ABSTRACT
Do some methods of acquiring customers lead to more profitable customers than other methods? If so, why? What should managers make of the answers to these questions?
This paper tries to address these questions by examining a proprietary data set from the credit card industry.

We develop a conceptual framework based on customer self-selection and firm’s ability to target when a firm uses alternative methods to acquire customers; clearly customers come through one or another method through a self-selection mechanism. Further, methods of acquisition differ in their relative amenability to target customers. Targeting should help a firm to isolate more profitable customers and so this interacts with the self-selection to determine how profitable a particular acquisition method is. Overlooking the resulting endogeneity could lead to biased estimates. Our model specification treats the methods of acquisition as endogenous variables. This is a departure from prior work in the area of CRM that has generally treated acquisition method as exogenous when examining the relative profitability of the methods of acquisition.

We then analyze the profitability of different acquisition methods after accounting for their endogeneity. We find that customers acquired through the Internet and direct mail, are more profitable, on average, than customers acquired through telemarketing and direct selling. We offer reasons why this might be the case.