Motivation

- Product recalls occur frequently and disrupt consumer-brand relationships
- Firms struggle with effective recall management
- Different firms offer different types of remedy (i.e., compensation) to consumers
- Current research offers no empirical guidance on the impact of the remedy choice on customer satisfaction

Data

Three types of data

1) Product recall data on 71 product recalls from 39 brands from 2008-2015 collected from official recall announcements (CPSC)
2) Brand equity and satisfaction data based on daily brand evaluations, collected from YouGov’s BrandIndex
3) Behavioral Experiment

Empirical Studies

Study 1: Estimating the Impact of Pre-recall Brand Equity on Firm’s Remedy Offer

Study 2: The Impact of Remedy Offer on Fairness and Satisfaction

Study 3: The Longer-term Dynamics of Remedy Offer on Customer Satisfaction

Selected Results

Table 1. Probit model for firms’ remedy offer (Study 1)

<table>
<thead>
<tr>
<th>Remedy</th>
<th>Pre-recall brand equity level</th>
<th>Hazard dummy</th>
<th>ln(Number of incidents)</th>
<th>ln(Price of Recalled Product)</th>
<th>ln(Volume of Recalled Product)</th>
<th>Category Cons. Media, Telecom</th>
<th>Category Appliance</th>
<th>Intercept (Baseline: Category Other)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partial</td>
<td>.108</td>
<td>-3.47**</td>
<td>-.299</td>
<td>-.304**</td>
<td>-.243**</td>
<td>.711</td>
<td>-1.020**</td>
<td>4.526**</td>
</tr>
<tr>
<td>Full</td>
<td>.122</td>
<td>-2.34</td>
<td>.207</td>
<td>-.234</td>
<td>-.711</td>
<td>.000</td>
<td>23.150**</td>
<td>.166</td>
</tr>
</tbody>
</table>

Log likelihood: -2.260

Pseudo-R²: .160

Notes: N = 71. *** p < .01, ** p < .05, * p < .10 (robust standard errors available upon request)

Figure 4. Post-recall change in customer satisfaction by type of remedy (Study 3)

Figure 6. The Brand Equity Gap between Actual and Ideal Remedy

Conclusions

Main Findings: Remedy Choice

- Firms’ remedy choice is influenced by their level of pre-recall brand equity
- High and low brand equity firms are significantly more likely to opt for partial remedy

Main Findings: Consumer Response

- High equity firms suffer because of perceptions of unfairness
- Low equity firms diminish their potential for increases satisfaction

Main Findings: Long-term Effects of Remedy Choice

- High equity brands: deeper drop in satisfaction, longer recovery time
- Low equity brands: forfeit potential to increase satisfaction levels