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Strategic framework for brand integration in horizontal mergers and acquisitions

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Abstract

Purpose – The paper aims to provide both academics and practitioners a strategic framework for integrating brands in horizontal mergers and acquisitions (M&As) in order to create and deliver value.

Design/methodology/approach – A conceptual framework developed from a review of the existing literature and pilot case studies.

Findings – The paper first discusses the importance of brand integration for value creation in horizontal M&As from a practical perspective. The paper then reviews three related bodies of existing literature that are critical to this research – M&As, product and brand management, integration approach. This review leads to the identification of the research gap in the area of brand integration in M&As. The paper then develops and proposes a strategic framework for integrating brands in horizontal M&As based on the pilot case studies and existing literature.

Originality/value – The paper structures and classifies the fragmented existing literature in the domain of product and brand management into four major views – customer (market) perspectives, supply (manufacturing) concerns, product development (innovation and technology) considerations and value creation. This classification can be a useful approach for future research in reviewing the diversified product and brand management literature. The strategic framework developed here consolidates the four perspectives of product and brand management and the two views of strategic management (positioning and resource-based) and presents four major strategies and a process for the successful integration of brands in post-horizontal M&As. The paper also provides an overview of overseas M&A activities on the part of Chinese companies in terms of trend and motives and considers some implications of the brand integration strategic framework for Chinese companies when they acquire international brands. Future research priorities are also discussed and research methods recommended.

Keywords Brands, Brand management, Mergers and acquisitions, China

Paper type Conceptual paper

Research background

Mergers and acquisitions (M&As), both domestic and international, have become a common strategy for many firms seeking rapid growth and thereby enhanced value. In spite of the enormous increase in transaction numbers and volumes, the majority of M&As actually result in a decrease in shareholder value (Brewis, 2000; Habeck *et al.*, 2000; A.T. Kearney, 1998; KPMG, 1999).

The reasons for the failure of M&As have been the subject of much attention from both academia and management. Many researchers point out that post-M&A integration is vital for success (Child *et al.*, 2001; A.T. Kearney, 1988; Haspeslagh and Jemison, 1991). However, Shimizu *et al.* (2004) claim that the quantity of research in this area is too limited.

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Industrial issues for brand integration in M&As

The Federal Trade Commission classified M&As into three categories – horizontal, vertical and conglomerate (Stacey, 1966). This classification has also been applied to cross-border M&As (UNCTAD, 2000). This paper only considers horizontal M&As, in which two companies in the same industry with similar products or brands combine. According to UNCTAD (2006) horizontal M&As accounted for approximately 80 per cent all M&A transactions in 1990s and 2000s.

By the very nature of a horizontal deal, acquiring and acquired firms have similar or related brands. According to Perrier (1997) research from interbrand shows that the sources of earnings for an organisation come from three types of assets – brands, tangible assets and other intangible assets. Of these, the earnings which are attributed to the brand can account for up to 70 per cent of the total depending on the market (Lindemann, 2003). Fombrun and van Riel (2004) demonstrate that brand favourable reputations (which are driven by well-managed brands) result in higher financial returns. Therefore, brand integration is certainly one of the most important areas to consider in M&As and the value generated in a horizontal M&As seems to be strongly related to the brands owned by the acquiring and acquired firms. This issue is illustrated and confirmed through two exploratory horizontal M&A deals:

(1) the Adidas-Reebok; and

(2) the DaimlerChrysler mergers.

The Adidas-Reebok merger[1]

The ambitious $3.8 billion merger of Adidas-Salomon (Adidas), Germany's largest sporting goods maker, with US-based Reebok International (Reebok) was initiated in August 2005. This was to be the largest horizontal deal in the footwear and sporting goods industry. Adidas expected to seal the transaction in the first six months of 2006. The potential benefits of the merger were:

- greater sales growth;
- improvement of financial performance;
- stronger and wider distribution networks;
- attainment of "critical mass" in the USA for Adidas;
- increased bargaining power with suppliers and retailers; and
- acceleration of product innovation.

In terms of strategic focus Adidas' technology focus and Reebok's sales driven performance were a good match. However, industrial observers commented that there were many product and market overlaps across the portfolios of the two companies. The initial integration plan of Adidas, the acquirer, was to keep the two companies separate in terms of management, distribution, advertising programs and product and brand portfolios: "the brands will be kept separate because each brand has a lot of value and it would be stupid to bring them together. The companies would continue selling products under respective brand names and labels" (Adidas Group, 2005).

The post-merger integration phase was developed from this strategy. Whether it succeeds or not will, according to analysts, depend on three factors:

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(1) How well it integrates and rationalises the combined portfolio in a way that allows the two brands to complement rather than duplicate each other and, thereafter, avoid sales cannibalisation.
(2) How well it manages its large customer base without losing focus. The real danger lies in the potential dilution of both brands when the company repositions one brand over the other.
(3) How well the two corporate cultures are integrated and able to work in harmony with each other. Reebok tends to be marketing-driven; Adidas has a control-centred culture that focuses on engineering and production. These differences are not easily overcome and certainly could affect the product portfolio design and management post merger.

DaimlerChrysler: a lesson of $25.7 billion[2]

The creation of DaimlerChrysler through the largest merger in auto industry on 7 May 1998 marked the consolidation of an industry. In merging with Chrysler, Daimler aimed to offer a wider range of products, to achieve cost savings and to enter new markets. However, the performance of the company dipped considerably after the merger. The market capitalisation of DaimlerChrysler has fallen from nearly $100 billion in 1998 to around $40 billion in 2007, when Chrysler was put up for sale. The company experienced substantial losses, especially from the American partner who suffered from a declining US market share, falling stock price and inefficient production and product lines. In addition, the core business of DaimlerChrysler, the Mercedes brand, ran into serious troubles because of chronic quality issues, falling sales and financial losses (Edmondson *et al.*, 2006). It has been estimated that the merger has cost Daimler $25.7 billion (Kroger, 2007).

While the reasons for this failure include some soft issues such as corporate culture clashes and mismanagement, there were also several hard issues that contributed to the problem:

- *Cost savings not achieved:* the potential savings inherent in the equalisation of components and platforms and the rationalisation of production were not realised even for new product generations. In fact DaimlerChrysler appeared to run two independent product lines with few signs of integration whereas their competitors such as Toyota or Ford have already achieved this type of synergy by building different vehicles under similar platforms (Edmondson *et al.*, 2005). Consequently, the considerable potential benefits that could have been achieved through synergies of purchasing and supply scale were not realised.
- *Product portfolio complexity led to poor efficiency and productivity:* streamlining manufacturing and pruning the number of models should have been carried out to boost efficiency and productivity and to reduce complexity but were not (Edmondson *et al.*, 2005).
- *Poor Mercedes quality:* caused by poor management and a clash of corporate cultures. While Chrysler valued cost-control and had a brand image of assertiveness and risk-taking, Mercedes was in contrast focused on disciplined German engineering coupled with uncompromising quality.
- *No utilisation of distribution networks:* distribution costs for any car are estimated typically at 25-30 per cent of the sales list price (Edmondson *et al.*, 2005). However, the very different brand images made it difficult to achieve this huge saving potential.

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Key points from the exploratory case studies

The two cases highlight a prominent issue that for horizontal M&As resolving the problem of overlapping resources is critical and that successful integration of potentially competing brands in the combined portfolio of the newly-merged organisation is not only a starting point for this process but also the major objective for many M&As. Brand integration plays a crucial role in value creation in horizontal M&As and it is difficult to achieve this in the absence of a comprehensive strategic plan for realising this integration. In addition integration of brands in post-horizontal M&As is quite challenging in many aspects such as the settlement of overlaps among the merging brands.

In summary, brand integration is a significant industrial issue in horizontal M&As. Solving this issue involves understanding "How brands should be integrated in horizontal M&As to create and deliver value, where the merging firms have similar brands". Resolving this question successfully involves creating a systematic, robust and flexible strategy for integrating the merging brands and an appropriate process for implementing this.

Literature review

In exploring the critical research question mentioned above, three crucial bodies of literature have been reviewed – M&As, product and brand management and integration approach. Table I summarises the key contributions of the existing literature (which have been reviewed by this paper) to these three areas.

In the specific area of product and brand management the paper classifies the literature into four main views:

1. The customer (market) view contends that firms need to produce and market their products or brands according to what customers want (market conditions) and allocate resources according to the positions of products or brands in order to compete with rivals, to deliver the desired satisfaction, and to create customer's and society's well-being.
2. The supply (manufacturing) view is concerned with the firm's capabilities for producing the products or brands effectively and efficiently.
3. The product development (innovation and technology) view focuses on processes and available resources such as technology or R&D for creating new products or brands to meet customer demands.
4. The value creation view takes value as the key in the product and brand management. Under this view the product or brand management can be assessed from the firm's financial, strategic management (e.g. positioning), or the entire value chain perspectives.

The contents of the literature review in each product and brand management view mentioned above are given in Table II. For instance, under the customer view the key concepts developed by this approach as revealed in the literature are product and brand, B2B and B2C, segmenting, targeting and positioning, 4Ps policy, product life cycle, product portfolio management and brand management and distribution and distributors' own brands.

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Table I.
Major contributions of literature to the research focus

Mergers and acquisitions	*Overview, motives, performance, and synergy of M&As:* Watson and Head (2001), UNCTAD (2000), Stacey (1966), Bechenstein (1979), Pfeffer and Salancik (1978), Bradley and Donald (1979), Manne (1965), Stigler (1968), Bain (1956), Gort (1966), Sinrich (1970), Jacoby (1970), Reid (1968), Roll (1986), Mueller (1969), Penrose (1959), Dunning (1988, 1993), Hopkins (1999), Gauhan (2002), Sirower (1997), Bradley *et al.* (1988), Clemente and Greenspan (1998) *M&A process and integration:* Howell (1970), Bibler (1989), Clemente and Greenspan (1998), Very and Schweiger (2001), Schweiger (2002), Picot (2002), Borghese and Borgese (2002), Birkingshaw *et al.* (2000), Ashkenas *et al.* (1998), Vester (2002), Burgelman and McKinney (2006), Angwin (2001), Kissin and Herrera (1990), Marks (1982), Buono *et al.* (1985), Adams and Shea (1986), Schweiger and DeNisi (1987), Schweiger *et al.* (1987), Habeck *et al.*, 2000), Cartwright and Cooper (1996), Inkpen *et al.* (2000), Basu (2002, 2006), Child *et al.* (2001), Shimizu *et al.* (2004)
Product and brand management	*Customer view:* Kotler and Armstrong (1997), McCarthy (1960), Borden (1964), Frey (1961), Bitner and Booms (1981), Lauterborn (1990), Hammer and Champy (1993), Doyle (1976, 2000, 2002), Levitt (1965), Cox (1967), Polli and Cook (1969), Moore and Pessemier (1993), Day (1981), Dhalla and Yuspeh (1967), Day (1977), Abernathy and Utterback (1978), Vernon (1966), Kotler *et al.* (2001), Wind and Claycamp (1976), Boston Consulting Group, Shell Directional Matrix, McKinsey/GE, Wheelwright and Clark (1992), Cooper *et al.* (2001), Matheson and Menke (1994), Hall and Naudia (1990), Goodyear (1993), Hanby (1999), Kunde (2000), AMA (1960), Park *et al.* (1986), Upshaw (1995), Davidson (1997), Shipley and Howard (1993), Hutton (1997), Gordon *et al.* (1993), Mudambi (2002), Mudambi *et al.* (1997), Low and Blois (2002), Ulaga and Chacour (2001), Sharma *et al.* (2001), Hunter *et al.* (2004), Keller and Webster (2004), Kapferer (1997), Gardner and Levy (1955), Arnold (1992), de Chernatony and McDonald (1992), Aaker (1996), Kamakura and Russell (1991), Aaker and Joachimsthaler (2000), de Chernatony and Dall'Olmo (1998), de Chernatony (2006), Keller (1993, 1998, 2008), Olins (1989), Laforet and Saunders (1994), Riezebos (1995), Simon and Sullivan (1990), Ailawadi *et al.* (2003), Barwise *et al.* (1989), Wentz (1989), Chu and Keh (2006), Farquhar (1989), Lassar *et al.* (1995), Kish *et al.* (2001), Shaw *et al.* (1989), Michell *et al.* (2001), Abratt (1986), Moriarty and Moran (1990), Simmons and Meredith (1983), Nandan and Dickinson (1994), Hoch (1996), Corstjens and Lal (2000), Dunne and Narasimhan (1999), McMaster (1987), Quelch and Harding (1996) *Supply view:* Shi and Gregory (1998), Flaherty (1989), Hayes and Wheelwright (1984), Ferdows (1997), Dicken (1992), Levy and Sarnat (1976), Bassett (1991), Welch and Nayak (1992), Jennings (1997), Probert *et al.* (1993), Platts *et al.* (2002), Nonaka (1994), Hansen *et al.* (1999), Deal and Kennedy (1982), Handy (1985), Trompenaars and Hampden-Turner (1997), Cummings and Worley (2005), Kotter (1992), Hanby (1999) *Product development view:* Gregory (1995), McGinn (1991), Abell (1980), Miller and Davis (2000), Friar and Horwitch (1985), Burgelmen *et al.* (1996), Fusfeld (1978), Harris *et al.* (1981), Bower and Christensen (1995), Kuemmerle (1997), Zedtwitz and Gassmann (2002), Arimura (1999), Reger (2004), Booz-Allen & Hamilton (1982), Cooper (1979b, 1988, 2001), Adamec (1981), King (1973), Cooper and Kleinschmidt (1994), Cooper and Brentani (1984), House and Price (1991), Hauser and Clausing (1998), Hunt (1993), Robertson and Ulrich (1998), Gershenson *et al.* (2003), Meyer and Utterback (1993), Meyer and Lehnerd (1997), Johannesson and Claesson (2005), Hammer and Stanton (1995), Edosomwanm (1996) *Value creation view:* Porter (1980, 1985), Miller (1992), de Chernatony (2006), Hamel and Prahalad (1994, 1995), Daft (1983), Johnson and Scholes (1984), Barney (1991), Das and Teng (2000), Morgenstern and Neumann (1947), Gul (1997), Nash (1950a, 1950b), IfM (2007), Rayport and Sviokla (1995), Sawhney and Parikh (2001), Normann and Ramirez (1993), Payne (1987), Stevens (1989)
Integration approach	*Strategic, system, internal and external integration:* Fuchs *et al.* (2000), Burgelman and Doz (2001), Grady (1994), Vernadat (1996), Mische (2000), Whiston (1992)

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Customer view	Supply view	Product development view	Value creation view
Markets – B2C and B2B Brands User benefits – functional and emotional Relationship marketing – CRM Segmenting, targeting, positioning Product life cycles Brand image and identity Brand evolution Brand equity, strength and value Channel strategy Distributors' own brands	Some popular operational concepts From a single factory to a network of international manufacturing Supply network – make or buy decision decides the scope of product or brand Others: knowledge, human capital, & corporate culture Supply chain	Technology and patent Research and development New product/brand development: process, return map model, quality function deployment, integrated product development, modularity and product platform Product and process reengineering	Generic positioning strategies Brand vision and objectives Resource-based strategies Game theory Value chain

Table II.
Four different views towards product and brand management

In spite of a substantial amount of research in the domains of M&As, product and brand management and integration approaches, there is currently no research that has resulted in a model describing the strategies and process for the successful integration of brands in post-horizontal M&As:

- *In the M&A field:* apart from the nature, trend, theories, motives, processes and value creation measurement and financial-based performance of M&As the existing research in M&As mainly focuses on the integration of the human side of the merging organisations. There are several studies dealing with the M&A process but none of them deals with brand integration although this is often one of the key tasks confronting post-M&A organisations. The number of research studies is also very limited in the area of brand integration. In addition, they do not provide a comprehensive strategies and guideline for integrating brands in post-M&As.
- *In the product and brand management field:* although the existing literature contains within it four dominant views, each seemed to place too much emphasis on their own view with a little consideration of the other views. There is very little research that considers the entire value chain process in the context of product and brand management. As such there is a lack of research that merges different points of view towards product or brand management. They are also focused on a single business entity rather than the two or more different entities that are necessarily involved in M&As. In addition, they do not directly address the research question. Specific integration strategies, processes and best practices as well as the factors that affect them are overlooked.
- *In the integration field:* the existing research on integration approaches mainly focuses on the alignment of different management philosophies or functional units within a single firm rather than product or brand management in the context of M&As.

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The research question, therefore, remains unanswered. The gap in the existing literature reveals a significant research area that requires further study. This potential research area is the brand integration in post-horizontal M&As.

Development of a conceptual strategic framework for brand integration in horizontal M&As

The development of a strategic framework for brand integration offers some important benefits:

- The identification of the preliminary integration strategies and processes for brand integration in horizontal M&As.
- Suggested direction for further exploration and examination.
- A foundation for constructing a new model of the brand management integration process in post-horizontal M&As.

Stages of brand integration process

As the main research aim is to develop a strategic framework and process for dealing with the integration of brands in post-horizontal M&As, the generic stages of strategic management described in the literature – analysis, formulation and implementation (Steiner and Miner, 1977; Andrews, 1980; Chaffee, 1985; Johnson and Scholes, 1984, 2002) – are used as the basis for the strategy stages in the process framework of brand integration. Therefore, the three stages of the brand integration process are:

(1) brand integration analysis;

(2) brand integration formulation; and

(3) brand integration implementation.

Brand integration analysis. In this stage the brand integration process considers the impact and respective influences of the outside (external) environment and inside (internal) environment (e.g. the merging firms' resources and competences, and the expectations of their stakeholders).

Fuchs *et al.* (2000) discuss three approaches (positioning, resource-based and process-based) to strategic management. For the purposes of this paper the two critical strategic approaches are:

(1) The traditional western view of strategy that emphasizes the importance of the fit between the firm and its environment: Bowman (1974); Steiner and Miner (1977); Hofer and Schendel (1978); Mintzberg (1979); Porter (1980). The task for top management is to match (or "fit") the firm's products to the environment in which the firm has to operate.

(2) The resource-based view (including the process-based view) stresses the importance of utilising a firm's assets and resources to develop useful competences and to push these to the limit ("stretch") to create superior products and services: Daft (1983), Hamel and Prahalad (1994, 1995), Barney (1991), Das and Teng (2000).

This paper takes the view that a firm needs both to fit into its environment and to stretch its resources in order to create competitive advantage and value.

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Horizontal M&As normally bring the post-M&A organisation greater market opportunities through the acquisition of new brands and resources. Consideration of the strategic fit of these brands with the environment in which a firm operates as well as the best way to combine the firm's assets and resources to create useful competences that can, in turn, be "stretched" to create new products and services are all regarded as important activities for a post-M&A organisation. Therefore, the "brand integration analysis" stage will consider all of these factors.

An earlier section of this paper reviewed the four dominant views described in the existing literature on product and brand management, each with its own particular focus:

(1) customer;

(2) supply;

(3) product (development); and

(4) value creation (CSPV).

Market situation and consequent opportunities, firm resources and competences as well as stakeholders expectations are all reflected within these views. The "brand integration analysis" stage involves consideration of both the fit of the firm's products and brands with the external environment in which it operates from all four of the CSPV perspectives as well as the ways in which the firm can "stretch" its competences to create innovative and attractive new products and services.

Because horizontal M&As frequently bring additional similar brands into a firm's portfolio, segmentation and positioning methods, basic marketing analysis tools, are often used to plot and identify whether the brands in the two companies' portfolios overlap or complement each other (Figure 1). For instance, companies X and Y (oval shapes) may have similar brands (white dots); some of these brands may cover similar market segments and others different market segments. These brands are typically first mapped in a segmentation matrix to see which segments they serve. The two exploratory cases differ in the fact that the two portfolios of Adidas-Reebok target similar segments whereas Daimler and Chrysler's products serve different segments.

Brand integration formulation. The formulation stage is concerned with the formation of possible brand integration strategies and the selection of the most appropriate for particular post-M&A conditions.

The Federal Trade Commission (in the USA) defines horizontal M&As as the situation when two companies in the same industry with similar brands combine

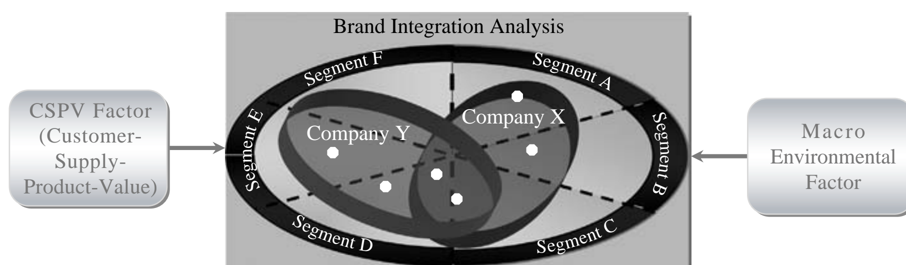

Figure 1.
Brand integration analysis (stage)

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(Stacey, 1966). The Adidas-Reebok merger demonstrates that the brands of Adidas and Reebok were overlapping to a significant extent in terms of the customer segments and geographic markets they served. The merger between Daimler and Chrysler reveals the opposite situation in that both customer segments and most of the geographic markets of the brands of Daimler and Chrysler were complementary (i.e. Daimler's brands were mainly in the premium car segments while Chrysler's brands were in the low and mid-tier segments).

Based upon these two characteristics of the merging brands in horizontal M&As (overlap and complementariness in terms of customer segments and geographic markets), four brand-market paradigms are generated and given in Figure 2:

(1) *Brand and market overlap:* merging brands cover similar customer segments and geographic markets (e.g. Adidas and Reebok had many similar brands which were sold in many similar geographic markets).

(2) *Brand overlap but market complement:* merging brands cover similar customer segments but in different geographic markets (e.g. Adidas and Reebok's brands, though overlapping, were sold in some different geographic markets before the merger).

(3) *Brand complement but market overlap:* merging brands serve different customer segments in the same geographic markets (e.g. the brands of Daimler and Chryslers were serving for different customer groups – high end and low-end – in some countries).

(4) *Brand and market complement:* merging brands serve different customer segments in different geographic markets (e.g. the brands of Daimler and Chryslers were serving for different customer groups (high and low-end) in different regions (North America and Europe).

The existing literature suggests ways of dealing with these overlaps and complements. First, the researchers indicate different motives for M&As. Of these, achieving growth (revenue) and synergy (cost savings) are the two major ones. Secondly, "asset divestiture" and "resource redeployment" are the two broad directions a firm can take in post-horizontal M&A integration (Capron, 1999; Capron *et al.*, 2001): "acquisitions

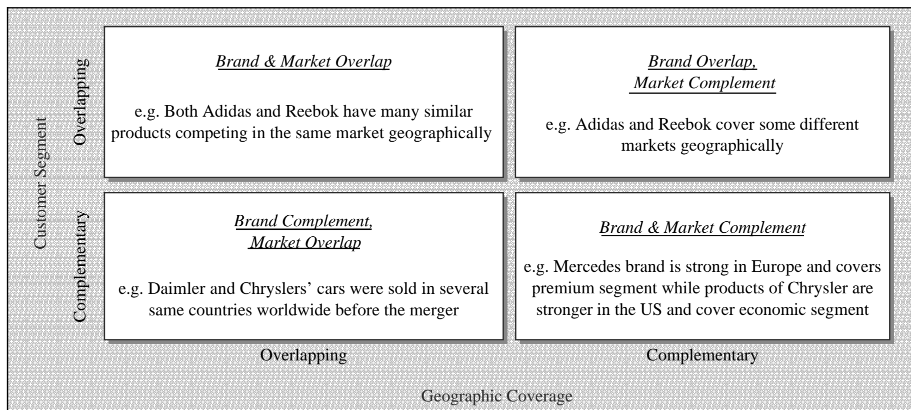

Figure 2.
Brand overlap and complement in horizontal M&As

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provide a means of reconfiguring the structure of resources within firms and that asset divestiture is a logical consequence of this reconfiguration process" (Capron *et al.*, 2001, p. 817). Because "asset" and "resource" are general terms, they can include the merging brands in the context of horizontal M&As.

In practice several strategic actions were taken by the post-M&A organisations or recommended by the analysts in order to deal with the overlap and complement of the merging brands in the exploratory Adidas-Reebok and DaimlerChrysler cases:

- The Adidas portfolio was kept separate from the Reebok one after the merger. However, the reduction of overlapping products within the two portfolios was one of the key actions that helped to achieve synergy between them. The simple fact was that the two companies did possess some overlapping products and these needed to be rationalised.
- In the case of DaimlerChrysler an industrial analyst commented that pruning a number of models of DaimlerChrysler, particularly those that were overlapping, was needed in order to boost efficiency and productivity as well as reduce complexity.
- The merger between Daimler and Chrysler also offered the prospect of major synergy benefits in terms of cost savings by an equalisation of components, platforms and drive trains and a rationalisation of production.
- The DaimlerChrysler merger also showed the potential for combining the products of Daimler and Chrysler to create new products in the integration stage.

Based upon the existing literature and the above mentioned strategic actions four brand integration strategies are proposed – "choice", "growth maximisation", "harmonisation" and "foundation":

(1) "Choice" strategy refers to the divestment of a brand (the "asset divestiture" type in the literature and Action 1 and Action 2 in the exploratory case studies above).

(2) "Growth maximisation" strategy represents the combination and subsequent management of merging brands to maximise their growth (the "resource redeployment" process in the literature and Actions 1 in the exploratory case studies).

(3) "Harmonisation" strategy is the process of aligning merging brands in order to capitalise on their scale to achieve cost savings and operating improvements (the "resource redeployment" process in the literature and Action 3 in the exploratory case studies).

(4) "Foundation" strategy refers to the development or creation of new brands or new capabilities based upon the combination of merging brands or their elements (the "resource redeployment" process in the literature and Action 4 in the exploratory case studies).

The selection of a particular one of the four strategies – "choice", "growth maximisation", "harmonisation" and "foundation" – is to some extent determined by the four brand-market paradigms shown in Figure 2. For instance, because the brands

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of Adidas and Reebok were significantly overlapping in terms of their customer segments and geographic markets, the reduction of overlapping products within the two portfolios was one of the key actions that helped to achieve synergy between the brands in the two company portfolios.

The brand integration formulation stage (the formation of possible brand integration strategies and the selection of them) are depicted in Figure 3.

Brand integration implementation. At this stage the brand integration takes place as a result of the application of the four integration strategies – "choice", "growth maximisation", "harmonisation" and "foundation" – identified in the formulation stage and triggered by the four brand-market paradigms. The Adidas-Reebok exploratory case revealed "repositioning" (one brand in place of another) as an implementation sub-strategy within the broader "growth maximisation" strategic option. There are many different possible implementation sub-strategies within each main integration strategies which will be examined and synthesised further.

This stage also demands some consideration of possible changes in the allocation, stretch and leverage of resources and organisational governance systems which are required for the smooth and successful implementation of the four integration strategies. The implementation stage often also involves the feedback and adjustment of the actions taken by the post-M&A organisation during their implementation.

Strategic framework for brand integration: putting it all together

Based upon Figures 1-3, a strategic framework for brand integration (strategies and process) is shown in Figure 4. This process contains three major stages:

(1) brand integration analysis;

(2) brand integration formulation; and

(3) brand integration implementation.

The analysis stage uses segmentation and positioning methods to identify whether the brands in the two company portfolios overlap or complement each other. This provides the merging firms with a view of the number of brands in each category of the combined portfolio and their relationship to each other. The analysis also takes into consideration environmental factor external to the company and internal asset and resource utilisation factors.

The formulation stage is mainly concerned with the formation, evaluation and selection between the four brand integration strategies:

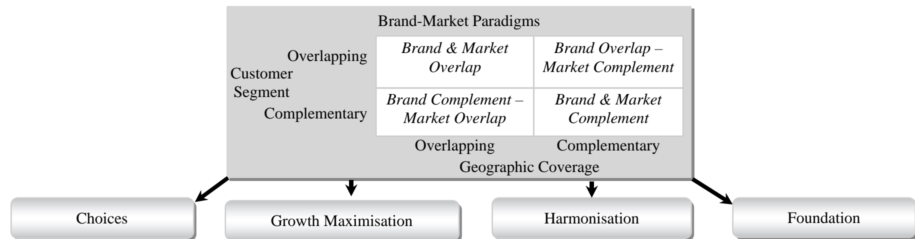

Figure 3.
Brand integration formulation (stage)

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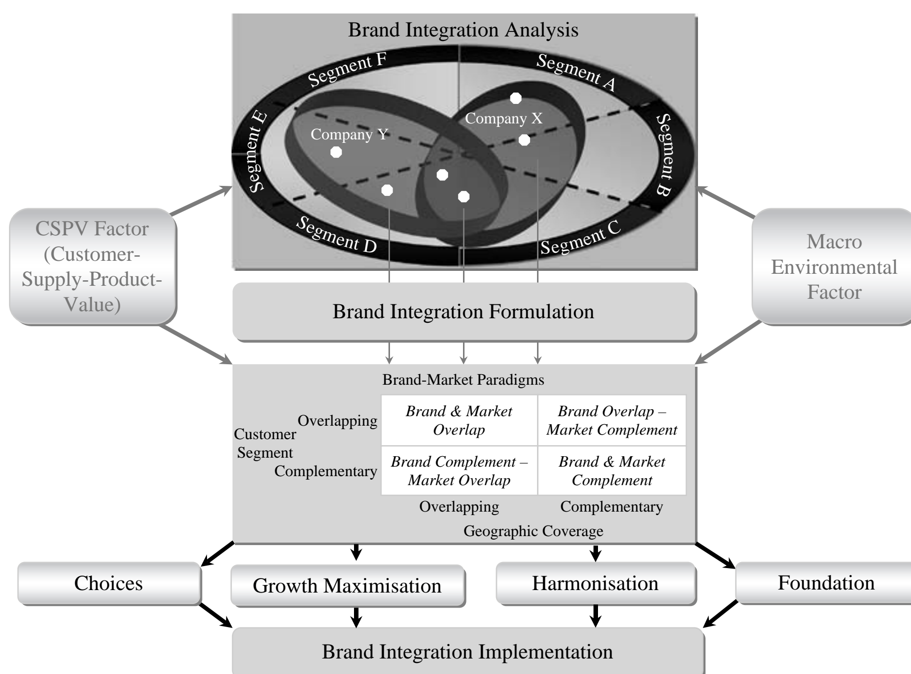

Figure 4. Strategic framework for brand integration in horizontal M&As

(1) "choice";
(2) "growth maximisation";
(3) "harmonisation"; and
(4) "foundation".

These strategies are triggered by the four brand-market paradigms which are built from the overlap and complementariness between the customer segments and the geographic market coverage of the merging brands.

The final stage – implementation – is concerned with the implementation of the four main brand integration strategies – "choice", "growth maximisation", "harmonisation" and "foundation". This involves taking different specific implementation actions within the individual brand integration strategies, allocating and utilising resources, possibly re-organising the corporate governance, control and feedback systems in order to give feedback and make appropriate "corrections" during the implementation of the three integration strategies.

It is important to note that there is a relationship between the four brand integration strategies and the two main approaches to strategy formulation. The "choice" and "growth maximisation" strategies are concerned with the fit between the firm and its environment. The "foundation" (and also possibly "harmonisation") strategy are concerned with the stretch and leverage of the firm's combined resources to create new competences and capabilities (i.e. new brands).

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Implications of the brand integration strategic framework for Chinese companies in acquiring international brands

UNCTAD (2008, pp. xv-vi) reports that:

> [. . .] continued consolidation through cross-border M&As contributed substantially to the global surge in FDI. In 2007, the value of such transactions amounted to $1,637 billion, 21 per cent higher than the previous record in 2000. Thus, overall, the financial crisis, starting with the sub-prime mortgage crisis in the United States, did not have a visible dampening effect on global cross-border M&As in 2007.

At the same time, UNCTAD also anticipates that the global financial crisis will begin to impact on FDI in 2008. However, from the given picture we can see that the overall trend of M&As is on the rise and they are becoming the dominant mode for foreign direct investment.

The report from UNCTAD (2008) also shows that a high percentage (up to 20 per cent) of cross-border M&A deals in 2007 has involved companies from developing countries such as China, India, Russia and South Africa. Table III demonstrates that among all overseas (outbound) M&A transactions made by companies in developing countries Chinese companies were involved in more than 20 per cent during the period between 2004 and 2007. At the same time, a number of Chinese companies has been acquired by foreign firms during this same period.

As an emergent major force in the global market landscape China has found itself many new opportunities in the global economy. From the overall M&A trend it can be seen that cross-border M&As play a crucial role for Chinese companies as they have been becoming more active as major players in global M&A activities. More and more Chinese companies use M&As as a key component of their internationalisation strategy and continue to acquire strategic assets outside China particularly in developed countries such as the United States of America, the Europe and Latin America. For instance, Chinese companies like Lenovo and TCL surprised the world by acquiring major international businesses such as IBM's PC division in the USA and the video-technology group Thomson in France. The recent cross-border acquisitions made by Chinese companies in the banking and steel sectors in Europe and the USA also demonstrate that overseas M&A activities by Chinese companies have continued even during the world financial crisis.

The main motives for Chinese companies making overseas M&As are described by Child and Rodrigues (2005): M&As provide a fast route for Chinese companies to gain access to technology, to secure research and development skills and to acquire international brands. According to the *China Daily* "innovation, which often goes hand-in-hand with brand image, has become vital for Chinese companies" (Baijia, 2006). This means that Chinese companies very often acquire brands and their underpinning technology and innovation capability. Brands are central to many organisations and several market-oriented researchers have claimed that proprietary technology and R&D are important parts of many brands. Strong brands that engender consumer trust and so allow price premiums are important for Chinese companies because many made-in-China products and services are associated with "low quality" and "cheap" attributes when perceived by worldwide consumers in spite of the significant quality improvements achieved by Chinese companies in recent years.

In order to internationalise Chinese companies are very keen to "buy into" the enormous influence that big brands exert at customer level around the world:

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Table III. Value (US$ million) and number (of deals) of cross-border M&As: China and total developing economies of seller/purchaser, 2004-2007

		Sales				Purchases			
		2004	2005	2006	2007	2004	2005	2006	2007
Developing economies	Value (US$ million)	53,120	95,738	131,831	152,942	37,925	99,455	156,807	179,969
	No. of deals	1,245	1,556	1,694	1,972	801	1,269	1,345	1,454
China	Value (US$ million)	6,768	11,590	12,128	15,537	1,125	9,546	14,906	4,452
	No. of deals	217	258	238	274	59	102	88	122
Hong Kong	Value (US$ million)	3,936	10,022	14,552	26,811	2,963	12,295	11,098	8,671
	No. of deals	143	217	195	232	128	189	186	186
Macau	Value (US$ million)	–	67	413	140	–	–	–	7
	No. of deals	–	7	5	6	–	1	1	1
Total China	Value (US$ million)	10,704	21,679	27,093	42,488	4,088	21,841	26,004	13,130
	No. of deals	360	482	438	512	187	292	275	309
Percentage of China	Percentage of value	20.2	22.6	20.6	27.8	10.8	22.0	16.6	7.3
	Percentage of no. of deals	28.9	31	25.9	26.0	23.3	23.0	20.4	21.3

Source: Consolidated from UNCTAD (2006, 2007, 2008)

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- Lenovo group, China's biggest computer manufacturer, spent US$1.75 billion to acquire IBM's personal computing division in May 2005. Through this acquisition Lenovo sought to acquire global prestige brands (ThinkPad for notebooks and ThinkCentre for desktop computers) together with one of the most visible and respected technology brands (the underpinning cutting-edge technology for the two brands was ThinkVantage). The ThinkPad and ThinkCentre brands were endorsed by the IBM name. A challenge for Lenovo was that they only bought the right to use the IBM trademark for five years after the acquisition. Lenovo also intended to internationalise its business through IBM's global massive and powerful distribution network.
- TCL-Thomson Electronics (TTE) was created in 2003 by the merger of the TV and DVD divisions of TCL Corporation, China's biggest consumer electronics maker, with the French video-technology group Thomson. The total asset value of the merged company was 450 million Euros, of which TCL accounted for 67 per cent. One of the main motives for the creation of the TCL group was to expand its presence in Europe and North America through the brand influence of Thomson, and thereby to build TCL into a global brand.

The above examples demonstrate that the acquisition of brands (including their technology, innovation and R&D components) acts as an important motive for many Chinese companies in making overseas M&As. However, these not only offer opportunities but also present many challenges and pitfalls: "Chinese companies still need to follow global changes closely" (Baijia, 2006). For instance, in the first nine months after TTE was formed TCL group suffered a loss of US$ 202 million from its European business: "The company was established mainly with assets for the production and sale of traditional cathode ray-tube TVs at a time when consumers demand was switching to flat-panel sets" (Kuo and Liu, 2006). Up to the present time (2008) the TCL group is still struggling to build TCL into a global brand. Our very recent interview with a senior director at the Lenovo group revealed that the deal with IBM PC was announced suddenly in "a beautiful morning" which caused "quite a stir inside Lenovo at the time". When engaging in M&As like the TCL or Lenovo ones Chinese companies need to pay great attention to the integration and subsequent management of all the brands that they so acquire but are often uncertain how to do this most effectively. There is an urgent need for proven guideline and a comprehensive strategic framework to enable them to plan and implement the brand integration process both effectively and efficiently. However, the lack of research on the brand integration phase in horizontal M&As has resulted in there being little advice available for companies confronting this task.

In response to this need our research paper offers international managers (including Chinese managers) the sought-after guidelines and strategic framework for carrying out the brand integration process in horizontal M&As. The framework comprises three stages:

(1) analysis;
(2) formulation; and
(3) implementation.

In the analysis stage managers are required to assess the merging brands from the perspectives of their markets, supply-side factors, their potential for product/brand

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development and their likely future role in value creation in the company. To achieve this most effectively requires them to be looked at from both their original owner's perspective and that of the acquiring company. The four main integration strategies represent the four available strategic directions (underlining different integration objectives) for the acquiring companies to consider and choose between in the formulation stage. Managers are recommended to consider utilising a flexible combination of these brand integration strategies (chosen from those described in this research) in order to meet their specific objectives and preferred practices.

Conclusions and discussions

Having highlighted the crucial role of brand integration for value creation delivery in horizontal M&As, this paper reviews three domains of literature:

(1) M&As;

(2) product and brand management; and

(3) integration approaches.

This literature review reveals that there is currently no research that has resulted in a model describing the strategies and process for the successful integration of brands in post-horizontal M&As.

Based upon the literature review and the findings of two exploratory case studies the paper develops a strategic framework for brand integration in horizontal M&As. This strategic framework takes a consolidated view of the four approaches to product and brand management (CSPV) and the two views towards strategic management ("fit" and "stretch").

Based upon this strategic framework, some important future research priorities have also been identified:

- While four integration strategies are identified in this paper, further empirical work is needed in this area to refine these strategies and to determine whether there are yet more strategies being used in practice.
- The Adidas-Reebok exploratory case revealed "repositioning" (one brand in place of another) as a sub-strategy. This sub-strategy can be seen as a specific way of integration within the broader "growth maximisation" integration strategy. Further work is needed to establish what other sub-strategies exist and the circumstances in which they occur.
- While the brand integration process has been conceptualised, further empirical work is also needed to refine and improve this normative model for optimising the value-creation process arising from post-M&A brand integration.
- Best practice procedures for each of the brand integration strategies need to be explored in order to optimise the effective and efficient implementation of the strategies and sub-strategies for brand integration.

The aim of this research was to develop a strategic framework and guidelines for dealing with the integration of brands in the context of horizontal M&As. Because each M&A is extremely complex in terms of the number of factors that influence its outcome relevant and reliable quantitative studies (surveys, for example) are very difficult to realise. Therefore, this paper suggests that future research in this area should initially adopt

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a qualitative methodological approach using multiple sources of data – particularly case studies. Such an approach can yield "the intricate details of phenomena that are difficult to convey with quantitative methods" (Strauss and Corbin, 1990, p. 19).

Notes

1. This case study is consolidated from different sources such as newspapers, company's website and press releases.
2. This case study is consolidated from Edmondson *et al.* (2005) and Kroger (2007).

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