



Master thesis

Consumer perceptions on the incorporation of established brands
- The acquisition of Body Shop by L'Oréal -



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Abstract

This thesis aims at investigating consumers' perceptions on the incorporation of an established brand and how the general attitude and buying behaviour is altered in the course of an acquisition. The combination of two or more brands in a newly formed conglomerate implies a combination of values, principles and associations that might affect a company's appeal. Therefore, underlying reasons for M&As will be elaborated upon as well as branding concepts based on brand image, loyalty and reputation in order to bridge the two theoretical areas with a case study. The acquisition of Body Shop International by L'Oréal represents the practical case, which will be analysed in reference to consumers' reactions towards it. Quantitative consumer questionnaires will be conducted in order to collect representative data on consumers' perceptions and associations of the brand Body Shop. Moreover, an expert interview with a Body Shop representative will be executed in order to add the company's perspective. By analysing the results of the questionnaire, the thesis reveals an observable trend towards a correlation of the awareness of the acquisition and a negative shift in customer perception. The buying behaviour is however not found to be influenced by the combination of the two firms. In conclusion, it can be stated that the need for pre-acquisition analysis regarding strategic fit and compatibility of values and associations is assured. The study clearly identifies that brand dilution is a possible threat for established brands and implies the risk of lost credibility and loyalty.

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1. Introduction

1.1 Research purpose / Problem definition

1.1.2 Rise in M&A activity

In today's business world, mergers and acquisitions play an important and undisputable role in the creation of a sustainable competitive advantage. Although there have always been historical merger and acquisition waves, often characterized by periods of high rates of economic growth, declining interest rates and rising stock markets, they gained in importance in recent years. For the last 30 years, M&A activities have increased constantly in both number and average size (DePamphilis, 2005, pp. 24-31). In a very competitive and global environment various reasons can account for companies undertaking these deals, often involving extremely high financial payments. Market-, cost-, competitive- or government drivers (Child et al., 2001, pp. 9-15) can all influence a company's decision to opt for M&A as the primary mean to quickly increase revenues (Galpin and Herndon, 1999, p. 4). More specifically, operating synergies are often mentioned as drivers for merging. By combining complementary skills and resources both partners' economies of scale and scope can benefit, by spreading fixed costs for instance. Moreover, financial synergies, diversification aims, tax advantages, pursue of market power as well as empire building, also referred to as managerialism, can represent reasons, not always good ones though, to engage in such costly ventures (DePamphilis, 2005, p. 34). Generally, the justification for acquisitions lies in the potential value they are anticipated to create in the future (Child et al., 2001, p. 20). The combined value of both merged companies should, consequently, be higher than the sum of the individual companies. This value creation through mergers, so theory, can be reached by using both companies' assets "more effectively by the combined firms than by the target and bidder separated" (Child et al., 2001, p. 20).

Although M&As almost seem to represent a part of everyday business life and the majority of multinational enterprises undertake more than one during their development, the risks associated are still comparably high. Even though there have been examples of extremely successful mergers there are findings that 50-80% underperform their industry peers and fail to earn the expected financial returns (DePamphilis, D., 2005, p. 28). Reasons for acquisition failure can range from over-optimistic estimates of the target company's value which result in extensive overpaying; over slow integration of all operational levels in the post-acquisition

phase; to poor, clashing business strategies impossible to merge (DePamphilis, D., 2005, pp. 31/32). Furthermore, the degree of relatedness of both businesses, as well as the distance in business or country culture are crucial factors to take into consideration (Child et al., 2001, pp. 21/22 ; Gancel et al., 2002, pp.10/11).

1.1.2 The influence on brands

As seen above, the potential issues are numerous, but considering M&As which involve established, strong brands the challenge can even increase. Compared to commodities, brands offer an added value to the customer, which is often difficult to quantify on a balance sheet. Brands can be defined as “a name, term, design, symbol or any other feature that identifies one seller’s good or service as distinct from those of other sellers” (Wood, 2000, p.4). Brands represent a point of differentiation in a competitive environment and are, therefore, critical success factors for the company. Through years of strategic brand management, combining all marketing elements in a reasonable way, strong, favourable and unique associations are established in consumers’ minds and a relationship between customer and the brand is formed (Wood, 2000, p. 4). These associations build up a brand image, which consists of both functional (“hard”) as well as emotional (“soft”) factors and is, in the optimum case, characterized by trust, loyalty and attachment (James, 2005, p. 2). The strength of the created brand is, however, dependent on the set of associations a customer holds as well as the ability to recall them in purchase situations (Chen, 2001, p. 2). Only then, when customers actively recall their set of memories, will it lead to a buying decision in favour of the particular brand. Although there are several definitions of brands, all of them suggest that a brand is something else than a product (Randall, 2000, pp. 3/4) and that consumers not only value that unique identity, but are also willing to even pay a price premium for it (Wood, 2000, p. 6). Besides ensuring quality standards and the guarantee of providing the expected benefits, brands offer more than simple generic products (Randall, 2000, pp. 12/13). Brands build up values and a heritage, which can be based on the brand itself, for instance its name or logo, or on other factors, such as creative advertising (Randall, 2000, pp. 12/13), history, corporate social responsibility, the identification with a company, country, distribution channel, a particular person representative for the brand, as well as places or events (Keller, 2003, pp. 70/71). When a brand is finally developed and anchored in customers’ minds, a Coca-Cola is not just a soft drink anymore, a Porsche not just a vehicle to come from A to B, and Ralph Lauren not just a clothes manufacturer. They distinguish themselves from competitors, maybe

even equal in quality and packaging, by their brand value. Brand owners, on the other hand, have to establish a deep understanding of the customers, represent what the brands stands for and manage it with consistency and diligence (Randall, G., 2000, pp. 13/14).

1.1.3 New perspective on consumer perceptions

Even though, as stated above, theory highly acknowledges the fragile composition of brands and the value of consistent brand management, brand structures are nowadays often altered by mergers and acquisitions. Smaller companies, often with established brands and customer bases, are acquired by multinational corporations, trying to capitalize financial and operating advantages. Brands are incorporated and products or services become part of a new company and get integrated into an existing array of products. Consequently, an overall portfolio of the two formerly independent companies emerges. As stated before, many complex reasons can motivate such an acquisition, which in some particular cases may lack sense from a consumer perspective. Although functional skills and resources may be perfectly complementary, soft, emotional factors can even be contradicting in some cases (James, 2005, p. 4). Brands, which are often closely aligned with the corporate culture and image of a particular company, are acquired by another enterprise, and inevitably associations and values are merges as well (James, 2005, pp. 2/3). But how does it influence the unique associations connected with the brand, how is a brand's image changed and how do customers react?

In literature, as discussed above, this issue is mainly approached from a company's perspective, covering reasons for M&As as well as the potential value of acquired brands and how it influences the company's overall brand equity. Moreover, it can be stated that most journals dealing with an alignment of brands concentrate on brand extensions (Reast, 2005; Srinivasan et al., 2005), rather than incorporated portfolios due to M&A. Although brand extension and new product development share a few aspects with the topic of this paper, and are often approached from the customers' point of view, it does not provide sufficient insight into the particular research area of newly emerged portfolios caused by acquisition. Since strategic decisions not only affect the company itself, but also various stakeholder groups, namely customers, employees, partners, the media and others they are of particular importance (Hannington, 2003, pp. 29-33). The paper is, therefore, trying to fill the gap that has not been adequately covered in literature yet and will look at the subject matter from

the buyer's side. Instead of analysing the profitability of newly acquired brands for a company, this paper will cover how customers perceive the newly formed portfolio after an acquisition and how it altered variable such as loyalty, credibility and buying behaviour. The buyer's perspective will be adopted by means of the case example of The Body Shop International, which was acquired by L'Oreal, the world's largest cosmetics company in March 2006. Combining different corporate cultures, ethical or ecological approaches in doing business or oppositional research and development activities can bring about various conflicts, as already stated above. These issues can be especially transferred to the case of Body Shop's acquisition, since it entails clashing corporate cultures, considering values, ethics and the general vision of the two companies. The \$ 1,2 billion deal between the comparably small, but renown cosmetics brand focusing on ecologically sustainable production processes, anti-animal testing, human rights, and environmental stances, and the conglomerate L'Oréal illustrates a conflict in brand image and identity to a very high degree. Animal welfare organizations as well as loyal Body shop customers have already reacted, calling out on a boycott of their products and referred to it as a "sell-out of values" (New Media Age, 2006-04-13, p. 1). These public reactions clearly show that this case possesses overall relevance and this thesis, therefore, raises following research questions. It is to be investigated whether the broader customer base perceive the acquisition as a loss of credibility and trust. Do consumers still differentiate between the two individual company portfolios, or does an acquisition wash-out the image, credibility and consistency of marketing strategies of a company? How much impact have these strategic decisions on buyer's perceptions and associations? Consequently, it will be also researched whether or not this may lead to a fundamental modification in buying behaviour and customer loyalty.

1.2 Research objective

This thesis aims at researching the extent to which customers experience and perceive the products of a brand as part of the overall portfolio of a corporate group or whether they have a differentiated cognition of the individual enterprises forming the concern. The buyer's perceptions will be addressed in reference to customer loyalty, brand image and brand credibility and will be assessed to investigate on an alteration of the buying behaviour.

1.3 Scope of study / Limitations

- A. The topic is generally not well documented, especially concerning the customers' point of view. This thesis will concentrate on investigating the influence of strategic decision-making in M&As on overall customer perceptions of the original brand.
- B. The research will not evaluate the correctness of the decision in favour of the acquisition of Body Shop, since various company-specific factors influence it and these are not the focus of this study.
- C. It will be necessary to interview various customers, preferably from Body Shop's target group, to understand buyers' perceptions and to display a representative image of the post-merger situation. This will be achieved by conducting a quantitative questionnaire in order to calculate average perceptions and illustrate it graphically.
- D. In order to add a critical aspect, the study will also cover the company's point of view through an open, qualitative questionnaire. This enables the research to contrast experiences of different groups affected by the acquisition.
- E. The research will include consumers from different national backgrounds, in order to make it more representative and to create the possibility for analysis if the outcomes differ. Specifically the questionnaires will be addressed to English customers, the country of origin of Body Shop, German and Swedish ones. The degree of familiarity with the brand, as well as the media attention given to the topic may vary from country to country and, therefore, give interesting insights.
- F. The literature review is not going to elaborate the formation of strong brands and their elements, since the case is dealing with already established brands and wants to investigate how the brand image and overall perception changes.
- G. The efforts within the empirical as well as the analytical part will be concentrated on the target group. Respondents outside the target group will be observed for possible revelations that deviate from the initial findings. Respondents over the age of 35 year are discarded completely, due to limited relevance and response rate.

1.4 Structure of the thesis

The thesis is structured as follows: section 2 discusses the methodology and reasoning for the design of the paper; section 3 covers the literature review, discussing the nature and integration process of M&As as viewed by different authors; brand concepts evolving around the importance of image and reputation in today's markets, as well as a combination of these two aspects by discussing the possible effects of M&As on brands; section 4 describes the two companies involved in the acquisition and the results of the consumer questionnaire; section 5 discusses and analyses the result in reference to the theoretical framework by linking the findings to literature.

2. Methodology

This thesis aims at increasing the degree of understanding of influential factors of M&As and to prove whether the individual brand images suffer and consequently, buying behaviour is altered. The arguments will be analysed both inductively and deductively. The chosen case of the Body Shop acquisition and the primary data gained in conjunction with it serve as a vehicle to derive general implications and recommendations for other M&As. This approach is consequently inductive. Nevertheless, the study relies on a sound theoretical framework allowing deductive reflection of various accepted concepts. The variety of data collection methods will be evaluated in reference to the appropriateness for the paper and the aligned research questions.

2.1. Secondary data collection

Primarily, the paper is based on a sound theoretical framework, relying on books, scientific journals and discussion papers. By reading up on the topics and concepts surrounding M&As, customer perceptions and brand attitudes, a general overview is established that helps to define the scope of the paper as well as its boundaries and limitations. Secondary data will be the basis of the theory chapter, which means "the data was collected for some purpose other than the problem at hand" (Malhotra and Birks, 2007, p. 94). Secondary data enables to cover the area of study generally and to identify the particular variables of interest for further investigation. The theoretical framework, therefore, represents the starting point of the subject matter, upon which further data collection is derived. Moreover, it will assist in how to approach the primary research and the composition, content and conduction of the questionnaires.

The paper is going to elaborate all influential aspects that are necessary to fully understand the elements of the case in an integrated way. This means, in the first part of the literature review the company perspective in favour of M&As is going to be described, as well as possible problems that might arise. Moreover, the individual companies with their pre-merger missions, images and values will be presented, the acquisition itself and the post-acquisition corporate group. Secondary data is sufficient to cover these aspects since it serves to put the research objectives into context and various reliable sources that dealt with the research area are available.

2.2 The case

Besides the theoretical section of the paper, the practical case of L'Oréal's acquisition of The Body Shop constitutes a crucial part. Scientific journals and Internet sites, such as the homepages of both companies, were addressed to clarify the conditions of the acquisition and to gather an overall picture of the growing corporate group. Due to the up-to-dateness of the case, newspapers, magazines and press releases were also included in the secondary data research. After obtaining the necessary background information, it becomes apparent that the paper is going to represent a problem identification research, rather than a problem-solving research. According to Malhotra and Birks (2007), problem identification researches refer to the identification of issues, which are not necessarily obvious yet, but are proven to exist or to appear in the future. As stated in the introduction part, this definition clearly corresponds to the topic of this paper. It is to be investigated whether or not M&As and the interrelated combination of product portfolios have an effect on the images of the individual companies and whether this is observed by customers and transferred into an altered buying behaviour. Since previous studies have not covered this particular aspect, this issue is to be tested in the following.

2.3. Primary data collection

In order to be able to thoroughly answer the research questions and test the hypotheses, primary data is needed. The theoretical basis already at hand, clearly identifies the gap of information that still has to be acquired. The central question of primary research consequently refers to what we want to obtain. What specific information is needed from customers to objectively answer the research questions of this paper? (Saunders et al., 2000) A research design, the "blueprint for conducting a marketing research project" (Malhotra and Birks, 2007), has to be

undertaken. The research questions stated in the introduction, verbalizes the gaps of knowledge about the customers' point of view. Therefore, customers are the target to empirical research and the centre of investigation.

2.3.1 Quantitative study-Research design and research process

Research design can be classified as either exploratory or conclusive, according to Malhotra and Birks (2007). Marketing phenomena can be approached by either one of these methods, but outcomes will strongly differ. Whereas in exploratory research the information needed is only loosely defined and the process is flexible and unstructured, the key element of conclusive design is structure. After evaluating both options in reference to the subject matter, conclusive design proves to be more appropriate. Conclusive design enables to test specific hypotheses, examine specific relationships and makes these findings measurable as well. Consequently, the research process will be formal and structured and aim at receiving the specific information that was clearly defined in advance. By engaging in a conclusive research, the phenomenon can be tested and the perceptions can clearly be measured and compared. Obviously, exploratory research allows more in-depth analysis by asking for the reasons for a change in cognition and gives more insight in the multitude of influential aspects. However, this is not the objective of this work. By employing a conclusive research method the factors taken into consideration can be narrowed down to examine a specific aspect. This method seems appropriate since the study is targeted on measuring how customers react to the combination of portfolios, and whether or not it influences their attitude towards the brand.

According to Cooper and Schindler (2003) opting for this alternative goes along with a more formal and structured research process and typically a quantitative data analysis. The research will be undertaken in a single cross-sectional design, which means that information is obtained by a sample of respondents only once (Malhotra and Birks, 2007). A longitudinal design, where a fixed sample is measured repeatedly over time, is not appropriate here. Since the acquisition of Body Shop is a current and prevailing development current reactions of customers are to be measured, rather than changes within regular intervals. Moreover, this approach would be too time-consuming for this particular paper. For future studies concerning this case it might be interesting though, to measure the overall brand attitude in 3-5 years again, where possible organizational and operational changes within L'Oréal are already implemented. Cross-sectional design "gives a snapshot of the variables of interest at a single point in time" (Malhotra and Birks, 2007, p. 76) and it has the advantage of

representative sampling and a low degree of response bias. As stated above quantitative observation techniques will be deployed due to the already mentioned reasons. Although qualitative techniques, such as in-depth interviews and focus groups possess the advantage of individualization over standardization and can reveal great insight into complex problems, the outcomes are difficult to measure. Moreover, they are rather unstructured and loosely defined which complicates precisely testing hypotheses. Consequently, quantitative methods, namely survey technique will be deployed in the empirical part of the thesis. Surveys are structured questionnaires, which are given to a sample of the population. This form of structured data collection is simple to administer and, more importantly, reaches a high degree of consistency since responses are limited. In order to enhance consistency even more, there will be fixed-response alternative questions, which offer a set of predetermined answers to choose from. The challenge will be not to impose the language and logic of the researcher upon the survey in order to allow objectiveness. Even though there is a given set of answers the findings should not be predetermined. Due to reasons of time, cost and reachability, personal, mail and telephone interviewing represent no options. Electronic interviewing is thus going to be undertaken. Technical problems are often mentioned as main disadvantages of electronic survey forms, referring mainly to the limited ability of customers to access the web. This is, especially in Europe where this survey will be completed, a rather negligible issue since regular access to web is common. Nevertheless, a limited flexibility of data collection, as well as a low control of data collection environment exists with this method. E-mail surveys do not imply personal interaction and that makes tailoring questionnaires, adding or skipping questions and other forms of adaptation difficult. Another disadvantage of electronic interviewing is a low response rate, due to randomly selected respondents and the ability to easily ignore the request. On average, the response rate is less than 15 per cent. This disadvantage is addressed and tried to be diminished by the snowball sampling, which promises higher response rates and which will be elaborated later in this chapter. Moreover, other stimuli such as product prototypes, commercials or promotional displays are difficult to involve in an e-mail survey. These means are, however, not necessary in the intended questionnaire and may even distract from the subject matter or influence respondents' objectivity (Malhotra, 1999, pp. 187-194). On the other hand, it has to be noted that e-mail surveys offer a speed advantage and involve low costs. Moreover, the interviewer bias is removed, since customers and interviewers do not interact, which counterbalances the challenge of language bias, mentioned above. The flexibility of data collection or

the use of physical stimuli, advantages of interactive methods, are not relevant for this study and consequently, e-mail surveys seem appropriate.

Since representativeness plays an important role with quantitative research methods, it is crucial to reach a sample, both big enough and representative. Non-probability sampling, where the selection of the sample is solely reliant on the judgment of the researcher, should be avoided. By engaging in the so-called snowball sampling the process will be carried out in waves. Even though there is limited access to e-mail addresses of possible respondents, snowball sampling allows for a representative group. The personal interview with Body Shop, which is going to be elaborated in the next paragraph in detail, provides the information on the target group and narrows it down to demographic factors, such as age and gender. More precisely this means that at first an initial group of females between 15 and 26 years will be picked to address the questionnaire to. These customers, after having completed the survey, will be encouraged to refer and distribute it to other consumers also engaging in the sample. Thereby, the limited access to e-mail addresses can be overcome and does not interfere with the quest for representativeness. Since the focus is placed on the target group, it is most likely to attain the majority of responses out of this group. Moreover, this approach does in most cases create a high response rate. Contrary to random sampling, where "each population element has a known and equal chance of selection" (Cooper and Schindler, 2003, p. 184), snowball sampling has restricted element selection. The questionnaires will be distributed to German, Swedish and British customers. This is primarily due to the availability of contacts, as well as the intent to increase representativeness. Moreover, it will be interesting to see whether the U.K., as the home country of The Body Shop, will show deviating results.

2.3.2 Qualitative interview

As stated in the Malhotra and Birks (2007) quantitative and qualitative research can also be mixed in order to complement each other and encapsulate different characteristics of the problem under investigation. Although the clear focus of this research is going to be placed on consumers, a quantitative method will be employed as an ex ante pilot study. As stated before, the core analysis is going to heavily rely on the quantitative customer survey, however. In preparation for the customer questioning, a pilot study with Body Shop International will be conducted in order to objectively choose an initial group of participants. Body Shop International, specifically the first subsidiary of Body Shop in Brighton, will be contacted to ask for the possibility of a qualitative interview. The interview will be carried out via telephone

with a responsible store manager and contains predetermined, qualitative questions. The expert interview tries to benefit from the personal knowledge of an insider, which means that any information is valuable and there will be no predetermined answer catalogue. By deploying a qualitative questionnaire with open questions more value can be created than by using quantitative methods. The pilot study fulfils two important aspects, which are essential for this thesis. Firstly, the target group of Body Shop can be defined accurately, which provides the basis for the quantitative consumer questionnaire. By narrowing down the target to a few demographic factors, such as gender and age, the initial group of respondents can be identified accordingly. Moreover, the quantitative expert interview serves another motive, namely to understand Body Shop's perspective. This refers not to financial aspects or reasoning behind the sale, but rather to present Body Shop's experiences with customers after the acquisition and their point of view concerning issues and conflicts involved. These statements can, later on in the analysis section, serve as means of comparison with the empirical results and might enable to back comments up or contrast them to the consumers' point of view.

3. Literature Review

The literature review is composed of three main parts, which intend to present a holistic theoretical basis in order to allow and justify an in-depth analysis of the empirical findings. The first part clarifies the concept of mergers and acquisitions in general, draws attention to possible problems and complications in the course of combining two companies and explains the justification of undertaking M&As from the company perspective. The second part elaborates brand concepts that explain the undisputable value of brands for firms, involving brand loyalty and reputation. M&As involve, among other aspects, a combination of organizational cultures as well as brands and hence, a discussion of branding is inevitable and necessary in this study. The third part will combine these sections by giving insight in the important consideration of brands in the M&A process.

3.1 Mergers & Acquisitions

3.1.1 Definitions

Due to the competitive environment of rapid change and the aligned constant need for growth and development, companies have to exploit organic sources of expansion as well as external ones in order to compete. The options, however diverse they might be, range according to the degree of integration that is established between the individual enterprises. Mergers and acquisitions are two common and prevailing means for company growth in today's business world. More precisely they represent options that aim at a very high degree of integration, as opposed to cooperative agreements and joint ventures. Generally speaking, acquisitions refer to a shift in the controlling ownership of a company that is taken over by another company. This can occur both through share purchases or other forms of the target's equity as well as asset purchases. The acquired firm can still exist as a legally owned subsidiary of the acquiring company, as is the case in the Body Shop acquisition. According to Child (2001, p.16) mergers, by contrast, aim at "total integration of two or more partners into a new unified corporation". They are usually coined by a consensual environment, where beneficial outcomes are ensured for both parties. Acquisitions, however, can also take place in a hostile setting, where the target's management is passed over and the shares are purchased against the wishes of the target company (DePamphilis, 2005, p. 5). Generally, acquisitions offer a certain degree of choice concerning the magnitude of integration, which mergers do not

permit. Moreover, acquisitions are mostly known to be unequal partnerships (Child et al., 2001, p. 16). Although the terms mergers and acquisitions are often used interchangeably, they entail very different concepts. In the following section M&A activity will be elaborated upon in more detail including the reasons that motivate it and the problems that can occur.

3.1.2 Possible problems associated with M&As

3.1.2.1 High failure rates

Mergers and acquisitions have established a sound position as primary means to quickly achieve a growth in revenues. Driven by globalisation in general and boundaries to organic development, which every company sooner or later faces, they represent a valid strategic option. Established companies are bought in order to benefit from an installed customer base, new distribution channels or access to global markets (Galpin and Herndon, 2000, p. 4/5). Mergers and acquisitions, although a common mean for attaining sustainable competitive advantages, seldom live up to the expectations and have failure rates up to 50 to 80 per cent (DePamphilis, 2005, p. 28). After five years, 50 per cent of all acquisitions are perceived to be failures (Gancel et al., 2002, p. 4). Business Week Magazine discovered that most mergers are found to be unsuccessful from a shareholder's point of view and compared to their peers, stocks of recently acquired or merged companies underperform by 25 per cent (MacDonald, 2005, p.1).

3.1.2.2 Pre- and post-acquisition factors

But if two companies are willing to cooperate in a certain way to benefit from a combination of expertise and resources and to enhance their competitive edge, why do they fail? From a theoretical, financial perspective, the net present value of projects is the one variable of interest to determine the success of a venture (Mac Donald, 2005, p.3), but in reality various diverse aspects influence the probability of success of each acquisition, involving both pre- and post-acquisition factors. Mistaken or over-optimistic estimations of the target company's value and the realizable synergies account for one of the reasons (Child et al., 2001, p.21/22 ; DePamphilis, 2005, p. 31), as well as post-acquisition administrative and managerial issues that occur due to poor or slow integration. By overpaying the target company substantially the bidder ends up in a situation where profitability has to be increased dramatically, in order to fulfil the previous expectations and earn the required rates of return anticipated and claimed by the investors (DePamphilis, 2005, p.32/33). What

Berle and Means (1932, cited in Child et al., 2001, p. 21) refer to as the “divorce of ownership and control”, also called agency-principle theory, constitutes another potential source of dilemma. Since shareholders own the company, and managers are only employed to lead it, a separation of ownership and control evolves. Managers pursue their own, very personal goals, which might interfere with the corporation’s objective targets, and consequently, damaging decisions might be made. Personal benefits and prestige, strive for empire building and opportunity for advancement are some of the underlying causes.

3.1.2.3 Cultural differences

According to Child et al. (2001, p. 22 ; Gancel et al., 2002 ; Schraeder and Self, 2003) cultural differences between the acquired and the acquiring company are often covered insufficiently and can affect the achievement of potential benefits. Risberg (1997) states that culture is a very complex phenomenon with various dimensions and layers, which is not necessarily shared across an organization. Gancel et al. (2002, p. 7) defines culture as the “values, customs and beliefs that dictate how we view and respond to our environment.” This cultural aspect is applicable to both national and corporate settings. Even if national cultures are compatible, the norms, ethics and traditions within an organization may differ substantially. As Fralicx and Bolster (1997, cited in Schraeder and Self, 2003, p. 2) phrased it, “cultures can be a make-or-break factor in the merger equation”. These so called cultural clashes, the “conflict of two companies’ philosophies, styles, values and missions” (Nguyen and Kleiner, 2003, p. 3) are the reason for many M&A failures. All attempts to introduce change in the new corporation can be aggravated or completely hindered by a lack of cultural consensus (Bijlsma-Frankema, 2001, p. 3) and an “us versus them” thinking (Mirvis and Marks, 1992, cited in Nguyen and Kleiner, 2003, p. 3). The confrontation with a very different corporate culture can lead to a disillusioned and resentful partner that adopts a repulsive position (Gancel et al., 2002, p. 15). Even though pre-acquisition conditions can have great impact on the success rates of M&As, many of them can be overcome by careful due-diligence processes involving Culture Bridging, states Gancel et al. (2002, p.20).

3.1.2.4 Post-acquisition management

Post-acquisition management is referred to as the most crucial and critical part of combining individual companies. Angwin (1999, cited in Child et al., 2001, p. 22) argues that “the post-acquisition phase (...) clearly mediates as between pre-

acquisition characteristics and post-acquisition performance.” No matter how attractive and promising the business opportunity is, the value has to be actively transferred and jointly applied in the new corporation in order to fully deploy the competitive advantage (Salama et al., 2003, p.2). To meet this main challenge Galpin and Herndon (1999, p. 22) identified three components of risk, namely the basic integration risk, the risk factors associated with organizational cultures and the human-capital-related risk. Integration, as simple as it may sound, is a very complex issue. According to Gancel et al. (2002, p. 28) there is no optimal degree of integration applicable for all firms. It is rather a strategic decision where individual aspects need to be considered. The motive for an acquisition and the aims pursued by it, have an important impact on the degree of interaction and consequently, the necessary degree of integration (Salama et al., 2003, p. 3-4). Total integration and operational autonomy are the extreme variables that have to be traded off in order to reach an appropriate level. A higher degree of integration might be necessary to capture the synergy effects that are aimed at by the merger, but organizational autonomy of both companies can also be an important factor of success. By maintaining the autonomy, higher levels of commitment and enthusiasm within the individual firms are retained. Whereas some perceive finding similar corporate cultures and managerial concepts as a “common panacea” against integration conflicts and employee dissatisfaction (Larsson, 1993, cited in Salama et al., 2003, p.2), others argue that managing differences and complementary resources adequately might, in the long run, have a positive and stimulating effect (Child et al., 2001, p. 27). Furthermore, according to Salama et al. (2003, p. 2) it is more realistic to focus on integrating different cultural norms than finding the “ideal cultural fit”. Integration, as the second most mentioned factor for M&A failure, is assumed as the goal of every acquirer. The extent and form of integration, as well as the speed can vary strongly from case to case. Some authors, as Balmer and Dinnie (1999, p. 2), argue that a long-term approach of merging is more appropriate than a fast, short-term orientation. This means that even if some authors hold that mergers coined by a rapid integration have more potential to live up to the acquirer’s expectations (DePamphilis, 2005, p. 216), long-term considerations should not be neglected. These variables can be influenced by factors like cultural fit, as discussed before, the relatedness of the businesses, size and quality of the acquired firm.

3.1.2.5 Influence upon company assets

By merging two formerly independent firms, the newly emerging corporation

experiences often a loss of 5 to 10 per cent of its customers as a direct result. Moreover, McKinsey (1996, cited in DePamphilis, 2005, p. 217) states that on average merged companies grow 4 per cent less than their peers in the three following years. In conjunction with M&As a high turnover rate is likely to occur, especially that of top management and key employees. This loss of knowledgeable, trained and developed employees can degrade the value of the target company significantly. A certain “brain drain” is, however, inevitable in corporate takeovers, since inefficiencies and redundancies should be decreased (DePamphilis, 2005, p. 217). Furthermore, insufficient information flow can cause various problems and can lead to feelings of uncertainty and ambiguity among the staff (Kahn et al., 1964, cited in Risberg, 1997, p. 2). Employees’ attitude can range from feared layoffs, loss of control, over possible relocation, losing their identity or work reputation, new responsibilities, to the loss of peers (Schraeder and Self, 2003, p. 5). Often it is rather the uncertainty about events than the actual changes that cause employee stress (Anon, 2002). In order to preclude great human resources issues that come along with uncertainty and an atmosphere of change in a company and also to help ease the transition, good internal communication is essential. This communication refers to both, organizational changes and communicating how success will be measured and rewarded. Communication is advised to be “straightforward, transparent, measurable and identifiable” (MacDonald, 2005, p. 2-5). Both top managements and employees need to be involved in the process from the very beginning in order to understand the impact on the corporation as well as on their personal careers (Galpin and Herndon, 2000, p. 45). The need for open communication can be even enhanced by the high media attention often associated with high-priced acquisitions, so Balmer and Dinnie (1999, p. 2). In order to prevent bad press and misunderstandings, it is crucial to openly communicate with employees and customers to a certain degree. According to Nguyen and Kleiner (2003) customers get a feeling of uncertainty about whether or not product lines will be abandoned or still survive beyond the merger, and whether the service and support will still be available. Consequently, customers reconsider their buying decision and might opt for a competitor’s products. To avert a change in buying behaviour, “future product roadmaps” should be published as soon as possible in the process, which would clarify which products would continue to exist in the wake of the merger. In addition, it should be assured that service support and access to sales personnel will stay unmodified without interruption. Another critical aspect concerns a company’s identity and reputation. By merging with another firm, it is often advisable and necessary to develop a new corporate identity reflecting the joint values and goals. Van Riel (1995, cited in Balmer and Dinnie, 1999) places high

significance on a powerful corporate identity as means to increase the “likelihood of identification or bonding with the organization (...) both to internal and external target groups”. Moreover, it has to be noted that reputation can be damaged, maintained or strengthened during a merger or acquisition and that the diligence of execution can decide the outcome. Cultural aspects are again to be included and represent a core concern to a company’s corporate identity.

3.1.2.6 The integration process

As stated before, a trade off occurs between the need for strategic interdependence of the two firms, which represents the value that is created by the combination of individual resources, and the organizational autonomy of each. Financial control is mostly the first operational field to be integrated in the post-acquisition phase, followed by changes in the top management team, organizational structure and individual departments, such as sales and marketing or production. This depends greatly on the particular case and the degree of operational autonomy both of the companies want to maintain. Moreover, according to DePamphilis (2005, p. 218) it is advisable to identify projects and divisions that offer the most immediately pay-off and implement those first, while postponing critical projects that may result in great losses. Careful management and integration can prevent high pressure and disruption, at least in the unstable post-acquisition phase. There are variations in theory on how to approach integration, but there is consensus that it has to be perceived as a process (Child et al., 2001, p. 25-31). Planning is as essential as communication, and finally implementation, according to the adage “fail to plan and you plan to fail” (Gancel et al., 2002, p. 6; Covin et al., 1996, cited Schraeder and Self, 2003, p. 7). Hitt et al. (1998, cited in Child et al., 2001, p. 29) identified six variables affecting the possible success of M&As, namely resource complementarities, friendliness of the process, low-to-moderate debt, change experience, emphasis on innovation, and focus on core business. Child et al. (2001, p. 30), however, categorizes them as either non-managerial factors or managerial factors. Non-managerial factors relate to the size of both companies, date of acquisition, business sector and nationality. Managerial ones, on the other hand, include post-acquisition integration and changes in practice. Whatever guideline is followed by corporations does not change the need to define the organizational and cultural issues beforehand, in order to adequately manage them. Each firm confronted with the boundaries of organic growth, has to face the problem how best to reconcile global advantages with local awareness, and international control.

Generally, it can be stated that attention has to be drawn to both financial aspects, as well as the complementally psychological and cultural issues (Balmer and Dinnie, 1999, p. 8; Bijlsma-Frankema, 2002). In the end, however, the question of whether the corporate marriage pays off or harms the company image more than it creates benefits still remains.

3.1.3 Reasons in favour of M&A – company perspective

3.1.3.1 Popularity of M&As

Worldwide M&A activity is growing at a strong pace and has been growing for decades already, including both the public and private sector (Balmer and Dinnie, 1999, p. 2). Where reaching increased market share takes too long by organic means, investment in research and development represents an expensive option and M&As tend to be the alternative of choice to meet a unique business opportunity (Lynch, 2002). M&As are a major and increasingly popular vehicle of foreign direct investment (FDI) by companies. Inflows of FDI were substantial in 2005, with a rise of 29 per cent compared to the preceding year. It reached a value of \$916 billion and increased in 126 of the 200 countries included by UNCTAD. Cross-border acquisitions, more specifically, rose by 88 per cent in value and reached a level of \$716 billion. Cross-border acquisitions are takeovers of one company by another, which is situated, or at least headquartered, in a different country. Regionally, the member states of the European Union were a favoured destination, with inflows of \$422 billion (World Investment Report 2006). Since engagement in foreign countries is a growing phenomenon and the L'Oréal acquisition can be classified as such, emphasis will be placed on cross-border activity in the following. Moreover, it is interesting to note that 141 mega deals, with a transactional value of more than \$1 billion occurred, with Body Shop being one of them. Generally, it can be observed that M&A activity tends to increase in periods of high economic growth, rising stock markets and low interest rates, following economic cycles (DePamphilis, 2005, p. 24).

3.1.3.2 Causes of M&As

According to Child et al. (2001, p. 15) “international M&As contribute towards globalisation as well as being a response to it.” M&As are a part of globalisation, since they are motivated by the liberalization of markets and global interaction. Govindarajan and Gupta (1998, cited in Child et al., 2001, p. 10) pointed out that globalisation represents a growing interdependence of nations, exchanging goods,

services, capital and know-how across boundaries. This development is dependent on the opening of international markets and the increase in communication and interaction techniques. M&As are, therefore, seen as the logical response to the powerful drivers of globalisation and often represent an attractive strategic option to position yourself in the global environment. Child et al. (2001, p. 9-15) states that market-, cost-, competitive- and government drivers all account for the increase in acquisitions generally, and cross-border activity specifically. Market drivers refer to the growing assimilation and homogeneity of customer needs and ways to respond to them. The emergence of a global customer, international distribution channels and marketing means lead to an interchangeability of resources and skills across countries. This is not contradictory of the existing need for local sensitivity and adaptation, however. Where appropriate, economies of scope can be achieved and captured, even if the company's functions are not entirely organized on a global scale. This leads to another incentive for cross-border M&As, the cost drivers. By relying on international standardization and thereby, realizing economies of scale in a few, or even only one of the operational areas, cost advantages can be achieved. In addition, a certain competitive pressure is exercised by other companies moving abroad and developing global strategies, known as the competitive drivers. It is necessary, however, to find the appropriate level between full global standardization and complete local market responsiveness. Furthermore, government drivers constitute an important force behind cross-border acquisitions. They might even represent the most significant force, as Yip (1992, cited in Child et al., 2001, p. 14) observes. By understanding and implementing the freer trade argument and the aligned benefits, governments make this development possible in the first place. Liberalizing markets, eliminating or decreasing trade barriers and establishing common market regulations, governments play a supportive and active role in the boom of international M&As.

3.1.3.3 Creating added value

The general underlying reason for engaging in M&As is the potential value creation that is anticipated to occur. Salama et al. (2003, p.1) observes that value creation is the most important target of a successful combination of operations. According to Shelton (1988, cited in Child et al., 2001, p. 20) added value is created when the capabilities and resources of the individual companies are deployed more effectively in the mutual enterprise. Synergies are often mentioned as motives of mergers and refer to "the strategic and operational advantages that neither firm can achieve on its

own”, as defined by Schweiger and Weber (1989, cited in Child et al., 2001). Synergies occur in the form of operating, as well as financial synergies. Financial synergies exist if the cost of capital is lowered by the combination of financial structures. This can be achieved if, for instance, financial economies of scale are reached or if investment opportunities are matched better with internal funds. Operational synergies, on the other hand, can be gained by usage of economies of scale and scope, which, if executed properly, lead to improved operating efficiency and improved results. Economies of scale are attained by spreading fixed costs over increasing production. Whereas economies of scale refer to the combination of two or more related products in one company, rather than producing them in separate firms (DePamphilis, 2005, p. 17/18). The newly emerged company is able to leverage the knowledge, resources and superior capabilities infused into the old operational structures (Galpin and Herndon, 2000, p. 5). It offers the possibility to gain control over a new distribution channel, competitors’ production expertise or complementary assets. The existing product portfolio might be supplemented and cross-company learning effect can arise by combining managerial and operational skills. An acquiring firm may also be seeking to acquire intangible assets of creativity, know-how and long-established relationships with customers, in order to enhance their competitive capabilities (Child et al., 2001, p. 16; Gupta, 2001, p.1-2). In addition, diversification strategies can represent an influential factor, implying that the conglomerate engages outside the company’s current primary lines of business. This factor mostly occurs when the core business area is in decline and operational areas with higher growth prospects become attractive. Empirical studies contradict this argument, however, since Morck et al. (2004, cited in DePamphilis, 2001, p. 20) found that companies do not benefit from unrelated diversifications and are rather perceived as risky alternatives by investors compared to peers that have more focused businesses. Another reason to acquire a counterpart can lie in the attempt to quickly adjust to changes in the external business environment, such as technological or regulatory ones. Moreover, it gives the company the possibility to transform itself by contributing to corporate renewal. A high degree of renewal can be reached with M&As at a speed not achievable by organic development (Angwin, 2001, cited in Salama, 2003, p.1). Other reasons, that are not in the best interest of the company but still serve as motives, are the aims to increase the company size, benefit from prestige and power (Donaldson and Preston, 1995, cited in Schraeder and Self, 2003, p. 4) or the pursuit of increased market power. These factors, however, will most probably not enhance shareholder value, but harm the company. Shareholder value is often considered as the variable of interest and is anticipated to gain in the course of acquisition. In reality

various authors found that the acquiring company does in most cases not increase shareholder value, at least in the early post-acquisition years (cited in Child et al., 2001, p. 21). Moreover, other success dimensions, such as profitability or market share, suffer in both the acquired and the acquiring firm. Nevertheless, the prospect of future profitability and synergy effects also hold a strong appeal to decision-makers and leads to growing numbers of M&As (Salama et al., 2003, p. 1).

3.2 Brand concepts

Due to the abundance of different concepts, terms and definitions surrounding brands the following section will clarify the most important ones, which are of importance for this thesis. The power of brands in today's markets (Katsanis, 1994, p. 1) will be elaborated by explaining how brands are anchored in consumers' minds and how the perception of image and reputation is influenced. This is the basis for a justified analysis of the empirical findings later on.

3.2.1 Brand essence

According to the American Marketing Association (1960, cited in Wood, 2000) a brand is a "name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors." Even though this definition was already formed in the early stages of marketing, it is still prevailing and captures the main idea and essence of branding. A brand is something different from a product, more than a simple commodity (Wood, 2000; Randall, 2000, p. 4). Whereas commodities are characterized by a lack of perceived differentiation, as in the case of tin or iron, brands aim at delivering a standard of quality, reliability and credibility (de Chernatony and McDonald, 1998, p. 10-12). According to DelVecchio (2000, p. 1), brands represent a form of "insurance policy against the potential time, monetary, and social/psychological losses facing consumers when they purchase a product."

The product with all its physical attributes, such as colour, shape, size, smell, taste, etc. represents the basic part with product quality and functionality as definite major influential factors on the success or failure of a product. But, even though all brands start as undifferentiated products in the beginning, the point of differentiation is exactly what will distinguish them from other offerings (Randall, 2000, p.4). The difference between a product and a brand is related to the concept of added value that consumers experience when buying or consuming a branded product. Wood

(2000) even argues that brands and added value are synonymous. As all variables that are not quantifiable, added value is a very subjective sensation that can vary substantially from customer to customer (Sherrington, 2003, p. 69). Some may be indifferent between the various soda manufacturers in the world, just seeking for a refreshing drink; others attach much more than the pure product to a company like Coca Cola and connect a certain lifestyle and image to it. The key change that allows a product to evolve into a brand in consumers' minds is the existence of intangibles. As Randall (2000, p. 4; Sherrington, 2003, p. 69) put it, "a product is something that is made in a factory; a brand is something that is bought by a consumer." Features, such as image, reputation, credibility and unique associations are, if managed carefully, attached in a positive way to a commodity and thereby increase the value for the customer. The satisfaction or benefit associated with the brand, that encourages consumers to purchase the product can be real or illusory, rational or emotional, tangible or intangible (Wood, 2000). According to de Chernatony and McDonald (1998, p. 21), brands aim at delivering and satisfying both consumers' rational and emotional needs, ranging from taste, quality and aesthetics to feelings of prestige, style or social reassurance. The adequate balance of saturating both these needs, distinguishes successful from less successful brands. Wood (2000) identified the achievement of a competitive advantage over rivals as the main purpose of brands. Moreover, the mechanism to achieve this is by creating differentiated attributes that customers value and are willing to pay a price premium for. According to Keller (2003, p. 99) "strong brands blend product performance and imagery to create a rich, varied, but complementary set of consumer responses to the brand." This means that a strong brand should address both head and heart, which entails a certain duality. Whatever consumers associate with it, however, has to be defined in consumer terms, clearly communicated and carefully managed to ensure the constant delivery of these values. The added values of a brand enable the differentiation between competitive offerings, and therefore brands are often critical success factors in a company's portfolio. Consequently, brands need to be approached strategically, attributing the necessary importance to the matter. Moreover, it is necessary to acknowledge that it entails a continuing relationship between the brand and the consumer, which is not static but in constant shifting (Sherrington, 2003, p. 70). The company, therefore, needs to invest effort to maintain the relationship. The focus on adaptation to changing variables is not only due to altering consumer preferences, but also due to competition. Branding has to be continuously adapted to remain both effective and efficient and to stand out in comparison to the magnitude of alternatives (Randall, 2000, p. 2-3).

The extremely important role customers play in the whole branding concept, is widely acknowledged. Randall (2000, p. 6) summarizes that it is not the manufacturer or supplier who decides whether or not a product is a brand. It is the customer who considers the product as distinct from others. A successful brand has to transfer this unique set of noticeable benefits, not only to a few individuals, but to a collective target group.

In order to establish a strong brand, a high degree of familiarity and awareness in consumers' minds has to be created which ultimately should conclude in strong, favourable and unique associations. It is essential to deliver the message that there is a meaningful difference among brands in the same product category.

3.2.2 Brand awareness and brand image

According to the associative network memory model illustrated by Keller (2003, p. 64), memory can be explained as a combination of nodes and links, where the nodes represent certain information or concepts, and the connecting links represent the strength of association between these concepts. Brand knowledge, which marketers aim at establishing and anchoring in buyers' minds, is composed of two terms: brand awareness and brand image. Brand awareness refers to the strength of the nodes, which more specifically relates to the ability of customers to consider a brand under different conditions. Definitions of brand image, on the other hand, are often imprecise or less definite. Randall (2000, p. 7) summarized it as being the sum of all information customers have received in relation to the brand, which means the present attitude in the minds of consumers. In conformity with the associative network memory model, Keller (2003, pp. 65/66; Sherrington, 2003, p. 69) referred to brand image as "perceptions about a brand as reflected by the brand associations held in consumer memory." In comparison to brand awareness, which represents unfiltered information without judgment, brand associations entail the meaning of the brand for the consumers and therefore, form the image. Brand knowledge represents the basis for an often-mentioned concept in branding, namely brand equity.

Brand equity refers to the value and strength of a brand, which is driven by the differential effect of customer brand knowledge. Based on Aaker (1991, cited in Chen, 2001, p. 1), brand equity is composed of a set of assets, namely brand loyalty, name awareness, quality, brand association, and other proprietary assets such as patents and trademarks, which are linked to a brand's name or symbol. According to Keller (2003, p. 42), products are endowed with the "power of brand equity" by successful branding, which is defined as the marketing effects that are uniquely

attributable to a specific brand. To sum up, in order to create brand equity consumers have to possess high levels of awareness and familiarity with the particular brand, as well as hold some strong, favourable and unique associations. The term brand awareness consists of brand recognition and brand recall performance, which represent different circumstances in which the brand is identified. Brand recognition refers to the ability to recognize the brand as previously seen, heard or experienced, when confronted with it. This condition relates for instance to a buying scenario in a store, where brands are openly displayed. Brand recall, on the other hand, is generally more difficult to achieve, since it implies the ability to identify the brand without direct exposure to it. More specifically, it relates to considering the brand when given the product category or a purchase situation as a cue (Apéria and Back, 2004, pp. 44-46). The importance of brand recognition versus recall depends heavily on the extent of product-related decisions occurring with the brand being present or not. According to Keller (2003, p. 68/69; Katsanis, 1994, p. 4), brand awareness is a prerequisite for the formation of a brand image, since a certain brand node in consumers' memory needs to be established prior to linking personal associations with it. Logically, a brand has to be first actively known to build up a perception about it (Apéria and Back, 2004, p. 45). Moreover, if brand awareness is high enough, it will result in actually considering the brand in an adequate buying decision. As explained in literature, the brand becomes part of the "consideration set". Finally, when part of the consideration set, higher brand awareness can represent a choice advantage over other brands within the set (Keller, 2003, p. 68/69).

If brand awareness is actually the basis of forming a strong brand, how is this important step achieved? Awareness is created by increasing familiarity with the brand, which is attained by repeated exposure to the customer. The more you see, hear or experience a brand, the more likely it will be manifested within your memory. As simple as it sounds, there are various forms of pursuing brand awareness, namely advertising and promotion, sponsorship and event marketing, publicity and public relations, and outdoor advertising. All these methods, however, do primarily influence brand recognition, since they mainly focus on familiarizing consumers with the brand in the first place. In order to actually reach and positively influence brand recall, necessary links between the product and the category need to be established. By creating strong category associations or purchase clues, a brand will be more likely recalled and considered in a specific consumption situation.

After having reached an adequate degree of brand awareness, brand image can be assessed by linking strong, favourable and unique associations to the brand in

memory. According to James (2005, p. 2), brand associations refer to anything about the likeability of a brand and support establishing a sound brand image. Chen (2001, p. 4) states that brand associations are either product or organization associations, whose importance varies for individual companies, on the basis of their emphasis on corporate versus product related benefits. Product associations can be classified as functional or non-functional associations, organization associations, on the other hand, refer to corporate ability and corporate social responsibility. Research (Chen, 2001) has shown that combining both, corporate branding with product branding increases the value of the brand. Establishing these associations is mainly achieved by marketing programs, but can also be influenced by personal experiences, word-of-mouth, external media vehicles or other information sources (Keller, 2003). The strength of the brand associations is dependent on both the quantity and quality of the information, which means that the amount of repeated processing enhances the chance of storage (Keller, 2003). If this information possesses a personal relevance for the client and is communicated with high consistency, the probability for strong associations is augmented. The choice of associations that are to be linked to a brand has to be made on the basis of careful consumer and competitor analysis and has to be inline with the intended positioning. Generally, Keller (2003, p. 72) states that favourable associations are “those (...) that are desirable to consumers and are successfully delivered by the product”. The desirability again is influenced by the personal relevance of the association, the degree of distinctiveness and how believable consumers find it. Brand associations include, according to James (2005, p. 2 ; Chen, 2001, p. 2), appropriate usage situations, product category, product attributes and consumer benefits. Strong associations can help the consumer understand information, create positive feelings and can support brand extensions (Apéria and Back, 2004, p. 48). Another aspect, mentioned by Keller (2003, p. 72), which influences brand image is the uniqueness of associations, which refers to the “unique selling proposition” of a brand. This distinctive feature represents a competitive advantage over rivals and is critical to a brand’s success. Although shared associations create category membership or a so called “point of parity” and are therefore desirable to a certain degree (Apéria and Back, 2004, p. 50), it is crucial that some of the associations are not only favourable, but beyond it also unique. These unique characteristics will lead to a differentiated response and represent the point of differentiation within today’s markets of multiple similar alternatives. Balmer and Dinnie (1999), even denominate these attributes and characteristics that make a company distinct as the corporate identity. The corporate identity, according to these authors, relates to “what a company is” and is aimed at establishing understanding

amongst stakeholders. If managed effectively, the distinct character of a brand increases the ability to attract and retain customers, achieve strategic alliances or other forms of cooperation, and build a “sense of direction and purpose.” As put by Hannington (2004, p. 3), a firm’s success depends on identifying and communicating the differentiating factor, the unique corporate identity; to create a good and distinct buying experience and to consistently live up to responsibilities and promises.

3.2.3 Brand reputation

Corporate reputation, as defined by Fombrun (1996, p. 37), is “the overall estimation in which a company is held by its constituents”, so it is “the net affective or emotional reaction -good or bad, weak or strong- of customers, investors, employees, and the general public to a company’s name.” As defined by Hannington (2004, p. 9), reputation represents “the attitudes and feelings to the specific qualities of the organization.” It refers to the perceived performance of a company, including performance of products, services, activities and employees. Vision, social responsibility and emotional appeal are some of the intangible aspects to consider. Harris and de Chenatory (2001, p. 3/4) defined that a brand’s reputation is “a collective representation of a brand’s past actions and describes the brand’s ability to deliver valued outcomes to multiple stakeholders”. In comparison to a brand’s image, which represents current, changing perceptions, reputation is more stable. Similarly to this definition, Fombrun (1996, p. 3-5) states that reputation is a term that embodies the history of other peoples’ experiences and can be applied to corporations, as well as brands or individuals, such as well-known personalities. A reputation is a valuable dimension, especially for service companies that heavily rely on reputation in marketing due to the intangibility of their offer. Nevertheless, reputation has a growing value for almost all companies due to the increasing importance of services also for manufacturing firms (Hannington, 2004, p. 2). A positive reputation can act as means to enhance the financial value of a company, as an insurance of product and service quality, a driver in favour of customers and employee loyalty, as well as a point of inimitability to the organization (Gotsi and Wilson, 2001, p. 1). According to Fombrun (1996), the value derives from the fact that reputation contains information on which product to buy and trust, and personal perceptions, both based on the credibility and reliability it communicates. Reliability refers to product quality and compliance with the company’s claims, which is expected and demanded of a brand that consumers provide with confidence. A lack of this valuable dimension, on the other hand, can mean a loss of sales to companies

with a better reputation. Reputation is of high importance with all of a company's constituencies, including clients, employees, suppliers, the public, analysts, media and regulators, since they affect business opportunities and the probability of capitalizing on it (Hannington, 2004, p. 3). Nevertheless, this thesis will only focus on the consumers' attitudes towards the company and its brands. Although difficult to quantify, corporate reputation does have a high value for a company, since it increases profitability by attracting customers to its products (Fombrun, 1996, p. 81). The customer perceptions of the price represent another influential factors, according to Apéria and Back (2004, p. 59), and should be positively interlinked with the product quality. It is important to note, though, that the perceived price is very subjective and does not necessarily align with the actual price, but rather includes non-monetary aspects, like opportunity costs of time and energy.

As it is the case with most brand-related variables, they are not indestructible or static (Fombrun, 1996, p. 5). Establishing a good reputation is difficult enough, but sustaining it on a long-time horizon is even more challenging, due to the ever changing environment. Coherent self-presentation and consistent communication of values and images are crucial elements to sustain favourable associations. This is achieved by consideration of both internal and external factors. Internally, the compliance with core principles needs to be secured, which means that high emphasis has to be placed on product quality. By meeting their quality standards, the company demonstrates to its employees that living up to product claims is important and that credibility represents a serious concern. Employees have to be convinced that the company tries to constantly do justice to its reputation and meet its core responsibilities. Thereby, organizational integrity is created. According to Gotsi and Wilson (2001, p. 2/4), the actions need to reflect what is central to the organizations' identity and what the company stands for, in order to strengthen staff identification. According to Reast (2005, p. 8), the term credibility is characterized by the sincerity and fairness the brand reflects and how much concern they show for their customers. Externally, relationships with key stakeholders have to be managed and maintained healthy. These relations can range from environmental or social engagement to display community involvement, to government relations, investor relations and media relations. When internal as well as external actors are involved and managed adequately, reputation can become a solid framework, which benefits the company to a great extent (Fombrun, 1996, p. 5).

3.2.4 Brand loyalty

A successful relationship between a brand and its customers is ultimately aimed at brand loyalty. A brand's value is strongly influenced by brand loyalty, since it implies future cash flows (Wood, 2000, p. 2). The nature of the relationship can be, according to Keller (2003, p. 94), described by two dimensions, namely intensity and activity. Intensity refers to the strength of attachment and sense of community experienced by the consumer. Keller phrases it as how deeply the loyalty towards the product, or organization is felt. Activity, on the other hand, relates to actually acting upon it and executing loyalty. In other words, in what forms is this brand loyalty reflected in everyday consumption situations and consumer behaviour. According to Baldauf (2003, p. 3) brand loyalty can be defined as "a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future" and is characterized by a refrain from switching to other alternatives.

The Customer-Based Brand Equity Pyramid, as a visual model for illustration, presents a relationship coined by loyalty as the final pinnacle to reach. The basic steps that have to precede the creation of loyalty are brand salience, performance and imagery (Keller, 2003, pp. 76-93). Brand salience refers to the concept of brand awareness mentioned in chapter 3.2.2, so more precisely the likelihood of recalling or recognizing a certain brand. This is the most basic level of knowledge, identifying the product category and the needs satisfied by it. Subsequently, brand performance is addressed, which relates to the centre of branding, the product. More precisely, inherent product or service characteristics that are directed to consumers' functional needs are covered. Delivering a satisfying product that fulfils or even surpasses the expectations is crucial and a basic prerequisite for building loyalty. The main categories that are relevant for brand performance are primary ingredients and supplementary features, product reliability, durability and serviceability, effective service, style and design and the price. Besides salience and performance, brand imagery also matters in the formation of loyalty. This aspect refers to extrinsic characteristics of a product and aims at the psychological and social needs of clients. It includes more intangible properties, such as personality and values, perceptions of typical user profiles or purchase situations as well as history, heritage and experiences.

Additional to these more basic aspects, the pyramid also contains a level that is directed at the response of consumers. Brand judgments and brand feelings are the

two categories that directly influence loyalty. Brand judgment refers to consumers' personal opinions of a brand and evolves from their own perception of all the performance and imagery factors. Brand judgments mainly concern brand quality and credibility. Quality is a very strong influential factor, which forms the overall brand attitude to a great extent. Brand attitude, as defined by Keller (2003, p. 87), is the "consumers' overall evaluation of a brand" and actively influences the behaviour in conjunction with it. Brand credibility alludes not only to the product itself, but often also to the organization as a whole. According to Reast (2005, p. 3), trust or credibility is "the willingness of the average consumer to rely on the ability of the brand to perform its stated function" and is essential for building loyalty and long-term customer relationships. The public forms judgments about the company behind the product concerning perceived expertise, trustworthiness, and likeability (Keller, 2003, p. 87). Credibility can refer to both the functional expertise of the company, as well as its trustworthiness in reference to its brand promise, put simply the honesty and standing of the brand (Reast, 2005, p. 3). Summing up, this means that firms need to execute their operations in a competent and innovative way, live up to their product standards and customers' interests, and be likable. Beyond it, brand consideration and superiority over competitors also play an important role in judgment. Brand feelings represent another form of response customers can exercise, and refer solely to emotional reactions in reference to the brand. There are experiential feelings, which occur immediately, such as warmth, fun and excitement, and there are private ones, such as security, social approval and self-respect, which are enduring and capture a long-term character.

Taking all these influential factors in consideration, both more functional and emotional ones, and managing them carefully can establish a positive brand resonance. Behavioural loyalty is the weakest form of loyalty which is coined by repeated purchase of relatively high volumes of one brand. The purchase decision is, however, not necessarily made because of high attachment to the brand, but rather because of availability or convenience. Logically, the probability of losing buyers of this status to competitors is comparably high. Therefore, it is advisable to pursue the creation of strong, attitudinal attachments, which in turn increases the strength of loyalty. By reaching this state of loyalty, customers are not as sensitive to price competition and even accept price increases (Baldauf, 2003, p. 4). Moreover, eventual hostile activities of competitors are less likely to succeed if the firm can resort to a loyal customer base (Apéria and Back, 2004, p. 51). According to Hallberg (1995, cited in Apéria and Back, 2004, p. 51), however, 80 per cent of established

consumers are non-loyal. Nevertheless, some brands even manage to build up a sense of community among their core clients. The strongest form of loyalty is reached if consumers are willing to actively engage in company matters and invest time, energy and money into the relationship (Heskett, 2002, p. 2). They function as ambassadors for the firm, participate in clubs and forums, and see themselves as an active part of the company. Since these customers are very loyal and supportive, and even spread positive images through word-of-mouth, they are extremely valuable to the organization.

3.2.5 Consumer perceptions of brands

In today's supermarkets an abundance of alternatives and a great variety of choice exists. How much information do customers need, how much can they in fact absorb and how do they perceive brands? Ultimately, all these questions lead to the question of how customers' buying behaviour is composed and affected. Primarily, it has to be stated that various difficulties are involved in understanding consumers' buying decisions, since there are unknown and sub-conscious variables within consumers' minds and psychology (Randall, 2000, p. 45). Nevertheless, research has found that there are patterns that apply to most purchase situations and clients. Generally, Randall (2000, p. 40) distinguishes between two types of consumption or buying situations. On the one hand, there are low-involvement situations, that are routine and trivial to the respective customer and therefore, do not require a long decision-making process. Most consumer goods, especially fast moving ones, represent such low-involvement situations and decisions are made on the basis of developed preferences. On the other hand, there are high-involvement situations, where alternatives are analysed and evaluated in detail on the basis of additional information seeking.

During his research in the field of consumer buying behaviour Ehrenberg (cited in Randall, 2000, p. 43 ff) found that consumers generally buy a repertoire of brands. This notion contradicts the concept of brand loyalty to a certain degree, since it implies that customers buy several brands over a period of time. In other words, consumers hold a set of acceptable brands, some of which they buy more often than others dependent on their particular preferences. These acceptable brands are, however, clearly delimited from brands they do not buy at all. Moreover, it was observed that once buying patterns are established in consumers' minds, it is very difficult to change them (Randall, 2000, p. 44). Furthermore, according to the

“Pareto” or “80/20” rule (Greenberg, 2001), 80 per cent of the sales are generated by 20 per cent of the customers, the main customer base, where priority has to be placed on. The consumers’ perception of the overall brand quality reflects the general attitude towards the product and ultimately also the likelihood of purchasing the brand (James, 2005, p. 4). According to Monroe and Krishnan (1985, cited in Baldauf, 2003, p. 3), perceived quality is positively related to the perceived value. This higher perceived quality represents the reason to opt for a product in many purchase situations, and some customers are therefore even willing to pay a price premium. Obviously, brand loyalty also influences the perception of overall value to a great extent. Moreover, there is a general trend towards positioning brands as “authentic”, which stresses the importance of timeless values desired by customers in comparison to the apparent commercial motives of a brand (Beverland, 2005, p. 1/2). Attributes of authenticity, such as handcrafted methods, respect for traditions, cultural links or strong, historical values, all downplay the commercial identity of companies and depend on the “shared history of a community of consumers”. The challenge for modern organizations therefore is to balance the call for authenticity and the commercial character of every business by detaching formal structures and day-to-day operations. Thereby, moral legitimacy can be maintained, by also allowing for the essential pursue of profitability.

Concerning the perception of brands, there are also some basic principles that can be applied to various consumption situations. “People perceive the brand as a whole”, which means that they do not mentally break it down into its separate elements, but rather perceive it as a unity (Randall, 2000, p. 45/46). According to Harris and de Chernatony (2001, p. 1; de Chernatony and McDonald, 1998, p. 189), there is a development moving from line branding to corporate branding. This implies first of all that the whole company needs to be very focused, since branding evolves around it, and secondly that the emphasis in building competitive advantages will be placed more and more on emotional, rather than functional assets due to the ubiquity of technology. Hansen and Christensen (2003, pp. 60-62) state that two general understandings of corporate brands exist. The company-as-brand-strategy where only one brand is communicated and high emphasis is placed on internal factors, such as staff, values and identity. Beyond it, there is the approach where one brand has the endorsement function behind other brands, such as present in Microsoft or Nestlé. Companies that engage in corporate branding generally communicate the company as a brand, fully embody the value system of the organization and create a recognizable and valuable name in consumers’ minds (de Chernatony and

McDonald, 1998, p. 189). Corporate branding can strengthen the credibility and standing of a company, since it reduces uncertainties and delivers consistency. If there is a lack of corporate credibility, however, the consequences can be extensive, since the whole corporation will be questioned (Hansen and Christensen, 2003, pp. 60-62). According to Eysenck and Keane (1990, cited in Harris and de Chenatony, 2001, p. 4) "perception depends on a person's expectations and previous knowledge as well as the information presented by the stimulus, (...) the brand". Furthermore, perception is selective and restricted, which means that only around seven items of information can be absorbed by a consumer and some fall victim to the selective filtering on the basis of experiences, beliefs and attitudes (Randall, 2000, p. 45/46). This means that not all information that is available, will or can be incorporated. Even though consumers might not identify some information or issue as an influential factor in their decision-making, it can, nevertheless, manipulate the purchase subconsciously.

3.2.6 Brands and environmental awareness

Brands are, as explained in chapter 3.2.1, strongly interconnected with the creation of a distinctive point of differentiation and the respective reputation they create. One approach that has proven to be quite successful implies tying reputation to a strategic issue (Fombrun, 2000, p. 295). Environmental concern, as one of them, has especially experienced a considerable increase in the 1970s to 1990s. In the rise of overall ecological awareness, various companies recognized the need to capture on this new development. Ethical consumerism has become increasingly important in marketing and the general business environment (Nicholls, 2002; Quazi, 2002, cited in Carrigan et al., 2004, p. 2; Martin and Simintiras, 1995, p. 1). Some organizations were newly formed in order to centre around environmental responsibility, others were existing companies that modified the present structures and processes in order to meet the new demand. Either way, they shaped a strategy and corporate image giving consideration to a certain social issue and the position corporations take. Thereby, these firms reached a competitive advantage due to their distinct corporate reputation, which according to Fombrun (2000, p. 294) "takes centre stage in animating, motivating, and guiding strategic decisions." Known examples of this strategy are Church & Dwight, as mentioned in the book, Ben & Jerry's and of course the figurehead Body Shop. By focusing their efforts and financial means on this topic and actually incorporating it, smaller companies can be enabled to compete with big corporations. The high consumer trust and good reputation evoke rapid market

penetration, often reached with far less marketing or advertising expenditure. Traditional or conservative advertising is often not an adequate option in these cases, and proved to be less cost-effective than the reliance on networking with key influentials (Fombrun, 2000, p. 299). Not only are campaigns and cooperations with environmental organizations more cost-effective, networking can also represent an efficient strategy to reach and convince customers. The key stakeholders these companies need to include are numerous and relate to both internal and external ones. The shareholders and employees are the internal ones, which have to be involved from the very beginning in order to guarantee consistency and that the internal basis is inline with company objectives. Secondly, external stakeholders range from the more obvious ones, such as customers, vendors and regulators, to environmental and other advocacy groups, industry associations, media and community organizations. By establishing partnerships mutual goals can be reached, attention is drawn to the subject matter and consequently, the company gets further interlinked with the social engagement. Often no traditional advertising techniques are applied at all. Due to the ecological appearance of these firms, so called "green consumers" are attracted. Green consumption or ethical consumption refers to avoiding certain types of products, such as goods that cause pollution in the production or consumption process as well as cruelty to animals. On the other hand, it can also occur as conscious, positive product choices, for instance in favour of environmentally friendly products, or recycling initiatives (Carrigan, 2004, p. 1; Peattie, 1995, pp. 83/84). Consequently, green consumers are defined as consumers that take ethical issues into consideration and essentially base their product choice on it, willing to pay a price premium for this eco-friendliness (Cowe and Williams, 2001, cited in Carrigan, 2004, p. 2). The degree of sensitivity towards ethical concerns can be influenced by gender differences, although studies disagree about this fact (Hofstede, 1997, pp. 81/82; Glover et al., 2002, pp. 1/2; Wright, 1995). Studies revealed that 82 per cent of consumers were willing to accept a higher price of 5 per cent for "greener products" (Peattie, 1995, p. 84). Additionally, it was found that these customers are often extremely loyal and discerning about the companies they attach themselves to (Harrison, 2006, p. 2). Economic rationality, however, strongly contradicts these findings by assuming that consumers act in their own best interest and base their buying decision mainly on the stimulus price (Peattie, 1995, p. 90). The success of a strategy relying on environmental awareness, however, depends highly on the ability to attract a large proportion of these green customers, as well as the strong support of advocacy institutions (Fombrun, 2000, p. 299). Moreover, the success can be explained by the rise in the volume of easily

accessible information about companies, their practices and global issues. Nicholls (2002, cited in Carrigan, 2004, p. 2) also mentions increased media engagement and widespread usage of the Internet as reasons favouring informed, concerned consumers and activists. Even though confronted with an abundance of information, many consumers do not make use of it and experience a difficulty to filter out the necessary data due to its complexity. Accurate product comparison is therefore aggravated. In addition, even possessing the necessary knowledge does not guarantee that buyers act upon it and engage in ethical buying behaviour (Carrigan and Attalla, 2001, p. 4). There are some activist customers that use the information available as guidance to ethical behaviour, others, by contrast, possess the same knowledge, but do not transfer it in altered behaviour. According to Carrigan and Attalla (2001) information has an asymmetric effect on attitudes, the so called attitude-behaviour gap, and therefore leads to a punishment of unethical demeanour, but not necessarily to a reward of ethical behaviour. Moreover, it was found that that environmental knowledge has little impact on behaviour in general, but illustrates a higher sensitivity to the topic (Martin and Simintiras, 1995, p. 3).

Indeed these findings support the notion that very little commercial reward exists for companies behaving as “ethical marketers” (Carrigan and Attalla, 2001, p. 1). As found by Carrigan et al. (2001, p. 4-6), only 26 per cent of the interviewed respondents were actually able to identify a company with high or outstanding social responsibility. And only 18 per cent could name a “least socially responsible” firm or were aware of the unethical grievances in the practices of Nestlé and Nike, although highly publicized. In part this is explainable by the complexity of the media scenery, and by the impact of cultural and social context since perceptions of social responsibility can vary strongly across cultures. Corporate Social Responsibility, according to Chen (2001, p. 6-8), is composed of environmental responsibility, community links and cultural references. Peattie (1995, p. 30), on the other hand, summarizes the concept with the two dimensions holism and sustainability, which means that the business should be managed as a holistic entity on a long-term horizon rather than as a collection of functions with future shortcomings. In most cases, customers do not seem to acknowledge the social engagement of firms, and Corporate Social Responsibility should only be pursued if it actually adds to the value of the brand, as in the case of Body Shop or Ben & Jerry’s. In these examples the brand is irrevocably interlinked with the firm’s social identity. If CSR does not create positive brand associations, it is classified as an “expensive luxury” by Chen (2001).

According to Randall (2000, p. 17) however, strong brands serving a niche market generally earn higher returns than companies in a big market, where the competitive pressure represses the profits. In addition, it was found by Simon (1995, cited in Carrigan and Attalla, 2001) that 85 per cent of the customers have a more positive perception of a company, if it supports values or issues they care about. Beyond it, researchers found that two-thirds of the population are more likely to engage in some form of action against an organization than only five years ago (Carrigan and Attalla, 2001). Mirvis (1994, p. 1) also found that consumers affirm to spend up to 10 per cent more for products that are environmentally friendly and, according to this study, investors are more willing to cooperate with companies with “a good environmental record”. Nevertheless, the attitude-behaviour gap, described earlier, still represents an issue, since CSR does not account as the most important criteria influencing a purchase decision. Price, value, quality and brand familiarity were rated higher and personal reasons were identified as more influential than societal and social ones. Animal rights, by contrast, did actually rise sympathy, even more than human rights. Animal welfare represents a social concern for consumers and was rated extremely high in their priorities.

In general however, it was found that profitability is best achievable by establishing clear and strong differentiation, rather than saving costs. Due to these reasons, Fombrun (2000, p. 312) states that faster growth and higher profitability are achievable compared to industry peers that do not incorporate environmental issues, if the concern is managed and communicated in a credible manner. For many firms CSR still represents a negligible field besides the core business and is degraded to “an image enhancement opportunity with no tangible gains” (Anon, 2002, p. 1). There is certain conformity on the consumer side as well, since buyers that act upon social responsibility do exist, but still represent a minority. For the majority of customers CSR still has to be accompanied by quality, image, convenience, and nice packaging if the product is to succeed (Carrigan and Attalla, 2001, p. 11).

3.2.7 Brand portfolios

So far in the theoretical chapter great emphasis was laid on the uniqueness of individual brands and how crucial clear differentiation and delimitation are for the brand and the company image as a whole (Keller, 2003, p. 42; Randall, 2000, p. 17). However, manufacturers do not have, in most cases, one single brand that they promote and represent. There are, by contrast, various brands in the so-called brand

portfolio and many of them even possess overlapping characteristics to one another. Does this fact mean that theoretical brand concepts are useless or not achievable in practice? Is the uniqueness carefully created for a product inevitably destroyed by other brands of the portfolio? The challenge of successful portfolio management, observed by Randall (2000, p. 146), is to manage each brand separately to maintain its distinct identity, and beyond it, to manage all brands together to avoid sub-optimisation and risking the overall company image. The two main characteristics composing a brand portfolio are the number of products affiliated with the brand and the variance in quality among them (DeIVecchio, 2000, p. 2). The desirable status is obviously to increase the amount of sales at the expense of competitors, but to take as little sales opportunities away from your own brands. This phenomenon is referred to as cannibalisation (Randall, 2000, p. 146). Cannibalisation, as defined by Srinivasan et al. (2005, p. 1), is “the extent to which one product's sales are at the expense of other products offered by the same firm”. This can occur both for product extensions and by merging companies, as so called inter-product cannibalisation. This occurs when products within the same product group of one corporation compete for market share (Srinivasan et al., 2005, p. 4).

Portfolio management is, according to Randall (2000, p. 147), also termed as category management, which relates to “developing a strategy for a category as a whole rather than for individual brands separately.” Generally, there is a tendency towards a company structure with a premium brand, as well as flanker brands. The premium brand features high quality and is thereby enabled to demand higher prices. The flanker brands, on the other hand, offer a value proposition, lower price for slightly lower quality, or another benefit differentiating it from the premium brand. So called fighting brands and own label products packed for retailers are also possible. According to Sherrington (2003, pp. 63/64; Apéria and Back, 2004, p. 88), there are three basic forms of brand portfolios, namely the mono-brand, the sun & planets brand and the stand-alone brand, also referred to as multi-brand. Sony and L’Oréal are examples for the mono-brand approach, where various different products and brands are managed under the company name, which has a high recognition value. The sun & planets portfolio relates, as the name suggests, to one main dominating brand, surrounded by inferior brands that complement the portfolio, meeting for instance requirements of specific sub-areas of the market. Nestlé or Unilever are prime examples of companies using this approach. The typical representative of the stand-alone approach is Procter & Gamble, which unifies a selection of brands which all attack different parts of the market, with the company name playing a minor role.

Sherrington (2003, pp. 64-67) states that the choice of brand portfolio, as well as the adequate number of brands, depends on five factors. Firstly, the company has to decide how much of the market share it is aiming at and what is achievable in relation to the market saturation and maturity. Secondly, the achievable industry profit has to be weighed off to the costs of branding. In addition to that, the company's history and philosophy influences the decision. Organizations that have grown organically, mostly possess one established, grown brand. Firms that have grown by engaging in acquisitions, on the other hand, possess a variety of brands and are interested in maintaining their distinct character, since they often pay a price premium for the valuable intangibles. Where the company comes from and where it intends to go in the future therefore plays an important role. Although, there is no optimum number of brands applicable for every organization, it can be stated that "a lot of companies have too many brands" (Sherrington, 2003, p. 66). Brands do benefit from space to develop and success can be hindered by multiple sub-brands confining each other. According to Apéria and Back (2000, pp. 95-99), brand architecture is a helpful device to manage a brand portfolio, as well as define the roles, structures and the relationships among the brands. Generally, it can be stated that due to the high strategic value of brands to a company's success, the organization and composition of a firm's portfolio represents a top management decision (Wood, 2000, p. 7).

3.3 Brands in transition – takeovers

As described in the theoretical chapter covering M&A in general, today's business world is almost unimaginable without this phenomenon. Not only are financial and organizational structures merged, but portfolio structures of brands are also affected (de Chernatony and McDonald, 1998, p. 13). In many acquisitions intangibles or so called goodwill even represent the main part of the balance sheet and make the acquirer pay a huge price premium. As Cobb-Walgren et al. (1995, cited in Myers, 2003, p. 1; Calderon et al., 1997, p. 2) found, the emphasis of corporate mergers over the last decade was clearly placed on the intangibles and brand equity, compared to prior period's focus on operational and financial synergies. This rise in price premium is mainly due to three underlying reasons: The price premium reflects the future potential of the brand, which obviously depends on the strength of it. Moreover, it displays the competition between possible acquirers over a few profitable business opportunities. But most importantly it is because buying an existing brand with a distinct profile and established customer base is easier than building a new brand from scratch (Randall, 2000, p. 18/19).

In literature, there is only limited information on how brands develop when their owning companies are involved in M&As. However, there is a multitude of sources covering brand stretching and brand extension as means for creating new brands in a cost-effective way. Even though there are characteristics and circumstances very specific to these options, it is noticeable that there are also parallels to brands experiencing a takeover. Although the executions vary extensively, some of the risks and implications are applicable to both approaches of brand growth. This is due to the fact that brands consist of individual sets of attributes and by combining them, “the consumer forms a composition of the two brands termed a “composite concept” (...)” (James, 2005, p. 4).

The general question is how far can we stretch or extend a brand to capture most of its strength and potential, but not damage its core values (Randall, 2000, p. 55-64). In the pursue of maximizing profits and generating growth, a common threat for brands is to engage in meaningless extensions and over-proliferation. In addition, various studies found that extensions can lead to a dilution of the brand (DeiVecchio , 2000, p. 2). The associations built around a brand start becoming incoherent and consumers are consequently confused and fail to recognize the meaning and are unable to adequately understand and classify new information (Apéria and Back, 2004, p. 51). If one now considers the situation of an existing brand being acquired by another company, the respective question has to be the following. Do M&As risk meaningless ventures that dilute the core values of a company or brand and disconnect it further and further from its original identity? A lot of companies fail to realize that at least half the challenge in bringing out and capturing the full value of an investment, lies in “doing the right projects” (Anon, 2007, p. 1).

Just like in brand stretching, brand essence needs to be still applicable to the combined company, and all the brands that are incorporated. The connotations formed for one brand, need to also work for a newly integrated one. Furthermore, it is possible that new beliefs are formed or old associations are transferred from the original brand, possibly for the worse. Even though each company or brand may separately have strong, positive associations, their perception as a combined entity has to be reviewed as well (James, 2005, p. 2/3). Moreover, it has to be believable that the acquirer is able to perform the product claims of the formerly independent brand, which refers to expertise and know-how transferability. The challenge is, in addition, to find two companies whose concepts fit to one another, which refers to the overall “complementary” or “fit” between the two brands (Reast, 2005, p. 2; James,

2005, p. 4; DeIVecchio, 2000, p. 2). Brand extensions that are too far removed from the core identity of a brand, can be viewed sceptically by customers (DeIVecchio, 2000, p. 5), which again is assumed to also occur in merging company profiles. As exemplified by Randall (2000), whereas a combination of Vodka and cola with the youthful and exciting brand Virgin is applicable, a formal business clothing line by the famous jeans manufacturer Levi's would reflect very different images and an inconsistency, rather than reaching the desirable outcome of complementarities (James, 2005, p. 10).

The degree of perceived quality and credibility of the two formerly independent organizations should also be as similar as possible (DeIVecchio, 2000, p. 3). A high perceived credibility again makes customers more accepting towards brand extensions, since they feel that the company does what is best for the product and the customers. One would assume, this can also be transferred to M&As, where brand credibility lends customer support to the new venture, although there is no direct knowledge about the future combined corporation (Reast, 2005, p. 2; James, 2005, p. 4). Keller and Aaker (1995, cited in Chen, 2001, p. 2) found, on the other hand, that a strong corporate image only increases the general acceptance of customers in reference to brand extensions if the organization has a high innovative image. As stated by Randall (2000, p. 61), customers have an established set of associations and can clearly identify inappropriate extensions, so they can most probably also identify appropriate and inappropriate partners for the companies they are attached to. As described in the case of brand extensions, consumers' faith in the parent brand can be damaged by an incompatible introduction of a new product. Since every brand has a very unique identity, it is therefore assumable that M&As can have the same effect. Although it is difficult to identify who the parent brand is, one or both brands can be weakened if the strategic or operational fit is only small, or even a complete mismatch (James, 2005, p. 11). Complicated by the integration process and the aim to preserve both brands, M&As represent a special scenario (James, 2005, p. 3). As a consequence, it is crucial to balance the financial and synergic reasons in favour of an acquisition, with the possible damage to the integrity and core values of the brand. In the end, it is most important how customers perceive the venture, whether or not they give their approval and whether they are still willing to buy the product (James, 2005, p. 12).

As brands are entities that entail a reflection of the past, they also serve as direction for the future (Keller, 2003, p. 61). Brand knowledge, which was carefully created,

sometimes over decades, includes a concept of appropriate and inappropriate future directions for a brand. Consumers will decide, based on their brand attitudes and associations, as well as the values they associate with it, which strategic decisions are appropriate. In other words, they may or may not grant permission to programs or ventures the brand is undertaking. Since the value of a brand is actually manifested in consumers' minds and their knowledge, this is a noteworthy insight.

In the course of increasingly high M&A activity in the lifetime of a company, loss of control can be one reason facilitating a damaged reputation. According to Fombrun (1996, p. 230), losing control over how and where your products are marketed and sold, can heavily account for a loss of prestige and reputation of a brand name. Promising takeovers or collaborations can in fact end up in a degradation of a brand to an "inconsequential part of a huge empire". Thereby, the corporate image and reputation can be threatened and sometimes irrevocably destroyed. It is therefore important to retain control over the brand name and the execution of production, marketing and public relations. Keeping the long-term health of your company in mind, as well as the sensitivity of image issues is crucial. Especially, considering that precautions and safety measures represent in many cases only a fraction of the costs of a damaged brand. The drop in a company's share prices is often the immediate and most noticeable result of a damaged reputation, but more importantly, the future profitability of the firm can be harmed extensively (Fombrun, 1996, p. 93). Unfortunately, most companies discover the poor management and maintenance of their valuable reputations too late, when the harm is already done. In those situations the importance of effective crisis preparation programs becomes visible. According to Chajet (cited in Fombrun, 1996, p. 203), image matters, in good and in bad times and effective post-crisis management can avert the most severe consequences. Moreover, a well-managed brand that has established a sound and credible position over years generally represents an advantage since it puts the firm in a position of strength to deal with a crisis (Fombrun, 1996, p. 204/205). Obviously, post-crisis care does not neutralize the damaging effects, but it can often soften the magnitude.

3.4 Hypotheses

After having elaborated upon the theoretical framework of this thesis, it became apparent that the formulation of hypotheses is reasonable. The analysis will be executed on the basis of the questionnaire sample and will cover all important facts. The analysis will end up in answering the research question stated in the introduction

and the hypotheses will be tested and verified. After having concluded the theory, covering M&As in general, brand concepts and the relationship between acquisitions and their impact on brands, the following hypotheses were defined.

H1: The merger or acquisition of two companies is apt to dilute the brand image by creating new associations or confusing the old ones.

H2: By observing the alteration or washing-out of values and brand characteristics, the consumers' attitude towards the brand changes.

H3: Subsequently, this change in brand perception can affect the consumers' buying behaviour.

4. Empirical results

4.1 *The case*

Both L'Oréal and The Body Shop are actors in one of the fastest growing business areas, that of the beauty industry. Whereas L'Oréal represents one of the big multinational players, Body Shop serves the niche market of eco-friendly and socially conscious customers and established a solid, but nevertheless considerably smaller position. In order to understand the possible issues arising from the venture, both companies need to be looked at independently first.

4.1.1 Presentation of The Body Shop International

The Body Shop International plc was founded in Brighton, UK in 1976 by Anita Roddick. The fast international expansion allowed the small natural soap and lotion producer to develop into today's global manufacturer with 2.100 stores in 55 countries. From the early days onwards, Body Shop's activities were coined by strong social and environmental engagement and participation in various charities and campaigns. According to its founder Anita Roddick, the company is based on five strong values, which represent its "DNA". Policies against animal testing, supporting community trade, activating self esteem, defending human rights and protecting our planet represent those core values that are transferred into high business ethics, fair trade agreements and environmentally friendly production and recycling policies at Body Shop (Body Shop Homepage; Clifton and Maughan, 2000, pp. 51/52). All products are claimed to be natural and not supported by any animal testing (Mirvis, 1994, p.1).

Nevertheless, disregarding all their social activity, Body Shop still pursues a profitable, global strategy and intends to expand by establishing franchise partners and expanding its operations (Sinclair and Agyeman, 2005, p.2). The degree of success reached by Body Shop's comparably short life span was attained without relying on conventional advertising (Clifton and Maughan, 2000, p. 52) and production, packaging, merchandising, staff, sourcing policies and public relations all reflect a consistent care for the environment and people (Keller, 2003, p. 71).

4.1.2 Presentation of the L'Oréal group

L'Oréal is another, but very different, participant in this very competitive market place. The world's largest company of cosmetics and beauty products started as a hair-colour manufacturer back in 1907. From the very beginning its development was based on a heavy emphasis on research. Operations were soon expanded into other business areas, such as skin care, make-up and perfumes. Today the L'Oréal group disposes over 19 global brands, with Garnier, Vichy and Ralph Lauren, to mention just a few. Its extensive brand portfolio is divided up into consumer products, professional products, luxury products and active cosmetics in order to reach all customers and distribution channels from the mass market to hair salons and pharmacies. Consumer products, with 52,6 per cent of the consolidated sales, represents the most profitable and important pillar. The underlying values, such as striving for excellence, innovation in beauty and valuing individual talent are closely interlinked with their global expansion strategy and the continuous attempts to incorporate new brands into their product portfolio. In 2006, L'Oréal earned consolidated sales of 15.790 million Euro, of which their most recent acquisition, Body Shop, accounted for 435 million Euro (L'Oréal Homepage).

4.1.3 A combination of unequals

This heavily debated acquisition took place in March 2006 with a \$1,2 billion payment on the part of L'Oréal, which equals a huge price premium for the well-established brand Body Shop (L'Oréal Homepage). The European Commission agreed to the acquisition and justified it in stating that it will add a complementary brand with a strong ethical reputation to the wide-ranging product portfolio of L'Oréal (Marketing, 2006-07-06, p. 5). Body Shop is planned to be managed as a stand-alone entity within the corporation, but grants the access to a new ethical and socially responsible segment often related to premium-priced products, a loyal customer base, unique product positioning, and superior brand image. Whereas L'Oréal stresses the bilateral and mutual benefits of this venture for both companies, sceptics express criticism focusing on "the irony of a company known for its anti-animal testing policy selling to one that has yet to ban animal testing". The success of the deal will heavily depend on the careful balancing of all stakeholders' concerns and the long-term integration and successful capitalization that still have to be proven (Mergers & Acquisitions: The Dealmaker's Journal, 2006-05-01, p. 1).

4.2 Prologue to empirical findings

As anticipated by engaging in the snowball sampling system, results returned in waves and a solid rate of response was achieved. As mentioned in the methodology, emphasis was placed on the main target group of Body Shop, namely females between the age of 15 and 26 years.

All together, about 144 completed questionnaires were received, of which 56,3 per cent can be classified as the main target group. Generally, 96,5 per cent of the questionnaires were completed by younger consumers up to the age of 35 years, which is justifiable by the fact that Body Shop aims its products more at this demographic group. Since the sampling approach was particularly aimed at the target group, only a negligible amount of responses of consumers older than 35 years was collected. The complete exclusion of the findings of respondents above the age of 35 years allows and facilitates to concentrate on the younger consumer groups, which create the majority of sales volume and play a strategic role in the creation of revenues. Although older consumers are addressed by a new product line for mature skin, they still represent a comparably small operational area. Respondents up to the age of 35 years old will be included in the analysis, however, as stated before, the emphasis will be placed on the investigation of the target group. Consumers outside this category, up to the age of 35 years, will be evaluated in comparison to the target group in order to detect possible deviances and particularities. Cultural factors, such as the nationality of the respondents, will be neglected for the most part, since Body Shop is a global company with little local adaptations. Consumers from the United Kingdom, however, represent a group of specific interest and will be observed individually. In the analysis this can be utilized to investigate whether a greater familiarity with the brand due to country of origin changes consumer perceptions.

In the following section the result of the questionnaire will be discussed in depth, categorizing the respondents according to their age, gender and nationality.

4.3 Questionnaire results

4.3.1 Target group: Females (15-26)

Females between 15 and 26 years old represent, as stated above, the declared main target group of Body Shop products. The consumer group is composed of 71,5 per cent citizens of the European Union, mainly from Germany, Spain and Sweden.

Consumers from the United Kingdom constitute 18,5 per cent of these and 9,9 per cent of the respondents are non-European citizens, originating from Canada, Australia and the United States.

In this category the average customer is aware of the company and purchases Body Shop products on an infrequent basis, which means that a repeated buying experience in the shops is made. The overwhelming majority of 70,5 per cent indicated that they consume Body Shop products rarely or occasionally. 14,7 per cent stated to buy the products sometimes, only 1,2 per cent purchase often at Body Shop. Out of 81 respondents 11 stated never to purchase at Body Shop, which equals 13,6 per cent. The majority of young females, however, consume the cosmetics brand sometimes or rarely.

The respondents were asked to consider a regular purchase situation of cosmetics or hygiene products, not specifically Body Shop products, and how particular pre-determined attributes influence their buying decision. They were asked to rate price, quality, brand, ingredients, promotion and image of the company on a scale ranging from highly influential to not influential at all on the respective buying decision. By calculating the average value of the ratings, an order of relevance and influence was gained. Females between 15 and 26 years rate the price as the most influential aspect when buying cosmetics or hygiene products of any kind. 53,3 per cent of the respondents rated the price as the driving factor behind decision-making. Very close behind, as second most influential attribute, they placed the quality of the product, with 50,6 per cent ratings as extremely influential aspect. Both of these attributes were rated as highly influential on a buying decision of this product category. The brand and the image of the company were identified as factors that affect the decision-making process to a certain degree, however to a lesser extent than price and quality. The utilized ingredients within the product and promotional aspects, such as advertising and events were far behind, with promotion representing the least influential factor in a purchasing situation. In 51,9 per cent of the cases promotion was referred to as having little significance, 16 per cent even stated that promotion does not influence their decision at all. These two aspects were classified as impacting the bargain perhaps on a sub-conscious level, but not playing a conscious role.

After having covered these general aspects of consumers' characteristics and buying motives, the questionnaire tried to give deeper insight into the perception of Body Shop and the acquisition by L'Oréal. In order to investigate the association consumers have when thinking of the brand Body Shop, respondents were asked to

rate certain pre-determined characteristics or attributes according to what comes first to their minds. Since all of the respondents stated to be familiar with the organization Body Shop to some extent, their ratings give an insight into the overall image of the company and what kind of associations are actually manifested in consumers' minds. Environmental awareness, high quality products, social responsibility, high prices, attractiveness of products, which refers to nice scents, product range and packaging, and anti-animal testing were the attributes, which were to be rated by what is personally most connected to the name Body Shop. By forming average values again, an order representing the general opinion of the target group was attained. According to the findings of the questionnaire, environmental awareness represent the attribute that consumers connect most strongly to Body Shop and that was ranked by 49,4 per cent of the participants as first or second most associable aspect with the company. The environmentally friendly vision was closely followed by high prices, which was only in 17,3 per cent of the cases referred to as least influential. The anti-animal testing policy captures the third place in the ranking and is still quite heavily interconnected with the brand or company Body Shop and what it stands for. High quality and the attractiveness of the products were also linked to Body Shop, but not as strongly as the others. 39,4 per cent related medium interconnection with the company. Corporate Social Responsibility is apparently not strongly associated with the brand name and was rated as least associable in 41,3 per cent of the cases. These results reflect consumers' perceptions of the company in general, not placed in a particular purchasing situation. It reflects the general attitude towards a brand name and what it means or represents in the eyes of the beholder.

Beyond investigating what the brand Body Shop evokes in consumers' minds, it is interesting to examine the aspects that actually influence a buyer's decision in favour of or against Body Shop. By rating the above-mentioned characteristics, ranging from strongly related to the buying decision of Body Shop products to little influence, the following order arose. In an active purchasing situation where a consumer has to decide in favour of or against a product of Body Shop, quality was named as the primary, and most important aspect. 53,1 per cent of the target group assigned the most influential position to the quality standard perceived of Body Shop. The comparably high price level represents the second most important factor, consumers take into consideration. 51,9 per cent of the consumers are influenced by the price to a high degree while considering Body Shop as an option. The attractiveness of the product is another characteristic strongly interlinked with the decision of whether to rely on Body Shop or not and gains in importance when actually buying a product.

Far behind those more physical features that customers think of in a Body Shop store social and environmental attributes seem to play an inferior role. Anti-animal testing is rated higher than environmental awareness and Corporate Social Responsibility, but nevertheless, does not influence the decision as much as product-related facts do. 49,4 per cent rated that Body Shop's animal protection policies and environmental awareness have medium influence, whereas CSR does not affect the buying decision in 43,1 per cent of the cases. Consequently, by comparing the factors that are strongly associated with the brand in consumers' minds and the factors that actually determine the buying behaviour, a certain deviance can be investigated.

Addressing the acquisition of Body Shop by the cosmetics giant L'Oréal, only 29,5 per cent of the respondents, which equals 24 consumers, stated that they were aware of it at all. Subsequently, the overwhelming majority of 70,5 per cent stated that this fact was not known to them prior to the questionnaire. Asked for their personal perception and attitude towards the individual companies, namely Body Shop and L'Oréal, Body Shop was rated slightly more positively on average than L'Oréal. Nevertheless, both firms can be classified as rather positive than negative, which is illustrated in Figure 1.

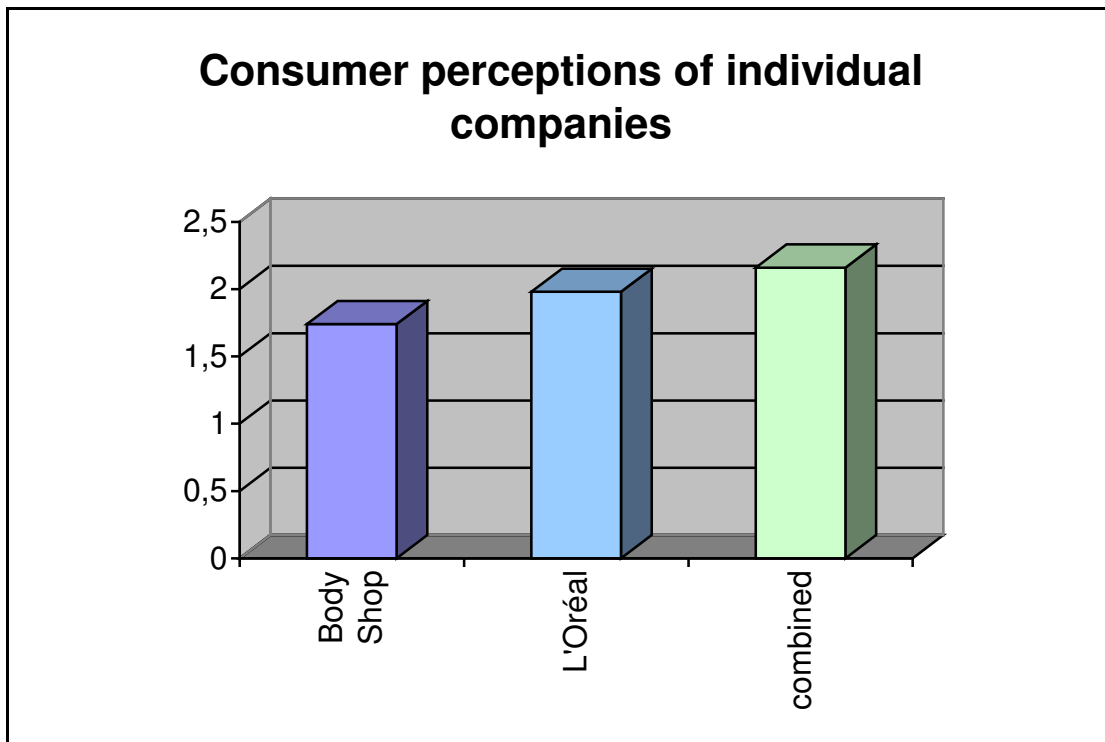


Figure 1: Self-created graph on the basis of primary empirical data; where 1= extremely positive, 2= rather positive than negative

Whereas 35,7 per cent of the participants referred to Body Shop as extremely positive, only 23,5 per cent assign this status to L'Oréal. Body Shop and L'Oréal were both mostly classified as rather positive, with 54,2 and 59,3 per cent of the consumers opting for this valuation. There were however, considerable differences in how many respondents stated a negative perception of the individual companies. Whereas only 8,5 per cent expressed a rather negative attitude towards Body Shop, 13,6 per cent perceive L'Oréal as rather negative than positive. Body Shop was only identified as extremely negative by 1 person, which equals 1,1 per cent. Contrary to that, L'Oréal was identified as extremely negative by 3,6 per cent. Generally, it can be stated that only 20,9 per cent of the target group perceive L'Oréal as more positive than Body Shop. 35,7 per cent, on the other hand, attach more favourable and positive attributes to Body Shop and rate it higher than L'Oréal. 43,4 per cent of the respondents do not perceive a difference between the two companies and perceived them as equally positive. Beyond evaluating the individual firms, the participants of the questionnaire were also asked to indicate their general attitude towards the combined corporation, uniting the acquirer L'Oréal and the acquired Body Shop. The combined corporation was on average rated lower than both of the

individual companies, in other words, slightly inferior to L'Oréal and considerably inferior to Body Shop. More specifically, 12,3 per cent rated the merged company as extremely positive, 22,3 per cent as rather negative than positive and 3,6 as extremely negative. The majority of the respondents, namely 61,8 per cent, perceive the conglomerate as rather positive than negative. Compared to the point of departure, the rating of the two companies, the general perception of consumers has deteriorated by 19,9 per cent compared to the attitude towards Body Shop, and 9,1 per cent compared to L'Oréal.

In order to investigate the influence of the acquisition by L'Oréal on this shift in perception, the participants were asked whether their perceptions of Body Shop's image have changed after receiving the information of the acquisition. 38,3 per cent stated that their perception has changed in a negative way due to the notion of the venture the companies are engaging in. 8,5 per cent indicated a positively altered perception and 53,1 per cent did not change their initial position at all. This distribution of post-acquisition consumer perceptions is illustrated in Figure 2. Both, respondents that already knew about the acquisition before the questionnaire and people that only received this information during the participation in it, changed or maintained their perception. Consequently, there seems to be no correlation between the moment of insight and the way the general attitude developed.

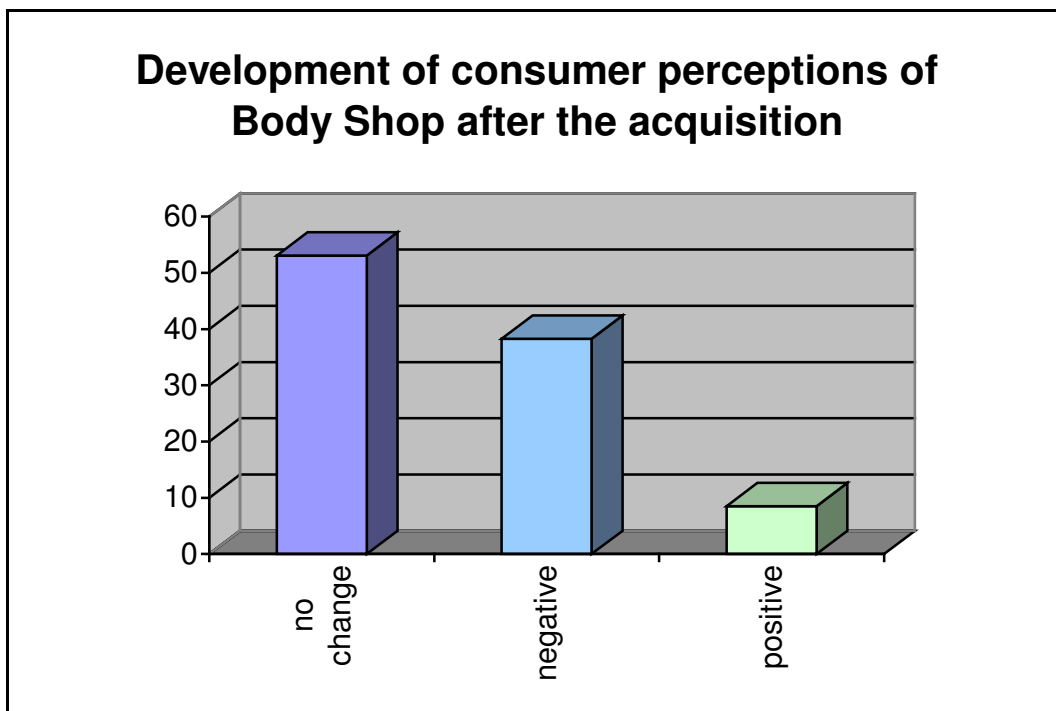


Figure 2: Self-created graph on the basis of primary empirical data (in %)

Asked whether their buying pattern in reference to Body Shop products would also change based on their perception, the following results were attained. Although 38,3 per cent of the respondents stated that the acquisition affected their perception negatively, only 24,7 per cent will also buy less products of the manufacturer. 75,3 per cent will not change their buying behaviour and maintain buying the same amount of Body Shop products as before, as displayed in Figure 3.

18,5 per cent of the respondents expressed, beyond it, that they are actively searching for substitute companies that support the same business concept as Body Shop. 7,4 per cent of these stated that their buying volume of Body Shop products will decrease and that they would seek alternatives at the same time. 11,1 per cent will not change their buying patterns yet, but are also searching for an alternative.

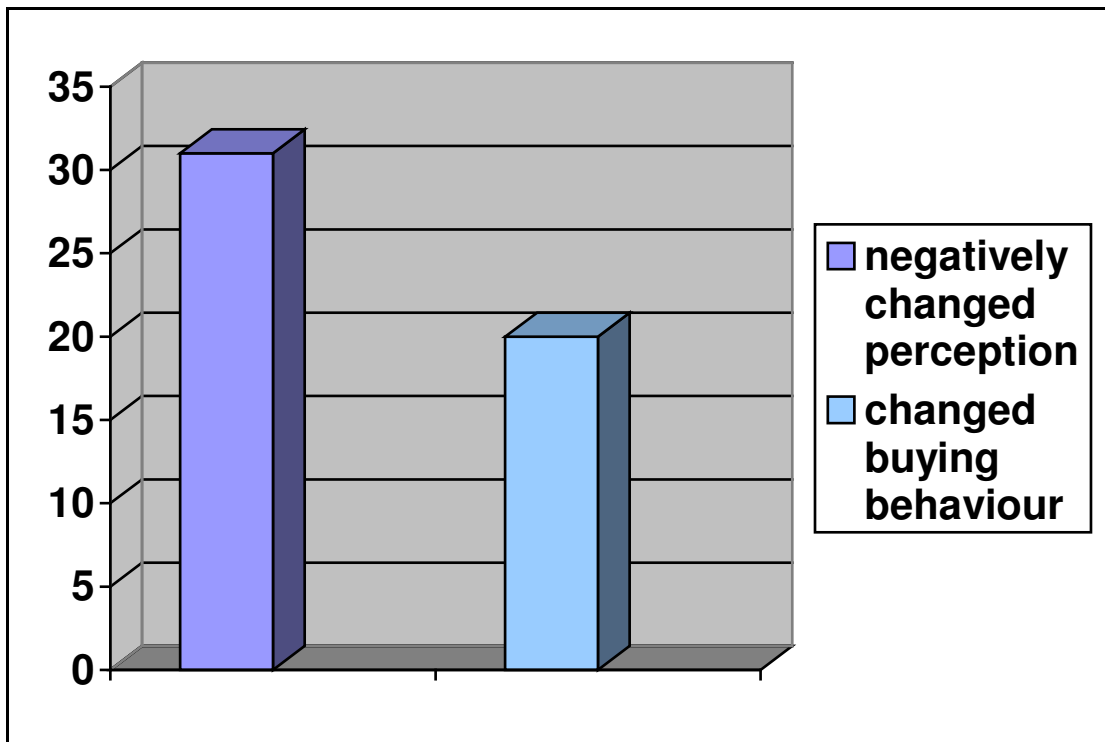


Figure 3: Self-created graph on the basis of primary empirical data (in %)

4.3.2 Males (15-26)

The average customer of this demographic group consumes Body Shop products slightly less than the target group, but is aware of the company and has made active buying experiences. The composition is similar to the previous category, with 86,2 per cent being European citizens, 6,9 per cent from the United Kingdom and 6,9 per cent non-European citizens. In a common purchasing situation of cosmetics or hygiene products, quality and price are, as discovered in the target group, the main

factors that determine the decision. However, males between 15 and 26 years assign more importance to the quality than to the price. More specifically, 58,6 per cent of the respondents perceive quality as the main factor to take into consideration. Nevertheless, both aspects are also in this category classified as highly influential on the buying decision. Except for this change in priorities between price and quality, the rating showed the same results concerning brand and image affecting the decision-making process to a certain degree, leaving the composition of ingredients and promotional aspects far behind in relevance. Concerning the associations consumers have of a company, a slight divergence to the target group is again observable. The characteristics most strongly connected to Body Shop is the high quality standard of the company, as opposed to the environmental awareness rated most strongly by the female counterparts. Quality is in 48,3 per cent of the cases identified as a strong association of Body Shop. High prices are also associated with the brand, followed by the environmental engagement and attractive product offers. The fact that Body Shop products renounce animal testing and its high degree of Corporate Social Responsibility do not seem that easy to link. Compared to the target group quality and the attractiveness of the product lines gained in strength of association in this group, whereas the societal aspects of environmentalism and anti-animal testing were degraded to associations that are not strongly connected to Body Shop. In a specific purchasing situation of Body Shop products, the same general dichotomy of physical or product-related factors and societal or value-driven factors is observable. Quality, price and attractiveness of the product are also rated as main motivators to buy Body Shop, whereas environmental concerns, CSR and animal protection only have medium effect on the decision in favour of or against the brand. Quality and price are in approximately 55,2 per cent of the cases rated as the top influential factors. Anti-animal testing is however, referred to as least influential in 48,3 per cent of the cases, which reflects a much lower importance of this issue in comparison to females of the same age.

Only 10,3 per cent of the interviewed males between 15 and 26 years were aware of the acquisition of Body Shop by L'Oréal before participating in the questionnaire, which is considerably lower than the awareness among females. The overwhelming majority of 89,7 per cent did not know this fact.

Additionally, the respondents were asked to rate their general attitude or perception of the individual companies, which resulted in the following findings. Both firms, L'Oréal and Body Shop were rated as rather positive than negative in their overall

image. L'Oréal achieved a slightly higher score, which indicates that this category of consumers perceives L'Oréal as a more positive corporation than Body Shop. The combination of both organizations in a new conglomerate is still experienced positively, but classified lower than the individual companies. Contrary to the results in the target group, 31,0 per cent of the respondents declared to have a superior perception of L'Oréal than of Body Shop. 27,6 per cent advance the opposite opinion, rating Body Shop higher than L'Oréal. 41,4 per cent do not perceive any difference between the two firms and rated them equally. Whereas 27,6 per cent of the participants experience L'Oréal as extremely positive, only 6,9 per cent assign the same status to Body Shop's image. Beyond that, it is interesting to note that the combined corporation is only perceived as extremely positive by 6,9 per cent, which mirrors an aggravation due to the joining of Body Shop.

Compared to the findings of the target group, fewer consumers in this category indicated a change in perception. 24,2 per cent of the respondents stated that their perception of the brand Body Shop changed in a negative way due to the joint activity with L'Oréal. 6,9 per cent, on the other hand, did express a positive alteration in their attitude towards it. The majority of 68,9 per cent did not change their perception after becoming aware of an incorporation of Body Shop.

Only 6,9 per cent out of the consumers that reconsidered their perception and stated a negative change, also aim at decreasing their purchasing volume of Body Shop products. In other words, only 28,6 per cent of the consumers that indicated a changed attitude towards the company will consequently also change their buying behaviour, compared to 64,5 per cent of the females. 93,1 per cent do not plan on changing their buying behaviour in any way. Although, the general gap between changed perception and the actual decreased in purchase volume is observable in both groups, the extent is much larger in the category of males between 15 and 26 years.

4.3.3 Females (27-35)

Females between 27 and 35 years represent the next category of respondents. The average consumer in this category purchases Body Shop products sometimes or rarely, but surprisingly more frequently than the actual target group. 46,7 per cent indicated that they sometimes buy at Body Shop, 53,3 per cent only purchase their products occasionally.

According to their answers, the average consumer in this category considers the quality as slightly more important than the price when purchasing cosmetics or hygiene products in general, which differs from the target group where slightly more emphasis is placed on the price. Quality and price are however both extremely important factors and accompany one another. In 53,3 per cent of the evaluations, respondents perceived quality as a highly influential factor. All other characteristics are far behind, with brand name and promotion as the next most influential aspects. The findings show that promotion has been considered as an irrelevant factor in decision-making in all other demographic groups so far, and gained in importance in this category. 60 per cent of the respondents declared promotion as a medium to strong motive for buying a cosmetic product. The ingredients used within the product are slightly more important than the image of the company, but both attributes have the least influence on the buying decision in this category, which equals 40 per cent of the participants attributing only little or sub-conscious importance to this factor.

Asked for their evaluations of the importance of perception-building characteristics, the following rating was attained. Females between 27 and 35 years relate high prices most strongly to the brand Body Shop. 53,3 per cent of the participants identified it as being the most associable aspect of the company. Anti-animal testing initiatives, as well as attractive products and high quality standards also come up as strong associations for 46,6 per cent of the consumers stating a strong connection with the brand. Environmental awareness and CSR are least connected in consumers' minds with the company Body Shop. The overall evaluation of these predetermined characteristics shows a very different picture compared to the target group. Corporate Social Responsibility is still the factor least connectable to the company in consumers' minds, but environmental awareness becomes noticeably less important.

Additionally, along side the general perception of the brand, the influence of these attributes on a specific buying decision in favour of or against Body Shop products was measured. When weighing up whether to buy Body Shop or not, these customers are mainly influenced by the price of the product. 53,3 per cent of the respondents assign the highest valuation to this factor. Furthermore, quality and the attractiveness of the product, in reference to physical aspects such as smell, colour or packaging, play an important role. The societal factors do not influence the decision-making process to a great extent, which is similar to the findings within the target group.

33,4 per cent of the respondents were aware of the acquisition of Body Shop by L'Oréal, the majority did not know that fact prior to the participation in the questionnaire, which again reflects the same trend as in the target group. The evaluation of the two individual companies as well as the combined corporation confirmed the overall attitude of females between 15 and 26 years, rating Body Shop slightly higher than L'Oréal, which fits the statement "rather positive than negative". The combined company is, although still classified as rather positive, rated lower than the two individual firms.

As observed in the target group, 40 per cent of the respondents in this group stated that their perception of Body Shop as a brand has changed in a negative way in the course of the sale to L'Oréal. Interestingly, none of the respondents' attitudes were altered positively and consequently, 60 per cent did not change their perception at all. Although the general gap between changed perception and a related change in behaviour is also recognizable here, it is stronger in this consumer group than in the target group. Only 6,9 per cent stated that their buying behaviour will be affected, 93,4 per cent declared to keep on buying the same amount of Body Shop goods as before.

4.3.4 Males (27-35)

The average consumer in this category purchases Body Shop products rarely or never, consequently in comparably low quantity. The rating of the predetermined factors, both in reference to buying decisions of cosmetic or hygiene products in general, and in reference to Body Shop, are very similar to the findings in the consumers group of males between 15 and 26 years. The level of product quality is the primary motive for purchase and societal aspects, such as anti-animal testing, CSR and environmental programs are of inferior relevance for both the brand associations with the company and the actual buying decision in favour of or against Body Shop.

Being asked about the acquisition, only 14,3 per cent of the respondents were aware of the combination of the two firms. Body Shop, as an individual entity, was in 42,9 per cent of the cases rated as extremely positive, 57,1 per cent referred to it as rather positive than negative. L'Oréal, by contrast, only attained the status of a rather positive than negative attitude, with 28,6 per cent of the respondents perceiving the cosmetics giant as rather negative than positive. The combined corporation was

rated, as opposed to the target group's rating, exactly like L'Oréal individually, which mirrors that this category of consumers does not perceive the new corporation as a degradation to the original company L'Oréal. Compared to Body Shop however, the rating shows a considerable difference in Body Shop's favour, which more specifically equals an aggravation of the image by 31,6 per cent. None of the respondents holds a superior attitude towards L'Oréal, which was the case in 20,9 per cent of the target group consumers.

21,4 per cent stated that the knowledge that Body Shop was acquired by L'Oréal changed their perception of the company in a negative manner. Consequently, 78,6 per cent hold the same associations as before and did not change their overall attitude. None of the participants declared a positive alteration of their perception of Body Shop, as 8,5 per cent of the main target consumers did. As observed with females between 15 and 26 years, only 7,2 per cent declared that this new perception will also affect their buying behaviour towards Body Shop, the majority of the respondents will continue their consumption as before.

4.3.5 Particularities

After examining the results closely, some gender-specific particularities became apparent. In general, it is observable that the consumption is lower in the male consumer groups than in female ones. Both demographic groups range in the category of rare consumption of Body Shop products, but 41,9 percent of the male participants stated that they never buy this brand, whereas only 11,5 per cent of the females stated the same. Moreover, it can be found that males seem to have a lower awareness of the acquisition of Body Shop by L'Oréal. 69,8 per cent of the females did not know this fact prior to the participation in the questionnaire, opposed to 88,4 per cent of the male respondents. Furthermore, the findings mirror that both the perception and the behaviour are not as strongly affected confronted with male consumers as with females. 46,9 per cent of the female respondents experienced a change in their general perception of Body Shop, 39,6 in a negative way, 7,3 per cent in a positive way. Contrary to that, only 27,9 per cent of the male consumers changed their attitude in any way, 23,3 per cent negatively and 4,7 per cent in a positive way. These figures show that the female participants seem to be more sensitive to the issue and incorporated the information more often. Beyond that, it is also observable that the gap between the attitudes they hold towards a company and the actual initiative to act upon it is greater in male consumer groups. Only 6,9 per cent of the male consumers indicated they would change their buying demeanour of

Body Shop products, as compared to 21,9 per cent of the females, as shown in Figure 4.

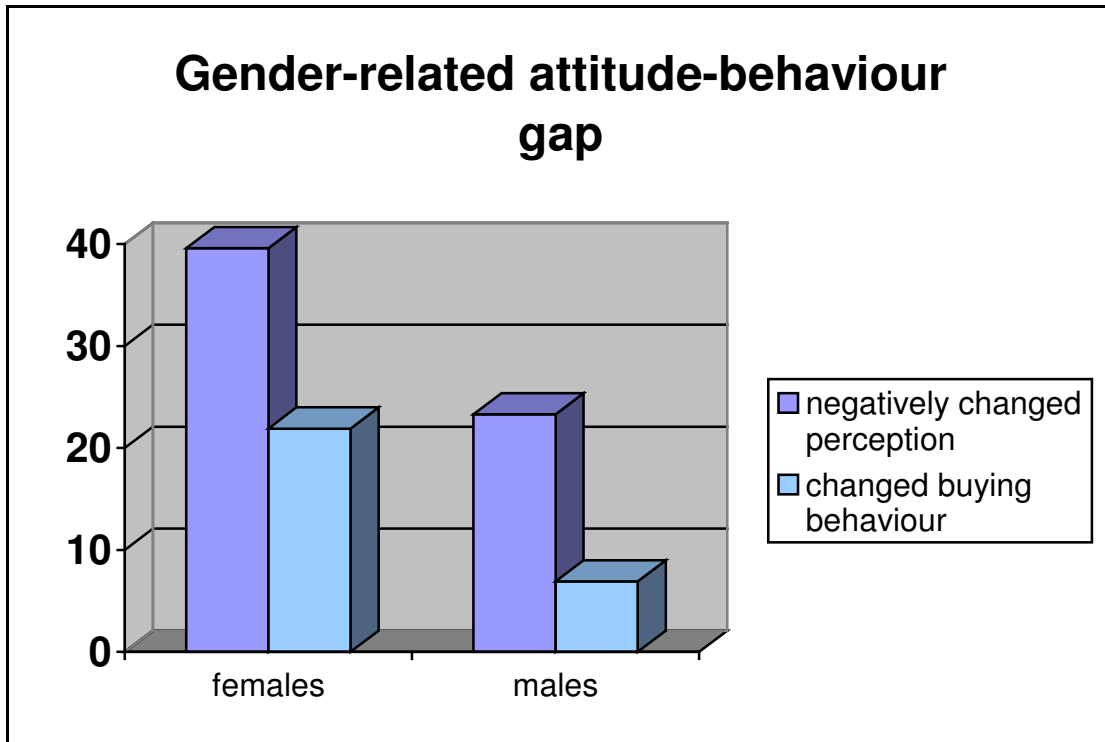


Figure 4: Self-created graph on the basis of primary empirical data (in %)

Setting this figure in relation to the already initially lower change in perception of male's attitude, this represents 29,6 per cent. In other words, 29,6 per cent of the males that stated a negative alteration in their overall perception will also transfer this into a lower consumption. Opposed to that, 55,3 per cent of the female consumers with a changed attitude due to the acquisition will act upon it.

Beyond these gender-specific observations, consumers' responses originating from the United Kingdom were attributed with special interest. After examining the results of the questionnaire, it is observable that the degree of awareness within this demographic group is higher than in other categories. All together 18 completed questionnaires of UK citizens were collected, of which 83,3 per cent can be categorized into the target group of females between 15 and 26 years. 72,2 per cent of these were aware of the acquisition prior to the questionnaire, which is a higher percentage than in any other consumer group. Except for this finding most other

variables were rated in a similar way to their European counterparts and did not generate any particularities of interest.

5. Analysis

In the following section a combination of the theoretical framework and the empirical findings will be carried out. Thereby, it can be investigated whether the consumers participating in the questionnaire are inline with what literature says or whether they show deviances.

5.1 Target group: Females (15-26)

In the target group of Body Shop International, namely females between the age of 15 and 26 years, a 100 per cent familiarity with the brand Body Shop exists. None of the respondents were unaware of the company, even though 13,6 per cent of the target group indicated they never buy at Body Shop. As described in theory (Keller, 2003), the basis for a strong brand is a high degree of familiarity and awareness among consumers, which is observable in the questionnaire findings. Brand awareness only refers to the active cognition of the brand and includes no further associations or knowledge. As Apéria and Back (2004) phrased it, a brand has to be first actively known to build up a certain perception about it later on. By creating a very high degree of awareness, a sound basis for the formation of brand image and brand equity is established (Keller, 2003; Katsanis, 1994). Moreover, this high awareness can evoke a higher consideration in actual buying decisions. In the case of Body Shop the high awareness is reached by renouncing traditional marketing programs, such as advertising and promotion, publicity and public relations (Katsanis, 1994, p. 6). As an ideal example for an ethical marketer, Body Shop does rely heavily on networking with key influentials and environmental organizations in order to establish campaigns and initiatives that call attention to the subject matter, rather than the company itself (Fombrun, 2000). The findings of the questionnaire mirror that this strategy has proven to be successful for the firm, since a maximum awareness is accomplished. In addition, it enabled Body Shop to compete with the big players in the cosmetics industry by serving a niche market (Fombrun, 2000).

As the findings within the target group show, female consumers at this age buy Body Shop products occasionally. This supports the notion that consumers do have a certain repertoire of brands they buy, rather than one brand they are absolutely loyal to. As described in the theoretical section (Ehrenberg, cited in Randall, 2000), customers dispose of a set of acceptable brands, which they buy in differing quantities depending on their preferences. This explains why the average consumer in the target group consumes Body Shop goods only rarely. The finding contradicts,

however, the notion of extremely loyal customers typically attracted by organizations with a social edge, like Body Shop (Fombrun, 2000). The spreading of the buying pattern is also inline with the so called "Pareto rule" (Greenberg, 2001;), which states that 20 per cent of the consumers account for 80 per cent of the sales. The fact that Body Shop products are sold at a comparably higher price level to other products in this category can also represent a reason for not buying this brand on a daily basis. Rather than sourcing all cosmetics and hygiene products from Body Shop, customers may perceive it as a complementary brand, which is not appropriate for every-day consumption. Furthermore, it has to be stated that the brand recall of the brand Body Shop has to be quite high, since simple brand recognition does not stimulate purchase (Keller, 2003). Contrary to many other cosmetics brands, Body Shop is not present in drug stores or big department stores, which could facilitate brand recognition. Other brands, such as Garnier and Maybelline NY owned by L'Oréal, are characterized by a high degree of exposure of the product, convenience and low searching costs, which are possible driving factors for consumers. Body Shop products, on the other hand, are only available in special Body Shop stores, the Internet or at home with home-selling parties (Body Shop Homepage), so the coincidental exposure to these products is not as strong. Consumers have to consider the brand before purchasing, since they have to actively enter a Body Shop store to buy the products, which again requires a high brand recall (Keller, 2003). All these reasons help to explain the occasional consumption of the average target group. Brand loyalty, as defined by textbooks, represents the intention to consistently buy a preferred product and refrain from switching to alternatives (Baldauf, 2003). Consequently, the findings in the target group do not confirm the existence of extensive loyalty, since the respondents indirectly stated to buy a variety of brands. This is however, not surprising, since it was found by Hallberg (1995, cited in Apéria and Back, 2004), that 80 per cent of all customers of established brands are non-loyal. Nevertheless, the findings clearly indicate that Body Shop is present in the so called "consideration set" of the majority of target consumers, since only 13,6 per cent stated to never consume the brand. This is interesting since brand recall is more difficult to establish than brand recognition, especially by refraining from traditional marketing as in the case of Body Shop (Keller, 2003).

Asked which aspects the respondents perceive as having a high influence on a buying decision of cosmetics or hygiene products in general, price was mentioned as the main driver. The question was not aimed at a specific brand, but a whole product category, including well-established brands as well as store brands or manufacturer

brands. Every product is, at least in the beginning, not more than a simple commodity with physical attributes such as size, colour, shape, smell, etc. as product attributes (Randall, 2000; Wood, 2000). Product performance serving consumers' functional needs represents the basis, and so price and quality are the main influential factors for deciding in favour of or against a product. A brand, by contrast, overcomes this basic performance level of a product and adds strong, favourable and unique brand associations that are then taken into consideration when buying the brand. Brands do not only serve as indicators of quality, but also communicate a certain image and identity, which makes customers accept a higher price (Keller, 2003). Since the product category of cosmetics and hygiene products does not refer to a specific brand and even includes no name products, the price gains in importance as decision guidance for consumers. Customers do however, experience quality as another very important factor, which is inline with literature, which states that there has to be a positive relation between the perceived price and the quality standard (Apéria and Back, 2004). The brand and the image of a company were classified as influencing the buying behaviour to a certain degree, but not as heavily as price and quality. As said before, it is essential to first deliver a satisfying product that fulfils or even surpasses the manufacturer's claims and the consumers' expectations. After having achieved this necessary step, intangible and emotional aspects can be developed (Fombrun, 1996; Randall, 2000). The utilized ingredients, which represent another product-specific attribute, do not play an important role in the purchasing decision of a product, as well as promotional aspects. Although the information about the composition of ingredients is available at the back of every product, this information is often confusing due to the abundance and complexity (Carrigan and Attalla, 2001). Especially in low-involvement purchases with fast moving consumer goods the urge for additional information is very limited from a consumer's perspective (Randall, 2000). The absorption of data is, beyond that, dependent on the personal relevance of the information. If the information is not relevant, it will be filtered out and does not become part of the decision. Moreover, it has to be taken into consideration that promotion can have a strong sub-conscious influence, which might be unknown to the consumer.

In order to investigate the strength of association the respondents hold for various characteristics, they were asked to rate certain predetermined associations. Intrinsic, product-related aspects, as well as organization associations that go beyond the product level were included (Chen, 2001). The results showed that both groups of characteristics were rated high and low, consequently there was no dichotomy in

physical/functional and emotional/non-functional factors. It mirrors the differentiated identity Body Shop has in consumers' minds, which distinguishes this brand from the multitude of others. The association most strongly anchored in the respondents' minds is the environmental awareness of the company. This finding supports the notion that a company is perceived as a whole by consumers and is inline with the overall trend of basing a firm's competitive advantage on emotional rather than functional assets (Randall, 2000; Harris and de Chernatony, 2001). Body Shop is a prime example of holistically implementing this approach, since it is an organization that communicates the company itself as the brand and places high emphasis on internal factors, such as values and their employees (Hansen and Christensen, 2003). Moreover, a social concern, namely environmental awareness, was tied to the reputation and communicated successfully, as this questionnaire shows (Fombrun, 2000). Consumers do actually observe this fact and therefore, Body Shop's environmental identity developed into the strongest association with the company. This is also inline with the findings of the personal interview with a Body Shop representative, who stated that campaigns and projects are part of the authentic and passionate image of the organization (Telephone Interview, 2007-04-18). The claim to address both head and heart (Keller, 2003) is apparently incorporated within Body Shop, since consumers attach emotional, as well as functional aspects to the firm. Another very strong association within the target group refers to the comparably high price level of Body Shop products. This finding is contradicting the theoretical concept of green or ethical consumerism. Consumers of companies that are socially engaged and incorporated non-commercial concerns into their strategy are argued to perceive the price as a factor of inferior importance, since environmentalism justifies these higher price levels (Cowe and Williams, 2001; Peattie, 1995). This theoretical concept is not fully supported by the empirical findings, since high prices are still found to possess high relevance. Although environmental awareness is most associable with Body Shop, consumers are at the same time aware of the high price levels, which contradicts green consumerism. Anti-animal testing represents another social concern that the target group identifies as strongly associable with Body Shop. The existence of active connections with protection of nature and animal rights in consumers' minds shows the authentic identity of Body Shop and the successful involvement of non-commercial issues (Beverland, 2005). Moreover, it was found that anti-animal testing represents a topic of high priority for most consumers (Mirvis, 1994) and therefore, it is not surprising that this information was saved in consumers' minds. Personal relevance is a promoter for the creation of strong associations (Keller, 2003). High quality standards and the attractiveness of the products are not

as strongly associated to the brand. Although they might be associated with the company, they fall behind in comparison to stronger attributes. Corporate Social Responsibility has even proven to be least interconnected to the name Body Shop. This evaluation is inline with theory, since it has been found that consumers are often unable to identify companies with high social responsibility (Carrigan et al., 2001). This can be explained, in part, by the fact that social responsibility is an abstract term, which is perceived in different ways across cultures. Environmental awareness and anti-animal testing are the most obvious and highly communicated components of Body Shop's CSR program, but there are several more campaigns and initiatives for instance in reference to fair trade or encouraging feministic issues. The fact that two of the societal concerns Body Shop is supporting were rated high in conjunction with Body Shop, shows that the average consumer in the target group observes the distinct identity of the organization and remembers it as a strong, favourable and unique association. As described in the theoretical framework, Body Shop represents one of the exceptions where CSR is not experienced as an "expensive luxury" (Chen, 2001), but actually as a crucial part of their brand strength and reputation. The continuous attempt to raise awareness established Body Shop's role as a leader in the arena of social responsibility (Dennis et al. 1998, p.1) and has built strong customer associations. Body Shop is one of the first companies that comes to customers' minds when Corporate Social Responsibility is mentioned (Anon, 2002, p.1). The results of this question mirror the overall attitude that buyers possess of the company Body Shop and that the ethical character definitely plays an important role in consumers' minds.

Even if the information of Body Shop's social and environmental engagement is noticed and associated by the customers, the aspects that play a highly influential role in the actual buying decision are different ones. The findings approve a certain separation into physical or product-related factors on the one hand, and ethical ones, which are inferior in relevance on the other hand. This finding essentially contradicts the company's perspective. The interview with Body Shop revealed that the company is convinced that customers opt for the brand Body Shop due to its environmental awareness and anti-animal testing policy. It is argued that the customer base clearly identifies the need for animal protection and makes a conscious decision in favour of the firm (Telephone Interview, 2007-04-18). It is interesting to see that the respondents participating in the questionnaire contradict this point of view. Beyond societal aspects, quality was another important decision guidance named in the course of the expert interview. According to the questionnaire, quality standards are

very essential and highly valued by the customers. It seems that consumers expect a consistent standard of quality and reliability from a branded product, and therefore, quality is rated as the most important characteristic. Quality represents a real and rational benefit of purchasing this specific brand, and the subjective, emotional and intangible concept of added value is an additional benefit, which brands offer (Wood, 2000; Randall, 2000). Compared to the purchase situation of cosmetics and hygiene products in general, the quality standard gains in importance when referring to a specific brand. According to Monroe and Krishnan (1985, cited in Baldauf, 2003), perceived quality should be positively related to the perceived value of a product and often serves as an important decision guidance. Moreover, the formation of brand judgments is strongly interlinked with the level of perceived quality (Keller, 2001). These theoretical statements are approved by the findings of the questionnaire. Quality is perceived as a strong influential factor by Body Shop's target group. It is not only an aspect which they connect to the brand, but which actively influences their buying behaviour. The price represents the second most important aspect consumers of this group consider when buying Body Shop. This is inline with what Peattie (1995) states, the fact that consumers act in their own best interest in most cases and base their buying decision primarily on the price. The price does not necessarily represent the actual monetary price that is paid at purchase, but often includes personal associations of high price levels, or opportunity costs. In the case of Body Shop, opportunity costs can be connected with the need to seek out a Body Shop store, which can be time- and energy-consuming. Incorporating a social concern into a company's strategy is said to attract "green consumers", which are less price-sensitive and more accepting towards a price premium. Ethical consumption can either appear as avoiding and thereby punishing companies with a negative social appeal, or by supporting environmentally friendly organizations. In exchange for receiving eco-friendly products consumers are said to be willing to pay more and become loyal towards the company (Cowe and Williams, 2001; Carrigan, 2004, Peattie, 1995). Both of these facts elaborated in theory cannot be confirmed by the findings of the questionnaire. By contrast, economic rationality is more inline with the observations (Peattie, 1995). Even though quality is of major importance, price is strongly interlinked to it and still represents an important factor, which is not restricted by the environmentalism of the company. The attractiveness of the products also gains in importance when confronted with an actual buying decision. This is explainable by the fact that personal reasons, such as value, price and brand familiarity are generally rated as more important than societal reasons (Mirvis, 1994). Anti-animal testing policies represent an exception, however. It was found that

consumers often prioritise animal right, even over issues concerning violation of human rights. Animal protection raises strong interest and sympathy and this is also reflected in the rating within the target group. Compared to the other ethical factors, Body Shop's anti-animal testing initiatives influence the decision in favour of the company to a noteworthy extent. Environmental issues, which have been proven to be highly connected to the brand name, do generally not play an influential role. CSR is neither a strong association that is manifested within consumers' minds, nor an influential factor in a purchase situation. The findings coincide with Carrigan and Attalla (2001), who found that although always strongly connected to a social and environmental identity, Body Shop's customers state that the attractiveness of the products is the main reason to purchase the brand, not to the attempt for social responsibility. This is probably due to the same reasons mentioned above, namely the differing interpretations of the term and the lower relevance for the clients. It can be generally stated that consumers do have the necessary knowledge about Body Shop's various initiatives, but this knowledge is only rarely used to guide ethical behaviour. Consumers that act upon social responsibility represent a minority, which has been acknowledged by this questionnaire (Carrigan and Attalla, 2001). Summing up, it can be investigated that there is a deviance within the target group between the association with a company and the reasons that actually initiate purchase. Since the questionnaire was composed of a predetermined set of characteristics, service quality was excluded as an association. The personal interview with a Body Shop store manager, however, highly stressed Body Shop's outstanding service quality and the knowledgeable staff as a differentiating factor (Telephone Interview, 2007-04-18). Since it was not included in this study, the consumers' evaluation of this aspect is uncertain, but can indeed represent another additional driving force behind the choice in favour of Body Shop.

The rate of awareness concerning the acquisition of Body Shop by L'Oréal in the target group is relatively low. The overwhelming majority of the respondents did not know this fact, which is attributable to low media coverage as well as a low level of relevance for the respective consumers (James, 2005, p. 2; Chen, 2001). As stated by Gasston (Telephone Interview, 2007-04-18), Body Shop's representative Anita Roddick did not explain and clarify the reasons behind the sale to the public. Nevertheless, information in various newspapers, as well as the homepages of Body Shop and L'Oréal were available for interested customers seeking additional information. Moreover, it was indicated that the staff was prepared for a personal dialogue with the clients in order to resolve uncertainty and questions. This definite

availability of information sources shows that the actual usage of these possibilities is the key to understanding the low rate of awareness. As said before, cosmetics do in most cases represent a low-involvement purchase and customers do not seek for additional information surrounding the product. Furthermore, as found by Eysenck and Keane (1990, cited in Harris and de Chenatony, 2001), perception is selective and restricted to about seven items of information. The available data is sub-consciously filtered on the basis of personal experiences and beliefs and only anchored in consumers' minds if it possesses relevance. The notion of the acquisition of Body Shop does not possess the necessary relevance for the majority of the target group and is, as a consequence, not absorbed by them, at least not on a conscious level.

The rating of the two individual companies, L'Oréal and Body Shop, in reference to personal perceptions of the whole company, showed a preferential attitude towards Body Shop. This is inline with the finding that 85 per cent of consumers indicating that they have a more positive perception of a company that supports values that are of personal importance to the customer base (Simon (1995, cited in Carrigan and Attalla, 2001). By engaging in non-commercial, ethical areas Body Shop created a comparably high sympathy among the target group. Public judgments are said to be formed on the basis of perceived expertise, trustworthiness and likeability of an organization. In other words, inherent product performance as well as extrinsic factors do influence the overall attitude and feelings towards a brand. The results present the collective perception of a brand's past actions and the net affective and emotional reaction in favour of Body Shop (Keller, 2003; Chen, 2001). The findings of the questionnaire mirror this tendency to prefer companies with a social edge, but do not show an overwhelming superiority of the ethical marketer Body Shop in comparison to the cosmetics giant L'Oréal. Carrigan and Attalla (2001) found that L'Oréal is often identified as one of the companies with poor social responsibility due to their animal testing practices. The fact that L'Oréal itself is part-owned with 26,4 per cent by Nestlé, who was elected the world's least responsible company in 2005, does probably not contribute to its reputation in a positive way (Carrigan and Attalla, 2001, p. 8). Nevertheless, both companies were ultimately rated in the category of rather positive than negative and 43,4 per cent of the respondents did not observe any difference in perception between the two firms. This is not surprising, since the literature review already revealed that most consumers cannot identify a company with high social responsibility, nor a company with remarkably low ethical concern (Carrigan et al., 2001). This can be due to different perceptions of what is

outstanding social commitment, but most probably depends on the irrelevance of the information for customers' every-day consumption. The rating of the combined company, on the other hand, is influenced by other factors. When two established brands conjoin, a new so called "composite concept" evolves, which is different from the individual ones prior to merger (James, 2005). Associations and characteristics that work for one company, may not work for the new conglomerate. Each brand holds a notion about its essence, what it stands for and consequently, a direction for future development. The questionnaire reflects that 25,9 per cent of the females between 15 and 26 years experience the acquisition as a negative strategic decision. This can be due to incoherent business cultures and values, as well as a weak corporate fit, which is anticipated to result in contradicting rather than complementary outcomes. The way a company has developed over years or decades in combination with and in reliance on their consumers also indicates a future path. Customers may perceive the partner L'Oréal as inappropriate due to the lower emphasis on social and environmental topics (Reast, 2005, p. 2; James, 2005, p. 4; DelVecchio, 2000). Interestingly, the findings show, in addition, that consumers, which perceive L'Oréal as more positive than Body Shop also change their opinion towards the combined corporation. These customers indicate a degradation of their perception, which can be, among others, attributed to the strategic fit of the two companies (DelVecchio, 2000). Another aspect influencing an alteration in the attitude towards the newly formed conglomerate can be associated with the loss of control (Fombrun, 1996). Due to the low knowledge of the acquisition, customers tend to speculate how an incorporation of the noticeably smaller entity Body Shop would work. Even if planned as a stand-alone division, two very different portfolios are to be combined. What position will Body Shop take in the network of multitude brands owned by L'Oréal and how will the organically grown Body Shop with its emphasis on values hold its ground? According to DelVecchio (2000), the number of products affiliated with a brand and the variance of quality also have an important influence on the success of portfolios. By incorporating Body Shop into an existing network of brands at the mono-brand L'Oréal, Body Shop might not receive the necessary attention and financial means, which are required to further maintain and develop the brand. As stated in the literature review, brands can hinder one another from creating their full value (Sherrington, 2003; Apéria and Back, 2004). Furthermore, perceived credibility and quality should be as similar as possible. Consumers may identify this factor and observe differing quality standards between the firms. Whereas supporters of Body Shop may question L'Oréal's ability to live up to the standards of ingredients and environmentally-friendly production, L'Oréal supporters may question the fit with the

highly technological and innovative cosmetics giant. Even if this loss of control is not actually happening and if the two companies are not going to be merged on an operational level, consumers do form their general perceptions on the basis of personal feelings and experiences. What the consumer thinks is reality (Randall, 2000). The findings within the target group do certainly reflect that there is a movement towards a more negative perception, which is most likely attributed to some kind of dilution of values and standards. Old association get mixed with new, maybe contradicting ones, and produce a set of associations which is not as clear and coherent as the initial brand judgment (DeVecchio, 2000). Since Body Shop was initially rated higher than L'Oréal, the image of Body Shop suffers more from the lost autonomy. Theory states that one or both brands involved in such a venture might be weakened in the course of implementation (James, 2005) and it becomes clear that Body Shop loses more of its credibility and likeability. Nevertheless, it has to be stated that the majority of consumers still perceive the conglomerate as rather positive than negative, which reflects a relatively high acceptance of the venture. Most customers indicated an indifference towards the venture, which equals acceptance to a certain degree, but some customers also openly displayed that they are not approving and supporting it. Acceptance may be formed by respondents that actually support the sale and anticipate synergies in the course of combining assets. On the other hand, this acceptance can also be based on respondents that do not perceive any differences between the companies and are indifferent towards the source of a product, the values the company represents and the ethical path they pursue. Another reason behind this rating could be the fact that companies that link their existence to a social concern, generally have trusting customers (Mergers & Acquisitions: The Dealmaker's Journal, 2006-05-01, p. 1). The high degree of consumer trust and good reputation connected to a company like Body Shop might make customers more willing to believe that the company will continue to consistently live up to its values.

The finding that 38,3 per cent of the participants changed their perception of Body Shop in a negative way due to the acquisition reflects this dilution of images. The change in perception can be due to the described contradicting business philosophy and culture as well as the confusion of different values and concepts (DeVecchio, 2000). Body Shop possesses a clearly defined set of values that is, according to Mirvis (1994) identified by customers as a "a sense of passion you simply won't find in a Bloomingdale's department store". The organizational integrity that was created over years might be damaged due to the fact that Body Shop compromised what is

central to the organizations' identity (Wilson, 2001; Reast, 2005). Since anti-animal testing represents a factor that influences buying decisions in favour of Body Shop, this may influence the aggravation as well. L'Oréal has been criticized in the past for the extensive animal-testing of their products (Mergers & Acquisitions: The Dealmaker's Journal, 2006-05-01, p. 1). This fact, since it possesses relevance and creates sympathy, can influence the image of Body Shop consequently. Although L'Oréal also engages in charity, community projects in partnership with Unesco as well as environmental concerns (L'Oréal Homepage), animal testing remains a critical aspect in the company's agenda. Sceptics of the acquisition do also mostly criticize the animal-testing practices of L'Oréal, and therefore, this can be anticipated to be a driving factor for the negative development of consumer perceptions. Anti-animal testing represented from the beginning a core value of Body Shop and gave it a "sense of direction and purpose". Living up to this responsibility and complying with the company's claim not to support animal testing is an important factor of what makes up Body Shop (Fombrun, 1996). On the other hand, the majority of consumers of this group did not change their perception of the company, which conforms to the rating of the overall attitude towards the organization. Consumers that do not observe a difference between the two enterprises cannot be expected to actively reconsider their perception of Body Shop and change it. This is again mainly due to the low personal relevance of the information to some customers. The realization that a shift in perception is not correlated to the moment of insight is noteworthy. It means that the consumer's reaction is not dependent on whether an acquisition is published and explained in detail by the company or the media, or whether it is spread in a questionnaire, like the one employed here. Although respondents that knew about the venture before the participation had more time to process the information and verify it with the existing experiences and beliefs, the reaction was not influenced (Keller, 2003). No pattern or correlation was identifiable concerning this aspect.

Concerning the actual purchase of Body Shop products, the willingness to actively change the volume was found to be little. The majority of the target group expressed the intention to maintain their buying patterns as prior to the acquisition. This finding aligns with the company's statements in the personal interview. Even though some activists protested against the incorporation of Body Shop by L'Oréal and the sales volumes decreased slightly after the publication of it, it did not lead to a dramatic change in buying behaviour (Telephone Interview, 2007-04-18). Comparing the number of changed perceptions and the implementation of this altered attitude a gap

becomes noticeable. In other words, a gap exists between the overall associations of a brand, and the factors that actually take part in the decision-making and have active relevance. This finding is related to the asymmetric effect of information on attitudes (Carrigan and Attall, 2001). The so called attitude-behaviour gap implies a punishment of unethical demeanour, but not necessarily a reward of ethical performance. Although Body Shop does to a certain extent harm their “clean ethical record” by selling to L’Oréal, the organization is still perceived as an ethical marketer that supports and acts upon various social concerns. This is shown by the positive perception of the company, as well as the environmental associations manifested in consumers’ minds. The respondents of this questionnaire might plan to rather punish very unethical companies, than a very responsible company like Body Shop that lost a small part of their societal image. On the other hand, research has found that customers are not able to identify companies with low social responsibility and so this punishment can also fail to appear (Carrigan et al., 2001). The gap might also be related to the fact that buying patterns are, once established, very difficult to change (Randall, 2000). This applies to both the attempt to positively or negatively change the buying behaviour. The fact that some respondents even search for an alternative company supporting the same business concept illustrates that well. Even though, these consumers perceive Body Shop as a business concept worth supporting, they are seeking for an organization that implements the idea more consistently. Whereas most consumers of the target group may perceive Body Shop as the “petty evil” and are not planning on punishing them, some do search for an alternative. Those customers are the ones that will, if an adequate alternative arises, terminate the relationship to Body Shop. Retaining customers is obviously a main objective of any firm and losing them is a costly factor. Since 18,5 per cent indicated this intention, Body Shop needs to take care of these customers before they terminate their relationship and rely on a competitor. Even though Body Shop is one of the big players in the niche market of ethical and ecological cosmetics, competitors follow the same strategy and can draw consumers away.

5.2 Male (15-26)

The findings within the demographic consumer group of males between 15 and 26 years ratify most of the results of the target group, but did also show some revalidations. Quality and price are also rated as the most influential factors in a common purchasing situation, as in the target group. There is, however, a shift in importance in favour of the quality standard. The two variables are nonetheless

strongly interlinked and are expected to have a positive relation, as it was described in the theoretical framework (Monroe and Krishnan, 1985, cited in Baldauf, 2003). This corresponds to the insurance function of brands, that should prevent customers from time-, monetary- or emotional costs (DeIVecchio, 2000). Quality and price represent the basic functional aspects that have to be fulfilled in order to create a satisfactory outcome and initiate repeated purchase (Randall, 2000). The higher relevance of the quality standard that was discovered in this category is only marginal and shows a slightly higher emphasis on this variable. However, an adequate price level still represents a crucial factor.

Concerning the association that consumers link to the company Body Shop, the rating evolved different findings than in the target group. Males between 15 and 26 years seem to exclude societal aspects from their set of associations, in comparison to females of the same age. Environmental awareness and anti-animal testing, which were highly associable for the target group, did not reach this status in this category. Confronted with a purchasing situation of Body Shop products, the same dichotomy of functional and non-functional attributes as in the target group is observable. Quality, price and attractiveness of the products take on a leading role, whereas societal factors have an inferior influence. This is, as stated before, mainly due to the degree of personal relevance of these factors (Keller, 2003). It is, however, interesting to see that male consumers do not place high emphasis on animal protection, unlike their female counterparts, both in reference to an actual buying decision and associations of Body Shop in general. The high sympathy of animal rights may be an emotional point-of-view, which is more applicable to female consumers. Although studies on gender differences in ethical decision-making did not come to this conclusion consistently, there are findings that women have more ethical intentions than men (Singhapakdi et al., 1999; Jackall, 1988, cited in Glover et al., 2002). The inconsistency of the results, either acknowledging a gender-specific perception of ethics, or stressing a similar ethical choice behaviour, makes the analysis difficult. It is, however argued that ethical decisions are based on a trade-off between self-interest, neutralisation and justice (Glover et al., 2002) and that females tend to have higher ratings concerning honesty and integrity as well as concern for others (Hofstede, 1997, p. 81). This theoretical point of view can be assessed to the findings of the questionnaire, which show a male perspective that disregards anti-animal testing as an influential factor.

The rating of the individual companies shows similar trends as in the target group, such as the overall classification of both companies as rather positive than negative. On the other hand, the marginal perceived difference between the firms turned out for the benefit of L'Oréal in this category. Analysing the evaluations of males between 15 and 26 years indicates that they do not value the point of differentiation of Body Shop strongly. The distinct character of the company, surpassing high quality and attractive products, is based on the ethical edge, which is not highly appreciated by the respondents of this group (Randall, 2000). The added value of the brand that is transferred to customers acknowledging these environmental and social aspects is not observed by males between 15 and 26 years. As stated in the literature review, added value is a subjective concept that is observed and experienced in differing ways depending on the personal significance (Sherrington, 2003). Since the respondents indicated to buy Body Shop rarely or never, their active familiarity and purchasing volume with the brand L'Oréal seems to be higher. This is of course due to the higher exposure to the brand in regular drug stores, in comparison to Body Shop, and the extensive product portfolio offered by L'Oréal. Brands like Garnier and Ralph Lauren are applicable to both genders and address male customers to a greater extent than Body Shop. Hence, Body Shop does in most cases not represent a part of the "consideration set" and L'Oréal is more likely to be in the repertoire of brands they purchase (Keller, 2003). The associations, which the respondents connect to Body Shop tend to be real or rational aspects, compared to the inclusion of emotional or intangibles in the target group (Wood, 2000). The "unique set of noticeable benefits" (Randall, 2000) of Body Shop has not been transferred as successfully to males between 15 and 26 years and that is probably the reason for the slightly higher rating of L'Oréal. This finding contradicts the notion that consumers are more likely to prefer companies with a social edge and actually proves the opposite (Simon, 1995, cited in Carrigan and Attalla, 2001). Similarly to the target group a considerable part of the respondents did also not sense a difference between the two companies. As it was the case in the target group, a more negative attitude towards the combined corporation can be observed as well. The conjunction of the individual firms is still perceived as rather positive, but a clear aggravation in consumers' minds is caused by the combination of the companies. Again, this can be related to multiple factors, such as poor strategic fit of the organizations, contradicting sets of values as well as a dilution of the former images (Reast, 2005; James, 2005; DeVecchio, 2000). Whereas L'Oréal can forfeit the image of innovation and its focus on research and development, since Body Shop products are more about emotional values than innovative procedures and formulas; Body

Shop may suffer losses in reference to its ethical credibility and the coherence of values and principles. Since male consumers between 15 and 26 years rated on average in favour of L'Oréal, they attribute the decreased perceptions of the combined company more to Body Shop.

Brand loyalty is basically characterized by two levels, intensity and activity (Keller, 2003). Since the findings within this group of respondents showed a very low level of loyalty and attachment, perceptions are not changed in most cases. The decrease in consumers that change their perception, compared to the target group, is explainable by the lower personal relevance. If the brand is not even in the consideration set and the purchase is a matter of low-involvement, why would a customer reconsider the overall attitude towards a company? Since the initial evaluation of Body Shop was already based to a great extent on rational associations, rather than emotional ones, the interference of values and principles is not observed that strongly. Since males between 15 and 26 years only constitute marginally to the revenues of Body Shop, and consequentially, cannot be classified as "green consumers" (Carrigan, 2004), the relevance of societal factors is low. It is, however, noticeable that the same trend as in the target group occurred. Even though the magnitude is smaller, some customers did change their perception in a negative way and substantially less changed it positively. In other words, the majority did not perceive an alteration in the overall attitude, for the mentioned reasons, but a noteworthy fraction did reconsider their perception and experiences the acquisition as a negative venture.

The gap between changed perceptions and the consequential decrease of purchasing volume at Body Shop is also present in this category (Carrigan and Attalla, 2001). The magnitude of this gap is even enhanced in the male ratings and equals a very low intention to change the buying behaviour. The overwhelming majority of 93,1 per cent is not planning on decreasing their consumption. This finding definitely contradicts the notion that the willingness to engage in some form of action against a company increased significantly in the last years (Carrigan and Attalla, 2001). Most male customers prove not to actively act upon the available information and show low sensitivity to the topic. Environmental knowledge has low influence on behaviour due to irrelevance and higher appraisal of functional aspects of a product.

5.3 Female (27-35)

The findings in the demographic group of females between 27 and 35 years have generated some interesting insights, although the majority of statements from the target group were confirmed and strengthened. This group is of particular importance since the respondents actually indicated to buy more at Body Shop than the target group. Due to the fact that Body Shop products are not necessarily bought on a daily basis, as groceries for instance, the self-assessment of the buying volume can be inaccurate. This inaccuracy is, however, partly corrected by averaging the results and comparing it to the target consumers. As described in the literature review, brand loyalty is composed of an intensity and an activity level, which refers to either the strength of attachment to the company, or the ways this loyalty is acted upon in consumer demeanour (Keller, 2003). The higher purchase rate, noticeable in this group, refers to the activity of consumers' loyalty towards Body Shop. The intensity, on the other hand, can be investigated in the succeeding questions that refer to the strength of associations. Based on the findings, females between 27 and 35 years do apparently more often actively transform their loyalty into a buying decision, and therefore represent an important consumer group. Although this insight is surprising to a certain degree, since the target group was defined and products are mainly aimed at them, it is also explainable. Demographic clusters are built in order to facilitate the organized collection of data and the subsequent analysis of these. As illustrated by the contradicting results of gender-related ethical decision-making, age groups enable to detect tendencies or trends, but do not allow for definite generalization. Although the tendency to buy Body Shop products might decrease after the age of 27 years, there are various consumers in this age group that still feel addressed by the company's products. This insight shows that Body Shop should also recognize the needs of this consumer group, since they promise future cash flows. Body Shop has already realized the need for special care lines for mature skin, but there is still leeway for development. On the other hand, theory states that behavioural loyalty is the weakest form of loyalty, since it does not necessarily come along with strong attachments and associations (Baldauf, 2003). Only if these strong, favourable and unique associations are created in consumers' minds, additional to the pure behavioural loyalty, true valuable consumers are developed. The question whether females between 27 and 35 years go beyond activism towards an intense relationship, will be elaborated later on.

Confronted with a common purchasing situation of cosmetics and hygiene products, the ratings of this demographic group were inline with the target group to a great

extent. As discovered in the category of males between 15 and 26 years, quality is slightly more important than price, but both function as an entity whose elements should be connected by a positive relationship (Monroe and Krishnan, 1985, cited in Baldauf, 2003). This finding corresponds to the results in all other categories. A deviant evaluation was attained concerning promotion, however. Whereas promotional aspects were rated as low influential in all other groups so far, they gained in importance in this category. The irrelevance of this factor for the target group can be associated strongly to the sub-conscious level of reception. However rational consumers think their attitude and behaviour is, instinctively information is absorbed and processed (Peattie, 1995). Whereas Body Shop does not engage in traditional advertising (Keller, 2001) and focuses on campaigns and collaborative programs, other cosmetics companies spend huge amounts of their budget on advertising their brands. L'Oréal, for instance, is the "biggest spender" of German cosmetics advertising and the world's 5th biggest advertiser with an estimated \$ 2,8 billion expenditure in 2005 (Mediapilot Homepage). Although consumers might not think that their perceptions and attitudes are strongly influenced by promotion, advertising is an inevitable part of today's markets and all customers are exposed to it to a certain extent. Females between 27 and 35 years seem to be more aware of the strong influence promotion plays in consumer behaviour.

Concerning the associations this group has with the brand name Body Shop, price is the strongest. When thinking of Body Shop, the high price levels are the characteristic that comes first to their mind, which is different from the target group. Although the distinct social edge of the company seems to be observed by the consumers due to a mixture of functional and societal factors they connect to Body Shop (Chen, 2001), price is the most associable factor. Considering the fact that these respondents indicated a higher active loyalty, this is surprising. As stated before, ethical consumers supporting a firm like Body Shop, are anticipated to prioritise ethical and emotional factors (Cowe and Williams, 2001, cited in Carrigan, 2004). Green consumers are assumed to justify a price premium in return for an eco-friendly manufacturing process, but the price level was found to still be perceived as comparably high. Anti-animal testing is also a strong association in consumers' minds, which is explainable by the high sympathy evoked by this issue. Environmental awareness, on the other hand, is rated much lower than by the target group and was classified as least associable together with CSR. Although strong connections to the animal protection initiatives of Body Shop exist, most societal factors play an inferior role. This is an indicator for a low intensity of loyalty in this

group (Keller, 2001). Even though they are buying comparably high volumes at Body Shop, they do not feel a strong attachment or sense of community. Being confronted with a competitor offering attractive products at a lower price, these consumers are likely to switch. In order to build a strong sense of community and loyalty, the distinct identity of a company needs to be understood and valued (Balmer and Dinnie, 1999; Randall, 2000). Since only one of the societal aspects that Body Shop supports is strongly associable, Body Shop becomes replaceable by other firms. Quality and attractive products valued by these customers can be offered by a multitude of competitors as well, whereas a high degree of environmentalism and CSR is rather difficult to find. In other words, the activity of loyalty is high, but the intensity is rather low, as opposed to the target group. The ratings in reference to the factors that actively influence the purchase of Body Shop products are again inline with the theoretical finding that personal reasons do play a more important role than societal ones (Mirvis, 1994). Price, quality and attractiveness of the goods are, equal to the target group, rated superior to ethical or environmental aspects.

The rating of the individual companies resulted in a slightly better position of Body Shop, which agrees with the target group. The fact that companies with a social or ethical mission are generally liked better is thereby confirmed. This refers to perceived expertise, trustworthiness, and likeability, which seem to be perceived as more positively at Body Shop (Keller, 2003; Simon, 1995, cited in Carrigan and Attalla, 2001).

Concerning the change in perception, this demographic group shows a stronger degree of uniformity. Whereas in other categories the acquisition led to some alterations of perceptions in a positive way, none of the respondents in this category ratified this opinion. In other words, certain uniformity prevails among the respondents, which reconsidered their attitude. All of them changed their perception negatively. Although the majority did not change their perception at all due to the acquisition, the general findings present a more drastic image due to the uniformity. As described before, a development of negative attitudes is probably associated to a dilution of images. Merging two companies implies insecurities on how the future company will look like and how both business concepts will be conserved. Moreover, poor strategic fit and conflicting values might have aggravated the credibility and reputation of Body Shop (DeVecchio, 2000; Fombrun, 1996; Randall, 2000).

Females between 27 and 35 years do also approve the attitude-behaviour gap and even show it to a greater extent. Only 6,7 per cent indicated the intent to change their buying behaviour at the expense of Body Shop. This probably also refers to the tendency to punish least socially responsible companies, rather than a company that is still highly associable with social commitment (Carrigan and Attalla, 2001).

5.4 Male (27-35)

The consumer group of males between 27 and 35 years shows various similarities to the category of males between 15 and 26 years. The lower consumption, higher relevance of product characteristics as opposed to organizational associations, comparably low valuation of ethical concerns and the low awareness in reference to the acquisition can also be observed in this group and are not going to be elaborated again. The results as well as the reasoning behind it are alike and the focus will be placed on recognizable variations and possible explanations for it.

Besides all these similarities among male consumers, there is also a discrepancy between the evaluations of the individual companies detectable. Similar to the target group, Body Shop was generally rated as more positive than L'Oréal. This is interesting since males between 15 and 26 years did not confirm this rating. Even though product associations seem to be prioritised over ethical aspects, Body Shop is preferred to L'Oréal. This might be related to sub-conscious factors that are not anticipated by the respondents to influence their perception. Even though they do not classify themselves as green consumers and do not act upon ethical guidelines, their perception seems to tend towards a company that supports a set of values (Carrigan and Attalla, 2001). This is, however, surprising since the rating of associations showed low strength of environmental awareness, anti-animal testing and CSR. Theory states that perception is composed of all performance and imagery factors and that brand judgments are mainly influenced by brand quality and brand credibility (Keller, 2003). Since brand quality is highly rated in this group of respondents, the positive evaluation of Body Shop is explainable. The respondents are the only ones rating the combined company as strong or as positive as L'Oréal itself. Compared to the ratings within the target group, as well as the other participants, no aggravation is experienced. Whereas Body Shop is distinctly observed with a very positive identity, L'Oréal and the newly emerged corporation are evaluated to be equally strong in the middle field. Body Shop does, consequently, lose its competitive edge and adjusts to the lower level of L'Oréal. Since the respondents did not highly appreciate or value

the emotional characteristics of the organization, it might be associated to the quality standard or the strategic fit (DeIVecchio, 2000). The incoherence of self-presentation and inconsistency of values and images (Fombrun, 1996) is not likely to cause the difference between Body Shop as an individual entity on the one hand, and Body Shop as a part of the conglomerate on the other hand. Summing up, it is observable that the differentiating factor of Body Shop is destroyed, since the combined company is perceived on an equal level to L'Oréal. The point of differentiation that created that slight difference between the rating of Body Shop and L'Oréal is apparently not existent in consumers' minds anymore (Randall, 2000). The increase of negative perceptions of Body Shop after the acquisition and the limited active change in buying behaviour are again similar to the observations in the consumer group of males between 15 and 26 years.

5.5 Particularities

Gender particularities represent a difficult part of analysis, since research has found inconsistent results (Hofstede, 1997; Glover et al., 2002; Wright, 1995). Nevertheless, some distinctive findings can be explained by taking gender-related factors into consideration. The lower consumption of Body Shop products results from a limited product range applicable to male consumers. Even though products tailored for the specific needs of males do exist, the offer addressed to females is much wider within Body Shop stores. Moreover, it was found that the inclusion of ethical factors is more likely with female customers, which explains the higher consumption (Singhapakdi et al., 1999; Jackall, 1988, cited in Glover et al., 2002). Females tend to show higher sympathy and concern for others and also seem to value these characteristics in Body Shop's identity.

Since males are less likely to buy at Body Shop and might not even consider the company as an option, the lower rate of awareness concerning the acquisition is not surprising. On the one hand, this is due to the low personal relevance, since no close relationship to the firm exists (Keller, 2003). On the other hand, societal factors are not necessarily observed as strongly and are viewed as inferior by them.

In addition, the impact of the acquisition is rather minimal for male consumers. Neither the tendency to change their general perception of Body Shop, nor the alteration of buying behaviour is very strong. Compared to their female counterparts they display a low interest in the fact that L'Oréal acquired Body Shop and

consequently, it does not have an extensive effect. Even though, the majority of females also maintained their pre-acquisition attitude, a much higher percentage experienced a change. Since males do generally associate high prices, quality and attractive products with Body Shop, they do not consider a drastic change due to the incorporation. Females, on the other hand, align environmentalism and anti-animal testing policies with the firm, and see these values at danger (Beverland, 2005; Sherrington, 2003; Keller, 2003). Females seem to observe the point of differentiation of Body Shop much clearer, since they associate all these societal factors stronger, and might sense that the added value promised by Body Shop can be compromised by L'Oréal (de Chernatony and McDonald, 1998; Wood, 2000; Sherrington, 2003). Due to the fact that female respondents indicated to buy more often at Body Shop stores they have an active relationships to the company. Relationships, as stated in the theoretical framework, are not static and this is illustrated by these results (Sherrington, 2003). Males consumers, on the other hand, do not have such a strong active relationship to the brand. Participants that never even entered a Body Shop store are not likely to think about the relationship to the company, since it is non-existent (Keller, 2003; Katsanis, 1994; Apéria and Black, 2004). This is also the reason why a very small percentage of the male respondents changed their buying patterns in reference to Body Shop.

Besides gender-specific particularities discovered in the questionnaire findings, cultural differences were observed. Although nationality was generally neglected in the analysis, since Body Shop pursues a global product strategy with little local adaptation, citizens of the United Kingdom represent a group of special interest. As stated in the empirical results, the degree of awareness was noticeably higher than in any other consumer group. Higher public interest and repeated media exposure to the topic can account for possible reasons. Since the country of origin of Body Shop International is the United Kingdom, these customers possess a higher geographical sensitivity to the acquisition and therefore, absorb the information more consciously. As explained in the theoretical section, the more you see, hear and experience a brand, the more likely it will manifest itself in your mind (Keller, 2003). Since, except for the higher awareness, there were no differing evaluations to be found in this group, no further correlation exists. If the higher awareness would have been correlated with a more positive perception of the venture, it could have been concluded that companies should invest efforts in creating such a high awareness. By contrast, the findings illustrate that although UK citizens knew about the acquisition prior to the questionnaire in general, it did not impact their evaluations

and perceptions to a great extent. The personal interview with Body Shop indicated that there has been a lack of communication right after the publication of the deal. Harriet Gasston argued that the degree of information is positively correlated to the degree of understanding and support of the strategic decision (Telephone Interview, 2007-04-18). Quite contrary, the ratings were very similar to the outcomes within the target group and hence, the finding of the personal interview can be discarded. Although open communication and involvement of customers is stressed in theory (Gancel et al., 2002; Covin et al., 1996, cited Schraeder and Self, 2003) and also by the company Body Shop itself, it does not seem to pay off.

5.6 Discussion of hypotheses

The hypotheses, formulated prior to the research study will be discussed individually in the following section in order to test their validation. By verifying the hypotheses in conjunction with the empirical results, the following conclusions can be derived.

H1: H1 anticipates a dilution of the brand image due to a confusion of values and associations in the course of an acquisition. The combination of two or more established brands is stated to create new associations or confuse the old ones that were manifested in consumers' minds over years of thorough branding and consumer psychology. The majority of the empirical findings revealed however a constant image perception of Body Shop. Most consumers indicated that their perception did not change due to the incorporation of the firm and that they did not experience a dilution of associations. Even though the majority of the findings does not conform with the hypothesis, a considerable amount of consumers indicated changed perceptions, which are attributable to diluted or washed-out associations and core values. Since a clear trend towards a negatively changed perception is observable, a certain degree of value blending is present. This unintended interaction of associations is proven to eventually cause a fading image, which is not as definite and unambiguous as the original company profile. The sets of values or associations are apt to contradict each other, which puts the credibility and coherence of both companies at risk. The combination of companies is shown to have a negative effect on one of the most valuable assets of a firm, namely the brand. Thus it can be said that H1 has been confirmed, despite the opinions of the majority. This is due to the fact that the dilution of values is observable to a great extent.

H2: H2 is closely aligned to H1 and refers to changed consumer attitudes towards a brand due to an alteration or washing-out of values and brand characteristics, which consequently, affects a company's appeal. As stated before, a change in perceptions of the brand Body Shop, mainly in a negative way, is supported by the empirical findings. The confirmed dilution or the uncontrolled interaction of uncoordinated or even contradicting values leads to a shift in attitude towards the associated companies, as well as the combined corporation. Although the majority of consumers indicated a constant perception of Body Shop, a trend towards an aggravation of attitudinal factors can be observed, such as credibility, trust and uniqueness of brand identity. H2 is therefore also found to be true.

H3: H3 anticipates a close positive correlation of changed brand perceptions and an alteration of consumers' buying behaviour. The findings of the consumer questionnaire are not found to be inline with the hypothesis and it is therefore not confirmed and can be discarded. The rationale that a reconsideration of customers' attitudes towards a company, will subsequently lead to changed purchasing patterns is not supported by the empirical results. The assumption that perceptions will be transformed into action from consumers' side is found to be untrue. Only very few consumers actually expressed the will to change their buying patterns due to the negative connotations of Body Shop. The attitude-behaviour gap, detected in all demographic groups, does not conform to H3 and leads to the conclusion that an incorporation of brands will most likely not influence the buying behaviour of consumers.

6. Conclusion and recommendations

6.1 Concluding remarks

This thesis is based upon a sound theoretical framework and a noteworthy case study, which were combined or bridged in an in-depth analysis of the empirical findings. After having analysed the subject matter thoroughly, the underlying research question and formulated hypotheses can be answered and tested. In light of the above, it can be stated that consumers do partially experience a more negative attitude towards the acquisition of Body Shop by L'Oréal. The newly emerged corporation is perceived differently than the individual companies, which leads to the conclusion that an interaction of values can lead to a loss of credibility, trust and strength of image. Although the majority of the respondents indicated that their overall perception of Body Shop did not change, the empirical results revealed a noteworthy fraction, which observes the combination of values and principles critically and possesses a differentiated cognition in consequence of the acquisition. In reference to the research question it can be stated that consumers do partially experience a brand as part of a corporate product portfolio as well as a corporate identity, rather than breaking it down into separate portfolios of the original companies. On the other hand, it was found that the buying behaviour is only very seldom influenced and that buying patterns are generally strongly manifested in consumers' minds, which makes them difficult to change. Moreover, some consumers indicated the active search for an alternative to Body Shop and the intention to terminate the relationship to the company entirely, if confronted with an adequate substitute. This finding, as well as the negative shift in perception and attitude represent the main contributions to this research. The relevance of the research question and consequently, the relevance and value of this thesis is supported by the empirical findings and enables deflection of implications for practitioners. The validation of the hypotheses in chapter 5.6 highly stresses the importance of pre-acquisition research and evaluation of the involved companies in reference to strategic and operational fit of images, values and philosophies. Only if a certain degree of compatibility is ensured, a negative reciprocal interference of brands can be precluded. Even though the buying behaviour is not directly influenced, consumers are willing to search for alternatives, which emphasises the strategic importance of this topic for companies. Since it was found that consumers generally possess low awareness of the topic, do not seek for additional product information and do not necessarily act upon their knowledge, open communication

and involvement of customers does not seem the best approach. This finding implies that practitioners should rather invest effort in the pre-acquisition phase, engaging in the right ventures and searching partners that are going to value the brand as well as its heritage and history.

6.2 Theoretical and practical implications

The overall value of this thesis is based on the practical character of the study, as well as the identification of a practical issue. The findings of the empirical research clearly illustrate the need to emphasize pre-acquisition evaluation. Possible partners have to be evaluated in reference to their individual assets as well as the compatibility to the acquiring organization. Although this thesis does not include other possible reasons for pursuing M&As, such as tax advantages, geographical or product diversification goals, the degree of risk is still apparent. A recommendation derived from the study lies in the recognition of the fragile composition of brands. Since the acquisition of Body Shop by L'Oréal represents a real life case it encapsulates high practical relevance. Besides the theoretical implications practical value for practitioners can be derived. The thesis adds theoretical knowledge on the development of established brands in transitional M&As. This complements literature, which mainly covers brand extensions rather than brand structures in a newly emerging company. The practical implication of this research study is to utilize the findings of the empirical study and an analysis of the evaluation of business opportunities and possible partners. Given the possible risks and negative shifts in brand perception, cooperation alternatives with a lower degree of integration as opposed to M&As might be more advisable.

For further research it would be interesting to observe the long-term development of consumer perceptions and buying behaviour. This clearly depends on the integration of operational levels in each case, but could reveal whether the aggravation and dilution is apt to continue or rather cease to exist.

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Personal Interview:

Telephone Interview (2007-04-18) with Harriet Gasston, assistant store manager of Body Shop in Brighton, UK; 5 years with Body Shop

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Appendix 1

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Catherine Robens
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Expert Interview

Q1.: Please briefly describe the image of Body Shop and what your customers appreciate and value strongly.

Personally, I think that our image is based on high moralistic standards and our passion for people and products. We have always been very careful with the selection of our ingredients and supported campaign and projects to help people all over the world. Our anti-animal testing policy has always been a very important aspect of our corporate culture and we are extremely passionate and convinced of it. Moreover, we have an in-house fair trade project, which asks for fair trade in all countries, including also western countries such as the United States and the UK. We are only 30 years old, and look what we achieved!

Q2.: What is the target group Body Shop products are aimed at?

Our products are definitely mainly aimed at young females between 15 and 26. We do have products for men and also product lines for mature skin for the special needs of elder women, but the core customer base is composed of young females. Nevertheless, Anita Roddick has a special interest in the mature skin line and wants to attract also more women of her age to the stores.

Q3.: Would you consider the high environmental responsibility and anti-animal testing policy to be the main reasons for customers to buy your brand?

Yes, definitely. It makes a huge difference. In the current climate, or actually for a long period of time, there is no reason to test on animals anymore. Body Shop

realized this fact very early, compared to other cosmetics companies and customers do definitely care. We have a strong fan base of our environmental policies and the values that underlie Body Shop.

Q4.: Which main attributes or characteristics would you name that make up the high customer loyalty of Body Shop customers?

Besides the moralistic values we pursue and our strong engagement in various social campaigns, the staff makes the difference. We offer a very high standard of service to all our customers and this is mainly due to the highly knowledgeable staff. We have trainings for basically every product line and know exactly what ingredients are used and why. We are in the position to tailor products to individual customers by mixing oils or scents to meet their personal needs. In other stores, big drug stores for instance, employees are not trained that much and are often not very helpful to customers. Contrary to that, at Body Shop we can create a personal shopping experience.

Moreover, we have very high quality products, which are valued by our customers. Quality standards are essential at Body Shop.

Q5.: Do you think your customers actively link Body Shop to the L'Oréal group now?

Yes, some customers definitely do. When Dame Anita Roddick announced the decision to sell the brand Body Shop to L'Oréal, she was relatively secretive about the reasons why the acquisition took place. She did not want to justify the reasons because she did not see any need for that. She personally was aware that L'Oréal had, or even still has, a bad image of testing on animals, but she also knew that they stopped testing on animals 6 years ago already and are trying to improve steadily. The whole concept of acquiring Body Shop was based on the desire of L'Oréal to learn from Body Shop and their practices. But since she did not really explain her reasoning in favour of the acquisition, customers were confused. They did not know how to evaluate this event and a negative perception developed, at least for a few customers.

Q6.: Do you personally think that the acquisition by L'Oréal influenced the customers' perception of Body Shop? Did it influence the image?

Yes, at first it clearly had a negative impact on customers' perceptions. As I said before, people were not aware of the reasons and so a certain confusion evolved. As soon as customers entered a Body Shop store, however, and were able to have a direct dialogue with the staff, the attitude mostly changed again. The more information they got, the better the understanding was. The fact that Anita Roddick donated the full amount of the sale to charity was not even known to a lot of people. By actively involving interested customers in a dialogue a lot of the negative issues could be resolved.

Q7.: Even though the merger of the Body Shop and its values and image is not planned, do you think that there will be a confusion between the “old values” and the new associations? / Do you think that there will be, to a certain degree, a dilution of the brand image?

Yes, as you said correctly, Body Shop will stay an independent entity within L'Oréal. There will be no change in the values and policies of Body Shop. No L'Oréal ingredients will be used for Body Shop products and there will be no adjustments on the shop-floor level. Anita Roddick was employed by L'Oréal as an advisor trying to help L'Oréal to learn from us. Slowly the images of both companies will be linked, but rather L'Oréal will enrich its values with ours, than the other way around. L'Oréal is absolutely motivated to move forward with their environmental policies and other aspects valued highly by Body Shop.

As I stated before, there was definitely a negative feedback right after the acquisition was published. There was confusion on how this sale will influence Body Shop's appearance and way of doing things and linkages to “animal-testing L'Oréal” influenced the image in a negative way. This could have maybe been prevented by better clarification in the first place. But anyways, these negative perceptions were neutralized to great extent in the course of the last year.

Q8.: Did you experience any change in buying behaviour after the acquisition that would indicate changed attitude towards Body Shop?

I would say that due to the confusion there were customers that did not know what to think of the brand anymore. The sales figures, however, do not reflect this change in perception to a very great extent. Of course, there might have been reduced buying behaviour and decisions against Body Shop products, but it was absolutely within the scope of a normal low.

Q9.: Did you experience any consumer reactions in your stores, such as critics or questions related to the acquisition by L'Oréal?

Yes, there have been protests in front of the store, for instance, which can be classified as propaganda. A lot of the people justified their protests due to the animal-testing policy of L'Oréal, but as I said already, L'Oréal also distanced itself from that and does not practice it for 6 years already. In addition to that, there were interested customers that approached the staff and asked questions or verbalized their criticism. Speaking to the staff, which definitely understood their doubts, helped in many cases to make them understand and realize the reasons behind the acquisition and that it can be good and logical way for Body Shop to expand and develop. And that we can influence another company to become better, perhaps.

Telephone Interview (2007-04-18) with Harriet Gasston, assistant store manager of Body Shop in Brighton, UK; 5 years with Body Shop

Appendix 2

UNIVERSITY OF GÄVLE
Business Administration



Hallo zusammen!

Im Rahmen meiner Diplomarbeit im Bereich Marketing führe ich zur Zeit eine Kundenumfrage durch. Angehängt findet ihr den Fragebogen dazu, der wirklich nicht viel Zeit in Anspruch nimmt. Es wäre wirklich hilfreich, wenn ihr euch die Zeit kurz nehmen könntet, um diesen auszufüllen und an mich zurückzuschicken. Außerdem wäre ich sehr dankbar, wenn ihr in an weitere Freunde, Familienmitglieder und Arbeitskollegen unabhängig von Geschlecht und Alter weiterleiten könntet, um möglichst viele Rückmeldungen zu erhalten.

Vielen Dank schon im Voraus!
Liebe Grüße, Catherine Robens

Hello everyone!

In the course of my Master thesis in the area of Marketing I am conducting a consumer questioning. Attached you find the questionnaire, which will only take little time to fill in. I would really appreciate if you could take the time and complete it and send it back to me. Moreover, it would be helpful if you could forward it to as many of your friends, family and colleagues of all age and gender groups as possible.

Thanks a lot in advance!
Regards, Catherine Robens

Appendix 3

UNIVERSITY OF GÄVLE
Business Administration



Catherine Robens
cathyrobens@aol.com

Consumer Questionnaire

Hello, my name is Catherine Robens and I am a business student from the University of Applied Sciences in Mainz, Germany. Currently I am studying at the University of Gävle, Sweden and welcome you to a consumer questionnaire in the course of my Master thesis. I would be most grateful if you would take part in my research by answering this questionnaire – I promise it will not take long to fill it in!

This questionnaire is not designed to check your knowledge about the research topic, but to show your personal attitudes and perceptions towards the brand Body Shop and its image. Therefore, I would ask you to answer the questions spontaneously by considering your feelings rather than your knowledge! Do not think about the questions for too long, just select the answer that comes directly to your mind!

By carrying out this research, I will certainly respect your right of anonymity and examine the outcomes of the questionnaire with the highest degree of confidentiality.

Thank you very much in advance for your assistance!

1. Gender

Female

Male

2. Age

15-26

27-35

36-45

45+

3. Citizenship

UK citizen

Swedish citizen

German citizen

Other:

4. Please consider any purchase of cosmetics and hygiene products. How much do the following product attributes influence you in your buying decision?

	High influence	Influences me to a certain degree	Perhaps but not consciously	Does not influence me at all
Price	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Brand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ingredients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Promotion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Image of Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. Are you familiar with the cosmetics brand Body Shop?

Yes, I am familiar with the brand.

No, I do not know the brand.

6. How often do you buy or consider buying Body Shop products?

Often

Sometimes

Rarely

Never

7. Please rank the following attributes or characteristics by what comes first to your mind considering the company Body Shop. 1 is the attribute that comes first to your mind, 6 the one that would least occur to you. Each number can only be used once, so that an order is formed.

In March 2006 Body Shop International was acquired by the L'Oréal group for \$ 1,2 billion. Body Shop is wholly owned by L'Oréal, but planned to be managed as an independent, stand-alone entity within the L'Oréal corporation.

9. Were you aware of the acquisition of Body Shop by L'Oréal before this questionnaire?

Yes, I was aware of the acquisition.

No, I was not aware of the acquisition.

10. Please rate the two companies, the Body Shop and L'Oréal, by your very personal perception and attitude towards them. Thereafter, please rate your perception of the combined company intuitively by following your first instinct.

	Extremely positive	Rather positive than negative	Rather negative than positive	Extremely negative
Body Shop	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
L'Oréal	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Combined	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Did the information that L'Oréal acquired the Body Shop change your personal perceptions of the image of Body Shop? If you only just received the information in this questionnaire, do you think that your perception will change?

Yes, in a positive way.

Yes, in a negative way.

No, my perception has not changed.

12. If your perception of Body Shop has changed due to the acquisition, will it also change your buying behaviour of Body Shop products?

Yes, I will probably buy more Body Shop product.

Yes, I will probably buy less Body Shop products.

No, I will continue buying the amount of products like before.

13. Are you actively searching for close substitute products of other companies with similar business concepts as an alternative to Body Shop?

Yes, I am actively searching for other companies with similar business concepts, if possible.

No, I am not actively searching for other companies with similar business concepts.

Once again, thank you so much for your help!