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Customer portfolio analysis practices in different exchange contexts ☆

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Abstract

Customer relationship management is increasingly important in current marketing research and practice. The customer portfolio models represent one of the few concrete tools proposed for relationship management in business-to-business markets. Yet, knowledge of how companies use customer portfolio analysis (CPA) remains limited. Earlier research adopts a fairly narrow view of CPA and ignores the influence of internal and external company context on portfolio analysis application. This article presents a broad definition of customer portfolio analysis and offers insights into companies' CPA practices in different exchange contexts. The study reports findings from an explorative multiple case study that investigates analysis practices in different exchange contexts. The results lend support to the proposition that CPA is a variable and context dependent activity. The complexity of the exchange context has an effect on the form, content and implications of customer portfolio analysis. The study highlights a number of unexplored questions to encourage further research on portfolio analysis and its performance.

Keywords: Customer portfolio analysis; Customer relationship management; Exchange context

1. Introduction

Over the past decade customer relationship management (CRM) has emerged as an important domain of both marketing research and practice. Supported by the developments of information and communication technology and the network economy, CRM has even come to replace the concept of relationship marketing (cf. Boulding et al., 2005; Payne and Frow, 2005), or – according to a more careful interpretation – appeared as the dominant label for relationship marketing applications (Gummesson, 2004). Furthermore, in business markets, customer relationship management has long been recognized as a key to competitive success particularly in increasingly networked, global and dynamic business environments (e.g., Campbell and Cunningham, 1983; Krapfel et al., 1991; Möller and Halinen, 1999). Four interrelated levels of customer relationship management have been delineated: networks, nets, portfolios and individual relationships (Möller and Halinen, 1999; Möller et al., 2005). Over the past 30 years most of the concrete, customer management tools proposals are made at the customer portfolio level. Along with the recent CRM boom, customer portfolio management has become of interest again. That has resulted in a number of authors arguing that in order to manage company growth, profitability, and shareholder value, the focus should move from the few closest relationships to a broader managerial perspective that takes into account the firm's entire customer portfolio (Dhar and Glazer 2003; Johnson and Selnes, 2005).

The research on portfolio analysis and management to date concentrates on two major issues: proposing formal, mainly matrix-form, portfolio models for customer management tasks (e.g., Cunningham and Homse, 1982; Dhar and Glazer, 2003; Fiocca, 1982; Hartley 1976; Krapfel et al., 1991; Zolkiewski and Turnbull, 2002); and, testing theoretically driven models with data from case companies at one point in time (Eng, 2004; Storbacka, 1997; Zolkiewski and Turnbull, 2002; Yorke and Droussiotis, 1994). At the same time, the very few empirical studies show that strictly formal, matrix-form customer portfolio analysis is relatively rare in business, even though companies tend to analyze and manage their customer bases systematically (Leek et al., 2002; Räsänen, 1999). A number of researchers also criticize customer portfolio models as offering an excessively simplified view of reality and overlooking, in

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particular, the network effects, that is, the interconnectedness of business actors (Dubois and Pedersen, 2002; Ritter, 2000).

In sum, existing research provides contradictory views of the value of customer portfolio analysis for companies. These contradictions relate to three major factors. First, academic research on customer portfolio analysis unnecessarily focuses on formal, matrix-form models. The long history of portfolio models in finance (Markowitz, 1952) or in varied areas of marketing (e.g., product, strategic planning, and internationalization — see e.g. Kahane, 1977; Mahajan et al., 1982), indicates that portfolio analysis is a variable practice where several methods, not only matrixes, are in employment. A number of recent studies on customer relationship portfolios also support this view (Freytag and Mols, 2001; Johnson and Selnes, 2004; Ryals, 2003).

Secondly, research to date is one-sided in a methodological sense. The testing of theoretical portfolio models with case company data has not been able to provide knowledge about the actual use of customer portfolio analysis, nor about its performance for the company in the long-term. Up to this point, only a few studies have focused on the companies' actual practice of customer portfolio analysis (Leek et al., 2002; Räsänen, 1999; Salle et al., 2000). Hence, the emphasis in research should shift from testing separate theoretical models to studying companies' portfolio practices and their performance.

A third important notion is that researchers study customer portfolio analysis without examining the context of its application. Many authors propose that relationship marketing and relationship management are context dependent activities (e.g., Blois, 1996; Brodie et al., 1997; Coviello et al., 2002; Grönroos, 1994; Li and Nicholls, 2000; Möller and Halinen, 1999). In addition, some researchers emphasize that the tailoring of portfolio analysis to a firms' needs and circumstances is essential to its performance (e.g., Salle et al., 2000, 434; Wind and Mahajan, 1981, 165). The complexity of a focal firm's exchange context is thus likely to affect the application of customer portfolio analysis, and therefore, customer portfolio analysis should be studied according to the internal and external context of its use. The influence of context is clearly an aspect that is missing in current studies that test theoretical portfolio models and their performance.

The *purpose* of this research is to broaden the current understanding of companies' customer portfolio analysis (CPA) practices in different business-to-business contexts. As empirical research about customer portfolio analysis is scarce, the study adopts a qualitative, explorative research approach. An explorative, multiple case study was conducted to see how the exchange context potentially affects companies' CPA practices. The study provides preliminary empirical evidence of the assumed connection between the complexity of exchange context and the qualities of CPA practice.

The article is organized as follows. The first section defines customer portfolio analysis and discusses the central characteristics of CPA practice on the basis of existing literature. The question of the context dependent nature of CPA is also addressed. The second section analyzes the complexity of exchange context and identifies its key dimensions. The third section describes the case methodology and the choice of cases and the fourth presents the results of the empirical research. By comparing cases from different exchange contexts the study is able to show interesting differences in the key characteristics of customer portfolio analysis practice. The article ends with a discussion of the limitations of the study's subject and implications for further research and practice.

2. Customer portfolio analysis

2.1. Defining customer portfolio analysis

In order to create new knowledge about how companies apply customer portfolio analysis, the definition of the concept needs to be reconsidered. By defining CPA as the use of theoretically driven matrix-form models we would unnecessarily limit our view of the phenomenon. The need is for a definition that describes the essence of the concept and is broad enough to cover the probable variation in CPA practices. The new definition is based on an in-depth literature review of both supplier and customer relationships and earlier marketing portfolio models since the 1970s. Broadly defined, the customer portfolio analysis is an activity by which a company analyzes the current and future value of its customers for developing a balanced customer structure through effective resource allocation to different customers or customer groups.

The balance of a customer portfolio can be regarded as the central goal of customer portfolio analysis, as it is more or less explicitly present in all proposed models. Hence, initial portfolio models in finance and even in marketing are based on mathematical optimizing and have a strong, explicit focus on the forming of an optimal portfolio of stocks, products, etc. (e.g., Kahane, 1977; Markowitz, 1952). In later marketing portfolio models, the aim of mathematical optimizing moves into the seeking of portfolio balance (see e.g., the famous BCG portfolio model by Hedley, 1977). However, in relationship portfolio models, the balance aspect is rarely explicitly present but remains still implicitly inbuilt in the models; most of the models aim for a balanced combination of relationships in the customer base that serves the focal firms' long-term profitability and effectiveness goals (cf. Turnbull, 1990, 21). Some authors also stress the need to see the total of relationships as an investment portfolio where the balance is a result of the long-term risks and revenues related to customer relationships (Ryals, 2003). Moreover, all portfolio models involve effective resource allocation, which can be seen as a key means for developing a balanced customer structure. Finally, the actual analysis of the customer base is about determining the value of customer relationships to the focal firm in a broad sense and distinguishing between customers of different value. The analysis is a future oriented activity which is by no means restricted to customers' monetary value but involves the diverse roles of customers in providing current and future value for the focal company (see Johnson and Selnes, 2004).

The concept of customer portfolio analysis is close to the concept of segmentation but still differs significantly. Portfolio analysis focuses on analyzing the value of existing customers