

The Effect of Modes of Acquisition and Retention Strategies on Customer Profitability

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Abstract

An important aspect of customer relationship marketing (CRM) is the need to acquire and retain profitable customers. Managers need to understand the relative effectiveness of different modes of acquisition, and loyalty programs. Very few studies have focused on the profitability of customers based on the methods used to acquire them and retain them. We answer these questions using a proprietary data set from the credit card industry. Prior studies have tested for differences in profit between modes of acquisition and retention by treating these variables as exogenous. Since customers choose the mode of acquisition and retention, this omission could lead to bias in the estimates. We develop a model to incorporate the endogeneity of modes of acquisition and retention and highlight the reduction in bias. We find that internet and direct mail generate more profitable customers than telemarketing and direct selling. We then examine the role of two popular customer retention strategies, namely, reward cards and affinity cards in driving customer profitability. Surprisingly, we find that customers with reward cards and/or affinity cards are less profitable than those customers without access to these retention strategies. We provide possible explanations for these findings. Our work adds to the growing literature in CRM and our results have important managerial implications for resource allocation among acquisition and retention strategies.