

**The emotional consequences of unprofitable customer abandonment:
Feeling sorry for the other or good about yourself?**

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by

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Table 1: Acceleration value and social value by seeding approach

	Seeding percentage = 0.5%					
	Acceleration value	Analysis I (value clustering)		Acceleration value	Analysis II (value clustering + influence)	
		Social value	Total value		Social value	Total value
Random	2.5	24.6	27.1	2.5	23.5	26.0
Opinion leader	2.3	36.0	38.3	2.4	34.1	36.4
Revenue leader	31.8	27.0	58.8	31.8	72.0	103.8
Revenue lagger	0.5	22.7	23.2	0.5	5.9	6.4

	Seeding percentage = 4.0%					
	Acceleration value	Analysis I (value clustering)		Acceleration value	Analysis II (value clustering + influence)	
		Social value	Total value		Social value	Total value
Random	19.9	112.4	132.3	20.6	111.9	132.5
Opinion leader	18.7	133.4	152.1	19.1	131.6	150.8
Revenue leader	116.3	90.1	206.4	116.6	143.3	259.9
Revenue lagger	4.6	106.0	110.6	4.8	35.1	39.8

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Abstract

The abandonment of unprofitable customer relationships has recently been discussed as a strategy to manage accounts that lack profitability. On the basis of an experiment conducted among 428 US consumers, we show that unprofitable customer abandonment leads to emotional reactions among the abandoning firm's current customers that include, among others, positive ego-focused emotions of self-esteem and pride about not being abandoned personally. We furthermore show that the tie strength toward the abandoned customer influences emotional reactions and that emotional reactions mediate the relationship between unprofitable customer abandonment and subsequent behavioral intentions in response to the abandonment decision.

Key words: Relationship marketing; Customer relationship management, Customer prioritization; Relationship dissolution; Unprofitable customer abandonment

Introduction

Customer relationship management (CRM) is in its essence an approach that deals with the creation of improved shareholder value through the development of appropriate and profitable customer relationships (Payne and Frow 2005). On the one hand, CRM implies that companies should maintain, defend, and nourish their most profitable customers to avoid losing them to competition. On the other hand, CRM also implies that firms need to develop specific approaches for the management of accounts that lack profitability and are, therefore, unprofitable in either the short or medium/ long term. The best way of dealing with unprofitable customers is evidently to avoid their acquisition in the first place. If such a customer selection proves to be difficult or impossible, companies can also consider changing their product and service offering to improve the profitability of unprofitable customers. However, such a change in business models may not always be an option. In this case, firms may decide for a more radical approach and abandon unprofitable customer relationships. This strategy, which is closely related to the concept of customer prioritization (Homburg et al. 2008), has previously been discussed in academic literature and shown to be associated with substantial value that needs to be considered when determining the value of a firm's client base in order to avoid biased results (Haenlein et al. 2006).

Yet, although prior research has provided empirical support for the financial gain associated with unprofitable customer abandonment (up to 10% of a customer's customer lifetime value, see Haenlein et al. 2006), there is still only insufficient insight into the impact unprofitable customer abandonment may have on the existing customers the abandoning firm would like to retain. Our manuscript provides a contribution in this area. Based on a survey among 428 US consumers we investigate (a) the emotional reactions of the abandoning firm's current customers in response to unprofitable customer abandonment, (b) how characteristics of the abandonment

decision (i.e. framing of the abandonment message and tie strength toward the abandoned customer) influence these reactions, and (c) the relationship between emotional reactions and subsequent behavioral intentions in response to unprofitable customer abandonment.

Hypotheses

The abandonment of unprofitable customer relationships is likely to be perceived as surprising and unexpected by the abandoning firm's current customers. Consistent with attribution theory (Mizerski et al. 1979), these customers will therefore engage in "spontaneous causal thinking" (Weiner 1985b) and evaluate the available information about the abandonment act based on its consistency, consensus, and distinctiveness to make causal judgments on the behavior of the abandoning firm (Kelley and Michaela 1980). Specifically, such causal judgments will focus on the party responsible for the act (i.e. locus of causality), that is, the abandoning firm, the abandoned customer, or external market conditions (Hibbard et al. 2001), and the likelihood of reoccurrence/ stability, i.e. low/ high (Weiner 1985a). Based on the outcome of such thinking, distinct emotional reactions are experienced in reaction to unprofitable customer abandonment (Weiner 1985a). It has, for example, been shown that regret, which is related to the emotion prototype of sadness (Shaver et al. 1987), is experienced when one holds oneself responsible for an event (Bonifield and Cole 2007), while anger is experienced when the locus of causality is attributed to a third party and the event is likely to reoccur (Folkes 1984; Folkes et al. 1987). Based on this logic, we assume that unprofitable customer abandonment will result in causal attributions that again will lead to emotional reactions in reply to the abandonment decision. This leads to the following hypothesis:

H1: Unprofitable customer abandonment will evoke emotional reactions among the abandoning firm's current customers.

We expect the tie strength toward the abandoned customer to influence the emotional reactions observed in response to unprofitable customer abandonment. As highlighted above, other-focused emotions are consistent with an interdependent (vs. independent) construal of the self in which one sees oneself as part of a social system where behavior is largely determined by and contingent on what one perceives to be the thoughts, feelings, and actions of others. Empirical research in social psychology and marketing indicates that such thinking is consistent with strong but not with weak tie relationships. In strong tie (communal) relationships people attend to the needs of others even when there is no clear opportunity for reciprocation (Clark et al. 1986) while they keep track of their input into a joint task in case of weak tie (exchange) relationships (Clark 1984). With strong ties there is willingness to share valuable and strategic information (Frenzen and Nakamoto 1993), while exchange in weak ties is typically driven by self-interest and the desire to maintain an equitable exchange (Walster et al. 1973). These characteristics of strong tie relationships should foster the presence of other-focused emotional reactions and lead to the following hypothesis:

H2: Other-focused emotional reactions will be more likely for the abandonment of strong tie than of weak tie relationships.

Consistent with the work of Hirschman (1970) on responses to organizational decline, Ping (1993; 1999; 1997) on relationship problems and Hibbard et al. (2001) on destructive acts, we assume that unprofitable customer abandonment will ultimately lead to behavioral intentions of exit, voice, and loyalty. This hypothesis also finds support in existing research investigating the behavioral consequences of certain emotions, specifically anger and regret. As shown, among others, by Folkes et al. (1987), Bougie et al. (2003), and Bonifield and Cole (2007), anger and

regret are related to voice (i.e. desire to complain, negative WoM) as well as exit and loyalty (i.e. repurchase intent). In addition to these individualistic reactions, we also assume that unprofitable customer abandonment will lead to collective reactions, specifically consumer boycotts. As shown by Klein et al. (2004), consumers who perceive a certain egregious firm action as strictly wrong and associated with negative and possibly harmful consequences, might engage in a concerted refusal to conduct marketing transactions with this firm (i.e. consumer boycott, see Garrett 1987) if they hold the belief that such an action can be successful in changing the behavior of the firm (Sen et al. 2001).

Prior research indicates that different emotions lead to different action tendencies, actions, and emotivational goals (Roseman et al. 1994) and that, therefore, different emotional reactions should be associated with different behavioral intentions. Shaver et al. (1987) have shown that positively valenced actions (e.g. smiling, hugging) tend to be associated with positive emotions (e.g. joy, love), while negatively valenced actions (e.g. shaking, crying) are typically related to negative emotions (e.g. fear, sadness). We therefore assume that the valence of the emotional reactions toward unprofitable customer abandonment will drive the choice between positive behavioral intentions (i.e. loyalty, positive WoM) and negative behavioral intentions (i.e. exit, negative WoM, boycott). In addition, we postulate that the orientation of emotional reactions (other- vs. ego-focused) influences the choice between individualistic (i.e. exit, voice, loyalty) and collective (i.e. boycott) reactions. As shown by McGraw and Tetlock (2005), people are willing to give up economic benefits when dealing with strong tie but not with weak tie relationships. Given that the decision to participate in a collective action leads to cost due to withheld consumption (Klein et al. 2004; Sen et al. 2001), such actions are more consistent with an interdependent (vs. independent) construal of the self and hence with other- vs. ego-focused emotions. This leads to the following two hypotheses:

H3: Positive emotional reactions will lead to more positive and less negative behavioral intentions than negative emotional reactions.

H4: Other-focused emotional reactions will lead to more collective and less individualistic behavioral intentions than ego-focused emotional reactions.

Methodology

Data collection was carried using an online experiment in which respondents were exposed to a scenario text describing an unprofitable customer abandonment decision implemented by a mobile phone provider. We chose the mobile phone industry since it represents a major service sector in the US and since unprofitable customer abandonment has previously taken place in this setting, for example by Sprint Nextel in June 2007 (Mittal et al. 2008). Respondents were first asked to provide the name or initials (NAME) of “a casual acquaintance, that is, someone you interact with from time to time, but someone not close enough to count as a friend” (weak tie condition) or of “one of your closest friends” (strong tie condition, Frenzen and Nakamoto 1993). They were then asked for information on their current mobile phone provider (PROVIDER), before they read the actual abandonment scenario (see Appendix I). Within the scenario description we randomized the locus of causality (i.e. abandoning firm, abandoned customer, external market conditions) and reoccurrence (low/ high), to avoid any bias with respect to the specific causal attributions made by the respondents. The extent of unprofitable customer abandonment was framed in both a positive (95% of relationships maintained) and negative (5% of relationships terminated) way, following prior research (e.g. Levin and Gaeth 1988). This resulted in 24 different treatment conditions (2—tie strength x 3—locus of causality x 2—reoccurrence x 2—message framing) to which respondents were allocated randomly. After having read the scenario text, respondents were asked to describe their feelings and reactions in

such a situation in the form of an open-ended question to increase overall salience of the stimulus.

Following this open-ended question, we measured the emotional reactions to unprofitable customer abandonment following the work of Kitayama and Markus (2000; 2006) and asked respondents how likely they would be to experience a list of twelve emotions in such a situation, equally split between positive/ negative and ego-/other-focused emotions. They were then asked about their behavioral intentions in response to unprofitable customer abandonment using multi-item scales from Hibbard et al. (2001) covering threatened withdrawal, constructive discussion, passive acceptance, and venting; Ping (1993) covering exit, voice, and loyalty intentions; Bougie et al. (2003) covering negative WoM; and Bruner et al. (2005), building on the work of Sen et al. (2001), covering boycott. Positive WoM was measured using a single item following the work of East et al. (2007) and Reichheld (2003). We also included five control variables into our study: product class involvement, which has been shown to impact the susceptibility to framing effects (Maheswaran and Meyers-Levy 1990), measured according to Bruner et al. (2005), and switching cost, relationship quality, dependence, and complaint success likelihood, which have been shown to influence the choice between exit, voice, and loyalty, measured according to Ping (1993), Hibbard et al. (2001), and Bougie et al. (2003). All items were measured on 5-point scales anchored at “strongly disagree” and “strongly agree,” with the exception of emotion words which were anchored at “very unlikely/ likely to experience in such a situation,” and proved to have good measurement quality (Cronbach’s Alpha larger than 0.7 in all cases). See Appendix II for a complete overview of all measurement scales and corresponding items.

To test for demand artifacts and to assess the overall realism of our experimental design, we asked respondents whether they could imagine an actual mobile phone provider behaving in the way (doing the things) described in the situation ($M=3.11$, $SD=1.07$) and whether they

believed that the described situation could happen in real life ($M=3.49$, $SD=1.01$), following Darley and Lim (1993) and Wagner et al. (2009). Both items were rated significantly higher than the scale midpoint (3) with no significant difference between the different scenario texts (F -values 0.829 and 1.008 with 427 df). To test the effectiveness of our tie strength manipulation, we asked respondents to rate their relationship to the person with the name/ initials they provided regarding its closeness ($M1=8.66$, $M2=6.30$), intimacy ($M1=4.51$, $M2=3.58$), support ($M1=4.55$, $M2=3.56$), and association ($M1=4.62$, $M2=3.79$) based on the work of Frenzen and Nakamoto (1993). In all four cases, ratings in the strong tie condition were significantly larger than in the weak tie condition.

For data collection, we collaborated with a US market research firm (Qualtrics, Inc.) who distributed our questionnaire to an online panel of US consumers. In total, 888 panelists started and 688 panelists (77.5%) completed our survey. Out of these 688, 260 were excluded after the first question because they did not currently subscribe to a contract-based mobile phone service, leading to a usable sample size of 428 (48.2%) respondents. Table 3 shows the breakdown of our sample by gender, age, highest educational attainment, and annual income. Respondents are approximately equally split between men (51.9%) and women (48.1%), on average 43 years old with an annual income of approximately \$40,000. The majority hold a college/ associate degree (44.2%) with 32.0% holding a bachelor's degree or higher. Our sample therefore corresponds roughly to the overall US population average according to the 2008 estimates of the US Census Bureau based on gender (49.3% men, 50.7% women). With respect to age, our respondents are approximately 6 years older than the average (37 years) which can be explained by the requirement of having to be at least 18 years old in order to subscribe to a mobile phone contract.

Results

Regarding the emotional reactions experienced in response to unprofitable customer abandonment, three findings are of particular interest: First, hearing about unprofitable customer abandonment leads to emotional reactions among the abandoning firm's current customers. Roughly 60% of all participants report to be (very) likely to feel sympathy or have friendly feelings toward the abandoned customer (positive other-focused emotions) and about 55% claim to feel sad or sorry for their friend/ acquaintance (negative other-focused emotions). Second, other-focused emotional reactions appear to be more common than ego-focused ones. While 54% of respondents for positive and 35% for negative other-focused emotions have a composite score of 3.51 or higher, indicating that they are (very) likely to experience such emotions, the corresponding numbers are only 27% for negative and 12% for positive ego-focused emotions. Third, for a substantial share of the abandoning firm's current customer base, customer abandonment also results in positive ego-focused emotions: 20% are (very) likely to feel good about themselves while 15% feel self-esteem and 11% proud when they hear that other customers they know have been abandoned. H1 is therefore supported. With respect to the different antecedents of these emotional reactions, we observe that in line with our expectation, other-focused emotional reactions are significantly more likely for the abandonment of strong tie than of weak tie relationships (see Figure 2, $M1=3.45$, $M2=3.26$, one-sided p-value: 0.006). H2 therefore receives empirical support.

To analyze the extent to which different types of emotions are related to different behavioral intentions in response to unprofitable customer abandonment we followed a three-step approach: First, we derived composite scores for each behavioral intention measure and control variable as the unweighted average of all indicators belonging to the same construct. Second, we determined partial Pearson correlation coefficients between the composite scores for behavioral intentions and the composite scores for the four different emotion types (positive/ negative and

other-/ego-focused), while taking account of the impact of our control variables. And third, we tested the extent to which the correlations between the same behavioral intention measure and the four different types of emotions differed from each other. This results in the following three findings: First, there is a clear indication that different emotion types are related to different behavioral intentions in response to unprofitable customer abandonment. Emotional reactions therefore mediate the relationship between unprofitable customer abandonment and subsequent behavioral intentions among the abandoning firm's current customers. Second, we observe that 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 H3. Finally, 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. This implies that behavioral intentions in response to unprofitable customer abandonment are less driven by emotions related to the abandoned customer (e.g. sympathy, feeling sorry) than by individual ego-focused emotions (e.g. feeling angry and frustrated), leading to rejection of H4.

Theoretical and Managerial implications

Our findings result in three theoretical contributions: First, we show that unprofitable customer abandonment results in positive effects that go beyond those discussed in the literature so far. Second, our work provides an indication that treating customers differently according to their importance for the firm (i.e. customer prioritization) can lead to positive status perceptions

among some of the firm's clients. 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 three important insights into the management of unprofitable customer relationships: 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. Combined, this leads to the fact that unprofitable customer abandonment should be considered as a customer relationship management decision like any other. Firms should not a priori assume that the negative consequences associated with unprofitable customer abandonment are so substantial that they could never compensate the potential gains of such a strategy. Instead, they should carefully weight the financial and non-financial gains with the potential risk of losing a certain share of current clients to come to an informed decision in favor of or against abandonment. It has been shown in several studies that unprofitable customers can represent a substantial share of a company's client base. While other approaches for the management of unprofitable customers do exist and may prove to be helpful in some situations (Mittal et al. 2008), managers should not be afraid of terminating relationships that are too painful to maintain.

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