Does “Firing” Customers Pay Off? A Signaling Perspective on Customer Divestment and Shareholder Value

By

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Abstract

A significant proportion of many firms’ customers are unprofitable. Whether and how unprofitable customers should be divested is a topic that has recently received increasing attention, but is still largely under-researched. Using an event study methodology, we examine stock market reactions to customer divestment announcements. Results from a sample of 110 customer divestment events suggest that firms announcing customer divestments have an average abnormal stock return of -.73%. Drawing on signaling theory, we explore a number of signal (customer divestment announcement), signaler (firm), and signaling environment characteristics that may affect the shareholder value effects of customer divestment announcements. Our analyses show that the stock market responds more favorably to indirect versus direct customer divestment strategies. Furthermore, we find that particular types of indirect divestment strategy approaches (e.g., tiered service and attrition), divestment motivation, stronger marketing capabilities, superior prior firm performance, and positive publicity can help mitigate the general negative abnormal stock returns observed. Overall, our findings provide important theoretical and managerial implications regarding how to manage and communicate customer divestment.

Dr. Lopo Rego’s research interests focus on understanding how marketing strategies, investments, and actions (e.g., advertising, customer relationship management, brand strategy, etc.) influence firm performance outcomes (ranging from product market performance to financial performance), and ultimately contribute to shareholder wealth creation. The main goals of his research are to identify generalizable patterns regarding how marketing strategies and actions explain differences in firm performance, and to understand the boundary conditions for these observed patterns. His research addresses complex problems that are often ignored because they are typically difficult to investigate, but nonetheless carry great managerial significance. Prof. Rego’s research has been published in such outlets as the Journal of Marketing, Marketing Science, Journal of the Academy of Marketing Science, Journal of Economic Behavior and Organization, European Journal of Marketing, Journal of Empirical Generalisations in Marketing, Harvard Business Review, Journal of Research in Marketing, and Marketing Science Institute Working Paper Series.

All interested are welcome.