

# The impact of unprofitable customer abandonment on current customers' exit, voice, and loyalty intentions: an empirical analysis

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## Abstract

**Purpose** – The management of unprofitable customer relationships and particularly their abandonment is a topic that has received increasing interest among practitioners and researchers over recent years. Within this manuscript, the authors aim to analyze the impact of unprofitable customer abandonment on the abandoning firm's current customers, specifically their exit, voice, and loyalty intentions toward the abandoning firm.

**Design/methodology/approach** – The study is based on an online experiment conducted among 385 US customers. Respondents were allocated randomly to one of ten conditions (five levels of tie strength x two types of abandonment strategy) and exposed to a scenario describing a customer abandonment decision implemented by a mobile phone provider. The resulting data were analyzed using a combination of analysis of variance (ANOVA) and structural equation modeling.

**Findings** – The study shows that current customers are significantly more likely to respond actively to unprofitable customer abandonment (exit/voice) than passively through silence and loyalty. Additionally, it shows that increasing satisfaction or switching cost among current customers are unlikely to limit the potential negative consequences of unprofitable customer abandonment. The only variable that drives the choice between exit, voice, and loyalty is the perceived attractiveness of the best alternative relationship.

**Originality/value** – This work analyzes for the first time how existing customers that the firm would like to retain react toward the news that the company proactively terminates unprofitable customer relationships. Therefore, insight is provided into the likely cost associated with unprofitable customer abandonment – a question that has not been the subject of any empirical study as of today.

**Keywords** Relationship marketing, Customer relationship management, Relationship dissolution, Unprofitable customer abandonment, Field research, Experimental design, Customer survey

**Paper type** Research paper

An executive summary for managers and executive readers can be found at the end of this article.

## 1. Introduction

In July 2003 the Massachusetts-based fashion retailer Filene's Basement attracted considerable interest from both the popular and business press when the company sent a letter to two customers (Nancy Singer and her sister) in which both of them were banned from shopping at all of Filene's Basement's outlets (Mohl, 2003). Preceding this draconian measure was a history of 40 years during which the two sisters considered themselves as loyal customers, regularly shopping at the company's various outlets – and during which they built a reputation for excessive returns and chronic dissatisfaction. For example, they called an Italian retailer to check whether a Basement comparison price was accurate, and regularly demanded special services such as the extension of promotional offers. Despite the fact that the sisters publicly complained about the way they were treated and their

incomprehension of this reaction, leading to interviews in *The Boston Globe* as well as CBS and NBC News, Filene's Basement did not withdraw their ban.

Although this case may have received an unusual amount of press coverage, the idea of abandoning (or divesting) unprofitable customers is far from uncommon. In November 2004, the consumer electronics retailer Best Buy announced a new strategic initiative called "Devil and Angel," consisting of modifications in store layout and product offering to discourage unprofitable customers from patronizing their retail outlets (McWilliams, 2004). More recently, in July 2007, Sprint Nextel, one of the world's largest telecommunications companies, wrote to 1,000 customers with excessive customer service call history to inform them that their contracts had been terminated (Srivastava, 2007). In a business-to-consumer situation, more subtle techniques, such as customer prioritization (Homburg *et al.*, 2008), which can imply raising prices or reducing service levels, such as making unprofitable customers wait longer in call centre queues, have become common practice in many industries today.

Given this abundance of (unprofitable) customer abandonment cases in a variety of different settings, it comes as no surprise that the topic has also attracted

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increasing interest from researchers. This has been fueled by several studies showing that unprofitable customers can represent a significant share of a company's client base (e.g. Bowman and Narayandas, 2004; Haenlein *et al.*, 2007; Niraj *et al.*, 2001). Haenlein *et al.* (2006) showed that the value of the real option of abandoning unprofitable customers can be substantial and needs to be considered when calculating customer lifetime value to avoid biased results. Haenlein and Kaplan (2010) look into the attitudinal and behavioral reactions to unprofitable customer abandonment and Haenlein and Kaplan (2011) compare the effectiveness of different types of abandonment strategies. Unsurprisingly, the idea of "firing" unprofitable customers also received considerable attention in managerial journals (e.g. Haenlein and Kaplan, 2009; Mittal *et al.*, 2008).

Adopting the unprofitable customer's perspective, it seems likely that being divested will be perceived as a surprising and negative experience – two conditions that may result in the spread of negative Word-of-Mouth. Depending on the total amount of unprofitable customers abandoned, such negative Word-of-Mouth might also generate attention among the general public, as shown in the aforementioned examples. This could in turn lead to negative consequences for the abandoning firm that, among others, include the involuntary loss of other (profitable) clients the company would like to retain. However, until now, the processes underlying such mechanisms have not been formally investigated.

This manuscript intends to provide a contribution in this area. Based on a survey conducted among 385 customers, we investigate the reactions of the abandoning firm's current customers toward unprofitable customer abandonment. Specifically, the objectives of this study are threefold: First, we analyze how hearing about unprofitable customer abandonment impacts exit, voice, and loyalty intentions of current customers the firm would like to retain. Second, we investigate how relationship characteristics (i.e. overall satisfaction) and structural constraints (i.e. alternative attractiveness, switching cost) influence these reactions. Finally, we analyze how the strength of the relationship between the abandoned customer and the current customer under investigation moderates these reactions. In doing so, our work represents a first step toward estimating the likely indirect cost associated with abandoning unprofitable customers.

## 2. Conceptual framework

The conceptual framework, which builds the foundation for the empirical study, combines Hirschman's (1970) exit-voice-loyalty theory with literature in the area of social influence, specifically the concept of tie strength as introduced by Granovetter (1973). In an environment where the customer is used to being treated as "king," the news that a company abandons unprofitable customer relationships is likely to be perceived as a betrayal of "natural" customer rights. Hirschman argues that there are three basic ways in which people can react to such dysfunctional behavior of the abandoning company: exit, voice, and loyalty. The first basic assumption is that the reactions current customers show toward unprofitable customer abandonment can be grouped along the same dimensions.

In addition to this basic hypothesis we also assume that these reactions are not the same in all abandonment situations

but instead differ depending on the strength of the relationship between the abandoned customer and the current customer under investigation. Intuitively, an existing customer should be expected to react differently toward abandonment of a rarely encountered acquaintance or work colleague than toward that of a spouse or sibling. The sociologist Mark Granovetter was one of the first researchers who formalized these differences in relationships by introducing the concept of "tie strength" which he defined as "a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie" (Granovetter, 1973). Since Granovetter, the concept of tie strength has been regularly investigated in the general marketing and management literature, for example in the context of Word-of-Mouth referral behavior (Brown and Reingen, 1987) or interpersonal brand congruence (Reingen *et al.*, 1984). Consistent with this stream of literature, we assume that tie strength plays a moderating role in the reactions to unprofitable customer abandonment.

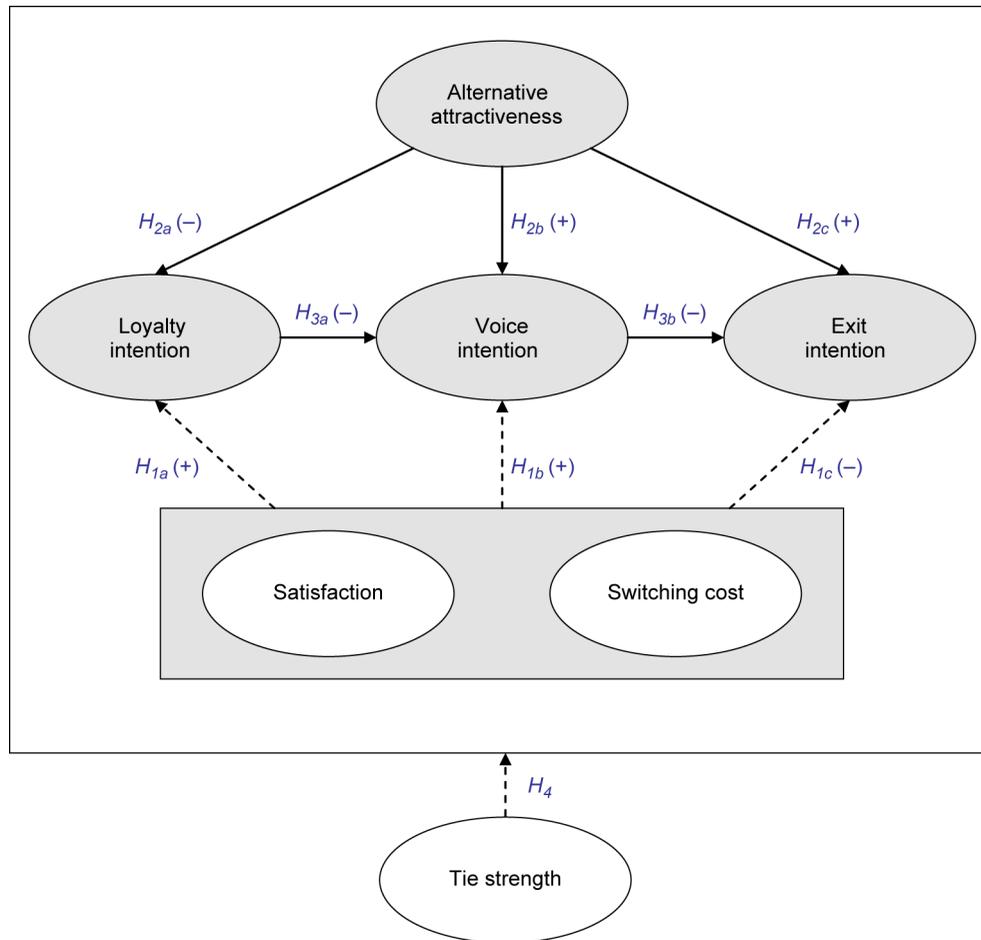
Within this general conceptual framework, three constructs are used to characterize the reaction current customers can show toward unprofitable customer abandonment. These are the current customer's exit intention, defined as the intention to stop buying the firm's products or services (Hirschman, 1970); voice intention, defined as the intention to express dissatisfaction directly to the company's management or to some other authority to which management is subordinate or through general protest addressed to anyone who cares to listen (Hirschman, 1970); and loyalty intention, defined as the intention to maintain a considerable attachment to the organization combined with the expectation that someone will act or something will happen to improve matters (Hirschman, 1970).

In addition to these three outcome variables we also investigate the role of relationship characteristics (i.e. overall satisfaction) and structural constraints (i.e. alternative attractiveness, switching cost) in driving these reactions. Satisfaction is hereby defined as the customer's post-choice evaluative judgment of a specific purchase or consumption experience (Oliver, 1980); alternative attractiveness as the customer's perception of the attractiveness of the best alternative relationship (Ping, 1993); and switching cost as the cost associated with leaving the current relationship and establishing an alternative (Ping, 1993). Finally, we analyze the moderating impact of tie strength on these processes, defined as a measure of closeness or the emotional intensity of the relationship between the abandoned customer and the current customer under investigation (Mardsen and Campbell, 1984). In the next section we will derive a series of detailed hypotheses describing the relationship between these different variables (see Figure 1 for a summary and overview).

## 3. Hypothesis development

With respect to the antecedents of exit, voice, and loyalty intentions, it is expected that an increase in overall satisfaction and switching cost leads to an increase in the perceived value of the relationship. This should motivate current customers to respond positively to relationship problems and try to find a mutually satisfying solution, while at the same time being disinclined to exit as there is much to lose (e.g. Dwyer *et al.*,

Figure 1 Research model



**Notes:** Our empirical analysis does not find support for hypotheses  $H1a-c$  (i.e. influence of satisfaction and switching cost on exit, voice, and loyalty intentions), hypothesis  $H2a$  (i.e. negative relationship between alternative attractiveness and loyalty intention) and  $H4$  (i.e. moderating impact of tie strength). The remaining hypotheses –  $H2b,c$  (i.e. positive relationship between alternative attractiveness and exit as well as voice intentions) and  $H3a,b$  (i.e. stage-like sequence between loyalty, voice and exit intentions) – are supported by the analysis

1987; Hirschman, 1970; Rusbult *et al.*, 1988). Empirically, such thinking has been confirmed by Ping (1993) who supports a positive relationship between satisfaction and voice intention and a negative one between satisfaction/switching cost and exit intention in his analysis of hardware retailers' response intentions to supplier problems. Regarding alternative attractiveness, it is expected that an increase in the attractiveness of the best alternative relationship makes current customers less likely to be passive in the face of problems and instead motivates them to choose an active option of either engaging their relationship partner in an open discussion or exiting the relationship. This is consistent with empirical support from Rusbult *et al.* (1988), who report a positive relationship between alternative attractiveness and exit/voice intention and a negative one between alternative attractiveness and loyalty intention. Combined, this leads to the following two hypotheses:

**H1.** Higher levels of satisfaction and switching cost lead to: higher loyalty intention, higher voice intention, and

lower exit intention in response to unprofitable customer abandonment.

**H2.** Higher levels of alternative attractiveness lead to: lower loyalty intention, higher voice intention, and higher exit intention in response to unprofitable customer abandonment.

Regarding the relationship between exit, voice, and loyalty intentions, Hirschman (1970) has argued that there may be a stage-like sequence between these different options in the sense that subjects respond to relationship problems passively first with loyal behavior before they attempt to resolve the relationship conflict through open discussion (voice). This sequence, which implies a negative relationship between loyalty intention and voice intention, is consistent with the work of Hibbard *et al.* (2001) who analyzed the impact of destructive acts in marketing channel relationships and report a negative correlation between passive acceptance (loyalty) and constructive discussion/venting (voice). This has also been confirmed by Ping (1999) who finds a negative

relationship between loyalty and voice. If such a discussion results in a mutually satisfying solution, the conflict is resolved and voice can be considered as an alternative to exit. However, if it does not, exit can be expected to follow voice, consistent with literature in the area of interpersonal relationships which considers attributional conflict (i.e. voice) as one predecessor of relationship dissolution (Baxter, 1985). This implies that there should be a negative relationship between voice intention and exit intention and results in the following hypotheses:

- H3a.* Higher levels of loyalty intention lead to lower levels of voice intention in response to unprofitable customer abandonment.
- H3b.* Higher levels of voice intention lead to lower levels of exit intention in response to unprofitable customer abandonment.

With respect to tie strength we assume that the relationships expressed in *H1*, *H2* and *H3* are not the same for all abandonment situations but instead differ depending on the strength of relationship between the abandoned customer and the current customer under investigation. There are at least three reasons that can be used to justify such thinking: First, it has been shown that information received from strong-tie contacts influences decision making more strongly than information from weak-tie sources (Brown and Reingen, 1987). Applied to this case, this implies that abandonment of a strong-tie relationship should lead to more severe reactions than that of a weak-tie contact. Second, people linked by strong-tie relationships tend to be share similarities in basic characteristics (McPherson *et al.*, 2001) and brand preferences (Reingen *et al.*, 1984). Abandonment of a close-tie contact should therefore make the risk of abandonment more relevant and salient to the current customer under investigation. Third, abandonment of a strong-tie relationship is likely to evoke other- vs ego-focused emotions (Markus and Kitayama, 1991) such as sympathy and guilt, which can be expected to influence subsequent reactions. Combined, this leads to the following hypothesis:

- H4.* The strength of the relationship (tie strength) between the abandoned customer and the current customer under investigation exerts a moderating impact on the reactions in response to unprofitable customer abandonment expressed in *H1*, *H2* and *H3*.

## 4. Research methodology

### 4.1 Measurement scales and data collection procedure

Regarding the operationalization of the variables included in the conceptual framework (see Table I for details), satisfaction, switching cost, and alternative attractiveness were measured as suggested by Ping (1993). For loyalty and exit intentions, items used by Rusbult *et al.* (1988) were adapted to the context of this study. With respect to voice intention, Hibbard *et al.* (2001) highlight that one needs to distinguish between constructive discussion and venting. Our analysis focuses on venting, as a mobile phone provider (the industry used as an example in the analysis) usually has millions of customers, thus making it unlikely that one single client would have the chance to work together with the provider to change policies. Voice intention was therefore

operationalized using items applied by Hibbard *et al.* (2001) covering venting, and measures used by Rusbult *et al.* (1988). For the operationalization of tie strength, Frenzen and Davis (1990) were followed and measures of intimacy, support, and association used. Following the recommendations of Cox (1980), all items were measured on seven-point Likert scales with the response cues being strongly disagree (−3) and strongly agree (+3), with the exception of tie strength where a different set of anchors was applied.

Data collection was carried out using an online experiment involving respondents being asked to read a scenario about a hypothetical phone call in which different manipulations of tie strength and abandonment strategy were described. Brown and Reingen (1987) use a combination of three measures for operationalization of tie strength: type of social relation (friend, neighbor, relative, acquaintance), frequency of communication, and importance attached to the relation. Reingen and Kernan (1986) also use measures of frequency of communication and importance attached to the relation, complemented by a measure of duration of interaction. Building on this logic, five combinations of duration of interaction, frequency of communication, and importance attached to the social relation were created, representing five degrees of tie strength.

Participants were subsequently randomly assigned to read one of five scenarios corresponding to these five levels of tie strength, ranging from weak (1) to strong (5), and asked to provide the name of a friend/acquaintance that fulfilled these criteria (see Appendix 1 for details). The scenario text then continued with a description of the specific case of the respondent's current mobile phone provider, implementing either a direct or an indirect abandonment strategy negatively affecting this specific friend/acquaintance (see Appendix 2 for details). After having read the scenario descriptions, participants were asked to describe their feelings and reactions in such a situation in five or more sentences to increase the salience of the respective motivational orientation. They were then asked to imagine themselves in this situation when replying to all subsequent questions.

### 4.2 Sample description

These scenario descriptions were used for data collection among 407 participants of a US-based online panel. Respondents were allocated randomly to one of ten treatment cells consisting of five levels of tie strength and two levels of abandonment strategy. Generally, various studies have shown that data collected through the internet does not differ substantially from other data collection approaches (e.g. Birnbaum, 2004; Schillewaert and Meulemeester, 2005). Although web-based studies may suffer from higher noise due to technical variations (e.g. hardware, systems, browsers), this bias is usually compensated by the larger sample sizes that can be achieved through this medium. To minimize any potential distortions in this respect, 22 respondents (5.4 per cent) that showed particularly high or low survey response times were deleted, leading to a final sample of 385 observations.

Within this sample, 78 respondents (20.3 per cent) were exposed to tie strength manipulation Level 1 (i.e. an acquaintance who you have known for several months and with who you usually speak less than once a month), 80 (20.8 per cent) to Level 2, 71 (18.4 per cent) to Level 3, 71 (18.4 per cent) to Level 4 and 85 (22.1 per cent) to Level 5. The average level of tie strength in the total sample calculated as the unweighted mean of four measures is 6.05 (standard

Table I Measurement model – standardized indicator loadings

	Standardized model results			
	Estimate	Standard Error (SE)	Estimate/SE	p-value
<i>Satisfaction</i>				
Overall, my MPP treats me very fairly	0.914	0.019	48.105	0.000
Overall, my MPP is a good company to do business with	0.870	0.020	43.500	0.000
In general I am pretty satisfied with my relationship with my MPP	0.869	0.023	37.783	0.000
All in all, my relationship with my MPP is very satisfactory	0.850	0.025	34.000	0.000
All in all, my MPP is very fair with me	0.909	0.018	50.500	0.000
<i>Switching cost</i>				
Considering everything, the costs of stopping doing business with my current MPP and starting up with an alternative MPP would be high	0.714	0.033	21.636	0.000
All things considered, I would lose a lot in changing MPPs	0.710	0.034	20.882	0.000
Generally speaking, the costs in time, money, effort, and grief to switch MPPs would be high	0.684	0.034	20.118	0.000
Overall, I would spend a lot and lose a lot if I changed MPPs	0.793	0.029	27.345	0.000
<i>Alternative attractiveness</i>				
I would be much more satisfied with the product and service available from an alternative MPP than the product and service provided by my current MPP	0.869	0.023	37.783	0.000
Overall, an alternative MPP's policies would benefit me much more than my current MPP's policies	0.862	0.021	41.048	0.000
All in all, an alternative MPP would be much more fair than my current MPP	0.843	0.022	38.318	0.000
<i>Loyalty intention</i>				
I would say good things about my MPP even when other people criticized it	0.670	0.054	12.407	0.000
I would speak highly of my MPP to friends	0.828	0.047	17.617	0.000
I would think that my MPP is probably as good as most	0.409	0.062	6.597	0.000
I would quietly stick with my current MPP through good and bad times	0.416	0.063	6.603	0.000
<i>Voice intention</i>				
I would express to my MPP my outrage and displeasure about their behavior	0.805	0.029	27.759	0.000
I would discuss my thoughts regarding their new customer strategy with my MPP	0.762	0.027	28.222	0.000
I would suggest changes in their new customer strategy to my MPP	0.706	0.030	23.533	0.000
I would talk things over with other customers to get their help in changing my MPP's new customer strategy	0.547	0.041	13.341	0.000
I would express my unhappiness to my MPP about this situation	0.806	0.030	26.867	0.000
<i>Exit intention</i>				
I would tell my current MPP that I want to change to an alternative MPP	0.681	0.041	16.610	0.000
I would switch to an alternative MPP	0.718	0.041	17.512	0.000
I would be thinking about transferring from my current MPP to an alternative MPP	0.691	0.040	17.275	0.000
I would trade my current MPP for an alternative MPP	0.739	0.038	19.447	0.000
I would seriously be considering changing my current MPP for an alternative MPP	0.708	0.040	17.700	0.000
<i>Tie strength</i>				
How would you rate your relationship with NAME? [not close at all/very close]	0.846	0.017	49.765	0.000
How likely would you be to share a personal confidence with NAME? [very unlikely/very likely]	0.917	0.012	76.417	0.000
How likely would you be to rely on NAME for help in everyday matters (as opposed to an emergency)? [very unlikely/very likely]	0.779	0.023	33.870	0.000
How likely would you be to spend a free afternoon with NAME? [very unlikely/very likely]	0.883	0.014	63.071	0.000

Notes: MPP stands for "Mobile Phone Provider" (abbreviation not used in original survey instrument). Model fit indices: Model Chi<sup>2</sup> = 648.028; Model df = 354; CFI = 0.969; TLI = 0.962; RMSEA = 0.046; SRMR = 0.041

deviation: 1.22); 189 respondents (49.1 per cent) were exposed to the direct abandonment scenario and 196 respondents to the indirect one. The association between tie strength and abandonment strategy is insignificant based on a Chi-Squared test ( $p$ -value: 0.4679), in line with the orthogonal experimental design chosen for this study.

Table II shows the breakdown of the sample by gender, age, and highest educational attainment as well as current mobile phone provider and average monthly cell phone bill. As can be seen, respondents are roughly equally split between men (198, 51.4 per cent) and women (187, 48.6 per cent). The majority of participants (98, 25.5 per cent) are between 35 and 44

Table II Sample composition

	Sample composition	
	Absolute	(%)
<b>Gender</b>		
Male	198	51.4
Female	187	48.6
	385	100.0
<b>Age</b>		
20 to 24 years	57	14.8
25 to 34 years	86	22.3
35 to 44 years	98	25.5
45 to 54 years	91	23.6
55 to 59 years	34	8.8
60 to 64 years	12	3.1
65 to 74 years	7	1.8
	385	100.0
<b>Highest educational attainment</b>		
9th to 12th grade, no diploma	3	0.8
High school graduate (includes equivalency)	69	17.9
Some college, no degree	120	31.2
Associate degree	45	11.7
Bachelor's degree	111	28.8
Graduate or professional degree	37	9.6
	385	100.0
<b>Current mobile phone provider</b>		
Verizon Wireless	119	30.9
Cingular Wireless	103	26.8
Sprint/Nextel	74	19.2
T-Mobile	44	11.4
Alltel Wireless	17	4.4
US Cellular	8	2.1
Other	20	5.2
	385	100.0
<b>Average monthly cell phone bill</b>		
Between \$0 and \$25	10	2.6
Between \$25 and \$50	85	22.1
Between \$50 and \$75	109	28.3
Between \$75 and \$100	93	24.2
More than \$100	78	20.3
Don't know	10	2.6
	385	100.0

years old, with 275 (71.4 per cent) lying in the 25 to 54 year age bracket. With respect to their current mobile phone provider, 340 study participants (88.3 per cent) maintain a contract with one of the four leading cellular phone providers in the US (Verizon Wireless, Cingular Wireless, Sprint/Nextel and T-Mobile). The weighted average monthly cell phone bill volume in the sample is approximately US\$ 70.

### 4.3 Analysis approach

The statistical analysis consists of a three-step approach: First, the quality of the multi-item measures was evaluated using confirmatory factor analysis as implemented in the Mplus software tool, Version 5 (Muthén and Muthén, 1998–2007). For this a measurement model using the full sample of 385 observations was estimated. To control for common method bias the approach suggested by Podsakoff *et al.* (2003) was followed and all items were allowed to load on their theoretical constructs as well as on a latent common

methods variance factor, uncorrelated to all other model constructs. This resulted in standardized indicator loadings and standard errors as shown in Table I.

As can be seen, the Comparative Fit Index (CFI) as well as the Tucker-Lewis Index (TLI) exceed 0.95 and the Root Mean Squared Error of Approximation (RMSEA) and Standardized Root Mean Squared Residual (SRMR) are both below the recommended thresholds of 0.06 and 0.08 respectively (Hu and Bentler, 1999). This indicates excellent model fit and provides an indication for unidimensionality of all model constructs. All indicators have significant loadings on their associated latent variables ( $p$ -values  $< 0.0005$  in all cases), indicating convergent validity. As shown in Table III, all constructs have Cronbach's Alpha values of 0.823 and above, which indicates excellent reliability. Table III equally shows that the average of squared standardized indicator loadings (i.e. average variance extracted) exceeds the squared correlation between the construct and any other latent variable in all cases, which can be seen as an indication for discriminant validity (Fornell and Larcker, 1981). Combined, this provides a strong indication for a good quality of the measurement model.

Once the quality of the measurement model had been established, composite scores for each latent variable in the model were determined as the unweighted average of all indicators belonging to the same construct. This approach is consistent with the general idea behind multi-item measures (Likert, 1932) and it has been shown that the predictive accuracy of such composites is independent from the type of weighting scheme applied (Rozeboom, 1979). These composite scores were subsequently used in an analysis of variance (ANOVA) conducted in SPSS 14.0 to identify the general response to unprofitable customer abandonment and to determine the extent to which tie strength influences these responses<sup>1</sup>.

Finally, the structural equation model visualized in Figure 1 was estimated using the Mplus software tool. To test for a potential moderating impact of tie strength the approach used by MacKenzie and Spreng (1992) was followed: Group-specific models were estimated and the change in model chi-square between a model in which parameters were allowed to vary freely across groups and one where they were constrained to equality were compared. Specifically, five separate models were first estimated, one for each level of tie strength. Within these models, the covariances were constrained between alternative attractiveness, satisfaction, and switching cost (three covariances in total) to be equal across groups. The variances of all latent variables (six in total) and the residual variances of all items were also constrained to be equal across groups. However, the paths corresponding to the hypotheses and visualized in Figure 1 (11 paths in total) were allowed to be different across groups. The fit of such a "free" model (measured using the chi-square statistic) was subsequently compared to the fit of a model in which the 11 paths corresponding to the hypotheses were also constrained to be equal across groups. The difference in chi-square between the "free" and the "constrained" model on 44 degrees of freedom (five groups of tie strength times 11 paths in the free model less one group times 11 paths in the constrained model) was then used as an omnibus indication of moderation.

Table III Measurement model – latent variable correlations and reliabilities

	Estimated correlation matrix for the latent variables						
	Satisfaction	Switching cost	Alternative attractiveness	Loyalty intention	Voice intention	Exit intention	Tie strength
Satisfaction	1.000						
Switching cost	0.348	1.000					
Alternative attractiveness	–0.532	–0.121	1.000				
Loyalty intention	0.196	0.232	0.117	1.000			
Voice intention	0.129	0.126	–0.012	–0.097	1.000		
Exit intention	0.090	0.078	–0.251	0.369	–0.570	1.000	
Tie strength	0.139	0.041	–0.058	–0.045	0.290	–0.144	1.000
Average Variance Extracted (AVE)	0.779	0.528	0.736	0.369	0.535	0.501	0.736
Cronbach's Alpha	0.968	0.823	0.923	0.868	0.848	0.943	0.911

## 5. Results

Table IV provides an overview of the stated responses to unprofitable customer abandonment that are observed for the total sample of 385 respondents. Two findings are of particular interest: First, none of the three behavioral intentions for exit, voice, and loyalty differ significantly across the five levels of tie strength manipulated in this study ( $F$ -values equal to or below 1.925 translating into  $p$ -values of

0.106 or above). Given that the tie strength manipulation appears to have been successful (difference in mean tie strength across the different levels is significant with  $p$ -value below 0.0005), this provides a first indication that the reactions toward unprofitable customer abandonment may not be significantly affected by the strength of relationship between the abandoned customer and the current customer under investigation.

Table IV ANOVA results

	<i>n</i>	Mean	Std. Deviation	Std. Error	<i>F</i> -value	<i>p</i> -value
<i>Loyalty intention</i>						
Level 1 (weak)	78	–0.59	1.37	0.16	0.140	0.967
Level 2	80	–0.57	1.51	0.17		
Level 3	71	–0.48	1.48	0.18		
Level 4	71	–0.43	1.57	0.19		
Level 5 (strong)	85	–0.54	1.60	0.17		
Total	385	–0.53	1.50	0.08		
<i>Voice intention</i>						
Level 1 (weak)	78	0.82	1.55	0.18	1.642	0.163
Level 2	80	1.10	1.28	0.14		
Level 3	71	1.20	1.21	0.14		
Level 4	71	1.08	1.25	0.15		
Level 5 (strong)	85	1.31	1.04	0.11		
Total	385	1.10	1.28	0.07		
<i>Exit intention</i>						
Level 1 (weak)	78	0.55	1.67	0.19	1.925	0.106
Level 2	80	1.11	1.53	0.17		
Level 3	71	0.99	1.39	0.17		
Level 4	71	0.79	1.81	0.22		
Level 5 (strong)	85	1.14	1.53	0.17		
Total	385	0.92	1.60	0.08		
<i>Tie strength</i>						
Level 1 (weak)	78	5.52	1.39	0.16	10.719	0.000
Level 2	80	5.71	1.51	0.17		
Level 3	71	6.13	1.07	0.13		
Level 4	71	6.40	0.94	0.11		
Level 5 (strong)	85	6.51	0.69	0.07		
Total	385	6.05	1.22	0.06		

Note: Level 1 (weak) to Level 5 (strong) refers to the tie strength manipulation factor

Second, the mean absolute intention score for loyalty (− 0.53, standard deviation of 1.50) is significantly lower than those for exit (0.92, standard deviation of 1.60) and voice (1.10, standard deviation of 1.28). This implies that current customers are least likely to respond to unprofitable customer abandonment passively by remaining attached to the organization and waiting until someone else acts to improve matters, but rather that they tend to react actively either by leaving the abandoning firm or by raising their voice against unprofitable customer abandonment (difference between exit and voice intention is insignificant, *p*-value: 0.0848). This finding is consistent with empirical reactions that can be observed toward unprofitable customer abandonment in real life. Sprint Nextel’s campaign, for example, during which 1,000 customers with excessive call centre call history had been abandoned, resulted in more than 2,000 postings on the Sprint user forum [www.sprintusers.com](http://www.sprintusers.com). It also implies that unprofitable customer abandonment may be associated with significant (indirect) abandonment cost, caused either by the involuntary loss of existing clients or the damaging impact of negative Word-of-Mouth, that needs to be accounted for prior to making the abandonment decision.

While the previous analysis provides some insight into the overall reaction toward unprofitable customer abandonment, it does not allow any inferences to be made about the relative importance of the antecedents of exit, voice, and loyalty intentions (i.e. satisfaction and structural constraints) or about the relationships between the different intention measures themselves. In order to provide more insight into this question and to conduct a formal test of the hypotheses stated previously, the structural equation model visualized in Figure 1 was estimated. The results of this estimation procedure can be found in Table V.

Three findings are of particular interest: First, all fit indices (i.e. CFI/TLI as well as RMSEA/SRMR) are above or below their critical thresholds respectively, which indicates excellent model fit and shows that these hypotheses reflect well the structural relationships between the latent variables included in the model. Second, none of the paths between satisfaction and switching cost and exit/voice/loyalty intentions is significant (*p*-values of 0.1092 or above). This implies that satisfaction and switching cost do not significantly influence

the choice between exit, voice, and loyalty and results in a lack of support for *H1a*, *H1b* and *H1c*.

Third, all remaining structural paths in the model are significant (*p*-values of 0.0284 or below) and show signs in accordance with the expectations, except for the relationship between alternative attractiveness and loyalty intention where a positive instead of a negative correlation (path coefficient: 0.633) was observed. This provides full support for the assumed relationship between alternative attractiveness and exit/voice intention, as well as the stage-like sequence between loyalty, voice, and exit intentions expressed in *H2b* and *H2c* and *H3a* and *H3b*, and leads to rejection of the negative link between alternative attractiveness and loyalty intention expressed in *H2a*. Based on these relationships and the associated parameter estimates, one can now easily determine the total (i.e. direct + indirect) effect of alternative attractiveness on exit, voice, and loyalty intentions for current customers. It can be seen that alternative attractiveness influences loyalty intention most strongly (0.633), followed by voice intention ( $0.184 = 0.613 - 0.633 * 0.677$ ), and finally exit intention ( $0.139 = 0.274 + 0.633 * 0.677 * 0.733 - 0.613 * 0.733$ ).

Finally, in order to investigate the extent to which these relationships differ depending on the strength of relationship between the abandoned customer and the current customer under investigation, a moderating impact of tie strength was tested for, following the procedure described previously. The omnibus test of moderation results in a chi-square value of 2,970.442 (1,619 df) for the free model (i.e. a model in which all 11 paths are allowed to vary freely across the five different groups) and 3,029.838 (1,663 df) for the constrained one (i.e. a model where all 11 paths are constrained to be equal across groups). The resulting difference in chi square (59.396) is insignificant at 44 (1,663 – 1,619) degrees of freedom (*p*-value: 0.0605). Overall, this indicates that there is no significant moderating impact of tie strength, leading to lack of support for *H4*. Consistent with the results of the ANOVA reported previously, it was therefore found that tie strength impacts neither the overall reaction toward customer abandonment nor the relationships between the structural constraints and satisfaction on exit/voice/loyalty or between exit/voice/loyalty intentions themselves.

Table V Structural model – parameter estimates

				Baseline model			
				Estimate	Standard Error (SE)	Estimate/SE	<i>p</i> -value
Satisfaction	→ Loyalty intention	<i>H1a</i>	(+)	0.187	0.125	1.496	0.1347
Satisfaction	→ Voice intention	<i>H1b</i>	(+)	0.189	0.118	1.602	0.1092
Satisfaction	→ Exit intention	<i>H1c</i>	(−)	−0.166	0.122	−1.361	0.1736
Switching cost	→ Loyalty intention	<i>H1a</i>	(+)	0.056	0.117	0.479	0.6322
Switching cost	→ Voice intention	<i>H1b</i>	(+)	0.078	0.107	0.729	0.4660
Switching cost	→ Exit intention	<i>H1c</i>	(−)	0.012	0.116	0.103	0.9176
Alternative attractiveness	→ Loyalty intention	<i>H2a</i>	(−)	0.633	0.129	4.907	0.0000
Alternative attractiveness	→ Voice intention	<i>H2b</i>	(+)	0.613	0.178	3.444	0.0006
Alternative attractiveness	→ Exit intention	<i>H2c</i>	(+)	0.274	0.125	2.192	0.0284
Loyalty intention	→ Voice intention	<i>H3a</i>	(−)	−0.677	0.127	−5.331	0.0000
Voice intention	→ Exit intention	<i>H3b</i>	(−)	−0.773	0.084	−9.202	0.0000

Notes: Model fit indices: Model  $\chi^2 = 559.666$ ; Model df = 259; CFI = 0.964; TLI = 0.954; RMSEA = 0.055; SRMR = 0.041

## 6. Key findings and theoretical implications

Summarizing the analysis results in the following three findings: First, we show that current customers are likely to penalize companies that abandon unprofitable client relationships. Existing customers are significantly more likely to respond to unprofitable customer abandonment actively by either deciding to leave the abandoning firm or raising their voice against such behavior, than passively through silence and loyalty. This finding is of theoretical importance as it implies that the way in which a company treats one customer in the context of a customer relationship management initiative can have implications on the reactions of other customers. Previous research in the area of CRM has mainly looked into the reactions that customers show in response to firm activities that directly affect them. The analysis provides an indication that such a perspective might be too narrow and that the way in which a company treats customer A might have an impact on customers B, C, and D as well.

Second, we show that the reactions toward unprofitable customer abandonment appear to be independent from the strength of the relationship (tie strength) between the abandoned customer and the current customer under investigation. Based on the findings, it seems that current customers are *not* likely to perceive the abandonment of a weak-tie relationship as less severe than that of a strong-tie contact. From a theoretical perspective this implies that the collateral effects of certain customer relationship management strategies mentioned previously might not be limited to the immediate social network of the customer affected by them. Traditional theories from sociology, such as social balance theory or social enrichment theory, are therefore unlikely to be insufficient to explain their occurrence. Taken together, these results show that the abandonment of unprofitable customers is likely to be associated with significant (indirect) abandonment costs that need to be considered when evaluating the benefits of such a strategy.

Third, despite the negative consequences stated previously, the analysis also indicates that some clients may perceive the abandonment of unprofitable customers as something positive. Although voice and exit are the more likely responses to abandonment, the respondents still maintain medium levels of loyalty intentions (mean of  $-0.53$  on a scale from  $-3$  to  $+3$ ). Looking at the reasons behind this decision shows that most customers either intend to remain loyal to their current mobile phone provider due to superior product quality (“[...] because it’s the only company that provides service in my area”), inertia (“[...] because I have been with them so long”), or personal utility maximization (“[...] because it did not happen to me and I only take action with programs that affect me”). But there also appears to be a segment that reacts positively to unprofitable customer abandonment because these customers believe that the money saved from no longer serving unprofitable customers will be re-invested into their own client relationship (“[...] because Cingular is being smart and my rate will not be raised because of unprofitable customers”). Combined, this indicates that abandoning unprofitable customer relationships may have additional positive effects that go beyond those discussed in the literature by Haenlein *et al.* (2006)2.

## 7. Managerial implications

From a managerial perspective, these findings have at least two implications: First, we recommend that prior to making their abandonment decision, companies develop a clear understanding of the expected net benefit of such a strategy. On the positive side, firms are likely to generate benefits by avoiding future losses from serving unprofitable customers – the so-called real option value of unprofitable abandonment (Haenlein *et al.* 2006). Additionally, divesting unprofitable customers could lead to a potential improvement in firm image among some types of current customers. On the negative side, there are the direct costs associated with abandonment (e.g. Sprint Nextel decided to cancel all outstanding balances for the customers they decided to fire) as well as the indirect cost caused by negative Word-of-Mouth (voice) and involuntary loss (exit) of current customers. Managers are encouraged to make a cost–benefit analysis and a rational decision either in favor or against unprofitable customer abandonment. Despite the potential negative emotional consequences associated with any type of relationship disengagement (Baxter, 1985), the termination of unprofitable customer relationships should be considered as a business decision like any other.

Second, once a firm decides on the implementation of an abandonment strategy, we recommend close monitoring of the reaction to this decision as expressed in online news forums and other types of social media. Customers are increasingly starting to exchange their views on a variety of interactive platforms (e.g. Wikipedia, YouTube, Facebook). This new form of digital Word-of-Mouth has created new challenges for companies that need to be managed appropriately (Kaplan and Haenlein, 2010). The results indicate the relationship between the abandoned customer and the current customer under investigation might not have a significant influence on the reactions toward unprofitable customer abandonment. This implies that current clients may show the same reaction, irrespective of whether they learn about the company’s abandonment strategy through a conversation with a close friend or by reading it on the internet.

Finally, the relationships identified and confirmed between the variables in the conceptual framework suggest that increasing satisfaction or switching cost among current customers are unlikely to limit the potential negative consequences of unprofitable customer abandonment. As can be seen in the empirical analysis, neither of these variables shows a significant influence on exit, voice, or loyalty intentions. The only variable that appears to impact reactions of current customers is the perceived attractiveness of the best alternative relationship. Companies who decide to divest unprofitable customers should therefore pay special attention to making their offer as unique as possible. This can, for example, be achieved by choosing a positioning strategy that highlights the exclusive characteristics of the product or service. Such a strategy could motivate current customers to perceive the abandoning firm as less comparable to potential competitors and ultimately decrease the alternative attractiveness of other firms in the marketplace.

## 8. Areas of future research and limitations

As any empirical study, our analysis also suffers from some limitations that might be addressed in future replications: First, we observe that some customers appear to react positively to unprofitable customer abandonment. Future studies could build on this preliminary finding and investigate whether the abandoning firm can implement specific strategies to foster such positive associations. For example, framing the abandonment message in a positive (gain frame) versus negative (loss frame) way and highlighting the potential positive effects it might generate for remaining customers, could lead to more positive reactions. Additional analyses are needed to understand those effects in more detail.

Second, the investigation of structural relationships shows that alternative attractiveness is the only variable that shows a significant influence on exit, voice, and loyalty intentions. This does not, however, imply that there are no other variables that could drive this choice and that are not included within the conceptual framework. Emotions have, for example, been shown to be a main driver of consumer behavior (e.g. Allen *et al.* 1992) and the specific characteristics of unprofitable customer abandonment, which can be interpreted as a violation of unexpressed marketplace norms, make the elicitation of emotional responses particularly likely. Future studies should analyze the types of emotions that are experienced in response to unprofitable customer abandonment and the extent to which these emotions differ depending on the causal attributions of the abandonment decision and the strength of the relationship toward the abandoned customer.

Third, the analysis implicitly assumes that unprofitable customer abandonment has already taken place and investigates the reactions toward such a decision. There might, however, be reasons to keep a customer, although the relationship itself is unprofitable; for example, if the customer is able to refer new profitable customers to the company. The question that needs to be answered in that context is to what extent unprofitable customers are likely to possess social networks that include profitable prospects. Research in the area of social network analysis and referral behavior has shown for a long time that customers who belong to the same social environment are likely to be similar, share the same behaviors and prefer the same brands (Brown and Reingen, 1987; Reingen *et al.* 1984; Ward and Reingen, 1990). If this is the case, it seems probable that they also share a similar profitability pattern from the company's perspective. Hence, unprofitable customers may be primarily related to other people who are likely to be unprofitable themselves. Further research is needed to better understand these social network effects in customer-level profitability.

Finally, it might be interesting to investigate the extent to which improvements in the perceived value of the basic offer could help to create an enduring and unique positioning strategy that could alter the alternative attractiveness of alternative offerings. In the mobile phone industry, which is known to suffer from opaqueness and high degrees of similarity between different players, one option could be to invest the money saved from abandoning unprofitable customer relationships into offering lower prices, better network quality, or a larger variety of attractive handsets, as these characteristics are usually used to evaluate the perceived value of a mobile phone provider's offering. Future research

could investigate the extent to which such modifications of the basic offer structure are indeed able to compensate for the negative consequences of unprofitable customer abandonment. Combined with information on the likely cost associated with their implementation, such an analysis could help to develop a business plan that can be used as a basis for unprofitable customer abandonment decisions.

The topics of relationship marketing and customer relationship management have seen increasing interest among academics and practitioners in recent years. However, most studies in this area focus on the relationship development process and factors contributing to enduring relationship success. Studies dealing with relationship dissolution and customer de-selection are still much in their infancy. This is generally not a surprising finding. More than 20 years ago, Baxter (1985) already showed that even young people “have acquired a more sophisticated social repertoire for accomplishing relationship initiation as opposed to relationship disengagement – a discrepancy which continues until adulthood.” We think that this research has helped to provide some additional insights into the area of relationship dissolution. As Neil Sedaka said, “breaking up is hard to do,” but in some instances it may be unavoidable and in these cases companies would be well advised to do it in the least painful way.

## Notes

- 1 The key variable of interest in our design is the tie strength between the current and the abandoned customer. The two levels of abandonment strategy serve as a mere randomization condition. To test whether a sample size of at least 70 respondents per group is sufficient to obtain meaningful results, we conducted a statistical power analysis using the *pwr* package (version 1.1.1) in the R computing environment (version 2.12.1). This analysis shows that an ANOVA with five groups (corresponding to five levels of tie strength), 70 observations per group, a significance level (Type I error) of 5 per cent and a statistical power (Type II error) of 80 per cent can detect a minimum effect size of  $f = 0.19$ . This is situated between a small effect ( $f = 0.10$ ) and a medium effect ( $f = 0.25$ ) using Cohen's effect size conventions. Our design is therefore able to detect managerially relevant effects of small to medium size with reasonable significance and power.
- 2 After having read the scenario descriptions, participants were asked to describe their feelings and reactions in such a situation in five or more sentences to increase the salience of the respective motivational orientation. The verbatim reported in this paragraph stem from these qualitative comments.

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## Appendix 1. Manipulation of tie strength

You will now read a scenario describing a telephone conversation about mobile phone providers. You will then be asked a set of questions. While answering these questions, imagine yourself in the described scenario and try to indicate your experiences and opinion in such a situation. Before starting, please give me the name or initials of an acquaintance (a friend) who you have known for several months (about half a year/about a year/a couple of years/many years) and with who you usually speak less than once a month (about once a month/several times a month/about once a week/several times a week). This information will only be used for the subsequent scenario description and not be stored or analyzed any further.

## Appendix 2. Manipulation of abandonment strategy

Imagine you are sitting at home in your living room. Suddenly the phone starts ringing. You answer and realize that the person calling is NAME. NAME tells you that some days ago s/he received a call from a customer service representative from his/her mobile phone operator PROVIDER, the same mobile phone provider you have a contract with. This customer service representative told NAME in a very polite and friendly way that PROVIDER recently conducted an extensive profitability analysis from their entire customer base. In this context, they realized that the business relationship with NAME was not profitable. PROVIDER therefore took the decision ...

... to end the business relationship with NAME. NAME's contract would run out at the next possible date without the possibility of renewal (Direct abandonment strategy).

... to increase the monthly fee charged to NAME. Additionally, s/he would need to expect longer waiting times when contacting the customer services department in future, as customers with higher profitability would be served with priority (Indirect abandonment strategy).

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## Executive summary and implications for managers and executives

*This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefits of the material present.*

It may be nearly ten years since Nancy Singer and her sister were banned from shopping at Filene's Basement fashion store in Massachusetts but the incident still has resonance for shoppers and businesses alike. The question is not so much what would be your reaction if you got a letter banning you and saying "Given your history of excessive returns and your chronic unhappiness with our services, we have decided that

this is the best way to avoid any future problems with you" but how would other customers react. Friends, relatives or people who just got to hear about the "banning order" via the media or social networking sites? After all, the sisters considered themselves loyal customers having shopped at the company's various outlets for years – even though they did build themselves quite a reputation with their returns and expressed dissatisfaction.

Imagine you are sitting at home when a customer service representative from your cell-phone provider rings and says, following an extensive profitability analysis of their entire customer base, they've decided you aren't valuable enough for them so your contract won't be renewed. Or what if your doctor decides that, because you've missed several appointments without good reason, he's striking you off his patients list and you'll need to get another doctor?

Another organization which doesn't believe in the "the customer is always right" adage is US consumer electronics retailer Best Buy which hit the headlines when it declared it was trying to get rid of "devil" customers, preferring to spend their time and efforts on "angel" customers. The devils were described as those who buy products, apply for rebates, return the purchases, then buy them back at returned-merchandise discounts. They load up on "loss leaders," severely discounted merchandise designed to boost store traffic, then flip the goods at a profit on eBay. They slap down rock-bottom price quotes from web sites and demand that Best Buy make good on its lowest-price pledge. They can, the CEO claimed, wreak enormous economic havoc.

Abandoning unprofitable customers sounds a sensible strategy for any company, but first they need to assess the likely reaction from other customers. You might think that other customers would welcome the fact that a business was prepared to get rid of "undesirable" clients and concentrate their efforts on the "good guys". Alternatively you might think that they'll think "If it happened to them it could happen to me."

In "The impact of unprofitable customer abandonment on current customers' exit, voice, and loyalty intentions: An empirical analysis" Michael Haenlein and Andreas M. Kaplan consider how hearing about unprofitable customer abandonment impacts exit, voice, and loyalty intentions of current customers the firm would like to retain. Second, they investigate how relationship characteristics (i.e. overall satisfaction) and structural constraints (i.e. alternative attractiveness, switching cost) influence these reactions. Finally, they analyze how the strength of the relationship between the abandoned customer and the current customer under investigation moderates these reactions. The work can be seen as a first step toward estimating the likely indirect cost associated with abandoning unprofitable customers.

They recommend that, prior to making their abandonment decision, companies develop a clear understanding of the expected net benefit of such a strategy. On the positive side, firms are likely to generate benefits by avoiding future losses from serving unprofitable customers. Additionally, divesting unprofitable customers could lead to a potential improvement in firm image among some types of current customers. On the negative side, there are the direct costs associated with abandonment (e.g. a decision to cancel all outstanding balances for the customers they decided to fire) as well as the indirect cost caused by negative word-of-mouth (voice) and involuntary loss (exit) of current customers. Managers are encouraged to make a cost-benefit analysis and a rational

decision either in favor or against unprofitable customer abandonment. Despite the potential negative emotional consequences associated with any type of relationship disengagement, the termination of unprofitable customer relationships should be considered as a business decision like any other.

Once a firm decides on the implementation of an abandonment strategy, close monitoring of the reaction in online news forums and other types of social media is recommended. Current clients may show the same reaction, irrespective of whether they learn about the company's abandonment strategy through a conversation with a close friend or by reading it on the internet.

Companies who decide to divest unprofitable customers should pay special attention to making their offer as unique as possible. This can, for example, be achieved by choosing a positioning strategy that highlights the exclusive characteristics of the product or service. We know that breaking up is hard to do but in some instances it may be unavoidable and in these cases companies would be well advised to do it in the least painful way.

*(A précis of the article "The impact of unprofitable customer abandonment on current customers' exit, voice, and loyalty intentions: an empirical analysis". Supplied by Marketing Consultants for Emerald.)*