

Value Based Approach to Customer Relationship Portfolio Management: A Case Study from the UK Industrial Market Context

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Abstract

Customer Relationship Portfolio Management has been a persistent stream of research within the relationship management field. However, it remains largely conceptual with comparatively little empirical support and lack of reporting from the field about the reality of relationship portfolio management (Leek *et al* 2004; 2002). This stream of relationship management literature initially emphasised on sales volume, revenue, segmental profitability, individual customer profitability and then made its transition into using relationship value as the dimension to understand value from customers and then implement action plans after factoring in the variability in behaviour of different customers. Though relationship value is considered to be more useful than the previously used dimensions, there has been very little empirical evidence of its use in reality by industrial marketers. Thus, this in depth case based research explores the role of buyer seller dyadic relationship value in a seller's relationship portfolio strategy. The seller in this case is a multi national oil company operating in the UK mature industrial market context. The researchers have formulated a multi-step data analysis technique to analyse the data collected. It is a synthesis of the Grounded Theory techniques used by Charmaz (1983), Chesler (1987), Strauss and Corbin (1990) and Eaves (2001). The results provide evidence that a multivariate analysis (Zolkiewski and Turnbull 2002) procedure is used by the organisation to operationalise its customer relationship portfolio management strategy.

Key words: customer portfolios, relationship value, UK, manufacturing

Introduction

Relationship Portfolio Management

Managing customer relationships using the portfolio theory¹ has become a significant topic of discussion both within and outside the interaction and network perspective of customer relationship management. This is evident in the consistent levels of research that has been conducted in this area since the early 1980s (Cunningham and Homse 1982; Fiocca 1982; Campbell and Cunningham 1983; Dickson 1983; Dubinsky and Ingram 1984; Shapiro *et al* 1987; Rangan *et al* 1992; Yorke and Droussiotis 1994; Turnbull and Zolkiewski 1997; Krapfel *et al* 1991; Olsen and Ellram 1997; Johnson and Selnes 2004). Relationship portfolio literature takes the view that customers and suppliers are often an organisation's greatest asset (Zolkiewski and Turnbull 2002). A number of portfolio models have been developed to address buyer seller dyadic relationship management and to understand the 'optimal' allocation of resources. All these models utilise single, two step or three step phases that are mainly centred around improving strategic management decision making about relationships and elaborating upon how best to invest or divest human, technical and financial resources (Zolkiewski and Turnbull 2002).

The Extant Relationship Portfolio Literature

One of the first few papers to introduce this concept within the realm of relationship management was Campbell and Cunningham's (1983) paper that proposed a 3-stage framework to analyse customers. It built on and transformed techniques traditionally used for product analysis. The purpose was to improve the allocation of scarce marketing and technical sources and to be able to understand the company's competitive position with different customer groups. To assess its own strategic position, a company analyses its situation in the context of the market it serves. According to Campbell and Cunningham (1983), this exercise usually involves a thorough analysis of the company's products relative to competitors. The predominant focus of Campbell and Cunningham's research was to facilitate the management of key customer relationships. The paper is important because it reflects the movement away from product focus to an era of focussing on customers.

Fiocca (1982) propose a two step customer portfolio analysis process where the first step involves a general level analysis of the entire customer base. This identifies certain key accounts that are of immense strategic importance, or are volume buyers etc. Fiocca (1982) constructs a simple matrix combining strategic importance and the difficulty in managing the particular customer account. This matrix reveals those accounts which require further in-depth analysis. Thus, the first step assists managers in identifying which accounts need special attention and this then sets the stage for refined understanding of the accounts identified. This occurs in the second stage where two variables are considered which go on to form the dimensions of a nine cell matrix. These variables are:

1. the customer's business attractiveness (high, medium, low)
2. the relative stage of the present buyer/seller relationship (strong, medium, weak)

'Business attractiveness' is determined by considering a number of factors that are related to the customer's market (growth rate, competition, maturity, changes in the environment etc.) and the status of the customer's business within the market. The understanding of the strength of the relationship is through objective as well as subjective factors (length of relationship, importance of customer etc.). The logic applied by Fiocca (1982) is that customers falling into different cells of the portfolio would require different strategies and an appropriate amount of resources. Yorke and Droussiotis (1994) criticise

¹ Portfolio theory has its origins in the area of financial investment (Markowitz, 1952) and was predominantly developed as a mechanism for reducing risk. . Sharpe (1963) further refined it and suggested that risks in individual investments should not be looked at in isolation but should be seen in terms of the contribution towards the overall performance of a portfolio of investments. Thus, having a widely diversified portfolio reduces risks to the investor.

Fiocca's (1982) model for a lack of emphasis on customer profitability. Shapiro *et al* (1987) were one of the first few researchers to highlight the importance of customer profitability within the context of customer portfolio management. They used 'cost to serve' and 'price received' as dimensions.

Cunningham (1982) postulates a portfolio matrix depicting the cost-benefits of different existing or potential customers. In this approach, the sales of each major customer are examined in the context of the technical and other resources devoted to them. Thus, dependent on the sales contribution, the profitability can be calculated. This approach provides a strategic framework for resource allocation decisions amongst the different customers in the portfolio. Yorke (1984) has a similar line of argument but concentrates on the macro level market segment profitability. Dickson (1983) directly applies the growth share matrix to analyse a manufacturer's portfolio of distributors. Here, the manufacturers evaluate distributors on the basis of each distributor's inflation adjusted growth rate and the manufacturer's share of the distributor's sales in the product line. Kraljic (1983) develops a product portfolio model for purchasers to classify purchases and set the purchasing strategy accordingly. Dubinsky and Ingram (1984) provide sales people with a process that could be used to assess the current status of a customer base, to form an ideal customer base and also prescribe the actions required to achieve the ideal base. The approach adopted is very much akin to the Stimulus-Response view postulated by the Marketing-Mix principles. Business relationships have proved to be more complex than previously envisaged. However, this argument helps us understand the evolution in customer portfolio analysis over the last twenty five years.

Addressing the Gap

The **Overall Objective** for this research *is to explore the role that buyer seller dyadic relationship value plays in the case company's customer relationship portfolio management strategy.*

Rangan *et al* (1992) develop a buying behaviour based framework for micro segmentation of customers in mature industrial markets. In addition, they demonstrate how this approach could be used to influence the customer's movements to segments that are mutually beneficial to both supplier and customer. Rangan *et al* (1992) was one of the few studies connected to management of customer portfolios that focused on segmenting the customers based on buyer behaviour and identified four buyer micro segments: programmed buyers, relationship buyers, transaction buyers and bargain hunters. But, this research just throws light on such buyer characteristics and does not extend its study to how the organisation under study should manage the different micro segments identified. The model suggested by Fiocca (1982) is used in a slightly modified form in a case study reported by Yorke and Droussiotis (1994). They use customer profitability as a dimension in their empirical survey. Turnbull and Zolkiewski (1997) test Shapiro *et al*'s (1987) theories relating to gross margin and to the behavioural types of a customer. They further build up on this model and include a third dimension: 'relationship value'. The logic is that managers need to consider the cost to serve for each customer and its change over time rather than simply treating sales and marketing time as overhead. Zolkiewski and Turnbull (2002) have recommended the use of multivariate analysis incorporating market or customer orientated dimensions, e.g. customer profitability, relationship value and strategic importance of the relationship whilst analysing relationship portfolios. Johnson and Selnes (2004) have proposed an Exchange Relationship Framework where the central concept is the exchange relationship mechanism and the value created here is a direct function of both the customer's and the supplier's capabilities and strategies. Thus, there has been a gradual transition (in research terms) from using sales volume to customer profitability to relationship value as leading indicators or dimensions to understand customer relationship portfolios. Zolkiewski and Turnbull (2002) are of the opinion that relationship value holds immense importance in the context of designing an appropriate customer portfolio strategy. It is more subjective and difficult to quantify according to Zolkiewski and Turnbull (2002) but does provide a more accurate picture and helps management to prioritise customer relationships. Though relationship value is considered to be more useful than the previously used constructs and sub constructs, there has been very little empirical evidence of its use in reality by industrial marketers. Thus, this research intends to explore how (and to what extent) the organisation under study uses the multi dimensional relationship value construct to operationalise its customer relationship portfolio management strategy.

Background to the study: The Case Company Context

This case study is based in the commercial division of the Oil Products business in the downstream operations of an oil major, Oilco. The focus here is on Oilco's UK operations. The Oil Products business markets fuels and lubricants for domestic and industrial use and for a range of transport modes from road to shipping and aviation. It also refines supplies, trades and ships crude oil and petroleum products. The increase in demand for oil has never been uniform all over the world. The US has traditionally been the largest consumer. The two countries with the highest rate of growth in oil use are China and India. On the other hand, the rate of growth in the already industrialized countries is only 1%. There has been a gradual reduction in consumption of oil in the already developed countries including the UK. This is symptomatic of the gradual deindustrialisation and decline of manufacturing. Reminiscent of any industrial activity, high demand in the past led to increased competition and a multitude of market offerings. The cyclical changes prevalent in the industrial scenario and depressed growth rates in the Western European context have prompted major changes amongst all key players in this market. This has prompted oil companies in the past few years to reassess investments and focus on cost efficiencies. This particular research is part of a wider study where the researchers have followed the case organisation as it has moved from a non formal, flexible and a largely subjectively orientated customer relationship portfolio management mechanism towards a more formal documented procedure.

Buyer-Seller Dyadic Perspective

This research takes a buyer seller dyadic perspective. Such studies have been criticised because of their failure to take into consideration the embeddedness and connectedness of the dyad itself. However, the researchers would like to point out that the key focus of this study was to create an in depth understanding of how Oilco manages its entire portfolio of customer relationships ranging from the smallest to the largest. The researchers do acknowledge the limitation in not viewing it within a wider context but are also of the opinion that this issue and its strategic importance do play a role in how the selling organisation operationalises the strategic framework to manage its portfolio of varied customer dyadic relationships.

Exploring Relationship Value

According to Lindgreen and Wynstra (2005), 'relationship value' primarily draws upon Reichheld and his colleagues' work on economic value of customers, the Contemporary Marketing Practice Group and the Industrial Marketing and Purchasing Group. Buyers and sellers do business with each other not only on the basis of the value of the goods or service being exchanged but also on the other value dimensions that seem attractive for both actors (Lindgreen and Wynstra 2005). Thus direct economic value dimensions which might be short term in nature are not the only reasons why a dyadic buyer seller relationship exists. According to Payne and Holt (2001), Wilson and Jantrania (1993) were one of the first researchers to 'explicitly describe' (p. 170), the dimensions of relationship value. These are represented by economic dimensions (investments quality, value engineering, concurrent engineering and cost reduction), strategic dimensions (core competencies, strategic fit, time to market and goals) and behavioural dimensions (social bonding, trust and culture). Though Wilson and Jantrania do not base their argument on any empirical foundation, their benefits restricted view of relationship value helps provide a more 'rounded' perspective on how actors might actually decide on value obtained rather than limiting the decision based on episodes. Of course, as we move more and more towards understanding value in relationships, the task of actually measuring it becomes more difficult. This fact has been acknowledged by Wilson and Jantrania (1995). They conclude that '*relationship value is a problematic concept which cannot be ignored*' (p. 63).

Empirical Research Conducted for Relationship Value to Customer

From very conceptual beginnings, empirical research related to relationship value has been conducted in a few contexts but remains largely at a rudimentary level (Ulaga and Eggert 2005; 2003; Hogan 2001) and according to Walter *et al* (2001), there is a lack of a widely accepted conceptualisation of this 'problematic' construct. Empirical research has been restricted to a few studies. Gwinner *et al* (1998) use three benefit dimensions to understand relationship benefits from the end consumer's perspective in service industries. The mixed method research examines the benefits customers receive as a consequence of long term exchanges with service firms. Lapierre (2000) operationalises three benefit dimensions and two sacrifice dimensions in a survey conducted amongst purchasing executives in the Canadian IT and finance sectors. Though she uses certain marketing variables such as trust and solidarity that are treated typically as distinct constructs, she finds empirical support for 13 value drivers including flexibility and responsiveness. Walter *et al* (2003) use Walter *et al*'s (2001) supplier relationship dimensions in a consumer context. They view it from a direct and indirect functions perspective. They infer that customers base their evaluation not only on the functions identified but also on the network effects. Set within the relationship quality literature, they are of the opinion that the quality of a given relationship is influenced by other complementary relationships and that an independent customer requires more supplier input to perceive the same level of relationship quality than a dependent customer. Ulaga and Eggert (2003) as well as Ulaga (2003) explore relationship value from a grounded theory perspective and identify 8 value drivers in manufacturer supplier relationships. These are Product Quality, Service Support, Delivery, Supplier Know-how, Time-to-market, Personal Interaction, Direct Product Costs (Price) and Process Costs. The last two value drivers are sacrifice dimensions whereas the others are benefit dimensions. In the researchers' opinion, this is one of the few relationship value studies that tries to understand the phenomena with a theory building orientation basing most of its arguments on first hand empirical grounding. Ulaga and Eggert (2005) do highlight the importance of market specific relationship value drivers and the need to identify these contextual dimensions whilst conducting research.

Value of a relationship to the supplier

According to Leek *et al* (2002), the supplier's situation is more complex whilst designing relationship management systems since they have to consider the relationship from two perspectives. Apart from having to satisfy the buyer's requirements in terms of the relationship value that they seek, they have to be mindful of the value of the relationship to themselves. Highlighting a '*strong concentration*' (p. 365) of studies that focus on value to customers and a lack of studies that look at value to the suppliers, Walter *et al* (2001) take the supplier's perspective and conceptualise value creation as a set of direct and indirect functions of customer relationships. According to them, value to the supplier is the perceived trade off between multiple benefits and sacrifices gained through a relationship with the customer. These benefits and sacrifices can be a result of the particular dyadic relationship as well as from the other interconnected relationships that will result from the focal dyadic relationship. Thus, there is an acknowledgement of the network effect on the multidimensional value that can be accrued in the short as well as the long term. These are:-

Direct functions:

1. A positive cash flow to the supplier is provided through the *profit function* of a customer relationship
2. The *volume function* contributes to the success of the supplier by securing the necessary 'break even' volume
3. The *safeguard function* provides the stability and control in sales terms within a dynamic market place

Indirect Functions:

1. The *innovation function* provides the technological know-how and creative solutions from being in a relationship with the customer
2. The *market function* provides newer markets and new customers from being in a relationship with an existing customer
3. The *scout function* of a customer relationship enables the availability of critical information that would be needed to serve the same customer or other customers
4. The *access function* allows access to other important relationships in the network.

The indirect functions might not influence the performance of a company directly or within the particular relationship at a given moment in time but would be important for the company's long term success (Walter *et al* 2001).

Relational Value Spectrum

According to Möller and Törroen (2003), it is useful to describe value production through a continuum expressing simultaneously the level of complexity involved and the time horizon of value realisation. On the left hand side of the spectrum, the production of value does not require major adaptations by the actors and this type of 'core value' production aims at maximum efficiency in terms of current resources and process technology. The authors call the middle range of the spectrum as the value adding relational value production where mutual investments and adaptations are made to create a differentiation between the supplier and the other competitors and to improve the efficiencies of the relationship. The far right side of the spectrum deals with radical innovations whose value can be realised only in the future and could be dependent on other members of the extended network. Möller and Törroen (2003) call this future oriented value production.

Research Methodology

Methodologically, this research adopts a pragmatist approach (Rorty 1999). This pragmatism is grounded in the principle that appropriateness of method depends on the nature of the problem (Rorty 1999). It was essential for the researchers to understand the complex phenomenon from a multi dimensional perspective and within its natural setting to provide a complex holistic picture. The research involves an in depth examination of the organisation and necessitates the collection of a wide array of information from multiple sources so as to provide an in depth conceptualisation (Creswell 1998) and also requires the development of a theory that is grounded in the field data (Creswell 1998). Thus, the researchers have chosen an in depth qualitative case study approach and combined it with a Grounded Theory (Glaser and Strauss 1967) approach to Data Analysis. The researchers formulated a multi-step data analysis technique to analyse the data collected (**Figure 1**). It is a synthesis of the GT techniques used by Charmaz (1983), Chesler (1987), Strauss and Corbin (1990) and Eaves (2001). This approach has been used to provide more clarity and transparency to the researcher as well as the reader.

Data Collection

Documentation Review

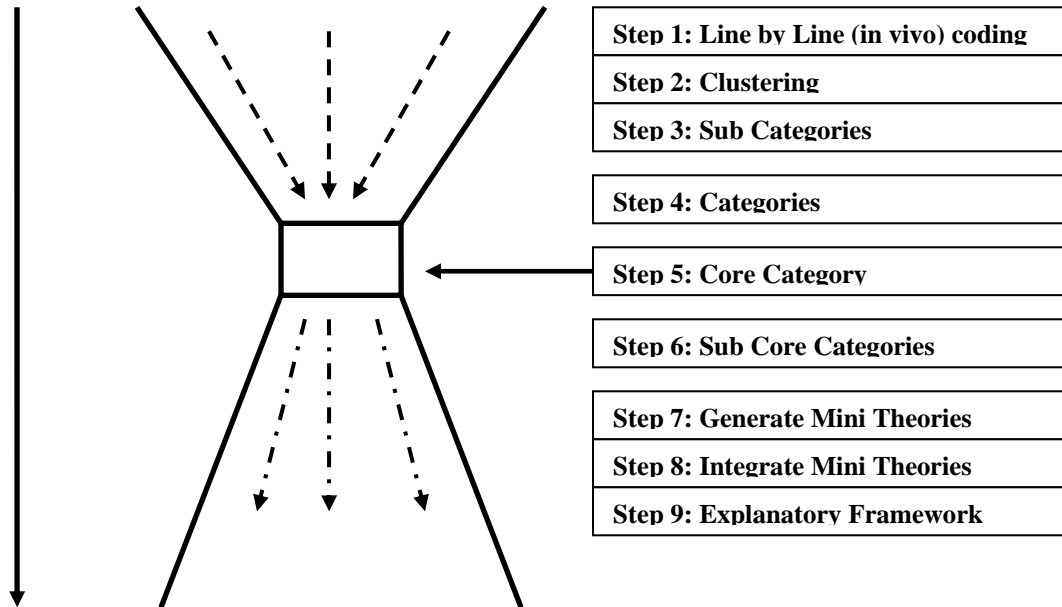
Documentation was a key source of data for the research. The researchers were fortunate enough to gain access to vast amounts of company and industry specific documentation both in the public as well as private domain. However, the interpretation of such documentation always requires the researcher to be cautious since the documentation is written within a specific context, at a specific time and for a specific purpose (Yin 2003). Because of the importance of access to documentation, its availability was a particular criterion for case study selection.

Semi Structured Interviews

Keeping in mind the objectives of the wider study, 35 semi-structured interviews were conducted with multiple level respondents within the case company as well as its customers. It was necessary to determine who would be able to deal with the particular line of enquiry and to have sufficient representation from each category. For example, to understand how the case company measures individual customer profitability, it was imperative that the finance personnel be interviewed. The customers were interviewed to explore relationship value and the levels of interaction etc.

Figure 1

The GT analysis technique adopted in this research (based on Charmaz 1983; Chesler 1987; Strauss and Corbin 1990 and Eaves 2001)



Findings

Core Category 1: 'Expected Relationship Value' for the Customer (ERVc)

'Expected Relationship Value' for the customer in the context of this study is *the value that the customer expects to derive during the lifetime of the relationship with a particular supplier*. This is the value that the customer seeks from the supplier and includes both the benefit as well as sacrifice dimensions. During research, it was found that ERVc is not necessarily a trade off between the benefit and sacrifice dimensions. Thus, this research provides evidence for Werani's (2001) argument that the 'decision theoretic approach' of considering value as a ratio or difference between benefits and sacrifices (Ravald and Grönroos 1996) might be appropriate 'but not the only possible proceeding'. For e.g., Many of the commercial road transport customers who source diesel from Oilco and for whom the product constitutes 30 - 40% of the customer's total cost of operations 'indulge' in repeated transactional episodes where the only 'benefit' they seek is to know the 'sacrifice' they are making. Thus, in this particular scenario, a competitive price is the only 'benefit' sought. This particular situation highlights the drawbacks of considering value as a ratio or difference between benefits and sacrifices.

The ERVc categories find support for the seven 'value drivers' identified through empirical research by Ulaga (2003) and Ulaga & Eggert (2003). These are Product Quality, Product Price, Service, Delivery, Personal Interaction, Indirect Costs, and Supplier Expertise. This is not surprising since the manufacturing context in which their research was conducted matches Oilco's context and the type of manufacturing orientated customers it serves. However, the sub categories that constitute each of these ERVc categories show variation. This study also finds support for Walter *et al's* (2003) Innovation, Market and Access sub dimensions (as sub categories of Supplier Expertise which has been found to be a higher order construct). Flexibility has been identified as a value driver by Lapierre (2000). The present research

identifies Overall Flexibility as an important ERVc category. This is done in a bid to reduce the customer's invoice price as well as indirect costs. Thus, the customer is looking for flexibility in terms of the pricing, product range, packaging size, delivery volumes, delivery timings etc.

ERVc Sub Core Categories

Oilco has a very diverse base of customers. These range from small independent workshops or garages, small metal working operations to the larger end haulage companies, bus and coach operators, automobile original equipment manufacturers, steel companies, large scale food manufacturers and infrastructural construction companies etc. Thus, it is important for Oilco to understand the variation in the ERVc of the different customers and to classify them into overall customer groupings. This is done in order to understand the infrastructural and resource capabilities that would be required by the organisation and to design them appropriately.

*'we have **identified** the majority of those who **see us as the supplier of oil** and those we would not build any value other than give them the value that they want, supplying oil. The **others that see a little bit more in how we can help them reduce cost, how we can rationalise, improve their efficiencies; those are the ones who measure us more than just one pound per litre of oil.** They would look at us as reducers of cost of production. **Finally, there are customers who see us contributing a lot to their business.** I just hope we have drawn the lines properly'*
(Marketing Manager 2)

The terms used to classify the three different ERVc sub core categories are not terms used by Oilco but are those that have been used by Möller and Töröronen (2003) to describe supplier capability base and value production. In the researcher's opinion, the terms 'core value seekers', 'added value seekers' and 'future orientated value seekers' best represent the Core category classifications discovered through case data analysis. These do not necessarily represent how Möller and Töröronen (2003) conceptualise it.

ERVc Sub Core Category 1: Core Value Seekers

Core Value Seekers are only interested 'in the basics'. Thus, they are interested in the right product at a competitive price, delivered where and when they want it and with an adequate amount of service support. This translates itself into ease of ordering, accurate invoicing and open channels of communication if matters do go out of hand. Core Value Seekers begin the interaction process knowing 'precisely' what they want to buy and more often than not selection among suppliers is based on price and other hygiene factors like the right product, on time delivery and service support when needed.

if you look at purely transactional people, these guys have got a list of six phone numbers and they phone, phone, phone, phone, and one of them happens to be ours, (Sales Team Leader 1)

'The (large independent automotive dealer) group and companies like that, they want an extremely cheap product, they really look at it from just a commodity base, and they don't see our brand as a brand adding value to their business and they're very much "Just give me a commodity, I'm are not interested in a brand, I just want the cheapest product and I want the least interaction, we manage our service managers, we just want you to deliver the product'. (Sales Team Leader 4).

'Some of the general engineering customers are the ones that are more transaction orientated, so more, let's buy hydraulic fluid at the lowest cost' (Sales Team Leader 1)

Core value Seekers are not necessarily small organisations. Such buyers will not consider making trade offs between price and anything that a supplier might offer that exceeds the original specifications. This focus on price and on the basic value greatly diminishes the ability of the case company to negotiate based on the delivery of added value or long term value. The case company uses these genuine price buyers as volume buyers who help the case company meet its overhead costs. This band also consists of smaller customers who are not volume buyers but do operate in competitive environments themselves. An example from the case is a large local transport company that operates buses in many cities across

the United Kingdom. The cost of fuel (supplied by the case company) to all its various depots dotted across the country is a substantial part of its operating costs and affects its bottom line. This company is predominantly interested in a very competitive price and the assurance of delivery at regular intervals.

ERVc Sub Core Category 2: Added Value Seekers

The ERVc for Added Value Seekers is not just restricted to the value that is sought by the core value seekers. These are companies for whom it is beneficial to enter into an ongoing relationship (at varying level and degrees) with Oilco. For example, the automobile original equipment manufacturing customers due to the competitive nature of their business are seeking value that goes beyond the ERVc sought by the core value seekers.

'Some of the more aggressive (automotive) OEMs, their buyers are constantly looking at cost reduction exercises and strategies, so as a supplier in some OEMs you're always under pressure, that relationship is more difficult than others where the end decision really is on the service and delivery' (Key Account Manager5)

'These customers know that the cost of the oil is actually not important. Some of our customers, if you look at say the food production companies, if the food line went down while making sandwiches for (retail giant), and that was down for an hour, they could even lose up to a 100, 000 pounds in downtime. So in fact these guys would pay a little bit more which would make the line run' (Key Account Manager 3)

ERVc Sub Core Category 3: Future Value Seekers

The involvement levels and the supplier expertise required by Future Value Seeking customers is generally more than that required for the Core Value or the Added Value Seeking customers. An example that can be cited here are the large bitumen customers that require constant multiple levels of interaction with Oilco due to the nature of the projects that they work on together.

'And in fact we may go as far as seconding somebody from our own organisation to a customer for a certain period of time to help them with their marketing processes, and xxx is an example, who has worked for one of our key accounts for a period of 18 months, on their site, paid by us to help them get new products introduced in a rigorous marketing developing XX process' (Marketing Manager2)

'for them, you've got to think about, okay, how do they look at their marketing, and how can we work with them to ensure that any new initiative actually gets to market' (Marketing Manager 2)

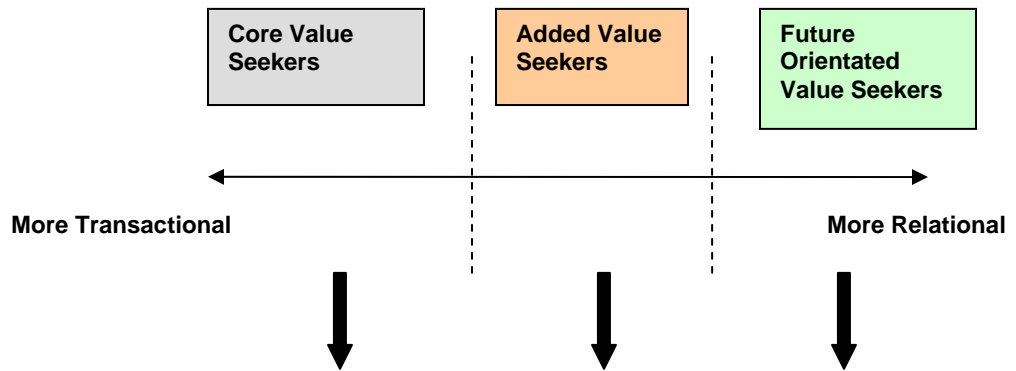
Even the Future Value Seekers are not necessarily large customers. They could be small such as independent workshops and garages for whom the value to be gained from being in a relationship with Oilco is immense. This is in terms of innovation, bigger markets and access that could be gained from being in a long term relationship with Oilco.

'They (independent garages) want to portray themselves as a professional organization, professional business with a number of mechanics, well experienced. They look to us and say 'Right, high value adding brand, adding professionalism to their business and they want the Account Manager to be calling in, and showing them ways of merchandising, and making and moving the product mix so that they extract more margin from the customer' (Sales Team Leader 5)

Figure 2 below shows the sub core category characteristics for Core Value Seekers, Added Value Seekers and Future Orientated Value Seekers along a Transactional-Relational Continuum.

Figure 2

ERVc Sub Core Category Characteristics along Continuum



1.	Proportion of customers who view product as commodity	High	Medium	Low
2.	Price Sensitivity	High	Medium	Low
3.	Willingness to adapt	Low	Medium	High
4.	Service Levels Required	Low	Medium	High
5.	Interaction Levels Sought	Low	Medium	High
6.	Supplier Expertise Sought	Low	Medium	High
7.	Focus on Indirect Costs	Variable		
8.	Overall Flexibility Desired	Variable		
9.	Relationship Intention (wrt to case company)	Low	Medium	High

1. Proportion of Customers who view Oilco’s product as a Commodity (High, Medium, Low)

A number of customers within the three over all sub core categories did view the basic Oilco product (non specialty products) as a commodity. This perception of the customer sometimes does make it difficult for Oilco’s customer facing staff to command higher margins. Figure 2 demonstrates that as we move towards the right side of the continuum, the specialty product usage increases and thus lesser number of customers within the sub core category view Oilco’s product as a commodity.


2. Price Sensitivity (High, Medium, Low)

The figure highlights the variation in the product price focus. The core value seekers are the most price sensitive ('cheap \$/Litre') and this sensitivity reduces as we move towards the right hand side where the future orientated value seekers are the least price sensitive ('if they see value in collaborating with us, they will go ahead regardless').

3. Willingness to Adapt (Low, Medium, High)

This demonstrates the customer's willingness to adapt if the interaction so requires. According to Håkansson (1982), modifications to product, delivery, pricing etc are not just limited to a seller's marketing strategy but even a buying organisation routinely considers adaptations and shows flexibility in its own product requirements, delivery schedules, the price they are willing to pay, and its information needs. These adaptations are made to accommodate a particular selling organisation. As shown in the table, the customer's willingness to adapt increases as we move from the left to the right hand side of the continuum.

4. Service Levels Required (Low, Medium, High)

This  demonstrates the variation in the levels of service sought by the buyers and thus indicates the importance levels attached to service support. A core value seeker 'attaches low value to service' whereas the future orientated value seeker 'welcomes high end service input'.

5. Interaction Level Sought (Low, Medium, High)

This demonstrates the interaction levels sought by the customer and the three overall sub core categories vary in terms of the importance they attribute to Personal Interaction.

6. Supplier Expertise Sought (Low, Medium, High)

This demonstrates the variation in supplier expertise levels utilized or required by the three overall ERVc sub core category customers. As we move towards the right, the supplier expertise input levels increase. The added value seeking customers require routine or regulatory improvements (for e.g. health and safety consulting) whereas the future orientated value seekers require the highest supplier expertise – (expanding) Market, (providing) Access, Innovation, and (providing) Business Support.

7. Focus on Indirect Costs (Variable)

This demonstrates the variable nature of the focus on indirect costs. There are customers within each of the three overall sub core categories whose focus is not only on the invoice or the product price but also on the various sub categories identified for indirect costs (administration costs, transportation costs etc.). This characteristic largely depends on the buyer's ability as well as motivation to calculate the various components that constitute this ERVc category. In the case company context, it is the bigger buyer (for e.g. supermarkets) who has the ability (technological) and the desire to understand all the costs associated with doing business with a particular supplier. Such buyers are spread across the three different overall classifications.

8. Overall Flexibility Desired (Variable)

All the three ERVc sub core categories require Oilco to be flexible towards them. Thus, there is no clear variation or gradient that can be seen.

9. Relationship Intention (with respect to Oilco) (Low, Medium, High)

Relationship intention is defined as the willingness of a customer to develop a relationship with a firm (Kumar *et al* 2003). As we move towards the right, the customer's Relationship Intention increases. According to Kumar *et al* (2003), when a customer has no relationship intention, he/she possesses transactional intention which is a short-term and opportunistic attitude of the customers. In such situations, there is an absence of an intention to build any relationship with the firm (Kumar *et al* 2003). On the other hand, according to Kumar *et al* (2003), customers with a high degree of relationship intention are strongly willing to build a relationship with the firm.

Core Category 2: 'Expected Relationship Value' to Case Company (ERVs)

Even though a thorough understanding of the ERVc gives Oilco the ability to understand the customer needs and also helps in determining the infrastructural resource capability that would be required to 'right serve' the customers, the value delivered to every individual customer within the overall classifications is moderated by the Expected Relationship Value to the supplier (ERVs). It is defined as *the estimated value to be derived over the life of the relationship with a customer*. Unlike the ERVc, this value is a trade off between the benefit and sacrifice dimensions. This study uncovers 2 overall sub core categories, Direct Value Contribution (2 categories) and Strategic Value Relevance (5 categories). 5 out of the 7 categories provide support for Walter *et al*'s (2001) functionalist approach dimensions (Profit, Volume, Market, Innovation, Access). Market, Innovation and Access have longer term strategic value relevance but the other two categories i.e. Customer Strategic Fit and Competitor Denial are not necessarily longer term in nature. The table below provides the definitions and descriptions of the categories and sub core categories validated or discovered through research in the first case context. **Appendix 1** shows the ERVs categories and sub core categories along with the item definitions.

Customer Strategic Fit

The case company ideally likes to do business with customers who fit the overall business plan of the company. Thus, decisions are made (on keeping or dropping the customer) depending on whether the customer fits into the overall business objectives of the company. Thus, a customer might be profitable for the company at the present juncture but this does not help the case company in the overall scheme of things or the intention is to come out from the segment or leave that line of business altogether. It could so happen that serving the customer leads to tremendous logistical complexity or geographical reach problems. Then, decisions are made to dissolve the relationship.

'If we play to our core strengths then maybe we would be able to add value to the customer in a business where we don't really want to be in. Now, however high the value maybe, but if it is local and does not allow us to scale up then that does not help us' (Key Respondent1)

Competitor Denial

The case company goes for longer term contracts at times to deny the competition from gaining the business. This is a common occurrence in contracts related to bitumen or lubricant supplies to Automobile Original Equipment Manufacturers.

'it's actually locking the customer in because if you're managing their stock for them and they're running their business and they have someone come in, some competitor comes in, unless they can offer the same solution they're excluded and even if they can offer the same solution, to change could be more hassle than it's worth, so we're locking the customer in' (Sales Team Leader 3)

Measuring Individual Customer Profitability

The Direct Value Contribution has come under closer scrutiny from the case company in the last few years. Oilco now uses a sophisticated method of understanding individual customer profitability that gives them a 'truer' representation of the cost to serve every single customer across the three overall classifications (core value seekers, added value seekers and future orientated value seekers). Activity based costing methods aided by the effective utilisation of Information Technology have allowed the company to more accurately assign the direct and indirect resources of the organisation to the activities performed for every customer or consumed in serving every customer.

'the old way that we looked at customer profitability we felt that it didn't include all the customer specific costs, and as a result of that we looked at customers it was quite misleading' (Finance Analyst1)

Oilco uses a two stage cost assignment approach. In the first stage, resource costs are assigned to activities based upon the amount of resources consumed in performing the activity. An activity cost equals the sum of all the resources consumed in performing the activity. In the second stage, activity costs are traced to the customers across the three classifications. This is based on how frequently the activity is performed. This analysis cuts across costs and its drivers across the entire value chain. It focuses on multiple transactions with the customer rather than a snap shot or a single transaction. It also focuses on all the products purchased by the customer rather than a single product purchased by multiple customers.

When this method was initially adopted, the procedure demonstrated variability in the different customer's and different customer grouping's contribution to profitability. As is the case, sales revenues did not contribute to profitability in equal proportions. Some customers consumed more resources than others. The various organisational resources that showed extreme variations included volume discounts, commissions, sales support, inventory and distribution support, inventory holding requirements, freight credit and collection, accounts receivable, order entry and customer support, key account management, office based and field based sales personnel costs. Earlier, even though the organization was aware of most customer revenues, they were not very clear on all the costs associated with maintaining relationships with the various customers.

Now, every time a customer interacts with any of the contact points for e.g. if a customer phones the Customer Service Centre to either place an order or make a price query, this interaction is recorded. This information is extracted at regular periods and fed into an activity based costing tool where a unit cost has been allocated to each of these different activities. Thus, cumulative costs are allocated to each customer based on true interaction. This level of cost computation also encompasses the various sales personnel and their interactions with the customer. Costs incurred in serving the customers have become important not only because of their effect on profitability but also because of their variability across the customer base. The traditional cost accounting approach that had been applied earlier assumed that these costs were relatively small and did not vary with volume or the difference in customers. But, after a thorough analysis, it was realised that the customer driven activities did represent a significant cost to the firm.

'Yeah the process now is very simple, you basically just extract, the customer, what the total time was, what the activity was, load it into, like a big calculator really and then multiply by unit cost per hour that we have derived from all those other types of cost to come up like an hourly cost' (Finance Analyst 1)

'What we saw as being important customers weren't so important in terms of the overall profitability of those customers when you threw absolutely all of those costs in' (Marketing Manager 3)

Customer Relationship Portfolio Management Process

The segregation of its entire customer portfolio into three overall classifications based on ERVc and balancing this understanding with the limited scalability of the infrastructure has prompted Oilco to adopt what is essentially a three pronged customer relationship portfolio management strategy:-

1. Cost Excellence
2. Value Added Selling Relationships
3. Sustainable Collaborative Relationships

*'I would see that our strategy is actually only three pronged, if I'm honest the **first is about cost excellence**, so cost excellent in supply chain, enabling us to be competitive to deliver a sort of commodity product. **The second part of the strategy is indeed about being value-led**, we do clearly see a lot of competitive advantage to be gained by being an expert in certain value-led products or application areas, because customers value what we're doing, and **then the third leg is indeed relationship marketing for those Key Accounts**, so large customers who want to have a long term sustainable relationship with us' (Marketing Manager 3)*

Figure 3 (pg 16) shows the Customer Relationship Portfolio Management Process followed by Oilco. **Segment A** shows the 3 overall customer classifications based on Expected Relationship Value (ERVc). **Segment B** shows the lateral migration of customers to different levels of the portfolio interface. This migration is based on four factors discussed below. **Segment C** shows the portfolio interaction interface. This refers to the lead managerial level that is responsible for managing the buyer seller relationship.

The value delivered by the case company to every individual customer is not necessarily the same as that delivered to other customers within the same overall ERVc classification. This particular decision is taken based on 4 factors. These factors are:-

1. Complexity of Customer's business

The complexity of the customer's business is one of the factors that determine the portfolio interaction interface. This complexity could have its roots in the number of locations that are to be served by Oilco. This would mean collaboration across multiple levels in both the buyer and supplier companies. Thus, even if the customer is a core value seeker, it might require a key account manager or a field based account manager to be the portfolio interaction interface.

The situation could be the entire opposite as well where the business delivers high integrated margins and has high strategic relevance to Oilco, but is not complex enough to warrant a key account manager as the interface.

'In my business there are customers who have big volumes and make big margins for us and we do them through an Office based account manager, not even a Field based account manager because there is no need' (Sales Team Leader 4)

2. Individual Customer Interaction Preference

Within the three overall ERVc classifications, there are individual customers who would like higher or even lower levels of interaction with the case company. Thus, there might be a core value seeker who would like to have constant interaction with a field based account manager or a key account manager. Thus, the interaction interface would change accordingly. On the other hand, there could be a high end added value seeker whose interaction preference is different and feels no need to be served by a field based account manager or a key account manager.

'I (the customer) will from time to time need to have a discussion but I won't need to have a discussion on a weekly or monthly basis. So I don't need the intensity of that relationship. So we

suddenly find that a number of customers who are important but they don't need a very intense relationship' (Key Respondent 2)

3. Strategic Value Relevance

The sub core category of Strategic Value Relevance has an important role to play in deciding on the interaction interface. Thus, a strategically valuable customer who happens to be a low end added value seeker or even a core value seeker might be served using a key account manager. On the other hand, a future orientated value seeker might be too small in size of business or have minimal strategic fit with Oilco's business. This would then determine the portfolio interaction interface.

'We also find that other customers are too small to justify an intense relationship. The only way we can satisfy their needs is by being rather economical which is essentially through the customer service centre'. (Key Respondent 3)

4. Direct Value Contribution

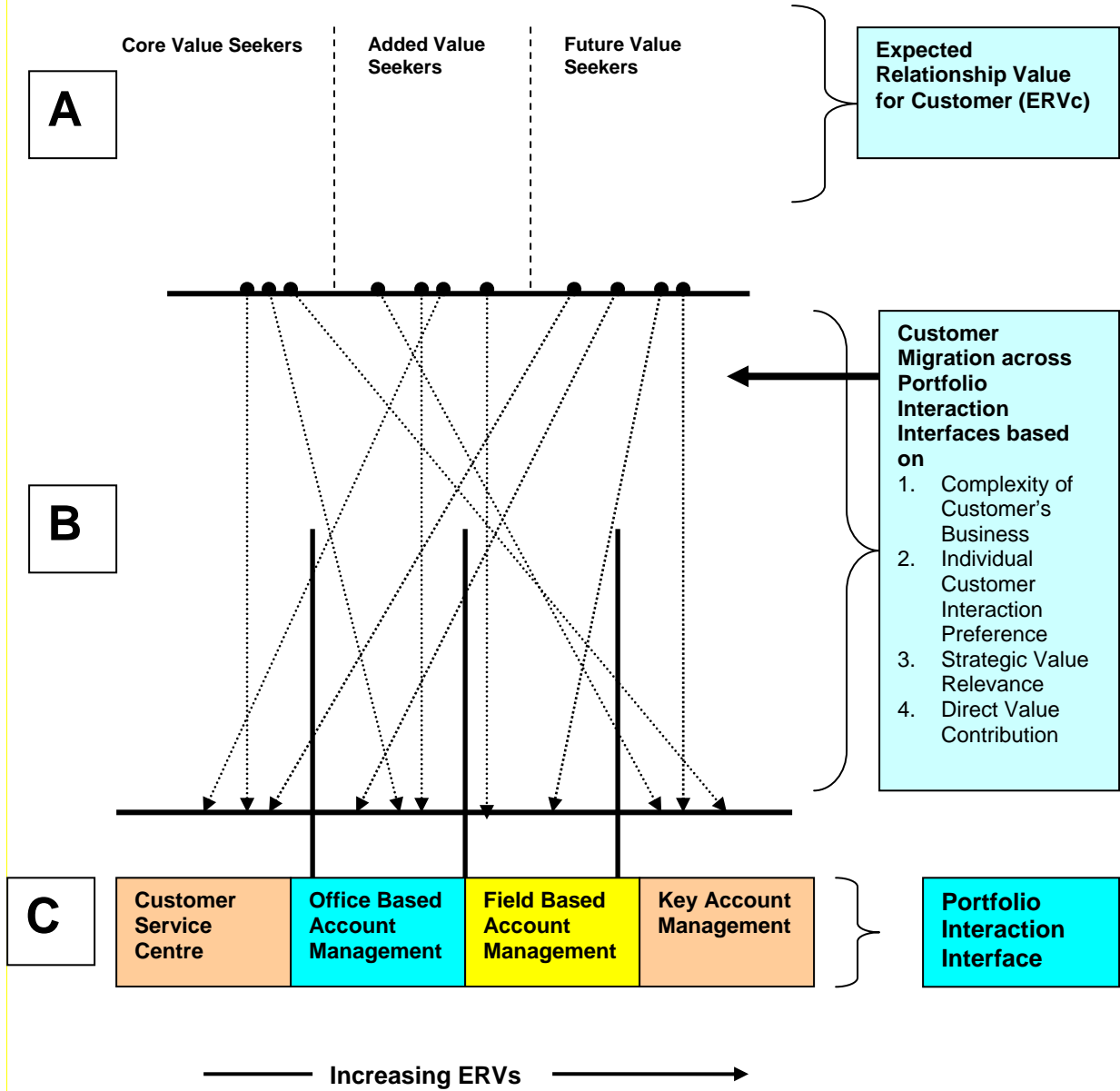
Direct Value Contribution is one of the most important factors that determine the portfolio interaction interface employed by the company to serve the individual customer. In many of the cases especially in the smaller end of the business, this at times is the only factor that is considered when taking decisions on the continuance of the relationship with the customer.

'We evaluate all customers on today's profitability and our hurdle rates by customer, by segment; don't tend to be that different' (Sales Team Leader 6)

Due to the declining prospects of the UK market, the focus for the company has been on enhancing internal profitability. This focus has prompted changes that include acquiring the ability to get a truer representation of individual customer profitability. Lower than expected profitability figures for individual customers prompts immediate changes in the portfolio interaction interface. Thus, customers are migrated to lower levels in the interaction interface. Every individual customer's Return on Capital Employed (ROCE) is calculated based on this true individual customer profitability. The ROCE percentage reflects the expectation levels for a certain region (depending on levels of maturity of that market).

'We have to tell them we can't afford it, so we have pretty frank discussions with our customers' (Sales Team Leader 6)

Figure 3
Customer Relationship Portfolio Management Process for Oilco



Conclusions and Implications for Future Research

This research provides a processual and grounded understanding of how a major oil company manages its entire portfolio (rather than just key accounts) of commercial customer relationships. It reports on the reality of how one industrial marketer actually uses the portfolio concept to manage customers who are seeking different value and are obviously contributing different value to the supplier company. This gap has been highlighted by authors such as Leek et al 2004; Gelderman and van Weele 2002; and Johnson and Selnes 2004. Relationship Portfolio literature till now has tended to focus on one side of the relationship. Very few research studies focus on both sides of the equation and thus provide a singular value perspective to relationship portfolio management. Noted exceptions include Johnson and Selnes (2004), though their paper uses a postulate and scenario based approach.

Kumar *et al* (2003) have proposed that if a customer's relationship intention is high, the association between lifetime duration and profitability will be positive and stronger. Thus, according to Kumar *et al* (2003), it makes sense to make investments in building these relationships since these relationships will always be profitable in the long run. In the context under study, the contention that a customer with a high relationship intention will always be profitable in the longer term might not be entirely true every time. In this study, the customer's willingness to build a long term relationship with a particular supplier is based on ERVc and there is no direct relationship with the value or the profitability derived by Oilco. Thus, a high relationship intention or a high ERVc for that matter might not necessarily indicate a mutually beneficial relationship. It is up to the supplier to measure the profitability through this buyer-seller dyadic association. Many of the case company's customers have a high relationship intention. However, the case company's resource commitment towards these customers with high relationship intention is comparatively low. This is a conscious decision by Oilco and is reflected in the Customer Relationship Portfolio Management Process shown in **Figure 3**

This study provides evidence for a transactional – relational value continuum (Möller and Töröronen 2003) approach being used in practice. Researchers have argued that the relationship continuum approach is a simplistic way of viewing a company's customers (Naudé 2005). The researcher's first hand observation gained through researching Oilco's relationship management strategy is that customer relationships do take up many different forms. This is determined by the value that the customer expects from the case company. Potentially, there can be many different forms of relationships sought by the customer leading to many different ways that the portfolio of customer relationships could be managed. However, the infrastructural capability of the company has a major role to play in determining how the company's relationship portfolio strategy is operationalised. Resources of organisations (whether large or small) will be limited. This situation is no different at Oilco as highlighted in the statement below:

'our infrastructure is limited...any organisation would like to serve their customers exactly the way they want...but unfortunately it did not work for us in the past' (Sales Team Leader 5)

Thus, understanding customers using a relationship continuum approach enables Oilco to not only enhance customer understanding but to better design scalable resource capacities. The absence of such processes earlier was providing no control over the customer facing staff's desire to serve their 'accounts' the way the customer viewed the relationship.

Of course, looking at the situation from a customer's perspective, this approach adopted by Oilco does not imply that it is the best method of managing customer relationship portfolios. Thus, there is a need to understand the historical context as well as the contextual factors that drive the organisation towards a certain approach.

Future research would seek to investigate the role of power as well as the role of endogenous contextual factors in a supplier's relationship portfolio management strategy.

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Appendix 1

ERVc Categories and Sub Core Categories

Core Category	Sub Core Category	Categories	Item definition
ERVs	Direct Value Contribution		Includes activities and resources of the supplier firm and customer firm that may create value to the supplier without being dependent upon other (connected) relationships (Walter et al 2001). This Sub Core Category has an immediate effect on the partner firms.
		Profit	Refers to the positive cash flow generated for the supplier due to the association with a customer firm (Walter et al 2001). In this research the usage of this term refers to the individual customer level profitability. Characterised by revenues from every individual customer minus the direct product costs and the cost to serve that customer.
		Volume	Refers to the ability of the supplier to sell sufficient quantities of the product to a particular customer in order to allow the supplier to operate on a profit making basis
Strategic Value Relevance	Strategic Value Relevance		Includes activities and resources of buyer and supplier firms that may create value in the longer term due to it being connected or dependent upon other relationships in the network (Walter et al 2001)
		Market	Refers to supplier's ability to gain access to new markets and new customers through the relationship with an existing customer (Walter et al 2001)
		Innovation	Supplier's ability to gain technological know how, creative ideas and products through the association with a customer (Walter et al 2001)
		Access	Supplier's ability to reach third parties through a customer association to ensure value in the long term
		Customer Strategic Fit	Refers to how well a particular customer aligns with the supplier's overall business strategy (for e.g. the customer might be currently profitable but the supplier does not intend to be in the business in the longer term)
		Competitor Denial	Supplier's ability to diminish the competitor's ability to gain a certain customer's business or enter a certain market

