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Customer-Base Concentration: Implications for Firm Performance and Capital Markets:

2011 American Accounting Association Competitive Manuscript Award Winner

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ABSTRACT

This study investigates whether and how customer-base concentration affects supplier firm fundamentals and stock market valuation. I compile a comprehensive sample of supply chain relationships and develop a measure (*CC*) to capture the extent to which a supplier's customer base is concentrated. In contrast to the conventional view of customer-base concentration as an impediment to supplier firm performance, I document a positive contemporaneous association between *CC* and accounting rates of return, suggesting that efficiencies accrue to suppliers with concentrated customer bases. Consistent with a cause-and-effect link between customer-base concentration and supplier firm performance, analysis of intertemporal changes demonstrates that *CC* increases predict efficiency gains in the form of reduced operating expenses per dollar of sales and enhanced asset utilization. Using stock returns tests, I find that investors underreact to the implications of changes in customer-base concentration for future firm fundamentals when setting stock prices. A trading strategy that exploits investors' underreaction yields abnormal stock returns over the 30-year period studied.

JEL Classifications: *M41*; *L25*; *G14*.

Data Availability: *Data are available from the sources indicated in the text.*

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Panos’ work focuses on interdisciplinary capital markets research and informs “micro-to-macro” and “macro-to-micro” questions bridging the gap between academics and practitioners. Panos has received several prestigious teaching and research awards, including the 2018 Distinguished Teaching Award, which is the highest award bestowed by the Chancellor of U.C. Berkeley for outstanding and meritorious teaching, the 2017 AAA/AICPA Notable Contributions to Accounting Literature Award, and the 2011 AAA Competitive Manuscript Award. Competitive Manuscript Award, American Accounting Association, 2011. San Francisco Business Times' 40 Under 40, 2017. Customer-Base Concentration: Implications for Firm Performance and Valuation. Keywords: Customer-Base Concentration, Supply-Chain Collaboration, DuPont Analysis, Market Efficiency. JEL Classification: M41, L25, G14. Suggested Citation: Suggested Citation. Patatoukas, Panos N., Customer-Base Concentration: Implications for Firm Performance and Capital Markets (May 24, 2011). The Accounting Review, March 2012, Available at SSRN: https://ssrn.com/abstract=1666497. Panos N. Patatoukas (Contact Author). University of California, Berkeley - Haas School of Business (email).