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A relationship strategy perspective on relationship portfolios: Linking customer profitability, commitment, and growth potential to relationship strategy

Thomas Ritter [a,*], Henrik Andersen [b,1]

[a] Department of Strategic Management and Globalization, Copenhagen Business School, Kilevej 14A, DK 2000 Frederiksberg, Denmark
[b] Andersen&Partners Management Consulting, Frederik 7 vej 25, DK 3450 Allerød, Denmark

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ABSTRACT

The paper develops a three-dimensional portfolio model for business relationships which distinguishes among six different categories. Based on assessments of customer profitability, customer commitment, and growth potential, the positioning of a given customer relationship in the portfolio allows managers to determine appropriate customer relationship strategies and appropriate performance indicators. Results from applying the portfolio model are reported and managerial implications and future research are discussed.

1. Introduction

The notion that business relationships can be managed with a portfolio approach has long been attractive to practitioners and academics (e.g. Fiocca, 1982; Johnson & Selnes, 2004; Olsen & Ellram, 1997; Terho & Halinen, 2012; Turnbull, 1989; Turnbull & Zolkiewski, 1997; Yorke & Droussiotis, 1994; Zolkiewski & Turnbull, 2002; for a recent review see Corsaro, Fiocca, Henneberg, & Tunisini, 2013). In general, the portfolio approach tries to offer a categorization of objects in order to decide on appropriate strategies for these objects. With regard to a firm's customer relationship, a customer portfolio should enable strategizing, i.e. determining an appropriate relationship strategy for a given customer relationship, because the objective of portfolio approaches is to optimize customer relationship management efforts in order to maximize profitability (alternatively called firm performance or firm competitiveness). Relationship portfolios should satisfy the “me perspective”, i.e. should enable the supplier to optimize customers' contributions to the supplier's profitability (e.g. Rangan et al., 1992). This perspective is different from the “you perspective” (cf. Fig. 1) where customer needs are in focus — this part of the literature is referred to as segmentation (e.g. Dibb & Wensley, 2002; Goller, Hogg & Kalafatis, 2002). Finally, there is the “us perspective” which describes properties of the customer–supplier-relationships (e.g. Freytag & Clarke, 2001; Wilkinson & Young, 1994). From a supplier's perspective, the relevant dimensions are the customer's contribution to profitability, the potential to grow the customer, and the preferred relationship approach. However, as indicated in Table 1, many portfolio approaches do not combine this suitable set of dimensions and, as such, fall short in offering insight for relationship strategy development.

While customers differ in their ability to generate profits for a supplier, it is surprising that the notion of customer value has not been applied in customer portfolios to a large extent (Corsaro et al., 2013). Thus, one contribution of this paper is to explicitly include customer value as a dimension of the customer portfolio.

From the “us perspective”, authors have developed specific models to capture customer relationship parameters as, e.g., “the development stage of a relationship” (Dwyer, Schurr, & Oh, 1987; Ford, 1980), “the dynamic interaction” between firms (Freytag & Clarke, 2001), or the cooperation–competition matrix (Wilkinson & Young, 1994). This paper suggests an integration of customer commitment with customer profitability in one portfolio model in order to simultaneously capture the supplier's interest in the customer (its contribution to profitability through value creating potential) and the modus operandi of the relationship (extent of rational vs. cognitive commitment). This combination offers direct implications to relationship strategy as the preferred interaction mode prescribes strategic choice.

Finally, firms need to consider a future-oriented dimension in the portfolio as well. We suggest capturing customers' ability to increase their spending with a firm (“share of wallet”), also called additional sales potential and/or cross sales potential. This important issue is

* Corresponding author. Tel.: +45 3815 2121.
E-mail addresses: ritter@cbs.dk (T. Ritter), han@andersenpartners.com (H. Andersen).
[1] Tel.: +45 4828 3125.

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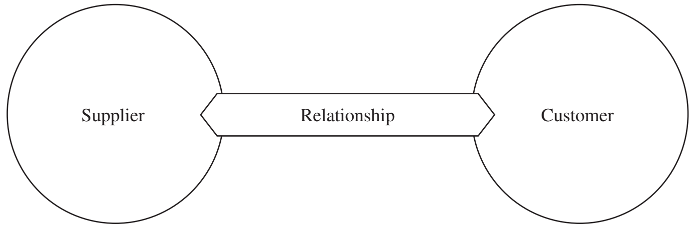

Perspective	ME	US	YOU
Dependent variable	Supplier's value	Relationship properties	Customer's value
Independent variable	Customer's contribution	Actor characteristics	Supplier's contribution
Key term	Supplier's profitability	Relationship	Customer's needs
Example	Rangan, Moriarty & Swartz, 1992	Freytag & Clarke, 2001; Wilkinson & Young, 1993	Dibb & Wensley, 2002; Goller, Hogg & Kalafatis, 2002

Fig. 1. Three perspectives in business relationship analysis.

every so often overlooked when developing strategies and making budget and forecasts.

Overall, the paper contributes to existing customer portfolio models by combining dimensions not previously integrated into one portfolio model. The paper is organized as follows: First, the three dimensions are defined. Based on the dimensions, the portfolio with six categories is developed. Then, three empirical studies are presented to illustrate the application of the portfolio. Finally, managerial implications and conclusions are discussed.

2. Customer profitability and customer value

Customer profitability is defined as the contribution of a customer to a supplier's profits. Many firms focus on margin and volume in their calculations of customer profitability (Reinartz & Kumar, 2003) driven by accounting data from enterprise resource planning systems (e.g. SAP, Baan, Microsoft Dynamics). While calculations of various margins are extremely important, a customer has many more ways of contributing to a supplier's business success (Walter, Ritter & Gemünden, 2001). This perspective has developed over the last decades under the term "relationship value" (e.g. Anderson, Narus, & Narayandas, 2009; Ulaga & Eggert, 2006; for reviews see Gummerus, 2013; Lindgreen & Wynstra, 2005) but seldom integrated into customer portfolios (Corsaro et al., 2013). The relationship value radar (Ritter & Walter, 2012) suggests eight areas of potential profit contributions:

- Payment: value is created through high margins and fast payments.
- Volume: value is created by higher volumes of a product (volume per product), larger width in purchased product portfolio, and longer-term contracts (volume over time).
- Quality: value is created by demanding the right products in relation to supplier's competencies (thus avoiding waste of high-value resources on low-value demands).
- Safeguard: value is created by short notice supplies of excess capacity or low quality products.
- Innovation: value is created by developing new products and new markets.
- Information: value is created by providing insights about the customer firm, customer market developments, and technological advances.
- Access: value is created through references to new customers, access to industry associations, and contact to important players in the political system, the technology arena, and the business system.
- Motivation: value is created by using the customer to motivate employees — either by public status of the customer or access to unique resources.

Based on this understanding of customer profitability, a customer is profitable when the customer contributes sufficiently in at least one value dimension and the overall contribution is larger than the incurred customer handling costs. For the suggested customer portfolio, we initially suggest a distinction into profitable and unprofitable customer relationships as this eases the use of the model. However, this dimension can be used as a scale stretching from very unprofitable to very profitable.

3. Customer commitment

The continuity of business relationships has received a lot of interest under different labels like "commitment" (Morgan & Hunt, 1994), "loyalty" (Reichheld, 1993), and "institutionalization" (Håkansson, 1982). Loyal behavior in business relationships has been discussed from many different perspectives (e.g. Parasuraman & Grewal, 2000; Reichheld, 1996), yet a precise definition of the construct "loyalty" is still missing. The multitude of suggested measures and understandings

Table 1
Selected relationship portfolio approaches.

Author(s)	Profitability	Commitment	Growth potential	Other dimensions
Fiocca (1982)	Customer's business attractiveness	Relative buyer/seller relationship	–	–
Freytag and Clarke (2001)	–	Commitment, adaptation, co-operation	–	–
Krapfel, Salmond, and Spekman (1991)	Relationship value	Interest commonality	–	–
Olsen and Ellram (1997)	Strategic importance	–	–	Difficult to handle
Turnbull and Zolkiewski (1997)	Cost to serve, net price, relationship value	–	–	–
Wilkinson and Young (1994)	–	–	–	Cooperation and competition
Zolkiewski and Feng (2012)	Sales volume, strategic importance	Trust	–	–

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