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Busy Customer Portfolio Management (BCPM)

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Abstract

Customer portfolio management (CPM) is a relatively new concept in marketing, which is gaining popularity in both academic research and industrial practices. CPM builds on the notion that there are different types of customer-firm relationships and each relationship contributes to a firm's profitability. This research tries to introduce a novel customer portfolio, which emphasizes on busy customers by increasing individual today's customer value to maximize the overall value of the busy customer portfolio. Busy customers, have some factors and behavioral properties, which should research. Therefore, due to their vital and valuable role in today markets, in this paper we suggest creating a distinguished customer portfolio, specifically for busy customers.

Keywords: Customer portfolio management, customer- firm relationships, busy customer portfolio.

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1. Introduction

The past half century has brought a dramatic shift in the underlying goals in marketing and strategic market planning, as in the past two decades management thinking, has evolved from focus on market share and economies of scale to a focus on quality, satisfaction and customer loyalty. In the contemporary business environment customers are considered to be the central element of all marketing actions and Customer Relationship Management (CRM) has become a priority for companies (Rust, Zeithaml, & Lemon, 2000), this is highlighted by the claim of academics that a customer- orientation strategy is necessary for companies to survive and be successful in structured markets (Keramati, Mehrabi, & Mojir, 2010; Heinirich, 2005).

Because customers are the underlying sources of the firm value, determining customers and all kinds of customer- firm relationship can play the essential role for meeting their needs.

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The main idea behind it, is that building and the management of relationships, is the key for success in today business. So many authors have suggested that a firm should adjust its relationship management activities according to the value of customer and concentrate on managing the whole variety of its customer relationships from transactions to strategic partnerships (Johnson & Selnes, Diversifying your customer portfolio, 2005).

Accordingly the importance of relationships in marketing, we will consider a new concept which is gaining popularity in both academic and industrial research. As its core, customer portfolio management will demonstrate and remedy today's situation for answering customer needs, busy customer portfolio management will be present as a contribution to the field.

2. Portfolio Management

Portfolio management is used to select a portfolio to achieve the following goals:

- Maximize the profitability or value of the portfolio.
- Provide balance
- Support the strategy of the enterprise

Portfolio management is the responsibility of the senior management team of an organization or business unit. Several types of techniques have been used to support the portfolio management process:

- Deterministic and stochastic models
- Scoring techniques
- Visual techniques

The earliest portfolio management techniques optimized project's profitability or financial returns using mathematical models (deterministic and stochastic models also apply). Scoring techniques such as using analytic hierarchy process (AHP), weight and score criteria to take into account investment. Likewise, visual techniques use graphical presentation to visualize a portfolio's balance.

2-1 History

Portfolio thinking dates back to 1952 when Markowitz presented his portfolio theory for the management of equity investments in the area of finance. His work concentrates on the problem of resource allocation, or more specifically on the choice of the optimal portfolio shares (Markowitz, 1952). The basic idea is that an investor considers the expected return desirable and the variance of the return undesirable.

Markowitz's main contention was that: it is possible to form a mathematically "efficient", diversified portfolio, i.e., the optimal portfolio that is preferable to all other non-diversified portfolios.

Later, in the 1970s, portfolio models were widely introduced in marketing. The management of complex companies with multiple products, acting in multiple markets of a multinational

nature was a difficult task, so different portfolio models were suggested as strategic tools for dealing with this complexity in large companies (Wind & Mohajan, Designing product and business portfolios, 1981).

These investigations have been led to create a significant concept, which is customer portfolio management.

2-2 Customer Portfolio Management

Customer portfolio management is a process of managing each customer relationship with the intent of increasing the overall value of the firm's customer base (Johnson & Selnes, 2004). CPM builds on the notion that there are different types of customer- firm relationships (Fournier, 1998) and each relationship contributes to a firm's profitability (Reinartz & Kumar, 2003).

Firms have begun to recognize the importance of managing every relationship desired by the customer and its relative profitability. Emerging research in CPM, however, has moved in a direction in favor of viewing individual customer as part of a portfolio of customers.

CPM offers firms a framework to link the contribution of each customer to the overall value of the firm, can be a vital concept for further analysis.

In market- to- order environment customer- oriented manufactures which should be prepared to produce varieties of products to meet the different customer needs; CPM offers a lens through which to segment customers, based on different types of customer- firm relationships (Swaik, 2011). Thus, for gaining competitive benefits, firms should recognize all kinds of customer-firm relationships to determining customers' migration pattern.

Johnson and Selnes (2004, 2005) adopted the terminology of acquaintances, friends and partners to characterize relationships' types. When customers are considered at the aggregate level, they argue, customer progress from acquaintances, to friends, to partners. From the firm's respective building competency in converting customers to closer relationship types and retaining these valuable customers, has several benefits:

First, relationships built on trust and commitment, are less likely to be dissolved, which is resulting in lower switching probability (Morgan & Hun, 1994). Lower switching probabilities are important because, it is less costly to convert existing customers than acquiring new customers (Reichheld F. , 1996).

Second, customers with closer relationship types are more willing to pay a price premium and accept new products through promotion (Reichheld, 1990; Mark, 2007). Hence, each firm should organize a CPM framework to modeling its existing relationship marketing strategies and incorporating conversion and switching probabilities.

2-2-1 Customer Portfolio Models

By the early 1980s the traditional marketing portfolio models concentrating on the problems of large diversified companies they started to lose influence, which could be linked to the broader changes taking place in business, as it increasingly became global.

Therefore, the global competition resulted in better product performance at lower cost to the customer, but major changes were also reflected in the literature on relationship management and the birth of the first customer portfolio models.

Customer portfolio models broadly aimed at efficient resource allocation among the customer relationships of the focal company based on the value of customers for the firm. In other words, they aim at solving the difficult problem of how to differentiate between the many business relationships in a company's customer base.

The logic behind this is that one should pay attention to resource allocation because customer relationships are not equally profitable, and they have different roles as far as the focal company is concerned (Turnbull, 2002). Generally, there are two sides to suggested models, namely an 'analysis' of the customer base and the 'managerial implications'.

The literature on customer portfolios is dominated by matrix-type tools concentrating on analyzing the value of customer to the focal company. Customer analysis criteria comprises single, two, or three phases (Turnbull, 2002).

By considering the related articles, this result can be achieved: criteria can be grouped into the following four broad theoretically meaningful classes: 1) the customer's current or future value potential for the focal company, 2) customer relationship variables, 3) power related variables, and 4) buying behavior variables (Terho & Halinen, 2007). The examination of analytical procedures in customer portfolio theory represented by various models indicates that CPM is a strongly future- oriented practice.

Now the focus returns to the managerial implications of customer portfolio models. This represents the second essential aspect of customer portfolio which models will be made with the knowledge gained from the analysis. The typical model in this group attempts to increase the effectiveness and efficiency of sales people and therefore, is operative in nature.

The emphasis in the second group is on directing the strategic resources of the firm and directing the customer relationships for safeguarding the future of business as a whole.

2-3 Busy Customer Portfolio

From general perspective, portfolio management approach can be classified into two significant sub classes: financial and marketing portfolios (Fig. 1). The focus of this article specifically is on marketing portfolio, as a strong framework to moderating the customer-firm relationships. Many kinds of portfolios can be grouped into the marketing branch, such as: supply, brand, product and customer portfolio.

Supply portfolio aim is to optimize the supplier base in order to balance factors, such as cost, quality and risk. The company needs to analyze its supply base to perform segmentation in

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order to set targets for different supplier categories. Base on the information, the company can define long, medium and short term goal for supply base adjustments (Swaik, 2011).

Brand portfolio is the total collection of rights when a company has multiple products and services, each of which may have its own brand or form part of a family of brands (they may be common law marks or registered statutes in various countries or states) (Kwun & Oh, 2007). Product portfolio is combination of two or more product families (Wei & Chang, 2011).

A brief explanation about these portfolios can lead us to our purpose: In the sections 2-2 and 2-2-1, customer portfolio and its related models have been considered in detail. The novel concept that will demonstrate as a contribution to the field is busy customer portfolio management.

Relationship marketing is best understood within the context of historical development of marketing. In medieval societies, market places were developed where people traded agricultural products to meet their basic needs. Suppliers mainly traded within a limited area and knew a small number of customers well. Within the industrial revolution, the customer lifestyle changed and let to a situation which they didn't have enough time to comparing and purchasing products.
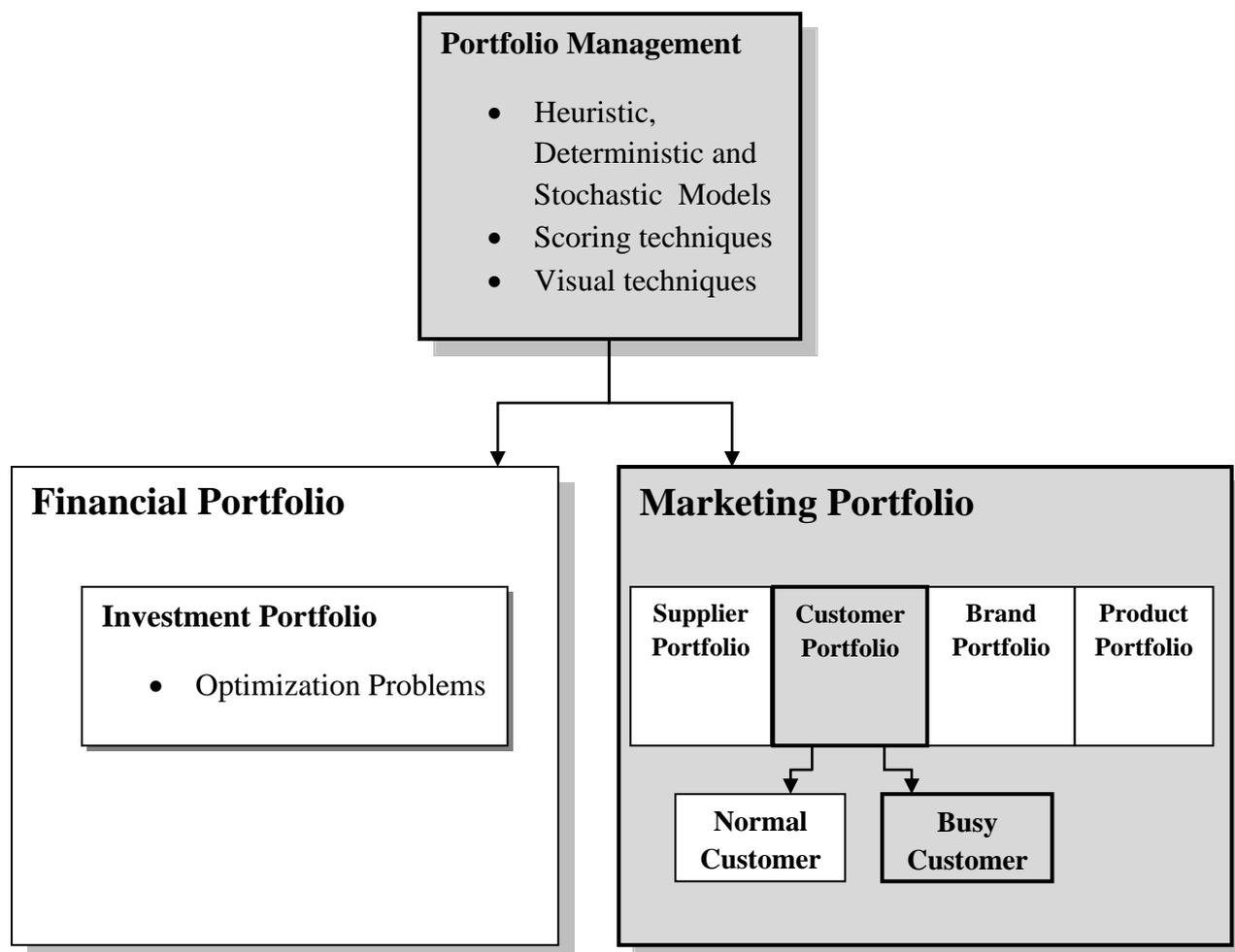
Portfolio Management

- Heuristic, Deterministic and Stochastic Models
- Scoring techniques
- Visual techniques

Financial Portfolio

Investment Portfolio

- Optimization Problems

Marketing Portfolio

Supplier Portfolio	Customer Portfolio	Brand Portfolio	Product Portfolio

Normal Customer

Busy Customer

Fig 1. Suggested customer portfolio classification

These customers are who, Chaffey calls them "busy customers" and characterizes them by phrases such as:

- Cash- rich, time poor
- Time is money
- Value for time
- Personal disposal time

So, they can make value with rich cash flows but can be attracted by competitors with low time- consuming services. Retaining these customers is significant for the firm because according to Cross (1994) over 50 percent of customers feel too time- pressured to enjoy traditional shopping, it shows that nowadays these people constitute a huge number of customers. Companies sometimes even compensate their busy customer for their time and valuable feedback (Boyer & Hult, 2006).

We suggest creating distinguished portfolio for busy customers to managing their relationships and predicting their migration pattern. It is possible by strong stochastic assumptions and approaches, which help to give insight through it firms can segment these customers based on their diverse kinds of relationships value.

Figure 2 portraits, besides managing normal customers' portfolio, detecting and analyzing busy customers' portfolio can be critical for CRM's strategic decisions.

Marketing Portfolio

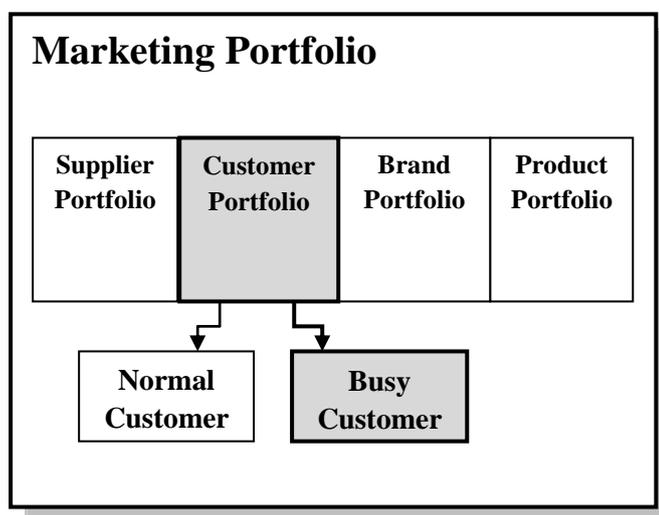| Supplier Portfolio | Customer Portfolio | Brand Portfolio | Product Portfolio |

Normal Customer | Busy Customer

Fig 2. Using Busy customer portfolio besides Normal customer portfolio

Moreover, we can easily determine these customers by two important criteria: cash flows they have expended and time they have consumed in the market.

3. Conclusion

To summarize the presented concepts, research in this area suggests, there is a need to understand how the value of today's customer- firm relationships' changes over the time

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(migration patterns).Due to today's busy customers we can show some unexpected buying behaviors, so how marketing activities can influence changes in customer reactions should be evaluated.

Busy customers are looking for anything that simplifies the shopping experiences and allows them to get what they need when they need it. It obviously shows, managing this customer portfolio needs some special strategies, which require customized research.

In this article, we have illuminated these requirements by suggesting a new customer portfolio classification. This is a need to move beyond existing customer measurement models, to models based on individual- level migration patterns and answering more carefully to these customers' needs.

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