

# For New Customers Only: A Study on the Effect of Acquisition Campaigns on a Service Company's Existing Customers' CLV<sup>☆</sup>

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## Abstract

This study examines the effect of attractively priced acquisition campaigns on retention intention, and subsequently CLV, of existing customers. The main finding is that customers who are aware of the acquisition campaigns both have a significantly higher intention to stay and do actually stay longer than do customers who are unaware of these campaigns. However, since CLV is not only influenced by retention intention but also by revenues and costs, it is found that aware customers do not have a significantly different CLV than do unaware customers. The inclusion of attractiveness of the offer as an additional explanatory variable results in a positive effect of campaign attractiveness on retention intention, i.e. if the customer thinks the acquisition campaign is attractive, the retention intention will be higher. However, the effect that is found for intention cannot be directly translated in actual behavior.

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## Introduction

Customers frequently encounter promotional deals. In some of these deals, discounts and expensive presents are offered; the only requirement to get those is to become a customer of the promoting company. These deals are nice if one is not a customer of the company yet, but for customers that already have an established

relationship with a firm, these deals may have a counterproductive effect and lead to dissatisfaction or negative word-of-mouth (e.g., [Infonu.nl 2008](#); [Novo 2005](#); [O'Sullivan 2009](#)).

Prior research in customer management has focused on the relation between new and existing customers as well. Two main streams of research can be identified: literature that focuses on the allocation of marketing resources (e.g., [Blattberg and Deighton 1996](#)); and literature that focuses on the effect of marketing strategies on the (future) value of new customers (e.g., [Gupta, Lehmann, and Stuart 2004](#); [Gupta and Zeithaml 2006](#)). A short overview of each stream will be discussed below.

Several studies have identified the need for firms to balance their marketing expenditures between acquisition and retention in order to maximize customer equity (e.g., [Berger and Nasr-Bechwati 2001](#)). In these studies, acquisition and retention activities are merely correlated by budget constraints. [Reinartz, Thomas, and Kumar \(2005\)](#) present a modeling framework for balancing resources between customer acquisition efforts and customer retention efforts, thereby simultaneously considering acquisition spending, retention spending, and customer profitability. In a framework that enables competing

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marketing strategy options to be traded off on the basis of projected financial return, Rust, Lemon, and Zeithaml (2004) operationalize the change in a firm's customer equity relative to the incremental expenditure necessary to produce the change. This approach considers the expected lifetime value of both existing customers and prospective customers, thereby incorporating acquisition and retention in the same model.

Another stream of research links retention to acquisition by examining the effect of specific acquisition strategies on future retention of the acquired customers (e.g. Thomas 2001). In order to boost short-term indicators of positive business performance, firms sometimes use short term aggressive sales efforts (e.g., Gupta and Lehmann 2003). Although these efforts may result in increased customer acquisition numbers, the quality of acquired customers is questionable (e.g., Villanueva, Yoo, and Hanssens 2008). Especially, the use of price promotions to acquire new customers results in switch-prone, disloyal customers (e.g., Lewis 2006; Musalem and Joshi 2009). Apart from price, other effects of acquisition strategies, such as the effect of acquisition channels on future value, have been studied as well (e.g., Verhoef and Donkers 2005).

To summarize, acquisition and retention activities cannot be viewed as separate entities, but appear to be related. Prior studies have linked acquisition to retention either cross-sectionally, by distributing resources over these two stages in relationship marketing at one point in time; or with a longitudinal view, by examining the future value of prospective customers after these same customers have been acquired. Sirohi, McLaughlin, and Wittink (1998) find evidence to suggest tension in carrying out both retention and acquisition strategies, and pose that a balance between these activities is needed so that efforts to acquire customers do not undermine retention. In addition, Schweidel, Fader, and Bradlow (2008) emphasize that models must be developed to determine what aspects of behavior are impacted by marketing activities. While some marketing activities may affect acquisition or retention rates (or both), they may also affect the relationship between the two processes. However, to the best of our knowledge, no studies exist that examine the effect of acquisition campaigns on consumers who are current customers of the company that introduces the campaign. Even though acquisition campaigns are not aimed at existing customers, these customers may be aware of the existence of acquisition campaigns and their behavior may be influenced by this mere fact (Novo 2005). In this study we aim to fill in this research gap. The objectives of this article are threefold:

1. To investigate the effect of awareness of attractively priced acquisition campaigns on retention intention.
2. To identify other explanatory variables which affect the relationship between awareness and retention intention.
3. To calculate the Customer Lifetime Value (CLV) consequences of existing customers being aware of attractively priced acquisition campaigns.

Beyond that we also explore the effect of customer complaints that result from the campaign. In our specific setting, complaining

customers receive the same deal as the one promised to new customers in the acquisition campaign. This may possibly induce a stronger customer loyalty.

We empirically test our model in the Dutch energy market in cooperation with one of the larger players in this industry. Investigating the possible effects of attractively priced acquisition campaigns on the CLV of existing customers will provide managers of the focal company with a comprehensive image of the total effects of acquisition propositions. In the assessment of acquisition campaigns, the effects on existing customers may easily be overlooked, possibly leading to an incorrect estimation of the success of the respective acquisition campaign. Knowing how the value of existing customers will be influenced by the introduction of acquisition campaigns allows managers to assess whether or not to launch the acquisition campaign and to take appropriate countermeasures if campaigns are introduced.

The remainder of this paper is organized as follows. First, we will present our conceptual framework and theory. Then we test our framework with an application in the Dutch energy market. After examining the relationship between awareness and retention (intentions), we quantify existing customers' CLV changes due to acquisition campaigns.

## Conceptual Framework

This section describes a framework for examining the effect of the introduction of attractively priced acquisition campaigns on the CLV of existing customers. Our framework consists of two parts: in the first part we examine the effect of acquisition campaigns on existing customers' retention intention (block A in Fig. 1); in the second part we assess the effect of changed retention intention on CLV (block B in Fig. 1). Note that all effects described below are conditional on awareness, that is, customers have to be (to some extent) aware of the campaign in order for us to be able to gauge the effects of the variables in the conceptual framework.

As can be seen in block A of Fig. 1, we assert that in order to be influenced by a campaign, being aware of this campaign is a prerequisite. If existing customers are aware, it is expected that – after correcting for differences in customer characteristics – their awareness influences their intention to remain a customer at the focal company. In the subsection “the influence of awareness on retention” hypotheses are developed on the relationship between awareness and retention. Apart from the direct effect of awareness on retention intention, we also expect to find effects of well-handled complaints and attractiveness of the offer. If customers' complaints about non-customers getting the offer are handled well, this may influence their intention to stay. Similarly, retention intention may be different for customers who think the campaign shows an attractive offer than for customers who find the offer unattractive.

Block B in Fig. 1 shows that CLV is influenced by retention intention, customer characteristics (usage and product possession) and service recovery. Since in our case we assume that the company will compensate customers who take the effort of

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