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Beyond the retention—acquisition trade-off: Capabilities of ambidextrous sales organizations

Edwin J. Nijssen [a], Paolo Guenzi [b], Michel van der Borgh [a,*]

[a] Eindhoven University of Technology, Department of Industrial Engineering & Innovation Sciences, P.O. Box 513, 5600 MB Eindhoven, The Netherlands
[b] Università Commerciale Luigi Bocconi and SDA Bocconi School of Management, Via Roentgen 1, 20136 Milano, Italy

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ABSTRACT

Sales organizations aim to grow their firms' business by acquiring new customers while retaining their existing ones. Although customer acquisition and retention are complementary processes, they involve different sales process capabilities that often compete for investments. However, firms that succeed in effectively combining these capabilities are "ambidextrous" and will enjoy superior growth and profits. Although developing ambidexterity is a fundamental sales management task, it has received little attention in research. Based on the Motivation-Opportunity-Ability framework we identify a set of organizational sales capabilities that can help sales organizations' joint management of acquisition and retention capabilities, and explain their influence drawing on Job Demands-Resources (JD-R) theory. Survey and time-lagged archival performance data from 174 firms provide an empirical test of the conceptual model and hypotheses developed. Results confirm that incentive management, cross functional cooperation, and the interaction of cross functional cooperation and sales training capabilities are positively correlated with sales organization ambidexterity. In addition, we find a positive correlation of customer prioritization on ambidextrous selling. Results confirm that firms with high levels and aligned acquisition and retention capabilities enjoy superior organic growth. However, contrary to expectation, increases in profit growth are only accomplished if acquisition capabilities are high.

Many firms aim to grow their business by acquiring new and retaining existing business customers, but struggle with the trade-offs involved (AchieveGlobal, 2011; Arnold, Fang, & Palmatier, 2011; Hancock, Hatami, & Rayan, 2011). Most of the literature on customer relationship management has focused on how to use database-driven analytics to optimize customer acquisition and retention strategies, thus overlooking the important role of sales organization in achieving this goal (e.g., Johnson & Friend, 2015). Although acquisition and retention are complementary sales goals, they involve conflicting sales tactics and often compete for investments (Birkinshaw & Gibson, 2004; March, 1991). Therefore, sales managers need to understand how to develop, integrate, and deploy sales capabilities that can help their sales organizations become *ambidextrous* (Carter, Henderson, Arroniz, & Palmatier, 2014).

The need for sales organizations to be excellent in both acquiring new customers ("hunting") and retaining and growing business with existing customers ("farming"), is well acknowledged by sales blogs (e.g., Ruff, 2012; Vinogradov, 2013), consulting firms (e.g., Ledingham, Kovac, Heric, & Montaville, 2013), and the popular press. Management articles on the topic describe how firms accomplished this challenge through specific interventions: for example, following its changes in strategic priorities over time, HubSpot modified its incentive system for the sales team from an acquisition plan to a retention plan to a final "sustainable growth" plan (mainly based on advance-payment terms for new customers) which helped the company quickly grow its business to $100 million in annual revenue and acquire >10,000 customers in 60 countries (Roberge, 2015).

Despite the relevance of the topic for practitioners, the subject only recently has received academic attention. Research to date has used one of three approaches (see e.g., Carter et al., 2014 for an overview): the *customer value approach*, the *portfolio value approach*, and the *sales-capabilities approach*. The first stream has focused on enhancing firms' customer equity (e.g., Blattberg & Deighton, 1996; Reinartz, Thomas, & Kumar, 2005) by evaluating individual customers for their contribution to the firm's bottom line to enhance firm growth and profits. The work has focused on the effectiveness of marketing efforts and developed smart algorithms to optimize decisions, but has completely ignored organizational requirements for accomplishing an ambidextrous sales strategy (Carter et al., 2014). The second, approach (e.g., Gupta, Lehmann, & Ames Stuart, 2004, Johnson & Selnes, 2004, Voss & Giraud Voss, 2008) claims that effective allocation of sales

* Corresponding author.
E-mail addresses: e.j.nijssen@tue.nl (E.J. Nijssen), paolo.guenzi@sdabocconi.it (P. Guenzi), W.v.d.Borgh@tue.nl (M. van der Borgh).

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resources must take into account portfolio characteristics to maximize firm performance. However, largely biased towards managing existing customers and their different relational needs, this work excludes the actual trade-off between acquisition and retention decisions (Homburg, Steiner, & Totzek, 2009). Third, the emerging sales-capabilities stream aims to unravel how salespeople can combine both strategies effectively (e.g., DeCarlo & Lam, 2015; Jasmand, Blazevic, & de Ruyter, 2012). Although it acknowledges the importance of sales capabilities and the acquisition–retention trade-off, it focuses almost exclusively on the individual level. One notable exception is the recent exploratory work by Cron, Marshall, Singh, Spiro, and Sujan (2005) that focused on firms' sales force.

In contrast to many previous studies, Cron et al. (2005) identified new customer acquisition and customer retention as two key *sales process (or customer-oriented) capabilities*, and distinguished them from *organizational sales capabilities* such as compensation systems, supervision, and support. Consistent with Cron et al. (2005), we differentiate between these two types of capabilities and interpret sales ambidexterity as firms with strong acquisition and strong retention capabilities. Capabilities refer to resources, specifically knowledge, skills, and related routines, which are exploited in business processes (Ray, Barney, & Muhanna, 2004; Vorhies & Morgan, 2005) and constitute a firm's unique ability to create and deliver superior customer value (Day, 1994). While the manifestations of capabilities are observable to rivals (Bingham, Eisenhardt, & Furr, 2007; Ethiraj, Kale, Krishnan, & Singh, 2005) capabilities themselves are unique and hard to imitate. Consequently, managers spend much time identifying and developing capabilities to enhance their sales organizations' competitiveness.

The aim of this study is to examine how organizational sales capabilities can help a sales organization simultaneously manage its acquisition and retention process capabilities, and thus be ambidextrous. We expect that ambidextrous firms will enjoy growth of current and new customers and thus will show superior firm performance.

Our research contributes to the sales literature in three important ways. First, we extend the acquisition–retention literature by linking it to Job Demands-Resources (JD-R) theory (Bakker & Demerouti, 2007). JD-R theory posits that challenging tasks imply high job demands, which require matching resources to allow people and organizations to accomplish their tasks objectives successfully. We use JD-R as an overarching concept to explain why the dual goals involved can be tackled using superior capabilities. Drawing on the Motivation-Opportunity-Ability (MOA) framework (Blumberg & Pringle, 1982) we then identify a set of relevant organizational sales capabilities that enable a firm to engage in simultaneous development of retention and acquisition capabilities and related processes. Having been used in sales contexts to predict strategy implementation success in key processes like new product launch (Johnson & Sohi, 2016; Wu, Balasubramanian, & Mahajan, 2004), adoption of innovations (Sääksjärvi & Samiee, 2011), cross-selling (Schmitz, 2013), and the impact of cross selling and upselling on performance (Johnson & Friend, 2015), MOA is a useful model for identifying relevant capabilities that can help organizations deal with challenging tasks. By focusing on ambidexterity and capabilities, we respond to a recent call made by Avlonitis and Panagopoulos (2010, p. 1046) "to explore the type of selling capabilities or sales management activities needed for pursuing organic growth strategies."

Second, we extend the role of cross-functional cooperation in capability exploitation towards sales. The competitive advantage that a firm's capabilities bestow depends largely on the efficiency with which they are integrated (Atuahene-Gima, 2005; Grant, 1996). By developing cross-functional cooperation capabilities, management reduces interdepartmental conflict and helps its salespeople to effectively muster support and resources in their organizations. This will make it easier for the sales organization to accomplish complex jobs such as ambidextrous selling. Although much is known about cross-functional cooperation, marketing, and innovation (e.g., Atuahene-Gima, 2005) few studies have addressed its impact on the effectiveness of sales organizations (for an exception see e.g., Ernst, Hoyer, & Rübsaamen, 2010).

Third, we empirically test our model of the combined effect of acquisition and retention on firm performance using a response surface methodology (Edwards, 1995). Specifically, our model considers sales growth and change in profitability as a function of a firm's level of alignment or misalignment between these two capabilities and processes. In the ambidexterity literature there is a longstanding debate (e.g., Atuahene-Gima, 2005; He & Wong, 2004) between those that claim superior performance is achieved only if a company *excels at both* exploiting and exploring, while others claim that highest performance is achieved as long as both capabilities and processes are *balanced*, i.e. are at similar levels (e.g., medium-medium). We test these alternative views.

We begin by outlining the theoretical background of our study. Next, we present our framework and hypotheses. It is followed by the methodology and a discussion of results. We close with a discussion and implications for managers and future research.

1. Theoretical background

1.1. Ambidexterity: joint acquisition and retention

Retention capabilities enable a sales force to build and maintain existing customer relationships with the purpose to increase "share of wallet" by for instance, closing more deals through up- and cross-selling at a profitable margin. These capabilities are akin to exploitation of current assets, in particular the firm's ability to refine and increase sales to its current customer base while optimizing procedures. In contrast, acquisition capabilities are similar to exploration or the ability to search, discover, and take risk, with a focus on flexibility and variability (Levinthal & March, 1993; March, 1991). It refers to capabilities of generating attractive new leads and converting them into sales.

These two capabilities and their processes are disparate and non-substitutable, so companies need to complement one with the other (Gibson & Birkinshaw, 2004; Levinthal & March, 1993). In order to sustain steady growth firms must find the optimal balance between spending resources to develop their retention and acquisition capabilities (compare Birkinshaw & Gibson, 2004 and Hancock et al., 2011) and thus become ambidextrous. This is particularly true for established firms. While during the early stages of development nascent firms will need to ramp up sales and cash flow by focusing on customer acquisition, at later stages a more balanced approach will be more beneficial. By balancing retention and acquisition a more gradual and profitable extension can be accomplished (Blattberg & Deighton, 1996). Unfortunately, relatively little research has traditionally been devoted to how organizations achieve such organizational ambidexterity (Adler, Goldoftas, & Levine, 1999; Siggelkow & Levinthal, 2003). More specifically, whereas structural solutions to ambidexterity (e.g. the creation of different organizational units) have been investigated quite extensively, far less developed is the study of contextual solutions that allow the two goals to be pursued in the same organization. Gibson and Birkinshaw (2004) found empirical evidence that it is possible to achieve ambidexterity through contextual support and that this does relate positively to performance.

Rust, Moorman, and Dickson (2002) and Mittal, Anderson, Sayrak, and Tadikamalla (2005) note that such a *dual approach* is difficult to achieve and causes tension because the two emphases reflect different organizational philosophies, tactics, and compete for resources. The degree a firm is able to develop the two sales process capabilities simultaneously will depend on the quality of the more generic organizational capabilities of its sales organization.

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