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# THE EFFECT OF ACQUISITIONS ON CUSTOMERS: TWITTER EVIDENCE FROM THE DOLLAR TREE-FAMILY DOLLAR ACQUISITION

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## ABSTRACT

Mergers and acquisitions are important for growth. The literature has studied extensively disruption to internal stakeholders but mostly overlooked that to customers, who are essential for growth. We study the effect of M&A on customers by applying a synthetic control approach to the Dollar Tree's acquisition of Family Dollar.

## INTRODUCTION

Firms seeking growth often turn to mergers and acquisitions (M&As) (Capron & Hulland, 1999, Capron & Mitchell, 2012). Indeed, a recent study found that more than 75% of M&As were (in part) justified based on revenue growth firms beyond what these firms would have achieved independently (Rabier 2017). Yet, realizing this additional growth has proved difficult. Firms typically achieve revenue synergies substantially less than anticipated and also less than cost synergies (Lovallo et al., 2007; Deloitte, 2017; Koller et al., 2010). Why do firms have difficulties in realizing synergies in M&A?

We focus on one aspect: the integration consequences for customers. At least some integration is necessary to capture synergies, but integration comes with disruption (Haspeslagh & Jemison, 1991; Puranam et al., 2009; Puranam & Vanneste, 2016). The literature has studied extensively disruption to internal stakeholders (for a review, see Graebner et al., 2017). In contrast, disruption to customers, who are essential for realizing growth, has mostly been overlooked, as noted by Haleblian et al. (2009) and Bettinazzi and Zollo (2017).

To study the effect of M&A on customers, we use a synthetic control method. This method provides a bridge between qualitative case studies and quantitative methods (Abadie and Gardeazabal, 2003; Abadie et al., 2010). Specifically, we focus on the case of Dollar Tree's acquisition of Family Dollar, both large retailers. The control group consists of firms who did not undergo an acquisition during the sample period. The analysis is longitudinal covering the period before announcement, between announcement and completion, and after completion. We use Twitter data to track customer sentiment, settled opinion reflective of customers' feelings (Pang & Lee, 2008: 9).

## THEORY

### M&A Timeline

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A public M&A deal has two key dates: the announcement and closing date. The announcement date is when firms formally disclose to their shareholders their intentions about a pending deal. The announcement is typically done through a press release. The closing date is when the deal is legally completed by a financial transaction so that ownership can be transferred. Closing can happen only after receiving approval of the target's (and possibly acquirer's) shareholders. Sometimes, regulatory approval is needed too. The process of closing a public deal can take several months or even more than a year. While post-merger integration (PMI) planning starts before closing, actual integration can start only after ownership has been transferred. PMI can take multiple years, or, in extreme cases, even decades to happen completely (Graebner et al., 2017).

**Internal Perspective**

The literature has studied extensively disruption to internal stakeholders (for a review, see Graebner et al., 2017). For example, it has analyzed the consequences for top management (e.g. Wulf & Singh, 2011), key personnel (e.g. Paruchuri et al., 2006; Briscoe & Rogan, 2015), employees (e.g. Cording et al., 2014), internal organization and networks (e.g. Briscoe & Tsai, 2011; Agrawal et al., 2014), and organizational units (e.g. Puranam & Srikanth, 2007).

Table 1 provides an overview of potential disruption to internal stakeholders before completion ("ex-ante") and after completion ("ex-post").

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Table 1 about here
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**Customer Perspective**

In addition to internal disruption, external disruption, specifically to customers, is an important obstacle to M&A success. Many M&As are motivated by revenue synergies, i.e. growth for both firms operating together that exceeds the level of growth for both firms operating separately. Hence, customer-related performance is considered a key determinant of M&A success (Homburg & Bucerius, 2005; Zollo & Meier, 2008).

Despite the importance of customer disruption, specifically with regard to revenue growth, few systematic studies have been conducted on customer disruption. There is anecdotal evidence indicating a high risk of customer attrition after an M&A (Stefanowski, 2007; DePamphilis, 2009). However, recent research finds that only a small number of M&A studies even mentions customers in any form (Öberg, 2013; Steigenberger, 2017). This neglect is noticeable not only in the strategy literature, as noted by Halebian *et al.* (2009), Bettinazi and Zollo (2017), and Steigenberger (2017), but also in the marketing literature where M&A related research has been limited (Homburg & Bucerius, 2005).

Mirroring internal disruption, we posit three mechanisms that could cause disruption to customers. The first mechanism is the anticipation of an upcoming change. An M&A creates uncertainty, e.g., worries about future commitments (Rogan & Greve, 2014) or about changes in identity (Clark et al., 2010). The second mechanism is customers' exposure to internal disruptions, in other words, spillovers of internal disruptions. For example, exposure to the distracted organization could lead customers to misperceive the organization as inauthentic

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(Cording et al., 2014). The third mechanism is a planned change that directly affects the customer, for example the discontinuation of a product line.

All three mechanisms link customer to an internal disruption. First, uncertainties from an M&A could affect all stakeholders. Therefore, uncertainties could create similar disruptions, externally as internally to organization. For example, uncertainties about continued external commitment mirror job uncertainty for employees (Briscoe & Tsai, 2011). Both are rooted in the assumption that change in ownership could imply the violation of implicit contracts. Second, the spillover mechanism, by definition, implies the source is an internal disruption. Third, the same logic applies to planned changes. Therefore, even though the relationship may not be one to one, internal disruptions can be used as a guide to theorizing about customer disruptions (see Table 1).

## REFERENCES AVAILABLE FROM THE AUTHORS

Table 1
*Overview of post-merger integration disruptions*

| | Internal | Customer |
|---|---|---|
| Ex-ante | Uncertainty and ambiguity (Kramer et al., 2004; Cording et al., 2008) | Uncertainty (Homburg et al., 2005) |
| | Violation of psychological contracts (Weber et al., 2008) | Breach of implicit contracts (Cording et al., 2014) |
| | Legitimacy (Sinha et al., 2015) | Legitimacy (Sinha et al., 2015) |
| | Perceived status differences (Makri et al., 2012) | |
| | Organizational identity change (Colman et al., 2011) | |
| | Autonomy removal (Stahl et al., 2012) | |
| Ex-post | Contagion (Shaver, 2006) | Change in routines (Angwin et al., 2014) |
| | Interaction patterns (Reus et al., 2009, Reus et al., 2016, Briscoe et al., 2011; Allatta et al., 2011) | |
| | Ambiguity (Vaara, 2003; Cording et al., 2008; King, 2007) | |
| | Clash of cultures (Sarala et al., 2016) | |
| | Loss of autonomy (Puranam et al., 2006; Stahl et al., 2012) | |
| | Unbalanced resource allocation (Schoar, 2002) | Poor service (Hitt et al., 1990) |
| | Loss of status (Paruchuri et al. 2006). | |