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Competitive paper

## **Customer Roles in Shareholder Value Creation - An Empirical Investigation of Customer Asset Management Strategies**

Suvi Nenonen and Kaj Storbacka

### **Abstract**

*The research described in this paper aims at creating a framework describing how customer asset management can influence both P&L and balance sheet drivers of shareholder value. Extant literature on customer asset management is mainly concerned with earnings as a driver of shareholder value, giving less attention to the other drivers (capital structure, risk). We argue that economic profit should be used as a measure of shareholder value creation as it acknowledges both the operating and financial expenses and allows individual customer relationship level analysis. Hence, the developed framework suggests that the drivers of shareholder value can be divided into four main categories: revenue, cost, asset utilization, and risk. In the article we identify thirteen distinct roles for customer asset management that influence the four shareholder value drivers. Furthermore, we report empirical research consisting of three longitudinal case studies describing customer asset management strategies formulated in a B2B context in order to improve shareholder value creation. The findings of the empirical research suggest that B2B firms are able to acknowledge all suggested four shareholder value drivers in customer asset management and that firms should differentiate their marketing strategies in order to move customer asset management beyond traditional acquisition-retention optimization.*

**Key words:** customer asset management, shareholder value, marketing strategy

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## **Introduction**

There is a growing concern that marketing and customer-related issues are not discussed enough at the top management level (McGovern, et al. 2004). Some researchers argue that this decline in marketing's status within organizations originates in the lack of evidence that links marketing activity to shareholder value creation (Rust et al., 2004; Srivastava et al., 1999). Thus, during recent years various researchers have concluded that the main objective of marketing and marketing strategies is to improve a firm's financial performance (e.g. Day & Fahey, 1988; Srivastava et al., 1998; Doyle, 2000; Zou & Cavusgil, 2002; Kumar & Petersen, 2005). Marketing Science Institute has also reacted to the issue by selecting e.g. the following research priorities for 2006-2008: integrating financial and non-financial performance metrics, the impact of marketing actions and marketing strategy on firm value, and the impact of customer equity on firm value.

As a result of the efforts to link shareholder value and marketing, it has been suggested that customer relationships could be viewed as assets and that customer asset management could bridge the chasm between finance and marketing (Stahl et al., 2003; Gupta & Lehmann, 2003; Rust et al., 2004). The first step towards using customer asset management as a tool for shareholder value management is to acquire a more thorough understanding of shareholder value as a concept: how is shareholder value assessed and how can customer asset management help in increasing shareholder value formation? Finance states that shareholder value is created when a company generates earnings on invested capital in excess of the cost of capital adjusted for risk and time (e.g. Stewart, 1991; Black et al., 1998; Rappaport, 1998). This definition implies that shareholder value can be increased by affecting company's earnings, capital structure and/or risk level.

However, the current customer asset management literature takes a relatively limited view on these drivers of shareholder value. Customer asset management can be defined as the optimized use of a firm's tangible and intangible assets in order to facilitate as profitable current and future customer relationships as possible (Hogan et al., 2002b) and the majority of the customer asset management frameworks are built around the concept of customer lifetime value (CLV). Due to these accents, customer asset management literature is mainly concerned with P&L statement and a single driver of shareholder value (earnings), giving considerably less attention to the balance sheet and other drivers (capital structure, risk level).

Additionally, the applications of customer asset management frameworks reveal two areas for further research. First, a majority of the customer asset management frameworks remain conceptual—illustrating the need to gain empirical evidence on how firms apply customer asset management strategies in practice. Second, customer asset management applications in a B2B context seem to have been lagging behind compared to the development in B2C (Blocker & Flint, 2007). Therefore, more information is needed on what could be the appropriate customer asset management frameworks and strategies in B2B contexts, which are often characterized by a limited number of long-term customer relationships and considerable capital asset investments.

The present study seeks to explore the abovementioned research gap via two research objectives: 1) to create a framework describing how customer asset management can influence the different drivers of shareholder value creation and 2) to investigate the customer asset management strategies that can be formulated in a B2B context in order to improve shareholder value creation.

The paper is structured as follows: first, we discuss the different measures and drivers of shareholder value. Second, we make a review of current customer asset management literature, focusing on how the extant research can be linked to shareholder value creation. Third, we develop a conceptual framework that illustrates the potential roles of customer asset management in shareholder value creation. Fourth, we report the empirical research consisting of three longitudinal B2B case studies and discuss its implications for customer asset management theory. Finally, we examine the managerial implications and the limitations of the study and suggest areas for further research.

### **Drivers of shareholder value**

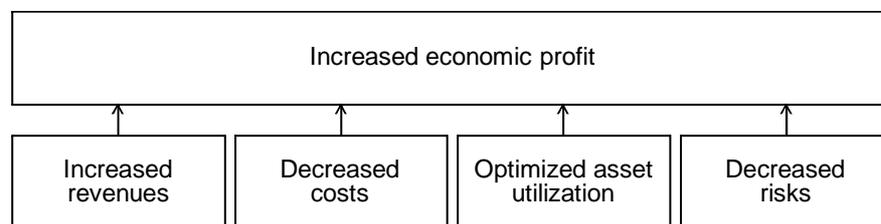
A firm's optimal financial performance is ultimately judged by the shareholders. Thus, it can be argued that the optimal financial performance is reached when long-term shareholder value is maximized. To put it simply, shareholder value is created when a company generates earnings on invested capital in excess of the cost of capital adjusted for risk and time (e.g. Stewart, 1991; Black et al., 1998; Rappaport, 1998). Several measures for shareholder value have been proposed in the literature, and these measures can be roughly divided into firm-operations based and capital-market based measures. The performance of the firm's operations can be measured for example by discounted future cash flows (e.g. Black et al., 1998; Rappaport, 1998), return on investment (Buzznel & Gale, 1987; Jacobson, 1988, 1990), sales (Dekimpe & Hassens, 1995), price (Boulding & Staelin, 1995), cost (Boulding & Staelin, 1993) and economic profit of economic value added (Stewart, 1991; Kleiman, 1999). Other shareholder value indicators are based on capital market data. The efficient market theory states that all information on future expected earnings are taken into account in stock prices (Fama, 1970). Thus, measures such as market-to-book (M/B) ratio (Hogan et al., 2002a), Tobin's q, (Tobin, 1969; Lewellen & Badrinath, 1997; Anderson et al., 2004) and the market value added (MVA) (Stewart, 1991; Griffith, 2004) could be considered as indicators of shareholder value creation.

Some of the capital-market based measures, such as market-to-book value and Tobin's q, do not allow us to assess the contribution of an individual customer to the company's shareholder value creation. Accounting-based ratios, such as ROI and sales, allow customer-level analysis but they concentrate on the accounting profit instead of the more relevant economic profit. We, therefore, use economic profit as the measure of shareholder value creation in this paper. Economic profit gives an estimate of the true profit that accrues to shareholders, after all operating and financial expenses have been deducted. Thus, economic profit combines the attractive features of both the operations-based and the capital-market-based measurements: it acknowledges both the operating and financial expenses and allows individual customer relationship level analysis. Also, empirical evidence has shown that positive economic profit leads to an increase in shareholder wealth (Bacidore et al., 1997; Kleiman, 1999).

Several authors have investigated how shareholder value creation can be increased. Rappaport (1998) and Black et al. (1998) have identified seven value drivers that affect the shareholder value and its creation: sales growth rate, operating profit margin, income tax rate, working capital investment, fixed capital investment, cost of capital and value growth duration. Srivastava et al. (1998) suggest that the firm value is driven by growing the cash flows, accelerating the cash flows, reducing the volatility and vulnerability of cash flows and enhancing the residual value of cash flows. Stewart (1991) has identified six shareholder value drivers: net operating profits after taxes,

the tax benefit of debt associated with the target capital structure, the amount of new capital invested for growth, the after-tax rate of return of the new capital investments, the cost of capital for business risk and the future period of time over which the company is expected to generate a return exceeding the cost of capital from its new investments. Leibowitz (2000) argues that the main determinant of shareholder value is the franchise spread, the return that the company is able to earn on new investments over the cost of capital. Chen et al. (2002) identify four value drivers for a company's stock: the company's current assets and the cash flows derived from them, the present value of growth opportunities, options to reduce risks, and options to add flexibility.

Even though the authors presented above represent different schools of thought within finance, we argue that the drivers of shareholder value can - from marketing's point of view - be divided into four main categories: revenue, cost, asset utilization, and risk. These drivers of shareholder value are illustrated in Figure 1.



*Figure 1. Drivers of shareholder value*

### **Customer roles in driving shareholder value**

Even though customer asset management is seen as a link between shareholder value formation and marketing (Stahl et al., 2003; Gupta & Lehmann, 2003; Rust et al., 2004), the current customer asset management literature discusses the different drivers of shareholder value with varying intensity levels, with noticeably more emphasis on revenue and cost drivers than asset and risk drivers.

The strong emphasis on certain drivers of shareholder value can be explained by the historical roots of customer asset management literature. The majority of the current customer asset management literature is built around CLV models. CLV as a term can be traced by to Dwyer (1989) and it is most commonly defined as the present value of the expected revenues less the costs from a particular customer. The majority of the existing CLV models are built around three basic elements: revenue from the customer, costs of serving the customer and customer retention rate. Most often, the CLV models are used to optimize investment allocation between customer acquisition and customer retention. The more simplistic CLV models have later been extended to include e.g. sensitivity for cash flows that vary in timing and amount (Berger & Nasr, 1998; Reinartz & Kumar, 2000), customer risks (Hogan, et.al., 2002a; Ryals & Knox, 2005, 2007), and networking and learning potential (Stahl et al., 2003). From a shareholder value creation point of view, it can be argued that the CLV models focus mainly on direct stable revenue from the customer and costs – with some more advanced models incorporating also the risk perspective.

However, if it is accepted that all firm operations are performed in order to provide service to customers, it can be argued that customer asset management has linkages to all aspect of business.

Thus, customer asset management should affect all drivers of shareholder value - also asset and risk drivers. In the following section we present the potential roles that customers and customer asset management can have in shareholder value creation

*Increased revenues.* Customer asset management can help increasing revenues by increasing the number of customers (customer retention, customer acquisition, customer referrals), increasing revenues from existing customers (up-sales/cross-sales, price increases) and by ensuring future revenues by firm renewal/innovation. The existing CLV models discuss customer retention and customer acquisition, but provide little guidance concerning the other potential roles of customers in increasing revenues. The importance of customer referrals as a tool in customer acquisition has just recently been acknowledged in the customer asset management literature (Stahl et al., 2003; Kumar et al., 2007; Villanueva et al., 2007). Some few papers also discuss the importance of up-sales and cross-sales in maximizing the value of customer assets (Stahl et al., 2003; Bolton et al., 2008). However, the remaining potential customer roles in increasing revenues (price increases, firm renewal/innovation) are almost entirely neglected by the current customer asset management literature: Stahl et al. (2003) present one of the few articles that acknowledge that customer bases offer opportunities for active price increases and that the knowledge created within one relationship could yield cash flows in other contexts as well.

*Decreased costs.* Costs of a firm can also be affected by customer asset management: it can help to reduce costs to serve existing customer and reduce costs to acquire new customers. The CLV model presented by Berger and Nasr-Bachwati (2001) propose how a fixed promotion budget should be allocated between customer acquisition and retention. However, the existing CLV models take the costs associated with individual acquisition and retention activities as fixed variables that cannot be lowered by enhancing firm processes. Additionally, it can be argued that as the CLV models focus on allocating promotion budgets, they do not cover all costs that a company has to cover in order to serve its customers – after all, the majority of customer relationships include also other activities (and thus costs) than just promotional ones. However, customer asset management could also be used to reduce costs to serve and costs to acquire customers: for example Stahl et al. (2003) discuss how the experience curve can be utilized to reduce relationship costs.

*Optimized asset utilization.* Customer asset management can be used to optimize asset utilization in two ways: by optimizing the capital invested in customer relationships and by managing business volumes for economies of scale. Rather paradoxically, the current customer asset management literature has not been interested in studying the link between traditional assets in the balance sheet and the customer asset: the vast majority of the customer asset management studies limit themselves to exploring the effects of customer relationships to the profit and loss statement, ignoring the capital employed in managing customer relationships and the balance sheet effects. Similarly, the current studies on how customer asset management can be used to achieve optimal asset utilization and economies of scale are in a minority within the current literature. To the best of authors' knowledge, only two current customer asset management studies acknowledge the existence of economies of scale – and, thus, the importance of optimal asset utilization (Stahl et al., 2003; Johnson & Selnes, 2004).

*Decreased risks.* If a customer relationship is defined as a process between a provider and a customer aimed at value formation, customer asset management can be used to reduce risks in three ways: reduce relationship termination risks, reduce risks related to value formation for the provider,

and reduce the risk concentrations within the customer base. Even though relatively few studies discuss explicitly risks and customer asset management, it is possible to identify literature on both reducing risks of relationship termination and reducing risks to value formation to the provider. Relationship termination risks have been approached with concepts such as customer lifetime (e.g. Ang & Taylor 2005; Garland 2005; Reinartz & Kumar 2000, 2002), profitable customer lifetime or duration (Reinartz & Kumar 2003; Storbacka 2006), relationship strength (e.g. Storbacka et al. 1994; Donaldson & O’Toole 2000), and relationship stress (Holmlund-Rytkönen & Strandvik 2005). On the other hand, risks related to value formation for the provider have been illustrated by concepts like risk-adjusted customer lifetime value (Ryals 2002, 2003; Ryals & Knox 2005, 2007), vulnerability of cash flows (Stahl et al. 2003), volatility (Hopkinson & Lum 2002; Stahl et al. 2003), and customer beta (Hopkinson & Lum 2002; Dhar & Glazer 2003). However, the current customer asset management literature provides little insight on how to manage risk concentrations and correlations within the customer base – even though common sense suggests that a customer base with a strong reliance on a limited number of or highly correlating customer relationships, customer segments, or geographies is riskier than a more diversified, uncorrelated customer base.

### Conceptual framework

There are, as the above overview of both shareholder value literature and customer asset management literature indicates, thirteen distinct roles for customer asset management that influence the four shareholder value drivers (revenue, cost, assets, risk). These thirteen roles are summarized in Figure 2.

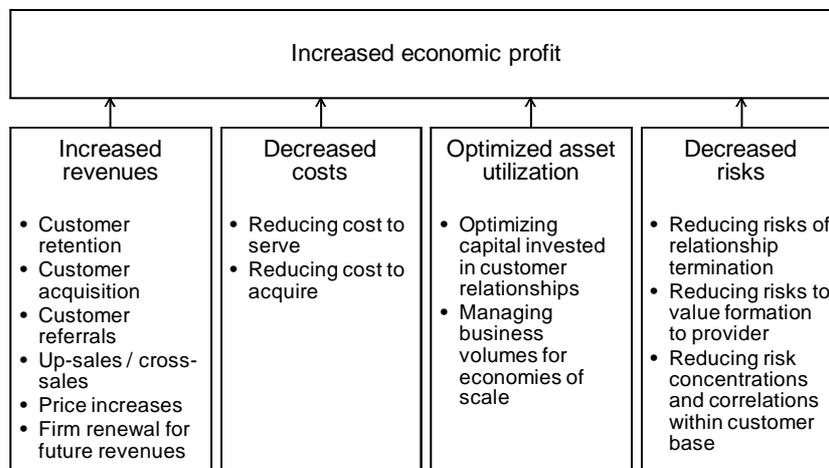


Figure 2. Roles of customer asset management in shareholder value creation

*Conceptual framework in relation to IMP literature.* There is a considerable body of research among IMP Group on value creation in relationships (e.g. Walter et al., 2001; Möller & Törrönen, 2003; Ulaga, 2003; Ulaga & Eggert, 2005). Representative to these studies are a broad definition of ‘value’ and acknowledgement of the fact that value creation takes place in a larger network beyond the dyadic supplier–customer relationship. The present enquiry takes a more limited scope to value creation in relationships than the majority of the IMP-inspired studies. First, in this study we focus solely on financial aspects of customer relationships and to those issues that have a direct impact to

the financial value creation within firm's current and future customer relationships. Thus, some of the concepts that are related to relationship value but are not directly linked to financial value creation within customer relationships (such as relationship quality) are left outside the scope of the conceptual framework. Second, this study concentrates on value creation experienced by the provider. Therefore, the present study does not cover value creation experienced by the customers or the potential network effects of value creation processes. However, there are considerable similarities with the proposed conceptual framework and some existing IMP studies on value creation in relationships. For example, Walter et al. (2001) conceptualize supplier's value creation as a set of direct and indirect functions of customer relationships. The indirect functions are profit function, volume function, and safeguard function whereas the indirect functions are innovation function, market function, scout function, and access function. It is interesting to notice that all except two functions (scout, access) are present in the proposed conceptual framework. However, the proposed conceptual framework presents also new dimensions for provider's value creation, not previously presented Walter et al. (2001).

### **Empirical research**

In the empirical examination we investigate what kind of kind of customer asset management strategies can be formulated in a B2B context in order to improve shareholder value creation, using the created conceptual framework. Empirical research comprises three longitudinal case studies. All case study firms operate in a B2B context: firm A operates in the forest industry, firm B in metals, and firm C produces and offers beverages for B2B customers. From all three case studies, two issues are investigated in particular: 1) how shareholder value creation of the customers is assessed, and 2) how customer asset management strategies are differentiated in order to increase shareholder value creation from customer relationships.

The data for the case study descriptions were collected partly by interviewing key individuals in the organizations (4 interviews with firm A, 3 interviews with firm B, 4 interviews with firm C) and partly by reviewing the existing data-material provided by the company. The interviewees in all organizations represented executive vice president and senior manager level positions, involved in general management or the management of customer relationships. The existing data-materials provided by the firms covered the number of customers in the customer base, the calculation of economic profit for each customer relationship, the characteristics (business volume, product mix, and behavioural data) of firms' customer portfolios, and descriptions of the marketing strategies applied.

The observed data were analysed through an iterative process of categorisation and abstraction described by Thomas (1993). Reflection, the principle form of analysis in this research, is non-linear, non-sequential, iterative process of systematic combination that aims to match theory with reality (Dubois and Gadde, 2002; Eisenhardt, 1989). Reflection involved two main stages. Firstly, an independent review of the data collected from the three cases identifying themes relevant to customer asset management was carried out. The second stage then involved the researchers comparing the cases dispassionately and debating whether and how each data item should be included in the analysis. These debates ensure sensitivity to the dialogue between data and theory and involve clarifying the meaning, wording and linking between data points, themes and actions.

### *Case A: Forestry products*

Firm A is a division of a global forestry product corporation, headquartered in Europe. With firm A, our analysis period covered two years. Firm A operates in an industry that is characterized by a limited number of long-term customer relationships. During analysis year 1 firm A had 76 active customer relationships, and during analysis year 2 firm A's customer base consisted of 78 customers.

In order to direct customer asset management activities, firm A analyses its customer base with a cumulative economic profit contribution analysis. The cumulative economic profit contribution analysis is a relatively simple tool: the absolute economic profit created by each customer is calculated and customers are ranked in a descending order, placing the customer yielding the largest economic profit first to the graph, the customer with second largest economic profit next, and finally ending the graphical illustration with the customer yielding the lowest economic profit (Storbacka 2000). The economic profit was calculated by deducting first the customer-specific costs from the customer-specific turnover. After this, also the general costs were allocated to the different customers based on their business volumes. Then, all firm's assets were allocated to the different customers based partially on their actual asset utilization and partially on customers' business volumes. The final step in calculating customer-specific economic profit was subtracting the capital charges for the part of firm's assets allocated to the customer relationship in question from the customer-specific profit.

Based on the cumulative economic profit analysis, firm A has created three customer portfolios. During analysis year 1, the 13 customers with the highest yearly economic profits were assigned to portfolio A. There were 11 customers showing negative economic profit, which formed portfolio C. The remaining 52 customers, with close to zero economic profit, were assigned to portfolio B. Closer analysis of the customer portfolios revealed that the customer relationships with large positive economic profits in portfolio A were customer relationships with considerable business volumes. Portfolio B, on the other hand, consisted of customer relationships that yielded either only slightly positive or negative economic profits. The number of customer relationships in this portfolio was, however, considerably larger than in the other two customer portfolios. The typical customer relationship in portfolio C generated a large negative economic profit, but the majority of the customer relationships in this portfolio brought in considerable business volume.

Based on this information, firm A created three differentiated marketing strategies for the customer portfolios in order to maximize overall shareholder value creation. For portfolio A the firm created a marketing strategy called "margin and cash flow maintenance". The main objective of this strategy was to increase the margin and cash flow available from these large-volume customer relationships that already created considerable positive economic profit. In practice, customers in portfolio A were provided with an access to the entire regular product range as well as an option for tailor-made products. The order-delivery process for A customers was conducted with a sophisticated supply chain management solution and the pricing was done by using a 12-month agreement. Additionally, customers in portfolio A had an access to a wide range of technical support services: customized on-site support, regular technical meetings and technical manager visits, quality reports, and standard certifications. Finally, firm A managed the customer relationships in portfolio A with various relationship management activities: annual customer meetings, regular visits on the vice president

level, regular sales manager and sales representative visits, visits to sites, and continuous customer planning.

For portfolio B, firm A created a marketing strategy called “risk management”. The objective of this marketing strategy was to reduce the overall business risks by reducing the interdependencies in the customer base and by using the small-volume customer relationships as a buffer against business cycle variations. Due to their lower economic profit contribution, customers in portfolio B received less extensive service than customers in portfolio A. Customers in portfolio B had access to top 20 products that are priced using a 3-month contract. The order-delivery process is managed by direct orders and local sales offices. B customers are provided certain technical support services: emergency on-site support, technical manager visits and quality reports when appropriate, and standard certifications. Relationship management activities targeted to customers in portfolio B are limited to sales manager and sales representative visits – but only when deemed appropriate by firm A.

For portfolio C, the firm developed a marketing strategy called “capacity optimization”, the objective of which was to use the negative economic profit generating but large-volume customer relationships to optimize the capacity utilization of the production facilities, thus reducing the average cost level of operations by reducing fixed and capital costs per production unit. The marketing strategy for portfolio C reflects the fact that this portfolio generates negative economic profit – but the volume from these customer relationships is still regarded as important. Customers in portfolio C have access only to top 10 products. Orders regarding these top 10 products are only accepted as direct orders and they are priced by using a market price. The technical support services for customers in portfolio C are limited to emergency on-site support, quality reports when appropriate and standard certifications. The relationship management activities targeted to customers in portfolio C are kept in minimum: C customers are provided with up-to-date information on the roles and responsibilities of firm A’s personnel, but site visits are not encouraged.

During the analysis period, the economic profit contribution of portfolio A increased from 2,665,861€ to 2,821,984€ and the negative economic profit contribution of portfolio C declined from -1,467,725€ to -1,352,254€. However, the economic profit contribution of portfolio B decreased during the analysis period from 1,239,038€ to 874,854€, leading to the reduction of the overall economic profit contribution of the entire company from 2,437,174€ to 2,334,584€. While the reduction of the total economic profit contribution is true, it should be noted that the external operating environment for the case study company deteriorated considerably during the analysis period: the entire industry entered a downturn and the average price level dropped considerably. Therefore the slight reduction in the overall economic profit contribution of the customer base is likely to have been caused by external factors, not firm A’s own actions.

### *Firm B: Metal*

Firm B is a division of a global metal product corporation, headquartered in Europe. With firm B, our analysis period covered one and a half years. The customer case of firm B is slightly less concentrated than firm A’s: during analysis year 1 firm B had 256 active customer relationships, and during the first half of analysis year 2 firm B had 222 customer relationships.

The starting point of directing customer asset management activities in firm B was the creation of a customer portfolio model. The customer portfolio model was created by using two dimensions: economic profit and the strategic fit of customer relationships. The strategic fit was assessed by using four parameters: relationship strength, customer relationship value potential, reference value, and current production fit. All these four strategic fit parameters had been divided into multiple constituents in order to support assessing customer relationships. Relationship strength was approximated by analysing firm B's share of wallet, length of contracts, length of relationships, customer participation in special customer programs, and the level of customer contacts. Customer relationship value potential was estimated by valuing customer's growth rate, possibility to differentiate offering for the customer, possibility to create a partnership with the customer, and the possibility to increase revenue and/or profits from the customer relationship in the future. Reference value was analysed by assessing firm B's reputation at the customer and the possibility to use the customer as a promotional case in firm B's marketing materials. Finally, current production fit was estimated by analysing cost efficiency of production and product line utilization.

With the needed information on customers' economic profit and strategic fit, firm B created four portfolios. "Renewal" portfolio contained customers with positive economic profit and high strategic fit. "Cash Flow" customers had also positive economic profit, but unlike "Renewal" customers had low strategic fit. Customers in "Capacity" portfolio had negative economic profit and high strategic fit. "Monitor" customers yielded negative economic profit and had low strategic fit.

Interestingly, firm B defined three differentiated marketing strategies based on the customer portfolio information: one target marketing strategy for "Renewal" and "Cash Flow" customers (i.e. customers with positive economic profit), one target marketing strategy for "Capacity" and "Monitor" customers (i.e. customers with negative economic profit), and one transitory marketing strategy for those customers whose customer portfolio status require a considerable change in the way the customer relationship is currently managed.

The marketing strategy aimed for "Renewal" and "Cash Flow" customers is called "Partnership". Within "Partnership" marketing strategy, firm B provides its customers with all of its products, all available strategic services (common strategy development, value chain optimization, third-party collaboration), all available business support services (ERP integration, common business plan, risk management, order input web application), all available sales and marketing services (training, technical marketing support), and all available application engineering, production and logistics services (process optimization, design support, product optimization, logistics optimization, prioritized deliveries, scrap management, customer-specific mill certificate). Additionally, within "Partnership" marketing strategy firm B has a nominated account team for each customer, which utilizes full-scale account management process and partnership business plan. Customer satisfaction is followed up by relationship reviews and satisfaction questionnaires.

The marketing strategy aimed for "Capacity" and "Monitor" customers is called "Product". Within this marketing strategy, firm B provides its customers with all of its products – similar to the approach in "Partnership" marketing strategy. However, "Product" marketing strategy allows considerably more limited access to services: only two business support services (risk management, order input web application) and two application engineering, production and logistics services (scrap management, customer-specific mill certificate) are available within "Product" marketing strategy. In addition to this, the customer relationship management within "Product" marketing

strategy is less extensive than in “Partnership” marketing strategy: each customer has a nominated sales representative, relationship management process is limited to daily sales and delivery encounters, customer relationship planning is conducted via contact management and sales follow-up, and customer satisfaction is analysed via satisfaction questionnaire.

The third marketing strategy, “Solution” was created as a transitory marketing strategy for those customer relationships which have to be moved from “Partnership” marketing strategy to “Product” marketing strategy based on their customer portfolio status (i.e. customers generated negative economic profit and were categorized to “Capacity” or “Monitor” portfolios). As in “Partnership” and “Product” marketing strategies, also within “Solution” marketing strategy customers have access to all firm B’s products. “Solution” marketing strategy allows access to all the same business support services, sales and marketing services, and application engineering, production and logistics services as “Partnership” marketing strategy. However, no strategic services are offered within “Solution” marketing strategy. Additionally, the customer relationship management within “Solution” marketing strategy is slightly more limited than in “Partnership” marketing strategy: all customers are appointed to a named account manager who utilizes basic account management process and solution business plan. Customer satisfaction is analysed through satisfaction questionnaires.

During the 18-month analysis period, firm B increased considerably its economic profit. During the first 12 months firm B started implementing the differentiated marketing strategies, making an economic profit of 1,549,685 €. During the next 6 months, firm B made an economic profit of € 1,567,521 €, giving a forecast economic profit growth rate of over 100% for the entire fiscal year. However, when assessing the impact of customer asset management activities to the improved financial result, it must be acknowledged that in parallel with marketing strategy differentiation firm B initiated a process efficiency program that is also likely to contribute to the economic profit increase.

#### *Firm C: Beverage*

Firm C is a division of a European beverage company, responsible for sales to B2B customers such as restaurants, hotels, bars, nightclubs, and cafeterias. With firm C, our analysis period covered four years. During the analysis period, firm C’s customer base consisted of ca. 4,000 customers.

Firm C analyses its customer base by using six different criteria illustrating the value of customer relationships. These dimensions of customer relationship value are turnover, sales margin, EBIT, volume in litres, assessment by the sales representative, and assessment by the area manager. The assessments by the sales representative and the area manager focus on assessing the potential and risks involved in the customer relationship. From this information, firm C created three customer portfolios: portfolio A consists of customers with the highest customer relationship value scores (top 10%), portfolio B consists of the next 25%, and portfolio C consists of the remaining 65% of the customer base.

In addition to these three customer portfolios, firm C created a “Must” customer portfolio. The 25 “Must” customers are such that are crucial for building Firm C’s brand, Firm C has made a considerable investments in customer’s premises, or customer has a strong link to a target that firm A is sponsoring. After adding “Must” portfolio, firm C has four distinct customer portfolios. For

these four portfolios, firm C created individual marketing strategies that differed from each other in terms of customer visits, availability and pricing of services, promotions, and marketing materials.

For “Must” customers, firm C defined three different customer visits: analysis visits that focus on analysing and following up the customer’s situation, sales visits that are mainly aimed at presenting new products and making adjustments to customer’s current product range, and social calls that focus more on managing the softer sides of the customer relationships. Each “Must” customer must receive 12 or 18 customer visits per year: 18 if the customer does not belong to a hotel or restaurant chain and 12 if the customer is a part of a chain. In addition to beverages and their distribution, firm C is able to provide its customers various services: promotional services, training services, sales planning services, category planning services, equipment services, analysis services, information services, and installation services. All these services are available to “Must” customers without additional fees or charges. Additionally, firm C places considerable effort in planning promotions and events in cooperation with “Must” customers. Finally, “Must” customers have unlimited access to all firm C’s marketing materials.

Customers in portfolio A, on the other hand, are visited 12 times a year, irrespective of their possible association to hotel or restaurant chains. However, these 12 customer visits are limited to analysis visits and sales visits; social calls are not allowed to be conducted with customers in portfolio A. This remains the main differentiating factor between customers in “Must” and A portfolios: A customers have access to all the same services, promotion cooperation and marketing materials as “Must” customers, without additional fees.

For portfolio B, firm C created slightly more streamlined marketing strategy. Non-chain customers in portfolio B are visited 9 times a year, and the nature of these customer visits is limited to analysis and sales visits. B customers that are members of a hotel or a restaurant chain are only visited 6 times annually. Interestingly, all these visits are so-called basic customer visits, which are not differentiated by their nature or content – therefore these customers are met each time with the same basic agenda covering all aspects of relationship management from situation analysis to presentation of new products. B customers have access to the entire range of services, but with an additional price for each service used. Firm C provides some promotion planning cooperation for customers in portfolio B, and these customers have more limited access to firm C’s marketing materials than “Must” and A customers.

Customers in portfolio C have access to the most limited marketing strategy – after all, the majority of the customers in this portfolio were making a loss during analysis year 1. C customers are visited 2 or 3 times a year, depending on whether or not they belong to a chain – and all these customer visits are so-called basic customer visits. Customers in portfolio C do not have access to firm C’s services without some exceptions such as equipment services, which are crucial for the basic operations for distributing and selling beverages. All services provided to C customers are also priced individually. Finally, firm C provides customers in portfolio C with very limited promotion planning cooperation and limited access to marketing materials.

During the four-year analysis period, firm C has managed to increase considerably its profits: in analysis year 1 firm C made an EBIT of 4 million €, and by the end of analysis year 4 firm C increased its EBIT over five-fold to 21,5 million €. However, it cannot be concluded that the entire profit improvement is due to successful customer asset management – even though it has had a

considerable impact. During the analysis period firm C also updated its segmentation solution and focused its offering communication to address specific end-use segments. These simultaneous development efforts have probably also influenced the recorded EBIT improvement.

## Discussion

The findings of the three case studies are summarized in Table 1.

	<b>Firm A</b>	<b>Firm B</b>	<b>Firm C</b>
<b>Industry</b>	Forestry products	Metal	Beverage
<b>Customer base size</b>	ca. 80 customer relationships	ca. 225 customer relationships	ca. 4000 customer relationships
<b>Customer portfolio dimensions</b>	Absolute economic profit per customer	Economic profit and strategic fit of customer relationships (index of 16 constituents)	Value of customer relationships (index of 6 constituents)
<b>Revenue aspects of portfolio model</b>	All customer revenues (used to calculate economic profit)	All customer revenues (used to calculate economic profit); future value potential	Turnover, sales margin, EBIT, sales representative & area manager assessments
<b>Cost aspects of portfolio model</b>	All P&L costs (used to calculate economic profit)	All P&L costs (used to calculate economic profit)	Costs to calculate sales margin & EBIT
<b>Asset aspects of portfolio model</b>	Capital costs associated with assets (used to calculate economic profit)	Capital costs associated with assets (used to calculate economic profit)	Volume in litres
<b>Risk aspects of portfolio model</b>	N/A	Relationship strength	Sales representative & area manager assessments
<b>Marketing strategies</b>	3 differentiated marketing strategies for different customer portfolios: <ul style="list-style-type: none"> <li>• “Margin and cash flow maintenance” for customers with highest economic profit</li> <li>• “Risk management” for customers with moderate economic profit</li> <li>• “Capacity optimization” for customers with negative economic profit</li> </ul>	3 differentiated marketing strategies, flexible link to customer portfolios: <ul style="list-style-type: none"> <li>• “Partnership” as target strategy for customers with high economic profit</li> <li>• “Solution”, as transitory strategy for those customer relationships which the firm seeks to move from one strategy to another</li> <li>• “Product” as target strategy for customers with low economic profit</li> </ul>	4 differentiated marketing strategies for different customer portfolios: <ul style="list-style-type: none"> <li>• “Must” for customers that are crucial for the brand &amp; visibility</li> <li>• “A” for customers with highest relationship value scores</li> <li>• “B” for customers with moderate relationship value scores</li> <li>• “C” for customers with low relationship value scores</li> </ul>
<b>Differentiation of marketing strategies</b>	Differentiation of: <ul style="list-style-type: none"> <li>• Product range</li> <li>• Pricing</li> <li>• Order-to-delivery process</li> <li>• Technical support</li> <li>• Relationship management activities</li> </ul>	Differentiation of: <ul style="list-style-type: none"> <li>• Service offering</li> <li>• Relationship management resources</li> <li>• Relationship management process &amp; planning</li> <li>• Satisfaction follow-up</li> </ul>	Differentiation of: <ul style="list-style-type: none"> <li>• Customer visits</li> <li>• Availability &amp; pricing of services</li> <li>• Promotions</li> <li>• Marketing materials</li> </ul>

*Table 1. Summary of case study findings*

When comparing the case study findings with the thirteen roles for customer asset management illustrated in the conceptual framework (Figure 2.), it is possible to see that different customer asset management roles gain different accents in the empirical data. First of all, all case study firms used customer asset management for targeted *customer retention*: all firms sought to identify the most valuable customer relationships and to serve them with high-involvement marketing strategies. *Customer referrals* were present in only firm B's customer portfolio model. However, it is quite likely that also firms A and C utilize customer referrals in their daily activities even though customer referrals are not visible in their defined customer asset management activities. All case firms also aimed for *up-sales and cross-sales* within their customer asset management activities: all firms had defined extensive product and service offerings for the most valuable customers, with the specific intent of increasing up-sales and cross-sales. *Price increases* or differentiation of pricing were detected in firms A and C. Firm A used different contract lengths and thus different price levels in different marketing strategies. Similarly firm C differentiated the pricing of services: services that are offered free of charge to the most valuable customers are priced when provided to the less valuable customers. *Firm renewal (innovation) for future revenues*, on the other hand, was only discovered in firm B's customer asset management model: firm B assessed customer relationship value potential when analysing the strategic fit of the customer relationship and one of the customer portfolios was aimed for renewal.

*Reducing cost to serve* was strongly present in all analysed customer asset management models: all firms differentiated their marketing strategies so that the cost to serve in low-involvement marketing strategies could be minimized. On the other hand, it is especially interesting to notice that both *customer acquisition* and *reducing cost to acquire* are completely overlooked in all three analysed customer asset management models. There can be various explanations for the absence of customer acquisition related aspects in the customer asset management models. On one hand, all analysed firms operate in B2B context with limited number of potential customer relationship and long-term contracts. Therefore it could be concluded that these firms see customer acquisition as less important aspect of customer asset management. On the other hand, it is possible that the case study firms are involved in systematic customer acquisition, but for some reason these activities are not included in the customer asset management processes. However, the limited importance of customer acquisition in customer asset management suggested by the case study firms supports the argument made by Blocker and Flint (2007) that different customer asset management models are needed in B2B and B2C contexts. After all, the majority of the current customer asset management models are based on CLV calculations, used to optimize investment allocation between customer acquisition and customer retention.

*Optimizing capital invested in customer relationships* received also considerably little attention in the analysed customer asset management models. Firms A and B calculated the economic profit generated by individual customer relationships. In order to calculate customer-specific economic profit, both firms allocated firm's capital costs to individual customer relationships. However, neither firm A nor firm B considered capital investments in their differentiated marketing strategies. *Business volumes / economies of scale* as a role for customer asset management was detected in firms A and C. Firm A created a "capacity optimization" marketing strategy for large-volume but unprofitable customer relationships. One of the main objectives of this marketing strategy is to ensure even business volumes over time and thus optimal utilization of production facilities. Firm C, on the other hand, considered customers' business volumes in litres when assessing the overall

value of customer relationships. However, it can be said that the aspects related to asset utilization are not as well represented in the analysed customer asset management models as aspect related to revenues and P&L costs. Again, the predominance of P&L items over balance sheet items in the existing customer asset management literature can be one explanation behind this phenomenon. Additionally, production and other asset-intensive functions have traditionally had little interaction with functions and processes involved with managing customer relationships. Therefore, this functional separation can partially account for the lack of interest in asset-related issues in customer asset management – after all, customer asset management has its roots within marketing literature and therefore marketing function. However, if the aim of customer asset management is to increase shareholder value creation, customer management models should also acknowledge balance sheet and optimal asset utilization.

Even though only firms B and C included any kind of risk measures into their customer asset management models, all firms were involved in *reducing risks of relationship termination*. All firms sought to provide most lucrative offerings and high-involvement customer relationship management for their most valuable customers. Firm A also aimed for reduced relationship termination risks by signing long-term contracts with its most valuable customers. Reducing *risks to value formation to provider* and *reducing risk concentrations and correlations within customer base* as roles for customer asset management were only evident in firm A: it had defined a “risk management” marketing strategy with an objective to reduce the interdependencies in the customer base and to use the small-volume customer relationships as a buffer against business cycle variations. However, the use of customer asset management in risk management shows advancement potential in all analysed case study firms.

To conclude, the evidence from the three case study firms indicate that B2B firms are able to acknowledge all four drivers of shareholder value (revenue, cost, assets, risks) in customer asset management. There are, however, considerable differences in the relative emphasis given to the different shareholder value drivers: all case study firms consider multiple opportunities to increase revenues and decrease costs through customer asset management, whereas opportunities to optimize asset utilization and decrease risks gets less attention.

Theoretically, the present study contributes to the discussion on how customer asset management can be used as a link between shareholder value formation and marketing (Stahl et al., 2003; Gupta & Lehmann, 2003; Rust et al., 2004). Second, the findings of the empirical research support the argument presented in the conceptual framework of the present study: there is potential to complement the existing customer asset management literature that based been focusing mainly on CLV models and acquisition-retention optimization to incorporate also other drivers of shareholder value creation. Third, the findings of the present empirical study emphasize the importance of differentiating marketing strategies in order to move customer asset management beyond acquisition-retention optimization: marketing strategy in its broader sense seems to be a suitable media of translating customer asset management models into action. Fourth, the present study is likely to deepen the existing knowledge of value creation in relationships (e.g. Walter et al., 2001; Möller & Törrönen, 2003; Ulaga, 2003; Ulaga & Eggert, 2005), especially regarding the financial value creation for the provider. Fifth, the findings of the present study contribute to the existing literature on customer portfolios (e.g. Fiocca, 1982; Campbell & Cunningham, 1983; Krapfel et al., 1991; Zolkiwski & Turnbull, 2000, 2002; Sanchez & Sanchez, 2005; Leek et al., 2006). So far the majority of the existing customer portfolio studies have concentrated on developing, testing and

comparing different portfolio models. However, there has been a lack of a theoretical foundation for formulating management strategies for the different customer portfolios: the current literature focuses more on the categorisation of customer relationships than the outcome of this categorisation, i.e. the management of customer portfolios. The present study provides the first steps towards providing theoretical foundations for creating management strategies for different customer portfolios, aimed at increasing the financial value creation for the provider.

### **Managerial implications, limitations and areas for further research**

This study opens interesting opportunities for managers in B2B firms: the existing customer asset management frameworks are mainly based on CLV calculations and optimization of acquisition and retention spending – and therefore these models have had limited application potential in a B2B context. The study outlines 13 different roles for customer asset management, all of which are usable in B2B firms. The study also illustrated various ways to differentiate marketing strategies in order to actualize customer asset management decisions. Managers in B2B firms can use the proposed 13 different roles for customer asset management as a long list of options to affect shareholder value creation through customer asset management. From this long list managers can then select the roles that suit their firms' needs and business models; thus building their own individual customer asset management frameworks, which can then be realized through differentiated marketing strategies.

On the other hand, it must be acknowledged that the proposed roles for customer asset management outline all possible ways to affect shareholder value creation through customer asset management. Additionally, the present paper suggests only that firms should differentiate their marketing strategies in order to actualize their customer asset management decisions - without providing a framework guiding such differentiation. Therefore, it should be acknowledged that the present paper is of exploratory nature and does not provide normative guidance for creating customer asset management frameworks or for differentiating marketing strategies. Additionally, the empirical investigation was done through three B2B case studies; therefore the applicability of the proposed roles for customer asset management has not been investigated in B2C context.

The present study opens interesting opportunities for further research. First, the same effort to expand the customer asset management frameworks beyond optimizing acquisition and retention costs should also be done in B2C context. Additionally, the brief review of current customer risk literature revealed that more research is needed in the area of customer risk management; especially the concepts of customer base risk correlation and concentration are left to minimal attention in the current literature. Third, the development of theoretical foundations for creating customer portfolio specific management strategies should be continued as the present research covers only financial aspects of customer relationships, potentially overlooking other important customer relationship attributes.

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