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THE RELATIONAL CONTEXT OF CREATING CUSTOMER PORTFOLIO ANALYSES

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Abstract. Over the past two decades customer relationship management has emerged as a key domain in marketing research and practice. In this context customer relationship portfolio thinking has become highly topical. The customer portfolio analysis, as a management tool, enables the company taking proper decisions about the kind of relationships that should be created by the firm. Because firms have only limited amount of resources to use on their customers, it does not seem rational to treat and develop all relationships in the same way. Instead firms should differentiate the allocation in relation to the value of relationship. This way they can assure long-term performance and lasting competitive advantage. The main aim of the present article is to shed light on the concept of customer relationships portfolio analysis – its importance and dimensions stated in the literature. The author intended to broaden the current understanding of customer portfolio analysis.
Key words: relationship marketing, customer portfolio analysis, portfolio analysis, customer relationships

INTRODUCTION

Customer relationships portfolio analysis represents one of the latest and key tools used for managing business strategy. It is a tool of strategic importance nowadays. Portfolios provide a mechanism for conceptualizing and managing customers and a set of relationships created with them. Customer portfolios have attracted research attention in the form of analytical customer portfolio studies. Much less effort has been devoted to characterizing the nature of firms' total customer portfolio relationships. The limitations in customer relationships portfolio analysis research have arisen because there is little agreement on the kinds and number of dimensions that should be used when preparing them. The main aim of the present article is to shed light on the concept of customer

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relationships portfolio analysis – its importance and dimensions stated in the literature. The author intended to broaden the current understanding of customer portfolio analysis. Regarding the methodology used in the development of the study, the author appealed to the documentary research by consulting different specialty papers dealing with relationship marketing and portfolio analysis, in order to find out relevant aspects of the analyzed issues. Based on the literature, findings indicate different perspectives when preparing customer portfolio analyses. These perspectives regard different dimensions used as well as different number of variables. The nature of portfolio used depends mainly on the sector the company operates in and on the kind of information the company needs. The study contributes to the current knowledge by offering a set of dimensions that can be used in customer portfolio analysis by companies operating in different market circumstances as well as some conditions for a successful use of these analyses.

FOUR PERSPECTIVES OF RELATIONSHIP MARKETING

The relationship paradigm has been one of the most influential concepts of marketing activities for two decades. Literature published during the last 20 years initially concentrated on the need for creating relationships with all customers. A special role of customer satisfaction was emphasized, assuming that customer satisfaction means his/her loyalty. Lasting, strong customer relationships were seen as tools necessary to build competitive advantage. Later, however, an increased number of research and companies' experience confirmed that establishing strong and lasting relations with all customers is not always needed. There are two reasons for the situation. Firstly, some customers do not wish or need to establish lasting relationships with service provider. They only wish to purchase an offer at an expected price. A transactional approach is therefore suitable for this group of customers. Secondly, sometimes such activities are not justified from the economic point of view. If we assume that the concept of modern marketing is a management process aimed at maximizing shareholder returns and producing lasting increase in cash flows, then the relations should be created with valuable customers. Establishing lasting customer relationships does not need to mean achieving economic benefits. Benefits are not determined by the length of a relationship but by the type of customers. The key is to create appropriate relationships with particular customers, not to create any relations and retaining all customers. Relationship management activities should be adjusted to the customer value and focus on managing the whole spectrum of customer relationships, from sale transactions in case of a particular group of customers to a strategic partnership in case of another. Bearing in mind the fact that not all customers equally contribute to the company value, an appropriate selection of customers is necessary. Enterprises should therefore focus on establishing various relationships with different customers in order to achieve benefits in the long term.

The literature presents four key perspectives providing a context for understanding the necessity to establish various kinds of customer relationships by organizations operating in the market [Johnson, Selnes 2005]. The **economic** perspective focuses on establishing lasting relationships rather than making simple, short-term transactions, since the former enables companies to obtain more financial benefits. This approach assesses whether the costs saved or profits generated from particular relationships justify increase in costs or

investments in them in the long term. According to this approach, decisions about investments in a particular relationship depend on four factors: costs and risks of the exchange process, ways of process management (cooperation based on a contract or informal arrangements), value proposition for the customer, as well as resources and skills unique for the customer or the company. The **sociological** perspective underlines the significance of the networks and connections resulting from the relationships established over time. Close relationships create dependencies, which have both positive and negative aspects for customers and service providers. Exchange processes result in events and activities, which determine customers' trust and their commitment in relationships. In this approach decisions about relationships involve a wider perspective than economic benefits. Trust and customer commitment in the relationship development make that, despite economic reasons encouraging the change of the service provider, resource affiliation of relationship parties, personal contacts and common activities undertaken in the past prevent the use of resources and value proposition of other companies by the customer. Trust and commitment created along with the development of the relationship are key concepts in the sociological perspective. Considering conditions and relevance of establishing customer relationships in the **psychological** perspective, the focus is put on the influence of quality, perceived value and satisfaction on exchange processes and customer loyalty. In this perspective it is proved that customer perceived value and satisfaction determine customer buying behaviors and creates their loyalty. The loyalty is seen as an overriding objective of relationship marketing since only loyal customers are assumed to be profitable to the company. The assumption, however, needs to be seen as generalization. Sometimes the costs of loyal customers service are higher than that of others. Moreover, loyal customers, being aware of their value for a particular company, may use their position to impose their conditions of cooperation. In the **operational** perspective the roles of CRM and database marketing are emphasized for the assessment of lifetime value of particular customers. This area of research contributes to the learning process about determinants of customer relationships creation by facilitating the understanding of methods for allocating marketing activities aimed at the optimization of resources among particular customers and relationships created with them.

CUSTOMER RELATIONSHIP PORTFOLIO MANAGEMENT

In all mentioned above perspectives of customer relationships creation undertaken in the management literature one may see the potential of relationship marketing for creating value for the company. It also needs to be underlined that the influence of customer relationships on this value cannot be considered in the context of a short-sighted pursuit of relationships at all costs, with all customers by using economic incentives. From the economic point of view, some customers do not wish to establish close relationships, as they want to use their bargaining power while negotiating prices. From the sociological point of view, this shortsightedness prevents mutual trust and commitment in the development of future relationships. From the psychological point of view, more profitable relationships are created by customers' satisfaction and long-term trust, not by price policy. Finally, from the operational point of view, establishing relationships with all customers is not profitable since their lifetime value is different.

The concept of customer portfolio management, comprising the four mentioned perspectives, enables the company taking good decisions about its customer relationship portfolio, so that it can create value and lasting competitive advantage. In this context customer portfolio management may be defined as "a process in which companies analyze current and future value of their customers in order to develop a balanced structure of their customers by an effective allocation of resources among particular customers or groups" [Terho, Halinen 2007]. According to this concept, the idea of unconditional satisfying all needs and expectations of all customers is abandoned. Instead, customer relationships are seen as company asset managed according to their potential. Managing the whole portfolio of customer relationships and developing them according to their value for the firm so that it can accomplish its financial objectives in the long term is key in the portfolio analysis.

The theory of portfolio originated in 1950s when H. Markowitz formulated its principles. He initiated numerous researches into capital investments, thus contributing to formulating the investment theory. Markowitz referred to financial investments and their best allocation so that the investor could maximize profit and minimize risk [Markowski, Rutkowska-Ziarko 2011]. Economic growth that took place in the 1990s, globalization, the development of information technologies, and growing competition forced changes in the ways customer – company relationships were perceived. Thus, the portfolio theory started to spread to other then financial areas of company's. New possibilities of solving the problem of allocation of limited company's resources in order to maximize profits at a defined risk level were noticed. Playing an important role in almost all areas of management, portfolio methods support company's decision-making processes. Their position is especially strong in marketing practices for examining the structure of product portfolio offered by the firm. Particular products or product groups were analyzed in the context of their present or future market share and sales volume, as well as associated costs, financial effects and investment requirements. The analyses enabled managers to take strategic decisions about the identification of assortment gaps, to create product innovations, and to allocate resources on marketing activities in reference to particular products in order to increase their capabilities for gaining and retaining competitive advantage [Garbarski 2011 – Ed.].

Later, studies on the portfolio theory based on scientific research and its application in business practice were used to assess and manage the new strategic asset, namely customers. Considering customer relationships as a company's asset determining its value requires the optimization of the customer portfolio structure. In order to achieve this, it is necessary to select and allocate marketing activities among individual customers so as to maximize the customer database. The portfolio approach is of crucial importance when values generated by customers for the enterprise are significantly diversified. On the one hand, values created by customers are direct and connected with cash flows from purchased products and services. On the other hand, they are indirect and result from customers' recommendations, offer co-creation, or communicating information about the company.

VARIABLES USED IN PORTFOLIO ANALYSES

Customer relationship portfolio analysis, as a strategic tool, may be prepared in different dimensions and with the use of different combinations of variables, depending on the

company's objectives and requirements. The key element determining the effectiveness of the portfolio analyses as a tool for making decisions is to work out the appropriate combination of variables to analyze the company's customers. Thanks to the analysis of existing models two categories may be distinguished. One includes variables for the customer's financial value for the enterprise. Variables used in the analyses of this type include, among others, sales volume, purchase value, relational costs, customer profitability, and customer lifetime value. Financial customer value is considered both retrospectively, where customer assessment is analyzed in a precisely defined time span in the past, and prospectively referring to the future, where the value of current customers is assessed, defined on the basis of predictions of future transactions and relationship costs (Table 1). Customer value may be defined as a net of the revenues obtained from the

Table 1. Measures used in customer relationship portfolio analysis

Author	Year	Number of measures	Number of steps	Suggested measures
Portfolio analysis using financial measures				
K. Storbacka	1997	2	1	• Relationship revenue • Relationship cost
B. Shapiro, K. Rangan, R. Moriarty, E. Rossa	1987	2	1	• Cost to serve (presale costs, production costs, distribution costs, post sale costs) • Net price
L. Ryals	2003	2	1	• Profitability/Customer Lifetime Value • Customer risk
Portfolio analysis using relational measures (role and function customer represent to selling firm)				
R. Fiocca	1982	2	2	Step I • Strategic importance of the account • Difficulty in managing the account Step II • Customer's business attractiveness • Relative strength of the relationship
Portfolio analysis using fix measures				
T. Ritter, H. Andersen	2014	3	1	• Profitability and Customer Value • Commitment • Growth potential
D. Yorke, G. Droussiotis	1994	2	2	Step I • Strategic importance of the account • Difficulty in managing the account Step II • Customer profitability • Perceived strength of the relationship
R. Krapfel, D. Salmond, R. Spekman	1991	2	1	• Relationship value • Interest commonality (compatibility of actor's economic goals)
J. Zolkiewski, P. Turnbull	2000	3	1	• Cost to serve • Net price • Relationship value

Source: Own elaboration.

customer over the lifetime of transactions with that customer minus the cost of attracting, selling, and servicing that customer, taking into account the time value of money [Jain, Singh 2002]. The other group of variables refers to the condition and nature of the established customer relationships. It includes perceived strength of a relationship, customers' liability to involve in a relationship and its development, confidence level, customer's adaptation to long-term objectives, possibilities and company's resources.

CONDITIONS FOR THE USE OF PORTFOLIO ANALYSES

On the basis of the review of research into issues connected with the customer portfolio analysis conducted over the last several dozen years, one may point to a few key conditions for their use. They include:

1. The necessity to take into consideration three perspectives in portfolio analyses.
2. The necessity to apply a dynamic approach in portfolio analyses.
3. The necessity to keep a balance between the offensive and defensive customer portfolio management.
4. The necessity to predict changes in customers' positions in the company's portfolio.

The necessity to take into consideration the three perspectives in portfolio analyses

The analysis of customer portfolio enables the company to optimize the strategy of building and maintaining customer relationships in order to maximize financial results and strengthen its competitive position. Therefore, it is necessary not to limit to the supplier's perspective only (the situation common in present concepts of customer portfolio analyses). Customer and relationship perspectives are also important [Ritter, Andersen 2014] – Figure 1.

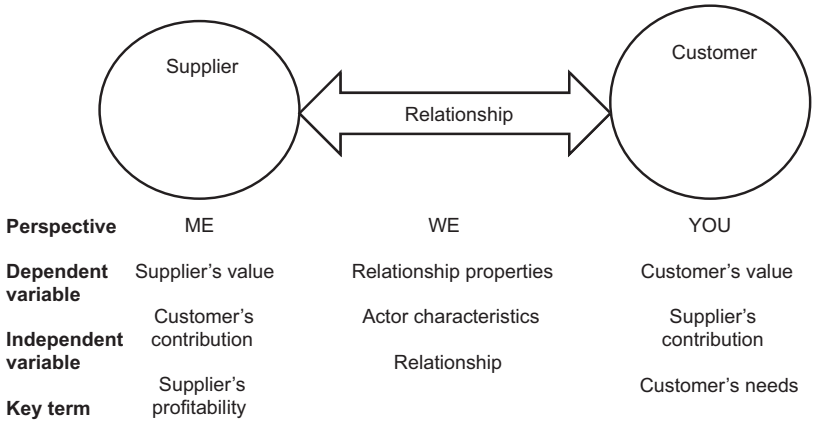

Fig. 1. Three perspectives in customer portfolio analysis

Source: T. Ritter, H. Andersen, 2014. A Relationship Strategy Perspective on Relationship Portfolios: Linking Customer Profitability, Commitment, and Growth Potential to Relationship Strategy. Industrial Marketing Management, 43, 1005–1006.

Customer portfolio should be managed so that supplier's requirements are fulfilled ("ME" perspective). Analyses should make it possible to classify customers according to their value for the supplier and to optimize customers' contribution in profits generated by suppliers. On the other hand, in order to create effective marketing strategies towards customers, which would translate into the company's success, it is necessary to consider customers' perspective ("YOU"), in which analyses concentrate on their needs and expectations. This approach is uncommon in portfolio analyses. In this perspective supplier's contribution to satisfying customer's expectations in order to identify reasons behind his/her interest in the offer is analyzed. The "WE" perspective refers to properties of a relationship linking the customer and the supplier. In order to understand relationships between them, and to develop and implement effective marketing strategies, customer relationship portfolio analyses combining these three perspectives should be carried out.

The necessity to apply a dynamic perspective in portfolio analyses

Most methods of the portfolio analysis found in the literature document the company's condition within a defined time span in the past. They are static and consist in classifying customers (customer segments) with the use of variables analyzed at a particular point in time (customer's profitability, gross price, service costs, profits from a relationship). Yet, customer relationships are dynamic [Terho, Halinen 2012]. Since customers change in time and evolve, their value changes in future time spans. Changes in customers' behaviour and their preferences caused by situations occurring both within the company and in business environment change relationships. Hence customer portfolio analyses should be used to monitor changes in relationships between suppliers and customers. This is connected with the application of a dynamic approach according to which a customer portfolio is a classification of customers (customer segments) with regard to their present and future value [Johnson, Selnes 2004, Homburg et al. 2009]. Such a presentation of a portfolio analysis implies the necessity to take into consideration a defined risk level in customer relationships, the fact that is not taken into consideration if customer value is presented statically. The risk of customer relationship change should take into consideration the probability of change in customer value with time and the level of the change (positive/negative).

The analysis of a customer portfolio in a dynamic dimension enables the company to allocate its resources so that it contributes to an increase in customer value in the future, thus enabling the company to develop in the long term.

The necessity to maintain a balance between the offensive and defensive management of a customer portfolio

Customer portfolio management models are to strengthen the company's market position. According to the modern concept of marketing, this objective may be accomplished by developing existing customer relationships or establishing relationships with new customers. It also refers to the possibility of ending relationships with customers of low value for the company if there are no chances of improving this value in the long term. It

is called the offensive management of a customer portfolio, and it is of particular significance in reference to low and medium value customers [Homburg et al. 2009]. Its main idea is to allocate resources in customer relationships so as to increase the customer's value. On the other hand, companies may do defensive activities connected with their concentration on maintaining present customer value. Defensive activities are recommended for high value customers. In the process of customer portfolio management one should pay attention to the necessity to keep a balance between the two approaches, as they are complementary, and focus on the influence of these activities on the value of the whole customer portfolio.

The necessity to predict changes in customers' position in a company's portfolio

The firm should know where and how to invest its resources in order to develop customer relationships in a dynamic perspective, but it should also attempt to predict changes in a customer portfolio. Customer value for the company does not change rapidly. Therefore, it is necessary to identify variables, which would facilitate predicting customer behavior in the future. Characteristics of current transactions with the customer and previous experience of a relationship with him/her may be an important source of information, which can be used to determine current customer's profitability. Such indexes include: the scope of the use of company's services (company's share in a customer portfolio), transaction value, buying frequency, and the date of last purchase. Socio-demographic characteristics of customers, their attitudes and values may indicate the direction of changes in customer value in the long term. This type of variables includes the area of customer's professional activity, his/her age, his/her bargaining power, risk aversion, lifestyle etc.

CONCLUSIONS

Analyses of a customer relationship portfolio are assumed to be useful tools to support decision-making processes, directed at achieving market success in the long term. In order to achieve this objective they must be included in the continuous process-taking place in the company, not just a separate analytical or strategic tool used at a particular moment in time. Customer portfolio management activities evolve and change over time as companies adapt their strategies to current situations within the structure of served customers. Moreover, portfolio analyses are not separate marketing tools used to achieve merely marketing objectives. They are a multi-functional tool used at different levels of management, both operational and strategic, linked to various functional areas of the enterprise, such as selling, accounting and production.

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RELACYJNE UWARUNKOWANIA KSZTAŁTOWANIA ANALIZ PORTFELA KLIENTÓW

Streszczenie. Paradygmat relacji już od ponad dwóch dekad jest jedną z bardziej wpływowych koncepcji działań marketingowych zarówno w badaniach naukowych, jak i praktyce biznesu. W tym kontekście analiza portfela relacji z klientami stała się jednym z kluczowym wyzwań dla marketerów. Analiza portfela klientów, jako narzędzie zarządzania marketingowego, umożliwia firmie podejmowanie właściwych decyzji dotyczących rodzaju relacji

z klientami, jakie firma powinna nawiązywać i rozwijać. Z uwagi na ograniczone zasoby, jakimi dysponuje współcześnie przedsiębiorstwo nie jest uzasadnione podejście, w którym wszystkich klientów i relacje z nimi nawiązane traktuje się w ten sam sposób. Przedsiębiorstwa powinny koncentrować się na budowaniu różnego rodzaju relacji z różnymi klientami w taki sposób, aby mogły one pomnażać korzyści własne w efekcie prowadzonych działań w długim okresie. Celem opracowania jest omówienie znaczenia analiz portfela relacji z klientami w strategii organizacji oraz zmiennych wykorzystywanych w procesie ich przygotowywania. Intencją autorki była również identyfikacja uwarunkowań związanych ze stosowaniem analiz portfela relacji z klientami w przedsiębiorstwie.

Słowa kluczowe: marketing relacji, analizy portfela klientów, analizy portfelowe, relacje z klientami

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