Do Customers Matter in Mergers' & Acquisitions' (Literature)?

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Telia-Sonera and Pfizer-Pharmacia are examples of recently announced mergers or acquisitions. These cases are not unique examples of how companies expand their businesses. Mergers and acquisitions have become common alternatives to companies' organic growth.

The literature on mergers and acquisitions (M&As) mainly focuses on either comparing the acquiring and the acquired companies in terms of synergies, strategic or organizational fit, or on the different phases of the acquisition process. Common for these two different focuses (the companies involved and the process, respectively) are that they concentrate on the two companies (the acquirer and the acquired) involved, whereas the effects for the involved companies' trading partners etc are left out. But would not the customer be affected by a supplier buying into the customer market and thus becoming a competitor? Or when a supplier acquirers a supplementary supplier, leaving the customer with less choices? Lately it has been argued that focusing on only the acquirer and the acquired company is too narrow a

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focus (Anderson et al, 2001:a) and that the merging companies' customer and supplier relationships influence the outcome of a merger/an acquisition.

The thought of customers as an influencer on M&A performances is not new. As Rydén (1971) wrote:

> ”The market share of an acquired company can not automatically be transferred to the buyer without loosing some part of the market. To achieve positive coordination gains, standardisation of the product range could mean loosing customers. The acquiring company might for some customers only represent the second best buying alternative after a merger due to the customers buying habits, brand loyalty, etc. To achieve coordination gains, the distribution system might have to be rearranged and the mergered company might have to deliberatly let go of a part of the total market. Of course, the loss of market varies from case to case. Unsystematically collected interview statements indicate that the loss could be substantial. Figures of 25 to 50 percent of the acquired company's market have been mentioned.” (p.94, translated)

On the other hand, in press releases announcing mergers or acquisitions it is often stated, that “it is for the good of the customers” and the consumers are sometimes viewed as the greatest beneficiary of the M&A activities. When competition regulating authorities evaluate a merger or an acquisition they look upon the market as consisting of customers without having any interactive relationships to other actors on the market. In formal evaluation talks about customers as homogeneous aggregates i.e. if at all affected all customers are likely to react in the same way. There thus seems to be a rather contradictory view of how customers are affected by a merger or acquisition, if they are affected at all?

This paper deals with when customers are considered in M&A literature and how they are viewed. To not narrow the picture too much, cases were customers are addressed directly as well as indirectly are considered. Higher market share, buying into new markets, etc, all could be viewed as strategies to attract customers. The paper is based on a review of articles from 1990 until today (July, 2002). First we will discuss ***when*** customers (or related issues) are mentioned, then we turn to seek the answer to ***how*** customers are viewed, both with the article review as source.

Method

This paper is based on a review of articles in the field of M&As. The articles read, are articles dealing with mergers, acquisitions and/or takeovers, and the focus has been to investigate if the articles in any way (directly or indirectly) mention customers. In those cases where customers, or customer related issues, are mentioned, the articles have been reviewed further, as to find out: 1) when are customers considered?, 2) how are they viewed?

Journals from 1990 up till today’s date (July, 2002) have been reviewed. The articles have been gathered through a search in the database Business Source Elite, complemented by searches in Science Direct and DeGruyter, for articles where merger, acquisition and/or takeover are stated as a subject. As a complement, the titles of all articles in each journal have been looked through, and in those cases where the title includes words as merger(s), merge, acquisition(s), acquire and takeover, the article has been added to the review. Book reviews and abstracts of dissertations published in the journals are excluded. The review includes the following journals:

Name of journal reviewed	**Volumes included in the review**	**Numbers of articles dealing with mergers, acquisitions and/or takeovers [1)]**
Academy of Management Journal	1990 Vol. 33, Issue 1 - 2002 Vol. 45 Issue 3	12+3
Academy of Management Review	1990 Vol. 15 Issue 1 - 2002 Vol. 27 Issue 3	1
Administrative Science Quarterly	1990 Vol. 35 Issue 1 - 2002 Vol. 45 Issue 1	7+1
Advances in Business Marketing & Purchasing	1990-4 - 1999-8	0
European Journal of Marketing	1990 Vol. 24 Issue 1 - 2002 Vol. 36 Issue 4	1
European Journal of Purchasing and Supply Management	1994 Vol.1 Issue 1 - 2002 Vol.8 Issue 2	0
Industrial Marketing Management	1995 Vol. 24 Issue 1 - 2002 Vol. 31 Issue 6	2
International Marketing Review	1990 Vol. 7 Issue 1 - 2001 Vol. 18 Issue 6	3
International Studies of Management & Organization	1990 Vol. 20 Issue ‘1/2 - 2001 Vol. 31 Issue 3	2+1
Journal of International Business Studies	1990 Vol.21 Issue 1 - 2002 Vol. 33 Issue 2	7+2

Journal of Marketing	1990 Vol. 54 Issue 1 - 2002 Vol. 66 Issue 3	4+1
Journal of Marketing Management	1990 Vol.6 Issue 1 - 2002 Vol.18 Issue '3/4	0
Journal of Strategic Marketing	1993 Vol. 1 Issue 1 - 2002 Vol. 10 Issue 2	1
Nordiske Organisasjonsstudier	1999-1 - 2001-4	2
Organization	1999 Vol. 6 Issue 1 - 2002 Vol. 9 Issue 2	0
Organization & Environment	1999 Vol. 12 Issue 1 - 2002 Vol. 15 Issue 2	0
Organization Studies	1999 Vol. 22 Issue 1 - 2002 Vol. 23 Issue 3	3+1
Organizational Dynamics	1990 Vol.18 Issue 3 - 2001 Vol. 30 Issue 2	4
Strategic Management Journal	1990 Vol. 11 Issue 1 - 2002 Vol. 23 Issue 7	37+17
Supply Management: The Magazine of Purchasing, Procurement & Logistics	1996-1 - 2001-1	0
Total		86+26

[1)] The added to figures represent those cases where the title contains merger, acquisition, etc, but these words are not classified as subject in the database.

The review is conducted in two steps: The first step included reading articles gathered according to the method described above, and thereby finding out how customers and customer related issues are phrased (customer, consumer, market, network partners etc) and what is written about them. The second step consisted of a scanning through articles from some additional journals looking for those phrases. The choice of journals in the second phase is based on the literature review conducted in Anderson et al (2001:a).

The journals more thoroughly read are: Administrative Science Quarterly, European Journal of Marketing, Industrial Marketing Management, International Marketing Review, Journal of Marketing, Journal of Strategic Marketing, Nordiske Organisasjonsstudier, Organization, Organization & Environment, Organization Studies and Organizational Dynamics.

Whereas Academy of Management Journal, Academy of Management Review, Advances in Business Marketing, European Journal of Purchasing & Supply Management, International Studies of Management & Organization, Journal of Business Studies, Journal of Marketing Management Strategic Management Journal and Supply Management are looked through in the second phase.

Market is often used not only to describe product market, but also the financial market, etc. It is only when market refers to customers buying a company's products and/or services that they are included in this review.

Findings

How are customers phrased?

With a few exceptions, mainly in case studies, the customers are seen as aggregates. Most commonly what could be referred to as customers are phrased as "the market". Other ways of describing the customers are clients, customers, consumers, network partners (for instance: Haunschild, 1993 and Havila & Salmi, 2000) or stakeholders (Kabir, Cantrijin & Jeunink, 1997). In the cases where network partners and stakeholders are being used, it is not always clear whether the customer side is included or not.

The customers, or more commonly: the market, is seldom the focus or theme of the articles. Instead market is discussed to give a background to the article, or in passing. When the articles deal with organizational fit, or the financial side of a merger or acquisition the customer side is almost entirely left out. Predominantly, the issue of market is used when describing M&A motives and how the companies relate to each other, and to some extent in performance literature.

Why do companies merge? – Market related motives

Why do companies merge or acquirer other companies? There seems to be a number of reasons given to merge/acquire a company, many of which involving the market and an extension of the customer base. Examples of market related reasons to merge/acquire another company are: to acquire more efficient distribution, to strengthen the company's position towards its distributors, to strengthen the market position, to acquire attractive resources and/or brand names (both of which in turn to attract customers) and to achieve market power. Ahuja & Katila (2001) divide acquisitions into two groups: technological and non-technological, where the latter focuses on for instance to get access to distribution channels, entry new markets or create market power (i.e. market related motives).

According to Capron & Hulland (1999) market power as well as efficiency and effectiveness are seen as ways of creating values following a horizontal acquisition. An acquisition could be a means to get hold on new marketing resources, or to redeploy the acquiring firms marketing resources. Brands, sales forces and general marketing expertise all could be viewed as assets possible to redeploy.

Hayward (2002) divides acquisition motives into four categories: 1) market-entering acquisitions, where acquisitions are made to enter new market, 2) market-strengthening acquisitions, which aim at strengthening an existing market position by eliminating a competitor or attaining efficiency, 3) market-elaborating acquisitions, where for instance new technology is acquired to stay in market, and 4) market-extending acquisitions, where one way of extending the market is to buy into a foreign market (Chang & Rosenzweig, 2001).

Haunschild (1993) distinguishes between three classes of theories of acquisition motives: 1) financial theories, 2) resource dependence theory, and 3) managerial and agency theories, where the second theory (resource dependence theory) points at a company's interdependence to its environment. Tracing this back to Pfeffer (1972) mergers are made to make a company less dependant on its environment. "Three types of mergers are identified – those which (1) reduce symbiotic interdependence (vertical integration), (2) reduce communalistic or competitive interdependence (horizontal integration), and (3) diversify and avoid previous interdependencies." (p.382).

In contrast to most of the other theories, the resource dependency theory points at the acquiring and the acquired company having relations to other companies. The interaction between companies is also viewed as affecting the choice to merger in an additional way. Haunschild discusses how the company's network influences 1) the frequency of merger/acquisition activities (1993) and 2) how much is paid for a company (1994). The social context of a company would thus influence the M&A activities.

Market implications on M & A Performances

When discussing performance, market is seen as an explanatory to/against success. The focus is still how the acquiring and acquired companies' markets relate. In some cases market relatedness between the companies is viewed as positively related to performance. In other cases issues such as compatibility of culture and customer groups are seen as central factors. Ramaswamy (1997), who investigated mergers within the banking industry, concluded that differences in the mix of clients between the acquirer and the acquired company, and different emphasis on customer (for instance: one part focuses on customer satisfaction whereas the other sees efficiency achievements as central) negatively impact performance. According to Chatterjee (1991) acquisitions are most successful when the acquirer comes from a concentrated market whereas the acquired company has a fragmented market. Haunschild (1994) points at the synergistic potential of two companies serving common customers, use common distribution channels, or use related production technologies.

Mergers and acquisitions are not all success stories. According to Capron (1999) resource redeployment may lead to market failure and Anand & Delios (2002) points at the difficulties of transferring brand names to other countries, when they are not known to the foreign customers. Hayward (2002) points at the strategy of acquiring highly related businesses tend to fail over time as market condition changes. Tetenbaum (1999) discusses that the effort of integrating two companies might affect the customer side as the work with integrating the two companies takes attention away from customers, competition, and productivity.

One could suspect, as in the case with Tetenbaum (1999), that the customers react and affect the outcome of the acquisition. The thought of customers as influencing the performance is shared by for instance Salmi et al (2001) and Anderson et al (2001:b). In Anderson et al (2001:b) a distinction between intended effects and unexpected effects are made, pointing out that the outcome of a merger or acquisition is partly dependent on planned motives and partly on unexpected reactions from others. An example of the former is the possibilities of exploiting a strong brand name, etc to change the customers' perception of an existing product (Capron, 1999). This at the same time indicates that after a merger or acquisition, market changes may be evident.

How are customers viewed in M&A literature?

One can distinguish between three different ways of viewing customers: 1) Instrumental, 2) As objects, who may be influenced by the merger/acquisition; and 3) As subjects, who influence the merger/acquisition and the outcome of the M&A activities. Viewing the customer as someone who may be affected by, but also may affect the M&A activities is one of the bearing thoughts in the recently published studies where mergers and acquisitions are viewed from a network perspective.

Instrumental

In most of the examples given above, the customer is viewed as a trade able asset, which will remain unaffected by the merger or acquisition. When discussing the motives to merge/acquirer, many of these indicate that the customers can be transferred from one company to another. Through buying a competitor it is expected, that the acquiring company's market power will increase. The same goes for acquiring a distributor, entering a new market, acquiring a foreign company, etc – they are all viewed as ways to, at least to some extent, buy customers.

When evaluating the performance of a merger or an acquisition, market is often used only to describe the companies involved and how their markets relate to each other (were they on the same market, related markets, vertically related markets or unrelated markets prior to the merger?). This is then used to forecast the success of the merger/acquisition. When for instance Ramaswamy (1997) concludes that dissimilar mixes of clients negatively impact performance, this seems to have more to do with the companies' market strategies, than with their clients.

The customer viewed as an object affected by the merger/acquisition

Viewing the customer as an object, which is influenced by the changes following a merger or acquisition is another way of dealing with the customers view. For instance, the monopoly theory, which aims at buying market power, could be seen as affecting the customers in two ways: 1) The customers are left with less choices, 2) The wealth transfer from customers (Trautwein, 1990) following raised prices etc.

The customer viewed as a subject, reacting on the merger/acquisition

The third way of dealing with customers in M&A literature, is to view them as influencing the M&A activities. When a business partner is affected by a merger/acquisition, it would only be natural to expect the business partners to perceive the event and eventually react to it. When Capron (1999) points at the possibility to change a customers' perception of an existing product, the exploiting of the acquired/acquiring company's brand name to other products, has positively influenced the customers.

What could also be seen as an example of customers acting upon their own will is Hayward (2002) when pointing out that buying a competitor etc, will not necessarily lead to more market shares. The remaining competitors might develop a more attractive product, and thus attract the customers, or the loss of customer focus during the integration phase (Tetenbaum, 1999) may lead to the loss of customers.

The customer as part of a network

Viewing the customer as someone who is both influenced by and influences the M&A activities is one of the bearing thoughts in network theories. Haunschild (1993) and Havila & Salmi (2000) argue that most existing theories do not consider the social context that a company is embedded in.

Haunschild (1993) mainly focuses on how a company's social context influences the decisions to acquirer another company. In Beckman & Haunschild (2002) and Palmer & Barber (2001), etc, network is discussed as a base for interorganizational learning and the focus is how a company's network influences decisions about acquisitions (whether customers are part of these networks of influence is not spoken out though).

In Havila & Salmi (2000), Anderson et al (2001:b) the focus is instead of the performance of a merger or acquisition. In Havila & Salmi (2000) a network perspective is taken, and mergers and acquisitions are seen as a substantive in network change. The M&As may "spread to the surrounding network and cause either incremental or radical change" (p.116) in the network and thus may cause the expiration or birth of new relationships. The changes may either be part of a plan from the managers of the merging companies (intended effects), or unexpected and stem from how the connected companies perceive the merger/acquisition. This in turn may affect the outcome of the merger/acquisition (Anderson et al, 2001:b).

Conclusions

From the review of articles about mergers and acquisition, it is evident that customers (or customer related issues) are not given much attention in M&A literature. The research in the field of M&As seems to continuously focus on the two companies involved when explaining the performance of an acquisition/a merger. Often, the customer side is not mentioned at all, and when it is, it is mostly in passing, for instance when describing the companies involved, or their motives to merge. The customer perspective is rarely taken.

As is the case when customer related issues are given as motives to merge or when discussing the outcome of a merger or acquisition, the customers are often looked upon in an instrumental way, and only in a few cases they are discussed as being influenced by or influencing the M&A activities. But does an attempt to acquirer additional market shares, extending the market etc, necessarily mean that the company achieves additional market shares or more customers? We would argue that it is dependant on how the customers act towards the merger/acquisition. Customers are often viewed as trade able assets ("If we buy company X, which has a market share of 10 percent, we will automatically get hold of their customers and thus increase our market share by 10 percent"), but is it not reasonable to think that customers could be affected by the M&A activities of their suppliers and that the customers' actions and reactions might have an impact on the outcome of the merger/acquisition? As shown in Havila & Salmi (2000), etc M&A activities may affect connected relationships to the acquiring/acquired companies. Thus to only look at the acquirer and the acquired company seems to be a too narrow approach.

In sum we conclude that if customers are at all discussed in the literature the reasoning is based on assumptions about potential reactions. There is very little empirical data – if any at all – on customer reactions and actions before, during and after a merger or an acquisition takes place. (We are in the phase of formulating research questions in the area and will add those in the presentation of the paper).

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