

**POSSIBLE IMPACT ON CUSTOMER PERCEPTION DUE  
TO ACQUISITION: THE CASE STUDY ON  
ACQUISITION OF SOMERFIELD BY CO OPERATIVE  
GROUP IN UK MARKET**

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**ABSTRACT**

This paper is aimed to identify the possible affect on customer perception level considering a case on acquisition between Somerfield and Co operative. Customer perception in retail industry depends on some foremost factors like location, brand proposition, customer service, price and quality, product availability etc. Merger and acquisition between/among different organization plays a role to affect the customer perception level. UK retail sales are around £300bn, the 3<sup>rd</sup> largest in the world, after the USA and Japan. The retail sector also generates 8% of the GDP of UK, and 5.2% of GVA (BRC-Bond Pearce Retail Employment Monitor, Q4, 2010). Considering the importance of this particular sector, keeping the customer satisfied through building positive perception is the major and most crucial success factor to remain competitive in the market place. The study has considered three major hypotheses which indicate and shape up customer perception level. In the process different questions related to perception were asked to walk in customer and compared the result against the set hypotheses. It was found that there is significant evidence that the acquisition case has not created any negative perception rather positive in the view of most of the customers.

**Key Words:** Customer satisfaction, Customer perception, Acquisition, Retail, Hypothesis

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## I. INTRODUCTION

In today's business world the most critical success factor is how a company can respond to the changing nature of global and local business environment. Once the manufacturers were the decider and dominating in the process of bargaining power but now the power has been shifted to customer. In past the role of the retailers were limited to intermediary, they only sell the products that is delivered by different manufacturers; consumer usually did not get any other utility from them. But now retailers play not only this role but also many other value adding role to ensure superior customer experience. Shop environment, use of technology, online presence, innovative retailing, delivering the expected good at expected price, building innovative value chain and respond to customer need are all the major values that most of the retailers view as part of competitive advantage. Therefore, these factors contribute in shaping customer perception and determine the level of satisfaction.

Retail in United Kingdom is a big industry in terms of sales volume and no of job it generates. Retailers are a big percentage of the VAT-registered businesses in this part which is 9% of all UK VAT registered companies. The total number of retailer in UK is now 197,990 and in 2008 the total retail sales were £278 billion, and the share of the food stores are £127 billion. This is 45.6% of the total retail sales. Almost 40% Of the consumer spending is gone through the retail shops. Online sales in UK are nearly 4% of the total retail sale but it has a strong growth in recent years. The number of retail outlets in the UK was 297,850 in 2007 and has a better growth. The competitive environment in the UK retail market has experienced a dramatic reshape. (BRC-Bond Pearce Retail Employment Monitor, Q4, 2010).

Tesco, J Sainsbury, Asda Group, William Morrison, Home Retail Group and Co-operative Group are the major retailers in the industry. Availability of shops and products is increasingly important issue for convenient shops like Co operative. Majority of the shoppers in Europe switch the shops if they can not find the product they require. In a decidedly competitive market like UK retail, retailer such as Co operative was going through very difficult time. So from this point, acquisition was the decision Co operative was considering as part of growth opportunity. So the group as part of that decided to acquire Somerfield (another convenient retailer in UK) in the year of 2008. Merger and acquisition is a very strategic decision which can affect customer

perception level significantly. This particular study will evaluate the acquisition case between Co operative and Somerfield in the area of customer perception.

## I. THEORETICAL BACKGROUND

Tauber (1972) provides one of the initial studies exploring the different motives behind shoppers' behavior, and noticed that shoppers are not only motivated by merely finding the products they are looking for, but also by the satisfaction obtained during the overall shopping process. Consequently, Babin et al. (1994) define shopping value as the "complete shopping experience" and not simply the process of product acquisition. Service quality and perception towards the service also shape up the overall perception towards the retail brand. Dabholkar et al. (1996) provide a frequently used scale to evaluate retail service quality. They identified five quality dimensions: physical aspects, reliability, personal interactions, problem solving and retailer's politics. However, price, cost and value are also important quality in explaining store satisfaction, choice and retention (Pan and Zinkhan, 2006). Understanding customer is the starting point is that case to ensure customer satisfaction. However, consumer behavior can be positively influenced by identifying and implementing an appropriate retail marketing strategy that is based on a profound understanding of factors that influence shoppers' attitudes favorably (Lee and Trim, 2006; Pan and Zinkhan, 2006).

Babin et al. (1994), by testing the discerning validity of the scale they suggest, show the impact of the hedonic and utilitarian values on satisfaction. Other researchers stressed the impact of value on satisfaction (Churchill and Surprenant, 1982). In a business to business services context, Patterson and Spreng (1997) showed that the effect of perceived value on repurchase intentions is completely arbitrated through satisfaction.

Merger and acquisition is one of the most crucial decision not only from financial point of view also from can affect some non-financial parameters like brand image, customer perception and loyalty etc. In 1999, global mergers and acquisitions accounted for 2 percent of world-wide GDP (UNCTAD 2000). So the success of acquisition/merger depends on how transition process is managed in a way that effect customer mostly in positive manner. Many literatures propose that

M&A may bring benefit to companies such as market power (Barton and Sherman, 1984), increase shareholder value, at least in the short-term. Nevertheless, Porter (1987) and Young (1981) suggested that almost half of all acquisitions performed not very satisfactory to the acquiring firms.

## II. ACQUISITION BY THE CO-OPERATIVE GROUP

On 16 July 2008, the Co-operative Group declared that they will acquire Somerfield for £1.57 billion, depending on the approval from the Office of Fair Trading.

The proceedings of this declaration began in late 2007, when the parent private equity syndicate, that had acquired Somerfield in December 2005, put the chain up for sale. As per the then news reports the value of the chain was set at over £1.5 billion. Citigroup was appointed by Somerfield to manage the sale in a condition to prefer the sell as a going concern rather than on a piecemeal basis. Then four provisional bids were made. Of these four only the UK's largest co-operative, the Co-operative Group publicly announce acquisition talks, intending to complete due diligence for the entire estate of 900 Somerfield stores in the third quarter, but would be projected to sell a minority of stores. On the 24th June a Reuters newswire Thomson reported that the Co-operative Group's acquisition of Somerfield could be finalized at the start of July, in a final agreement worth £1.7 billion. Earlier in June, Morrisons confirmed that they were not willing to bid for Somerfield, but would consider the obtaining of any stores that are sold after the acquisition. The then Newspaper sources support that other major supermarket chains are also concerned in such purchases. The Co-operative Group in July 2008 announced a deal to purchase Somerfield for £1.57 billion, forming the fifth largest supermarket chain in the UK. On 20<sup>th</sup> October 2008, the Office of Fair Trading had permitted the sale of Somerfield with a condition that 133 stores must be sold.

An announcement was made by the Co-operative Group on February 2009 that they plan to close up the Somerfield head office in Bristol and transfer all operations to their current head office in Manchester. The Co-operative has said that they will try to transfer as many workforces as possible to other areas of the business or to their head office in Manchester, to try to avoid redundancies. On 2<sup>nd</sup> March, 2009 the takeover was formally completed. (BBC, 2008)

### III. HYPOTHESIS TESTING

A total of 60 samples were selected who have experience with both of the brands: Somerfield and Co-ops.

Following hypotheses have been tested as part of data analysis:

#### Hypothesis 1:

The hypothesis was built on to evaluate the overall impression of this acquisition among the customers. As part of that samples were interviewed based on aspects like Brand integrity, availability, price and quality.

H0:  $P \leq 0.5$  (Null Hypothesis: Majority of the customers believe that the acquisition will not bring positive impact on customer.)

H1:  $P > 0.5$  (Alternative Hypothesis: most of the customers believe that the acquisition will bring positive impact on customer.)

#### Hypothesis 2:

The second hypothesis was based on the assumption that how many of the interviewed customer (out of 60 samples) would like to continue with Co operative after the acquisition takes place.

H0:  $P \leq 0.5$  (Null Hypothesis: Majority of the customers believe that after the acquisition Summerfield's customer will not continue with the Co Operative.)

H1:  $P > 0.5$  (Alternative Hypothesis: Majority of the customers believe that after the acquisition Summerfield's customer will continue with the Co operative.)

#### Hypothesis 3:

The third hypothesis was used to evaluate the customer satisfaction level which indicates the relationship between customers' perceived value and expectations considering different parameters like availability of shops, product availability, product variety, price, product quality, service of staffs, information system and automation etc. The same samples were also used in this purpose.

H0:  $P \leq 0.5$  (Null Hypothesis: Majority of the customers believe that they are less satisfied than before.)

H1:  $P > 0.5$  (Alternative Hypothesis: Majority of the customers believe that they are more satisfied than before.)

**Decision Rule:** we will reject Ho if  $Z > 1.96$ ; otherwise we do not reject Ho.

#### IV. ANALYSIS

##### Statistical Test:

##### A. Hypothesis 1:

Here there is strong evidence that people believe the acquisition will bring positive impact on customer. 38 participants out of 60 agreed that the acquisition will bring positive impact on customer.

The formula that has been used here is:

$$Z = (P_s - P) / \sqrt{P(1-P)/N} \dots \dots \dots (1)$$

$\alpha = 0.05$  (level of significance for testing the hypothesis)

P = Hypothesised proportion of success in the population.

##### Test statistics:

Here,  $P_s = 38 / 60 = 0.63$

$P = 0.5$

$$Z = (0.63 - 0.5) / \sqrt{0.5(1 - 0.5) / 60}$$

$$= 2.02$$

**Decision:**

So,  $H_0$  is rejected. There is significant evidence that most of the customers believe that the acquisition will bring positive impact on the customer.

**B. Hypothesis 2:**

The result shows that among 60 samples 39 customers would like to continue with Co operative after acquisition.

$\alpha = 0.05$  (level of significance for testing the hypothesis)

Again the formula that has been used here is:

$$Z = (P_s - P) / \sqrt{P(1-P)/N}$$

$P$  = Hypothesised proportion of success in the population.

**Test statistics:**

Here,  $P_s = 39 / 60 = 0.65$

$P = 0.5$

$$\begin{aligned} Z &= (0.65 - 0.5) / \sqrt{(0.5(1 - 0.5) / 60)} \\ &= 2.32 \end{aligned}$$

**Decision:**

So,  $H_0$  is rejected. There is significant evidence that most of the customers will continue with The Co operative after the acquisition.

**C. Hypothesis 3:**

This hypothesis revealed in determining the customer satisfaction towards the company's service level. Different questions were coined to determine the level of satisfaction among the customer. Here it was found that 38 participants out of 60 agreed with that they are now more satisfied with the service than before which indicates positive perceived value.

$\alpha = 0.05$  (level of significance for testing the hypothesis)

Again the formula that has been used here is:

$$Z = (P_s - P) / \sqrt{P(1-P)/N}$$

P = Hypothesised proportion of success in the population.

#### Test statistics:

Here,  $P_s = 38 / 60 = 0.63$

$P = 0.5$

$$\begin{aligned} Z &= (0.63 - 0.5) / \sqrt{(0.5(1 - 0.5) / 60)} \\ &= 2.06 \end{aligned}$$

Z value is greater than 1.96

#### Decision:

So,  $H_0$  is rejected. There is significant evidence that most of the customers perceive that they are more satisfied with the service level than before.

### V. CONCLUSION AND RECOMMENDATION

Acquisition of Somerfield by Co operative group was managed very well and customer found it a value adding initiative from their convenience, quality and many other aspects. From the research findings it is quite evident that the acquisition has overall positive impact on customer perception, however has got the scope of improvement. On the basis of the research findings these are some recommendations to improve current situation:

-A clear and customer driven brand proposition is needed for success. Here though maximum customers think that value proposition of the firm is convenience to customer but 26.67% people of the sample believe that its market positioning strategy is not clear whether it is low price or better quality. So the company should rethink of its value proposition and how it can position its value among the customer in best possible manner through effective communication and branding approaches.



-25% of the participants said that they did not find their required product as and when it is required, though rest 75% reported that they get their required product as required. However, as part of retaining those 25% customers the company can think of product diversification and innovation strategy.

-Many of the customers believe that ICT can play a major role in improving the efficiency and differentiate among the competitions. So Co ops should implement more E-commerce and integration between backward and forward linkage.

-Fair trade is the company's one of the unique business strategy which promotes responsiveness towards the society and position itself as a socially responsible entity. 67% of the customers believe that it should continue with this strategy.

### DEFINITION OF TERMINOLOGY AND ABBREVIATION

**GDP:** Gross Domestic Product is the total market value of all final goods and services produced in a country in a given year

**GVA:** Gross Value Added (GVA) is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy

**M&A:** Merger and Acquisition

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