opportunities. A brand portfolio that does not continually evolve to meet the changing strategic needs of the market risks becoming obsolete. At the same time, building brands has never been more costly, nor more fraught with risk. For example, a national brand launch in the grocery category can cost a company more than $200 million once media, listing, and collateral expenses are tallied. A global launch, such as that of the Gillette Mach3 in 1998, can cost over $1 billion. And success is far from guaranteed. Ninety-five percent of all new products do not survive more than one year on the grocery shelf.

In response to these challenges, firms are increasingly choosing to acquire brands from other companies. Acquisitions of brands allow firms to respond far more quickly to the needs of an emerging market segment or to a competitive move. Furthermore, buying an established brand is considerably less risky than undertaking the launch of an entirely new brand. But acquiring brands presents its own set of challenges. Not only must the purchased brand have the potential to fulfill the strategic objectives for which it is purchased, but it must also be integrated into the existing portfolio of brands and brand management structures of the acquiring company, and be properly deployed to capture market opportunities. Strategic match, portfolio fit, and effective deployment can mean the difference between success and failure of a brand acquisition.

Yet managers tend to underestimate the effort and risk associated with brand acquisition. Brand acquisitions may have a lower rate of failure than new products, but that does not mean they are risk- free. An understanding of the success factors that support brand acquisitions can help managers mitigate unfortunate decisions such as the Snapple acquisition (and subsequent resale) by Quaker Oats that resulted in a write-off of over $1.4 billion. In this paper, we develop a framework to guide managers in assessing potential acquisitions against key success factors. To develop the framework, we have assembled and examined a comprehensive set of brand acquisitions in the food and health and beauty sectors that took place over the past 25 years. We studied key variables that helped us understand how and why brands change hands, as well as the financial consequences of acquisitions that were ultimately deemed to be either successes or failures. We supplement the statistical results with in-depth case studies of brand acquisitions that help illustrate the key lessons.

What Types of Brands Trade Hands?

As a first step, our goal is to understand what kinds of brands change hands, and the success and failure rates for different types of brand acquisitions. We focus our attention on the food and health and beauty sectors because in these industries brands play an important marketing role, and also account for a significant proportion of the market capitalization of companies. We built a database of all of the brand acquisitions that took place in these industries from 1979 to 2003. We examined 195 "pure" brand acquisitions that took place during this period (for which complete data are available). Although all mergers and acquisitions involve products and brands trading hands, "pure" brand acquisitions are those where a clearly-identified brand or portfolio of brands trades hands. Therefore, when either a single brand trades hands or a firm with a dominant brand name trades hands (e.g., acquisition of Gillette by P&G completed in 2005), these acquisitions are part of the sample. We do not include corporate mergers where the target firm has multiple brands, because it is difficult to quantify success at the brand level in a multi-brand context and to disentangle effects caused by other factors such as organizational compatibility, culture match, and financial synergies in those broader types of acquisitions.

To help us develop insights into brands that are acquired, we classified the acquired brands along the two dimensions of the well-known Boston Consulting Group (BCG) matrix. The BCG matrix was developed as a tool to help managers decide on the strategic allocation of resources to brands within a portfolio, based on the growth prospects of the market and the strength of the brand within that market. In the context of our database of brand acquisitions, it helps us understand the kinds of brands that are acquired and assess the success rates of different types of acquisitions. The two dimensions of the matrix are the growth rate of the product market in which the brand's principal product competes, and the market share of the brand in that market. Markets with a positive growth rate (greater than 1%) are classified as growing markets, whereas markets which have minimal or negative growth (less than 1%) are classified as stagnant or declining markets. In terms of market share, brands with a greater than 10% share of the market are classified as high market share brands whereas those with less than 10% share are classified as having low market share.[4]

Using these two dimensions, we classified the 195 brands we studied into four groups: Those with a high market share of a growing market we labeled "Rising Stars"; those with low share of a growing market we called "Niche" players; brands with a high share of a stagnant or declining market are classified as "Waning"; and those with a low market share in a stagnant or declining market are labeled "Dormant." We illustrate these four types in Table 1. Based on this classification, approximately 22% of the brands in our database are "Rising Star" brands, 36% are "Niche"' brands, 20% are "Waning" brands, and 22% are "Dormant" brands.

The labels are descriptors of the market share and market growth position, but also hint at the reasons why such brands may change hands. Acquirers clearly see greater potential in these brands than the sellers. Acquirers of a "Niche" brand, for example, might see potential for growing the brand by pushing it through a better established and more extensive distribution system, or by utilizing more effective advertising. Acquirers of "Dormant" brands might see an opportunity to inject product innovation into the category or to extend the brand's franchise to new product categories.

To better understand the success factors underlying brand acquisition for each of these types of brands, we examined their success rates. The success rates of these various types of brand acquisitions are presented in Table 2. Success in a brand acquisition was defined along four dimensions: percentage change in market share (market share change one year following acquisition versus pre-acquisition expressed as a percentage of the original market share of the firm), revenue growth one year following the acquisition (relative to revenue growth prior to the acquisition), cost of goods sold to sales ratio

[4] We conducted sensitivity tests to see if varying the cutoff for market share from 10% to 9%, 7% or 5% significantly changes the insights from the BCG matrix. The results do not change substantively when the cutoffs are changed.

following the acquisition (relative to cost of goods sold to sales ratio prior to the acquisition) and the wealth accruing to the shareholder on the day the announcement of a brand acquisition is made. Further details of this methodology are provided in Appendix A.

Using the sample of brand acquisitions in our dataset as a starting point, we identified some of the successful and unsuccessful brand acquisitions within each of the four types. Company interviews, analysis of company reports, secondary data research and analysis of published materials were conducted to construct and fine-tune our understanding of why these acquisitions succeeded or failed. In the next section, we present the four types of brand acquisitions, their success rates, and illustrate them with the case studies.

What Makes a Brand Acquisition Successful?

Give a Star Attention and Autonomy

A Star brand has a unique set of characteristics that make it different from the other types of acquisitions in our study. First, the Star brand has a dominant presence in the marketplace, and there is usually considerable excitement surrounding its acquisition. Because of its star status, this type of brand is the "prom queen" of all acquisitions and never lacks for attention from senior management. Second, because Star brands represent a large part of a growing industry, they are often acquired only after an extensive bidding war with other potential suitors. As a consequence, the price to sales ratio of such an acquisition tends to be high.

These two characteristics of Star brands often present dangerous obstacles to the success of the acquisition. In particular, the excessive attention that gets paid to the Star brand can cause it to fail. Too much attention, accompanied by a desire to tinker with the key elements that have resulted in the brand's past success, can be the result of major efforts taken to integrate the Star brand into the acquirers' portfolio and to justify the high costs of the acquisition. However, tinkering with a highly successful formula can have negative consequences. Managers of the Star brand – who have been responsible for its past successes – often feel disgruntled by the acquirers' desire to "fine-tune" the brand. As a result, they may decide to leave the company altogether. Furthermore, the acquirers may impose their own value system onto the newly acquired brand, resulting in lower employee morale and stifled innovation. In the short-term, customers may not embrace changes to their favorite brand and, in the uncertain period following an acquisition, may shift their loyalty to a competing brand.

The key to successfully managing the acquisition of a Star brand is to walk the fine line between ensuring resource support and managerial attention while also retaining the core brand proposition, and even independence of the brand. Sometimes, this balance can best be achieved by using a “leave it alone” strategy in the short run, which involves initially retaining the original management structure, and then only gradually migrating the Star brand into the larger structure of the acquirer’s organization in the longer run.

About 22% of the brand acquisitions in our sample are Star brands. These brands are typically traded because their growth rates have outpaced their owners’ ability to provide resources to sustain the brand. In such cases, an acquirer with greater resources and a strategic interest in that particular product category is likely to acquire the brand. From an investors’ perspective, looking at shareholder wealth gains based on stock prices on the day of the announcement of the brand acquisition (see Appendix A for details), 56% of acquisitions of Star brands result in positive wealth gains, suggesting that the stock market does not consistently support the acquisition of Stars. But there is considerable momentum in these brands, and some perform even better after the acquisition. Following the acquisitions of Star brands, sixty percent of acquirers achieve a higher market share one year later, 55% result in greater sales growth for the acquirer in the year following the acquisition than in the year prior to the acquisition, and 57% result in greater cost efficiencies in the year following the acquisition relative to the year prior to the acquisition. Yet, these numbers also suggest that some Star brand acquisitions have a less positive impact on the acquirers.

To illustrate the pitfalls of acquiring a Star brand, we describe the acquisition of Rubbermaid by Newell for six billion dollars (or three times Rubbermaid’s annual sales revenue). At the time of the acquisition, the Rubbermaid brand name had become synonymous with innovative new branded plastic and rubber consumer products and toys. The Rubbermaid brand had a greater than 90% market share, and enjoyed positive sales growth prior to the acquisition. For these reasons, Rubbermaid was an attractive target for acquisition.

Newell, in an effort to generate cost savings in the short-term (perhaps in an effort to justify the high price tag associated with acquiring this brand), embarked on a series of cost-cutting and restructuring measures. Rubbermaid's CEO Schmitt and other key managers were either replaced or shunted aside. The headquarters was moved to Atlanta. However, the efforts to "Newellize" and turn things around for Rubbermaid did not help matters much. The restructuring plan did not produce the cost savings that were desired and sales had not improved much by 2001. It is possible that the pruning of key personnel and operations resulted in loss of critical elements that were essential to the success of Rubbermaid. Further, Newell's efforts to prune Rubbermaid's SKUs in an effort to streamline its product portfolio may have resulted in reduced product variety, in turn weakening customer loyalty to the brand.

We believe that the lack of success of the Rubbermaid acquisition in the short-term can be attributed to two key factors. First, the price tag for the acquisition was far too high. Such a high price tag can place excessive pressure on managers to justify the costs of the acquisition, and lead to significant cost-cutting in the period immediately following an acquisition as they try to meet stock markets' profit expectations. Such cost-cutting, as this case illustrates, can cut too deeply into the core of the acquired brand and result in loss of critical brand elements. Second, Newell was unduly optimistic about its ability to generate synergies from the Rubbermaid acquisition. Such managerial optimism regarding potential acquisition synergies is often overstated, and driven by the glamour surrounding the possibility of adding a well-known brand name to a company's portfolio rather than by the identification of real sources of synergy.

Take the case of Microsoft's acquisition of Hotmail in 1998, valued at approximately $400 million. Microsoft understood that a key to Hotmail's success was its free email for subscribers, as advertised by a simple message at the bottom of each email. Even though Hotmail was integrated into MSN, Microsoft adopted a "leave it alone" strategy in the short-term, and Hotmail operated as a wholly owned subsidiary. All of Hotmail's policies and terms of service were kept in place, which helped Hotmail maintain its heritage with consumers as a popular free online service. As a result of these efforts, Hotmail's usage and subscriber retention rates even after acquisition remained relatively steady, contributing to the overall success of this acquisition.[5]

Recommendations

There are two key recommendations for acquirers of Star brands. First, the acquirer must be careful not to overpay for the brand. A brand audit, conducted prior to the acquisition, will provide an assessment of brand value and help reveal sources of possible synergy with the acquirers' existing brands. Using these projected synergies as a guide, the acquirer must mentally set a price limit for the acquisition. Second, following the acquisition, the acquirer must avoid the urge to make drastic changes to the brand in order to generate quick cost efficiencies. Because the brand's success may be closely linked to the people and processes embedded within the culture of the target organization, a Star brand may be more sensitive than other types of acquisitions to changes in culture following an acquisition.

Avoid "Massifying" the Niche Brand

The challenges that surround the acquisition of a niche player are different from those of the Star brand. Unlike the Star, a Niche brand is a small market share brand, but is highly profitable. The Niche brand appeals to a small segment of homogeneous customers who are often fanatically loyal to the brand because of its distinctive appeal. Many Niche brands also are "anti-mainstream" brands that have a clearly-defined image in the eyes of their target customers.

For these reasons, Niche brands must be managed with finesse and with a clear understanding of their appeal. The biggest risk surrounding these acquisitions is that an acquirer – in its zeal to grow the Niche brand – will immediately try to broaden the brand's appeal to the mass market in the hope of generating quick profits, making the acquisition look like a phenomenal success. While this strategy is understandable, and may even be ultimately successful in some cases in the long run, it is not without risks. Subjecting a Niche brand to mass-marketing can backfire. Niche brands, due to their uniqueness, appeal to small target segments that are often attracted to the brand because of its distinctive and unique brand image. The pricing and distribution channels used for such a brand are often geared to meet the specific needs of this small, selective target audience. For this reason, mass-marketing techniques that involve changing the pricing

[5] S.V. Haar, Steven,"Hotmail Delivers Red Hot Business," Inter@ctive Week, 5 no. 37, (1998): 18.

and/or distribution may confuse the consumer, create a perception that the brand has "sold out," and ultimately alienate the target consumers.

In our database, the Niche brand category accounts for the largest proportion of brand acquisitions, about 36%. Typically, a brand in this category is a market leader in a small but fast-growing niche segment, with high gross profits. Forty percent of the acquisitions of Niche brands result in increases in market share of the acquirer one year later. Fifty one percent of acquisitions of Niche brands result in positive shareholder wealth gains. About a third of Niche brand acquisitions support revenue growth, and about 55% generate cost efficiencies. The fact that a significant proportion of Niche brand acquisitions do not result in significant increases in revenue is not surprising, considering that these brands typically are low volume and high margin brands.

To illustrate the problem of mass-marketing a Niche brand, consider the acquisition of Nantucket Nectars by Ocean Spray in 1998. Nantucket Nectars is a strong player in the niche market of New Age beverages. In 1998, its gross margin was approximately 35% and its growth prospects were strong. Despite such promising growth potential, however, post-acquisition sales remained below $100 million, and the company barely made a profit. Ultimately, Ocean Spray sold the brand to Cadbury's in 2002. What went wrong? On the face of it, Ocean Spray tried to avoid the problems that plagued Quaker Oats' acquisition of Snapple, partly by allowing Nantucket co-founders Tom Scott and Tom First to continue to operate the firm independently. However, they lacked a concerted effort to focus on the brand's strengths and to grow the brand.

The keys to Nantucket Nectar's success are its focused growth strategy, based in part on "pushing" the product onto store shelves and developing innovative products and flavors.[6] For its marketing strategy prior to the acquisition, Nantucket Nectar used a grassroots marketing approach involving "mobile marketing squads," outdoor and event marketing, and was committed to ensuring high satisfaction among distributors. Ocean Spray, distracted by problems with its own flagship product, did not fully understand the brand proposition surrounding the Nantucket Nectar brand and was unable to properly support it.

Another example of a failed Niche brand acquisition is the purchase of the

[6] J.M. Biotti, "Nantucket Nectars," Harvard Business School Case, Harvard Business School Publishing: Boston, MA.

Snapple beverage brand by Quaker Oats. According to the Dow Jones News Service, “Snapple was a purchase Quaker's management thought would bolster its Gatorade beverage line…. Now, nine months later, some are wondering whether Quaker swallowed too much.” Although Snapple was growing at 35% and had almost a 20% profit margin before the purchase, its growth slowed and profitability declined following the acquisition.

A key reason for this failure was that Quaker misjudged the key drivers of Snapple’s brand heritage and equity. Quaker attempted to impose mainstream marketing techniques on a highly distinctive and unique Niche brand. For instance, Quaker introduced Snapple in 32- and 64-ounce bottles that were not suitable for a brand people consumed in 16-ounce bottles. Compounding the problem was Quaker’s ad campaign, which failed to draw on Snapple’s unique positioning and quirky spirit. Further, because the brand had to be sold to the mass market, there was a need to change the distribution system to better serve the needs of the broader target audience. To do this, Quaker attempted to drop the old Snapple distributors in favor of its own Gatorade distribution system. This move backfired, and ultimately had to be reversed, but not before causing considerable loss of brand equity among Snapple’s distributors.[3] As noted previously, these missteps with the brand resulted in a sales decline that ultimately led to Quaker’s selling of the Snapple brand to Triarc.

Recommendation

Often Niche brands have distinctive and unique associations. In order to preserve brand equity, drastic changes to a Niche brand must be avoided, at least in the short run. Forcing mass-marketing techniques on the Niche brand may result in loss of brand equity. Mass-ifying the Niche brand can dilute brand image, alienate consumers, and erode brand loyalty.

Leverage the Hidden Brand Equity of the Dormant Brand

Whereas a Star brand can suffer from excessive attention, a Dormant brand – because of its long dormancy preceding the acquisition – can suffer from a lack of adequate attention. Typically, this low-market share brand in a declining category is acquired for a throwaway price that often undervalues its potential. Following its acquisition, there is a risk that insufficient managerial and financial resources will be devoted to this brand. Relatedly, because the category as a whole is declining, the very survival of a Dormant brand can be threatened.

How can an acquirer successfully manage a Dormant brand? The first step is to create a team that is responsible for identifying both the elements of the Dormant brand that are essential to its on-going brand equity as well as the target markets within which it is most highly valued. To optimally leverage the brand's strengths in the short term, the acquirer should target those customers with an especially strong connection to the brand. Once these customers are targeted, the firm needs to identify and build on a strong and differentiable positioning strategy for this target audience.

To address concerns about declining sales of the entire category within which the Dormant brand has traditionally been positioned, it may make sense for the acquirer to introduce brand extensions – based on the Dormant brand – into product categories that have higher growth rates. By examining its product portfolio, the acquirer may be able to identify related product categories for successfully introducing extensions of the Dormant brand, in order to minimize its reliance on the declining category.

Approximately 22% of the acquisitions in our sample are Dormant brands. Approximately 34% of acquisitions of Dormant brands result in increasing the market share of the acquirer. Further, it appears that only 11% of acquisitions of Dormant brands result in greater sales growth. On the other hand, 65% of acquisitions of Dormant brands resulted in higher cost efficiencies. Looking at overall shareholders' wealth gains, nearly 68% of acquisitions of Dormant brands created positive wealth gains. Therefore, it appears that investors see the acquisition of Dormant brands as having significant potential, despite their low growth prospects.

Take the case of the acquisition of St. Joseph aspirin by Johnson & Johnson (J&J), purchased from Schering-Plough Corp. in 2000 for a sum of approximately $2.5 million.[7] At the time of the acquisition, St. Joseph was a dormant brand with a small revenue stream. In the 1940s, the pleasant-tasting orange tablet of St. Joseph Aspirin was a popular household item, providing relief for childhood aches and pains. However, the product suffered a setback in the 1960s when it was discovered that products containing

[7] Wall Street Journal, "J.J. Unit Purchases St. Joseph's Aspirin Of Schering-Plough," 36 no. 120 (2000): C20.

aspirin resulted in a fatal risk of Reyes syndrome among children. Following this, the market for children's aspirin all but disappeared.

Despite these potential risks to children, medical evidence built in the late-nineties suggested that daily aspirin consumption can reduce the risk of heart attack among adults. Based on these promising results, the future growth for the aspirin product category for adults appeared to be strong. The St. Joseph aspirin brand had considerable brand awareness and nostalgic appeal with aging baby-boomers. J&J thought they could effectively market the St. Joseph aspirin brand to this target market as an everyday pill that could minimize the risk of heart attack. After acquiring the dormant St. Joseph brand, J&J re-engineered the key brand elements (e.g., packaging, advertising materials) to evoke nostalgia for this well-known brand among aging baby-boomers, and marketed it to them as the same orange pill that they had grown up with.

J&J's strategy to revive the St. Joseph brand was successful. Both by introducing a re-positioned brand targeted to adults and by leveraging the brands' nostalgic elements, J&J managed a successful turnaround of a Dormant brand. In addition, J&J provided both managerial and financial resources to support the repositioning of the St. Joseph brand. Backed by the distribution might of J&J, the brand managed to increase its distribution from 12% to 95% within a year after the acquisition was complete. As a result of these efforts, the brand's first year of sales under J&J's ownership grew from $2.5 million to $20 million. Currently, the brand has approximately $50 million in annual sales and is among J&J's fastest growing brands.

Recommendation

The key to transforming a Dormant brand into a successful brand following an acquisition is to find a way to reduce the brand's dependence on declining product categories. This can be achieved by introducing brand or line extensions into growing categories. In addition, in order to leverage the Dormant brand's equity, the acquirer should identify those target segments with the greatest connection to this brand. By leveraging the nostalgic connection that consumers have with the Dormant brand, the acquirer can revive this type of brand. Finally, the acquirer must be especially careful to avoid the pitfall of brand neglect and ensure that enough financial and managerial resources are devoted to supporting the brand.

Revive a Waning Brand

Unlike other types of brand acquisitions, the main concern for a Waning brand is the decline of the product category as a whole. The Waning brand may be part of a product category that is redundant due to technological obsolescence or in jeopardy due to changing consumer tastes. Why is a Waning brand acquired? When the category is in decline, acquirers buy brands in the hope of realizing cost synergies or product-line extensions. In our research, 22% of the acquisitions involve Waning brands.

Approximately 44% of the acquisitions of Waning brands result in increasing the market share of the acquirer, but only 30% result in greater revenue growth. However, 60% of acquisitions of Waning brands result in higher cost efficiencies. And investors appear to appreciate such acquisitions. Overall shareholder wealth gains occur for nearly 60% of acquisitions of Waning brands. But such acquisitions tend to be made in the hope that consolidation of the cost base and support resources will counter the effects of a declining category. Sometimes this is hoping against hope.

When Kellogg bought Lender's Bagel Business from Kraft in 1996, the deal did not cause much excitement among investors, based on stock market returns on the date of the announcement. The category was declining and convenience-minded consumers were switching away from products like frozen bagels that had to be consumed primarily at home. This declining trend in the category caused considerable investor skepticism concerning Kellogg's prospects with the brand. Kellogg finally sold its Lender's Bagels business to Aurora Foods, Inc., for $275 million or 41 percent below what it paid for the frozen bagel firm less than four years earlier.

Recommendation

Prior to acquiring a Waning brand, the acquirer must inventory the cost efficiencies to be gained through the acquisition. Where will these efficiencies be realized? Potential sources include sourcing of materials, production, packaging, sales and distribution, logistics, and marketing and advertising. Simultaneously, the acquirer might give some thought to strategies for reversing the declining trend in the entire category. Category-level advertising can stimulate sales of the entire category. It also takes a competitor brand out of the running, and turns it into an ally such as brand flanker. This can help mitigate market declines. Of course, this is not always viable.

When it is not, the acquirer can consider brand or line extensions into newer and more promising categories. However, it is critical for potential purchasers of Waning brands to have a clear understanding of the brand's intended role in the portfolio as well as its limitations before entering into purchase negotiations.

Conclusion

Brand acquisitions represent a way for firms to reduce the costs, risks and time required to build a brand portfolio that responds to customer needs and competitive pressures. Acquisitions have definite advantages over building entire brand portfolios from scratch. They allow firms to react quickly to the marketplace, and to add brands to their portfolio without the significant risks associated with launching new brands. However, acquisitions are not risk-free, and all too frequently fail. As our analysis shows, a significant proportion of the brands acquired do not yield wealth gains for investors, nor revenue and market share gains for the acquiring companies. Acquisitions must thus be undertaken wisely, with a keen eye on the type of brand to be acquired and how it should be managed. An evaluation of the target brand should include an analysis of the position of the brand in the BCG matrix, and the consequent likelihood of achieving the intended strategic objectives, whether they are market share increases, revenue growth, cost rationalization, or a boost to shareholder wealth. Our results show that the strategic match of the acquired brand to the objectives of the acquirer, the integration of the acquired brand into the portfolio, and its deployment in the marketplace in a manner that is consistent with its positioning and equity, are all key to ensuring the success of the brand acquisition.

TEN PRINCIPLES OF A GREAT BRAND ACQUISITION

1. Conduct a thorough brand audit of the target brand
2. Identify what type of brand is being acquired (Rising Star, Waning brand etc.)
3. Ensure that the brand's sources of equity are well-understood
4. Plan for Integration—ensure that the key positive sources of brand equity (e.g., brand name, employees, values) are preserved and sources of negative brand equity are eliminated.
5. Once the brand is acquired, make small and subtle changes in the beginning for Star and Niche brands

6. Make bold and risky decisions for Waning brands and Dormant brands

7. Conduct frequent reviews of costs, customers and competitors

8. Investigate if any spillover effects and cannibalization are taking place

9. Identify and implement cross-selling opportunities with other brands in the portfolio; identify brand extension opportunities

10. Monitor progress

TABLE 1

A Typology of Brand Acquisitions

	LOW MARKET SHARE	**HIGH MARKET SHARE**
GROWING MARKET	**NICHE PLAYER (36%)**	**RISING STAR (22%)**
STAGNANT OR DECLINING MARKET	**DORMANT BRAND (22%)**	**THE WANING BRAND (20%)**

TABLE 2
Success and Failure Rates of Various Types of Brand Acquisitions

Type of Brand Acquisition	Revenue Growth over Year Following Acquisition	Shareholder Wealth Gains Following Announcment
Rising Star Brand	44%	66%
Niche Brand	34%	51%
Waning Brand	70%	60%
Dormant Brand	11%	32%

APPENDIX A: ABOUT THE RESEARCH

Measuring Success of Brand Acquisitions

Market Share Percentage Change. One measure of brand acquisition success is the change in market share of the acquirer in the particular industry (post market share versus pre-market share). In order to enable comparisons across the various acquisitions, we express this change as a percentage of the original market share of the acquirer.

Revenue Growth. One measure the success of a brand acquisition is the growth in revenue following the acquisition of a brand. Using segment-level data from Compustat, we computed the revenue growth in the year following the acquisition (i.e. sales revenue in the year $t+1$ minus sales revenue in year t (defined as the acquisition year) divided by sales revenue in year t). We compared this revenue growth with the growth prior to the brand acquisition (i.e. sales revenue two years prior to the acquisition minus sales revenue one year prior to the acquisition (t-2 relative to t-1) divided by sales revenue in the year t-1). When revenue growth in the year following the acquisition exceeds the revenue growth in the year prior to the acquisition, the acquisition is classified as a success.

We also examined another measure of revenue growth where revenue growth was indexed relative to industry growth in the years prior to and following brand acquisition. We also varied the years for which revenue growth was calculated by comparing the revenue growth following brand acquisition with the revenue growth that was obtained in the year of the acquisition (relative to the year t-1). These alternative measures of revenue growth produced similar insights. For the sake of simplicity, we only report the first measure described previously.

Cost Reduction. In order to measure cost reductions following an acquisition, we compute the cost of goods sold relative to sales in the year following the brand acquisition (year $t+1$) and compare it with the cost of goods sold relative to sales in the year prior to the acquisition (year t-1). We use year –1 cost of goods sold to sales ratio as our pre-acquisition performance statistic and the median of year +1 cost of goods sold to sales as our measure of post-acquisition performance. If the difference between the pre-measure and the post-measure is negative (costs relative to sales are lower following the acquisition relative to before), the acquisition is classified as a success. Otherwise, if the costs are higher, the acquisition is deemed a failure.

Stock Market Returns. We use an event study approach to capture the stock market's reactions to an acquisition announcement. The use of the event study methodology to study the effect of marketing announcements is common. Because of market efficiency, estimating abnormal or excess stock returns provide an unbiased estimate of the future earnings (change in market value) generated by the announcement event. The methodological assumptions are grounded in financial theory and supported by empirical research. These assumptions indicate that investors will: (1) rapidly assimilate the implications of an acquisition announcement; (2) collectively predict long-term future cash flows (both on the revenue and cost sides); and (3) either buy or sell, depending on whether their expectations indicate that the stock price is too high or too low. Thus, the change in stock price following a brand acquisition announcement provides an unbiased estimate of the future long-term earnings from the acquisition.

Using standard event study methodology, we calculate each acquirer's abnormal returns as a consequence of an acquisition announcement. To estimate the expected or predicted daily returns for the acquirer, we use daily data on the stock market returns of each publicly-listed firm in the database over a 240-day period ending ten days prior to the event day. We then compare the predicted returns with the actual daily returns and calculate the abnormal or excess returns

Data Sources

Our database of brand acquisition announcements is drawn from an exhaustive search of *Wall Street Journal*, *PR Newswire* and SDC's *Mergers and Acquisitions* database. To compile our database, we searched for brand acquisitions undertaken between the years 1980 and 2003. To conduct the event study, we restrict the acquisitions to only those cases where the acquirers were publicly traded on the stock market. To confirm the accuracy of the announcement date, we searched the news sources for any information regarding the brand acquisition in the six months preceding the news release. This also enables us to control for announcement leakage. Our search yields a total of 195 brand acquisition announcements involving a public acquirer. Revenue enhancement and cost reduction measures are based on data in Compustat. The data for the event study comes from CRSP.