Acquisition vs. Retention: Is Winning a New Customer Really Far More Expensive?

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Conventional wisdom suggests that retaining a customer is less expensive than acquiring a new one. However, this article argues that this assumption has been overgeneralized in relationship marketing and oversimplifies a far more complex cost dynamic. In an evolving technological, industry, employee, and customer landscape, the relative costs of selling and marketing to acquire and retain customers are contingent on multiple moderating factors. This conceptual review challenges the prevailing retention-dominant narrative by introducing a framework that identifies key moderators of the relationship between customer type (new vs. existing) and firm-level costs. Drawing from research in customer profitability analysis, relationship marketing, loyalty programs, and resource allocation, the framework highlights the importance of customer and employee heterogeneity, technological capabilities, and organizational constraints. The article integrates insights from these domains to provide a more nuanced understanding of when customer retention may be more efficient and when customer acquisition may be strategically justified. Implications for managerial decision-making are discussed, particularly in data-rich and AI-enabled environments. Directions for future research are offered to refine theory and guide empirical testing of boundary conditions surrounding acquisition and retention cost strategies.

Introduction

A common rule of thumb in business is that it is less expensive to retain a customer than to acquire a new one. This notion may influence managers' decision-making by serving as a heuristic to guide their marketing and sales efforts. The general notion that customer acquisition is more costly than customer retention has been established in the literature for decades. For example, Pfeifer (2005, p. 179) cites the popular maxim that "It costs five times more to acquire a new customer than to retain an existing one," while Rudd et al. (2021, p. 1) similarly note that "Customer acquisition cost can be five to six times that for customer retention." More recent literature continues to support this general relationship, suggesting that attracting new customers is more expensive than retaining existing customers (De Alwis and Ekanayake, 2025). Likewise, Lambert and Burduroglu (2000, p. 2) state that "it can be up to five times as costly to attract a new customer as it is to keep an old one." While the existing literature has merit in demonstrating that it is more expensive to gain new customers than to retain them, it may be an oversimplification to assume that gaining customers is *always* more expensive than retaining them in every context. These assumptions may lead to costly consequences when applied broadly to sales and marketing decisions without accounting for the complexities and unique circumstances inherent in company-customer relationships involving both existing and prospective customers.

To further illustrate and complicate the matter, the literature does not agree on the acquisition-versus-retention cost ratio. For example, Goodman (1999) argues that "the real ratio of cost to win a new customer vs. retaining a current customer varies from 2 to 1 to 20 to 1" (p. 3), Gallo

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(2014) suggests that "acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one" (p. 1), and Prabhaker et al. (1997) note that anecdotal evidence places the ratio at 5 to 1. The variation in these ratios highlights the potential presence of moderators in the relationship that warrant consideration when evaluating the costs of retention and acquisition. This supports the notion that there may be cases in which customers are more expensive to retain than to acquire or may ultimately prove unprofitable. Buttle (1996) argues that not all customers are worth retaining and that not all contribute equally or positively to firm performance. Reinartz and Kumar (2002) argue that not all existing customers are profitable and claim that costs to retain individual customers "vary enormously, sometimes by a factor of 100 or more" (p. 88). Ascarza (2018) asserts that firms should target customers based on heterogeneity in their responsiveness to retention interventions rather than solely on churn risk. The recognition that customers are not equally profitable, not equally costly to service, or heterogeneous in investment responsiveness challenges the long-standing rule of thumb that retention is always cheaper than acquisition. While the literature acknowledges cost complexity, the practical application of these concepts may rely on a simplified narrative. This article proposes a conceptual model incorporating moderating variables that challenge the assumption that customer retention is universally less expensive than acquisition. It is suggested that the ubiquity of the retention-acquisition heuristic has led many to overlook specific sales and marketing contexts where customer types interact with moderating variables to alter company costs. Moreover, and more provocatively, this article argues that there are circumstances in which customer acquisition may be less expensive than retention. That is, if not all customers are profitable, allocating a given number of resources to an unprofitable existing customer can render retention relatively more expensive than acquiring a profitable new customer, ceteris paribus. Accordingly, the current conceptual model proposes that moderators may strengthen or attenuate the relationship between customer types and associated firm costs, introducing the potential that the relationship may reverse in certain contexts, with acquisition being less costly than retention in some cases and more costly in others. While the literature does not agree on a specific cost ratio, the substantial variability in reported estimates warrants explanation and suggests the presence of moderating variables. Estimates range from approximately 2:1 to 20:1 in some studies and up to 25:1 in others (acquisition versus retention). Under certain conditions or outliers, the underlying relationship may plausibly reverse direction, such that some new customers are less expensive to acquire than others are to retain.

To further complicate the matter, while the costs associated with obtaining a new customer may appear relatively straightforward to calculate, such as advertising expenditures, sales employee base pay, and commissions, the indirect costs associated with retaining customers, including rent, insurance, and utilities, may be excluded from the calculation. Additionally, some analyses may assume a baseline level of customer loyalty (Goodman, 1999), implying that a portion of existing customers would continue making repeat purchases regardless of retention costs. Maintaining a business requires numerous expenditures, including facility costs, legal fees, retirement benefits, loyalty programs, data storage, and executive salaries. The crux of the issue is that, although these costs are often intertwined and difficult to isolate, accurately attributing them to customer acquisition or customer retention remains challenging. Accordingly, while customers that are classified as existing customers are retained, and new customers that have never purchased before are classified as new, when a customer is retained or gained, it may currently be impossible to specifically attribute the retention, purchase, or new purchase to the variables that *specifically* led to the purchase.

Consumer behavior is a relatively young field within the social sciences. One might argue that until more granular data are available to attribute a purchase to specific variables and costs, an attribution problem persists. Adding to the attribution problem is the complexity of calculating the cost of acquiring or retaining a customer. The literature has acknowledged the difficulty of

measuring customer acquisition and retention costs and obtaining credible data (Min et al., 2016). Recent studies have devoted considerable attention to identifying and measuring the costs associated with customer acquisition. These costs have been calculated using a range of inputs, including marketing, affiliate programs, online advertising, refund fees, and operating costs for customer recruitment (Abbas et al., 2023); product subsidies, marketing, advertising and administration costs, dealer commissions and bonuses, product cost, credit check costs, and share of fixed costs such as offices and employees (Livne et al., 2011); or, more simply, marketing expenditure (Petrova, 2026). Similarly, costs associated with customer retention have included marketing expenses (Van Triest et al., 2009) and operating expenses allocated using base and new customer counts (Min et al., 2016). Collectively, these approaches demonstrate that literature has invested substantial effort in measuring acquisition and retention costs, while also revealing considerable complexity and variation in how these costs are defined and calculated. Despite this attention, no standardized approach for measuring firm-level customer acquisition and retention costs has emerged.

The complexity of measuring acquisition and retention costs is further compounded by changes in the customer-company purchasing landscape over recent decades. For example, brand loyalty has evolved. While some existing customers may be relatively easy to retain, others may prove more difficult to keep, even as companies attempt to strengthen customer relationships through loyalty programs. This variation in customer loyalty has been recognized in the literature. Reinartz and Kumar (2002, p. 93), for example, identify "butterflies" as customers with low loyalty. Like a butterfly, a disloyal customer will fly around, visiting different companies and being loyal to none. Dick and Basu (1994) describe customers who purchase but may leave as soon as a better option arises as having spurious loyalty, in which the customer is loyal solely due to situational exigencies. Knox (1998) describes some customers as habituals, who purchase routinely but are indifferent to their choice; variety seekers, who seek alternatives; and switchers, who have little (or no) attachment to a particular brand and pursue deals and discounts. While retention may be typically prioritized, certain existing customer segments may prove economically unviable to maintain. In such instances, expenditures associated with marketing, service, and post-failure retention efforts may fail to generate sufficient future value to justify their costs, thereby diminishing the company's overall profitability. When dealing with customers who are inherently difficult to retain, the cost of mitigating attrition may far exceed the relative investment required to acquire new customers. These circumstances illustrate that customer retention is not universally the more economically attractive strategy and that the relative costs of acquisition and retention may vary across customers and market conditions.

The purpose of this article is to 1) provide a conceptual framework to identify potential boundary conditions that challenge the heuristic that it is always cheaper to retain customers than to gain new ones, 2) help sales and marketing managers realize that they might be using this heuristic when making decisions about the costs of gaining and retaining customers, and 3) present future research opportunities for researchers to empirically test the framework. Future studies can employ both qualitative and quantitative methods to more extensively examine the financial impacts of gaining versus retaining customers, considering the current state of technology, industry, employees, and consumers.

Conceptual Framework Development

The variability in customer acquisition and retention costs suggests that the costs of acquiring and retaining customers may vary depending on certain conditions. When theory suggests that two variables are related, but research shows variability in the strength of the relationship, a moderating variable may be present (Hair et al., 1998). That is, while there is a relationship between the cost of the customer and the type of customer (new or existing), because the ratio

from the literature is inconsistent, it may be assumed that there are variables in the relationship that interact with the type of customer to influence the cost to the company. Therefore, it is proposed that boundary conditions exist. Thus:

> Proposition 1: There are moderating variables strengthening and attenuating the relationship between customer type (new versus existing) and firm-level acquisition and retention costs.

Moderating Role of Customer Attributes

Customers differ in ways that may influence both the costs of acquiring and retaining them. Specifically, customers and potential customers differ in their demographic, psychographic, and behavioral characteristics, as well as in their responsiveness to customer relationship management (CRM) efforts (Musalem and Joshi, 2009). Furthermore, while some consumers engage in deliberative, rational decision-making, others rely on affective or impulsive processes. For example, some customers may buy impulsively without prior planning or deliberation. Impulsive buying behavior is influenced by self-control (Nyrhinen et al., 2024; Wang et al., 2022), the need for arousal and material resources (Sun and Wu, 2011), sensation seeking (Iyer et al., 2020), emotionality and extraversion (Qureshi et al., 2025), and personality traits such as agreeableness, openness, and extraversion (Huang et al., 2024; Rizki et al., 2022). In contrast, customer attributes such as honesty–humility, conscientiousness (Qureshi et al., 2025), task orientation (Sun and Wu, 2011), and self-monitoring (Sharma et al., 2010) are negatively associated with impulse buying. While some customers may be inclined to make impulsive purchases, others may repeatedly purchase the same products or brands for years for a variety of reasons. For example, consumers vary in their risk aversion. The literature has shown that risk aversion is positively associated with loyalty (Hadibrata and Wijaya, 2025; Kumar Mishra et al., 2016; Wicaksono, 2023). A current customer's degree of risk aversion may affect their likelihood of remaining loyal to a firm. For example, an extremely risk-averse customer may be extremely inexpensive to retain as they have no intention of purchasing elsewhere. However, an extremely risk-seeking customer may be extremely expensive to retain as they actively seek out new experiences, products, and services. Taken together, differences in customer attributes, such as risk aversion and impulsive buying behavior, may help explain why the costs of acquiring and retaining customers vary across customers.

These differences in customer attributes may also influence customers' propensity to remain loyal to a firm, as reflected in their repeated purchases over time. Customer loyalty is influenced by individuals' conscientiousness and agreeableness (Smith, 2012), personality type (Munaf et al., 2009), customer trust (Azzahra et al., 2024; Lau and Lee, 1999; Menidjel et al., 2021; Ho and Wong, 2022), customer orientation and technology orientation (Ismail, 2023), commitment (Menidjel et al., 2021), perception of relational benefits (Vázquez-Carrasco and Foxall, 2006), and emotional attachment (Patil et al., 2025). Further, the literature has shown that age (Fernandes et al., 2013; Munaf et al., 2009; Patterson, 2007), gender (Audrain-Pontevia and Vanhuele, 2016; Fernandes et al., 2013; Melnyk et al., 2009; Mittal et al., 2019), and education (Pradhan and Misra, 2015) influence loyalty. These findings suggest that customers are complex and difficult to classify according to their propensity to seek variety or remain loyal to a particular set of products and services over time. Overall, consumers differ in their desire for variety or consistency (Fishbach et al., 2011). These differences among customers show that they vary in their tendency to make unplanned purchases, seek variety and novel experiences, and remain loyal and consistent.

Despite extensive research on consumer behavior, predicting whether customers will remain loyal to a brand or switch to alternatives remains complex. A key reason for this complexity is that customers possess inherent attributes that influence both their likelihood of remaining loyal and

their openness to alternative offerings. Differences in these attributes may contribute to variation in these tendencies, with some associated with a greater likelihood of switching between products and brands and others associated with a greater inclination to remain loyal to a particular brand over time.

Accordingly, customer-level attributes may function as moderators in the relationship between customer type (new vs. existing) and firm-level sales and marketing costs. That is, the cost differential between acquiring and retaining customers may depend on underlying customer attributes associated with their tendency to seek options and variety or remain loyal. Therefore:

> Proposition 2: Customer attributes moderate the relationship between customer type (new versus existing) and firm-level acquisition and retention costs.

Moderating Role of Employee Attributes

Prior research has demonstrated that employee attributes can influence a range of downstream customer and firm outcomes. For example, customer orientation, defined as the "propensity to develop a personal relationship with customers" (Gonu et al., 2023, p. 3), has been associated with customer satisfaction (Aburayya et al., 2020; Gonu et al., 2023; Hennig-Thurau, 2004), customers' evaluations of employee service performance (Brady and Cronin, 2001), cross-buying (Mukerjee and Shaikh, 2019), and financial and innovation performance (Zhang, 2010). Other employee attributes have similarly been shown to influence customer responses. Employee quality, for example, affects customer perception, satisfaction, and positive behavioral intentions (Truong et al., 2017), while physical attractiveness, displayed emotion, and helpfulness have been associated with customer satisfaction (Keh et al., 2013). Liu et al. (2016) further found that employee friendliness, helpfulness, and respectfulness contribute to customer satisfaction, with respectfulness having the strongest effect. Similarly, Ekinci and Dawes (2009) found that extroversion, conscientiousness, and agreeableness influenced the quality of the service interaction. Leung et al. (2020) also demonstrated that employees' displayed effort can influence customers' perceptions of employee warmth, leading them to expect a more communal relationship with the employee.

Employee attributes have also been linked to salespeople's performance. Schrock et al. (2016) found that trait competitiveness positively impacts performance, while Ahearne et al. (2008) found that salesperson adaptability positively affects sales performance. Homburg and Stock (2005) found that salesperson customer orientation positively affects customer satisfaction, further demonstrating the connection between employee attributes and customer outcomes. Similarly, Aziz (2005) found that Machiavellianism positively influences sales volume, and Fournier et al. (2013) found that a polychronic orientation of salespeople positively affects performance. Itani et al. (2026) further found that lone-wolf tendencies reduce customer value co-creation, highlighting how employee attributes can influence customer-related outcomes. Taken together, this literature demonstrates that employees are heterogeneous in attributes that can influence both customer and firm-level outcomes.

This heterogeneity may have implications for the costs associated with different customer types (i.e., new vs existing). Customer acquisition and retention involve customers at different stages of the customer relationship, and the costs associated with these customers may therefore vary depending on the employee responsible for managing the relationship. An employee whose attributes facilitate favorable customer responses or stronger performance may require fewer firm resources to acquire or retain a customer. In contrast, an employee with less favorable attributes may require greater resources. Thus, employee attributes may moderate the relationship between customer status and firm costs. Specifically, because repeat customers are retained and new customers are acquired through employees' actions, employees' attributes that help or hinder

their propensity and ability to satisfy current customers or acquire new ones serve as modifiers of the relationship between customer types and the firm's cost of retention and acquisition.

Ideally, firms would hire employees with a range of desirable attributes, including, but not limited to, friendliness, helpfulness, respectfulness, physical attractiveness, appropriate emotional expression, customer orientation, and adaptability. However, firms operate in environments where employees vary in the extent to which they possess these attributes. Because employee attributes can influence customer interactions and outcomes, differences in employee attributes may contribute to variation in the costs associated with acquiring new customers and retaining existing customers. For example, a highly customer-oriented and adaptable employee may reduce costs associated with retaining existing customers by strengthening relationships and increasing satisfaction. These same attributes may also reduce acquisition costs by improving initial customer interactions and increasing the likelihood of conversion. Therefore, employee attributes serve as important moderating variables that influence the relationship between customer type (new versus existing) and customer-related costs. Therefore:

> Proposition 3: Employee attributes moderate the relationship between customer type (new versus existing) and firm-level acquisition and retention costs.

Moderating Role of Industry Type

Although the commonly cited principle that retaining customers is less costly than acquiring new ones seems widely portrayed, this assumption may not hold uniformly across industries or product types. For example, while the telecommunications industry literature claims that acquiring new customers is more expensive than retaining existing ones (Almana et al., 2014), this cost structure may not generalize to restaurants and similar industries, where consumption is experiential and variety-seeking behavior is common. In restaurant settings or comparable experiential industries, retention efforts may require substantial ongoing sales and marketing investments, particularly among customers who actively seek novel experiences or avoid consumption fatigue. For consumers, variety-seeking behavior can be influenced by even relatively simple factors, such as hunger, visual food cues (Goukens et al., 2007), mood (Roehm and Roehm, 2005), and time of day (Gullo et al., 2019). Variety seeking also negatively affects customer retention (Berné et al., 2001) and brand loyalty (Unal and Aydın, 2013) and positively impacts brand-switching intention (Liao et al., 2021). These findings illustrate how situational factors can interact with consumers' propensity for variety seeking and influence their purchasing decisions. Consider, for example, a consumer visiting a zoo. In the zoo's unfamiliar environment, hunger may influence the consumer's decision to try a new food, such as a hot dog, particularly if the consumer sees other visitors eating one. In this context, the consumer's preference may shift from consuming a familiar food to trying a new option once the immediate need for food arises. For the hot-dog vendor, acquiring this customer may therefore be relatively easy and inexpensive because hunger and visual cues have already increased the consumer's willingness to try an unfamiliar option. Conversely, retaining this consumer as a customer of a familiar food brand, such as a granola bar company, could be considerably more difficult and costly in this context.

Imagine, for example, the granola bar company attempting to influence a customer who is already at the zoo and has become hungry. One potential strategy would be to fly a plane over the zoo displaying the company's logo in an attempt to remind the customer to purchase a granola bar. Although intentionally exaggerated, this example illustrates how costly retention efforts could become when an existing customer is exposed to situational factors that increase the attractiveness of alternative products. Importantly, however, the magnitude of this challenge may depend on the industry or product category. A customer purchasing a highly habitual or necessity-based product may be less susceptible to situational influences than a customer purchasing a product for which variety seeking and immediate consumption needs play a greater role.

A manager who operates under the assumption that retaining customers is always less expensive than acquiring new ones may therefore allocate substantial resources toward retaining an existing customer without considering whether the product category or industry makes retention particularly difficult. The zoo example illustrates how industry and product characteristics can shape the relative costs of acquiring and retaining customers, suggesting that industry or product type may moderate the relationship between customer type and firm-level customer costs.

While the zoo food example may represent an extreme case of the difficulty in retaining customers for every purchase, customer loyalty varies substantially across industries and product categories. For example, high loyalty levels are regularly observed in stable consumer packaged goods including liquor (Dawes, 2023), cigarettes (Dawes, 2014), and dog food (Tesfom and Birch, 2010). Conversely, low levels of loyalty have been observed among consumers of tiny brands (i.e., brands with very small market shares) (Barker-Trowse et al., 2026) and among e-commerce consumers (Rahman et al., 2022). High churn rates have been observed in the telecommunications industry (Chang et al., 2024; Ribeiro et al., 2024) and have been increasing in the TV services industry (Snyman and Gilliard, 2025).

Moreover, customer satisfaction does not always translate into brand loyalty. For example, in the fast-food industry, highly satisfied customers do not necessarily demonstrate high brand loyalty (Pleshko and Dawes, 2024). Paradoxically, dissatisfied online shoppers frequently remain with the same platform rather than switching to a competitor (Widyastuti et al., 2024). In the hotel industry, hotel patrons seek variety in hotel selection (Udunuwara and Wilkins, 2021). Taken together, these findings suggest that the relationship between customer type and firm costs may vary across industries, as differences in customer behavior can affect the resources required for acquisition and retention.

Although the preceding examples focus on specific industries, the underlying principle likely extends well beyond these contexts. One distinction that may be particularly relevant is whether customers operate in repertoire or subscription markets. Repertoire markets are characterized by customers who are loyal to multiple brands, demonstrating polygamous loyalty, whereas subscription markets are characterized by customers who repeatedly purchase from the same provider over an extended period (Sharp et al., 2002; Sharp, 2007). These fundamentally different purchasing structures may influence the relative difficulty and cost of retaining customers. In repertoire markets, customers may routinely divide their purchases across multiple providers, potentially increasing the resources required to maintain a customer's share of category purchases. In contrast, subscription markets may create more continuous purchasing relationships in which retaining an existing customer can involve different cost considerations. Trijp et al. (1996, p. 288) noted that "variety-seeking behavior does not occur for all products to the same extent…" suggesting that consumers' propensity to switch may vary across product categories. Consistent with this view, Baltas et al. (2017) demonstrated that consumers seek sensory variety in hedonic categories and functional variety in utilitarian categories. More broadly, Min et al. (2016) found that acquisition costs increase as the number of competitors increases, suggesting that differences in competitive environments may further influence the resources firms must devote to acquiring customers. Taken together, these findings suggest that both the characteristics of an industry and the nature of the products or services within it may shape customer behavior and, consequently, the costs firms incur to acquire and retain customers.

Retention strategies in industries may involve significant financial and managerial investments in loyalty programs, promotional incentives, servicescape maintenance, and consistent service quality. Moreover, firms may need to deliver effective service recoveries following service failures to preserve customer relationships. Prior research suggests that loyalty programs do not always generate net positive returns (Dowling and Uncles, 1997). Casteran et al. (2019) and Dawes et al. (2015), using longitudinal analyses of consumer goods, found that brand loyalty is evolving, with

the direction and magnitude of change differing by product category—some categories exhibited increasing loyalty while others showed declines. Therefore, it is proposed that industry-specific structural characteristics may shape both the magnitude and direction of the cost differential between customer acquisition and retention, allowing for the possibility that retention may be more costly than acquisition in certain contexts. Thus:

> Proposition 4: Industry type moderates the relationship between customer type (new versus existing) and firm-level acquisition and retention costs.

Company Technology Use

Technological advancement continues to reshape how firms interact with customers, manage relationships, and pursue competitive advantage. However, although new sales and marketing tools emerge rapidly, their implementation can be challenging, and firms have limited resources to adopt and leverage them effectively. For example, traditionally, companies have used a sales hierarchy to manage customers, with sales development representatives (SDRs) handling early-stage activities such as cold-calling potential customers, scheduling meetings, responding to emails, and preparing quotes. Once a customer has expressed interest, an account executive (AE) typically assumes responsibility for the subsequent stages of the sales process. This traditional sales structure, however, is increasingly being supplemented by artificial intelligence (AI). AI has increasingly transformed how firms manage customer interactions. AI service agents can be implemented to support customer interactions, and their service quality has been shown to influence outcomes such as customer loyalty (Chen et al., 2023) and online customer flow experience (Alalwan et al., 2025). Beyond AI service agents, firms are increasingly using AI-driven and other emerging technologies to support activities associated with customer acquisition and retention.

For example, AI-driven predictive analytics can foster brand loyalty through the analysis of customer behavior (Ononiwu et al., 2023), while AI and real-time data analytics can positively influence sales funnel conversion and retention efforts (Isen et al., 2026). Similarly, personalization and digital innovation can influence customer retention (Pereira et al., 2025), and AI marketing can affect customer loyalty (Massoudi et al., 2025). Adekunle et al. (2023) identified AI-driven loyalty programs as an effective way to enhance customer satisfaction and reduce churn, while also highlighting the role of real-time analytics and automated intervention systems in strengthening customer retention efforts. Collectively, these findings suggest that technology has become increasingly embedded in the activities firms use to acquire and retain customers.

The increasing use of these technologies also changes the nature of employees' customer-facing roles. Much of the workload traditionally performed by sales development representatives and marketing employees can now be automated through CRM bots and process automation (Martin, 2025), including scheduling, promotional activities, follow-ups, quote creation, routine inquiries, and product demonstrations. These technologies allow employees to focus on activities that require uniquely human skills, while also providing tools that support interactions with both potential and existing customers. Consequently, employees increasingly interact with customers through, alongside, and with the assistance of technology. The effectiveness of these interactions, however, may depend on employees' ability and willingness to adopt and effectively use the technologies available to them.

Employees differ in their propensity to adopt and effectively use emerging technologies. Research identifies differences in digital literacy (Li, Wang, et al., 2025), technology optimism and technology anxiety (Blayone et al., 2021), and AI literacy and technostress (Donmez and Seferoğlu, 2025). Proactive personality positively influences generative AI acceptance (Li, Houghton, et al., 2025), while generative AI literacy positively affects job performance (Liu et al.,

2025). Similarly, artificial intelligence literacy negatively affects fear of innovation (Polat, 2025). These differences are important because the same technology may not produce the same effects across employees. Instead, employee attributes may influence the extent to which employees can effectively incorporate technology into customer-facing activities.

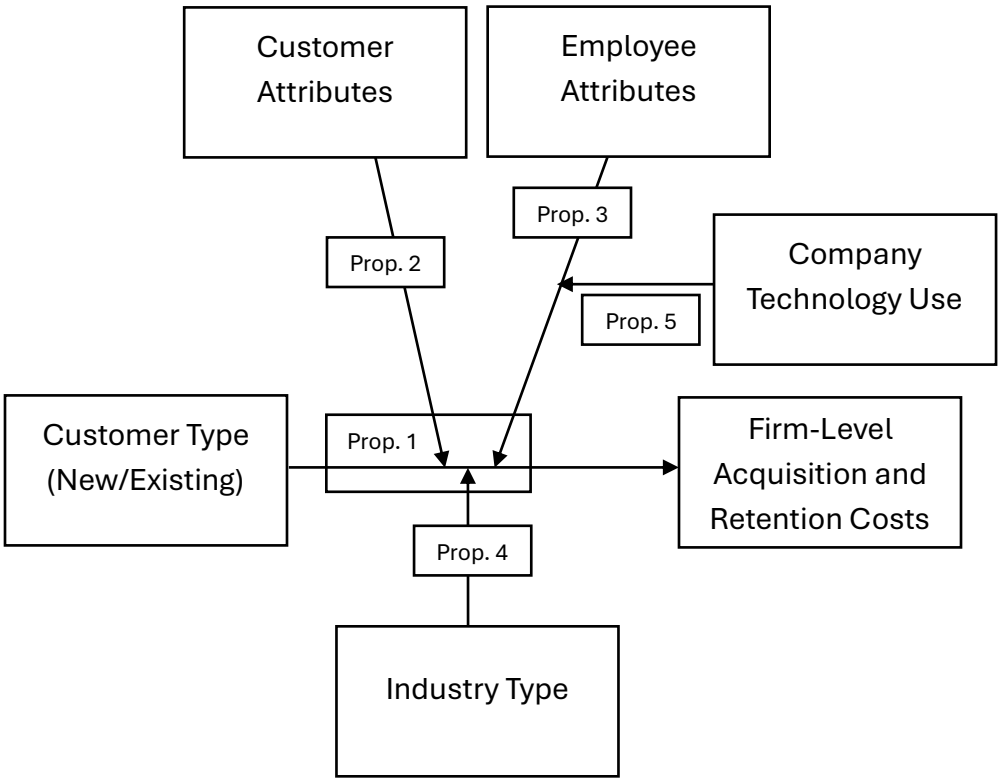
Jia et al. (2024) provide further evidence that employee attributes can shape the effects of AI assistance. Their findings indicate that AI assistance enabled higher-skilled employees to produce more innovative scripts and develop more positive emotions at work, whereas lower-skilled employees made only limited improvements to their scripts and experienced negative emotions. Thus, employee skill level influences how employees respond to and benefit from AI assistance, demonstrating that the effects of technology can vary according to employee characteristics.

These differences suggest that company technology may alter the extent to which employee attributes influence the costs associated with different customer types. As introduced earlier, employee attributes can moderate the relationship between customer type and acquisition or retention costs because differences in employee capabilities, experience, and other characteristics may affect the costs associated with acquiring new customers or retaining existing ones. The relationship is further shaped by the introduction and use of technology, which may strengthen or weaken the influence of employee attributes on the relationship between customer type and acquisition or retention costs. For example, technology may reduce the importance of certain employee limitations by automating routine activities or providing decision support, thereby weakening the effect of employee attributes on acquisition or retention costs. Conversely, technology may increase the importance of employee attributes when effective use requires greater technological knowledge, adaptability, or AI literacy, thereby strengthening the effect of those attributes on costs.

Accordingly, company technology does not necessarily replace the role of employee attributes in determining acquisition and retention costs. Rather, company technology may strengthen or weaken the extent to which employee attributes influence the costs of interacting with new versus existing customers. The resulting relationship is therefore not simply between customer type and cost, nor between employee attributes and cost. Instead, employee attributes interact with customer type to influence acquisition and retention costs, while company technology can further interact with employee attributes to strengthen or weaken that moderating relationship.

> Proposition 5: Company technology use that supports customer acquisition or retention strengthens or weakens the moderating influence of employee attributes on the relationship between customer type (new versus existing) and firm-level acquisition and retention costs.

Conceptual Model



Discussion

Previous literature acknowledged the complexities of managing customer retention and acquisition; however, these complexities are often overlooked in practice. Today, many managers may be relying on the simple retention-acquisition heuristic that retaining customers is always cheaper than acquiring new ones. However, technological advances and the emergence of new industries have created business environments that were difficult to envision in earlier periods. For example, CRM platforms now provide tools that reduce the costs of both retaining existing customers and gaining new ones. Automated email campaigns and follow-up communications can now be scheduled to maintain consistent contact with customers —tasks that once required hours, or even days, of manual work. Generative AI has advanced rapidly, fundamentally reshaping customer engagement. These tools enable firms to execute sophisticated customer engagement strategies with just a few clicks.

Adding to the difficulty of studying these phenomena is the challenge of measuring certain constructs and defining what it specifically means for a customer to "cost" a company in the context of retention and acquisition. Customer-related costs must be defined precisely and

consistently, with careful consideration of the relevant time frame, whether immediate, short-term, or over the customer's lifetime. The adage that customer retention is cheaper than acquisition is often presented as a general rule that considers the cost of a single event while overlooking the broader sales and marketing context and the many variables that may influence that cost. The adage is easy to say and easy to remember. However, the picture painted is that, in any given juncture in time, in that one instant, on average, if a customer-facing representative of a company is either interacting with a potential new customer or an existing one, it is much less expensive to retain an existing customer than it is to sway a non-customer to become a customer. The problem is that business relationships rarely operate in this vacuum, devoid of other influencing variables or the ability to hold all factors constant to calculate marginal costs precisely. The dynamics of customer relationships and their associated costs are far more complex than can be captured by viewing each interaction in isolation.

Outliers further complicate the issue, such as customers who are unusually costly to retain or new customers who are unusually inexpensive to acquire. Yet, such cases are rarely considered when applying the retention-is-cheaper heuristic, which tends to be generalized across customers and circumstances. The seminal piece by Oliver (1999, pg. 33) goes so far as to state that "loyalty cannot be achieved or pursued as a reasonable goal by many providers because of the nature of the product category or consumer disinterest." This observation further suggests that an emphasis on retention may not always be appropriate or even feasible, particularly when the nature of the product category or customer limits the potential for loyalty. Firms that assume acquiring new customers is always more costly than retaining existing ones may overinvest in retention, attempting to cultivate loyalty even when it would be more efficient to allow certain current customers—particularly those who demand excessive time and resources—to migrate to competitors. Customer loyalty programs illustrate this issue: while they have been found to enhance loyalty (Belli et al., 2022) and firm value (Faramarzi and Bhattacharya, 2021), they represent a billion-dollar market in the U.S. (Kim et al., 2021), yet their effectiveness remains inconsistent (McCall and Voorhees, 2010). While customer loyalty programs can help maintain customers, the complexities of retention require careful consideration. Although retention efforts are often treated as inherently beneficial, prior research has identified circumstances in which firms may be better served by reducing resources devoted to certain existing customers or encouraging them to leave. Shin et al. (2012) demonstrate that there may be prudent times to "fire" certain customers who are too costly by raising their prices. Similarly, some hotels have tracked customers who have broken their trust and referred them to other hotels when they are not the best fit for the hotel (Tax and Brown, 1998). Haenlein and Kaplan (2009) provide a framework for customer abandonment, while Mittal and Sarkees (2013) outline the concept of customer divestment and its potential impacts on customer lifetime value (CLV).

Other research demonstrates how firms can manage unprofitable customers without necessarily abandoning them. Feng et al. (2020) show that companies have attempted to manage their unprofitable customers by adjusting credit limits, lessening specialized resources, selling assets, dropping customers, and increasing prices. Regarding retention efforts, Ascarza (2018) suggests targeting customers likely to churn based on their sensitivity to company intervention, further indicating that retention efforts may be more effective when directed toward customers for whom intervention is likely to produce a favorable response. Taken together, these practices challenge the generalization that retaining existing customers is less costly than acquiring new ones, particularly when individual customer circumstances can substantially affect the resources required to maintain the relationship. The relationship between acquisition and retention costs is therefore shaped by a range of contextual factors and variables, making it difficult to conclude that retention is inherently always less costly than acquisition.

Managerial Implications

While many managers may dream of retaining most (if not all) of the customers they acquire and building a loyal customer base that lasts a lifetime, the goal of retaining all customers may be misguided. Ascarza's (2018) concept of "retention futility" challenges this desire by suggesting that some customers are unlikely to respond to retention efforts, making intervention to retain them both ineffective and unprofitable. In such cases, the issue is not merely their likelihood of defection, but their insensitivity to retention initiatives. Managers must consider a variety of factors when developing strategies to acquire or retain customers through sales and marketing efforts and not solely rely on the retention-acquisition heuristic. Simply, reverting to the adage that customers are less expensive to retain than to gain may be an extremely expensive mistake. Spending money and resources on customers who have a very high likelihood of churning would be falling for the sunk cost fallacy or "throwing good money after bad" (Haita-Falah, 2017, p. 44). Managers may also be influenced by the predictions of prospect theory, which suggests that losses loom larger than gains (Rychalski and Hudson, 2017). In other words, because some customers may be unprofitable, managers should consider conducting individualized customer cost analyses and be willing to let unprofitable customers go, even when doing so feels difficult. Ultimately, the desire to avoid the perceived loss of an existing customer may lead firms to overlook the costs associated with retaining customers who are not merely low-value, but may actually generate a net loss for the firm.

While the retention–acquisition cost heuristic predisposes managers to assume that retention is inherently less expensive than acquisition, this belief may obscure meaningful heterogeneity considerations in technology utilization, customer characteristics, industry differences, employee attributes, and other moderating conditions that shape the cost-effectiveness of retention and acquisition efforts. In some contexts, retention investments may exhibit diminishing marginal returns; in others, they may approximate a zero-response function, wherein additional inputs generate negligible or no incremental impact. In other contexts, the acquisition of new customers that are ready to purchase, "low-hanging fruit," or primed to buy through word-of-mouth (WOM) almost costs nothing in incremental costs. When boundary conditions are ignored, continued allocation of resources under the retention–acquisition cost heuristic may lead to substantial financial inefficiencies and potentially severe performance consequences. If the retention–acquisition cost heuristic is applied indiscriminately across contexts without considering relevant variables, managers may make costly decisions by treating a general tendency as a universal rule. While heuristics can be useful for quick decision-making, when planning the strategic implementation of technology and employee training, managers can ask more targeted questions and consider boundary conditions that influence how different types of customers interact with different variables.

Rather than focusing exclusively on customer volume or retention, managers' decisions are most meaningfully evaluated in terms of profitability. Customer profitability can vary substantially across individual customers, making customer-level analysis important for determining where retention efforts are most valuable. The whale curve illustrates this issue by demonstrating that customer profitability can vary substantially across a firm's customer base, with some customers contributing considerably more to overall profitability than others, while some may be unprofitable (Shin et al., 2012). Brown (2010) similarly suggests that managers should evaluate individual customers' profitability because firms may simultaneously serve both profitable and unprofitable customers. The literature refers to the management of unprofitable customers as unprofitable customer management (UCM) (Feng et al., 2020). Customer profitability analysis can therefore provide managers with important insights into which customers create value and which may consume resources without generating sufficient returns. Approaches for analyzing customer profitability include data mining and analysis (Gaspar et al., 2015), clustering (Kaminskyi and Nehrey, 2021), measuring customer lifetime value (Borle et al., 2008; Haenlein et al., 2006; Holm et al., 2012; Safari et al., 2016), cost-to-serve analysis (Guerreiro et al., 2008),

and time-driven activity-based costing (Järvinen and Väätäjä, 2018; Lahutta and Wroński, 2015). While measuring customers' top-line revenue may be relatively straightforward, determining the true costs associated with serving individual customers is considerably more challenging. Consequently, given that not all customers are profitable (Mittal and Sarkes, 2013; Shah et al., 2012), assuming that customer costs and profitability are equivalent across heterogeneous customers, industries, and employee contexts may lead managers to make costly retention decisions. In some cases, allowing an unprofitable customer to leave may be more financially beneficial than investing additional resources to retain the relationship.

While some employee attributes may be well suited to accomplishing certain tasks or job duties, others may hinder performance or increase the resources required to serve customers effectively. Companies could potentially survey current employees and job candidates. Second, as employees evolve, annual surveys could be conducted to evaluate their growth and changing needs. Dovetailing among employees could be used after discovering strengths, weaknesses, wants, and career changes. Managers could survey applicants before they get the job. They should be aware that different employee attributes lead to different potential outcomes. For example, an employee's customer orientation is influenced by an employee's emotional stability, agreeability, and need for activity (Brown et al., 2002), and the customer orientation of the employee positively impacts customer retention (Artha et al., 2022). Moreover, customer retention is positively related to service quality (Sigit Parawansa, 2018), service satisfaction (Artha et al., 2022), and customer satisfaction (Ranaweera and Prabhu, 2003). Taken together, these relationships suggest that differences in employee attributes can influence both customer outcomes and the resources required to effectively serve customers.

The literature shows that certain employee attributes can impact job success. The Big Five personality traits (Openness, Conscientiousness, Extraversion, Agreeableness, and Neuroticism), the HEXACO (Honesty-humility, Emotionality, Extraversion, Agreeableness, Conscientiousness, Openness to experience), and the Dark Triad (Narcissism, Machiavellianism, Psychopathy) have been extensively studied as related to job performance (Pletzer and Abrahams, 2025). For example, while conscientiousness and agreeableness are associated with job success across jobs of both high and low complexity (Sackett & Walmsley, 2014), the Dark Triad is associated with risk-taking (Rosendale et al., 2022) and counterproductive work behavior (Forsyth et al., 2012). These examples show that employees can vary widely in their traits and attributes that affect their job performance. Managers could screen current and prospective employees to better align employee attributes with acquisition and retention roles, enabling firms to leverage individual strengths and mitigate weaknesses that may influence customer acquisition and retention outcomes across different industries and technology environments.

Future Research

Researchers are encouraged to investigate the complexities associated with acquisition and retention costs, as well as the impact of the retention–acquisition heuristic. The variables identified here provide a foundation for both qualitative and quantitative inquiry.

Qualitative studies could explore the influence and pervasiveness of the retention–acquisition heuristic, examining how managerial assumptions shape decisions and potentially obscure the underlying complexities of customer profitability. Such work could provide insights into the thought processes, biases, and organizational factors that drive the use of simplified heuristics in strategic decision-making related to customer cost assumptions and individual profitability analyses. Quantitative research could evaluate the costs associated with individual customers as well as aggregate costs to firms that follow the retention–acquisition heuristic without careful analysis. This could include assessing the financial consequences of over-investing in retention versus acquisition and measuring how different strategies affect overall profitability.

Theoretical research could also apply frameworks such as prospect theory to investigate how loss aversion and other behavioral tendencies influence resource allocation between retention and acquisition efforts. Studies of this nature could be conducted across multiple industries, providing cross-industry comparisons and broader generalizability.

Newer technologies could help mitigate previous attribution problems. Using AI and CRM integration, more exact purchasing attribution could be calculated. Future research should examine how firms can more precisely attribute individual expenditures to the acquisition or retention of specific customers. Until such attribution is possible, attempts to compare acquisition and retention costs risk oversimplifying the complex and context-dependent resources associated with each. Future research should therefore examine how acquisition and retention costs can be more precisely attributed to the expenditure and activities that contribute to individual customer outcomes.

More qualitative research could help unpack the complexity underlying the distinction between customer acquisition and retention. The classification of customers as new or existing may not fully capture the dynamic nature of customer relationships. For example, consider a consumer who purchases a product and does not make another purchase for ten years. When that consumer returns, should the subsequent purchase be classified as an acquisition or retention event? The answer may depend on how the customer relationship is defined, as well as contextual factors such as product life cycle, purchase frequency, and the expected duration of product use. Consider, for example, an automobile purchased with an expected useful life of 300,000 miles. If a consumer purchases the vehicle, drives it for 20 years, and then returns to the same manufacturer or dealership to purchase another vehicle, classifying the subsequent transaction as retention may suggest that the cost of retaining the customer was minimal. Such a classification, however, may overlook the various organizational and environmental factors that contributed to the customer's eventual return, including exposure to advertising, interactions with family and friends, service experiences, brand exposure, and other customer touchpoints occurring throughout the intervening period.

This example illustrates the difficulty of isolating acquisition and retention costs within complex and evolving customer relationships. Although assigning expenditures to specific cost categories may facilitate accounting and managerial reporting, such categorization does not necessarily capture the broader set of resources and influences contributing to customer acquisition or retention. Qualitative research may therefore provide valuable insight into how firms and consumers conceptualize these relationships over time and how the boundaries between acquisition and retention are established in practice. Such work could help identify contextual factors that are obscured when customer relationships are reduced to the simple classification of customers as new or existing. Future research could prioritize developing standardized approaches to calculating customer acquisition and retention costs. Modern accounting systems, digital technologies, and artificial intelligence provide firms with an unprecedented ability to track and categorize expenditures at a highly granular level. By leveraging these capabilities, researchers can establish clear guidelines for assigning costs to acquisition versus retention activities. Because prior literature reports substantial variation in acquisition-to-retention cost ratios, more rigorous and consistent cost attribution methods are necessary to clarify the conditions under which acquiring new customers is more expensive than retaining existing ones. Importantly, improved cost measurement will not eliminate the influence of contextual factors or moderating variables that shape customer costs; rather, it will allow researchers to identify and evaluate these effects more accurately. This research direction can help move the field beyond the conventional assumption that retention is always less costly than acquisition by developing a more nuanced understanding of when, why, and under what conditions these cost differences occur.

Lastly, future research could continue to identify and examine moderators that shape the relative costs of customer acquisition and retention across different contexts. Industry characteristics, consumer behavior, and situational factors may all influence this relationship. In some settings, acquiring a new customer may be relatively inexpensive, whereas in others, retaining an existing customer may represent the more cost-effective strategy. Likewise, individual differences among consumers, such as disposable income, frugality, risk preferences, and variety-seeking tendencies, may further moderate these cost relationships. More broadly, purchasing behavior is complex and context-dependent, suggesting that the relative costs of acquisition and retention are unlikely to follow a universally consistent pattern. Future research that accounts for these contextual and individual differences can provide a more nuanced understanding of when, why, and under what conditions acquisition or retention represents the more cost-effective strategy, moving the literature beyond the longstanding assumption that retaining customers is inherently less costly than acquiring them.

Conclusion

At times, new customers are extremely *inexpensive* to obtain, and companies sell and market to existing unprofitable customers. At times, gaining new customers may be so easy that no human employee is needed at any point in the sales and marketing process. The company may have momentum, established brand recognition, and customer acquisition processes. For example, if a firm has automated the sales and marketing process for "low-hanging fruit" customers, a customer may research the firm's products and services through word-of-mouth or other channels and then decide to buy without any face-to-face contact with the company. In today's environment, a customer can visit a website, complete the necessary forms, and set up payment arrangements without interacting with a human employee. This represents one end of the spectrum, showing that customer acquisition can be relatively easy when the necessary technology is in place, and sunk costs are excluded from consideration. However, at the other end of the spectrum lies the highly demanding existing customer, whose expectations, service requirements, or dissatisfaction may make retention particularly difficult and costly. This customer may exhibit a range of behaviors that increase the cost of retention, such as frequent complaints about products or services, disproportionate demands on customer service employees' time, repeated product returns under questionable circumstances, persistent requests for discounts, or negotiated prices that leave the firm with little to no margin—or even result in a loss. These types of customers are extremely costly, but they are existing customers. It may well be in the firm's best interest to purposefully disengage these unprofitable customers through abandonment strategies.

The conceptual framework presented here provides a guide for counteracting the retention–acquisition heuristic and serves as a foundation for both researchers and managers moving forward. Strategic decision-making regarding customer retention and acquisition is inherently complex, and relying solely on a heuristic is unlikely to sustain a competitive advantage. Considering individual industry contexts, current technologies, and specific customer and employee characteristics is essential. With the advent of new technologies and AI's analytical capabilities, the framework proposed in this paper can help managers identify and address unprofitable customers, allocate resources more effectively, train employees to improve execution and job fit, and mitigate bias in strategic decision-making.

The advent of automation, evolving customer and employee characteristics, diverse industries, and rapidly advancing technologies signal a new era in relationship marketing. While retaining existing customers remains important for creating shareholder value, firms must also recognize that retention does not necessarily represent the most profitable strategy in every situation. Instead, customer profitability should guide decisions about where and how firms allocate

resources, moving beyond the traditional retention-acquisition heuristic. Ultimately, understanding the profitability of individual customers and the contextual factors that shape it is essential to making more informed decisions about when to acquire, retain, or even divest customers.

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