Portfolio Holes in Customer Portfolio Management

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Abstract

In this manuscript, we conceptualize the nature and managerial use of "portfolio holes" in relation to B2B relationship portfolio management, with an emphasis on customer portfolios. By portfolio holes we are referring to the systematic use of absence as a means to shape relationship portfolios. Portfolio holes are a conceptual portfolio analysis and management tool.

Portfolio holes add value to marketing by improving suppliers' agency in portfolio management. This improvement in managerial agency however requires specific marketing conditions, which are examined in this manuscript. In addition, our findings indicate that portfolio holes are beneficial as a tool to enforce sales discipline over a sales force. Furthermore, there can be cognitive and communicational benefits in using a negative vocabulary associated with portfolio holes to describe portfolio situations. Our investigation is based on a successful US $400 Mn cost saving program by a leading oil company.

Key words: customer portfolio management, portfolio holes, negative portfolio management, industrial marketing

Introduction

In this manuscript, we conceptualize the managerial use of "portfolio holes" as a relationship portfolio management and analysis tool. We label "portfolio holes" as entities, structures, or activities that are absent from a portfolio. This absence (i.e. hole in a portfolio) is systematically created by marketers as a means to achieve desirable portfolio outcomes. For example, in customer portfolio management, portfolio holes can consist of an absence of certain types of customer relationships, or an absence of undesirable customer facing activity, routines, structures, distribution channels, products, or services.

The value of portfolio holes stems from several different characteristics. Most importantly, we maintain that portfolio holes are a means to increase supplier's agency in relationships portfolio management. This is significant as the composition of a customer portfolio is directly linked to a firm's profitability (e.g. Shapiro et al, 1987). Also, it is important to note that suppliers have only limited power to impose their will upon buyer-seller relationships (e.g. Hakansson, 1982; Axelsson and Easton, 1992; Ford et al, 2003). It is thus essential to identify how and where a supplier can best influence its customer portfolio outcomes, despite these limitations. In short, we seek to demonstrate that portfolio holes can improve supplier's agency, when the following two conditions are met at the same time:

1. Condition of "relationship break-up asymmetry": We maintain that there are business marketing situations where the break-up can be a unilateral decision of the supplier (or buyer), even if the formation of a relationship requires the consent of both parties.

2. Condition of "favorable shaping by absence": We maintain that there are business marketing situations where a supplier can enhance its customer portfolio via portfolio holes, by eliminating some customer relationships and portfolio activities.

In addition, our findings demonstrate that portfolio holes can add value to portfolio management as a sales discipline tool, such as ensuring the absence of unprofitable transactions and business relationships. We also maintain that portfolio holes may be used to simplify communications. At times it is cognitively easier to define and to communicate portfolio goals and objectives by focusing on absence instead of presence, reducing cognitive strain and working memory limitations.

We will use a case study of a major oil company to demonstrate the effectiveness of portfolio holes in industrial marketing management. This case study outlines a successful US $400 Mn cost savings program, where portfolio holes had a significant role in attaining the favorable business outcome.

This research builds upon the past decades of business relationship portfolios research (e.g. Fiocca, 1982; Shapiro et al, 1987; Turnbull and Zolkiewski, 1997; Terho and Halinen, 2007; Humberg, 2009; Ritter & Anderson, 2014). However, despite these advances, relatively little is known about the use of absence or absenting in portfolio management. This is surprising as portfolio de-selection is an important part of portfolio management. Also, various forms of absence/absenting have already been addressed by business marketing literature, in particular by research

investigating relationship ending (e.g. Halinen and Tähtinen, 2002; Tähtinen, 2002; Pressey and Qiu, 2007; Alajoutsijärviet et al, 2000; Giller and Matear, 2001; Havila and Medlin, 2012).

We will begin this article by reviewing portfolio literature and theories related to absence. This is followed by our conceptual framework and case study findings. We will end the manuscript by discussing the managerial implications and directions for future research.

Literature review

In the past, customer portfolio management and absence/absenting have been treated as separate topics. As this research seeks to theorize the importance of absence in customer portfolio management, we will review both areas of marketing and management literature.

Customer portfolio literature

The contemporary study of portfolio management has been inspired by the idea of an efficient (or balanced) portfolio, based on the Nobel Prize winning work of Harry Markowitz (1952) and William Sharpe (1963). In short, an efficient portfolio is a group of different kinds of assets, which as a whole are more than the sum of their parts. A common objective of portfolio management is hence to overcome weaknesses of individual assets (including customer relationships in customer portfolio management) by combining together carefully selected assets. Ideally, assets can be combined together in a way that does not give up the aggregate upside of assets, while at the same time reducing a portfolio's weaknesses. This idea has revolutionized financial portfolio management, where careful selection of assets can allow for a reduction in a portfolio's risk without a corresponding reduction in the portfolio's returns (e.g. Markowitz 1952; Sharpe 1963). In addition, the idea of an efficient portfolio has inspired much of the customer portfolio literature in the field of industrial marketing. For example, financial portfolio models and the idea of an efficient portfolio have been directly applied to customer portfolio analysis (e.g. Ryals 2002; Hopkinson and Lum, 2002). It is also common for customer portfolio models to facilitate aggregate visual representations of customer portfolio relationships (e.g. Turnbull and Zolkiewski, 1997).

By-and-large, all customer portfolio models strive to examine customer relationships at an aggregate portfolio-level, instead of evaluating the merits and weaknesses of customer relationships in isolation (e.g. Cunningham and Homse, 1982; Fiocca, 1982; Campbell and Cunningham, 1983; Dubinsky and Ingram, 1984; Shapiro et al, 1987; Rangan et al, 1992; Yorke and Droussiotis, 1994; Turnbull and Zolkiewski, 1997, 1999; Ryals, 2002; Dhar and Glazer, 2003; Johnson and Selnes, 2004, Terho and Halinen, 2007; Humberg, 2009). Similarly, the same theoretical inspiration can be found in research examining supplier portfolios (e.g. Cunningham, 1982; Krapfel et al, 1991 Olsen and Ellram, 1997; Zolkiewski and Turnbull, 1999), product portfolios (e.g. Henderson, 1970; Hofer and Schendel, 1978; Marvin, 1972; Wind, 1982; Cardozo and Smith, 1983), business unit portfolios (e.g. Wind et al, 1983) and brand portfolios (Lei et al, 2008).

Problematically, there are also significant differences in the management of customer portfolios and financial portfolios, which make it difficult to directly apply the original financial portfolio theory in business marketing (cf. Ryal, 2002; Hopkinsson and Lum, 2002)[1]. To begin

[1] Ryals (2002) and Hopkinsson and Lum (2002) applied the Capital Asset Pricing Model (CAPM) (Markowitz, 1952; Sharpe, 1964) directly to customer portfolio management. Problematically, CAPM makes several assumptions, which may not be applicable to customer portfolio management: 1. Risk of a

with, financial assets, such as equities tend to be traded in relatively efficient markets[2]. In contrast, customer relationships are real assets, whereby their development requires (often considerable) managerial effort, typically including operational interaction between a buyer and a seller. In addition, the development of business relationships often includes learning and mutual adaptation by both parties, including investment in relationship specific skills or practices (e.g. Ford et al, 2003).

In addition to these differences, what is still missing in the current customer portfolio literature is recognition of a significant asymmetry between the main customer portfolio activities: (1) inclusion of business relationships in a portfolio and (2) removal of business relationships from a portfolio. In financial portfolio management, assets are typically bought and sold with equal ease, for example, by trading securities in a stock market. This is however not the case in a customer portfolio management, where relationship building can be an on-going process requiring mutual interaction, adaptation and learning. In industrial marketing, there are even two separate sets of literature addressing the creation of relationships and the ending of relationships (e.g. Halinen and Tähtinen, 2002; Tähtinen, 2002). Hence, it is important for relationship portfolio theories to also to recognize these differences, which is one of the key issues in our conceptualization of portfolio holes in this manuscript. We seek to demonstrate that the asymmetry in the way relationships are created and ended makes portfolio holes more useful in customer portfolio management.

Absence and absenting

While "absenting" and "absence" are similar concepts, a distinction can be made between them, particularly as portfolio holes relate to these concepts in different ways. In portfolio management, absenting is the act of creating portfolio holes in a portfolio by ending some kinds of business relationships or business relationship related activities. In contrast, a portfolio hole is the resulting absence that is systematically created and then maintained in managing a portfolio.

One of the most cited concepts concerning absence is the theory of structural holes (Burt, 1992). A structural hole can be defined as a gap (or absence of connections) in a social network between two individuals possessing complementary information. Based on this theory, it is possible for an individual or firm to gain benefits from bridging two separate groups of people, if this allows transfer of valuable insights and information from one group to another. This also means that the absence of connections between two groups of people can be used to identify business opportunities in a business marketing network. The literature investigating the nature of structural holes is important to our research as it has legitimized absence as a meaningful unit of analysis. While both concepts, portfolio holes and structural holes utilize absence as an opportunity to achieve favorable social or business outcomes, they seek to benefit from absence in opposite ways. The opportunity provided by structural holes (in a social network) relates to elimination of

portfolio is based on the variability of returns from the said portfolio, 2. An investor is risk averse, 3. An investor prefers to increase consumption, 4. The investor's utility function is concave and increasing, due to his risk aversion and consumption preference, 5. Analysis is based on single period model of investment, 6. An investor either maximizes his portfolio return for a *given* level of risk or maximizes his return for the *minimum* risk, and, 7. An assumption of managerial rationality.

[2] Stock market is considered the best example of an efficient market, although some market inefficiencies may remain. In an efficient market all pertinent information is available to all market participants at the same time and prices respond immediately to all available information.

the gap between two groups, i.e. the elimination of the absence. In contrast, the use of portfolio holes in portfolio management seeks to benefit from the continued existence of absence, whereby absences are systematically created and managed by marketers.

Further academic legitimacy for the study of absence can be derived from strategy literature. For example, according to Inkpen and Choudhury (1995), absence of strategy may be beneficial in some business situations:

"Management may deliberately build in strategic voids and apparent incoherency in decision making as part of its organizational design… A certain level of ambiguity surrounding corporate objectives and policies may enable a firm to maintain an active and realistic set of strategic option*." (Inkpen and Choudhury, 1995:* 318-9)

By not explicitly stating its strategy, an organization can potentially increase its strategic flexibility. In addition, Inkpen and Choudhury (1995) see linkages between absence and various other management theories, withtheir portrayal of the Garbage Can Model (Cohen et al, 1972) as a study of the "absence of rational decision processes", Inertia Theory (Hannan and Freeman, 1989) as a study of the "absence of organizational change", and "the rationale for the formation of hierarchies" (Williamson, 1975) as absenting of transaction costs. Similarly, corporate restructuring can be seen to cover a broad range of topics related to absenting, such as divestures, termination of business lines, and sale of assets (Bowman and Singh, 1993; Johnson, 1996; Ravenscraft and Scherer, 1987). Game theory is in part concerned with the possibilities of absence exemplified by Merrill Flood's and Malvin Dresher's conceptualization of the Prisoner's Dilemma. The importance of absence/absenting to marketing is also clearly observable in various mundane management decisions, such as cost cutting, layoffs, streamlining of product lines, niche segmentation and targeting, and in the elimination of risks and mistakes. In making such assertions, however, we have to be careful that an emphasis on absence does not only result in a language game, which replaces a positive vocabulary with negative expressions. Indeed, some "theories of absence may be theories of substance in disguise" (Inkpen and Choudhury, 1995: 314).

In industrial marketing literature, there is a growing recognition of the importance of absence and absenting. Perhaps most notably, absenting of business relationships has been researched in relation to the way business relationships end. This literature includes studies of different stages in ending business relationships (e.g. Halinen and Tähtinen, 2002; Tähtinen, 2002, and how the cultural context can influence the relationships ending process (e.g. Pressey and Qiu, 2007). Other research regarding relationship ending include exit strategies (Alajoutsijärviet al, 2000; Giller and Matear, 2001), and the influence of timing in business closures (Havila and Medlin, 2012). However, there has been little theorizing regarding the way relationship ending is related to relationship portfolio management, such as customer portfolios, despite the extensive amount of research conducted in investigating relationship portfolios.

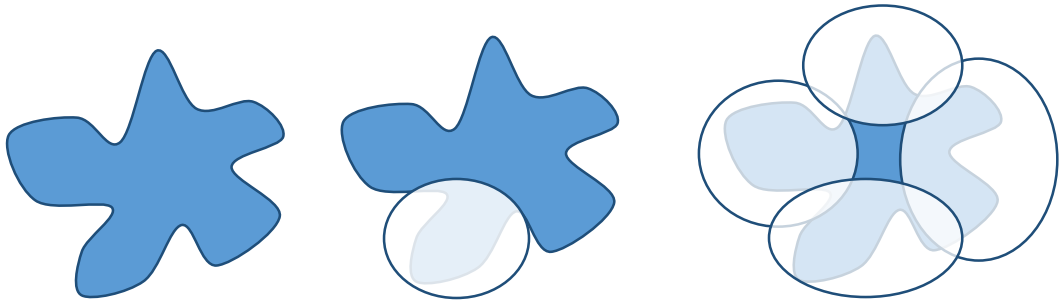
Conceptual Framework

Portfolio holes

In this paper, we conceptualize "portfolio holes" as a practical portfolio analysis and management tool, which can be used to enhance portfolio management outcomes. In short, "portfolio holes"

are entities, structures, or activities that are absent from a portfolio. This absence (i.e. hole in a portfolio) is systematically created by marketers as a means to achieve desirable portfolio outcomes. For example, in a customer portfolio, portfolio holes can consist of an absence of certain type of customers, customer facing activities, personnel, routines, structures, distribution mechanisms, products or services, among other things.

The value of portfolio holes stems from several characteristics, which can all reinforce each other. First, in certain situations it can be cognitively easier to comprehend portfolio goals and objectives by focusing on absence, as opposed to examining presence. This means that portfolio holes can be used as a heuristic shortcut to simplify an otherwise complex portfolio situation. Second, portfolio holes can be used as a means to impose a sales discipline upon a sales force and to guide marketing activities, which is demonstrated by our case study findings. For example, portfolio holes can be used to impose clear boundaries that limit what kind of customers a firm does not want, or what kind of customer service should not be provided (see Figure 1).



1. A relationships portfolio without systematic portfolio holes
2. In some situations, portfolio holes can be used to simplify communication.
3. Portfolio holes can be used to impose a sales discipline, by setting clear portfolio boundaries.

Figure 1. Portfolio holes in different management roles.

Most importantly, however, in this paper we maintain that portfolio holes are a means to increase supplier's agency to shape customer portfolios. This final point relies upon specific marketing conditions, which we have labelled as "relationship-break up asymmetry".

Relationship break-up and formation asymmetries

It is often (but not necessarily always the case) that the formation of business relationships requires the consent of both buyers and the sellers. This kind of multilateral relationship formation can be regarded as the norm in ordinary business relationships. Similarly, ending a business relationship can be a mutual multilateral decision reached jointly by a buyer and a seller. However, it can also be the case that breaking up a relationship is a decision of just one party in isolation. For example, a buyer may stop buying products from its supplier, or a supplier may stop selling its products to a customer, whereby a relationship ends unilaterally (Figure 2).

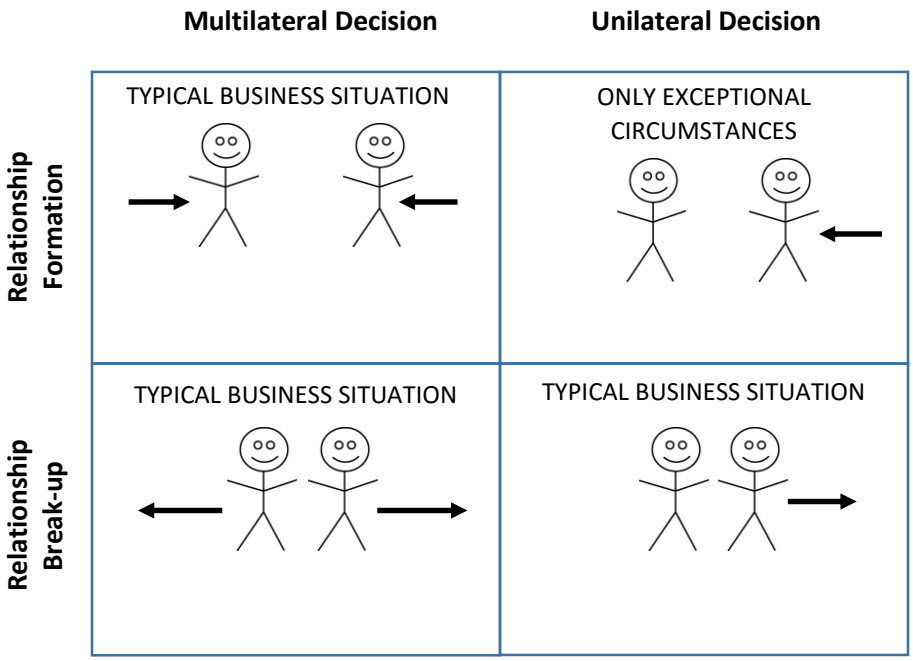


Figure 2. Multilateral and unilateral relationship formations and break-ups.

The value of portfolio holes in portfolio management is heightened by this asymmetry, whereby (1) the formation of a relationship needs the consent of both parties, but the (2) break-up can be a decision of one party in isolation. We will label this as a "relationship break-up asymmetry" (Figure 3). Accordingly, when the relationship break-up symmetry prevails, this may allow a supplier to unilaterally achieve its portfolio objectives via the use of portfolio holes.

Naturally, "relationship break-up asymmetry" does not apply to all situations. For example, there can also be situations where an opposite asymmetry prevails, whereby relationship formation can be a unilateral decision and break-up needs to be a multilateral decision. We will label this as "relationship formation asymmetry" (Figure 3). However, based on the nature of past IMP-group literature (e.g. Hakansson, 1982; Axelsson and Easton, 1992; Ford et al, 2003), it is reasonable to conjecture that the "relationship break-up asymmetry" is much more common in comparison to "relationship formation asymmetry". We see "relationship formation asymmetry" present only in highly exceptional circumstances. Such exceptional business circumstances can include some government monopolies, special court orders, and coercion by organized criminal societies, whereby customers are forced to buy products from a particular supplier against their free will. In contrast, we conjecture that "relationship break-up asymmetry" is more commonly observed in business marketing management.

> Proposition 1. "Relationship break-up asymmetry" is more common than "relationship formation asymmetry" in industrial marketing management.

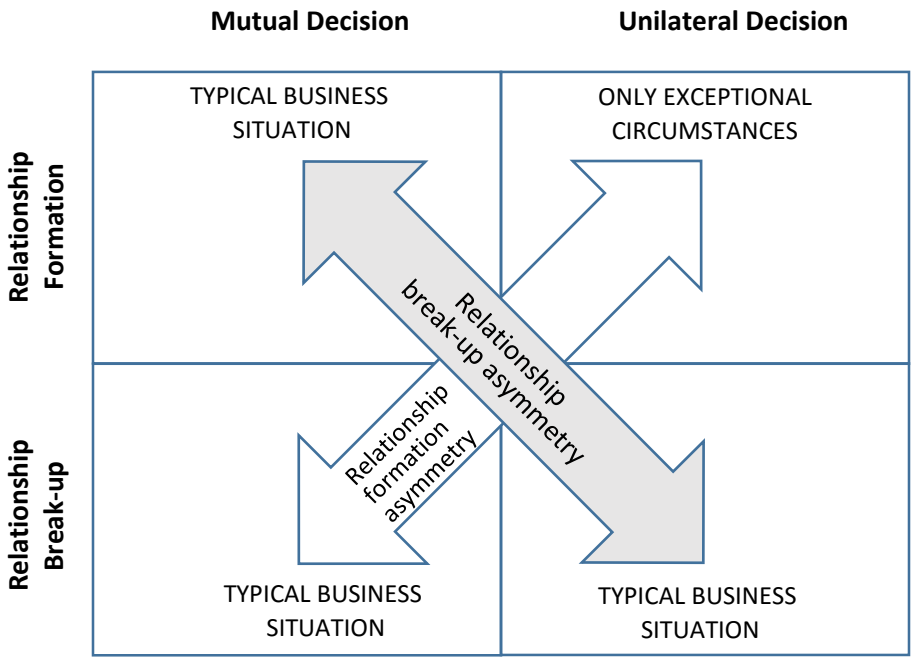


Figure 3. Relationship break-up and formation asymmetries.

While this needs to be empirically verified, we can further conjecture that in situations where the "relationship break-up asymmetry" applies, suppliers have more power to break up relationships (i.e. unilateral decisions), than they have in establishing new relationships (i.e. multilateral decisions), ceteris paribus.

> Proposition 1b: In situations where the relationship asymmetry applies, suppliers have more power to break-up relationships than in creating relationships.

Also, we conjecture that in conditions of "relationship break-up asymmetry", customer portfolio strategy is more likely to succeed if it can be implemented via portfolio holes, in comparison to attempts to implement a portfolio strategy by creating new customer relationships.

> Proposition 1c: In situations where "relationship break-up asymmetry" applies, suppliers have more success in implementing a portfolio strategy via portfolio holes, in comparison to creation of new business relationships.

In formulating these conjectures, it is important to recognize that many business relationships have highly complex characteristics. As a result, it is not always possible for portfolio managers to engage in unilateral decision-making. For example, IMP-group research has documented in considerable detail complex interactions in buyer-seller relationships, including various types of

inter-dependencies and co-adaptations (e.g. Hakansson, 1982; Ford et al, 2003). As a result, unilateral relationship break-ups are not always possible. In addition, even in situations where unilateral decision making is possible, there is a danger of unilateral decision-making resulting in adverse consequences, due to complex linkages between different actors. It may be difficult for portfolio managers to fully comprehend the complex relationship linkages. As a result, even when suppliers have the power to act unilaterally, this can result in messy relationship endings (Figure 4: Messy unilateral break-up). In addition, unilateral relationship break-ups can lead to failures in other areas of the business, such as an unintended loss of strategic capabilities (Figure 4: unintended failure despite unilateral break-up). However, there are also likely to be situations where unilateral portfolio action will enhance long-term portfolio profitability, while substantially increasing supplier's power to manage its customer portfolio (Figure 4: clean unilateral break-up).

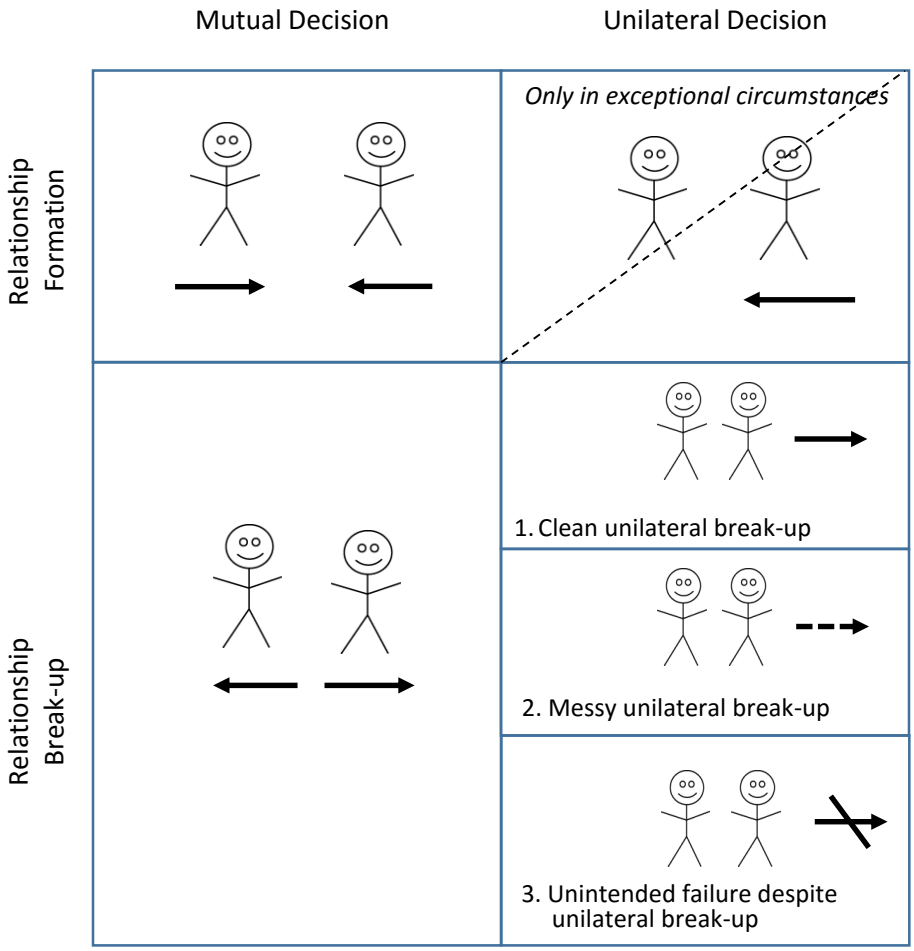


Figure 4. Unilateral relationship break-up scenarios: Clear break-up, messy break up and unintended failure.

Case Study

In the following case study, we will outline our key findings regarding the unilateral use of portfolio holes in a real life business marketing environment. This allows us to demonstrate how portfolio holes are used in practice, hence illustrating the practical value of portfolio holes to marketers. The conceptual framework of this paper was a result of triangulating these findings with existing business marketing literature. As a result, the conceptual framework goes in part beyond our case study observations.

Research Design and Setting

Petroco is a large integrated multinational oil company operating in more than 80 countries worldwide, dealing in exploration, production and distribution of oil products. The context of our research concerned a change program to transform Petroco's management of its portfolio of customer relationships (e.g. Fiocca, 1982; Campbell and Cunningham, 1983; Turnbull and Zolkiewski, 1997). This is because suppliers typically lack power to determine outcomes in their customer relationships. Instead, long-term buyer-seller relationships may require mutual adaptation through negotiations and interaction with customers (Håkansson, 1982; Håkansson and Ford, 2002). In addition, business relationships are influenced by a much broader network of relationships, which are largely beyond the control of any one supplier (Axelsson and Easton, 1992). As a result, Petroco's limited agency to determine strategic outcomes increased the relevance of absence/absenting, and made key mechanisms more clearly observable to our investigation. This increased the inspirational and illustrative value of this case study (Siggelkow, 2007). Inspirational value refers to the ways in which case study research can stimulate inductive theory-building. In contrast, the illustrative function of case studies helps readers to see how particular theoretical constructs work in a real life situation. This is particularly significant in longitudinal research which needs to provide detailed description of how specific processes actually happen (Siggelkow, 2007). In addition, our research objectives had a good fit with the qualities of case study design. Firstly, case study design allowed the required investigatory penetration to address key questions related to strategic choice (Eisenhardt, 1989; Yin, 2003). Secondly, the embedded case study format allowed the use of a wide array of information from multiple sources, facilitating the inductive formation of more in-depth conceptualizations (Creswell, 1998). Our research focused on Petroco's downstream commercial operations which markets fuels, engine oils and bitumen to business buyers such as Automotive OEMs, food processors and manufacturers, factories and industrial units, transportation and logistics companies, defense establishments, automotive workshops and garages etc.

The objective of Petroco's change program was to better 'align' customer expectations with Petroco's ability to efficiently deliver on what was promised to the customer. At the time, the company leadership felt that Petroco did not have enough strategic control over the offer options given to customers. This resulted in multiple incompatible systems, excessive costs, and reduced sales and marketing effectiveness. An important outcome envisaged through this initiative was to accrue a potential saving of US $400 Mn.

Data Collection and Analysis

Our data collection and theory building consisted of three distinctive stages of gradual theoretical deepening of the investigation (Pentland, 1999; Pettigrew, 1990). In the first stage, our main objective was to gain better overall familiarity with Petroco's context (Pettigrew, 1992; Yin, 2003). Data collection at this stage revolved around initial meetings, unstructured interviews, and

company documentation. Interviews were retrospective as well as real time in nature, which allowed more focused lines of enquiry, thus avoiding information overload. We asked the respondents to reflect on concrete events rather than abstract concepts to reduce the risk of cognitive biases (Miller et al,1997). The major 'concrete' event in Petroco's case was the complete structural transformation and standardization of the organization as a whole, the change in the 'offer to cash process' and its implications on all of Petroco's sales personnel as well as customers. To increase the validity of these initial interview findings, we triangulated these between different data sources. These data sources (both in the private and public domain) consisted of customer surveys, general communication to staff, sales training manuals and toolkits, competitor intelligence reports, sector briefings, economic reports, in-house magazines, newsletters, business presentations for staff, speeches by top management, and company presentations to investors and media. In all, 1078 pages of these documents were collected and analyzed.

The second stage of this project consisted of semi-structured interviews, which were combined with collection of additional company documentation. In selecting interview respondents, particular attention was paid to ensure sufficient representation from different functions of the firms to satisfy key lines of enquiry. Some respondents were identified from document reviews, which were further complemented by an iterative process of asking interviewees to suggest further respondents. The chosen interviewing style was based on Patton's (1990) qualitative interviewing technique which employs a flexible outline of topics and questions. This interview style allowed key issues to be rephrased and restated to check for the accuracy of information. To further increase validity of findings, information was triangulated with other data sources. When discrepancies occurred, respondents were contacted again. In addition, as the core set of questions remained broadly similar during these interviews, it allowed triangulation between different respondents. Additional questions, however, varied depending on the ability, experience and job function of the interviewees. On average, interviews lasted approximately 90 minutes. In total, 34 interviews were conducted, which were transcribed and stored in a case study database together with other case study material.

To improve data indexing and analysis, we used the NUD*IST Vivo (NVivo) qualitative research software. The interview transcripts were imported directly into NVivo in the form of Rich Text Files. Attributes were assigned to individual documents, e.g., status of document, demographic data (company, role in the organization, experience etc.) This information was altered at different points in time depending on changes in the respondent profile. This proved useful in limiting the searching, coding and retrieval of *'data sets'* and *'data units'* from the files in the database. A journal document was created within the NVivo project which was used primarily for noting comments, thoughts and ideas as the research progressed. Using NVivo as a 'data warehouse' helped reduce cumbersome manual functions and also helped the researcher have better control, access and timely retrieval of specific information. NVivo proved useful in this research since it helped the researchers duplicate, merge, remove and retrieve 'data sets' at ease. This helped better visualization and location of the items or categories. To address the issues of dependability and confirmability (Lincoln and Guba, 1985), our research process was audited by an independent peer. The examined audit trail consisted of the original interview transcripts, data analysis documents, and analysis of findings. The purpose here was to evaluate the accuracy and whether or not the findings, interpretations and conclusions were supported by the data.

In the third stage of this investigation, our mode of data analysis moved to a more theoretical level to inductively conceptualize theoretical explanations (Pentland, 1999; Pettigrew, 1990). It was at this stage that we recognized the prominent role that absence/absenting had in the change program. However, explaining how and why this was the case required further iterative steps of theorizing. This process allowed both researchers to first individually develop competing theoretical explanations, which were then examined together, allowing a more comprehensive theoretical framework to emerge from partial explanatory building blocks. This theorizing consisted of iterative steps, which triangulated between the case, empirical findings, nascent theoretical conceptualizations, and related literature to build new theoretical explanations (Dubois and Gadde, 2002; Ryan et al, 2012). For example, at this stage, we discovered the considerable accuracy and systematic nature of absenting outcomes at different levels of the organization. This iterative process of theory-building lasted for several months, until an appropriate level of theoretical explanation gradually emerged (Dubois and Gadde, 2002).

Change Program

Petroco initiated a change program in its customer portfolio management after observing a persistent negative trend in its unit margins from customers. To make the situation worse, customer surveys and internal analysis conducted by Petroco highlighted the company's inability to identify how and where value was created and lost in its customer portfolio management activities. This meant that Petroco had no clear guidelines on which customers or practices to focus on. Petroco hence lacked an ability to make value-enhancing trade-offs in its customer portfolio management (see Fiocca, 1982; Campbell and Cunningham, 1983; Turnbull and Zolkiewski, 1997). This resulted in the same infrastructure being used to serve most of its customers regardless of size, strategic importance, or profitability. It was estimated that 64% of the time spent by sales force personnel was peripheral, non-core, without adding value to either the company or the customers.

> *We do not have a clear understanding of which customers to focus on, the value proposition that we should be offering, or the most cost efficient method of delivering them (Internal Presentation)*

> *What we were trying to do was service that whole market with the same people, the same structure and same everything (Sales Manager 1)*

This problem stemmed in-part from unclear portfolio management guidelines, and an inability to control portfolio activities. Lack of control allowed sales personal relative freedom to use their own preferences in customer portfolio management. For example, sales personnel were observed to form relationships with customers that they felt more comfortable with rather being analytically focused to achieve best possible business outcomes. In addition, it was found that, account managers and other sales personnel were prone to making concessions to customers, to retain existing customers and to win new business. This led the customer-facing personnel agreeing terms of service that were favorable only to the customer.

> *It was like going to a restaurant and not even seeing the menu and you sit down with the chef and say what you feel like eating today. Someone might want champagne and caviar and there was no menu (Sales Training Manager)*

I know your vehicles carry 38,000 liters but I only want 26,000 liters and I want it on a Monday and Wednesday and between 6pm and 8pm on a Monday and 8pm and 9pm on a Wednesday and pay you by cheque on the 16th and 23rd (Vice President describing the impossible nature of customer demands)

To address these problems, Petroco initiated a change program to improve its customer portfolio management discipline, with an objective of achieving $400 million dollar cost savings. We can identify 3 distinctive steps in this change program (Figure 5), which allow us to examine the central role portfolio holes had in making the change program successful.

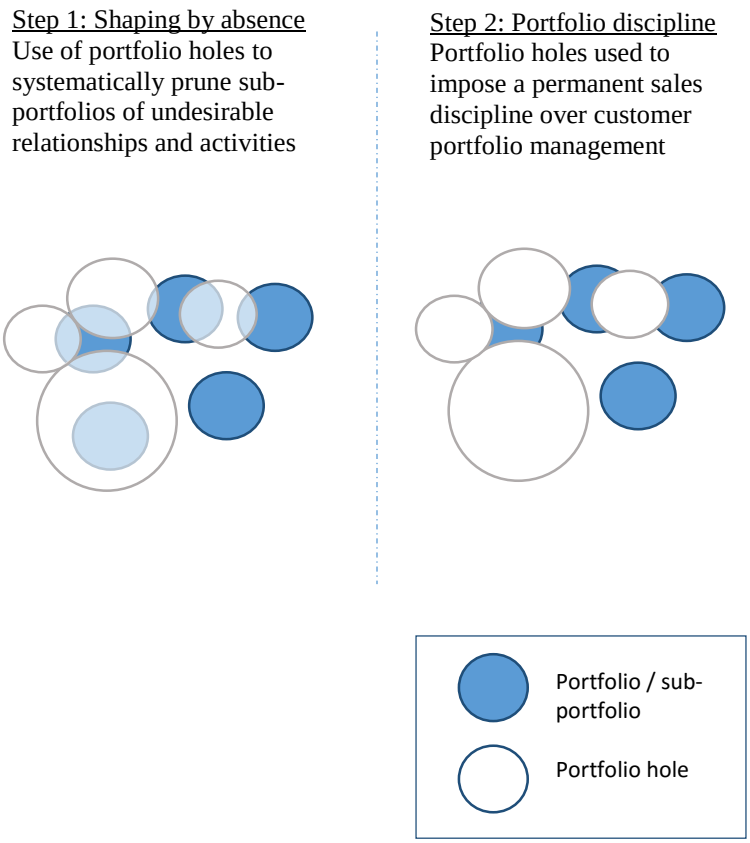


Figure 5: Use of portfolio holes in the change program.

STEP 1: SHAPING BY ABSENCE

Based on the portfolio analysis, Petroco began the creation of various portfolio holes to prune its customer portfolio of unprofitable activities and relationships. Here, it is important to note that Petroco achieved this successful transformation almost exclusively via absenting. Positive decisions were conspicuous by their absence. Furthermore, most decisions were made unilaterally without the participation of customers in the decision-making. This allowed Petroco to force its way in implementing the change program.

To more systematically shape its portfolio, Petroco divided its customers in five sub-portfolios based on their relative level of profitability. As the first portfolio hole, Petroco made a management decision to establish a permanent hurdle rate of 15% return on capital employed as the minimum acceptable level of customer profitability. Customer accounts that could not achieve this hurdle rate were grouped in the least profitable sub-portfolio resulting in the termination.

> *We are drawing a line and saying that there are customers who we can do business with and some with whom we can't. (Sales Manager 2)*

Table 1. Use of portfolio holes to absent different relationships and relationship activities

	Least profitable customers ⟷ **Most profitable customers**				
	SUB-PORTFOLIO 1	SUB-PORTFOLIO 2	SUB-PORTFOLIO 3	SUB-PORTFOLIO 4	SUB-PORTFOLIO 5
1. Nature of Exchange	Customer relationships are terminated	Petroco terminated all other of exchanges apart from purely transactional encounters.	Petroco terminated all efficiency related services	Petroco eliminated adaptations in the nature of exchanges.	No specified absence
2. Level of Contact	Customer relationships are terminated	Petroco terminated of all other forms of contact apart from call center	Petroco terminated face-to-face contact by field based sales officer; termination of multiple levels of contact.	Termination of some forms of face-to-face contact.	No specified absence
3. Type of Communication	Customer relationships are terminated	Termination of all types of proactive communication.	Termination of face-to-face contact	No specified absence	No specified absence
4. Frequency of Contact	Customer relationships are terminated	Low contact frequency Termination of all proactive contacts apart from mass marketing campaigns	Moderate contact frequency; scheduled and regulated. Absence of regular contact (reactive or proactive) with office based sales personnel	Moderate contact frequency; need-based Absence of sales person discretion regarding contact frequency	High contact frequency; need based. No specified absence.
5. Formality in Exchange	Customer relationships are terminated	Very formal; absence of all informal forms of exchange	Predominantly Formal; absence of face-to-face form of communication in most informal exchanges	Formal and sometimes informal; limited one-to-one Social Engagement	High levels of informality; no specified absence.
6. Levels of adaptation for product/service	Customer relationships are terminated	Absence of all flexibility in adaptations. Fixed methods for product/service delivery.	Absence of most flexibility in adaptations. Limited menu-based options for product/service delivery	Absence of some adaptations. Enhanced menu based options for product/service delivery	No specified absence; adaptations on a case by case basis

Second, Petroco begun an analytic task of absenting different types of services from the less profitable customers (Table 1). For the second most unprofitable sub-portfolio various portfolio holes were created to reduce service levels to a minimal. Also this minimal level of service was offered on purely transactional basis. Only the customers grouped into the most profitable sub-portfolio continued to receive highly interactive service. Similarly based on these sub-portfolio, Petroco began to reduce frequency of contact in managing the less profitable sub-portfolios. Also,

type of communication, formality in exchange and levels of adaptation were restricted based on the sub-portfolio classification (Table 1). Only the most profitable sub-portfolio was assigned Key Account Managers, who were in constant proactive face-to-face contact with customers. In contrast, less profitable customers were serviced remotely via call centers based on customer initiated enquiries (Table 1).

STEP 2: PORTFOLIO DISCIPLINE

After shaping the customer portfolio via various portfolio holes, Petroco wanted to ensure these portfolio holes became a permanent characteristic of the customer portfolio. As one of the concerns, Petroco wanted to ensure that its sales staff did not initiate new customer relationships below the minimum profitability threshold. Also, Petroco wanted to make sure its customer service levels continued to be restricted, in accordance with the sub-portfolio division. For this purpose Petroco assigned managers, jocularly known as 'Sales Prevention Officers' to ensure sales discipline was maintained in each sub-portfolio, hence safeguarding the continued existence of the portfolio holes. 'Sales Prevention Officers' operated between the executive layers and the sales/marketing function, which consisted of finance, operational efficiency and management information system functions. The primary objective of 'Sales Prevention Officers' was to block new contracts and relationships that did not meet the required level of profitability. As a sign of rigor and objectivity, 'Sales Prevention Officers' judged sales based on current levels of profitability rather than future potential. As a result, a large number of less profitable contracts and sales were never actualized.

> *We evaluate all customers on today's profitability and our hurdle rates by customer don't tend to be that different ('Sales Prevention Officer')*

> *They (the Sales Prevention Officers) won't talk about strategic fit, sectorization, potential, relationships; they just clearly talk about current profit. It's just the way that certain functions in business operate and I don't blame them for that because in some ways that is the only knowledge we want them to have, because [otherwise] they might make... bad choices, with the best intentions of course. (Sales Head)*

The 'Sales Prevention Officers' work in restricting services to less profitable sub-portfolios was made easier by explicit guidelines, which were introduced at all service levels. These guidelines were used in negotiations with the customer, clearly defining what Petroco would not do. In this regard, sales person discretion and flexibility was largely absented with regard to product choice (range, packaging, size etc.), stockholding and delivery (volumes, timing etc.), financial terms (credit terms, credit periods etc.) and service delivery mechanisms (methods of ordering, invoicing etc.). In practice, only the most profitable contracts were allowed to deviate from these standardized procedures. As such, lucrative contracts were all served by Key Account Managers and there was little 'need' or possibility for other managers to make these flexible adaptations. As a result, unplanned and informal adaptations became conspicuous by their absence.

> *As long as the customer is prepared to work within certain parameters, everything's nice, immediately you get a customer that wants a small pack delivery, or he wants a price change quickly, it's just difficult (Key Account Manager 1)*

This meant that sales personnel could no longer agree to non-standard customer demands without raising a 'business case'. A 'business case' was a lengthy formal process of acquiring approval, which affected even Key Account Management:

> *…he'd (sales personnel) need to get authority from his team leader and then there's probably another higher level above that where in order to go above that he has to get approval from the cluster you know keep going up a level (Marketing Manager).*

The change project reached its US $400 million profitability target ahead of schedule, whereby this project became recognized as a successfully implemented change initiative.

Discussion

In analyzing our case study, the first unexpected finding was that the favorable portfolio outcome was by-and-large achieved via absenting and absence, utilizing various kinds of portfolio holes. Portfolio holes were important both during the enactment of the change program and after the program in ensuring its long-term success. In contrast, development of new business relationships, was absent in this change program. Furthermore, on closer examination it was discovered that much of this portfolio decision-making was unilateral in nature. Petroco would simply decide to discontinue some customer relationships and to customer services. Also, Petroco would simply inform its customers of the relationship management policies, leaving its customers with the option of accepting the new terms or finding a more suitable supplier. As a result, this case study is a favorable example of unilateral portfolio decision-making. In addition, portfolio holes proved to be a suitable tool in enforcement of long-term portfolio discipline.

Importantly, much of the power of unilateral absenting stemmed from the portfolio-level of analysis. This is because portfolios can be shaped by portfolio holes by pruning away undesirable customer relationships. In contrast to a customer portfolio, we cannot similarly shape dyadic relationships or a network of business relationships. A dyadic relationship cannot be shaped by eliminating relationships, because a dyadic relationship consists of only one relationship. If a dyadic relationship is absented there is no nothing left. In contrast, by definition, the boundless nature of an industrial network problematizes attempts to "shape" its boundaries.

To some extent our use portfolio holes can be compared to the way an artist creates a sculpture, by carefully chiseling rock away from a large block of marble. This idea is expressed by two quotes, which are sometimes (and perhaps mistakenly) attributed to Michelangelo:

"Every block of stone has a statue inside it and it is the task of the sculptor to discover it."

"I saw an angel in the marble and carved until I set him free."

In the same way, a skillful marketing manager may be able to substantially improve the profitability of a customer portfolio, by absenting the right relationships and customer services. A marketer may hence discover a hidden opportunity inside a customer portfolio, whereby portfolio holes can be used to actualize the opportunity (by "setting the angle free"). Importantly, also

sculptor's artistic craft is primarily limited to the act of removing material. Thus in the context of sculpting we can again identify an asymmetry between the artist's power to remove material from a block of marble, and the difficulty an artist will encounter if he/she tries to add marble back to a sculpture.

As our data is restricted to just one case, further empirical investigation is required. Clearly, not all marketing contexts are equally suitable for portfolio hole-based management practices. However, we see no reason to regard these findings as an anomaly. If anything, the idea of relationship break-up asymmetry can be found in various other contexts, even outside business marketing. For example, marriage typically requires consent of both parties. However, a spouse may at times decide to unilaterally end his/her marriage, resulting in a unilateral divorce.

Conclusions

In this manuscript, we have theorized the concept of "portfolio holes" as a relationship portfolio management and analysis tool. By "portfolio holes", we are referring to entities, structures, or activities that are absent from a portfolio. Portfolio holes are systematically created and maintained over long periods of time to achieve desirable portfolio outcomes.

We have identifies how portfolio holes can be used to identify means to increase supplier's agency in relationship portfolio management. Enhancing supplier's agency in customer portfolio management is significant as suppliers have only limited power to influence their relationships with customers (e.g. Hakansson, 1982; Axelsson and Easton, 1992; Ford et al, 2003). This enhancement in managerial agency relies on the condition of "relationship break-up asymmetry". This refers to a situation where the formation of a relationship requires the consent of both parties, but the break-up can be a decision of the supplier in isolation. In addition, we have demonstrated how in some situations "relationship break-up asymmetry" may allow a marketer to unilaterally shape a customer portfolio by portfolio holes. In addition, our findings indicate that portfolio holes can add value to portfolio management as a sales discipline tool, such as ensuring the absence of unprofitable transactions and business relationships. We also maintain that portfolio holes may be used to simplify communications. At times it is cognitively easier to define and to communicate portfolio goals and objectives by focusing on absence instead of presence, reducing cognitive strain and working memory limitations.

As a case study, this research cannot make empirical generalizations. For this purpose, further empirical investigations are required. In this regard, our theoretical constructs are only the first step towards an improved understanding of absence / absenting in relationship portfolio management. We hope that these findings can inspire a new line of research in industrial marketing management.

> *"I would like the reader to see the positive as a tiny, but important, ripple on the surface of a sea of negativity" --- (Bhaskar, 2008, p. 5)*

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