

Capturing
the Evolution of Customer-Firm Relationships :
How Customers Become More (or Less) Valuable
Over Time

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Few studies have examined the influence of marketing activities while accounting for customer dynamics over time. The authors contribute to this growing literature by extending the hurdle model to capture customer dynamics using a hidden Markov chain. We find our dynamic model performs better than static and latent class models.

Our results suggest the customer base can be segmented into four segments : Deal-prone, Dependable, Active, and Event-driven. Each segment reacts differentially to marketing activities. Although catalogs influence both purchase incidence and the number of orders, this marketing activity has the largest impact on purchase incidence across all four segments.

In contrast, retail promotions are more likely to influence the number of orders a customer will make for all of the segments except for the Deal-prone segment