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Driving shareholder value with customer asset management: Moving beyond customer lifetime value

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ABSTRACT

Customer relationships can be conceptualized as market-based assets. Links have been shown between management of these assets and the creation of shareholder value. However, the business-to-business applications of customer asset management seem to lag behind the applications suggested in a business-to-consumer context. This occurrence is possibly related to an over-emphasis on customer lifetime value-based approaches that do not cover the complexities of business-to-business relationships. The authors posit that customer asset management applications should pay attention to all four drivers of shareholder value: revenue, cost, assets, and risk. Using as their basis a review of literature and the findings of an empirical research process consisting of three longitudinal case studies, the authors develop a conceptual framework, identify four research propositions, and outline 11 ways of managing business-to-business customer relationships for increased shareholder value. The findings from the case studies suggest that B2B firms are able to acknowledge all suggested shareholder value drivers. Findings also suggest that firms should develop customer portfolio models and differentiate their customer management concepts in order to move customer asset management beyond traditional acquisition–retention optimization.

1. Introduction

In their seminal article, Srivastava, Shervani, and Fahey (1998) propose that customer relationships can be conceptualized as market-based assets. Building on the resource-based view, RVB (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984), they suggest that the role of marketing is to create and manage these market-based assets to deliver shareholder value. Since then, we have seen considerable development in concepts such as customer lifetime value (CLV), customer equity (CE), and customer equity management (CEM).

CLV as a term can be traced back to Dwyer (1989). The researchers and commentators who use it most commonly define it as the present value of the expected revenues less the costs from a particular customer. Most existing CLV models have three basic elements: revenue from the customer, the costs of serving the customer, and customer retention rate. The earlier, more simplistic CLV models typically evolved to include, for example, sensitivity to cash flows that vary in timing and amount (Berger & Nasr, 1998; Reinartz & Kumar, 2000), customer risks (Hogan et al., 2002; Ryals & Knox, 2007), and referral, networking, and learning potential (Kumar et al., 2010a; Stahl, Matzler, & Hinterhuber, 2003). The calculation of CLV, in turn, evolved from simple deterministic models to dynamic models (Lewis, 2015) and advanced stochastic techniques (Holm, Kumar, & Rohde, 2012).

CE is conceptually tightly linked to CLV, given that it is most commonly defined as the sum of all customers' lifetime values in a customer base (Schulze, Skiera, and Wiesel, 2012). Various researchers, among them Kumar and Shah (2009) and Silveira, de Oliveira, and Luce (2012), show a link between CE and firms' market capitalization, with Wiesel, Skiera, and Villanueva (2008) thus proposing that customer equity should be included in firms' financial reporting. Bruhn, Georgi, and Hadwick (2008), on the other hand, conceptualize CEM as a second-order construct consisting of activities related to CE analysis, CE strategy formation, and CE activity management.

However, applications of CVL and CE frameworks reveal two areas for further research. The first is associated with the fact that most of the relevant literature is conceptual in nature (Bruhn et al., 2008; Persson, 2011), a situation which emphasizes the need for empirical evidence on how firms apply customer equity management in practice. This research gap is further highlighted by recent concerns about the increasing theory–practice gap in business marketing (Möller & Parvinen, 2015). The second area resides in the realization that current business-to-business (B2B) applications seem to lag, in terms of utility, behind

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the developmental steps made through business-to-consumer (B2C) applications (Blocker & Flint, 2007; Ramaseshan, Rabbanee, & Hui, 2013).

In this paper, we address these two research gaps through three research objectives: (1) creation of a conceptual framework for managing B2B customer relationships for increased shareholder value, (2) investigation of how B2B firms manage their customer relationships for increased shareholder value in practice, and (3) synthesis of the findings of the empirical research into propositions that can be tested in future studies.

The structure of the remainder of this paper is as follows. We begin, in the first section, with a brief review of the current literature on customer relationships as market-based assets. In the second section, we describe the conceptual framework. We report on our empirical research, consisting of three longitudinal B2B case studies, in the third section, and present the main conclusions of that research in the fourth. In the final section, we discuss the theoretical and managerial implications of the research findings, consider the limitations of the research, and identify avenues for further research.

2. Driving shareholder value through customer asset management

Our focus in this section is on the current literature on customer asset management. After considering the potential reasons behind the lack of CLV applications in the B2B context, we discuss the different ways in which the customer asset can be managed for increased shareholder value. We then synthesize these drivers of shareholder value into our proposed conceptual framework.

2.1. From CLV and CEM hegemony to alternative mid-range constructs

Persson and Ryals (2010) suggest that the conceptual confusion between the constructs of customer equity and customer asset could explain practitioners' slow adoption of customer equity models. In an effort to clarify these two constructs, these two authors define customer asset as a firm's customer relationships to be managed and customer equity as a measure describing the value of these customer relationships.

Persson and Ryals (2010) clarification suggests that a more fundamental reason, one which relates to the distinction between general theories and mid-range constructs (cf. Brodie, Saren, & Pels, 2011; Hunt, 1983), lies behind the identified research gaps. Brodie et al. (2011) propose that general (or grand) theories are broad conceptions framed at the highest conceptual level within a disciplinary domain, while mid-range (or bridging) constructs consider a more limited scope of phenomena and are more specific in nature. When viewed from within the context of customer relationships as market-based assets, RBV can be seen as a general theory, and CLV, CE, and CEM as mid-range constructs. Because these latter three are mid-range, they are unlikely to cover all of the theoretical and empirical domains that position customer relationships as market-based assets, thus necessitating the development of other mid-range constructs in this field. Accordingly, the general theory of customer relationships as manageable market-based assets (Srivastava et al., 1998) is likely to leave room for mid-range constructs other than just CLV and CE.

The current literature provides several viewpoints supporting this line of reasoning. First, as Persson and Ryals (2010) propose, CLV and CE are measures of customer asset, but because they are only one set of several possible measures, they do not exhaust the entire domain of customer asset management. Second, questions have been raised about whether CLV can be predicted accurately enough for managerial purposes (Malthouse & Blattberg, 2005). Third, the lack of empirical CLV and CE applications in the B2B context implies that these constructs do not adequately cover this particular empirical domain. Finally, and most fundamentally, Srivastava et al. (1998) define shareholder value creation, not maximization of CE, as the ultimate objective of the management of market-based assets.

Even though some researchers consider CE and shareholder value creation as synonyms or close-enough proxies, there are considerable differences between these two constructs. As Schulze et al. (2012) point out, customer equity does not consider, for instance, debt or non-operating assets, which means it cannot be used as a direct proxy for shareholder value creation. It is for this reason that we approached the development of the conceptual framework from the shareholder value perspective, which led us to ask how can firms manage their customer assets for increased shareholder value in the B2B context?

2.2. Drivers of shareholder value from a customer asset management perspective

The fact that a firm's shareholders are the people who eventually judge the firm's financial performance gives credibility to the argument that a firm attains optimal financial performance when it maximizes long-term shareholder value. Thus, in order to create shareholder value, a firm needs to generate earnings on invested capital in excess of the cost of capital adjusted for risk and time (Black, Wright, Bachman, & Davies, 1998; Rappaport, 1998).

When examining how shareholder value creation can be augmented by customer asset management, we can express the above definition slightly differently by focusing on the drivers of shareholder value creation. This focus allows us to divide 'earnings' into its components—'revenue' and 'cost'—because some customer asset management actions may be targeted to increasing revenues from customers while others may be aimed specifically at decreasing customer-related costs. On the other hand, we can discuss 'invested capital' and 'cost of capital' together under a label such as 'assets' because of fewer available customer asset management actions affecting firms' balance sheets and capital efficiency. 'Risk' is also an appropriate shareholder value driver when viewed from the customer asset management perspective. Finally, we can exclude the 'time' component from the present investigation, not only because it refers to the technical need to discount future cash flows to their present value, but also because customer asset management activities do not influence companies' choice of appropriate discount rates. Thus, we suggest, the drivers of shareholder value can—from a customer asset management perspective—be divided into four categories: increasing revenues from customers, decreasing customer-related costs, optimizing asset utilization, and reducing customer-related risks. We now discuss these four categories in the light of the existing literature.

2.2.1. Increasing revenues from customers

Customer asset management can help increase revenues by enlarging the number of customers (customer retention, customer acquisition), augmenting revenues from existing customers (up-sales/cross-sales, price increases), and ensuring future revenues through firm renewal and innovation. Most current CLV models focus on customer retention and customer acquisition, and a few papers discuss the importance of up-sales and cross-sales in maximizing the value of customer assets (Bolton, Lemon, & Verhoef, 2008; Stahl et al., 2003). However, only a limited number of customer asset management studies explicitly discuss the remaining potential ways of increasing revenues from customers (increasing prices, firm renewal/innovation). Stahl et al. (2003) present one of the few articles acknowledging that customer bases offer opportunities for targeted price increases and that the knowledge created within one relationship can yield cash flows in other contexts as well. Kumar et al. (2010a) and Fang, Palmatier, and Grewal (2011), however, discuss the role of customers as valuable knowledge and information sources supporting firms' innovation efforts.

In addition to the five above-mentioned revenue drivers, the customer asset management literature widely acknowledges the importance of customer referrals and word-of-mouth in augmenting CLV (cf Kumar et al., 2010a; Kumar, Petersen, & Leone, 2010b; Villanueva,