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Outward-looking and future-oriented customer value potential management: The sales force value appropriation role

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ABSTRACT

The management of customer relationships based on customers' value to the selling firm has been a central topic in marketing research for decades. Yet, extant research has devoted only scant attention to the management of customer future value potential, focusing mostly on advanced statistical modeling based on firm-internal and historical data, which often lacks relevance in B-to-B settings. We employ a longitudinal intervention study, rooted in a constructive research approach, to assess the relevance of a novel customer value potential management model in business markets. The results, based on realized sales and customer portfolio dynamics, demonstrate that a firm can effectively manage customer value potential by adopting a non-statistical, sales force-driven analysis perspective. Further, the study presents evidence for the effectiveness of combinative outward-looking and future-oriented value potential criteria in value potential analysis. Finally, the findings demonstrate how a supplier can proactively manage customer portfolio dynamics in the long run by systematically enhancing its competitive position and capitalizing on customers' organic growth at individual customer account level, through the interplay of organizational value management and sales force value appropriation efforts.

1. Introduction

Over the last three decades, a wealth of marketing research has focused on the topic of analyzing and managing customer relationships based on customers' value to the selling firm. A variety of theoretical perspectives have been employed including customer portfolio management (Homburg, Steiner, & Totzek, 2009; Terho, 2009), customer prioritization (Homburg, Droll, & Totzek, 2008), customer lifetime value (CLV), and customer equity management (Kumar & George, 2007; Rust, Lemon, & Zeithaml, 2004). Although the studies share a highly future-oriented perspective on managing customer value heterogeneity, they have paid surprisingly little explicit attention to the management of customer future value potential in business marketing settings, despite its obvious managerial importance. As such, several gaps exist in the extant academic research.

First, the majority of studies to date have examined customer value potential based on historical and firm-internal data rather than employing outward-looking and future-oriented metrics, such as share of customer wallet, total wallet size, or customer growth representing the critical determinants of customer value potential, particularly from an operative sales perspective (see Du, Wagner, Kamakura, & Mela, 2007; Eng, 2004). For example, many customer portfolio models address the question of the customer's value potential, but mostly in parenthesis (Eng, 2004; Fiocca, 1982; see also Ritter & Andersen, 2014). In turn, the majority of CLV models estimate the future expected value of customer relationships, but only by employing firm-internal data from realized transactions, leaving other aspects of value potential open (Mulhern, 1999; Ryals & Knox, 2007; Tarasi, Bolton, Hutt, & Walker, 2011). The backward-looking and inward focus in research is a major limitation, as it can provide a highly misleading picture of customers' market potential (Du et al., 2007).

Second, most studies on managing customer value potential have been conducted in consumer settings or in industries where firms have enormous customer bases, applying advanced statistical methodologies and complex data augmentation procedures (see Du et al., 2007; Reinartz, Thomas, & Kumar, 2005; Verhoef & Donkers, 2001). However, the proposed statistical tools are often problematic to apply in practice in business markets where industrial sellers frequently have a limited number of complex and unique customer relationships (Möller & Halinen, 1999, 2000; Terho & Halinen, 2012). Most SME-sized B-to-B firms possess neither the required capabilities nor resources to conduct advanced statistical estimation. As a consequence, the academic customer value management models have not found their way into wider managerial application, and scholars have called for simpler customer value analysis and estimation techniques (cf. Selnes, 2011; Wübben & Wangenheim, 2008).

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Third, customer value potential focused research has largely concentrated on strategic-level modeling and segment-level marketing campaigns to develop customer equity. Very little is known about salespersons' value appropriation role in firms' systematic efforts to manage customer value (see Blocker, Cannon, Panagopoulos, & Sager, 2012). Yet, as boundary spanners, salespersons are in a good position to develop customer-centric insights including outward-looking and future-oriented customer knowledge (Blocker et al., 2012; Carter, Henderson, Arroniz, & Palmatier, 2014). In fact, the whole sales force forecasting role represents a critical but under-studied topic in sales discipline, where scholars have called urgently for new research (Geiger & Guenzi, 2009). Studies have also largely omitted the question of how to manage value potential concretely at the sales force level. This is in contrast to business firms' management practices, where a major focus of relationship management lies frequently at the individual relationship level and the role of sales is often emphasized (e.g. Homburg, Jensen, & Krohmer, 2008; Möller & Halinen, 2000). Only limited knowledge exists on how B-to-B firms can assess and proactively manage customer value potential and customer portfolio dynamics through their sales force (Homburg et al., 2009)

This study provides novel insights on the identified research gaps by adopting an outward-looking and future-oriented perspective on customer value management, as well as by examining closer of how firms' sales force can contribute to customer value potential management practices. More specifically, *the purpose of the study is to assess the relevance of applying sales force-driven customer value potential management in business markets*. The empirical research is based on the constructive research approach (see Kasanen, Lukka, & Siitonen, 1993) and focuses through an intervention case, Alpha, on implementing a sales force-driven customer value potential estimation, analysis and management program. We assess the practical applicability and theoretical relevance of the suggested approach by analyzing Alpha's realized sales and rarely studied customer base dynamics (see Homburg et al., 2009; Johnson & Selnes, 2004; Terho & Halinen, 2007).

The rest of the study is structured as follows. We start by reviewing the key aspects of customer value potential management from the analysis, management strategy and sales force perspectives. Next, we discuss methods concerning the constructive research approach and unfold the details of the empirical intervention study. We reveal the empirical results, which demonstrate how the introduction of a value potential management program, grounded in sales force derived evaluations of sales potential, can enhance suppliers' resource allocation in the customer base. Finally, we discuss the theoretical and practical implications of the study as well as avenues for future research.

2. Managing customer value potential in business markets

Numerous studies have focused on the management of firms' customers, based on their value to the selling firm, from various theoretical perspectives such as customer portfolio management, customer lifetime value (CLV), and customer equity management (see Bolton, Lemon, & Verhoef, 2004; Homburg et al., 2009; Kumar & George, 2007; Terho, 2009). The common unifying factor in these studies is their aim to identify and manage customers based on their value to the selling firm. Interestingly, the research on the topic has paid surprisingly little attention to estimation of customers' future value potential, and the few studies that have largely overlook the characteristics of the B-to-B context in value potential estimation, and mostly neglect the critical outward-looking and future-oriented aspects of customer value potential.

In the business marketing context, various customer portfolio management studies represent a central perspective on managing customer relationships based on their value to the selling firm (Campbell & Cunningham, 1983; Fiocca, 1982; Homburg et al., 2009; Johnson & Selnes, 2004, 2005; Ryals, 2003; Storbacka, 1997; Tarasi et al., 2011; Zolkiewski & Turnbull, 2002). The wide range of portfolio models focus on "analyzing the current and future value of a firm's customers for developing a balanced customer structure through effective resource allocation to different customers or customer groups" (Terho & Halinen, 2007; p. 721). Most of the proposed tools are based on soft analysis methods, such as matrices for analysis and visualization purposes, and intended for employment as managerial heuristics rather than for strict statistical optimization (Terho & Halinen, 2007). The models are particularly appropriate to the B-to-B context, where firms have a more limited number of complex and unique customer relationships (see Möller & Halinen, 1999, 2000; Terho & Halinen, 2012). While the portfolio models are future-oriented, they however mostly address the question of a customer's value potential in parenthesis, largely by employing firm-internal indicators that reflect historical trends, such as customer sales (Canning, 1982; Hartley, 1976; Yorke & Droussiotis, 1994), customer size (LaForge & Cravens, 1982), or customer growth rate (Dubinsky & Ingram, 1984; Fiocca, 1982). Further, while the portfolio models fit the characteristics of B-to-B markets, they pay only scant explicit attention to customer value potential or its management from an operative perspective (see Ritter & Andersen, 2014).

The predictive CLV and customer equity management models focus on estimating the value of customer relationships by employing statistical modeling typically based on extensive datasets from completed customer transactions (e.g., Kumar & George, 2007). The managerial focus lies on identification of valuable customers and estimating how various marketing campaigns affect CLV or the total customer equity, by utilizing a customer database or behavior-switching approaches to estimate CLV (see Homburg et al., 2009; Johnson & Selnes, 2004; Rust, Kumar, & Venkatasan, 2011). Interestingly, the importance of estimating the risk associated with customers emerges in all CLV approaches, and is usually approximated through the variability in a customer's cash flow (Tarasi et al., 2011). According to this logic, even if their revenue increases are predictable, customers that are growing are evaluated as more risky than those that are stable, making the modeling approach problematic from the operative sales-potential perspective (see Selnes, 2011). Similarly, the majority of these studies estimate CLV based on historical and firm-internal data, ignoring outward-looking aspects of customer value potential, which is emphasized as being of key importance to growth (see Du et al., 2007). The heavy emphasis on advanced methodologies is problematic for many firms operating in B-to-B contexts (see Möller & Halinen, 1999, 2000)

In sum, the vast majority of studies on analyzing and managing customer relationships based on customers' value to the selling firm generally recognize the importance of understanding the customer's future potential, although they typically approach value potential from the perspective of historical and firm-internal data alone. To fully understand customer value potential, particularly from an operative perspective, firms should also assess external customer activities by employing data from outside the selling firm (Du et al., 2007). The next three sections summarize in more detail the key aspects and relevance of outward-looking and future-oriented management of customer future value potential.

2.1. Outward-looking and future-oriented sales segmentation model for managing customer value potential

From an operative sales-focused perspective, effective resource allocation means a firm successfully exploits the overall potential value of each customer relationship (Grant & Schlesinger, 1995). Hence, customer value potential can be defined as the size of future customer purchases from the selling firm, if a customer behaves ideally; that is, if the customer firm purchases all products or services it currently buys in the market from the focal company (ibid.; Verhoef & Donkers, 2001). Adopting this sales-focused perspective means that customer value potential is determined by three criteria relating to a customer's purchases: total size of the customer's wallet (TSW), share of the customer's wallet (SW), and growth of the total size of the customer's