



Customer Satisfaction Management After a Product Recall

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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)

Dependent variable	Remedy (1: full; 0: partial)
Pre-recall brand equity level	-.105
Pre-recall brand equity level ²	-.347**
Hazard dummy	-.343
ln(Number of Incidents)	.297*
ln(Price of Recalled Product)	-.304**
ln(Volume of Recalled Products)	-.243***
Category Comm., Media, Telecom	.711
Category Appliance	-1.029**
Intercept (Baseline: Category Other)	4.526***
Log likelihood	-32.250
χ^2 (8)	23.150***
Pseudo-R ²	.316

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)

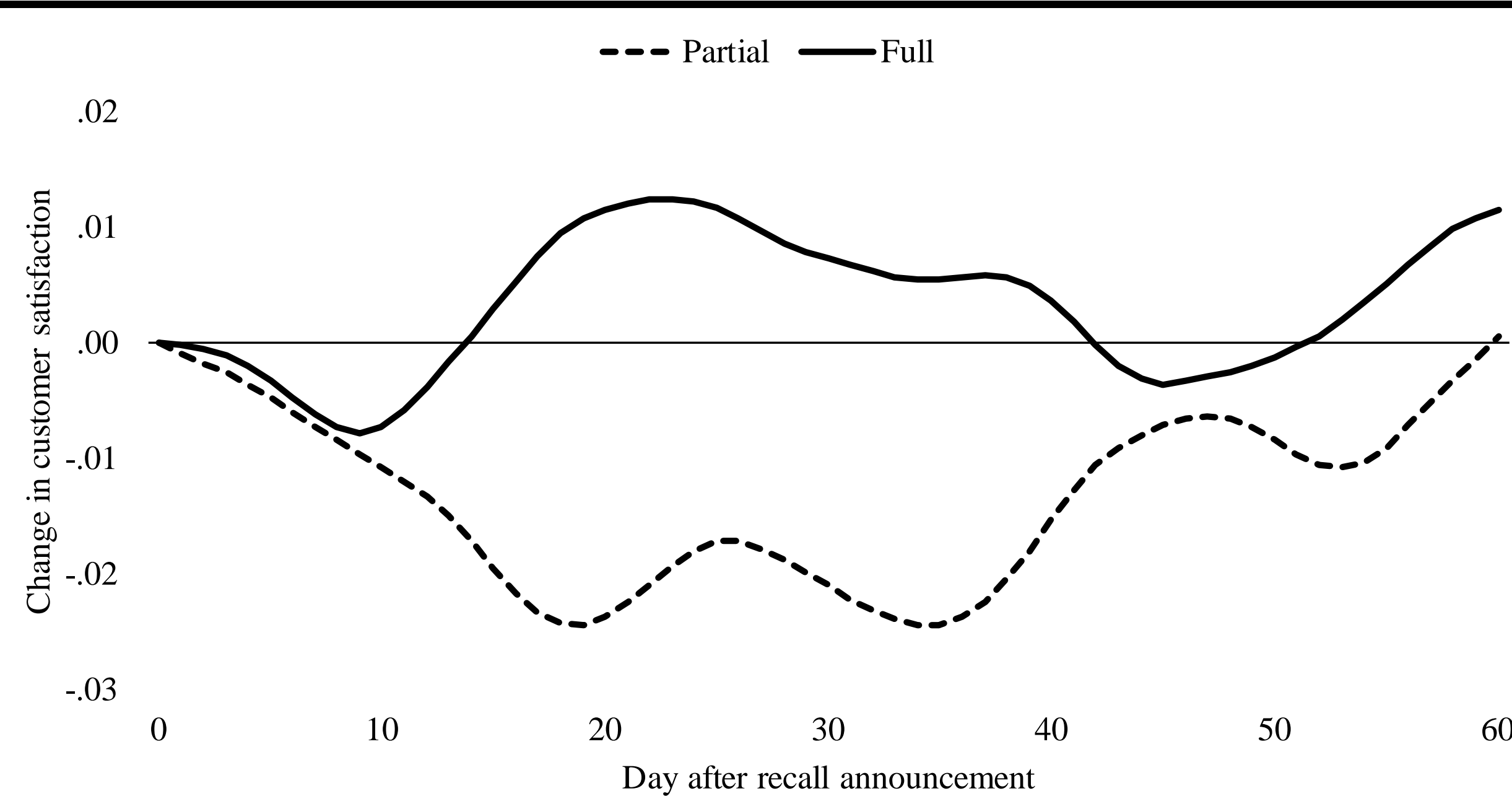
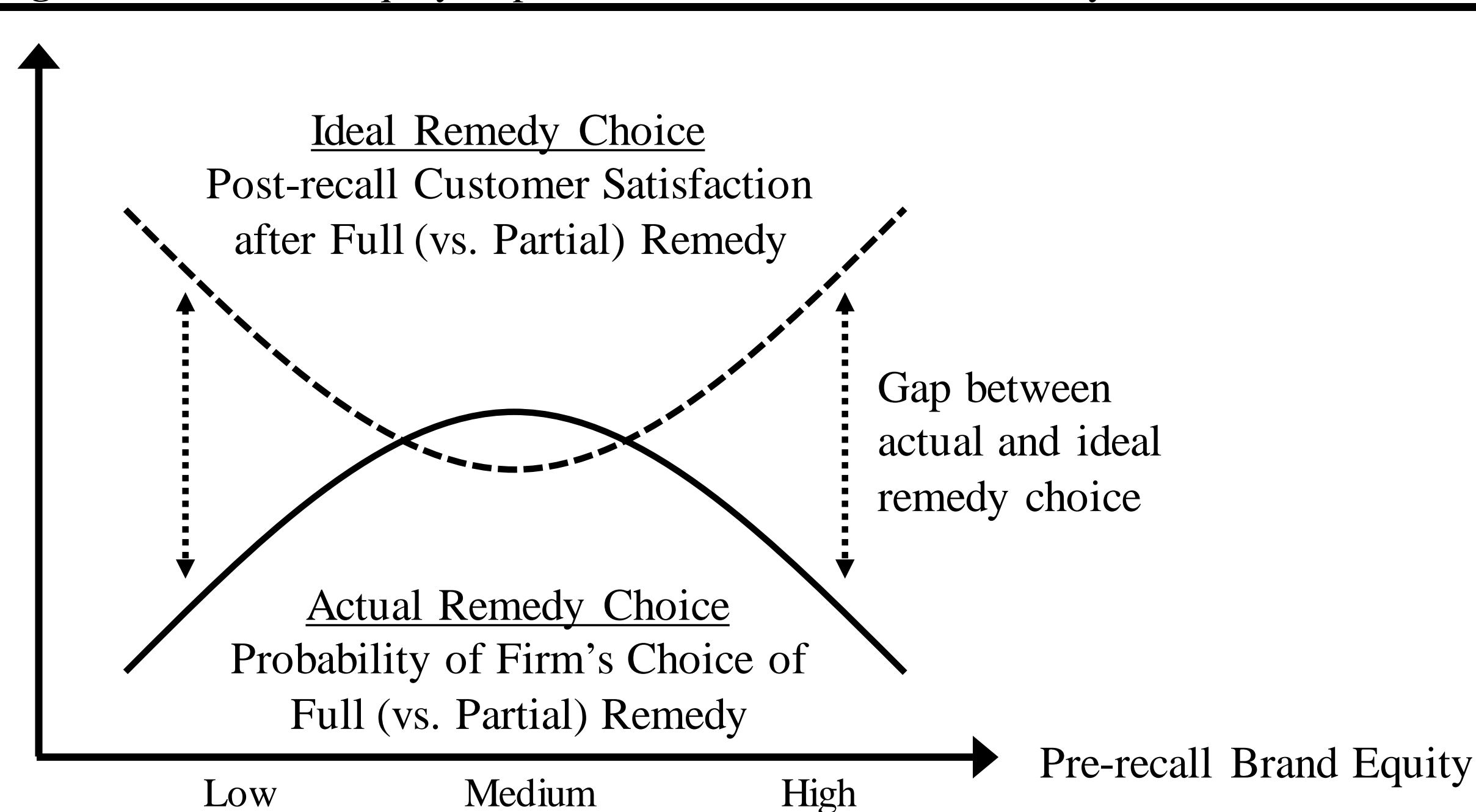


Figure 6. The Brand Equity Gap between Actual and Ideal Remedy



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