

Chapter 8

Managing the customer lifecycle: customer acquisition

Chapter objectives

By the end of this chapter, you will understand:

- 1. the meaning of the terms ‘customer lifecycle’ and ‘new customer’**
- 2. the strategies that can be used to recruit new customers**
- 3. how companies can decide which potential customers to target**
- 4. how to communicate with potential customers**
- 5. what offers can be made to attract new customers.**

Introduction

Over this and the next chapter you will be introduced to the idea of a customer lifecycle and its management. The core customer lifecycle management processes are the customer acquisition, customer development and customer retention processes. These three processes determine how companies identify and acquire new customers, grow their value to the business and retain them for the long term. We also review the key metrics or key performance indicators (KPIs) which companies can use to assess their customer lifecycle performance. We examine customer development and retention processes in the next chapter.

In this chapter you will learn about the important issue of customer acquisition, the first stage of the customer lifecycle. New customers have to be acquired to build companies. Even in well-managed companies there can be a significant level of customer attrition. These lost customers need to be replaced. We look at several important matters for CRM practitioners: which potential new customers to target, how to approach them and what to offer them.

Customer lifecycles are presented in different ways by different authorities, but basically they all attempt to do the same thing. They attempt to depict the development of a customer relationship over time. Because we are taking a management view of customer relationships, we have collapsed the customer lifecycle into three major management activities:

- acquiring new customers
- retaining existing customers
- developing customer value.

The first task in managing the customer lifecycle is to acquire customers. Customer retention is a pointless exercise if there are no customers to retain. Customer acquisition is always the most important goal during new product launches and with new business start-ups. For small businesses with ambitions to grow, customer acquisition is often as important as customer retention. A one-customer company, such as

BICC, which supplies copper cable to a single customer, British Telecom (BT), can double its customer base by acquiring one more customer. On the other hand, the loss of that single customer could spell bankruptcy.

Even with well-developed and implemented customer retention plans, customers still need replacing, sometimes at a rate of 25 per cent or more a year. In a B2C context, customers may shift out of a targeted demographic as they age and progress through the family lifecycle; their personal circumstances may change and they may no longer need or find value in your product; they may even die. In a B2B context, you may lose corporate customers because they have been acquired by another company with established buying practices and supplier preferences; they may have stopped producing the goods and services for which your company provided input; they may have ceased trading. Customers lost to these uncontrollable causes indicate that customer acquisition will always be needed to replace natural attrition.

Several important questions have to be answered when a company puts together a customer acquisition plan. These questions concern targets, channels and offers:

1. Which prospects (potential new customers) will be targeted?
2. How will these prospects be approached?
3. What offer will be made?

These issues need to be carefully considered and programmed into a properly resourced customer acquisition plan. Most marketing plans do not distinguish between customer acquisition and customer retention. They are not separately funded or plotted strategies. We recommend that companies think about these as separate but related issues, and develop appropriate strategies.

What is a new customer?

A customer can be new in one of two senses:

1. new to the product category
2. new to the company.

New-to-category

New-to-category customers are customers who have either identified a new need or have found a new category of solution for an existing need. Consider the B2C context. When a couple has their first child they have a completely new set of needs connected to the growth and nurturing of their child. This includes baby clothes, food and toys, for example. As the child grows, the parents are faced with additional new-to-category decisions, such as preschool and elementary education. Sometimes, customers also become new-to-category because they find a new category to replace an existing solution. Mobile phones have

now significantly replaced card or cash-operated pay-phones in many countries. Environmentally friendlier detergents and diapers are growing their share of market, as customers switch from current products.

Sometimes, customers beat marketers to the punch by adopting established products for new uses. Marketers then catch on and begin to promote the new use. Arm and Hammer baking soda was used by customers to deodorize fridges and rubbish bins, and as a mild abrasive for whitening teeth. The manufacturer, Church and Dwight, responded to this revelation and began promoting a variety of different applications. It is now an ingredient in toothpaste. Their website, www.armhammer.com, provides visitors with many other tips for baking soda applications including cleaning, deodorizing, personal care and baking. The website encourages visitors to write in describing novel applications for the product. Automobile manufacturers noticed that many utility vehicles were not being bought by tradesmen, but as fun vehicles for weekend use. They began promoting this use, while at the same time trying to innovate in product design to meet the requirements of that market segment. The result has been the emergence of a completely new market segment: the market for sports utility vehicles (SUVs). Several websites serve this market, for example, www.suvoa.com, the site for Sports Utility Vehicle Owners of America.

The same distinction between new needs and new solutions also exists in the B2B marketplace. A customer can be new-to-category if they begin an activity that requires resources that are new to the business. For example, when McDonald's entered the coffee shop market, they needed to develop a new set of supplier relationships. New-to-category customers may also be customers who find a new solution for an existing problem. For example, some clothing manufacturers now use computer-operated sewing machines to perform tasks that were previously performed by skilled labour using traditional sewing machines.

New-to-company

The second category of new customers is customers that are new to the company. New-to-company customers are won from competitors. They might switch to your company because they feel you offer a better solution or because they value variety. Generally, new-to-company customers are the only option for growing customer numbers in mature markets where there are very few new-to-category customers. In developed economies, new players in grocery retail can only succeed by winning customers from established operators. They would not expect to convert those customers completely, but to win a share of their spending by offering better value in one or more important categories. Once the customer is in-store, the retailer will use merchandising techniques such as point-of-sale signs and displays to increase spending.

New-to-category customers may or may not be expensive to recruit. For example, when children leave home for university banks compete vigorously for their patronage. They advertise heavily in mass media, communicate direct to students, offer free gifts and low or zero-cost banking for the duration of the studentship. On the other hand,

supermarket retailers incur no direct costs in attracting these same students to their local stores.

New-to-company customers can be very expensive to acquire, particularly if they are strongly committed to their current supplier. Commitment is reflected in a strong positive attitude to, or high levels of investment in, the current supplier. These both represent high switching costs. A powerful commitment to a current supplier can be difficult, and often too expensive, to break. High potential value customers are not always the most attractive prospects, because of this commitment and investment. A lower value customer with a weaker commitment to the current supplier may be a better prospect.

Portfolio purchasing

New customers can be difficult to identify in markets where customers exhibit portfolio purchasing behaviours. Customers buy on a portfolio basis when they buy from a choice set of several more or less equivalent alternatives. A customer who has not bought from one of the portfolio suppliers for a matter of months, or even years, may still regard the unchosen supplier as part of the portfolio. The supplier, on the other hand, may have a business rule that says: 'If a customer has not bought for three months, mail out a special offer'. In the UK many grocery customers shop at both Tesco and Sainsbury's. These retailers do not simply compete to acquire and retain customers. Instead they compete for a larger share of the customer's spending, that is, to grow share of wallet (SOW).

Strategic switching

You may encounter evidence of strategic switching by customers. These are customers who shift their allegiances from one supplier to another in pursuit of a better deal. Banks know that their promotional pricing stimulates hot money. This is money that is moved from account to account across the banking industry in search of a better rate of interest. Sometimes the money may only be in an account overnight.

MCI, the telecoms company, discovered that about 70 per cent of customers newly acquired from competitors stayed for four months or less. These customers had been acquired when MCI mailed a cheque valued at \$25, \$75 or more to competitors' customers. When the cheque was banked, this automatically triggered the transfer of service to MCI. A few months later these customers again switched suppliers when another deal was offered and the cheque was already cashed. MCI fixed the problem by adjusting the promotion. Instead of mailing an immediately cashable cheque, its promotion was relaunched as a 'staged rebate' promotion. The accounts of new customers who stayed for three, nine and 13 months were credited with sums equivalent to the cheque value that would previously have been sent.¹

Sometimes, a customer may have been regained a second or further time as a new customer. For example, if the new parents mentioned previously were to have a second child after four years, they would most likely have been removed from mother and baby databases. A new customer record

would have to be created. The customer would need to be targeted afresh. In portfolio markets, a customer who has not purchased in quarter 1 may be treated as a new customer for promotional purposes in quarter 2, as the company attempts to reactivate the customer.

Customer value estimates

Companies must choose which of several potential customers or customer segments to target for acquisition. Not all prospects have similar potential. The final choice will depend on a number of considerations.

1. What is the estimated value of the customer? This depends on the margins earned from the customer's purchases over a given time period.
2. If that customer switches from his current supplier(s), what proportion of category spending will your company earn?
3. What is the probability that the customer will switch from current supplier(s)?

Imagine a competitor's customer who will spend \$5000, \$6000, \$7000 and \$8000 with that supplier over the next four years at gross margins of 40 per cent. Without discounting those future margins, the customer is worth \$10400 (\$2000 + \$2400 + \$2800 + \$3200). Let's assume that your intelligence, based on customer satisfaction and loyalty scores, suggests that you have a 40 per cent chance of converting the customer and that, once converted, you will win a 50 per cent share of the customer's available spending in that category.

The value of this customer can now be computed as follows: gross margins, multiplied by share of the customer's spending, multiplied by the probability of winning the customer's business. Using the numbers above, this customer is worth $\$10\,400 \times 0.50 \times 0.40$ or \$2080. The question now becomes: can you recruit this customer and maintain a relationship over the next four years for less than \$2080? If you can, then the customer will make a net contribution to your business. This simple algorithm allows you to compare different customer acquisition opportunities. Other things being equal, a customer that shows a higher potential contribution is a better prospect. The approach can be adjusted customer by customer and can take account of a number of additional factors such as: discounting future margins, producing differently costed approaches to customer acquisition, re-estimating future margins to take account of cross-selling opportunities, and estimating the annualized costs of customer retention.

The Conversion Model™

Jan Hofmeyr has developed the Conversion Model™. This contains a battery of questions designed to assess whether or not a customer is likely to switch. His basic premise is that customers who are not committed are

more likely to be available to switch to another provider. Commitment, in turn, is a function of satisfaction with the brand or offer, attractiveness of the alternatives and involvement in the brand or offer. Involvement is low if the product or its usage context is relatively unimportant to customers. The Conversion Model™ allows customers to be segmented into four subsets according to their level of commitment: entrenched, average, shallow or convertible. There are two clusters of committed customers and two of uncommitted customers:

- **committed customers**
 - **entrenched** customers are unlikely to switch in the foreseeable future
 - **average** customers are unlikely to change in the short term, but may switch in the medium term.
- **uncommitted customers**
 - **shallow** customers have a lower commitment than average, and some of them are already considering alternatives
 - **convertible** customers are most likely to defect.

Hofmeyr suggest that companies can measure customer commitment by asking just four questions:

1. How happy are you with (whatever it is)?
2. Is this relationship something that you care about?
3. Is there any other (whatever it is) that appeals to you?
4. If so, how different is the one (whatever) from the other?

Non-customers are also segmented according to commitment scores into four availability subsets: available, ambivalent, weakly unavailable and strongly unavailable. There are two clusters that are open and two that are unavailable:

- **open non-customers**
 - **available** non-customers prefer the alternative to their current offer though they have not yet switched, and are ready to switch
 - **ambivalent** non-customers are as attracted to the alternative as they are to their current brand.
- **unavailable non-customers**
 - **weakly unavailable** non-customers prefer their current brands
 - **strongly unavailable** non-customers have a strong preference for their current brands.

Hofmeyr claims that these profiles can be used to guide both acquisition and retention strategies.² He suggests that where the number of open non-customers is greater than the number of uncommitted customers, companies should focus strongly on customer acquisition.

Companies need to nurture their relationships with committed customers, reassuring them that their decision is wise, and find ways to enrich and enhance their customers' experience. The strategy for uncommitted customers is to investigate why there is a low level of

commitment and address the causes. Maybe it is a low-involvement category, or maybe customers are dissatisfied with their experience. Whether companies should appeal to open non-customers depends upon the value they can generate. Finally there are many potential reasons why some market segments are composed of unavailable non-customers. They may have tried your offer, and didn't find it satisfying, they may be committed to their current brand or supplier, they may be aware of your offer but find it unappealing, or they may simply be unaware of your offer. You might be able to fix this last problem with advertising or other forms of customer communication, shifting these non-customers from the unavailable cluster to the open cluster. Customer experience research might reveal what customers do not like about your offer or doing business with you, and give you some clues about how to make their experience more satisfying.

A core principle of CRM is that market or customer-related data is used to target acquisition efforts accurately. By contrast, poorly targeted acquisition efforts waste marketing budget and may alienate more prospects than they gain through irrelevant or inappropriate messaging. We now turn to the practice of new customer prospecting.

Prospecting

Prospecting is, of course, a mining term. In that context it means searching an area thought likely to yield a valuable mineral deposit. In CRM, it means searching for opportunities that might generate additional value for the company.

Prospecting is an outcome of the segmenting and targeting process described in Chapter 5. Prospects are endproducts of that process. Segmentation divides a heterogeneous market into homogenous subsets, even down to the level of the unique customer. Targeting is the process of choosing which market segments, clusters or individuals, to approach with an offer. In Chapter 5, we identified several characteristics of the strategically significant customer that companies would find most attractive in a prospect. We'll now look at prospecting from the business-to-business perspective.

Business-to-business prospecting

In the B2B environment it is very often the task of marketers to generate leads for the salesperson to follow up. Leads are individuals or companies that might be worth approaching. The lead then needs to be qualified. The qualification process submits all leads to a series of questions, such as:

- Does the lead have a need for my company's products?
- Does the lead have the ability to pay?
- Is the lead authorized to buy?

If the answers are yes, yes and yes, the lead becomes a genuine prospect. Ability to pay covers both cash and credit. The ability to pay of prospective customers can be assessed by subscribing to credit rating services, such as Dun & Bradstreet or Standard & Poor's. Being a well-known name is no guarantee that a prospect is credit-worthy, as suppliers to Enron Corporation found out. Enron was one of the world's leading energy companies, employing 21 000 people, before it became bankrupt in 2001. Authority to buy may be invested in a named individual, a decision-making unit composed of a group of employees, a group composed of internal employees and external advisor(s) or, in some rare cases, an external individual or group. Andersen Consulting (now Accenture) was appointed by Chrysler to act as systems integrator for a new robotics system. Recommendations were developed by Andersen employees only, but Chrysler retained the power to veto any choice.

Once leads are qualified, companies need to decide the best channels for initiating contact. A distinction can be made between direct to customer (DTC) channels, such as salespeople, direct mail, e-mail and telemarketing, and channels that are indirect, either because they use partners or other intermediaries or because they use bought time and space in media. The improved quality of databases has meant that direct channels allow access to specific named leads in target businesses.

Sources of B2B leads

Leads come from a variety of sources. In a B2B context this includes the sources identified in Figure 8.1. Many companies are turning to satisfied customers who may be willing to generate personal referrals. Customer-related data enables many companies to identify which customers are very satisfied. These special customers can then be proactively approached for a referral. They may be prepared to write a letter or e-mail of introduction, provide a testimonial or receive a call to verify the credentials of a salesperson.

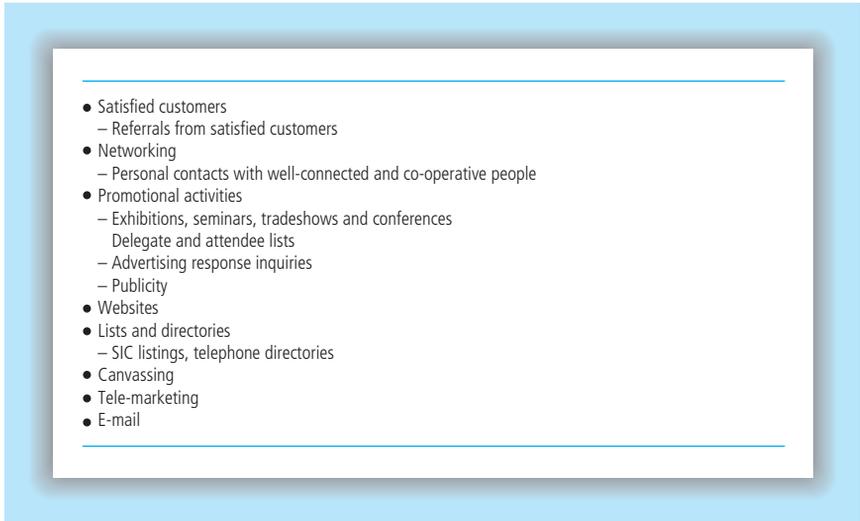
- 
- Satisfied customers
 - Referrals from satisfied customers
 - Networking
 - Personal contacts with well-connected and co-operative people
 - Promotional activities
 - Exhibitions, seminars, tradeshow and conferences
 - Delegate and attendee lists
 - Advertising response inquiries
 - Publicity
 - Websites
 - Lists and directories
 - SIC listings, telephone directories
 - Canvassing
 - Tele-marketing
 - E-mail

Figure 8.1
Sources of business-to-business leads

Networking can be defined as follows:

Networking is the process of establishing and maintaining business-related personal relationships.

A network might include members of a business association, friends from university or professional colleagues in other companies. In some countries it is essential to build and maintain personal networks. In China, for example, the practice of *guanxi*, covered in Chapter 2, means that it is well nigh impossible to do business without some personal connections already in place.

Referral networks are common in professional services. Accountants, banks, lawyers, auditors, tax consultants, estate agents will join together into a referral network in which they undertake to refer clients to other members of the network.

Promotional activities can also generate useful leads. Exhibitions, seminars, trade shows and conferences can be productive sources. Companies that pay to participate in these events may either be able to obtain privileged access to delegate and attendee lists, or to generate lists of their own, such as a list of visitors to their own stand at a trade show.

B2B marketers generally do little advertising, even though this can generate leads. B2B advertising is generally placed in highly-targeted specialist media such as trade magazines.

An important activity for some B2B companies is publicity. Publicity is an outcome of public relations (PR) activity. Publicity can be defined as follows:

Publicity is the generation of free editorial content relevant to a company's interests.

Successful PR can generate publicity for your product or company in appropriate media. This coverage, unlike advertising, is unpaid. Though unpaid, publicity does create costs. Someone has to be paid to write the story and submit it to the media. Many magazines, trade papers and online communities are run on a shoestring. They employ very few staff and rely heavily on stories submitted by companies and their PR staff to generate editorial matter. Editors are looking for newsworthy items, such as stories about product innovation, original customer applications or human-interest stories about inventors and entrepreneurs. Editorial staff generally will edit copy to eliminate deceptive or brazen claims.

Prospecting on the Internet

Company websites can also be fruitful sources of new customers. Anyone with access to the Internet is a prospective customer. The Internet enables potential customers to search globally for products and suppliers. To be effective in new customer generation, websites must take into account the way prospects search for information. There are four main ways:³

1. keying in a page's URL
2. using search engines

3. exploring directories, web catalogues or portals
4. surfing.

A URL is a website address. URL stands for uniform (or universal) resource locator. By typing it into a web browser's address window, you move straight to the website. Even if you didn't know IBM's URL you could reasonably guess that it is www.ibm.com. URLs can be saved as favourites once you are sure of the address.

Search engines provide an indexed guide to websites. Users searching for information type keywords into a web-based form. The engine then reports the number of hits, that is, webpages that feature the keyed word or words. Users can then click on a hyperlink to take them to the relevant pages. To ensure that your site is hit when a prospect is searching, your website needs to be registered with appropriate search engines. There are hundreds of search engines, but among the most well-known are Google, Infoseek, Netscape, Webcrawler, AltaVista and Lycos. Sites such as www.searchenginewatch.com offer tips of how to benefit from website registration. There are also meta search engines. These are engines that search for keywords on other search engines. Among them are www.metacrawler.com and www.37.com which lets users search through 37 other search engines.

Directories or web catalogues such as Yahoo! provide a structured hierarchical listing of websites, grouped into categories such as business, entertainment and sport. Companies choose under which category to register. For example, Rolls Royce aero engine division (www.rolls-royce.com) and four other manufacturers can be accessed from Business_and_Economy > Business_to_Business > Aerospace_and_Defense > Engines > Manufacturers on the Yahoo! directory.

Portals, which were introduced in Chapter 7, are websites that act as gateways to the rest of the Internet. Portals tend to be focused on particular industries or user groups and offer facilities such as search engines, directories, customizable home pages and e-mail. For example, the portal www.CEOExpress.com provides a wealth of information and access to other sites that may be of use to busy Chief Executives (Figure 8.2).

Surfing is a term used to describe a more intuitive and less structured approach to website searching.

When prospective customers reach your site they need to be able to do what they want. This may mean searching for a product, registering for information (effectively enabling permission-based prospecting by supplying their name, alias or e-mail address), requesting a quotation, describing their requirements and preferences.

Lists of prospects can be developed from many sources such as telephone directories, business lists, chamber of commerce memberships, professional and trade association memberships, and magazine circulation data. Lists can also be bought readymade from list compilers and brokers. Lists of prospects, organized by their Standard Industrial Classification code are widely used (see Chapter 5 for more detail). Some lists are of poor quality: out-of-date, containing duplications, omissions, and other errors. High quality lists with full contact details, including phone and e-mail address tend to be more expensive. Lists can support direct marketing efforts by phone, mail, e-mail, fax or face-to-face.



Figure 8.2 The portal CEOExpress

Canvassing involves making unsolicited calls, sometimes known as cold calls. This can be a very wasteful use of an expensive asset: the salesperson. Some companies have banned their salespeople from cold calling. Others outsource this activity to third parties. Some hotel chains, for example, use hospitality students to conduct a sales blitz that is essentially a telephone-based cold calling campaign.

Telemarketing is widely used as a more cost-effective way of prospecting than use of a salesperson. Telemarketing, sometimes called telesales, is a systematic approach to prospecting using the telephone, and, sometimes, other electronic media such as fax and e-mail. Telemarketing is usually performed by staff of customer contact centres. These are either in-house or outsourced. Outbound telemarketers make outgoing calls to identify and qualify leads. Inbound telemarketers receive calls from prospective customers. In addition to prospecting, telemarketing can be used to manage other parts of the customer lifecycle: cross-selling, handling complaints and winning back at-risk or lost customers, for example.

A growing number of companies are using e-mail for new customer acquisition. E-mail offers several clear advantages. A very large proportion of business decision makers have e-mail, although this does vary by country and industry. It is very cheap, costing about the same to send one thousand e-mails as it does to send a single e-mail. It is quick and simple for recipients to respond. Content can be personalized. Production values can be matched to audience preferences: you can use richly graphical or simple textual content. It is an asynchronous prospecting tool, in other words it is not tied to a particular timeframe like a sales call.

E-mail messages sit in mailboxes until they are read or deleted. It is a very flexible tool that can be linked to telesales follow-up, 'call-me' buttons or click-throughs.

When e-mail is permission-based, response rates can be extraordinarily high.⁴ However, there is growing resistance to spam e-mail. E-mails are spammed when they are sent to large numbers of recipients who have not been properly screened. What is spam to one recipient may be valuable information to another. An important ingredient in e-mail marketing is a process by which prospects are encouraged or incentivized to provide e-mail addresses for future contact. We examine both telemarketing and e-mail campaigning in greater detail in Chapter 15.

Business-to-consumer prospecting

In B2C contexts, the distribution of customer acquisition effort is different. More emphasis is put on advertising, sales promotion, buzz or word-of-mouth and merchandising. However, all of the techniques you have just read about are also used, but generally in a different way. We'll turn to them later. First, we'll look at advertising.

Advertising

Advertising is used as a prime method for generating new customers in B2C environments. It can be defined as follows:

Advertising is the creation and delivery of messages to targeted audiences through the purchase of time or space in media owned by others.

Advertising can be successful at achieving two different classes of communication objective: cognitive and affective. Cognition is concerned with what audiences know; affect is concerned with what they feel. Advertising alone is often insufficient to generate behavioural outcomes, such as trial purchasing. It can, however, predispose audiences to make an intention-to-buy based on what they learned about and felt towards the advertised product.

Cognitive advertising objectives include: raising awareness, developing understanding, and generating knowledge. New customers generally need to be made aware of the product and to understand what benefits it can deliver. Affective advertising objectives include developing a liking for the product and generating preference.

In high involvement purchasing contexts, where products or their usage context are personally significant and relevant, prospects will normally progress through a learn-feel-do process when making their first purchase. In other words, before they buy they acquire information that helps them learn about and compare alternatives, thus reducing perceived risk. They then develop a preference for, and intention to buy, a particular offer. Customers are essentially conducting a complex problem-solving process. Advertising is one of the sources they can use in the learn-feel part of that process. It is, however, not the only source of information, nor is it necessarily the most powerful.

High-involvement advertising can employ long copy because prospects use advertising to learn about alternatives. Comparison advertising and copy featuring endorsements by opinion formers may be influential. Media that help prospects to acquire and process information are those that have a long dwell-time, such as magazines and newspapers.

Advertising can also evoke powerful emotional responses in audiences. The type of response that advertisers seek in prospects is 'I like the look of that. I really must try it'. This is an affective response linked to a buying intention. Advertisements for fashion items, jewellery and vacation destinations often aim for an emotional response. Television advertisements evoke emotions by their clever mix of voice, music, images and sound effects. Advertisers can pre-test different executions to ensure that the right sort of emotional response is evoked.

In low-involvement contexts, where the product category or its usage context is relatively unimportant, prospects are very unlikely to go through a complex and demanding learn-feel-do process. Rather, there will be little or no prepurchase comparison of alternatives. The prospect is much more likely to simply become aware of the product and buy it. There may not even be a postpurchase evaluation of the experience, except in the most elementary of forms. Post-purchase evaluation may only take place if the product fails to deliver the benefits expected. The purchase model is therefore learn-do. The role of advertising for low-involvement products is to build and maintain brand awareness and recognition. Copy needs to be kept short: prospects won't read long advertising copy. Recognition can be achieved with the use of simple visual cues. Repetition of the ad in low involvement media such as television and radio will be needed to build awareness and recognition.

Advertisers are concerned with two major issues as they attempt to generate new customers: message and media issues. Which messages will generate most new customers, and which media are most cost-effective at customer acquisition?

Message

Although precise measurement has not been conducted, it has been suggested that heavy media users are exposed to over one thousand advertisements per week.⁵ Yet how many can a person recall? In an increasingly communicated world, it is a first requirement that an advertisement must stand out from the background clutter and claim the audience's attention. Advertisers call this 'cut-through'. Without it, no cognitive, affective or behavioural outcomes can be achieved. An advertisement that stands out is one that differs from the many advertisements and other stimuli that compete for the prospect's attention. 'Standing out' is a matter of message creativity, execution and media selection. What stands out? Here are some examples:

- black and white advertisements in colour magazines
- image-based advertisements in text-dominated media
- loud advertisements in quiet media
- advertisements that leave you wondering 'what was that all about?'
- advertisements that challenge your comprehension and emotions.

Message execution is an important issue in gaining an audience's attention. Messages can be executed in many different ways. Execution describes the way in which a basic copy strategy is delivered. Basic copy strategy is the core message or theme of the campaign. Execution styles can be classified in a number of ways: rational or emotional, factual or fanciful, funny or serious. Individual forms of execution include slice of life (product being used in a recognizable context), aspirational (associates the product with a desirable outcome or lifestyle), testimonial (the product is endorsed by an opinion influencer), and comparative (the advertisement compares one or more alternatives with the advertised product).

Advertisements often close with a 'call to action', such as a suggestion that the audience clip a coupon, call a number or register online. These actions generate useful sources of prospects that can then be followed up.

Pre-testing messages on a sample of potential new customers is a way to improve the chances of an ad achieving its objectives. Among the criteria you can assess are the following:

- **recall:** how much of the advertisement can the sample recall?
- **comprehension:** does the sample understand the advertisement?
- **credibility:** is the message believable?
- **feelings evoked:** how does the sample feel about the advertisement?
- **intention to buy:** how likely is it that the sample will buy?

If you buy space or time in media that have local or regional editions, you can conduct post-tests to assess the effectiveness of different executions in achieving the desired outcomes.

Media

Media selection for new customer acquisition is sometimes quite straightforward. For example, there are print publications such as *What Digital Camera?* and *Which Mortgage?* that are targeted specifically at new-to-category prospects and are suitable for high-involvement products. An uninvolved prospect will only learn passively about your product because there is no active search for and processing of information. Consequently, for low involvement prospects, frequency is a more important media consideration than reach. These are defined as follows:

reach is the total number of a targeted audience that is exposed at least once to a particular advertisement or campaign

frequency is the average number of times that a targeted audience member is exposed to an advertisement or campaign.

The total number of exposures is therefore computed by multiplying reach by frequency. If your advertisement reaches two million people an average of four times, the total number of impressions or exposures is eight million. For high-involvement products lower levels of frequency are generally sufficient. Advertising agencies should be able to offer advice on how many exposures (frequency) it takes to evoke a particular response in an audience member.⁶

You can compute various media efficiency statistics to help you get better value for money from your customer acquisition budget. These include response rates and conversion rates.

Response rates provide a first-level indicator of advertisement effectiveness. Examples include the number of coupons clipped and returned or calls requesting information (RFI) made to a contact centre. Conversion rates offer a second-level indicator of advertisement effectiveness. Examples include sales made as a percentage of coupons returned or proposals submitted as a percentage of RFIs.

Table 8.1 gives you an idea of the types of statistics that can be used to evaluate and guide customer acquisition strategies. The table contains a number of descriptive and analytical statistics for four different print advertising vehicles: cost-per-thousand (column 5: how many dollars does it cost to reach 1000 of the advertising vehicle's audience), coupons returned, coupons returned as a percentage of audience reached, orders received from new customers, coupon conversion rate, total order value received, average order value and advertising effectiveness ratio (column 12: how many dollars of orders were received per dollar spent on advertising in the vehicle).

The Daily News is most cost-efficient at delivering an audience since its cost-per-thousand (CPM) is lowest (column 5). The Supermarket Tabloid returns most coupons (column 6), but runs second to the Consumer Colour Magazine in terms of coupon response rate (the percentage of the delivered audience that return a coupon – column 7). The coupon conversion rate tells you how many coupon enquiries convert into first-time customers (column 9). The Daily News generates most orders from new customers (column 8), but the Consumer Colour Magazine generates the highest total order value (column 10), highest average order value (column 11) and the best advertisement cost to total sales ratio (column 12). The Sunday News turns out to perform worse than the other vehicles in all categories. It does, however, generate a relatively large number of lower value customers quite cost effectively. It generated 175 customers spending an average of \$60, and for every dollar spent on advertising it yielded revenues of \$17.50.

Critics of the use of advertising for customer acquisition claim that advertisements are ineffective at customer acquisition. They argue that advertisements work on current and past customers and therefore impact more on retention.⁷ Others point to the ineffectiveness of advertising at influencing sales at all. Len Lodish, for example, concluded that 'there is no simple correspondence between increased television advertising weight and increased sales'.⁸ In one study he found that the sales of only 49 per cent of advertised products responded positively to increases in advertising weight.⁹

Sales promotion

Sales promotion can be defined as follows:

any behaviour-triggering temporary incentive aimed at prospects, customers, channel partners or salespeople.

Although sales promotions can be directed at salespeople and channel members, our concern here is only with sales promotions aimed at prospects. As the definition makes clear, sales promotions offer a temporary and immediate inducement to buy a product. They are not

1	2	3	4	5	6	7	8	9	10	11	12
Vehicle	Date	Readership	Ad space cost \$	Cost per thousand \$	Coupons returned	Coupon response rate	Orders received from new customers	Coupon conversion rate	Total order value \$	Average order value \$	Ratio: Ad cost to total order value
Daily News	15/3	300 000	\$ 500	\$ 1.67	655	0.0022%	200	30.53%	\$10 000	\$ 50	1:20
Supermarket tabloid	20/3	500 000	\$1000	\$ 2.00	1205	0.0024%	80	6.64%	\$ 3 200	\$ 40	1:3.2
Sunday News	25/3	200 000	\$ 600	\$ 3.00	350	0.00175%	175	50.00%	\$10 500	\$ 60	1:17.5
Consumer colour magazine	30/3	30 000	\$1000	\$33.33	120	0.004%	100	83.33%	\$22 000	\$220	1:22

Table 8.1 Customer acquisition report

part of the normal value proposition. There are many forms of consumer sales promotion:

- **Sampling:** this is the provision of a free sample of the product. This can be delivered in a number of ways: mailed or dropped door-to-door, or bound or packed with a related item. Sampling is expensive, not only because of distribution costs, but also because it may be necessary to set up a special production run with unique promotional packaging. However, sampling is highly effective at generating a trial, especially if the sample is accompanied with a voucher offering a discount on the first regular purchase. Sampling has been used for coffee, breakfast cereal and moisturizer products. It has also been used in the online context. Charles Schwab, the execution-only broker, offered free e-trading to new customers. It signed up 8500 new customers, over 6000 of who remained active once the three month trial period ended.
- **Free trials:** some companies offer products to customers on an approval basis. If they like the product they keep it and pay. Automobile dealers offer test drives to prospective purchasers. One bedding retailer offers beds on a free trial basis to customers. They deliver the bed to the customer's home and let them try it for a month. If they don't like it the company collects the bed.
- **Discounts:** these are temporary price reductions. This reduces perceived risk and improves value for a first time purchaser. Discounts can be promoted on-pack, at point-of-sale or in the media.
- **Coupons:** these act like money. They are redeemable on purchase, at the point-of-sale.
- **Rebates or cash back:** in consumer goods markets, these are often offered on-pack and require collection of proofs of purchase. Their use has extended into automobile and mortgage markets. Take out a loan to buy a car, and get \$500 in cash back from the dealer.
- **Bonus packs:** a bonus pack is a promotion in which the customer gets more volume at an unchanged price. A customer might get 2.5 litres of juice for the price of a 2 litre pack.
- **Banded packs:** a banded pack promotion offers two, or rarely three, products banded together at a bundled price. A customer might be offered a banded pack of shaving gel and aftershave balm.
- **Free premiums:** a free premium is a gift to the customer. The gift may be offered at the point-of-purchase, in packaging, or require the customer to mail, e-mail, text or phone in a request.
- **Cross-promotions:** these occur when two or more non-competing brands create a mutual promotion. A proof of purchase from a theatre entitles the patron to a 25 per cent discount on a restaurant meal, and vice versa.
- **Lotteries:** a lottery is a game of chance, not involving skill. Consumers are invited to purchase the product and be entered into a draw for a prize. Prizes are highly variable. They range from low value items to high value prizes such as personal makeovers, exotic vacations and even fully furnished houses.
- **Competitions:** unlike a lottery, a competition requires skill or knowledge. The prizes are varied, as in the case of lotteries.

Buzz or word-of-mouth

A growing number of companies are trying to attract new customers through word-of-mouth (WOM) influence, also known as buzz. Word-of-mouth can be defined as follows:

Word-of-mouth is interpersonal communication about a product or organization in which the receiver assumes the communicator to be independent of commercial influence.

Word-of-mouth has been shown to influence receivers' knowledge, emotions, intentions and behaviours, and because of its apparent separation from commercial influence it is regarded as independent and trustworthy.¹⁰ Brands such as Body Shop, Amazon.com, YouTube.com and Krispy Kreme owe much of their success to word-of-mouth. Marketers can promote word-of-mouth by identifying and sponsoring opinion formers, such as radio show hosts. Giving people something to talk about is a high priority for buzz marketers; this includes advertisements, slogans and product innovations that are high in conversational value and capture people's attention and interest. An example is Budweiser's use of 'Whassup?' in its TV commercials: the expression caught on in everyday communication.

Buzz marketing can be supported by online discussion groups or user forums. Viral marketing is a more carefully programmed way of enabling customers to pass on information about, or links to, products and organizations that they use or support. For example, if you buy an eBook produced in the .DNL format, each page has a 'send to a friend' button so that you can share the book with a friend. The friend has access to a certain number of free pages before a payment gateway is encountered, at which the new reader has to pay by credit card to progress.

Merchandising

Merchandising can be defined as follows:

Merchandising is any behaviour-triggering stimulus or pattern of stimuli other than personal selling that takes place at retail or other points-of-sale.

Merchandising is designed to influence behaviour in-store or at other points of sale such as restaurants, banks or gas stations. Merchandisers have a large number of techniques available. These include retail floor plans, shelf-space positioning, special displays, window displays and point-of-sale print. Some forms of merchandising are particularly useful for generating new customers, for example money-off signs, 'as used by' and 'as advertised' signs. Related item displays place two or more related items together, for example toppings next to ice-cream or dressings next to salads. Sales of one category assist sales of the other, for example, a new type of topping or dressing. Eye-level positions on shelves are generally more productive than 'reach' or 'stoop' positions. If merchandisers can

position new products in these preferred positions sales will be positively influenced (Figure 8.3).



Figure 8.3
Western Australian
meat merchandised
in Korea

Other tools for customer acquisition

As mentioned earlier in the section on B2B customer acquisition, B2C companies can also use referral schemes, promotions such as consumer exhibitions, publicity, telemarketing, e-mail and canvassing to generate new customers.

Companies believe that delighted, or even completely satisfied customers will naturally speak well of the company. Eismann, the German frozen food manufacturer, estimates that 30 per cent of its new customers are recruited by **referrals** from satisfied customers.¹¹ In spite of high levels of naturally-occurring referrals companies may still choose to develop a customer referral scheme (CRS). CRSs are also known as member-get-member (MGM) and recommend-a-friend (RAF) schemes. These work by inviting existing customers to recommend a friend and rewarding the recommender with a gift. It is important to choose the right customer and the right time to invite a referral. Broadly, schemes are more effective when targeted at a relevant section of the customer base, for example customers who are satisfied or customers who have just experienced excellent service. For example, companies offering roadside assistance to stranded motorists will ask for a referral when the vehicle is repaired and the customer's anxiety levels have been reduced.¹²

Customer referrals at NTL

NTL is a leading Internet, telephone and pay television provider in the UK. The organization has grown both organically and through acquisition. It now has a customer base of over one million households.

To achieve further growth, NTL started to use its current customers to help with prospecting. The company developed profiles of customers who had previously referred others. This profile was mapped onto the entire database, and current customers matching the profile were contacted. NTL offered one month's free subscription to existing customers who introduced a new customer. This proved to be hugely successful, with 34 per cent of existing customers in the consumer broadband market referring at least one potential customer. After the two month promotion was complete, 29 per cent of those referred had signed up for a service with NTL.

Lexus, the automobile manufacturer, invites up to 300 potential buyers to stylish **events** such as dinner and theatre shows or dinner and concert performances. The Lexus vehicles are on display. Also invited are current Lexus owners who sit among the prospects and talk to them. Lexus knows from customer satisfaction surveys which customers to invite. It is a very soft sell. Current owners receive no direct reward for participation, other than the opportunity to enjoy the event itself.

Fashion retailers will organize fashion **shows** for current customers who are invited to bring along a friend who might be interested. Party plans have been popular for many years. Distributors of products such as Tupperware and Anne Summers sex aids organize parties in their own homes. They invite friends and neighbours along. Refreshments are offered and products are exhibited and demonstrated.

Free **publicity** such as that obtained by Richard Branson, founder of the Virgin Group of companies, enables many companies to spend less than major competitors on advertising. Branson excels at gaining publicity. When Virgin cola was launched in the USA, he hired a tank to roll into Times Square and take a 'shot' at Coca Cola's illuminated advertising sign. All the television networks were invited to film the stunt, as were representatives of the press. A huge amount of free publicity was achieved as the brand sought to build its customer base.

Telemarketing and **cold-canvassing** to people's homes is a contentious issue. Many customers feel that these methods are too intrusive, and privacy regulations may prevent companies from engaging in these practices. For example, in Australia people can register their landline and mobile telephone numbers on a 'Do Not Call' register. In some other countries, regulation is less restrictive and some industries, for example telecommunications and utilities, still use both telemarketing and door-to-door canvassing for lead generation. Outbound telemarketing can then be used for lead qualification. Selling door-to-door to well-targeted

prospects is a different matter. Fuller Brushes, Avon Cosmetics, Collier's Encyclopaedias and Prudential Insurance have a long tradition of door-to-door selling.

SMS messaging can also be used for customer acquisition. Because it is text and not voice, it does not have to be 'answered' in the traditional sense. SMS has been used very successfully for local bar and club promotions among adolescent consumers. As the medium is so immediate, offers can be switched on at the last minute for highly perishable cinema and retail offers. As personal communication devices become more popular, so will the distribution of messaging in text and video formats, which will be increasingly targeted to the prospects' known profiles.

E-mail is also useful for B2C customer acquisition programmes (Figure 8.4). Over 95 per cent of people having Internet access at home use it for e-mail, often on a daily basis.¹³ In the UK, organizations such as Dell Computers, Barclays Bank, Comic Relief and Epson Printers have used e-mail to acquire new customers. The same benefits and reservations outlined in the earlier discussion of e-mail also apply in the B2C context.

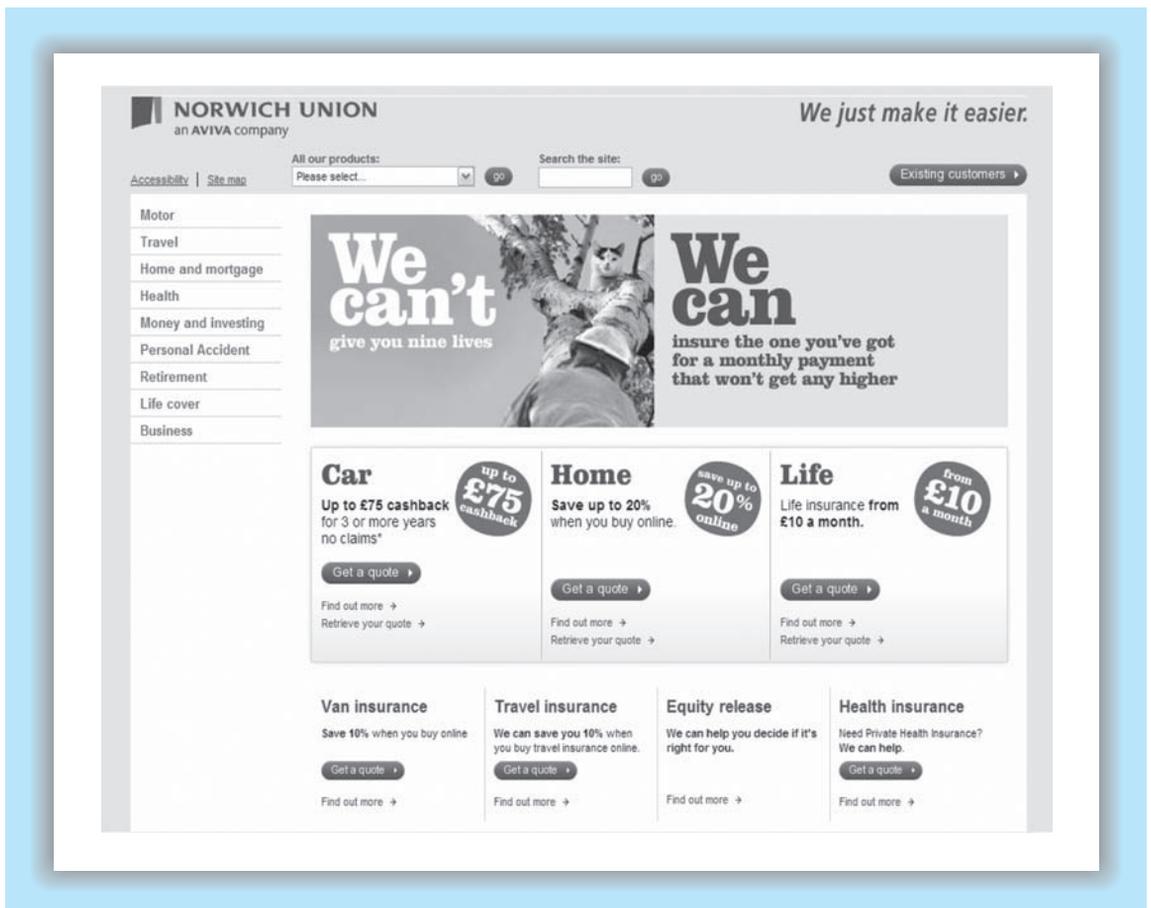


Figure 8.4 Landing page from an e-mail customer acquisition campaign¹⁴

Recent innovations in new customer acquisition tactics are **product placement** and product integration. Product placement involves arranging for products to be shown on display or in use in television shows, movies, videogames and web-cast productions. There is no explicit promotion of the product. It is simply seen in the production. Actors may use the product or it may be used as a background prop. There are three different compensation models for product placement. First, a company can pay for placement. Secondly, the product is donated in exchange for its appearance in the production: a form of barter. Thirdly, the product is donated to the production company to strengthen the storyline or build character, but is returned afterwards. A particular form of placement is **product integration**. This occurs where a product is integral to the storyline. Companies can pay considerable sums for their products to appear in movies. It is estimated that the product placement market was growing at a compound rate of over 16 per cent per annum, to a value of over US\$3.5 billion in 2004. Researchers expect product placement to be worth US\$7 billion in 2009. Over half product placements are food and beverage, health and beauty or household brands.¹⁵

Pitchers or pitchmen approach prospective customers and ask them to buy a product. Pitching is a well-known practice in street trading, but has now been extended into other forms of retail. For example, pitchers will approach dancers in a club and ask them if they've tried a new drink, then suggest that they buy some. Pitchers generally are expected to act as if they are unpaid advocates, therefore simulating genuine word-of-mouth.

Key performance indicators of customer acquisition programmes

CRM practitioners are concerned with three key performance indicators (KPIs) for these customer acquisition activities:

1. How many customers are acquired?
2. What is the cost per acquired customer?
3. What is the value of the acquired customer?

The ideal result would be a low cost programme that generates lots of highly valuable customers.

Some customer acquisition programmes may require major capital investment, as well as incurring marketing expenses. A supermarket operator may build new stores to increase geographic coverage. A financial services institution may invest in IT infrastructure for a new Internet-based channel. A manufacturer of automotive parts may build a new factory close to prospective customers.

Customer referral schemes are very cost effective methods for acquiring customers. They cost little to operate, but they also generate few new

customers. However, the customers generated by these schemes tend to be more loyal (less likely to churn) and higher spenders. Advertising can generate a lot of enquiries, but these may be very poor quality prospects, with low conversion rates into first-time customers and, ultimately, low customer value. This is particularly true if the advertising is poorly targeted. Customers won by a sales promotion may be deal-prone. In other words, they are not acquired for the long-term, but switch whenever there is a better opportunity.

Companies can compare the relative costs of customer acquisition per channel before deciding how to spend their acquisition dollars. For example, a motoring membership organization knows that its member-get-member scheme has a direct cost per new customer of £22, compared to £100 for direct response television and £70 for door drops. The average is £35. A telecommunications company reports that it costs £52 to win a new customer through its recommend-a-friend programme, compared to an average of £100 and an advertising-generated cost of £200.¹⁶ The costs of acquiring new customers online are variable over time and across categories. In 1999, Amazon.com claimed it was costing \$29 to acquire each new customer;¹⁷ credit card operators thought it cost \$50 to \$75, and mortgage customers cost \$100 to \$250 to acquire.¹⁸

Companies have a choice of acquiring new customers through relatively costly but fast-acting marketing investments, or through slower but low or zero-cost word-of-mouth processes. Julian Villanueva and colleagues have researched the effects of marketing-induced versus word-of-mouth customer acquisition on firm performance. Using data from an Internet firm that provided free web hosting to registered users during a 70-week-long observation period, they found that customers acquired through word-of-mouth were themselves productive at generating new customers through their own word-of-mouth. They also generated more word-of-mouth activity than those acquired by marketing-induced channels. Each customer acquired through marketing is expected to bring around 1.59 new customers throughout his or her lifetime, while a customer acquired through word-of-mouth is expected to bring 3.23 customers (including him or herself).¹⁹

Costs of customer acquisition are one-off costs that are not encountered again at any stage in a customer's tenure. The costs might include prospecting costs, advertising costs, commissions to salespeople, collateral materials, sales promotion costs, credit referencing, supplying tangibles (e.g. credit cards) and database costs. Many sales managers incentivize their salespeople to find new customers. These incentives whether cash, merchandise or some other reward, are a cost of acquisition.

Making the right offer

In addition to carefully targeting new customers for acquisition, companies need to consider what offer they will make to the target. Some industries are consistent in their use of entry-level products for customer acquisition.

Insurance companies use automobile insurance to acquire new customers. Developed countries require drivers to be insured to at least third-party level. Since insurance expires annually, it offers the prospect of repeat purchase. Generally premiums are highly discounted and offer little or no margin to the insurer. However, automobile insurance does give the company at least one year in which to cross-sell additional insurance products: home and contents insurance, travel insurance, health insurance, mortgage protection insurance and so on. Churn rates on automobile insurance can be as high as 50 per cent, giving average customer tenure of only two years. During this period insurers have to make the cross-sales.

Banks use relatively high interest rates on deposit accounts or relatively low charges on credit-cards. The world's largest pure-play Internet bank is the Citibank-owned, UK-based brand 'Egg'. The bank has used incentive rates to win new credit card customers. Nearly nine out of ten newly acquired customers stayed with the bank when the incentive rates were withdrawn. Although only launched in 1998, Egg has been able to cross-sell additional products and services into the customer base, growing from a cross-holding ratio of 1.36 average products owned in 2001 to 2.95 in 2007.

Supermarkets price high demand, frequently purchased items, such as bread, as loss leaders in order to build store traffic.

Operational CRM tools that help customer acquisition

CRM software provides a number of operational tools that help in the customer acquisition process, including lead management, campaign management and event-based marketing. We cover these in more detail in Capters 14 and 15, but introduce them here.

Lead management

Sales-force automation (SFA) software helps B2B companies to manage the selling process. An important part of that process is lead management. There are hundreds of different lead management software vendors, some installed and some on-demand. Many of these enable the recommended lead management approaches of published sales methodologies to be implemented, among them the Customer-Centric Selling, Miller Heiman and Solution Selling methodologies.

The lead management process includes a number of subprocesses, including lead generation, lead qualification, lead allocation and lead tracking. These need to operate effectively and efficiently. Lead allocation processes ensure that leads are routed to the right salesperson. Lead tracking processes trace the conversion of prospects into customers. Lead management software generally allows salespeople to customize their interactions by applying selling workflow rules that vary according to prospect attributes, such as company size and level of qualification. Sales

representatives may want to reject leads, further qualify them, redefine them as opportunities, or take other actions as required.

Successful lead management programmes are supported by analytics. Sales managers want to know which lead generation programmes generate high conversion rates and/or high revenues, which leads are costly to convert and which territories have the greatest success at lead generation and conversion.

Campaign management

Campaign management software is widely deployed in B2C environments for new customer acquisition. Campaign managers design, execute and measure marketing campaigns with the support of CRM technologies. Sometimes these are multimedia campaigns across direct mail, e-mail, fax, outbound telephony and SMS platforms. The technology assists in selecting and grouping potential customer targets, tracking contacts, measuring campaign results and learning from the results how to produce more effective and efficient campaigns in the future.

Campaign management software not only enables companies to manage and execute automated and personalized campaigns, generating leads for sales follow-up, but also enables them to generate and manage contact lists, while simultaneously complying with anti-spam legislation.

Experimentation is a common feature of campaign management. Experiments can be performed on subsets of the current customer database. For example, different cells of the recency–frequency–monetary value (RFM) matrix can be treated to different offers in order to develop an understanding of the propensities to buy of different customer groups. If the results were to show that women aged 15–25 were particularly responsive to a health and beauty bundled offer, you could search for prospects matching that profile, or buy additional lists to target.

Event-based marketing

Event-based marketing (EBM) is also used to generate new customers. EBM provides companies with opportunities to approach prospects at times which have a higher probability of leading to a sale.

In retail banking, an event such as a large deposit into a savings account might trigger an approach from the bank's investment division. A name change might trigger an approach from a financial planner. A call from a customer enquiring about rates of interest on a credit card might trigger a call from a customer retention specialist.

Many B2C companies can link purchasing to life stage events. For example, finance companies target mortgages at newlyweds and empty nesters whose children have left home. Clothing retailers target different offerings at customers as they age: branded fashion clothing at single employed females; baby clothes for new mothers and so on. If you can associate purchasing with particular life stage events you'll be well placed to target your customer acquisition efforts.

Public events, such as interest rate falls or hikes, tax law changes and weather events or competitive events, such as new product launches, might signal an EBM opportunity. For example, an insurance company

might launch a health insurance campaign following announcements in the press of an upcoming influenza epidemic.

Support from CRM analytics

Clearly, these operational CRM tools have to be supported by sound analytics to ensure that the right offer is made to the right prospect through the right channel at the right time.

It is often possible to query current customer-related databases for clues to guide customer acquisition. Supermarket operators can mine transactional data to provide insight into the baskets of goods that customers buy. If you were to find that 60 per cent of customers buying frozen apple pies also bought premixed custard, you might think it worthwhile targeting the other 40 per cent with an offer. A bank wanting to generate new customers for its savings account can develop a model predicting propensity to buy based on current product ownership. In the B2B environment, salespeople may have entered data about prospects' satisfaction with competitors' offerings into their sales call records. Those who are less satisfied will probably show a higher propensity to switch, and may be worth targeting with an offer.

Affiliation data can also be used to guide customer acquisition. Customers may be members of, or otherwise associated with, a number of organizations: a university, a sports club or a charity. Affinity marketers recognize membership as an opportunity. Banks like MBNA have led the way in affinity marketing of credit cards. MBNA, the organization and the member all benefit from the arrangement. MBNA offers a credit card to members of the organization. The organization receives a fee for allowing the bank access to its member data. Members enjoy a specially branded card and excellent customer experience from the bank. Affinity groups include members of the World Wildlife Fund, fans of Manchester United and congregations of the Uniting Church.

Case 8.2

How Standard Life used predictive analytics for customer acquisition

Standard Life used the SPSS data mining product, Clementine, to understand the characteristics of its mortgage clients better, so it could more accurately search for potential new clients. Also, the bank now has the capability to profile incoming prospects quickly and personalize their web experiences accordingly. As a result of its data mining efforts, Standard Life was able to build a propensity-to-buy model for the Standard Life bank mortgage, discover the key drivers for purchasing a remortgage product, achieve a nine-times greater response to its campaigning to the profiled group than a control group, and generate \$47 million of additional mortgage business.

Source: SPSS²⁰

Summary

Customer acquisition is the first issue that managers face as they attempt to build a valuable customer base. There are three major decisions to be made: which prospects to target; how to communicate with them; and what offer to communicate to them. New customers are of two kinds. They are either new to the product category or new to the company. In principle, the best prospects are those that have potential to become strategically significant customers, but any customer that generates value over and above their acquisition cost is a net contributor. You will certainly want to recruit new customers that generate more profit than they consume in acquisition and retention costs.

Business-to-business prospects are generated in a number of ways, including referrals, interpersonal networks, promotional activities such as exhibitions, trade shows and conferences, advertising, publicity and public relations, canvassing, telemarketing and e-mail.

New customers for consumer companies can be generated from much the same sources as B2B prospects, but much greater effort is put into advertising, sales promotion, buzz or word-of-mouth and merchandising.

Operational CRM applications such as lead management, campaign management and event-based marketing are useful disciplines for customer acquisition. CRM analytics underpin the success of these applications. The transactional histories of current customers can be analysed and the cost-effectiveness of different customer acquisition strategies can be computed. By analysing customer data, companies are better informed about which prospects are most promising and which offers to make. Predictive modelling can determine relationship-starter products, such as automotive insurance which is used to acquire customers in the personal insurance market. When sales have been made and the customer's permission to use their information has been obtained, other products can be cross-sold, turning acquisition into repeat purchase and subsequently into customer retention.

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