Account Management Effort Doesn't Equal Customer Profitability

Business-to-business marketers don't deny that they need to manage individual clients differently. It's just that try as they might, few have equated their customer-specific marketing with the profits drawn from each account. Salespeople can treat two clients exactly the same and get entirely different profits from each. A couple of marketing researchers discovered that marketers missed competitive context in their measurement models.

Never fear; Douglas Bowman of Emory University and Das Narayandas of Harvard Business School put it into their model and told their story with "Linking Customer Management Effort to Customer Profitability in Business Markets," published in *Journal of Marketing Research*. They surveyed customers of a processed metal business and merged it with information the company turned over on its customer management efforts and financial results. They have developed a framework so that organizations can give to each client according to the profit it'll produce.

Beware the Closest Competitor

Companies typically buy from multiple vendors, so the marketer's profitability from its client companies depends not only on the attention and professionalism the marketer shows the client but, more important, on the other suppliers from which its clients buy.

The performance of the closest alternative vendor is important, especially when that vendor ranks No. 1 with the customer. "Responsiveness" — attention, professionalism, and the like — to the client is a subjective measure for all practical purposes and has an impact only when the marketer answering the questions, taking the meetings, and making the trips is the superior performer. In other words, when profitability attests to the vendor's success, the softness of variables like "responsiveness" doesn't have to be reset in stone for identification and quantification.

Account-specific factors that press marketers to allocate their spend on a per-client basis are idiosyncratic. They relate to an individual client's other suppliers, that client's unique needs, and the marketer's exclusive strengths and weaknesses. All of these variables inevitably get lumped under one heading — account-specific — often without much of a glance at the fine points. This is business-to-business marketing, but many marketers gladly borrow the mass-customization concept from business-to-consumer marketing, slotting individual accounts into a finite number of boxes rather than truly servicing them as independent entitites. Maybe that's the reason the marketers studied here couldn't get the customer-service-produces-profitability model right.

The size of the customer counts, too, so when the marketer and the large-volume customer choose to cozy up and share information, the marketer whispers its list prices and the customer comes back with a sweet declaration of commitment if a certain discount is applied. This requited love — added value, not simply an opportunity to reduce costs — leads the bigger customer to discard some of its relationships with competitors.

The researchers threw salesperson tenure into the model as well. Consistency in the sales role breeds understanding of account-specific needs and better, more efficient service. Account management tenure, then, deters customers from doing business with competing vendors.

Analyzing the Links to Satisfaction, Profitability

The researchers did uncover that margin is positively influenced by share of customer, and they revealed a positive link between satisfaction and share of customer wallet. But no simple line exists between satisfaction or share of customer wallet and customer profitability.

Still, firms cannot manage their customer relationships in isolation, celebrating satisfaction survey results without an eye to share of wallet or assuming profitability will follow either satisfaction or share of total spend. They need to watch their customers' relationships with competitors and allocate their resources not at market or segment levels but at the individual customer level, weighing every spending decision as to what they'll lose for what they will gain.

Read the entire article by Douglas Bowman, associate professor of marketing and Caldwell Research Fellow at the Goizueta Business School of Emory University; and Das Narayandas, professor of business administration at Harvard Business School in the November 2004 issue of *Journal of Marketing Research*. You'll find it by the title "Linking Customer Management Effort to Customer Profitability in Business Markets" at www.marketingpower.com.