The commercial consequences of collective layoffs

April 30 2020

Researchers from Erasmus University Rotterdam and IESE Business School published a new paper in the *Journal of Marketing* that empirically demonstrates the effects of collective layoff announcements on sales, advertising effectiveness, and consumers' price sensitivity.

The study forthcoming in the *Journal of Marketing* is titled "The Commercial Consequences of Collective Layoffs: Close the Plant, Lose the Brand?" and is authored by Vardit Landsman and Stefan Stremersch.

Collective layoffs—the simultaneous termination of the labor contracts of a large group of workers—are quite common in many Western societies. In Europe alone, the 556 collective layoffs announced between December 2018 and November 2019 across different industries involved more than 250,000 employees. In addition to the societal implications, collective layoff decisions have an immense impact on the firms that initiate them.

The termination of employment, particularly of large numbers of people, typically evokes negative connotations. It is, therefore, reasonable to expect that layoff announcements should have negative, rather than positive, effects on the layoff firm. This study explores whether negative effects are universally present and the magnitude of such effects.

From a broad perspective, collective layoffs might be seen as a specific type of firm crisis. Other types of firm crises are product-harm, violations of ethical or moral norms such as sweat-shop operations, or negative news about celebrities who have endorsed a brand. However, collective layoffs have several unique characteristics and thus the commercial consequences of such layoffs warrant specific consideration. For example, while firms do not purposefully initiate most types of brand crises, they do initiate collective layoffs and thus have some level of control over timing, location, and communication. Such control may help the firm to ex-ante contain the potentially adverse outcomes of the layoffs. Moreover, a collective layoff announcement does not directly reflect on the quality of the firm's products, as with a product-harm crisis. However, the merit of the firm's prior actions, or its prospects, may be called into question.

The researchers focus on the automotive industry across nine major automotive markets (Austria, Canada, France, Germany, Italy, Japan, Spain, the U.K., and the U.S.) and study 205 collective-layoff announcements of 20 major brands between 2000-2015, which led to the termination of the labor contracts of more than 300,000 employees. The model specification estimates the advertising effectiveness and price sensitivity of every affected brand over time and across countries.

The data and analyses uncover the differences in the commercial consequences of collective layoffs across characteristics of the layoff announcements. The article identifies three typical information components in an announcement: (1) Motive—Did the firm motivate the collective layoff by a decline in demand?; (2) Nationality—Is the firm domestic or foreign to the layoff country?; and (3) Layoff Size: How many employees are affected by the collective layoff?.

Findings are as follows. First, for two-thirds of the collective layoff announcements in the sample, sales in the layoff country of the corresponding brands decreased in the year following the announcements compared to sales in the year before the announcements. The average drop in sales across all announcements was -6.6%. After accounting for all other effects in the model, sales for the layoff brand are 8.7% lower following a layoff announcement than the predicted level absent the announcement. Second, following collective layoff announcements, consumers become less sensitive to the advertising of the firm and more sensitive to its prices. Third, the layoff announcement characteristics do explain some of the differences in the commercial consequences across announcements. Fourth, firms do not universally increase or decrease their advertising spending following collective layoff announcements. (The median change in spending is about 2%.) However, firms typically spend less on advertising (16% less, on average) than they would absent the announcement in the layoff country during the year following a collective layoff announcement.

These findings are relevant to marketing managers in firms that plan to announce collective layoffs. First, as Stremersch explains, "Our results regarding the commercially adverse effects of collective layoffs suggest that marketing managers should claim a place in the taskforces that manage such layoffs, alongside functional representatives of other areas such as finance and operations, to reflect the potential adverse demand-side consequences perspective of the layoffs in layoff discussions." Second, according to Landsman, "Given the adverse effects for advertising effectiveness, marketers in a layoff country should allocate attention to their advertising response. Firms typically spend less on advertising following a layoff announcement than what they would have spent absent the announcement. As a result, the adverse effects of collective layoffs on sales in the layoff country loom larger, not only because of lower advertising elasticity, but also because of lower advertising spending. An alternative response could be to increase advertising spending to compensate for the decreased effectiveness and to consider such higher ad spending in the layoff country as a restructuring cost."

More information: Vardit Landsman et al, The Commercial

Consequences of Collective Layoffs: Close the Plant, Lose the Brand?, *Journal of Marketing* (2020). DOI: 10.1177/0022242919901277

Provided by American Marketing Association