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# Linking account portfolio management to customer information: Using customer satisfaction metrics for portfolio analysis

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ABSTRACT

When appropriate variables are used, account portfolio analyses engender a convenient framework for the relationship composition of companies and allow management to reconsider which customers and relationship dimensions need attention. Based on an industrial company's key account relationships, the portfolio approach considered in this study employs Customer Satisfaction (CS) metrics as a portfolio dimension and suggests a new and more customer oriented approach to account portfolio analysis. Proposed portfolio matrices provide insights into the strength and stability of customer relationships. Furthermore, the matrices force managers to adopt a future perspective on customer relationships by evaluating the business potential of customers along with CS information and allow prioritization with respect to resource allocation. The study attempts to put forward customer heterogeneity in industrial markets and offers a managerial guideline embracing customer specific marketing actions. In addition, the paper proposes a new use for CS information in strategic decision making.



## 1. Introduction

Increasing competition, technological change and many well known environmental factors have encouraged companies to move away from fragile relationships between salesperson and buyer and to pursue customer retention and long term customer relations. Thus, many companies hope to gain competitive advantage by forming stronger relationships with fewer customers and suppliers. However, Zolkiewski and Turnbull (2002) argue that the successful adoption of these selective relations can be problematic and this is where portfolio analysis makes a major contribution to management.

Following Markowitz's (1952) portfolio theory, portfolio models have been used for strategic planning for decades (Ansoff & Leontiades, 1976; Wind & Douglas, 1981). Recently, newer portfolio models have been studied in business domains related to customer relationships (Campbell & Cunningham, 1983; Fiocca, 1982; Johnson & Seines, 2004; Krapfel, Salmond, & Spekman, 1991; Yorke, 1984), supplier relations (Cunningham, 1982; Kraljic, 1983; Wagner & Johnson, 2004), technology (Capon & Glazer, 1987) and new product development (Cooper, Edgett, and Kleinschmidt, 1999).

Account portfolio analysis deals with grouping customers and developing meaningful strategies for each group incorporated into resource allocation decisions to meet marketing objectives. Portfolio analysis and management can be applied from multiple perspectives, at various levels of aggregation, and with different strategic variables or portfolio components, depending upon the company's objectives and specific situations (Turnbull, 1990). Portfolio management tools have the potential to help businesses fine-tune their customer offerings and develop competitive advantage, in addition to aiding in strategic planning (Dibb & Wensley, 2002). The purpose of the study is to develop customer portfolios using variables that were determined to be important in previous studies along with the customer satisfaction (CS) metrics and to present the implications for marketing strategies and future resource allocation for key account portfolio. Directly integrating the CS dimension to account portfolio analysis, a concept that has not been studied previously, might present significant rewards to marketing academics and practitioners. Compared to other account portfolio dimensions, CS scores are customer-based, factual, numerical and convenient sources of information. The proposed framework extends the existing account portfolio approach by exploring an alternative strategic variable for customer portfolio development and searches for a junction to a significant customer orientation.

Although the CS literature proposes that firms employ CS information in almost all management decisions across all functional areas (Jaworski & Kohli, 1993; Piercy, 1996), Morgan, Anderson, and Mittal (2005) found that most firms use CS information as an input in only a limited number of decisions. Although CS is measured by many firms as part of quality systems standards, new studies and propositions are required for the efficient and convenient use of CS information in strategic decision making and management control systems.

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Therefore, this study attempts to make a twofold contribution. First, the use of CS metrics for account portfolio analysis is discussed in terms of more customer-oriented account portfolio models. Second, CS information is considered as a strategic input for the management of account relationship portfolios and a new use for CS information in strategic decision making is proposed. These may reveal the actions necessary for the necessary relationships and may streamline the decision making process for suppliers' account portfolio management. Two portfolio matrices are proposed for this purpose including satisfaction scores of customers as a portfolio dimension and discussion turns on how a supplier can utilize the information gained from customers' positions on the portfolio grids. Since each relationship requires different types and degrees of investment and produces different outcomes (Cannon & Perreault, 1999), the study arrives at sound evaluations of individual customers.

## 2. Customer portfolio models

In line with the ascent of relational approaches in marketing, studies in dealing with the customer portfolio have been conducted for a couple of decades (Campbell & Cunningham, 1983; Dubinsky & Ingram, 1984; Eng, 2004; Fiocca, 1982; Johnson & Seines, 2004; Yorke & Droussiotis, 1994). These studies address company's account portfolio and group its customers to make the relationship portfolio efficient and balanced. Fiocca (1982) suggests a two-step customer portfolio analysis. First, all customers were classified according to their strategic importance and the difficulty of managing the account. Then, key accounts were analyzed using a second portfolio, including the dimensions of customer attractiveness and strength of the buyer–supplier relationship. Campbell and Cunningham (1983) classified customers into four life cycle segments as “Yesterday's customers”, “Today's regular customers”, “Today's special customers” and “Tomorrow's customers”. Dubinsky and Ingram (1984) put forward a profitability perspective and developed a portfolio that considered the present and potential profit contribution of customers. In addition, Krapfel et al. (1991) suggested a path to operationalize the constructs of relationship value and interest commonality and then offer classifications for relationship types and management modes in a theoretically grounded structure.

Yorke and Droussiotis (1994) based their portfolio dimensions on Fiocca's analysis, but also including the factor of customer profitability and offering a convenient portfolio approach using a case study. Zolkiewski and Turnbull (2002) evaluated the relationship portfolios in the context of network theory and proposed that such portfolios might be a key factor in successful relationship management. Recently, Johnson and Seines (2004) introduced a model that links value creation within individual customer relationships with overall value creation for a firm and classified customers as acquaintances, friends, and partners.

Recent changes in interfirm management approaches, increases in pressure for competitive advantage, and increasingly turbulent global environments are harbingers for a revamping of portfolio thinking (Wagner & Johnson, 2004). Although the portfolio approach is a well established area of business studies, Eng (2004) argues that the guiding principle of different customer portfolio dimensions is often based on the notion that environmental forces (e.g. market growth, competition, technological factors) are uncontrollable or strategic decisions are based on adapting the company to its environment. Despite the wide recognition of customer and market oriented approaches in the marketing domain, account portfolio models have not adequately involved in real customer information and analysis have mostly been designed as supplier-centric. The logic lying behind the account portfolio approach is an assessment of customer composition and development of relevant strategies for different groups of accounts. Even though the logic seems to address a significant customer orientation, the methodology used contains virtually no customer involvement. Such a vital process should not be based solely on independent evaluations from customers and selling companies' own assessments about relationships. Integrating customer information to account portfolio analysis may provide a more customer-focused evaluation process and tailored strategy for account relations.

### *2.1. Key account management*

As an extension of the portfolio approach, Key Account Management (KAM) is regarded as one of the significant marketing trends over the last few years (Abratt & Kelly, 2002). Key accounts are customers in a business to business market identified by selling companies as of strategic importance (McDonald, Millman, & Rogers, 1997). Hence, KAM means identifying these customers and giving them specific and personalized treatment (Pardo, 1999). Key accounts between themselves, even within the same industry, may well display heterogeneity, either in structure, operations or in strategy (Spencer, 1999). Thus, an understanding of the different types of accounts and the importance they have for the supplier company is important. The position that the key account will have within the supplier's portfolio is a major consideration when implementing the KAM program (Abratt & Kelly, 2002). Millman and Wilson (1995) point out that each key account should be considered a segment, requiring a different allocation of resources to the relational mix. In this sense, this paper tries to develop a diagnostic tool that can be used to support customer analysis involved in the KAM process and proposes bespoke relationship strategies through a convenient managerial approach.

Many KAM applications are established and managed without investigating what the customer wants or needs in service, product, delivery or information (Dishman & Nitse, 1998). Millman and Wilson (1999) suggest that there is widespread acceptance of developing customer-facing KAM processes. Defining and implementing such processes, however, has proved problematic, even for those companies acknowledged to be close to best-practicing KAM. Since this study attempts to link customer information to account portfolio management, it may contribute to the design of more customer-facing KAM processes.

## 3. Customer satisfaction

The concept of CS has gained increasing attention in business studies. In this sense, satisfaction metrics have been accepted as one of the most valued elements of customer information (Homburg & Rudolph, 2001; Sanzo, Santos, Vasquez, &Alvarez, 2003; Sharma, Niedrich, & Dobbins, 1999; Tikkanen, Alajoutsijärvi, & Tahtinen, 2000). The concept has been studied in various contexts with many aspects, mostly in association with or referring to the Oliver's (1980) disconfirmation of expectations theory (Anderson & Sullivan, 1993; Fornell, 1992; Gustafsson, Johnson, & Roos, 2005; Szymanski & Henard, 2001; Tikkanen & Alajoutsijärvi, 2002). Industrial customer satisfaction can be defined as an outcome of the complex information processing that is operated by the buying unit of the customer organization regarding both economic and social performance of the supplier in an interactive environment. Morgan et al. (2005) suggest that CS is a central concept in marketing and a core strategic objective for any firm. Thus, the creation and successful management of CS information usage systems that enables the firm to achieve a superior understanding of customer needs and respond more effectively and efficiently than its competitors, is an important way that marketing can make a significant contribution to the success of the firm.

Inevitably, maintaining and enhancing CS is an investment in relationship and resource allocation. Resource allocation to a relationship can be included in many cost considerations, both direct and indirect. Yorke and Droussiotis (1994) classify these costs as a product mix related to that specific customer, selling costs, special trade terms