

# Understanding Customer Attractiveness To Sellers

Albert Caruana

## Synopsis

- *What makes a customer attractive to a supplier in a B2B situation? This is an important question since benefits can only accrue to buyers that are able to manage their firm's attractiveness.*
- *The concept of customer attractiveness is not new in marketing relationships. Either the buyer or the seller can become attractive to the relational partner and each can attract the other's attention.*
- *Ask sellers what makes a customer attractive and the most likely answer will be about how much profit they derive from that customer. An emphasis on profit as value appears conceptually straightforward but the determination of economic value is less simple than what may at first appear to be the case.*
- *Becoming a preferred customer provides positive returns to a seller in a relationship.*
- *Therefore, understanding the factors that influence the attractiveness of customers to sellers can provide a useful basis for the allocation of resources. Such an understanding can help customer firms to prioritise relationships over others and achieve a more effective customer-supplier relationship.*



Marketing transactions take place between two parties, often being a seller and a buyer. Given that supply tends to exceed demand for most offerings, especially for fast moving consumer goods (FMCGs), marketing often adopts the perspective of a keen seller making some offering to prospective buyers. Not surprisingly therefore, many marketing textbooks devote much effort to marketing activities, conveniently grouped under the 4Ps heading, that seek to reach customers. While this state of affairs prevails in many contexts, it may be less so in business-to-business (B2B) environments where offerings can be very tailored or unique and marketing is strongly relationship based. Therefore, an interesting question is; what makes a customer attractive to a supplier in a B2B situation? This is an important question since benefits can only accrue to buyers that are able to manage their firm's attractiveness.

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### ATTRACTIVENESS AND CUSTOMER ATTRACTIVENESS

Attraction has been shown to be an important element in the development of interpersonal relationships while expected rewards are central to defining the concept of attractiveness. It has been suggested that attraction depends on different dimensions of expected returns from the counterpart and thus on the expected value of the counterpart in a relationship.

The concept of customer attractiveness is not new in marketing relationships. Either the buyer or the seller can become attractive to the relational partner and each can attract the other's attention. Attractiveness can lead to mutual commitment in order to address common problems and satisfy needs, as well as to provide a cost-efficient relationship with the counterpart and superior loyalty and performance. Issues of customer attractiveness are relevant to B2B situations generally as well as in principal-agent relationships.

If we limit our focus to B2B marketing, it can be noted that customer attraction has not received too much attention. However, it has been suggested that to be able to do business, a buyer firm must make itself attractive to a supplier firm because being an 'interesting' customer can enhance the performance of a supplier and influence the supplier's motivation to continue working with that customer.

Becoming a preferred customer provides positive returns to a seller in a relationship. Therefore, understanding the factors that influence the attractiveness of

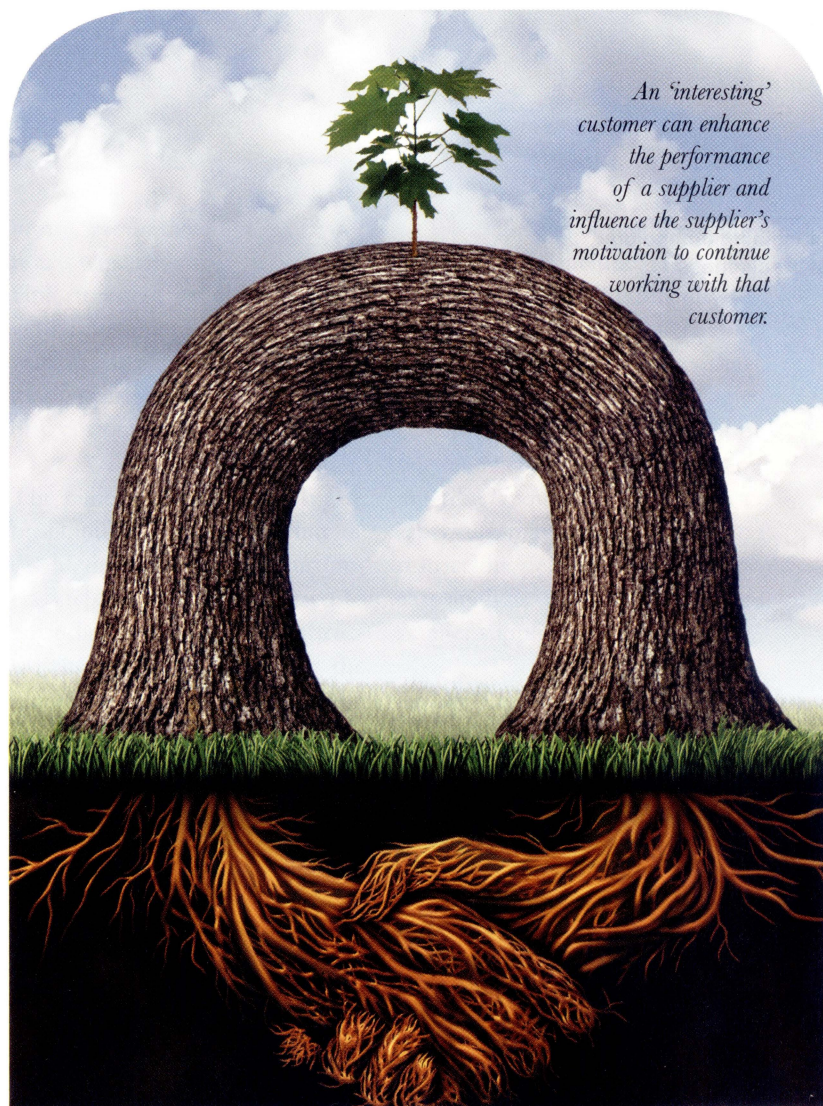
customers to sellers can provide a useful basis for management attention and the allocation of resources. Such an understanding can help customer firms to prioritize some relationships over others and achieve a more effective and smoothly functioning customer-supplier relationship.

Two broad focuses of customer attractiveness can be identified. The first is related to the features of customers and is broadly linked to current and potential economic value of the customer to the supplier. The second is relational and

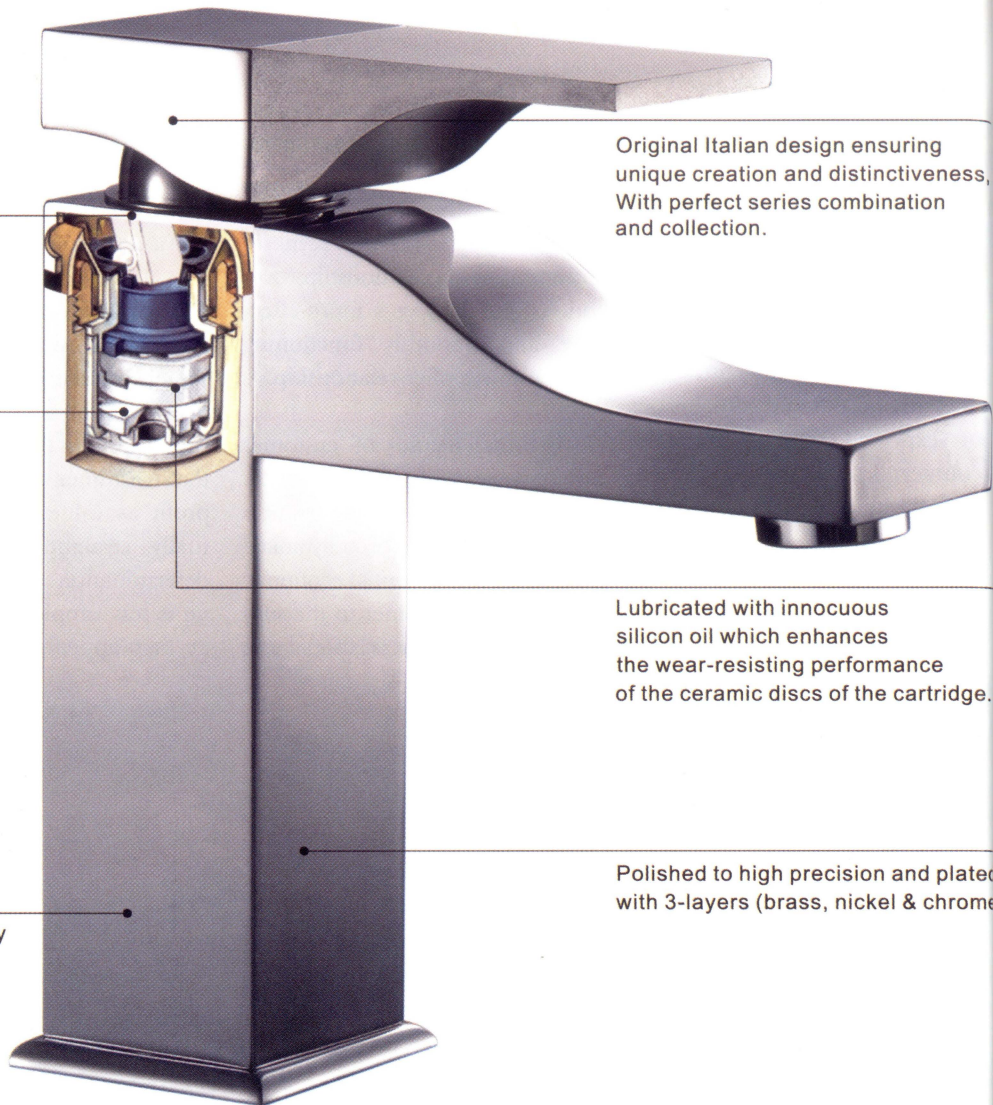
concerns the characteristics of a relationship and customer-supplier fit. When a B2B customer is small, this latter aspect is perhaps particularly important.

### PROFIT AND VALUE

Ask sellers what makes a customer attractive and the most likely answer will be about how much profit they derive from that customer. An emphasis on profit as value appears conceptually straightforward but the determination of economic value is less simple than what may at first appear to be the case. ▶



*An 'interesting' customer can enhance the performance of a supplier and influence the supplier's motivation to continue working with that customer.*



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*“Two container-loads if you please, sir?”*

Of course the profitability of customers to a supplier is provided by the difference between the revenues achieved and costs incurred in connection with a customer during a specified period of time. Sellers often use the 80/20 rule to differentiate between attractive high-profit and less attractive low-profit customers as this can enhance their overall profitability. However, while measuring profitability ex-post is conceptually rather straightforward, in practice there are various difficulties that are compounded by the accounting principles and practices used.

#### **DEVELOPMENT POTENTIAL**

A relevant question of course is whether a seller should be looking at past profit or contribution or whether it should look at future profitability or contribution potential. It is often stated that the past is not necessarily a good reflection of the future; so clearly

future profitability or contribution is what should be considered. Unfortunately, anticipating individual customer profitability is no walk in the park and requires extensive probing into the features of a customer's business.

The concept of customer future profitability is linked to that of the lifetime value of the customer. Such a metric can be used as an indicator of customer attractiveness so that the greater the lifetime value of a customer, the more attractive the customer would be. Such a synthetic indicator takes into account both the profitability of the customer as well as the future stability and duration of the relationship with the customer. It necessitates an estimate of the 'useful life' of a customer which is difficult, if not impossible, to forecast properly at the single customer level. Additional difficulties that may arise in

the computation of lifetime value of a customer include: (1) a lack of historical data; (2) difficulty to access data that are not available electronically; (3) customers that may have since been lost; (4) new customers whose data series are not yet available; and (5) competing time requirements. The last especially, may significantly act to restrict the performance of forecast analysis, particularly among smaller supplier firms.

An alternative to establishing lifetime value of customers is to determine customer equity. This refers to the value generated by the customer calculated on the basis of net cash flows that the customer is able to provide over the life of the relationship with the seller. It is computed as the difference between the margins generated and the costs of activation, development and maintenance of the customer relationship. ▶

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*Being an 'interesting' customer can enhance the performance of a supplier and influence the supplier's motivation to continue working with that customer.*

Customer equity is strategic for managing long-term profitability but the difficulties in measuring and assessing it are similar to those involving estimates of the lifetime value of customers. In addition, while such an assessment can be undertaken for a category or group of customers, it is rather challenging to foresee and measure the equity of a single individual customer.

Overall, the evidence suggests that while customers are valuable assets to a firm, their value varies greatly. Moreover while important characteristics of customer value can be identified, their relative importance is not easy to establish. Moreover, suppliers may lack the expertise or inclination to undertake lifetime value or customer equity analysis.

#### **RELATIONSHIP FIT**

The marketing literature exhibits a high emphasis on profit as value at the expense of other possible contributions that relationships can make. In recent years, marketing has witnessed increased emphasis on multiple transactions within a relationship together with notions of relationship fit. This aspect of fit between the features of the business of the supplier and those of the customer represents an important element that dovetails neatly with the growing interest in customer-supplier relationships in marketing generally, and in B2B marketing in particular. The underpinning idea is that the value of a customer arises from the human interaction processes of the relationship between the supplier and the customer.

Interactive relationships offer access to important resources, produce positive outcomes in terms of innovation and information about the market, and ensure the exchange of knowledge that acts as the basis for the inter-organizational capability to innovate. A supplier can employ various ways to favour an attractive customer and the resultant plethora of preferential solutions can represent important potential benefits to customers. However, it is the more attractive customers that will get supplier commitment, vendor managed inventories, trust, openness, access to the supplier's best brain power, shared info-systems and multiple communication channels.

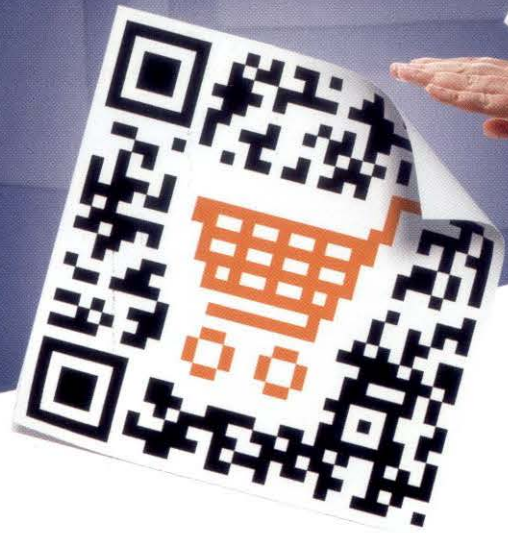
Assessing benefits accruing from a customer relationship and deciding which relationships to terminate and which to maintain, are central tasks for relationship marketers in seller firms. Research on the value of customer relationships has identified several different features of the business of a customer that affect the expected revenues and costs to a supplier. Examples of these include: the benefits provided by the quality of the product, delivery performance, service support, supplier know-how and acquisition and operation costs. However, in a relational context, it is the beneficiary that uniquely and individually determines value. Customer attractiveness does not just depend on the absolute characteristics of the business of the customer but is always relative. Indeed, attraction lies in the eyes of the beholder, and the value of a customer lies in the perceived characteristics of that customer. Therefore, customer attractiveness is always relative to the features and context of the supplier. ▶

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### SOFT ELEMENTS OF A RELATIONSHIP

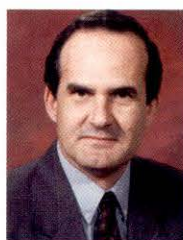
While many managers are keen on emphasising decision-making based on hard facts, many are less objective than they often make themselves out to be. Indeed, various 'soft' factors play an important role in customer attractiveness and affect how relationships work. Emotive dimensions that include the degree of intimacy, familiarity and similarity between the parties in the relationship are a case in point. In addition, customer attractiveness also varies depending on the particular stage reached in a relationship as well as the complexity of the content and maturity of that relationship. Many of these aspects are of a social nature and hardly objective but are often nonetheless binding and enduring.

### IMPLICATIONS

Objects do not have a value in themselves; rather their worth depends on the use a subject makes of them. Applied to customer attractiveness this suggests that customer attractiveness cannot be defined in an absolute sense and can only be assessed by defining the party whose perspective is being considered.

Past research shows that suppliers will selectively use only a subset of elements that are perceived as relevant to the explicit situation that they are concerned with, at a particular moment in time and under specific circumstances. It therefore comes as no surprise that suppliers in a business relationship assess customer attractiveness by using a limited subset of knowledge as they face a situation or a problem.

Perceived customer attractiveness reflects the agenda of the supplier as determined by the prevalent circumstances of the supplier's own business. It changes over time as the circumstances and issues of strategic concern for the supplier business evolve. Moreover, customer attractiveness dimensions are rarely equally important and the relative weights that sellers will use will reflect the situation and context. Customer attractiveness has its dynamic and plays a different role at different stages of the suppliers' relationship with customers. Therefore, assessing which dimensions of customer attractiveness are likely to be used and their expected weighting is critical for buyers since supplier action is formed by what they happen to see at a specific point in time and how they interpret what they happen to see. ■



Albert Caruana is professor of Marketing at the University of Malta. This article is part of a broader paper with colleagues: Antonella La Rocca and Ivan Snehota at USI, Switzerland, published recently in *Industrial Marketing Management*.