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Business Horizons and Elsevier are proud to sponsor the annual Best Article Award for the article published in 2009 that best meets the journal's mission. Nominations were solicited from the Editorial Review Board members, with all articles published in 2009 eligible for consideration.

The *Business Horizons* editorial staff, *Business Horizons* Editorial Review Board, and Elsevier congratulate Professors Michael Haenlein and Andreas M. Kaplan for winning the 2009 Best Article Award for their work, "Unprofitable customers and their management," which appeared in the January-February issue (volume 52, pp. 89-97). As described by one Editorial Review Board member, the article addresses "an important yet often overlooked challenge for organizations." The authors were also praised for providing an innovative take on customer management which offers "straightforward advice" that has "broad appeal to practicing managers." Further to this point, an Editorial Review Board member noted that the article "provides practical advice on how to avoid unprofitable customers but more importantly how to deal with them once you have them." In sum, the article captures the spirit of *Business Horizons*' mission. It is "well-written, eminently readable, uses concrete examples, and articulates a position that isn't traditionally standard (i.e., the customer is not always right)."

In recognition of their accomplishment, Professors Haenlein and Kaplan will receive a $500.00 prize. Congratulations!

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Unprofitable customers and their management

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KEYWORDS
Customer segmentation;
Customer relationship management;
Relationship dissolution;
Unprofitable customer management

Abstract The widespread use of customer relationship management (CRM) applications has provided companies with increasingly detailed insights into the profitability of their individual-level customer relationships. Historically, this information has primarily been used to identify the most profitable customers and to define ways for serving them in an optimal manner. Nowadays, however, companies have become more aware of unprofitable clients, and the fact that these relationships can account for a substantial share of their total customer base. Drawn from a series of research projects conducted by us over the last few years, we herein propose a six-step approach for dealing with such unprofitable customers, a framework we refer to as the ABCs of Unprofitable Customer Management: ***A***void their acquisition in the first place, ***B***ear in mind potential rescue operations, ***C***atch the possibility of abandonment, ***D***raw up a cost—benefit analysis, ***E***nsure familiarity with your environment, and ***F***acilitate biting the bullet. We also provide a series of recommendations regarding how best to break up with customers, in order to ensure that firms can separate themselves from unprofitable accounts in the least painful way.

1. Once upon a time, every customer was king...

Over recent years, companies in all industries have invested hundreds of millions of dollars in the implementation of customer relationship management (CRM) systems. According to a study conducted by Datamonitor, the global CRM software market was worth $3.6 billion in license revenue in 2006 and is expected to grow by 10.5% per year to an impressive $6.6 billion in 2012. Giants such as SAP, Siebel, and Oracle continuously introduce new business intelligence tools that help firms to better understand their customers and provide them with personalized one-to-one service. The changes induced by this evolution are obvious to everyone. Direct marketing offers, which we find in our mail every day, are becoming more and more relevant and personalized to our actual needs. When we call our credit company, we are first asked to enter our 16-digit credit card number so that the call center agent immediately knows our name and customer history. From a company perspective, these systems have given marketing managers increasingly detailed information about the profitability of their individual-level customer relationships. Airlines know how often you used their services in the past month (and the month before, and the one before that), how expensive you

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have been to serve, and how much they had to invest in order to keep you as a customer. With only a click, banks can tell how receptive you are to cross- and up-selling offers, how often you use an ATM to get cash, and how often you decide to conduct the same task (more expensively) face-to-face with a teller. And, in a like manner, telecommunications companies can have clear visibility regarding how often you have recommended their services to one of your friends, how many new customer relationships they have created based on your referrals and, of course, how profitable your friends are themselves.

1.1. The good into the pot...

Frequently, companies use this information to identify their most profitable customers and to treat them accordingly. In 2004, Lufthansa, the second largest European airline, invited its 6,000 best customers to join the newly created HON Circle program. Clients who collect 600,000 frequent traveler points (equaling approximately 25 first class return flights from Frankfurt to New York) in 2 calendar years can enjoy a 24-hour booking guarantee, limousine pickup, and check-in at dedicated first class terminals in Frankfurt and Munich. HSBC, the world's largest financial group, offers access to HSBC Premier for all clients who maintain at least $100,000 in personal deposit and investment balances. These elite constituents may then call one of the 24-hour Premier call centers, where a dedicated relationship manager can help them in all financial problems. And what if a person decides on December 28th that they would like to spend New Year's Eve in Paris, but cannot find a hotel room because everything has been booked weeks in advance? Just join Hyatt Gold Passport, the loyalty program of the international hotel chain. Once a Passport member has slept 50 nights with the company in a calendar year, they are promoted to diamond status, which offers 72-hour guaranteed room availability and complimentary upgrades with access to the private Regency Club lounge. For years, companies have promoted the credo that every customer is king; finally, those customers seem to be getting the royal benefits that should accompany this status.

1.2. ...the bad into the crop

Unfortunately, not every customer turns out to be profitable and thus merits this kind of treatment. To many marketing managers, this may not come as a surprise. The idea that consumers are different in their needs and characteristics lies at the center of any marketing strategy, and discussions regarding customer heterogeneity and the benefits of segmentation have been led in the discipline for over 40 years (e.g., Smith, 1956; Yankelovich, 1964). What may be most surprising is the amount of unprofitable customers in an average company's client base. In recent years, several studies have shown that the share of customers with a negative contribution margin (revenue less direct cost and cost-to-serve) can reach up to 30% in both business-to-consumer (B2C) and business-to-business (B2B) relationships. In analyzing the customer base of a leading German retail bank, for example, we identified 22 different customer segments, five of which—accounting for 26.8% of all clients—were loss generating (Haenlein, Kaplan, & Beeser, 2007). An examination of the types of clients included in those segments revealed that these unprofitable customers often used the bank as a secondary correspondent bank, or for specific services such as credit cards or safe-deposit boxes. Consequently, they only maintained limited assets on their accounts and generated low revenue. Taking into consideration the cost of managing these customer relationships—which are often independent of activity intensity (e.g., regular mailing of account statements)—cost-to-serve quickly exceeded revenue, resulting in an overall negative contribution margin. Similar results have been generated in analyses covering logistic centers (Niraj, Gupta, & Narasimhan, 2001) and producers of intermediate goods (Bowman & Narayandas, 2004).

2. The ABCs of unprofitable customer management

The relatively high share of unprofitable customer relationships in many industries leads to the question of how companies should deal with such clients. Based on our experience, we propose a six-step approach which we call the ABCs of Unprofitable Customer Management: ***A***void their acquisition in the first place, ***B***ear in mind potential rescue operations, ***C***atch the possibility of abandonment, ***D***raw up a cost—benefit analysis, ***E***nsure familiarity with your environment, and ***F***acilitate biting the bullet.

2.1. Step #1: Avoid their acquisition in the first place

Obviously, the best way of dealing with unprofitable customers is to avoid their acquisition right from the start. In some industries, companies have managed to modify their product or service offering such that it discourages purchase by customers who are likely to be unprofitable. Take America Online (AOL), Time

Warner's global Internet service, as an example. Since its early days, AOL has offered flat fee Internet access through a proprietary connection manager. On the one hand, this software makes it easy for even the most inexperienced user to set up an Internet connection: You load the CD, click "okay" and, 1-2-3, you're online! On the other hand, the connection manager is implemented using non-standard protocols and modifies certain generic operating system files during installation, which creates disadvantages for power users who want to keep control over their systems. Although these problems are known, AOL does not offer an alternative and more standardized access solution for this type of user. Why? Because Internet Service Providers know from experience that power users are likely to generate above-average bandwidth cost: They use complex file-sharing applications, audio and video streaming services, and download large multimedia files. Given that novice users and power users pay the same price for AOL services, this makes the latter client particularly likely to be unprofitable. Hence, AOL voluntarily offers a service that creates disadvantages in order to deter power users from purchasing their offering. (See Bhargava and Feng, 2005, for a theoretical discussion of the benefits of such a strategy)

In other cases, companies may want to reconsider their current customer acquisition strategies and put a stop to those which tend to attract an overproportional share of unprofitable prospects. In B2B settings, bonus schemes based on short-term profits—rather than long-term benefits—often motivate salespeople to do everything possible to convert a prospect into a customer. To "get the deal," company representatives offer potential customers various sales force visits, invitations to product demonstrations at the firm's premises, and generous discounts for their first purchase, leading to pocket prices which are up to 40% below list price. In many cases, this is a certain road leading to the acquisition of unprofitable accounts. If prospective clients need too much convincing and promising before they decide to try an offering, this may indicate that they are either not interested in what's being sold or difficult to satisfy in general. In both cases, a firm might be better off without them.

Some industries rely increasingly on geodemographic segmentation like ACORN or MOSAIC to classify their target markets when acquiring new customers. Supermarket chains regularly use this type of data when deciding where to locate new retail sites, to ensure that their stores are surrounded not only by a sufficient number of prospective buyers but also those which are likely to be profitable given the positioning of the store (Inman, Shankar, & Ferraro, 2004).

2.2. Step #2: Bear in mind potential rescue operations

In some cases, selective customer acquisition might simply not be possible. And even if it is, no one can ensure that a customer who looks good on paper will not turn out to be a lemon after all. In these situations, companies need to know that not every unprofitable customer is a lost cause. Some types of unprofitable accounts can potentially be transformed into profitable ones, while others might simply appear to be unprofitable because the company has an incorrect understanding of their needs.

2.2.1. The transformable

Acquiring a new customer is typically a costly endeavor. While Internet-based companies like Amazon (the world's largest online store for books and entertainment products) and eBay (a leading online auction platform and marketplace) may face customer acquisition costs as low as \$8—\$10 per client, this figure can easily reach 20-30 times that amount in other industries. Gupta, Lehmann, and Stuart (2004), for example, report expenses of \$200 per acquisition for the online broker Ameritrade and \$400 for its competitor E*Trade. It is therefore not surprising that common managerial wisdom dictates retaining an existing client is cheaper than acquiring a new one, and that reducing customer defection by 5% can lead to a 25%—85% boost in profits (Reichheld & Sasser, 1990). As such, the first step should always involve trying to transform an unprofitable customer into a profitable one. In all likelihood, it is not the customer that is unprofitable, but the company that operates its business in an inefficient manner. In other situations, an unprofitable customer today may become a very profitable client tomorrow. Companies should therefore never base their decisions on current-period profitability, but on the expected value the customer relationship will generate in the future, as reflected in metrics like customer lifetime value (CLV). Many banks, for example, offer special products to acquire students at the beginning of their education. While these customer relationships may be unprofitable in the short-run, they are likely to become very profitable when the individuals graduate, mature in earning power, and seek loans and mortgages down the road.

2.2.2. The misunderstood

In other cases, the product or service the company is offering may simply not be adapted to the needs of its customers. Every purchase a client makes is ultimately conducted to fulfill certain needs. If the firm misunderstands these needs, it runs the risk of offering a product that includes features the customer does not value and is, hence, not willing to pay for. Given that including these features still creates cost, this can lead to unprofitable client relationships. If this is the case, firms may want to consider changing their business model. By reducing air travel to its very basics (getting from point A to point B) and discarding all associated services—such as meals, in-flight entertainment, and lounges—Ryanair, Europe's largest low-cost carrier, successfully manages to serve customers that would likely be unprofitable for traditional airlines. Similarly, Charles Schwab, one of the world's largest discount brokers, was among the first to cut transaction fees by introducing telephone- and Internet-based trading. As discussed by Rosenblum, Tomlinson, and Scott (2003), in some cases it may be reasonable to assume that customers are not bad or unprofitable per se; they may just not be willing to pay for offer components they actually do not need. If this is the case, companies must only identify the features that create less customer value than create cost, take them out of the bundle and, abracadabra, the customer relationship becomes profitable.

2.3. Step #3: Catch the possibility of abandonment

While change of business model can be a wise strategy if a firm's share of unprofitable customers is large, this may not be the perfect solution when this faction accounts for only a minor fraction of the total customer base. At an elementary level, it may simply not be sensible to set up a whole new business unit to serve so few unprofitable clients. Additionally, creating a low-cost offer to satisfy this minority may result in the whole customer base becoming less profitable, as other clients might also decide on this solution. In these cases, it is often the best decision to end the business relationship and to abandon the customer. As in the dissolution of personal relationships, companies have at their disposal different strategies to pursue such a goal. In B2C relationships, firms can, for example, rely on a so-called *cost escalation* strategy, which involves increasing relational costs in the hope that unprofitable customers will leave the company of their own accord. Consider Fidelity Investments, a large supplier of mutual funds: The firm is said to route calls from unprofitable customers into longer call center queues, in the hope that they will either stop calling or decide to move their business elsewhere. Another strategy, *withdrawal*, entails reducing the intimacy of the customer relationship. For decades, mail order retailers have implemented sophisticated analysis approaches to ensure that costly catalogs are sent only to those customers most likely to order (see, for example, Cullinan, 1978). If an individual has not placed an order, based on the latest mailings they received, the company will often move to a less intense relationship and stop sending promotional materials.

In B2B settings, the same strategies can commonly be applied. Alajoutsijärvi, Möller, and Tähtinen (2000) describe the case of a component manufacturer that used cost escalation to abandon a buyer which always paid its invoices 30-40 days after the due date. Instead of shipping the order on invoice, the supplier switched to cash-on-delivery (COD) terms, which resulted in a substantial cost increase for the buyer. Withdrawal can also be found in B2B settings. Many companies have, for example, pre-negotiated contracts with suppliers of standard products and services, such as office supplies, travel, or catering. When, for one reason or another, the seller decides to end the relationship, these contracts are not always formally cancelled. Instead, the seller no longer enforces the minimum order quantities associated with such contracts, stops sending its sales force to the buyer, and simply does not renew the agreement once it runs out. In addition, B2B companies also have the option of using a strategy called *state-of-the-relationship talk*. It consists of explaining to the unprofitable customer the reasons for its low profitability, and trying to convince the business partner to change its behavior. When a client generates particularly high cost-to-serve, it might be enough to inform the client that this is the case, in order to obtain the desired change in behavior. Although this strategy would theoretically also be viable in a B2C setting, the sheer size of the customer base often sets boundaries to the feasibility of such discussions.

Cost escalation and withdrawal are categorized as *indirect* approaches, and are characterized by a lack of direct communication on the part of the abandoning company. In many cases, however, direct communication is exactly what is needed to terminate an unprofitable customer relationship. In these situations, whereby a company openly tells the customer that it wishes to end the relationship, we speak of a *fait accompli* strategy. Consider an action perpetrated by Massachusetts-based fashion retailer Filene's Basement, the oldest off-price retailer in the United States. In July 2003, the company banned two sisters from shopping at any of its retail outlets, citing the ladies' 40-year history of excessive returns and chronic displeasure. The sisters earned this reputation via difficult behavior (e.g., calling an Italian retailer to verify whether a Basement comparison price was accurate) and demanding special services for being what they considered "loyal customers." In November 2004, the consumer electronics retailer Best Buy announced its *Devil and Angel* strategy, consisting of modifications in store layout and product offering to discourage unprofitable customers from patronizing its locations. More recently, in July 2007, Sprint Nextel, one of the largest telecommunications companies in the U.S., wrote to 1,000 customers with excessive customer service call histories, in order to terminate their contracts.

Interestingly, when we discuss with managers in the classroom the idea of firing unprofitable customers, we are usually met with very strong reactions of disagreement. The idea of unprofitable customer abandonment and relationship dissolution typically makes people uncomfortable. As illustrated by Leslie Baxter (1985) in a series of studies, young people already have a much more sophisticated repertoire for accomplishing relationship initiation as opposed to relationship disengagement, and this discrepancy continues throughout adulthood. People know this from experience: When they want to initiate a new relationship, they usually get very creative in identifying the most successful strategy. They make an effort to understand the other person's background and interests, and adapt their actions based on this information. But finding themselves in the situation of ending a relationship, people typically do not try to find the most appropriate strategy for their partner; they simply do what is easiest for them personally. The choice of an inappropriate relationship dissolution strategy is often why break-ups are so unpleasant and difficult. In the business world, this behavior tendency is why many marketing managers refuse to consider unprofitable customer abandonment. Once they look at the issue from a more rational perspective, however, they often realize that much can be gained from considering the option of abandoning unprofitable customer relationships in their decision-making process.

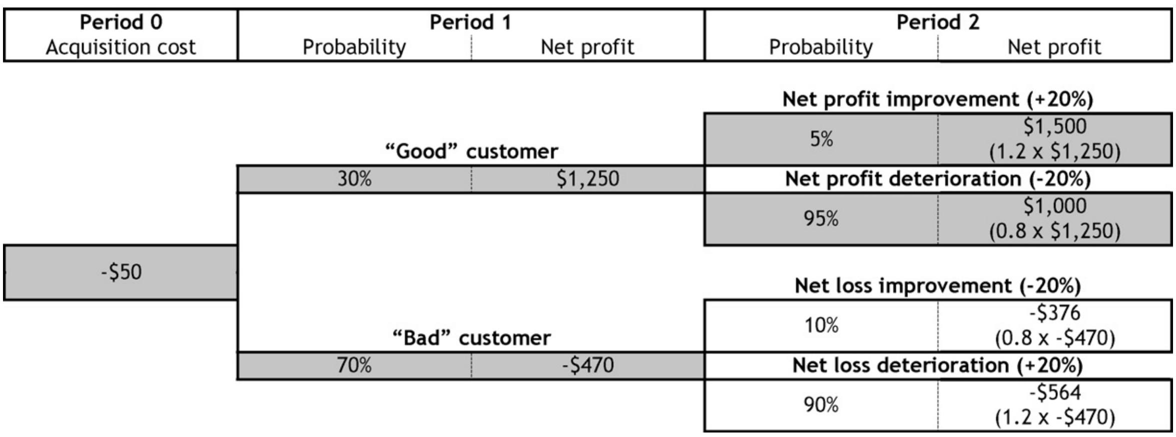
2.4. Step #4: Draw up a cost—benefit analysis

The aforementioned examples show that unprofitable customer abandonment is increasingly being implemented by companies. But whether this strategy is beneficial, overall, for the abandoning company depends on the benefits and costs associated with it.

2.4.1. Valuing the real option of abandoning unprofitable customers

Whenever a company acquires a new client, it also acquires—at the same time—the real option of ending the relationship later. This is similar to financial markets, whereby a buyer of stock always acquires the right—but not the obligation—to sell again once share values fall below a certain threshold. In our research, we have shown that the value of this real option can be substantial and that it represents a significant benefit which needs to be considered when calculating CLV, in order to avoid wrong decision making (Haenlein, Kaplan, & Schoder, 2006). Take, for example, the case of a marketing manager faced with the choice between two alternative advertising campaigns (A and B). With Campaign A, the company can attract "good" customers with a probability of 30% and "bad" ones with a probability of 70%. A good client will generate a net profit of $1,250 in Period 1, whereas a bad one is assumed to result in a net loss of —$470 in the same period. For both types of clients, this net contribution can either improve or deteriorate by 20% in Period 2 (see Figure 1). With Campaign B, only one type of customer—one that generates a constant net profit of $46 in Periods 1 and 2—can be

Figure 1. Expected net contribution of customers acquired through Campaign A



acquired. For both campaigns, the average cost of recruiting the customer and setting up a new account is assumed to be \$50. Using a discount rate of 15% and an average lifetime of two periods, the CLV of a newly acquired customer based on a simple net present value (NPV) analysis is approximately −\$16 for Campaign A and \$75 for Campaign B. Because the CLV of Campaign B is greater than that of Campaign A and greater than the acquisition cost, the decision would be in favor of Campaign B.

However, this analysis does not account for the flexibility the marketing manager has after the end of Period 1. At that point, the manager knows (e.g., on the basis of experience from comparable campaigns already carried out by the company) that a customer who proved to be bad in Period 1 will generate an expected loss in Period 2. Therefore, the marketing manager has the option to behave asymmetrically in Period 2: In the case of a good customer, the client relationship will continue, and in the case of a bad one, it will be abandoned. This asymmetrical behavior protects the company from the risk by realizing the loss of a bad customer in Period 2. We assume that the marketing manager decides to terminate the client relationship with a bad customer at the end of Period 1 and that this abandonment does not cause additional cost. In this case, the lifetime value of a bad customer increases from −\$821 to −\$409, which increases the expected CLV from −\$16 to \$273. On the basis of this increase of \$289, which can be interpreted as the value of the abandonment option or the benefit of the customer abandonment strategy, Campaign A now seems far more attractive than Campaign B. This example shows that marketing managers who do not actively consider customer abandonment as a valid strategic option have the tendency to make wrong customer acquisition decisions for high-risk customers. This is similar to personal investment decisions: When one thinks they need to keep stocks forever, they may miss out on profitable high-risk growth opportunities.

2.4.2. Negative word-of-mouth and indirect abandonment cost

While abandonment may be an attractive option from the company's perspective, the unprofitable customer who is "fired" is likely to feel dissatisfied, angry, or betrayed, and speak negatively about the company (Bougie, Pieters, & Zeelenberg, 2003; Richins, 1983). This negative word-of-mouth (WoM) may possibly impact the abandoning firm in two ways. First, abandoned customers could share their dissatisfaction with current customers, leading to their involuntary loss from the focal firm's perspective. Second, abandoned customers could spread negative WoM among potential customers, influencing them not to join the focal company but rather one of its competitors. In order to better understand these effects, we conducted a study among 1,000 U.S. customers using the example of a mobile phone provider which decided to abandon unprofitable customers (Haenlein & Kaplan, 2008b). The results show that negative WoM spread by abandoned customers leads to lower retention and acquisition intentions. These negative effects are stronger for the acquisition than the retention process. Additionally, they are independent of the type of abandonment strategy applied (indirect vs. direct) and the relationship between the abandoned customer and the person subject to negative WoM (close friends vs. acquaintances). Surprisingly, however, there is also a segment of customers that perceives abandonment as something positive. Essentially, these clients think that the company would resultantly have more time and resources available to shower on profitable accounts, like theirs. Abandonment may therefore also be capable of creating a favorable image in the marketplace, especially for profitable accounts.

The obvious question in the abandonment context is whether the acting company simply needs to accept these negative consequences, or whether it can take measures which compensate for them. We therefore asked new customers whether they would still not consider joining a company that abandons unprofitable customers if this company offered lower prices, more attractive handsets, or better network quality than their existing provider. For existing clients, we asked them if they would still leave their current provider due to abandonment if the alternative were higher prices, less attractive handsets, or worse network quality. Based on what the respondents said, it seems that for new customers, companies can overcompensate a potential negative bias due to abandonment by offering lower prices; for existing clients, the same can be achieved by proposing superior network quality (Haenlein & Kaplan, 2008a). Essentially, this indicates that the impact of negative WoM spread by abandoned customers can be compensated by making other components of the offer more attractive. Companies can therefore evaluate the overall benefit of unprofitable customer abandonment using standard business case tools: On the positive side, there is the value of the real option of abandoning; on the negative side, one needs to include the cost of compensating the impact of negative WoM spread by abandoned customers. If the bottom line is positive, customer abandonment is a recommendable strategy. If it is negative, companies need to identify other ways in which to deal with their unprofitable accounts, such as trying to convert them into profitable ones or serving them with alternative business models.

2.4.3. The power of social networks

We are only just beginning to understand the complex topic of unprofitable customer abandonment, and the likely benefits and costs associated with such a strategy. One interesting issue is the role social networks play in this context. Marketing research has, for a long time, highlighted that people cannot be analyzed in isolation and that their social relations play an important role in areas such as innovation diffusion (Valente, 2005), referral processes (Reingen & Kernan, 1986), and product adoption decisions (Yang & Allenby, 2003). In the context of unprofitable customer abandonment, this implies that the impact of negative WoM spread by abandoned customers also depends on how likely an unprofitable customer is to have profitable friends. Research in the area of sociology has shown that our friends tend to be similar to ourselves in terms of basic demographic characteristics (Reagans, 2005) and consumption preferences (Reingen, Foster, Brown, & Seidman, 1984). Extending this logic to the concept of unprofitable customer abandonment, it seems reasonable to assume that the friends of an unprofitable customer are likely to be unprofitable, too. If this really is the case—and it seems that it is (see Haenlein, 2008)—the bottom line impact of negative WoM might be much less severe than one would expect, as the customers that would either leave or not join the abandoning company are likely to be unprofitable, which makes their loss less painful.

2.5. Step #5: Ensure familiarity with your environment

In addition to the cost and benefit of an abandonment strategy, companies also need to consider—prior to making the abandonment decision—the legal environment in which they are operating and potential competitive reactions. As is the case with people, firms are embedded into larger social networks and are well advised to take these relations into account during the decision-making process.

2.5.1. Class actions and legal restrictions

In some countries, including the United States, it is essential that firms consider the risk of class actions. *Class actions* are lawsuits filed by one or more plaintiffs on their own behalf, as well as on behalf of a larger group of other people who are similarly situated. Take the example of a situation encountered by Netflix, the largest online DVD rental service in the U.S. Rumor has it that Netflix utilizes an algorithm, referred to as *throttling*, which assigns priority shipping and selection to customers who rent fewer movies per month. If true, this would mean that heavy users of the service often only receive their least favorite choice of title. Given that heavy users tend to be unprofitable clients within the Netflix business model—they bring Netflix the same revenue as lower-use customers, but generate higher cost—this strategy could be seen as a form of cost escalation and, hence, indirect abandonment. In September 2004, one customer, Frank Chavez, filed a class action lawsuit against Netflix based on the argument that throttling is inconsistent with the company's advertising claim of unlimited rentals. Although the case never reached court, Netflix was faced with a settlement cost of approximately U.S. $4 million. Depending on the legislation that is relevant for the company, such costs may need to be considered prior to making the abandonment decision. In other countries, jurisdiction regulates the extent to which companies can choose the customers with whom they wish to do business. In France, for example, every person has the legal right to own a current account, which limits the extent to which French banks can implement selective customer acquisition.

2.5.2. Competitive environment

Companies should also remember to take into account the likely competitive reactions which may arise in response to their abandonment strategy. At least two points must be considered. First, a rival firm could well become a new haven for cast-off unprofitable customers, resulting in sufficient critical mass to justify the creation of a new business unit to serve them in a profitable manner. For a concrete example of this, one need only look to Ryanair and the pressure the airline puts on traditional carriers such as Lufthansa or Air France-KLM.

Second, competitors could recognize—in the casting off of unprofitable accounts—a signal of the superiority of the abandoning firm's CRM software and analysis tools. After all, a company would have to be confident in its ability to separate the wheat from the chaff in order to abandon some clients, while keeping others. If this recognition is indeed made, what's to keep the competing firm from using this knowledge to vie for the desirable "kept" customers? This tactic can force the abandoning company to invest money gained from the firing of unprofitable customers into protecting its remaining clients from the competition. As illustrated by Subramanian, Raju, and Zhang (2007), this can negatively impact the entire industry.

2.6. Step #6: Facilitate biting the bullet

If, after reviewing steps 1-5, a firm believes that abandoning customers is a strategy it might want to pursue at some point, we now provide six recommendations to ensure the least painful separation process from the customer. These suggestions summarize the key findings we have generated in the context of our research.

2.6.1. Be explicative

Your customers have a right to know why you no longer want them as clients. As such, do not be shy in explaining the reasons for your decision. If you decide upon abandonment because clients never pay their bills on time, say so! If it is because they contact customer support too frequently, be honest about it! This will show the profitable customers you want to keep that they are not "at risk," as long as they do not behave in this way. Finally, it avoids giving the impression that you make abandonment decisions in an arbitrary and unfair fashion.

2.6.2. Be efficient

Think carefully about the number of clients you want to abandon. The negative publicity you receive is likely to be the same whether you fire 1,000 or 10,000 customers. This being the case, it is better to abandon unprofitable clients in one fell swoop, rather than separate from them individually over a longer time period. Afterward, establish clear rules outlining the conditions under which customers will be abandoned, and inform your new clients of these guidelines before they join your company. This gives them the opportunity to assess whether they are in danger or not and to change their behavior accordingly.

2.6.3. Be direct

Our analysis shows that news of unprofitable customer abandonment affects your company to the same degree, whether you serve unprofitable accounts less well or whether you tell them outright that they should take their business elsewhere. It is therefore wise to be open and to apply a direct fait accompli abandonment strategy, as in the aforementioned examples of Filene's Basement and Sprint Nextel. At the very least, this ensures that the problem is solved once and for all, while with indirect strategies the only thing you can do is hope that unprofitable clients will leave your company on their own one day.

2.6.4. Be open

Given the increasing prevalence of Internet-based message forums and social networking sites, you cannot expect that an unprofitable customer abandonment move will stay secret for long. Hence, it is preferable that you communicate openly with the public rather than attempt to keep the information under wraps. Highlight that external factors, such as competitive intensity, prompted the decision. You should make it clear that you are not abandoning the client(s) for personal reasons, but rather as a necessary step for survival in your industry.

2.6.5. Be personal

Instead of sending your fired customers a letter regarding the abandonment decision, contact them directly. This gives you the chance to adapt your communication strategy to the reaction of the client to be abandoned. It also slows down the speed by which the general public will be informed about your new strategy. The letters Sprint Nextel sent out appeared the same day as scanned images in the Sprint User Forum and generated more than 2,000 postings in the following 3 days. While you should not try to hide your strategy, it is never wise to add fuel to the fire.

2.6.6. Be clever

As in private life, there are many different ways in which to phrase and communicate an abandonment strategy; you should carefully pick the one that harms you least. In addition to explaining the reasoning behind the abandonment decision, stress that the money saved by ending unprofitable relationships will be reinvested to improve service to the remaining customer relationships. Our research indicates that doing so limits the negative WoM spread by abandoned customers on acquisition and retention intentions and, thus, leads to lower direct abandonment cost.

3. And they all lived happily ever after...

In its early days, CRM was praised as a means of providing perfect and individualized one-to-one service for all customers a company might have. Now, however, it is recognized that firms—in order to achieve the full benefits of this approach—should not strive for optimal, but rather appropriate customer relationships. This means that profitable customers should be treated like kings and receive all the royal benefits that accompany the title. At the same time, it also implies unprofitable clients may not deserve this kind of treatment. Providing differentiated customer service, dependent upon the value the client brings to the company, is the only way to get appropriate return on previous CRM investments. It seems that customer abandonment may not be possible in all situations. Practical or legal restrictions may set industry boundaries. In other cases, a careful consideration of benefits and costs may indicate that abandonment is not the optimal strategy and that other roads need to be explored. Abandoning customer relationships is not a fairy tale, but a reality companies need to face. We strongly encourage marketing managers to consider firing unprofitable customers as a valid strategy, and suggest that there may not be a "happily ever after" for every customer relationship. In our opinion, this is just one step further in the CRM logic. Whether pleasant or not, sometimes it is just best to separate; this holds true not only in private relationships, but in business as well.

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