BUDGET ALLOCATION FOR CUSTOMER ACQUISITION AND RETENTION TO BALANCE MARKET SHARE GROWTH AND CUSTOMER PROFITABILITY

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ABSTRACT

Blattberg and Deighton (1996) used a decision-calculus approach to construct a simple model, the BD Model, which helps managers find the optimal balance between spending on acquisition and retention to maximize the customer equity. However, little explicit research has simultaneously addressed the question of dividing spending between acquisition and retention and balancing the objectives of short-term market share growth and long-term customer equity. In response, this study develops a model and methodology to analyze the relationship between optimal spending budget and short-term objective of market share growth with the long-term objective of customer profitability. The current study developed a segment-based market share model (SBMS) to describe how allocating a budget to two programs, to meet customer retention costs and customer acquisition costs, affects the size of customer segments of three representative types, namely inertia, potential switcher, and newly acquired, resulting in market share growth. This work then combined the SBMS and the Blattberg and Deighton (BD) model to devise a method for conducting nonlinear programming and sensitivity analysis with a spreadsheet to balance the short-term objective of market share growth and the long-term objective of customer equity (CE) to arrive at the optimal spending allocation for customer acquisition and retention. We then manipulated the differential unit cost of the marginal effect for customer acquisition and retention and the size of the inertia segment on the focal brand to explore the allocation effect on the two objectives.

References available upon request