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Extending the Customer Lifecycle: Optimal Resource Allocation Throughout the Customer Journey

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Abstract

In customer relationship management, the customer lifecycle traditionally consists of customer acquisition, customer retention, and customer churn. The link between customer acquisition, customer retention, and firm profitability has been explored in depth, insofar as churn reduction has become one of the top priorities for firms. However, despite the best retention efforts, some customers still churn, and recent developments show that customer reacquisition can lead to a profitable second lifetime. However, in empirical research this profitable “post-churn” relationship with the customer has only been studied independently, and is yet to be connected to the remainder of the lifecycle. This study offers a comprehensive framework for the extended customer lifecycle, modeling a customer’s entire relationship with the firm: from the initial contact with prospects, through acquisition, retention, churn, and subsequent reacquisition(s) and lifetime(s). To this end, we develop a multivariate duration model jointly estimating the length of all stages of the customer lifecycle using individual-level subscription data. We also examine the customer value over subsequent lifetimes to compare acquisition and reacquisition efforts in terms of both feasibility and costs. The contributions of this paper are manifold. First, it incorporates customers’ “post-churn” relationship with the firm to the existing and dominant customer lifecycle framework. Second, it accounts for the duration dependence between customers’ successive inactivity and activity periods. Finally, it tracks customer value in different stages of the lifecycle, as well as profitability of the entire relationship, which has substantive implications for optimal resource allocation decisions.