The Abandonment of Unprofitable Customer Relationships: an Analysis of Emotional Reactions

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The proactive termination of customer relationships that lack profitability (“unprofitable customer abandonment”) has previously been discussed in academic literature. Based on an online experiment conducted with 428 US customers this study investigates emotional and behavioral reactions to this customer relationship management (CRM) strategy among existing customers the abandoning firm would like to retain.

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References:

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The proactive termination of customer relationships that lack profitability (“unprofitable customer abandonment”) has previously been discussed in academic literature and shown to be associated with substantial value (Haenlein et al. 2006). Nevertheless, there is only insufficient insight into its impact on existing customers the abandoning firm would like to retain. Our study therefore investigates (a) the emotional reactions of the abandoning firm’s current customers in response to unprofitable customer abandonment, (b) how the tie strength towards the abandoned customer influences these reactions, and (c) the relationship between emotional reactions and behavioral intentions in response to unprofitable customer abandonment.

Following the work of Clore et al. (1987) we use the term emotion to describe internal mental affective conditions. We classify emotions along the two dimensions valence (positive/negative) and focus (ego-focused/other-focused) (Kitayama et al. 2000; Kitayama et al. 2006). Consistent with attribution theory (Mizerski et al. 1979), we assume that unprofitable customer abandonment will result in causal attributions that lead to emotional reactions (Weiner 1985). We furthermore assume that strong tie relationships are more consistent with an interdependent (vs. independent) construal of the self and therefore with other-focused (vs. ego-focused) emotions (Clark 1984; Clark et al. 1986; Frenzen and Nakamoto 1993):

H1: The tie strength toward the abandoned customer will have (a) a negative impact on the occurrence of ego-focused emotional reactions and (b) a positive impact on the occurrence of other-focused emotional reactions.

Prior research indicates that different emotions are related to different action tendencies (Roseman et al. 1994; Shaver et al. 1987). We assume that the valence of emotional reactions will have a relationship to the choice between positive (i.e. loyalty, positive WoM) and negative behavioral intentions (i.e. exit, negative WoM, boycott). In addition, we postulate that the focus of emotional reactions will be associated with the choice between individualistic (i.e. exit, voice, loyalty) and collective (i.e. boycott) reactions (Klein et al. 2004; McGraw and Tetlock 2005; Sen et al. 2001):

H2: Positive emotional reactions will have a stronger association with positive and a weaker association with negative behavioral intentions than negative emotional reactions.

H3: Other-focused emotional reactions will have a stronger association with collective and a weaker association with individualistic behavioral intentions than ego-focused emotional reactions.

Data collection was carried using an online experiment. We collaborated with a US market research firm who distributed our questionnaire via e-Mail to an online consumer panel. This resulted in a usable sample size of 428 respondents. Respondents were first asked to provide the name or initials of “a casual acquaintance” (weak tie condition) or of “one of their closest friends” (strong tie condition, Frenzen and Nakamoto 1993). They were then exposed to a scenario text describing an unprofitable customer abandonment decision implemented by a mobile phone provider. Respondents are approximately equally split by gender, on average 43 years old with an annual income of approximately $40,000.

Emotional reactions were measured following the work of Kitayama and Markus (2000; 2006). Behavioral intentions were measured building on Hibbard et al. (2001) for threatened withdrawal, constructive discussion, passive acceptance, and venting; Ping (1993) for exit, voice, and loyalty intentions; Bougie et al. (2003) for negative WoM; Sen et al. (2001) for boycott; and East et al. (2007) for positive WoM. To test for demand artifacts we asked respondents whether they could imagine an actual mobile phone provider behaving in the way described in the situation (M=3.11, SD=1.07) and whether they believed that the described situation could happen in real life (M=3.49, SD=1.01) on a scale from 1 to 5. The effectiveness of our tie strength manipulation was verified based on four items used by Frenzen and Nakamoto (1993).

Our analysis shows that hearing about unprofitable customer abandonment leads to emotional reactions among the abandoning firm’s current customers. Surprisingly, we observe a relative high occurrence of positive ego-focused emotions: 20% of respondents report to (very) likely feel good about themselves while 15% feel self-esteem and 11% pride. With respect to the impact of tie strength, other-focused emotions are significantly more likely for the abandonment of strong tie than of weak tie relationships. H1 is therefore supported.
Regarding behavioral intentions in response to unprofitable customer abandonment, negative emotional reactions are more strongly correlated with negative action tendencies (i.e. exit, threatened withdrawal, venting, negative WoM, boycott) while positive emotional reactions show higher correlation with positive action tendencies (i.e. collaborative voice, loyalty). Combined, this provides overall support for H$_2$. Yet, although other-focused emotions are experienced more frequently than ego-focused ones, virtually all action tendencies (with the exception of collaborative voice) show a stronger correlation with ego-focused than with other-focused emotions, leading to rejection of H$_3$.

These findings result in three theoretical contributions: First, we show that unprofitable customer abandonment can lead to positive ego-focused emotions and that these emotions are associated with positive behavioral intentions (i.e. loyalty). Second, we show that by terminating some client relationships and maintaining others, the company signals to its remaining customers that they are of higher importance to the firm. This apparently leads to the same positive ego-focused emotions as formally upgrading them to a higher loyalty program tier (Dreze and Nunes 2009). Finally, our work enhances the concept of ego- and other-focused emotions by extending it from a cross-cultural to an interpersonal context.

From a managerial perspective, our work provides two important insights: First, we show that unprofitable customer abandonment does not necessarily only lead to negative emotions within the current customer base. Second, our results indicate that the type of relationship toward the abandoned customer matters and influences the emotional reactions experienced in response to unprofitable customer abandonment. Although it is mainly ego-focused emotions that drive subsequent behavioral intentions, customers who are related to the abandoned customer through strong ties should be of specific concern to the abandoning firm.

References


