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Customer Acquisition and Retention Spending: An Analytical Model and Empirical Investigation in Wireless Telecommunications Markets

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ABSTRACT

Strategic resource allocation in growth markets is always a challenging task. This is especially the case when it comes to determining the level of investments and expenditures for customer acquisition and retention in competitive and dynamic market environments. This study develops an analytical model to examine firms' investments in customer acquisition and retention for a new service and it develops hypotheses based on analytical findings and tests them with firm-level operating data of wireless telecommunications markets from forty-one countries during 1999 to 2007. The empirical investigation shows that a firm's acquisition cost per customer is more sensitive to market position and competition than retention cost per customer. Furthermore, whereas firms leading in market share, on average, do not have a cost advantage over other firms in retaining customers, they have a substantial cost advantage in acquiring customers and this advantage tends to increase with market penetration. The study results provide guidelines for firms' strategic resource allocation for customer acquisition and retention in competitive service markets.