



## SIGNIFICANCE OF AND TOOLS FOR DEVELOPMENT OF CUSTOMER PORTFOLIO IN A LOGISTICS COMPANY

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**ABSTRACT.** The aim of this paper is to present the essence and significance of an optimised customer portfolio for the effectiveness of business operations. This article shows that customer value is subject to differentiation and also points out that the development of a customer portfolio not only requires customer attractiveness factors to be taken into account, but also the significance of a given supplier for its customer to be considered. An identification and selection matrix is a popular method for the two-dimensional analysis of a customer portfolio. It involves specific customer segmentation, which is based on the significance of customers for the company. Such a company should have a portfolio consisting of customers falling into different matrix groups. Customer profitability analysis enables a business entity to manage its portfolio in an effective manner and using an available set of tools. The actual assessment of customer value and the company's significance for its customer usually protects business entities against losses related to investments in the customers of no significant importance to the company.

**Key words:** customer life cycle, customer value, relations with customers, customer portfolio, customer identification and selection matrix.

### INTRODUCTION

Due to changes occurring on the market and the intensification of competition resulting from this, business entities are having to modify their operational strategies. This involves, in particular, intensifying the focus on customers and analysing customer needs and the conditions in which they operate. The relationships that a company is able to establish with its customers become very important. It is not always the case, however, that an improvement in service quality or the implementation of partnership programmes or other actions aimed at increasing the loyalty of customers will bring the expected effects. Such actions sometimes result only in an increase in costs and provide no changes of a positive nature. The reason behind this is very often the lack of sufficient knowledge about individual customers and the addressing of marketing campaigns, which as a rule are quite expensive, to all customers. Meanwhile, skilful determination of criteria deciding on the position, which the customer may adopt in relationships with the company, is an action that is important, if not indispensable for the development of an optimal customer portfolio and the proper establishment of relations with customers.

The aim of this paper is to present the essence and significance of the development of an optimised customer portfolio for business activities. The attempt was also made to indicate elementary tools for developing a customer portfolio for companies providing services, including logistics companies.

## SIGNIFICANCE OF AND TOOLS FOR DEVELOPMENT OF CUSTOMER PORTFOLIO IN A LOGISTICS COMPANY

In marketing activities on the B2B market, the portfolio approach towards customers is commonly accepted or even regarded as indispensable for the implementation and carrying out of partnership marketing activities. This approach involves an appropriate division of the company's resources among different types of customers, whose contributions to the generation of the company's expected profit have different values and are characterised by different levels of estimated risk. The company should not only aim at optimising the customer portfolio, but also at developing an effective strategy towards different customers within its portfolio. This is because the customers often have different requirements and needs and simultaneously their value and potential for the company differ. Therefore, the portfolio may sometimes include customers, who at a given time generate losses, but augur well for the future. This phenomenon is covered by the concept of what is termed long-term customer value. It involves deviating from the classic return on investment for the benefit of the value accumulated in time.

Many companies assess customer value in a very simplified manner. Meanwhile, in order to properly manage the customer portfolio, it is essential to calculate customer value over a total life cycle, and precisely in the period in which the customers will cooperate with the company. Based on the analysis of customer maintenance costs, a profit generated by a given customer and its predicted value for the company, customers can be divided into various segments, which can be assigned different levels of servicing. Intensive marketing activities, for example, should be focused on those customers that generate the highest profits for the company. This is because the loss of their satisfaction may have a very adverse effect on the company's profits. It should also be taken into account that a valuable customer is very rarely a statistical customer and that relations with such a customer evolve over time, which requires the company to constantly focus its attention on that customer and to act as necessary at a given time.

This differentiation of relations with customers can be presented using the customer life cycle model (CLC). This model classifies and describes subsequent stages of the customer development process, from potential customers through loyal customers to declining customers (see: Table 1).

Table 1. Customer Life Cycle Stages  
Tabela 1. Stadia cyklu życia klienta

| Stage   | Customer's description  | Company's actions  |
|---|---|--|
| Potential customers                           | People or organisations that are interested in the product range, who are yet not customers, but have some expectations in relation to the company                                      | Awakening the potential customers' awareness of the company and its product range. Overcoming the concerns of potential customers, encouraging them to make purchasing decisions.  |
| Customers purchasing goods for the first time | Persons, who have already purchased the product. They evaluate the supplier and its product range. Their loyalty towards company is very low.   | Confirming the appropriateness of the purchase, encouraging the customers to repeat the purchase. Offering a wider and more complex range of services (cross-selling, up-selling). |
| Customers repeating the purchase              | Growing trust in the supplier and potential repetition of the purchase. If they find a more attractive offer, they will easily stop cooperating with the supplier.                      | Maintaining the quality of service at a high level, providing additional benefits, getting feedback from customers.  |
| Loyal customers                               | Repeat their purchases in regular intervals. High level of sales per one customer. Loyalty towards the company, low sensitivity to changes in prices, positive opinions on the company. | Tailoring the services to specific needs of the customer. Searching for methods assuring complete customer satisfaction.   |
| Declining customers                           | Termination of purchase transactions and contacts with the company.   | Identifying the reasons for the contacts being terminated. Attempts focused on reacquiring the customers.  |

Knowing the subsequent life cycle stages of various customer segments, the next step involves assigning appropriate marketing activities to them.

As already mentioned, not all the customers are equally valuable for the company. The number of customers at each life cycle stage decreases, but simultaneously companies aim at increasing the frequency and intensity of relationships, which provides for higher profits to be generated and lower costs to be incurred. The marketing activities addressed to potential customers aim at transforming them into customers purchasing goods for the first time. At the same time, using marketing tools, companies try to transform those customers repeating the purchase into loyal customers. Such actions require a high quality of service, the continuous development of contacts with customers, the provision of additional benefits to customers entering into purchase transactions, etc. When the company has already acquired loyal customers, it must then maintain their willingness to keep on purchasing. This requires the services to be tailored to specific needs of customers and to be provided with exceptional characteristics and also attempts to be made in order to obtain customer feedback. The declining customers constitute the last stage in the customer life cycle. At this stage, the customers stop purchasing the products of a given company. The necessary marketing activities, which a company should then undertake, include the identification of reasons for the customer's inactivity and attempts to regain such customers through the use of appropriate marketing tools.

Customer value is influenced not only by the number of purchasing transactions made by a customer, but also the constancy of the relationship maintained with the company. Gaining customer loyalty should, therefore, become one of the key tasks within the management of customer relations. The loss of customers in conditions of high market competitiveness and a limited number of potential customers results in companies being exposed to many negative factors. In such circumstances, the significance of maintaining relations with customers becomes more important and specific attention needs be paid to actions in the area of relationship marketing.

While developing the customer portfolio, it is necessary to take into consideration the profitability of its components. It is therefore necessary to estimate the value of individual customers and to develop a strategy allowing for customer value to be maximised over the long term. Any errors in this area and an increase in expenses on unprofitable customers result in the losses being generated by the company. The company should thus attempt to focus its marketing activities on those customers enabling it to generate the highest profits. This is because a loss of the satisfaction of those customers results not only in a loss of profits being experienced by the company, but also usually in customers being serviced by the company's competitors.

The development of an optimal customer portfolio should, therefore, be a process involving strategic market segmentation and the detailed analysis of relationships between a given company and its customers, including the profitability of these relationships. The absence of a profitability analysis of relationships with customers, which is quite common among the Polish companies, results in the majority of them failing to achieve the expected success despite their actions involving an improvement in the quality of service, the implementation of loyalty programmes or the CRM system. The optimal portfolio must be based on segmentation and on analysis of an identification and selection matrix, through which it is possible to select customers with the most beneficial characteristics for the company.

The development of a customer portfolio requires not only customer attractiveness factors to be taken into account, but also the significance of a given supplier for its customer to be considered. If a company (supplier) is not a significant partner for a customer, such a customer cannot be treated as a key customer. It is thus necessary to apply a two-dimensional analysis to the customer portfolio. The popular method for using the customer assessment (its attractiveness to the company) and the relative power of the company being a supplier of the customer (the company's position in relation to other suppliers) is the aforementioned identification and selection matrix, which provides for specific customer segmentation depending on the significance of customers for the company (Figure 1).

The key customers are the most desired customers for the company. A specific type of concurrence occurs here as not only is the company willing to service them, but they are willing to be serviced by this company. Nevertheless, in order to have a return on investment from the management of this customer group, the company must be of significant importance for this customer group; however, this does not always mean that these customers are profitable. They always, however, have to be customers

providing an opportunity for the long-term development of the company. In such a case, it is necessary, due to the market competitiveness, to build lasting relationships with such customers and to intensively use the tools of relationship marketing. It should be emphasised once more that the realistic assessment of the company's own significance for its customers usually protects it from any losses related to investments in improper customers.

|                |      |                         |                    |
|----------------|------|-------------------------|--------------------|
| Customer       | High | Potential key customers | Key customers      |
| Attractiveness | Low  | Occasional customers    | Retained customers |
|                |      | Low                     | High               |

Source: Cheverton 2001

Fig. 1. Key customer identification and selection matrix

Rys. 1. Macierz selekcji i identyfikacji kluczowych klientów

The potential key customers require intensified investment efforts. This provides for the conditions for their transfer to the group of loyal customers to be met. This customer segment is a specific potential of the company. The important task involves a diagnosis to be made with regard to the significance of the company for a given customer and the estimation of key success factors both dependent on and independent of the company. This enables potential customers to be selected, who are worth being looked after and those, whose acquisition is unprofitable.

The retained customers do not meet the key customer requirements, because their potential is too low for them to become profitable customers. However, the significance of the company (supplier) for those (as a rule, loyal) customers is important. The costs of servicing them are very often too high. This leads to a limitation of the investment in their servicing and also to a limitation of contacts with such customers.

Occasional customers do not require special servicing or high discounts. This results in them being potentially profitable and convenient for a given company in a short time.

A company should thus have a portfolio consisting of customers falling into different groups. This is because, if a company has a portfolio, whose majority are key customers, it simultaneously incurs very high general costs for customer service. The company's financial problems may also result from too large a number of customers being kept. The identification of key customers is a first step in the development of the CRM strategy.

A profitability analysis of different customer groups enables the company to manage its customer portfolio in an efficient way. One of the methods for designating tasks and priorities of the company in relation to its customers is what is commonly known as the ABC method. It involves comparing volumes (for example, turnover) with the importance of customers (for example, loyalty to the company, customer development perspectives, etc.).

Another tool used in examining customer profitability is the so-called customer product profitability analysis [Kotler 1994]. It combines customer profitability analysis with the analysis of the profitability of products and services.

The application of a customer profitability analysis allows for marketing activities to be managed in such a way as to create value for both a customer and the company. A company acting according to partnership marketing principles should aim at improving the profitability of its relationships with a customer and at increasing its share among the customer's suppliers.

The aforementioned actions allow also for unprofitable relationships to be identified. In such a case, only those relationships should be maintained that promise an opportunity for profitability in the future.

Customer relationship management in some cases, as mentioned above, may contribute to excessive customer servicing costs, due to the increasing frequency of contacts and the escalation of

customer requirements. Thus the success of this idea lies, to a large extent, in the controlling of the logistics costs generated by individual customers. The optimal solutions involve finding a level of customer servicing that should provide for the highest growth in profits from additional sales at the lowest level of costs of the provided level of servicing.

Key customer management is explicitly related to the idea of relationship marketing. Their similarity is reflected in the decreasing significance of a transaction as such for the benefit of the establishment of relationships based on trust and value of the offer. This value is created as a result of long-term relationships with customers and market segmentation. The optimisation of the customer portfolio demonstrates that the transaction and relationship exchanges do not have to be alternatives, but it has to be possible to apply them for different customers that comprise the real portfolio of the company's customers.

Not only the components of the portfolio generating significant profits, but also the ability to manage the whole portfolio in an appropriate manner, play an important role in customer management. It is necessary to develop, in an appropriate way, the shares of long and short-term financial inflows and also the relationship between the resources committed and the return on investments made. The correct assessment of the investment dynamics and the profits generated from the customer portfolio provide the company with unquestionable benefits. This enables the company to, for example, properly combine the servicing of different customers, which in turn allows for financial funds and also time and labour outlays to be used efficiently.

The optimisation of the customer portfolio requires costs that are incurred in relation to individual customers to be analysed in a precise manner. It is important to investigate the costs of all the activities related to both the customers and the distribution and delivery channels. The prices of services should be based on actual costs of servicing. Having established the foregoing, the discount mechanism can be applied; however, only if it is preceded by making sure that it will have any impact on the customer's decision regarding cooperation with the company.

The development of relationships with customers also requires the nature of the rendered services to be analysed from the perspective of the customer. The solutions applied for that purpose may include periodical customer satisfaction and contentment surveys. Such actions are expensive, but they bring about good outcomes.

To sum up, it should be stated that the customer portfolio management in circumstances of growing competition constitutes a task that is difficult, but undoubtedly necessary. The classification of customers in the portfolio is indispensable for the optimisation of marketing activities. Simultaneously, it goes without saying that the customer assessment and their classification in appropriate categories of the matrix are never final. The company must, therefore, analyse the situation on a regular basis and update the identification and selection of its customers accordingly. This should be followed by the tailoring of the company's activities to new pending market conditions. Continuous analysing enables customers that are unprofitable over the long-term, despite the marketing activities undertaken, to be identified. The company should then withdraw from servicing such customers and simultaneously focus its efforts on actions facilitating taking over highly profitable customers from its competitors. Undoubtedly, from a strategic point of view, it is necessary to optimise the customer portfolio in respect of revenues from sales and profitability in the long-term. The optimal customer portfolio should have an appropriate structure of new and old customers of the company providing for the generation of planned sales and profits.

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## **ZNACZENIE I NARZĘDZIA KSZTAŁTOWANIA PORTFELA KLIENTA W PRZEDSIĘBIORSTWIE LOGISTYCZNYM**

**STRESZCZENIE.** Celem rozważań było przedstawienie istoty i znaczenia zoptymalizowanego portfela klienta dla efektywnego działania przedsiębiorstwa. Wskazano na zróżnicowaną wartość klientów dla przedsiębiorstwa oraz na fakt, że kształtowanie portfela nabywców wymaga nie tylko uwzględnienia czynników atrakcyjności klienta, ale również pozycji danego dostawcy w organizacji klienta. Popularnym sposobem dwuwymiarowej analizy portfela klientów jest macierz identyfikacji i selekcji. Jest ona specyficzną segmentacją klientów w zależności od ich znaczenia dla firmy. Przedsiębiorstwo powinno posiadać portfel zbudowany z klientów pochodzących z różnych grup macierzy. Analiza opłacalności klientów pozwala przedsiębiorstwu na efektywne zarządzanie portfelem przy wykorzystaniu dostępnego zestawu instrumentów. Realna ocena wartości klienta oraz własnej pozycji przedsiębiorstwa u klienta zwykle chroni je przed stratami związanymi z inwestycjami w klientów nie mających dla firmy większego znaczenia.

**Słowa kluczowe:** cykl życia klienta, wartość klienta, relacje z klientami, portfel klientów, macierz identyfikacji i selekcji klientów.

## **BEDEUTUNG UND WESEN FÜR DIE ENTWICKLUNG DES KUNDEN-PORTFOLIOS EINES LOGISTIK-UNTERNEHMENS**

**ZUSAMMENFASSUNG.** Das Ziel der Erwägungen war es, Wesen und Bedeutung des optimierten Kunden-Portfolios für effizientes Handeln eines Unternehmens darzustellen. Man wies dabei auf den differenzierten Wert von Unternehmenskunden hin, sowie auf die Tatsache, dass der Aufbau und die Ausgestaltung des Käufer-Portfolios nicht nur Berücksichtigung der mit der Attraktivität eines Kunden verbundenen Faktoren, sondern auch die mit der Position eines Zulieferers innerhalb der Organisation des bestimmten Kunden zusammenhängenden Sachverhalten erforderlich machen. Eine populäre Art und Weise, die zweidimensionale Analyse des Kunden-Portfolios vorzunehmen, stellt die Matrix für Identifikation und Selektion der Kunden dar. Sie beruht auf einer spezifischen Segmentierung der Kunden in Abhängigkeit von deren Bedeutung für eine bestimmte Firma. Das Unternehmen sollte also über ein Kunden-Portfolio verfügen, welches mit den aus unterschiedlichen Matrix-Gruppen stammenden Kunden aufgebaut wird. Bewertungsanalyse der Kunden seitens eines Unternehmens erlaubt ihm, eine effektive Verwaltung des Kunden-Portfolios bei Inanspruchnahme von zugriffsbaren Instrumenten zu gewähren. Eine reelle Bewertung eines Kunden und der eigenen Position beim betreffenden Kunden schützt gewöhnlich vor Verlusten, welche mit Investieren in die für die Effizienz einer Firma belanglosen Kunden verbunden sind.

**Codewörter:** Lebenszyklus eines Kunden, Kunden-Wert, Relation mit Kunden, Kunden-Portfolio, Matrix für Identifikation und Selektion von Kunden.

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