Master thesis

Customer portfolio management in service firms: a comparison of theory and practice

Christiaan Speldekamp

School of Management and Governance
NIKOS

Examination Committee
Dr. A.M. von Raesfeld Meijer
R.P.A. Loohuis MBA

School of Management and Governance

23 August, 2012
Master thesis

Thesis title
Customer portfolio management in service firms: a comparison of theory and practice

Student information
Name: Christiaan Speldekamp
Student number: s1023659
Email: c.speldekamp@student.utwente.nl
Study: MSc Business Administration
Track: International Management

University information
Name: University of Twente
Faculty: School of Management and Governance
PO Box: 217
Postal code: 7500 AE Enschede
Country: The Netherlands

Examination committee
Name first supervisor: Dr. A.M. von Raesfeld Meijer
Email: a.m.vonraesfeldmeijer@utwente.nl
Name second supervisor: R.P.A. Loohuis MBA
Email: r.p.a.loohuis@utwente.nl

Date
08-23-2012
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Abstract
Customer portfolio management can be of key importance to ensure profitability of the customer base in business-to-business relationships. Many customer portfolio approaches were conceptually developed for large and industrial firms that apply systematic customer management. However, scant research has empirically verified the practical use of portfolio models. This multiple case study of seven small firms in the search engine marketing sector primarily used exploratory interviews and secondarily company documents. The results lend support to the proposition that the complexity of the exchange and the fast-changing nature of the industry can influence customer management. More specifically, step-by-step or formal models for customer management – including the proposed criteria – are rarely applied and cover few issues that are relevant to service firms. Customer portfolio management is a highly context-dependent phenomenon in which informal methods are more important in highly complex service environments. The main practical implication is that formal systems can complement managerial judgment, in particular as the customer portfolio grows and more systems as well as procedures are required in the organization. Future research should investigate other service firms with varying types of services, while including several performance measures that can be related to the customer portfolio and the firm.
1 Introduction

Managing and developing relationships has been a relevant topic to academics and practitioners because of the inherent difficulty of achieving overall profitability in the business network. Each business relationship requires different degrees of investment and produces different outcomes, which need to be actively managed to make these relationships more enduring and productive (Cannon & Perreault, 1999). The complexity of the issue resides in the different ways a portfolio analysis can be applied as well as in relationships’ connection to profitability (Zolkiewski & Turnbull, 2002). Over more than three decades, portfolio analyses have been linked to finance, product development, strategic development, marketing strategy, resources and relationships (Turnbull, 1990). For customer management in business-to-business exchanges, several approaches have expanded the portfolio models in order to analyze customers (e.g., Campbell & Cunningham, 1983; Fiocca, 1982; Yorke & Droussiotis, 1994).

The concepts customer portfolio management (CPM) and customer relationship management (CRM) differ somewhat from each other. CPM focuses on the management of the entire customer base in business-to-business marketing contexts and future value and profitability, whereas CRM revolves around individual relationships in the business-to-consumer context – excluding future value developments (Terho, 2009). A similarity is that both tools assist companies in determining their priorities when selecting and developing their customer base. Typical options for a firm are to build, maintain, harvest or reduce a relationship, which requires that a business marketer is well informed about the possible risks of and returns from the relationships (Brennan, Canning, & McDowell, 2010, p. 237). The strategies are arguably very dependent on the business environment of the firm, such as the level of competition. In fast-moving markets, a firm might not have much time to develop customers, which surely influences the overall strategy in customer management.

Currently, managing customers has been made easier and more complex at the same time by the internet. Many markets are revolutionized by the opportunities created by the internet, which has already vastly increased the variety in business offerings online (Brynjolfsson, Hu, & Smith, 2006). Many companies cannot do without an online presence for the marketing and selling of their products as well as capitalizing on their customers’ online behavior. The use of the internet for managing customers’ relationships influences the interaction in the firm’s network, as new opportunities exist for value creation activities (Möller & Halinen, 1999). Online firms rely solely on the internet for offering and marketing their products, such as web shops. Smaller firms relying on niche products and services now have greatly improved opportunities for attracting customers through the internet. In addition, relationships with customers can be increasingly managed by using the internet to the firm’s advantage as an additional channel next to brick-and-mortar stores.

1.1 Research focus

A relationship portfolio refers to the management of different types of customers and suppliers that require different managerial approaches for profitability (Möller & Halinen, 1999). Note that stronger relationships are not always desirable, because a firm’s relationship management should be based on the whole spectrum of relationship types (Cannon & Perreault, 1999; Johnson & Selnes, 2004). Thus, the main problem facing a firm is to decide which customer relationships it should cultivate and which it should relinquish considering the overall variety in the relationships. The premise of this study is that a portfolio analysis can discover the small number of strategically important customers that contribute to the current and future value, to which a firm should dedicate its resources (Johnson & Selnes, 2004; Olsen & Ellram, 1997; Terho, 2009; Zolkiewski & Turnbull, 2002).
However, the nature of CPM is more complex because a firm should also analyze its customer base and respond to changes in its composition. Customer portfolio management is defined as “the company’s activities in analyzing its portfolio of customers pertaining to their role in providing current and future value for the focal company, and its responsiveness to the analysis” (Terho, 2009, p. 382). A portfolio analysis is a more limited concept that focuses on the analysis activity for effective resource allocation, although this process also enables developing a balanced customer structure (Terho & Halinen, 2007). The definition proposes that customer portfolio management is an ongoing process that revolves around processing information and responding to new knowledge. The company’s activities can consist of developing criteria, setting up systems and other methods for analyses.

Customer portfolio models have largely centered on large industrial firms and prescriptive descriptions of the steps a firm should follow in the analysis (e.g., Fiocca, 1982; Krapfel, Salmond, & Spekman, 1991). These prescriptive models have been primarily developed for the manufacturing context (Olsen & Ellram, 1997; Terho & Halinen, 2007; Zolkiewski & Turnbull, 2002). Thus, manufactured output, tangible resources and transactions seem embedded in the traditional view these models suggest. However, services and relationship marketing are often portrayed differently from manufacturing on an industry and firm level, because they have different value creation processes (Rust & Chung, 2006; Stabell & Fjeldstad, 1998). The main issue is that customer portfolio management practices are arguably different for service firms as is currently depicted by many portfolio models.

The present study addresses the aforementioned gaps in the literature by empirically researching the practices of customer portfolio management and an analysis of customer portfolios in the context of service firms. The contributions aim at complementing the findings of modern approaches in the service context (i.e., Elliott & Glynn, 1998; Johnson & Selnes, 2004; Leek, Turnbull, & Naudé, 2002; Leek, Turnbull, & Naudé, 2004; Terho, 2009; Terho & Halinen, 2007). The main goal is to provide empirical evidence for the practical use of customer portfolio management for smaller service firms and the similarities and dissimilarities of the established theory. Specifically, the concepts surrounding services logic could influence relevant criteria and methods in the process of managing relationships in a customer portfolio. The following research question is proposed: What are the differences in customer portfolio management in the service industry compared to the manufacturing industry?

1.2 Research objective

The purpose of this research is highlighting the organizational process of customer portfolio management in service firms’ business marketing. The literature review highlights the key differences already established in the literature between services and manufacturing as well as the possible contributions that can be made. The explorative interviews were compared with theoretical approaches to show differences in theoretical approaches. The practices of service firms were investigated through a multiple case study for an in-depth analysis of the issue of customer portfolio management in service firms. The main focus is on the industry context including the nature of services, the criteria for a portfolio analysis and the methods for managing customers in a portfolio.

A comparison of methods for portfolio analysis in the service sector yields additional evidence of whether practices are diverging on or converging from similar methods and criteria. Current evidence suggests that the relational complexity might influence customer portfolio management and that the nature of services might cause different methods and criteria to be relevant, i.e., formal versus informal methods and traditional (e.g., profitability) versus relational variables (e.g., trust) (Leek, et al., 2002, 2004; Terho & Halinen, 2007). Another important issue is to what extent a portfolio analysis is perceived as useful compared to other approaches, such as personal judgment and meetings.
2 Theory

The literature review covers the background and implications of relationship portfolio theory, the services industry and a comparison of portfolio analysis models in services and manufacturing industries. The main portfolio theories discussed in this section are based on the interaction approach developed by the International Marketing and Purchasing (IMP) group (Turnbull, 1990). From the 1980s and onward, the perspective that interactions between firms are not purely transaction-based has received substantial attention in business marketing (Day, 2000; Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994). This underlines the importance of using portfolios in managing these relationships because varying investments are required.

2.1 Relationship portfolio theory

Current developed portfolio approaches are mostly based on industry organization, political economy (socio-economic influences), resource-based capability and strategic approach (Eng, 2004; Krapfel, et al., 1991; Olsen & Ellram, 1997; Turnbull, 1990). The portfolio approach for industrial marketing and purchasing management originated from the financial investment context, from which it expanded to product investments, corporate strategy and business relationships contexts (Turnbull, 1990). The inherent logic of many models still follows Markowitz’s (1952) argument for maximizing return on equity investments. Based on this research, relationship portfolio models were developed for analyzing customers, suppliers and indirect relationships (network models) for resource allocation decisions (Zolkiewski & Turnbull, 2002). An integrated perspective of relationships in the firm’s business network has been put forward recently (see Möller & Halinen, 1999; Ritter, 2000; Zolkiewski & Turnbull, 2002).

Many of the best-known models are based on two- and three-dimensional axes along with single-, two- and three-phase analyses, of which those of Hedley (1977), Fiocca (1982) and Shapiro, Rangan, Moriarty, & Ross (1987) have been the most widely adopted in relationship portfolio research (Zolkiewski & Turnbull, 2000). The notion of resource allocation as a key decision for firms for financial investment and product development can be found in many portfolio models. Profitability is expected to increase if a firm invests in the strategically important customer or segment. In addition, portfolio analysis and planning rely primarily on an integrated approach based on the interdependencies of management decisions (Turnbull, 1990).

Table 1 highlights key scientific literature in business marketing research from 1982-2002 that discusses relationship portfolios from a business marketing perspective concerning large, manufacturing firms. Note that purchasing and service marketing portfolio approaches are excluded. The contributions are predominantly based on theoretical models, focus on large industrial firms and develop mostly systematic, stage-based or linear approaches to create categorizations. The main criteria (excluding sub-variables) largely aim at finding the key accounts through prescribing multiple steps, although much variation is present in the precise variables (see appendix 1 for a summary of criteria including sub-dimensions).

Most of the literature developed largely theoretical approaches with limited empirical evidence based on single case studies. Criticisms and challenges for many portfolio models can be summarized as the difficulty of choosing appropriate dimensions of analysis, the measurement and definition of the used variables, and the fact that macro environmental pressures and different units of analysis are not considered (Zolkiewski & Turnbull, 2002). The common issue is that these models represent relationships in isolation from each other (Dubois & Pedersen, 2002; Mota & De Castro, 2005; Ritter, 2000). Moreover, many macro factors for international operations are not considered, such as economic, cultural, social and demographic factors on the country level. Lastly, Zolkiewski and Turnbull’s (2002) network approach mitigates the latter issue by including customer, supplier and indirect relationships.
<table>
<thead>
<tr>
<th>Author (year)</th>
<th>Study type</th>
<th>Portfolio analysis steps and criteria</th>
</tr>
</thead>
</table>
| Fiocca (1982) | Conceptual | Step 1 (general): Difficulty in managing the account and strategic importance of the account  
Step 2 (key accounts): Customer’s business attractiveness, relative buyer/seller relationship |
| Campbell and Cunningham (1983) | Empirical | Step 1: Life cycle classification of customer relationships based on: sales volume, use of strategic resources, age of relationship, supplier’s share of customer’s purchases and profitability of customer to the supplier  
Step 2: Customer/competitor analysis by market segment: including growth rate of customer demand for a product or service and the customer’s share of the product/service market  
Step 3: Portfolio analysis of key customers based on growth rate of customer’s market and the competitive position |
| Dubinsky and Ingram (1984) | Conceptual | Present profit contributions (net sales to a particular customer, cost of goods sold, direct selling expenses of salesperson) and potential profit contribution |
| Shapiro et al. (1987) | Conceptual | Customer classification based on net price, cost to service (presale costs, production costs, distribution costs and post-sale service costs) and customer buying behavior |
| Krapfel et al. (1991) | Conceptual | Step 1: Classify relationships with interest commonality and relationship value (partner, friend, rival and acquaintance)  
Step 2: Relationship management modes (i.e., collaboration, negotiation, administration, domination and accommodation  
Step 3: Management mode matching across the dyad  
Step 4: Signaling of management mode match to buyers to reinforce the current relationship |
| Rangan et al. (1992) | Empirical | Step 1: Price-service tradeoffs and buyer power  
Step 2: Price and cost to serve |
| Yorke and Droussiotis (1994) | Empirical | Step 1: Difficulty in managing the account and strategic importance of the account  
Step 2: Profitability of customers  
Step 3: Perceived strength of the relationship and current percentage share of profitable customers held by the agency |
| Olsen and Ellram (1997) | Conceptual | Step 1: Analysis of the company’s purchases (strategic importance and difficulty of managing the purchase situation)  
Step 2: Analyze the supplier relationships (relative supplier attractiveness and strength of the relationship)  
Step 3: Develop action plans |
| Zolkiewski and Turnbull (2002) | Conceptual | Step 1: Identify the individual portfolio constituents and allocate their position within the portfolio  
Step 2: Identify other interactions within the portfolio  
Step 3: Identify all portfolios and interactions between the portfolios |
2.2 Relationship marketing in services research

In customer portfolio management, relationship management was largely described without considering several implications of service research. The academic development of service marketing was that packaged goods marketing frameworks and constructs did not fit the reality of services (Berry & Parasuraman, 1993). This led to discussions about the differences between goods and services marketing, which resulted in a framework for the unique characteristics of services opposed to goods: intangibility, heterogeneity, inseparability, or simultaneity of production and consumption, and perishability (IHIP) (Rust & Chung, 2006; Zeithaml, Bitner, & Gremler, 2009, pp. 20-22; Zeithaml, Parasuraman, & Berry, 1985). The IHIP framework became the dominant paradigm of service marketing showing why and where services differed from goods (Furrer & Sollberger, 2007).

However, critics argued that the overall delineation of services and goods and their respective industries can be a limited view, because the IHIP characteristics do not necessarily distinguish between services and goods (Edvardsson, Gustafsson, & Roos, 2005; Lovelock & Gummesson, 2004; Vargo & Lusch, 2004b). The main issue is whether the distinction is still relevant as many goods and services are combined in a single business offering. A service can then be viewed as the common denominator in the exchange rather than differentiating services from goods (Vargo & Lusch, 2004b). The result of this notion is that service characteristics might not be unique to services concerning the IHIP characteristics, because some services have an inherent standardization through IT, such as telecom services (Edvardsson, et al., 2005). Vargo and Lusch (2004a) argue in favor of a service dominant view, in which intangibility, exchange processes, and relationships are central.

On the industry level, value creation activities and processes can differ between firms. Stabell and Fjeldstad (1998) developed a value configuration framework for understanding how competitive advantage is created in service firms and industries. The authors suggest that service firms use intensive technology to solve a customer’s problem or mediating technology to facilitate exchange relationships among customers and other parties in the exchange. A service-dominant view implies that value shops and value networks, in which the goal is to customize offers based on the customer’s demand, and the customer is a co-producer rather than creating products based on individual value activities (Stabell & Fjeldstad, 1998; Vargo & Lusch, 2004a). Thus, adopting a service logic can be suitable for both service firms and manufacturing firms, because all suppliers deliver promises to customers (Grönroos, 2011).

2.3 Customer portfolio approaches in the context of service industries

It is interesting to establish whether certain characteristics of services in an industry influence CPM. Creating current and future value for customers in most portfolio models follows the manufacturing-based logic, of which some aspects might be applicable to service firms and other aspects might not be. Table 2 describes seven post 2000 customer portfolio approaches with implications for services industries. Major advances have been made by empirically verifying models and describing firms’ actual customer portfolio practices through qualitative and quantitative methods. In contrast, Elliot and Glynn (1998) and Johnson and Selnes (2004) produced the only conceptual papers.

Three studies in table 2 included financial service firms to investigate customer portfolio performance in the service sector. Most importantly, Eng (2004) tested 48 variables in a survey derived from the literature pertaining to industry characteristics, resource-based capabilities and strategy. The operationalization of variables focused on the industry level and its characteristics. A notable finding was the low support for the strategic approach derived from the customer portfolio approach, which was suggested by Fiocca (1982), although the potential of the account, volume of business and market leadership were indeed important factors.
<table>
<thead>
<tr>
<th>Author</th>
<th>Variables or criteria</th>
<th>Key research findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elliot and Glynn (1998)</td>
<td>Customer profitability (transaction value) and long-term attractiveness (relationship value)</td>
<td>A customer value portfolio matrix for banks that consist of prime customers, highly valued customers, prosperous but mobile, prime prospects, the middle category, price shoppers, tomorrow’s valued customers, no frills and social responsibilities (B2C).</td>
</tr>
<tr>
<td>Eng (2004)</td>
<td>Industrial characteristics, resource-based capability, strategic position and strategic approach</td>
<td>These overarching variables should be considered by banks in their management of diversified and large customer portfolios (B2B) as determinants of customer performance.</td>
</tr>
<tr>
<td>Johnson and Selnes (2004)</td>
<td>Probability to switch to competitors, cost of gaining customers, economies of scale, conversion cost (to a closer relationship), revenue premiums and customer portfolio lifetime value</td>
<td>Service firms typically have low economies of scale, in which acquaintances and friends contribute the most to the customer portfolio lifetime value on the long term.</td>
</tr>
<tr>
<td>Leek et al. (2002)</td>
<td>Commitment to us, willingness to adapt to our requests, relationship strength, investment in us, difficulty of managing the relationship and commonality of interest (relationship variables)</td>
<td>The relationship variables willingness to adapt to our requests, commitment to us, investment in us, commonality of interest and age of the relationship were more important to financial service firms, whereas relationship strength was more important to manufacturing firms.</td>
</tr>
<tr>
<td>Leek et al. (2004)</td>
<td>Methods of relationship management (i.e., meetings, formal, documented system and personal judgment)</td>
<td>Financial service firms are likely to have a system for relationship management (financial suppliers and buyers). Financial service firms are more likely to use each of the three methods.</td>
</tr>
<tr>
<td>Terho and Halinen (2007)</td>
<td>Exchange context complexity consisting of informal analysis (objective and subjective data), individual customer relationships, indirect value and relationship characteristics, customer treatment implications and relationship development and heuristic support</td>
<td>Customer portfolio analysis practices are dependent on complexity of the exchange a firm has with its customers (context dependent). For ICT firms, high complexity entails a more informal and a more individual-based customer analysis.</td>
</tr>
<tr>
<td>Terho (2009)</td>
<td>The construct customer portfolio management consists of: analysis efforts, analysis design, responsiveness efforts and responsiveness design</td>
<td>Customer portfolio management for large firms in various industries is characterized by continuous, ongoing, cross-functional and multilevel processes that develop over time.</td>
</tr>
</tbody>
</table>
For large banks, their segmentation and customer portfolio approach was organized by using the dimensions current profitability (transaction value) and long-term value (relationship value) (Elliott & Glynn, 1998). This approach is similar to the early classifications by Campbell and Cunningham (1983) and Krapfel et al. (1991) as well as the customer classification by Johnson and Selnes (2004). Financial service firms analyzed information in portfolios with a greater number of methods in a formal system, meetings and personal judgment (Leek, et al., 2004). Financial firms find all methods included in the study relevant (in order of importance): meetings, personal judgment and a formal documented system.

More importantly, Leek et al. (2002) compared the financial services industry with the auto/electrical manufacturing industry. Leek et al. (2004) expanded on the previous study by pointing out the differences between suppliers and buyers and products and services for the use of relationship management methods. Manufacturing firms found a formal system less important than the other methods. In addition, the relationship variables (e.g., commitment; see table 2) were generally more important to service suppliers (Leek, et al., 2002). Manufacturers appear less concerned about their customers’ commitment, which could be related to having a standardized tangible product that is required in large quantities or having a specialized product that is difficult to obtain elsewhere.

The methods for portfolio management could also be related to the complexity a firm has to manage in its industry. In a multiple case study, Terho and Halinen (2007) found that the choice of certain analysis methods, dimensions, types of data for input and the formality of the analysis is dependent on how a firm perceives its environment. The exchange context complexity was proposed as the key variable that determines customer portfolio practices. If a firm operates in a high-complexity environment (i.e., ICT), it is more likely to focus on informal methods, an analysis on the individual level, indirect value, relationship issues and flexible, heuristic analyses. These findings can be related to the service context where firms appear to profit more from closer relationships, or customers that can be classified as partners or friends (Johnson & Selnes, 2004).

Lastly, Terho (2009) expanded on the study of Terho and Halinen (2007) to provide a more in-depth perspective on the process of customer portfolio management. This continuous process can be represented by four main dimensions: analysis efforts, analysis design, responsiveness efforts and responsiveness design. The activities can be formal or informal, similar to the management methods discussed by Leek et al. (2004). Analysis efforts refer to understanding the structure of the customer portfolio, on which new tailor-made designs can be based. The design phase refers to the effort the company puts into planning its analysis activities (e.g., criteria, methods and procedures).

2.4 Comparing customer portfolio approaches for services with manufacturing

The main findings in the literature review for services and manufacturing suggest that customer portfolio management can be applied differently depending on the context. Context-dependency implies that unique, unstandardized practices for customer portfolio analyses would provide a better solution (Terho & Halinen, 2007). The central elements of these differences pertain to the process of analyzing or determining the value of customers and the responsiveness of the company to the analysis, and the criteria and methods used for customer or relationship management. First, a fundamental difference is that service firms operate in an environment in which servicing the customer is strongly based on close interaction. Suppliers and customers share similar economic goals and intentions (i.e., interest commonality) in industries based on low economies of scale that have to develop closer relationships (Johnson & Selnes, 2004; Krapfel, et al., 1991).

Furthermore, general differences exist between service firms and manufacturing firms. Although customer portfolio research reached a consensus on using systematic models (e.g.,
Fiocca, 1982; Yorke & Droussiotis, 1994), more recent literature indicates that the internal and external context of a firm can cause the portfolio practices of firms to deviate substantially (e.g., Leek, et al., 2004; Terho & Halinen, 2007). Besides manufacturing firms, relationship portfolio research later included financial service firms (e.g., Elliott & Glynn, 1998; Eng, 2004), but did not include other types of service firms. However, Terho and Halinen (2007) suggested that customer portfolio management is very dependent on the context, because ICT firms were found using value-adding strategies in fewer but more intense customer relationships compared to energy, insurance and energy firms. It can be expected that portfolio practices of smaller service firms in complex and volatile industries are different from large industrial firms, particularly when compared to manufacturing firms. For these service firms, it is expected that customer portfolio management is characterized by ad-hoc organizational activities rather than pre-defined step-by-step approaches.

Proposition 1: Service firms operating in highly complex and volatile environments use customer portfolio approaches that can be characterized as ad-hoc instead of formal and pre-defined step-by-step approaches.

2.4.1 Criteria for customer portfolio analysis

The literature review showed that the criteria and steps are highly variable in the various portfolio models. General key variables are strength of the relationship, commitment, willingness to adapt to requests, investments, commonality of interest and age of the relationship (Fiocca, 1982; Krapfel, et al., 1991; Leek, et al., 2002; Yorke & Droussiotis, 1994). According to Leek et al. (2002), the most useful variables according to service firms and manufacturing firms are sales volume, profitability, relationship strength and commitment, although financial service firms find commitment relatively important. The reason for the importance of relationship variables for service firms is that these firms deal with highly complex exchanges, in which individual relationships and relationship development are central features (Terho & Halinen, 2007). Customers can be sorted according to how relationship value is created both for the customer and for the company, which is influenced by the types of relationships, the environment and the firm’s capabilities (Johnson & Selnes, 2004). Because a closer relationship generates more value, it is likely that relationship variables can play an important role for service firms. This does not necessarily mean that “weak” relational criteria are emphasized more than “hard” economic criteria, because profitability is a key issue for all profit firms.

Proposition 2: Service firms tend to emphasize “weak” relational criteria next to “hard” economic criteria in their customer portfolio analyses.

2.4.2 Methods for customer portfolio management

Recent studies seem to support the view that there are different ways for firms to manage their customer base (e.g., Johnson & Selnes, 2004; Terho & Halinen, 2007). The multiple methods range from formal, standardized approaches to more informal, tailor-made approaches depending on the firm’s strategy and the type of customers. In some service industries dealing with high complexity, such as in ICT, research findings show that informal and subjective methods are relatively more important, such as meetings and discussions (Leek, et al., 2004; Terho & Halinen, 2007). A more fluid approach, opposed to the systematic approach, could work in circumstances where decisions have to be made fast, evaluation is done with relatively few employees and overall portfolios are less diverse and not too large.

Proposition 3: Service firms are more likely to use informal methods for managing customer relationships than formal methods or systems.
3 Methodology

The search engine marketing (SEM) industry was used as an example of the customer portfolio practices of service suppliers. The exploratory part of the study investigated the key trends in the market before starting with the inquiry into customer management. The main reason is that the services of SEM agencies and their customer portfolio management are highly influenced by market circumstances. The agencies exploit the new business opportunities in online marketing that were created following the rapid growth of the internet during and after the 1990s. The fundamental change in marketing affected both firms’ marketing strategies and consumers’ purchase patterns, because of new possibilities for interconnectivity between persons and organizations. Internet-enabled services might lead to an alternate emphasis on customer portfolio management, such as when providing online marketing services.

3.1 Research setting

This study focuses on small- and medium-sized enterprises operating in the Netherlands in the SEM industry, as an example of customer portfolio practices in the services industry. Current market research shows that the Dutch online advertising market was valued at 1.1 billion euros in 2011, of which the search market constitutes 530 million euros. The year-on-year overall growth rate increased by two percent to 12 percent in total, whereas the search market grew by 15 percent (Deloitte & IAB, 2011). This appears to be a recovery from the economic downturn in 2010, although further growth can lessen if economic circumstances deteriorate.

Table 3. General context description of the Dutch search engine marketing industry

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sub-variable context</th>
<th>Categorization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Context</td>
<td>Dynamics in industry</td>
<td>High</td>
</tr>
<tr>
<td>Interaction</td>
<td>Intensity of the exchange</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>General level of adaptations in the relationship</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>General level of cooperation in the relationship</td>
<td>High</td>
</tr>
<tr>
<td>Customer relationships</td>
<td>Number of customer relationships</td>
<td>± 150-200</td>
</tr>
<tr>
<td></td>
<td>Transactional or relational emphasis in the relationship</td>
<td>Relational</td>
</tr>
<tr>
<td></td>
<td>General interdependencies in the relationships</td>
<td>High</td>
</tr>
<tr>
<td>Maturity of industry</td>
<td>Customers’ knowledge of online marketing</td>
<td>Low - medium</td>
</tr>
<tr>
<td></td>
<td>Innovation in key services</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Process management and standardization developments</td>
<td>Low</td>
</tr>
</tbody>
</table>

The majority of the SEM agencies in the Netherlands have been in business for thirteen or fourteen years at most. The industries’ characteristics show that the market for these internet-based services is young but rapidly advancing towards maturity. The industry’s young age is reflected in a number of key characteristics (also see table 3): increasing market size (high annual growth rate), high heterogeneity of customers, high market fragmentation, high market complexity and many buyers per seller/segment. The main successful strategies are widely known and the level of competition increased sharply for popular words used in SEM (e.g., insurance or vacation), which makes it harder to compete in the market. The industry creates value by solving customer problems by devising and executing appropriate online marketing strategies. Agencies primarily rely on problem finding and acquisition, problem solving, choice, execution and control/evaluation, which resemble the value shop configuration (Stabell & Fjeldstad, 1998). This largely depends on the type of activities, which can be highly customized, but also more standardized depending on the type of campaign.
3.1.1 Relevancy of online marketing in practice

The primary use of online marketing for advertisers is as a complementary channel for promotional activities that increasingly occur online. Important specific examples of online marketing are search engine advertising, optimization, affiliate marketing, display advertising and social media advertising. In general, online marketing or advertising is more suitable for providing what the potential customer wants, whereas forms of mass advertising on television, on radio, in newspapers and on the internet revolve around telling a customer what it should desire. Of course, certain forms of offline marketing approaches are very similar to the online marketing applications, such as display advertising. In addition, offline marketing and online marketing are generally used in conjunction with each other to amplify their effects. Search engine marketing is the main focus for many firms, which consists of search engine advertising (SEA or sponsored search advertising) and search engine optimization (SEO or non-sponsored search results).

A great advantage of these advertising methods is that they provide additional possibilities for targeting individuals based on information gathered with web analytics software, which gathers various data on the visits to a website depending on the goals. For example, a web shop can track what advertisements with specific keywords lead to higher conversion ratios (e.g., more sales). Online marketing can be useful for mass marketing, such as display advertising, but, more importantly, it is more suitable for niche marketing, because very specific groups can be targeted with demographics variables, characteristics of website visits and information on the user’s profile. Compared to traditional media, online advertising can be achieved with relatively lower investments and is more suitable for reaching potential customers that are already searching for a specific brand or product.

The SEM provider or supplier generally provides and executes advice on online marketing for other firms (see appendix 3 for key SEM services, such as “landing pages”). The relationship between the supplier and the customer is characterized by varying dependence between the parties. In most cases, the supplier has more knowledge and experience of SEM practices than its customers do. Larger companies (typically with more than 1,000 employees) are an exception because they have more resources they can dedicate to learning how to use online marketing strategies in-house rather than outsourcing. The agency and buyer can derive certain benefits from long-term cooperation, such as knowledge sharing and extensive support and commitment to campaigns. In this context, the management of relationships with buyers is an important strategic issue.

3.1.2 Key trends in online marketing

The exploratory interviews provided several key trends, which agencies have to take into account before researching CPM practices (see paragraph 3.2). The overall demand for online marketing services has become broader over the years. Customers of online marketing agencies want to compete in many disciplines of online marketing, such as the online marketing channels search, advertising and social media. Thus, companies are more likely to spread their investment over all sorts of different services. For online marketing agencies, this means that they can deploy multiple products and services in their customer portfolio. An advantage is that this can spread risk, because they can easily diversify using the knowledge of their different online marketing specialists. On the other hand, this means that progressively more agencies are diverting their attention from one type of expertise, such as SEO, to multiple disciplines. Thus, being a so-called “full-service” agency is meaningful to the customer, which is why agencies invest in broader knowledge and competences for their staff as well as focus on business development of new markets.

The dynamics of the industry also become apparent in continuous development of key services. In online marketing, several large companies determine the pace at which innovation
takes place, such as Google and Facebook. Especially Google continues playing an essential role in online services on a global scale. The company is still strongly focused on helping the user find relevant information fast. Agencies have to play by Google’s rules and terms to ensure that their customers’ websites rank high. Two trends in relation to Google are very important: it more strictly evaluates and monitors websites for the overall quality of its search engine and it continues rapidly developing additional services to keep the user on Google’s platform. Currently, a website should provide accurate and up to date content through the marketing channels used by the website’s main audience and its competition.

Another key trend in online marketing is the additional legislation of cookies on websites with which the users, owners of the websites and marketing agencies have to cope. In essence, every website that uses cookies to store user information that is not considered essential information (e.g., keeping track of the products stored in your shopping basket) has to ask the user for explicit permission. Nowadays, many people – including policy makers – consider personalization based on user information as an undesirable internet feature that can be abused by companies. The potential problem is that online marketing campaigns become harder to maintain and are hampered in their functioning, because of the required permission, such as for web analytics (Google Analytics) and A/B tests for web pages. Another consequence is that these rules are more strictly applied in the Netherlands than in other European countries, which can make it more difficult for Dutch websites to compete internationally. On the other hand, the privacy of users seems better safeguarded. Aggregating data and performing group analyses with anonymized data should still be a feasible solution, which does not infringe on the privacy of users.

At the users’ or consumers’ end, it is imperative that their search behavior has changed over the years. Approximately more than seven years ago, many people searched with simple keywords or still used search directories for finding relevant information. Currently, search queries are dominant and contain many more keywords than in the previous decade. This is called the long tail in search. For online marketing, this means that optimizing the website should include less obvious and broader terms, even including common spelling and grammar mistakes. The internet enables existing and new markets to supply customers with a greater number of offerings than one could find in a typical brick-and-mortar storefront, which enables a greater variety in customers’ preferences (Brynjolfsson, et al., 2006). Generally, this trend has increased the potential for niche marketing, which is very relevant to agencies managing campaigns for web shops.

3.2 Research approach and design

The research question calls for a research approach that is useful for contrasting customer portfolio analyses. Because research on customer portfolios in the service context is relatively scarce (see Terho, 2009), a descriptive and exploratory design is useful for answering the main research question. The already available literature on customer portfolio theories was used as a guide to uncover new avenues of inquiry following the deductive approach. Notwithstanding the descriptive research question, an in-depth understanding of the organizational processes that govern portfolio management in a firm is still required. The research strategy was using a multiple case study, which facilitated gaining a comprehensive understanding of the customer portfolio management in seven service suppliers. A case study focuses on understanding the dynamics of a contemporary phenomenon present within single settings or within its real-life context, especially when the boundaries between the phenomenon and context are not evident (Eisenhardt, 1989; Yin, 2009, p. 18). Note that the primary two cases A and B could be studied more intensively, whereas at other organizations less data could be collected. In addition, two interviews were possible at case C, although there was limited access to organizational documentation.
According to Yin (2009, p. 53), a multiple case is justifiable under certain conditions when it either results in similar results (replication) or in contrasting results for predictable reasons. The data should point towards commonalities and differences that the participants report on the used criteria, methods and analyses. The cases are embedded in a similar business setting of e-commerce and online marketing. Following replication logic, it is possible to compare evidence from each supplier with the other two, which is likely to identify common themes and differences. Ideally, each case would confirm similar portfolio practices as important, which makes the overall conclusions more compelling compared to using a single case study. The cases are studied on the organizational level without incorporating subsets, such as departments. This holistic case study involves examining the global nature of organizations rather than subunits, such as departments. The process of customer management is an organizational process and not necessarily restricted to a sales or marketing department.

<table>
<thead>
<tr>
<th>Case</th>
<th>Size</th>
<th>Customers</th>
<th>Focus in customer portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>11</td>
<td>20-30</td>
<td>SMEs in the publisher industry</td>
</tr>
<tr>
<td>B</td>
<td>30</td>
<td>250-300</td>
<td>SMEs (various industries)</td>
</tr>
<tr>
<td>C</td>
<td>10</td>
<td>15-20</td>
<td>Medium-large firms and corporates: travel and e-commerce industries</td>
</tr>
<tr>
<td>D</td>
<td>35</td>
<td>200</td>
<td>Medium large firms: travel and fashion industry</td>
</tr>
<tr>
<td>E</td>
<td>20</td>
<td>90</td>
<td>Corporate companies (various industries)</td>
</tr>
<tr>
<td>F</td>
<td>20</td>
<td>95</td>
<td>Corporate companies (various industries)</td>
</tr>
<tr>
<td>G</td>
<td>40</td>
<td>300</td>
<td>SMEs and large firms: travel and e-commerce industry</td>
</tr>
</tbody>
</table>

Table 4 provides an overview of all seven cases in the study. For comparison purposes, the size (in FTE), the number of customers and the focus of the customer portfolio of all organizations involved in the research are included. The size of the customer portfolio seems dependent on the number of employees, which is not surprising considering the labor-intensive tasks executed by these firms. Another essential characteristic is their size, because all can be classified as small firms (or medium firms on the group level). However, note that five cases are part of a group. Further, all agencies focus on firms that can somehow benefit from their expertise. For some agencies, this means targeting lower and middle segments with smaller marketing campaigns, whereas others mainly aim at corporates for which they provide extensive advice. Lastly, the most important shared characteristic is the focus on return on investment and revealing these activities to the customers. The agencies have the expertise to provide extensive reports with key figures that assist customers in making strategic and operational decisions for their online marketing campaigns.

3.3 Data collection methods and procedures

The study primarily relies on data that was obtained through semi-structured interviews and secondary sources with seven agencies of online marketing services. The data collection phase of the research was divided into two sections, namely gathering contextual data on the SEM industry and the suppliers’ organizational practices. The contextual data on the SEM industry was required for extensive information on the trends in online marketing, as well as the structure of the SEM market, which was relevant to the subsequent data collection stages. In total, sixteen generally short interviews (averaging 45 minutes) were conducted for this purpose. Next, twelve interviews were conducted on the subject of portfolio management lasting one hour on average. Although only one interview was possible for several cases, the combined collection of interviews and secondary data (e.g., employee manuals and marketing
plans) assisted the triangulation process. This enabled a more precise representation of the proposed relationships. In addition, typically these interviews were longer than one hour.

The procedure for conducting the interviews was aimed at improving validity and reliability by careful preparation and feedback from the respondents. In appendix 2, an overview is provided of the main themes and questions showing the semi-structured nature of the interviews. After the initial contact had been established, all participants were provided with an overview of the main questions and themes about one week before the scheduled dates of the interview. During the interview process, they were informed about the research procedure and their rights as a research participant. Within one week of the interview, a summary of the interview of about two or three pages was sent. This provided the participants with an additional means of verification, comments and suggestions. These remarks were used for further refinement of the interview data if necessary. In both cases, participants answered mostly open-ended questions. Only follow-up questions were sometimes closed-ended, which were particularly useful to confirm or reject (a part of) previously established answers.

Three types of respondents can be discerned in the main interviews based on the function, responsibilities and daily tasks of all respondents, namely higher management ($N = 3$), middle-management ($N = 5$) and operational staff ($N = 4$). High-level respondents were mostly directors in charge of the daily operations of a particular firm. Middle-level interviewees were a mixture of team supervisors, sales managers, account managers or partner managers. In the final category, mainly different types of online marketers, such as SEO, SEA and conversion experts were represented. The interviewees on average had 2.5 years of experience in their function and in the organization.

3.4 Data analysis techniques

The data analysis in the study partly coincided with the data collection because of the inherent flexibility in case study research. An advantage is gaining more control over which questions have been answered and which questions should still be addressed. The analysis process is based on the literature to develop propositions and then to contrast the results with the theories on portfolio management. Furthermore, the main data is very dependent on the organizational context and meanings the participants assign to events. This requires extensive classification and triangulation before definitive statements can be made about customer portfolio management. The analysis used pattern matching and rival explanations using the main research question and the propositions (see Yin, 2009, pp. 136-141). The patterns described in the main question and specifically the propositions should match the data or differ for predictable and predetermined reasons. In addition, a cross-case synthesis strengthened the main findings, because the patterns matched across the cases.

After each interview, data was transcribed, summarized and grouped, which was immediately followed by finding similar themes and contrasting opinions expressed in the interviews. Wherever relevant, qualitative data was coded into themes. Subsequently, the code phrases were reduced and related to the key theoretical concepts, while at the same time keeping the meaning of what the participant said intact. Themes are identified by first searching for similarities and differences in the transcripts, and second by editing and sorting common themes in the transcripts. The analysis progressed steadily during the data collection, so that it was easier identifying which issues should be explored further in the subsequent interviews. A lack of convergence in the data was not a substantial problem, because of the focus on similar themes and associated questions in the interviews.
3.5 Quality considerations

A number of tactics in multiple case studies are useful for internal validity, construct validity, external validity and reliability (see Yin, 2009, pp. 40-45). First, internal validity was improved by using pattern matching and addressing alternative explanations for the propositions. Second, the use of a theoretical framework and extensive literature review assists with improving the external validity. Rather than being statistically generalizable, the results need to fit with the broader theories in the customer portfolio literature. Third, reliability was supported by a protocol for conducting the interviews, which includes preparation details. The entire procedure was made as transparent as possible for the participants to avoid misunderstandings and to develop trust in the research. In addition, contextual information was always included in the introduction to verify the circumstances surrounding the participants and the organization (e.g., recent function and organizational developments) – including triangulation through organizational documents if applicable. Lastly, the largest difficulty resided with using multiple sources of evidence in all cases, which reduces the overall construct validity. Multiple interviews were possible only in three out of seven organizations. However, most respondents supplied additional information about the company and substantial information could be derived from the companies’ websites and supplementary marketing materials. In addition, all participants were sent an interview summary with the most important themes that were discussed.
4 Results

The research framework and methodology facilitated uncovering the differences of customer portfolio management in search engine marketing. Overall, the interview results provide evidence for the relevance of different organizational practices for customer management. General customer or account management is based on simple and implicit strategies, which focus on providing return on investment. Second, the criteria used in the analysis of customers are relatively diverse and applied implicitly. Third, methods for managing customers are focused on individual relationships, direct value and indirect value, personal judgment and several systems for providing information and support. All of these points are the result of several unique characteristics as the discerning features of the SEM industry.

4.1 Customer portfolio management in search engine marketing

SEM agencies do not generally use a fully developed strategy for the management of customer portfolios. In practice, firms tend to divide the customers into multiple groups (usually two or three), but this is usually only relevant to the management or board of directors or the sales/marketing departments or account managers and not for the entire organization including the working staff (i.e., online marketers). Every agency has some way to divide its customers into segments or groups based mostly on turnover, although this is not necessarily precisely planned. However, creating groups is necessary to deal with the diverse nature of the portfolio and the types of customers. Relationship development and retention actions are based on this classification, such as special actions for top customers.

An important consideration is to spread risk over multiple customers and not be dependent on one or a few customers. When classifying customers in top, middle and lower segments, it is easy to see which customers account for 80 percent of the total turnover. One participant expressed it as follows: “I think it is important that we are not dependent on one or two customers for the turnover. Especially in the current economy and dynamics of the market I want to have our customers spread out evenly.” The risk is also mitigated by using propriety software as a vendor lock-in, such as monitoring systems for performance of the online marketing campaigns. In practice, firms have two layers of customers: one “lower layer” to cover most expenses and another “upper layer” for profit. The most profitable companies are often larger companies with high online marketing expenditure and well-known brands.

Agency A, for instance, has developed its portfolio to include more medium to large firms and has removed or reallocated many smaller customers. These customers generate less profit because they mostly do not extensively use the agency’s services, such as self-employed experts in particular, which are currently offered only supporting software for online marketing. The focus for large customers is now on the publishing industry, which are prioritizing online marketing activities. Besides the profitability and potential, the customers are also selected because of their well-known brand that can attract new business. The main strategy is to replicate or scale up the business offerings to provide services to other publishers as well.

Profitability of the customer portfolio

The profitability of the customer portfolio is maintained through adaptation to the market. An executive manager at organization A noticed that: “We need to continuously adapt our products to the market. We think that our main product landing pages could be difficult to market and miss out on market opportunities, because there is more demand for other products at this time.” Another primary consideration for the profitability of a portfolio can be put as follows: “At our company [case B], I see that sectors such as consumer retail, solar power energy sector, building- and house-construction industry and specific electronics sectors are spending more on online marketing, but for example the traveling industry is less interesting for us.” At
case G, a senior online marketing consultant mentioned a similar trend for the company: “Traditionally, we have been relatively strong in the travel and retail sectors, but those were one of the first companies active online. Now we have many customers in other segments comprised of offline media, wholesale businesses and broadcasting.” The key strategy is to search for new market opportunities that fit with the company and its services, although many types of customers are suitable for online marketing services – including offline media companies.

Virtually everything about the online marketing campaigns can be measured, which makes it easier for agencies to focus on profitability. Agencies confirm with their customers what they want to spend on which online marketing channel and on what type of customer. With web analytics, an agency can measure exactly where opportunities reside in online marketing for a particular customer. Activities to reach a certain goal are highly comprehensible to both the customer and the firm. A senior online marketing consultant from organization C reported, “We want to primarily aim at high profits in our online marketing activities. When we make our work measurable and we achieve targets, you can show the customer the overall profitability. After working towards several successes, you can expand your services because you can easily persuade the customer of the benefits.” The customer’s success is inextricably linked to higher profitability for the online marketing agency.

4.2 Criteria in customer portfolio management

Table 5 summarizes the key criteria that were mentioned during the interviews, of which turnover, success of the services and potential for growth are the most important. A striking feature is that the latter two criteria are explicitly related to turnover. A typical approach is to start with a low investment of a customer, which is often more costly to the agency. Success in the online marketing campaign usually leads to higher spending of the customer. Agencies therefore have options to optimize the website leading to higher profitability. Because online marketing campaigns are easily measurable, it is not surprising that the focus is on turnover for the agency and return on investment for the customer. An excellent result for the customer results in success for the agency managing the campaign.

Table 5. Key criteria distribution (N = 12)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name of criterion</th>
<th>Type of criterion</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Turnover (or budget/spending)</td>
<td>Financial</td>
<td>12</td>
</tr>
<tr>
<td>2</td>
<td>Success of the services (for business development)</td>
<td>Sales/marketing</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Potential for growth or expectations of the account</td>
<td>Sales/marketing</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>Brand recognition or awareness of the customer</td>
<td>Marketing</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>Building the relationship (for the long-term)</td>
<td>Relationship</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Image (reputation/professionalism or proactivity)</td>
<td>Relationship</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Online positioning (or website of the customer)</td>
<td>Strategy/marketing</td>
<td>5</td>
</tr>
<tr>
<td>8</td>
<td>Level of competition in the market segment</td>
<td>Strategy/Marketing</td>
<td>4</td>
</tr>
<tr>
<td>9</td>
<td>Customer provides a challenge for employees</td>
<td>Organizational</td>
<td>3</td>
</tr>
</tbody>
</table>

However, the difficulty of using the customer’s overall turnover as the primary criterion is that the clients cannot necessarily spend their entire turnover on outsourcing their activities to a marketing agency. Even large customers can have smaller online marketing spending than smaller firms that are very active online. One participant’s response was, “In a manner of speaking, a single person can be bigger online than a multinational. It is very difficult to say that we can earn more by targeting a large corporation. It really depends on what they want us to do.” This is a key explanation why firms rank the potential for growth of the customer as
highly important. Keeping the customer portfolio profitable requires checking which customers can be developed in the near future with reasonable effort.

Interestingly, most participants indicated a preference for turnover and profit related elements embedded in several other criteria besides turnover and turnover expectation themselves. For example, one participant mentioned that, “You need to have built a stronger relationship with your customers, which makes it easier to sell your products. It is a deliberate choice when you have invested lots of time and effort into a customer, but if it isn’t reciprocal, you eventually stop all efforts, even if the customer’s potential is high.” Another participant noted, “If you expect a lot from a customer then you will adopt a different approach than when the expectations are lower.” Building relationships is an inherent element of business development in the SEM industry, but it is combined with the expectations of a particular customer in terms of turnover. Although many respondents claim that long-term relationships are very important, the agencies primarily rely on their employees’ expertise and intuition to determine the course of action.

The last three criteria regarding the online positioning of a website, level of competition and the challenge provided by customers are relatively less important. Although the primary business offerings pertain to the customer’s online proposition, it is highly likely that this criterion is also implicitly used. The level of competition is relevant only in market segments that are highly competitive, in which agencies have to do more to keep their customers satisfied. This criterion is less important because most firms spread their risk over multiple market segments. Lastly, the criterion concerning the challenge of the online marketing campaign for employees is particularly applicable to consulting services. Developing new solutions for customers can assist in innovation and development of knowledge in employees.

4.3 Methods for customer portfolio management

Table 6 on the next page provides a summary of the main methods reported as useful for customer management in all seven cases. A striking feature is that most activities rely on informal methods, including mutual consultations, personal judgment, regular meetings and tacit knowledge. The process is not organized following a specific system or method, although the formal methods CRM systems, procedures, fixed multi-disciplinary teams and account plans do play a role. In almost every organization, the staff is working on creating an improved internal structure for processes and workflow management. One typical example is, “We don’t have a lot of insight into our customer portfolio. As a sales manager, I have only a spreadsheet with recorded information about base information regarding contracts comprised of turnover figures and information about the associated marketer.”

The culture in SEM agencies is characterized by a key focus on solving the customer’s problems and executing tasks and projects. Hierarchy plays a less important role compared to many other organizations (that are often larger). Formal systems play a smaller part in the overall decision-making process, which is based on the expertise and knowledge of employees. This also extends to the contact with customers, because it is often an implicit goal to share information about business processes, such as customer management. This can be useful to combine knowledge in the market and optimize business processes in an unstandardized way. Employees perform their work by relying on tacit knowledge and not by using manual or checklists. Procedures for executing online marketing campaigns or general guidelines for quality are less important.

Another element of developing a portfolio is the internal organization of the activities. Three companies report working extensively in larger teams on a regular basis, which is especially applicable to companies offering extensive consultancy services, which require multiple experts (e.g., SEO, SEA or conversion). Agency G, for instance, has three teams that manage various customers. A consultant of the company explained: “The reason for working in these
teams is that they can be put in the position of the entrepreneur. We can all work towards the same goal of maximizing return on investment.” Agency E operates in a similar way with three teams. The teams have a similar composition of experts including all major expertise areas, which enable them to manage large sub-portfolios. A slightly different approach is used by case C, which has two teams for the travel industry and another for the e-commerce sector. These sectors have equivalent goals and similar websites, in which a team can build its expertise. Other companies sometimes create teams if a customer is too large to handle otherwise.

Table 6. Overview of the use of CPM methods

<table>
<thead>
<tr>
<th>Methods</th>
<th>Cases</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal CPM methods</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual consultation</td>
<td></td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Personal judgment</td>
<td></td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Regular meetings</td>
<td></td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Tacit knowledge</td>
<td></td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td>3</td>
<td>3.5</td>
<td>4.25</td>
<td>4</td>
<td>4.25</td>
<td>3.75</td>
<td>4.5</td>
</tr>
<tr>
<td>Formal CPM methods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRM system</td>
<td></td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Procedures for sales</td>
<td></td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Multi-disciplined teams</td>
<td></td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Writing account plans</td>
<td></td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td>2.75</td>
<td>3</td>
<td>2</td>
<td>2.5</td>
<td>3.5</td>
<td>2.25</td>
<td>4.25</td>
</tr>
</tbody>
</table>

**Systems and procedures**

Besides the informal methods, CRM systems, procedures for sales, multi-disciplined teams play and writing account plans are major formal methods. Only three firms out of seven currently have a CRM system implemented for the entire organization. At present, other firms use other systems or methods to manage their customer base loosely. Most notably, those companies with a CRM system claim to have the most overview of the customer management process in the organization. The managing director of case B mentioned, “How do we keep track of our customers? For that matter, we use CRM more intensively than last year and it is mandatory for every employee to use this system. We have all sorts of data stored in the system, by which I can create reports easily, such as for turnover or for a certain group and characteristics of the group, such as B2B or B2C. We have also linked financial data from Exact to the CRM system.” However, the system seems more important from a management standpoint and acts as a support mechanism in the daily activities of employees.

Agency G also uses a CRM system for providing management information and realizing the planning of activities. An internet marketer or consultant who is responsible for one of the main teams at the agency stated, “In our CRM system I can find virtually everything related to our activities and planning. It makes our work more transparent, especially because we work with a specific number of hours per customer. I can simply find which marketer has worked that many hours for a customer, so that it is very clear whether we’re ahead or behind schedule.” The system takes an important place in general operations because all employees can be held accountable for the result and various procedures exist that aim at inputting and updating information in the CRM system.

Other firms rely on email or folders on servers with Microsoft Office files for storing their information on customers. In firms without CRM, the number of procedures for customer management is generally lower. Composing account plans based on contractual agreements is a common method for most firms except case C. The main issue is using the plans as active
guides for steering customer management and business development, instead of merely as an overview for information. The vast majority of interviewees agree that the typical problem for most agencies is that either they do not use information systems or workflow systems or that they have various systems, which are not linked to each other. For example, organization E is unifying its key systems in sales, marketing and finance. “We are working on integrating the current systems into a single entity called the AFAS system that expands on our current simple CRM system” (software from the similarly titled company AFAS). CRM is viewed as an important tool for integrating activities and professionalizing the organization.

In table 7, the latest developments in the cases with regard to CRM systems can be seen. Three cases currently have an organization-wide CRM system, whereas one agency uses only CRM software at the sales department. Case A, case B and case G successfully use this system for support of their activities, which leads to higher transparency and accountability of results without constraining the service provision. A common problem without a CRM system is experienced by agency C: “In the current situation, we do not take sufficient advantage of several opportunities in the market. Moreover, when an employee leaves the organization, someone needs to take over his tasks and responsibilities.” A similar situation occurs when a marketer is absent, which makes it is more difficult to help customers.

Table 7. Overview of the use of CRM systems

<table>
<thead>
<tr>
<th>Case</th>
<th>CRM system</th>
<th>Application of CRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Yes</td>
<td>The CRM system leads to positive results for workflow and customer management since it has been in use</td>
</tr>
<tr>
<td>B</td>
<td>Yes</td>
<td>CRM system helps to provide additional information to employees and managers as well as increasing accountability</td>
</tr>
<tr>
<td>C</td>
<td>No</td>
<td>Plans to implement Salesforce.com in the near future</td>
</tr>
<tr>
<td>D</td>
<td>No</td>
<td>Plans for a CRM system in August 2012 providing additional information for sales and account management</td>
</tr>
<tr>
<td>E</td>
<td>Partly</td>
<td>Current system works only for the sales department, but there are plans for an organization-wide system</td>
</tr>
<tr>
<td>F</td>
<td>No</td>
<td>No plans to implement a CRM system, which would not fit with the unique challenge each customer presents</td>
</tr>
<tr>
<td>G</td>
<td>Yes</td>
<td>Work activities and management information rely at least in part on CRM, mainly for transparency</td>
</tr>
</tbody>
</table>

In contrast, a disadvantage of using CRM systems could be the difficulty of the high variability and uniqueness of several customers. As the sales manager from agency D explained during the interview, “It is a long and tedious process to standardize work activities in online marketing, because every customer is different in terms of needs and wishes.” Each customer is unique because of a company’s varying goals and the products/services that are purchased. Case F applies a unique strategy for each customer, so an organization-wide CRM system is less desirable for the agency. A CRM system can then complement only these foundations of online marketing and is not likely to replace the informal work processes.

4.4 Unique characteristics of the search engine marketing industry

In conjunction with the previous sections, an overview is provided in table 8 of the developments in this industry in relation to the unique characteristics of the SEM. The main points according to the interviewees were the dynamic market, the development of long-term relationships and the relatively young age of the industry. All participants reported that both SEM and online marketing in general are very dynamic markets with many changes. Products and
services have to be rapidly adapted because of new marketing options in online services, such as online shopping, remarketing and social media. The customer’s marketing strategy or target groups can also change depending on organizational and market developments.

Table 8. Unique characteristics of the search engine marketing industry \( (N = 12) \)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Description of the characteristics</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dynamic market or fast-paced market developments</td>
<td>12</td>
</tr>
<tr>
<td>2</td>
<td>Developing long-term relationships for returning business</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>Relatively young industry or life cycle development of the industry</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Knowledge transfer to current and potential customers</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>High measurability of business offerings</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Difference between providing a product or a service</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>Informal customer management relying on personal contact</td>
<td>3</td>
</tr>
<tr>
<td>8</td>
<td>Online marketing services are useful for any customer with a website</td>
<td>3</td>
</tr>
</tbody>
</table>

Interviewees mentioned that long-term relationships are an inherently important characteristic in search engine marketing. Unfortunately, relationship management is not as mature compared to older industries, for example large banks and insurers. Similarly, offline marketing agencies build relationships with customers explicitly based on trust, commitment and personal contact to a far greater extent than in online marketing. These companies invest more time in managing their relationships, which results in more actions being taken for customer retention and satisfaction. This is related to the third most important criterion: the age of the industry. SEM agencies tend to manage customers on an individual basis and do not use extensive development programs. Keeping in touch regularly, organizing knowledge or expertise sessions to educate customers and meetings are examples of current activities.

Subsequently, a unique aspect of the industry pertains to the active knowledge sharing with customers. Every agency is keen on providing customers with the latest information through for instance workshops, industry conferences or webinars. The general level of knowledge should be kept high at all times, because that creates a durable competitive advantage. In addition, customers strongly aim at a high return on investment, which is facilitated by the wide application of web analytics ensuring that online marketing campaigns can be extensively measured. Insight into the return on investment also mitigates the intangibility of the services, especially when companies have little experience of online marketing. The seventh unique characteristic shows that personal contact is still required in internet-mediated services, which helps taking the organizational developments and unique wishes of customers into account. Lastly, online marketing is less limited to boundaries, which is reflected in the customer management practices. Criteria commonly used by other firms, such as region, number of employees and demographics hardly play any role of importance.
5 Discussion

This study empirically examined seven service firms in order to uncover the practices of customer portfolio management. Most influential customer portfolio approaches in the literature hardly consider the characteristics of services, or do so only with regard to the industrial sector, such as banks and insurance firms. First, proposition one was confirmed because the environment of service firms and the nature of the services appear to influence customer management. As suggested by Terho and Halinen (2007), firms experiencing high exchange context complexity will apply considerably different practices. The main characteristics of the search engine marketing (SEM) industry are similar to ICT firms in the aforementioned study, namely subjective data, an analysis of individual customer relationships, customer needs, indirect value, individual customer treatment and heuristic support that are vital for managerial decisions in the customer portfolio analysis.

The second proposition suggested that service firms would emphasize weak or relational criteria rather than hard or economic criteria. The stronger focus on closer relationships for cooperation in service industries was confirmed to influence the customer portfolio analysis, although the relationships’ economic goals appear to encompass relationship variables. Compared to the literature, the top-ranking variables for service firms also focus on economic value (e.g., turnover) as well as the strength of the relationship. However, only a very limited number of sub-dimensions are relevant to these service firms and not the overarching concept including its key sub-criteria. For example, the strength of the relationship is a relevant variable, but only for the sub-dimensions’ length or age of the relationship, and the degree of cooperation and friendship in the relationship (see Fiocca, 1982; Yorke & Droussiotis, 1994). It is a remarkable, unexpected finding that service firms do not explicitly use trust, commitment and the overall success of the cooperation as key variables. A likely explanation is that many firms do not perceive many difficulties in most relationships and do not need to select appropriate customers carefully.

Further, substantial evidence was found for the third proposition that informal methods for customer portfolio management are more relevant to service firms. Primarily, firms relied on personal judgment and meetings in order to determine the most appropriate actions, instead of procedures, checklists or systems. Conversely, financial service firms require an elaborate system for establishing the value of customers and dealing with information needs, in which formal, documented systems were perceived as very useful (Elliott & Glynn, 1998; Leek, et al., 2004). The advocated step-by-step or systematical approaches for manufacturing firms were not found as useful as the literature suggests (e.g., Fiocca, 1982; Yorke & Droussiotis, 1994). As Terho (2009) also noted, customer portfolio management activities may, but do not need to be formally designed because firms can take a more informal approach. In this case, the emphasis on design and responsiveness in relationship management tends to be less on systems and procedures. A related unexpected finding was that formal systems are generally perceived as useful and will be applied more in the near future.

An interesting suggestion is considering the lifetime cycle of SEM for explaining the difference in customer portfolio management. Industry life cycles appear similar to the product life cycle stages, namely introduction, growth and maturity (see Brennan, et al., 2010, pp. 271-275; Klepper, 1997). Search engine marketing exists for approximately fourteen years following Google’s popularity and is now still in the growth phase, whereas highly institutionalized industrial sectors such as banking and insurance operate in more stable and mature markets. The finance industry has an extensive history, high maturity and more difficulty in accessing new business (potential customers), but substantially lower market turbulence, demand uncertainty and buyer power (Eng, 2004). Using precise calculations and estimations for customer value can involve many factors because of the higher importance of profitable
customer relationships, such cash flows, financial behavior and long-term value (Elliott & Glynn, 1998). These differences are a likely cause of varying customer portfolio practices.

A related point is that research typically addressed large and industrial firms with large portfolios, in which it is more likely that systematic customer portfolio analyses are applied with the organization’s IT systems (Terho & Halinen, 2007). Smaller firms seem more likely to use informal practices, because of their open and informal cultures that encourage sharing information in the entire organization without many support systems and processes. As firms grow larger, additional systems become important because of the difficulty of communicating with many employees and the number of relationships in a business-to-business setting. This trend was visible in nearly all SEM agencies that experienced high growth rates in their amount of business during the last years.

5.1 Relevance for scientific community

Customer portfolio management in service firms can be characterized as a diffuse business issue in research and practice. Choosing process management of customer relationships and the dimensions is not an easy task. Terho and Halinen (2007) mention that a portfolio analysis is a broader topic in practice, in which the informal interpretations of managers and employees are just as important as the outcome of the model. Portfolio management practices differ notably in each company, because firms have their own emphasis when managing their customers (Terho, 2009). The nature of the firm, its objectives and strategy, its resources and its environment influence the appropriateness of portfolio models and dimensions (Zolkiewski & Turnbull, 2002). In addition, the segmentation process is closely linked to a portfolio analysis, because finding attractive segments entails an evaluation and a choice between market segments in relation to the current customer base (Elliott & Glynn, 1998). Conversely, current customers influence the segmentation process, because the experience of the staff can strongly indicate which market segments a firm should target.

Previous literature on portfolio management focused on developing steps and criteria for selecting the appropriate customers. The potentially wide range of variables can be narrowed down by considering the most critical issues, which in many theoretical portfolio models pertain to profitability, relationship value and strategic importance (Zolkiewski & Turnbull, 2002). The main criteria turnover, success of the services and growth potential point to the relevance of economic criteria combined with relationship aspects. This confirms the notion of Leek et al. (2002) with regard to firms using criteria other than those proposed in the literature that use only two or fewer of the useful variables. Moreover, many criteria can be used together without following a prescribed portfolio approach that is not suitable for the firm’s context. This can also mean that criteria unique to the sector should be taken into account. Such criteria should incorporate the unique characteristics of the services.

In contrast to the study of Leek et al. (2004), service firms did not perceive a formal system as useful compared to large manufacturing firms and financial service firms. However, many participants did support the basic usefulness of formal systems, which some service firms intend to develop further (i.e., CRM systems). Regardless, the practices are very different from the manufacturing and finance sectors. Moreover, the customer portfolio analysis is not a strict tool that steers actions, but a flexible activity with a focus on individual relationships. The portfolio analysis is viewed as a heuristic support that does not have a clear directive nature (Terho & Halinen, 2007). In addition, informal practices consist of more than personal judgment, as reported by Leek et al. (2004), because mutual consultation, meetings and tacit knowledge are also relevant factors. The process of customer portfolio management in some service firms can be limited to analysis and responsiveness efforts, whereas explicit design of the activities is very limited (Terho, 2009).
Research on services marketing predominantly focused on the main characteristics that separate services from goods, namely intangibility, heterogeneity, inseparability and perishability (or IHIP) (see Rust & Chung, 2006; Zeithaml, et al., 1985). The general services characteristics were found less relevant for explaining why portfolio management in service industries differs from manufacturing. First, the intangible elements in the service provision related to the expertise of the employees create value for the customer, but can lead to tangible results, such as an increase in the conversion rate or the number of visitors on the website. Intangibility appears to refer to the mental intangibility in pre-purchase activities for inexperienced customers (Lovelock & Gummesson, 2004).

Second, it largely depends on the type of service whether standardization is possible or not, which can be broadly divided into consulting and automatic optimization through software. Third, “production” of services and consumption takes place together with the customer, especially in consulting services. However, this study’s findings showed that key activities could be executed without continuous active involvement, although this is certainly undesirable and unusual for larger customers. Fourth, many services cannot be stored for later use, such as optimized texts for landing pages of search engine referrals, but useful business practices can be carried over to other customers.

Therefore, services can be as different from each other in the same way products are different from each other, which implies that “general” service characteristics in the IHIP framework cannot necessarily be generalized to all services (Edvardsson, et al., 2005). The research setting of SEM underlines this point, because it also does not comply completely with these characteristics. One other relevant, but long-ignored distinction is that there is a clear difference between marketing transactions that transfer ownership and those that do not (Lovelock & Gummesson, 2004). The importance for customer management is that the service provision is based on the labor, rental or network access. Customers of SEM agencies gain benefits by hiring labor or expertise in which the property rights of the software are licensed for the length of the contract.

5.2 Relevance for practitioners

The data shows that many of the used criteria are not unique to service firms, although they are applied differently. As can be derived from the use of more formal systems in developing online service industries and from the general patterns of the lifecycle of industries, it is likely that a customer or customer group analyses become more relevant in the future. Practitioners should realize that if they investigate only the turnover and potential of customers for relatively strong relationships, it might not be enough to guarantee selecting appropriate customers for business development or its performance. The research showed that additional criteria could be applied, in particular those criteria related to the supplier-customer relationship, such as commitment, investments, commonality of interest and age of the relationship.

Another relevant point is how firms can deal with the high dynamic nature and volatility of the industry. The common informal approach for managing customers can be very suitable for the fast-changing environment. This encourages information-sharing and constant improvements to work activities. On the other hand, practitioners should be aware that process management and formal procedures could be relevant support tools for the organization. Every firm should have an informed understanding of its key customers, because an addition to or loss of such customers can have dramatic effects on the profitability of a company. A customer portfolio analysis combined with formal systems and procedures can assist firms in identifying their key relationships. This type of customer management should not detract from the main business nor should it lead to overburdening employees, but should result in new possibilities for analyzing and managing customers in the organization.
5.3 Limitations and future research directions

The main limitation of the study is that it relies on two cases as the main sources of evidence instead of comprehensive case studies of all seven cases, although this issue is mitigated by using exploratory interviews. In addition, the setting of the research is limited to one industry type within the overall service industry. Besides SEM, other disciplines in online marketing should be included in future research, such as email marketing, affiliate marketing, bannerimg, and mobile advertising. Similarly, research on customer portfolios in the service context should include other types of services rather than industrial firms mainly in the finance sector. Service firms with varying services and varying sizes can provide new insights. This research included only small firms, although five cases were part of a larger group.

Another main limitation concerns the measurement of performance of customer portfolio management that was focused on profitability and turnover. Although the profitability of a customer or the customer base can lead to the overall firm performance in for-profit firms, the actual performance is a broader issue than proposed here. Future research should take into account that certain strategies or actions related to customer management might have positive or negative performance impacts. In addition, knowledge and expertise in managing customers might result in better customer management. Performance can also be measured with metrics other than economic value, such as customer retention, customer loyalty, and customer satisfaction. Longitudinal and quantitative evidence can further support how portfolios develop over time and how this influences performance.

Lastly, a related suggestion is to link customer portfolio performance to customer value propositions by incorporating the buyer’s point of view rather than only the supplier’s point of view. A common problem is that managers list all benefits of their services without investigating whether these elements provide value (Anderson, Narus, & Van Rossum, 2006). Many agencies appear to offer similar value propositions. The unique selling points in relation to the competition can remain unclear and not explicitly stated or considered. Using customer value propositions as an explicit strategy certainly has consequences for the value the supplier derives from its portfolio as well as the value perceived by the buyer. The likelihood of neglecting the buyer’s perception of value could be a threat to the overall profitability of a firm’s customer relationships.

5.4 Conclusion

The internet is a key driver in SEM that allows firms to service many customers at low costs, while still requiring high customization for the unique circumstances at the customer’s organization. Service firms are likely to have very diverging practices for customer portfolio management compared to manufacturing firms as well as financial service firms in industrial sectors. The key difference is that service firms are less likely to use a formal, step-by-step portfolio analysis as well as extensive designs for the analysis and responsiveness. The dissimilarities in customer portfolio management and analysis with regard to methods and criteria are likely caused by the relational complexity and the unique circumstances in an industry or environment, as was argued by Terho and Halinen (2007) and Terho (2009). A high exchange context complexity includes the dynamic nature of the service industry, in which firms tend to use weak criteria and informal methods opposed to traditional portfolio approaches for large industrial firms (e.g., Fiocca, 1982). This also means that customer portfolio practices are likely to vary from one service industry to the next, as was exemplified with the search engine marketing industry.
References


Appendix 1. Key concepts in portfolio analysis approaches

The appendix includes the conceptualization and operationalization of the main constructs used in the literature review. Only literature is included that conceptualizes or operationalizes variables or criteria for large, industrial firms. For example, Fiocca (1982) suggests that product characteristics consist of novelty and complexity. Table 9 shows the main criteria for customer portfolio analysis in the literature, although sub-dimensions are not included because of space constraints.

Table 9. Portfolio criteria/constructs

<table>
<thead>
<tr>
<th>Concepts</th>
<th>Author (year)</th>
<th>Conceptualization/operationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity and difficulty of managing the account</td>
<td>Fiocca (1982)</td>
<td>Product characteristics, account characteristics and competition for the account</td>
</tr>
<tr>
<td></td>
<td>Olsen &amp; Ellram (1997)</td>
<td>Economic factors, character of the exchange relationship, cooperation between the buyer and supplier</td>
</tr>
<tr>
<td></td>
<td>Yorke &amp; Droussiotis (1994)</td>
<td>Degree of competitor entrenchment, payment problems and claims put forward and buying behavior</td>
</tr>
<tr>
<td>Interest commonality</td>
<td>Krapfel et al. (1991); Leek et al. (2004)</td>
<td>Economic goals and perception of the trading partner’s economic goals (high or partners and friends; low for rival and acquaintances)</td>
</tr>
<tr>
<td>Market segment analysis</td>
<td>Campbell &amp; Cunningham (1984)</td>
<td>A customer/competitor analysis by market segment: Customer’s share of the market and growth rate of customer’s demand of the market</td>
</tr>
<tr>
<td>Power of supplier and buyer</td>
<td>Campbell &amp; Cunningham (1984)</td>
<td>Number of suppliers, number of customers, share of supplier’s output taken by the buyer, share of buyer’s requirements purchased from the supplier, buyer’s need for supplier’s skills and buyer’s need for a customized product</td>
</tr>
<tr>
<td></td>
<td>Rangan et al. (1992)</td>
<td>Product importance, switching potential, market knowledge and decision-making process complexity</td>
</tr>
<tr>
<td>Price and service trade-offs</td>
<td>Rangan et al. (1992)</td>
<td>Relative price, relative service, account size (annual purchases), market share and sales elasticity</td>
</tr>
<tr>
<td>Profitability of customers</td>
<td>Dubinsky &amp; Ingram (1984)</td>
<td>Net sales to a particular customer, cost of goods sold and direct selling expenses of salesperson</td>
</tr>
<tr>
<td></td>
<td>Fiocca (1982)</td>
<td>Different price sensitivity of the customer and on the amount of marketing, product</td>
</tr>
<tr>
<td></td>
<td>Development and R&amp;D expenses that are related to the different cells in the portfolio</td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Shapiro et al., (1987)</td>
<td>Cost to suppliers, customer behavior (net price and cost to serve) and related aspects of the customer’s nature and position (e.g., customer economics, power)</td>
<td></td>
</tr>
<tr>
<td>Yorke &amp; Droussiotis (1994)</td>
<td>Gross sales revenue from the customer and costs in supplying and servicing each customer</td>
<td></td>
</tr>
<tr>
<td>Life cycle classification/relationship value</td>
<td>Sales volume, use of strategic resources, age of relationship, supplier’s share of customer’s purchases and profitability of customer to supplier</td>
<td></td>
</tr>
<tr>
<td>Campbell &amp; Cunningham (1984)</td>
<td>Economies of scale, relationship conversion rate, gaining customers from competitors and cost shocks over time</td>
<td></td>
</tr>
<tr>
<td>Johnson &amp; Selnes (2004)</td>
<td>Criticality, quantity, replaceability and slack ($RV_i = C_j, Q_j, R_j, S_j$)</td>
<td></td>
</tr>
<tr>
<td>Krapfel et al. (1991)</td>
<td>Competence factors, economic factors and image factors</td>
<td></td>
</tr>
<tr>
<td>Fiocca (1982)</td>
<td>Volume or dollar value of the purchases, potential of the account, prestige of the account, customer market leadership and overall account desirability, which consists of company’s business diversification, open new markets, improve technological strength and improve or spoil other relationships</td>
<td></td>
</tr>
<tr>
<td>Olsen &amp; Ellram (1997)</td>
<td>Account potential, future capacity expansion, link with exports market and account prestige</td>
<td></td>
</tr>
<tr>
<td>Yorke &amp; Droussiotis (1994)</td>
<td>Length of the relationship, volume or dollar value purchases importance of customer (i.e., percentage of customer's purchases from supplier's sales), power of the participants (one or both), friendship, cooperation in development, management &quot;distance&quot; (language and culture) and geographic distance</td>
<td></td>
</tr>
<tr>
<td>Olsen &amp; Ellram (1997)</td>
<td>Economic factors, character of the exchange relationship, cooperation between buyer and supplier, and distance between the buyer and the supplier</td>
<td></td>
</tr>
<tr>
<td>Yorke &amp; Droussiotis (1994)</td>
<td>Technical ability, experience, pricing requirements, speed of response, frequency of contact, degree of cooperation, trust, length of the relationship, friendship and management distance (frequency of contact)</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2. Interview guides for customer portfolio management

The interview guide was designed for gathering data on business practices of customer portfolio management of a service supplier in the SEM industry. The first part of this interview guide concerns customer portfolio management and the second part details the themes and questions used for the market developments.

Interview guide customer portfolio management

The following eleven main questions were asked in interviews that lasted for approximately one hour on average during the second phase of the research.

Part 1: Participant, company and market information

The purpose of the introduction is getting to know the participant, his/her organization and the market developments. First, questions were asked about the career and current function in the organization, which includes the participant’s experience. Second, the information about the company particularly focuses on the core business, organization’s structure (also on the group level if applicable), size and strategy of the company. Third, the trends in the market focus on product and service development of and market opportunities for the company for this year. These questions could complement knowledge not previously found before the visit.

Part 2: Customer portfolio management

This section covers how customer portfolio management is described by the participant, following the practices in general and in your organization. Customer portfolio management is defined as “the company’s activities in analyzing its portfolio of customers pertaining to their role in providing current and future value for the focal company, and its responsiveness to the analysis” (Terho, 2009, p. 382).

1. How does the company attempt to develop a balanced customer portfolio?
2. How does the company attempt to optimize the profitability of current customers?
3. What considerations are important to the company’s decision to allocate resources to develop specific customer groups?
4. To what extent do you think that the search engine marketing industry is unique with regard to customer management compared to other industries?

Part 3: Criteria in customer portfolio analysis

The third section covers the customer portfolio analysis practices, or the supplier’s attempts to find appropriate customers. The goal is describing the main criteria and their relative importance to the supplier.

5. What criteria or dimensions does your company use in your customer portfolio analysis?
6. To what extent are the applied criteria used consistently for customer management on different levels in the organizations?
7. To what extent do you think that companies in the search engine marketing industry use unique criteria for the customer analysis practices?

Part 4: Customer portfolio analysis design

8. What methods, systems or procedures do you use in your customer portfolio analysis? (i.e., a formal system, meetings, personal judgment or combinations)
9. How does your company adapt the applied practices based on the experience with various customers?
10. How do you think that the aforementioned methods for customer management of the company and the search engine marketing industry relate to other industries?
Part 5: Conclusion

11. To what extent do you think that the various customer management practices are determined by characteristics in the services and manufacturing industries?

Summary of the discussion and closing comments

Interview guide search engine marketing market developments in 2010-2011

The following eleven main questions were asked in the market research interviews, which lasted on average for about 45 minutes.

Current developments in online marketing
1. Which trends in online marketing do you view as the most important for search engine marketing?
2. What large changes have occurred in search engine marketing industry in 2010?
3. How do you think that the ranking factors of search engines have developed in the past years?
4. Which updates in Google's search engine do you think have the most influence on search engine optimization?
5. What is the relevancy of the aforementioned changes for advertisers or companies that want to start website optimization campaigns?

Future developments in online marketing
This section provides insight into the future developments of search engine marketing in general, search engine optimization and search engine advertising. The focus is on recent developments we can expect in the near future (approximately one to five years).
6. Which important developments in online marketing do you foresee in the search engine market for 2011 and beyond?
7. What position do you think that social media websites or platforms take in relation to search engines to “win” the favor of the user? (such as Facebook, Twitter or Hyves)
8. Which factors of website optimizing will play a larger part in the future for ranking websites in the search results?
9. To what extent do you think that local advertising is “the way to go” for online marketing campaigns?
10. How do you view SEO and SEA in comparison to “traditional” offline marketing with regard to the marketing mix of companies?
11. What is your overall outlook on the developments in online marketing?
Appendix 3. Interview summaries
The appendix provides five short summaries of the transcribed interviews. Information has been excluded that pertains to the participant and to the organization to ensure anonymity. The goal is to provide an overall impression of the main issues that surfaced during the research without providing a complete overview. Summaries from the interview at cases B, D and G are provided as examples as well as two interviews on the market trends.

Example interview summaries of customer portfolio management

Interview 1 – Case B

Customer portfolio management
Case B serves approximately 250 customers in various market segments. The company develops a balanced portfolio by spreading risk in the customer portfolio. This is done dividing the customer base into three segments: a direct market approach, cooperating with offline marketing agencies and the remaining customers in the group. The company wants to avoid being dependent on a couple of customers for its profitability, as was the case a few years ago. The company discerns the business-to-business and business-to-consumer segments in the customer portfolio. In the current market, it is definitely not possible to focus on one channel or one market segment for profitability. This is why the current strategic orientation in the customer portfolio is aimed at wide target groups, in which specific branches of trade and characteristics of customers have lower influence in business development.

The profitability of customers is ensured by using a CRM system. This makes the categorization and development of the customer portfolio more insightful by classifying customers several groups (A, B and C groups). The most important accounts and target groups are companies that provide high turnover rates in terms of overall size and companies that are located in growing market segments. The following examples of the current focus of acquisition targets and in the list of customers can be mentioned: energy, retail, electronics (niche segment) and house-construction industry. The attention is devoted to customers in markets segments in which achieving high turnover is still possible as well as making online marketing campaigns of the customer a success. In contrast, the travel industry is now a highly competitive and saturated market, which has become less interesting despite that the industry has large-scale online activities.

Criteria in a customer portfolio analysis
A primary criterion for the company’s customer portfolio analysis is turnover as well as the online positioning of customers, or the overall professionalism of the customer. A large difference exists if a company has just started with online activities or if they have been working with online marketing for several years. A customer is labeled based on turnover and maturity into A or B groups, in which the turnover is the decisive variable. In addition, the main qualitative criteria are the segments of business-to-business or business-to-consumer in the current customers. These branches of trade differ substantially in their marketing approach. In comparison to other agencies, it is highly likely that the criteria are almost the same. Search engine marketing (SEM) agencies are not known for their proactive customer management approaches, which can be seen in the limited use of criteria in the customer portfolio analysis.

Methods, systems and procedures for customer portfolio management
The main method for customer portfolio management is the CRM system, in which multiple procedures in the organization are all linked to the system. The goal is to safeguard the functioning of the system, such as registering customer information, linking employees to custom-
ers (including accountability for results), documenting conversations of customers and making decisions based on management information. On the highest level in the organization, the directors feel the system is very useful, because all sorts of data about customers can be easily accessed and printed. Of course, activities not directly linked to CRM also take place and definitely have high importance, such as mutual consultations and official meetings. However, the CRM system should be more important for overall customer management.

**Unique characteristics of search engine marketing**

In SEM, the main difference with regard to customer management in comparison to other industries is that it is far less important in which market segment the customer is active. Online marketing is relevant to virtually any sector regardless of activities. Moreover, many common criteria for customer analyses cannot be used in online marketing, because of the nature of the activities, such as region or demographic variables. A unique variable is the website of the customer, or its online positioning, on which the service proposition is based. The industry is notable for its lack of professional customer management practices, although this issue has been substantially improved, because the market has become more mature during the last years. Other industries spend relatively more time on relationship management, because they simply have more experience.

A possibly interesting development is that online marketing agencies can adopt relationship management practices of their offline counterparties. For example, online marketing can learn much from traditional marketing agencies that apply more professional portfolio practices. Professionalism is also lower with regard to the use of formal methods for customer relationship management. Most SEM agencies use similar CRM systems, although these systems may be adapted somewhat to meet the informational demands of a particular company. An important trend is that SEM agencies are increasingly using elaborate customer analyses that are already applied as standard analyses in more professional industries. The SEM industry could be a trendsetter for business intelligence applications. Creating this type of automation in managing customer data fits with quite well with the industry in view of the knowledge pertaining to online marketing.

**Interview 2 – Case D**

Case D does not pursue a balanced customer portfolio in practice. It would be convenient to divide the portfolio with approximately 200 customers into specific sectors, but currently such a classification is not required. Most customers now reside in the travel and fashion sectors, but also a number of important larger customers are present in other branches of trade, such as a furniture shop, an internet hosting company and various web shops. Another important focus is the business development of smaller customers with high potential. These customers can often grow quickly, which provides the company with ample opportunities to deliver its services. When developing new business, the company wants to avoid competing with other customers in similar market segments, so new business should be compatible with current business.

Ensuring profitability in the customer portfolio is done by creating an overall image of the total turnover, by checking each marketing channel and by verifying the separate and overall contribution of online marketing activities of the customer. This way the company can formulate an annual plan that contains the current return on investment for each channel and the required growth for achieving the overarching turnover goals. Profitability of accounts can also be improved by making the role division of the marketing agency and the customer clear. The agency has the role of marketing specialist, whereas the customer is a product specialist because the latter has the branch of trade specific information. The agency provides a flexible online marketing shell around the core business of the customer.
Criteria in a customer portfolio analysis
The primary criteria for the company’s customer portfolio analysis are the turnover and potential of the customer. To some extent, a minimum budget is required because otherwise the agency cannot achieve the customer’s targets. The agency also wants to work with customers that have high potential, or the so-called “challengers”. These customers have low expertise to improve their online marketing strategy, but do think that several improvements can be made. Another key criterion is the dedication of the customer. Every department within the company has to be dedicated to achieving the goals, because the agency’s advice has an effect on the entire organization, such as the IT department. A final criterion is that working with the customer should be enjoyable. The key notion when using these criteria is that if the firm achieves quantitative goals (e.g., return on investment), it is more likely to achieve qualitative goals. Criteria to steer on the relationship are not use explicitly, such as trust and commitment.

Methods, systems and procedures for customer portfolio management
The main methods for customer portfolio management in the SEM industry are primarily organized informally. Excel spreadsheets and emails are used as a system to keep track of customer information rather than a formal, documented system. The sales department uses the data on key agreements and figures for contracts for its activities. More important, however, are the meetings and personal consultations organized every week. Every customer is unique in its needs and requirements, which justifies a tailor-made approach. Formal systems and procedures would not work properly in this context. Organizing work informally facilitates sharing knowledge and learning throughout the organization. Interestingly, the company will implement a CRM system in the near future for providing systematic support. Setting up sales and account management is supported with the CRM system, because it will allow more structure in the activities. In addition, keeping up with recent developments with customers would become easier.

Unique characteristics of search engine marketing
The SEM industry mainly differs from other branches of trade because of its dynamic nature. Many customers deal fairly poor with this situation, because they want to participate with various online marketing trends without adhering to their unique situation and strategy. For example, often customers do not realize that their website has to be technically sound. A poorly optimized website can cause other marketing channels to less effective, such as search engine advertising. The common idea is achieving fast growth without much strategy and the consideration of the core activities of the firm. It is very important for agencies to create a realistic image of expectations while keeping in mind the budgets and strategy of the customer (more so for smaller firms). For SEM, sharing knowledge is also important. The agency is inclined to share information with many different parties. The main idea is positioning the company in the market for potential customers and showing the agency’s competences and expertise. This makes it generally more relevant for service firms to focus on the relationship, which may be less important for firms focusing on purely on turnover (e.g., for insurance firms). Besides these differences, the most important similarity with other industries is that customer management revolves around providing added value and results.

Interview 3 – Case G
Case G serves approximately 300 customers in various industries varying from broadcasting companies to wholesale businesses and business-to-business as well as business-to-consumer market segments. A further distinction into specific segments is not meaningful to the com-
pany. In the past, the main customer segments were traveling and retail because these companies were one of the first companies that wanted to start large online marketing campaigns. The company has diversified into other sectors as it developed its business. It has smaller customers with tight marketing budgets and large companies with high budgets that require extensive consulting services.

Because the company works with three fixed teams that manage their individual customer portfolio, it is very important to determine the profitability. The costs for each team are assessed and the amount of hours required for each online marketing campaign. The goal for each team is optimally organizing the activities for each customer in order to achieve the predetermined goals. The agency decides on four critical points what value a customer has: the number of outsourced hours, the name or brand of the customer, the overall feeling (after contact) with the customer and its understanding of the value of online marketing. The main focus is initially more on budget and the targets of the customer, whereas in the long term the company wants complete trust in the activities and the relationship. Most customers realize the benefits and added value, so that they know what the company can do. Of course, the price/quality ratio often plays a role in gaining the customer’s favor besides the aforementioned points.

Optimizing profitability of the customer portfolio is primarily about making online marketing campaigns insightful for the customer. Key statistics from web analytics software make it easy to calculate the precise turnover and costs for the online marketing campaigns. Optimizing the costs per conversion is the principal idea of the agency to maximize profitability. Another component is creating organizational support at the customer for a long-term relationship. Plans of action are vital for communicating expectations. Achieving the goals of the customer is the easiest way to increase satisfaction rates. A long-term relationship can also be established through inviting customers to participate in knowledge sessions or workshops. Actively sharing knowledge contributes to the customer’s image that the company is an innovative and knowledgeable partner opposed to merely a sales-driven organization. Of course, sufficient results in online marketing are required to retain and satisfy customers.

**Criteria for customer portfolio management**

In customer analysis, there are few fixed criteria to clarify on which customers the company should focus. The most important criteria are budget and online marketing objectives. The company also considers the maturity of its customers concerning online marketing campaigns and the integration in their business. To some extent, a customer needs to commit to a minimum budget or investment, because the company ties its name to the marketing campaign and the customer. Another criterion is the expectations of an industry or market segment, because in some sectors the competition can be fierce, such as in the travel and retail sectors, or the economic circumstances can cause customers to lower their budgets substantially. Note that the analysis of customers is done on the individual level and hardly by on the group level. Personal knowledge, insight and expertise of employees are important for determining the right customers to target and develop. The strategy is taking customers along step-by-step, which shows that the agency can deliver better results with higher spending. The amount of hours per customer can be recovered with successful campaigns.

**Methods for customer portfolio management**

The primary system for used for customer management is a CRM software package. This provides all the necessary information about customers, such as the hours made per customer and by which specialization (e.g., SEO or SEA). An established procedure is to have customer and case meetings every two weeks with the associated team. The company has three teams, which consist of several experts on a topic, such as SEO and SEA. The team works autono-
mously to set goals and to determine which actions are best for the customer based on its goals and the agreement. During meetings, several customers are always discussed considering their size and the complexity of the campaign.

Customer management is also done informally by meetings and personal consultations. Personal contact with a customer is essential to agree with customers what they expect from the services and online marketing reports. Writing a report follows a tailor-made approach at least to some extent that resembles a consultancy approach. Consultants in the organization’s teams rely on informal contact with the customer and each other to get the tasks done. The agency considers the organizational set-up of teams with employees from various online marketing disciplines as a unique way of managing and executing activities. However, most of these methods are not unique in the SEM industry because other agencies are likely to follow similar practices.

**Unique characteristics of search engine marketing**

A striking feature of the customer management process is that the online marketing agency values personal contact with customers, although you might expect differently based on the digital nature of the activities. Another unique characteristic of online marketing is that everything about the website can be retrieved for an analysis, which cannot be done to this extent in many other industries. It is possible to not only track the conversions on the website, but also thoroughly investigate the channels that support the brand. For example, social media advertising can increase brand awareness and can have an indirect effect on the conversion rate. Lastly, the agency thinks that being transparent to its customers of vital importance because this ensures effectively managing the customer’s expectations, and prevents problems with the service provision. It has a high standard of knowledge and expertise that it gladly shares with customers, because it knows the pace in the market is so fast. Many customers cannot keep up and the company can continue to add value.
Example interview summaries of search engine marketing trends

Interview 1
The main trend in online marketing is the shift in how people use the internet, which influences and is caused by social media, search, local and mobile. The internet is moving towards the direction of storing information with which it can develop certain intelligence based on for example interests, search behavior and friends. The growth of social media is perhaps the most noticeable change on the internet because now people can now interact and organize themselves into groups with social media, such as in family, friends and interest groups. This development is the reverse of the static internet of a few years back, in which such options were largely not available. For SEO and SEA, this means that people ask their question on many different platforms. Thus, the importance for search, and therefore search engine optimization, is that social media are a relevant ranking factor in the search results. Any website should be findable in the text based search results, but also in images, local search results and social networks.

In addition, online marketing is greatly influenced by the increased use of mobile devices that have internet access, such as smartphones and tablets. This causes a large growth of the “mobile internet”, which means that context and location are more important. Mobile and location can be seen together because it is more likely that the answer to the user’s question should take into account the location from which the user is searching, whereas for standard desktop computers this is relatively less important. For example, Google launched additions to AdWords for using retargeting and location targeting with all sorts of context criteria, such as the specific types of mobile devices. For organic search (natural search results, or non-advertised), Google has launched Place Search, which is an expansion of Google Places and better represents the local search intent in search results.

Developments in search engine service providers
Google is, and will remain, the most dominant search provider in the Netherlands, but also in most other countries. The remaining search engines in the Netherlands only have a negligible market share of approximately five per cent. The main competitor of Google called Bing from Microsoft only stands a chance if Google cannot meet the expectations of users anymore, such as showing to many advertisements. Further, a development in Google is that they want to keep users on their platform or search engines as much as possible. Instead of providing an answer and sending the user to the appropriate website, Google now wants provide the answer within their own platform as much as possible. This trend is also visible in the organic search engine results where Google’s own services take a more prominent place, such as Google Maps, Google News, YouTube and Google Images.

Another interesting point is the development of the algorithm of Google’s search engine. Probably more than 500 factors are into account when calculating the ranks for websites in the search results, but many are not explicitly known. However, the main optimization factors are clear, which include the title of a page, the anchor text (the text to which is linked to a page) and the links from and to a website as the basic issues. Overall, the main idea for a website should be that it answers a research question as good as possible by ensuring that text on the website closely match the search question. In addition, authority of a website based on the number of “votes” a website acquires from other websites can be important. Note that some influential websites (e.g., from The New York Times or Wired) can greatly influence this factor because the websites, to which the authoritative website link are considered as important by Google. Lastly, social media are also a factor as mentioned earlier. For search engines, it is relevant to know what the topics of conversation are to discern the “best” website, such as Coca-Cola being more popular than Pepsi.
Market trends for search engine marketing providers and buyers

The suppliers and buyers of SEM services have to take into account the increased professionalism in the industry. A few years ago, there were many small companies that offered SEO and SEA services (e.g., self-employed experts), but now there is substantial more knowledge about SEO and SEA including on the buyer’s side. It is known fact that search is crucial for companies to take into account for their online marketing strategy. Especially SEA is still more widely known, because it easier to guarantee a specific increase in the number of visitors to a website and its benefits are more easily understood by customers. Because most players know what SEO means, the distinctiveness of online marketing suppliers has decreased.

In addition, the overall market development for SEM is favorable. The high growth of the recent years appears to be slowing down, but regardless a growth of 20 to 30 per cent is achievable in the next five years (up to 480 million in 2012). However, this is difficult to estimate because there are no real data on the market size in the Netherlands. It is only possible to use proxies and subjective judgments of experts. The problem is that Google only releases data about markets outside of the United States if these markets have a relative turnover percentage of more than 10% of Google’s total turnover (currently only applicable to the United Kingdom).

Future developments in SEO and SEA

The SEO market is still growing and the demand is still higher than supply. Thus, there is not much need for service providers to discern themselves from their competitors. In general, most SEM agencies offer SEO in the same way they did five years ago. The services are relatively similar, although the overall advice can be improved a lot. On the other hand, SEA in the past meant pool-driven advertising. An algorithm filters content for organic and sponsored search results that fit with the search question and intent. However, push marketing is also increasing online (e.g., display and video marketing). Google AdWords is increasing the number of options for push marketing for advertisers. Further, remarketing has become more popular, which means that visitors are “labeled” and can be tracked after leaving the original website. Based on this information, a subsequent visit to a website in the network for remarketing can be used to display certain ads. For pull marketing, Google has developed website-links, images of products and Google Maps as relatively new options (not all available in the Netherlands). Other forms of advertising, such as videos, images and maps are featured more prominently in online advertising.

Interview 2

In online marketing, a major development is that more user-generated content is created. A higher degree of interaction takes place with users in so-called rich media, such as videos on the website rather than textual manuals and possibilities to write reviews and advice to other users. Google anticipates on this development by taking the preferences of users into account more profoundly. Another key trend is the growth of the online marketing industry to a more mature level. This becomes clear because of the way in which customers ask questions and discuss issues with online marketing agencies on a higher level. Most companies also have an improved strategic focus compared to the past that demonstrates their increased knowledge of online marketing. The budgets of the customers are increasingly reallocated from offline marketing to online marketing, because this allows smaller companies to compete more effectively with large companies with higher budgets for marketing. Finally, the change in Google related to local search entails that companies have to use Google Places in their online marketing strategy for success.
Mobile search
A striking trend is the dramatic increase in the use of smartphones among consumers. A positive development may be that people can be presented with localized adverts based on what shops they visited earlier. However, an obvious danger is the continuous registration of data, or privacy related issues. In the United States, a system is already in use that knows when people are near certain stores. A possibility in the near future is that commercial advertisers can use the mobile channel as an integrated marketing channel rather than on the side. Currently, mobile marketing is mostly still push marketing, because people have to give their permission before these opportunities can be used. A great advantage is that this is the most direct marketing conceivable, because every person carries around their mobile phone, which for advertisers is an interesting marketing channel.

Search engine market
The largest development in the small- and medium-sized enterprises segment is that they have acquired more knowledge of online marketing and have become more intelligent. Many firms now do not want have a few unrelated aspects of online marketing implemented in their organization, but want to have further support. Next to that, tools for online marketing will continued to be integrated into companies, such as Google Analytics, AdWords and banners. These examples then become a part of the marketing strategy on a firm level. On the other hand, increased high knowledge and more integration imply that more companies will be active online. This will mean that the competition for key words and advertising space keeps increasing with regard to online sales and solving consumer problems. Nowadays, many people think they can start a successful web shop without much effort.

Google’s influence in online marketing
First, Google will continue with their policy of putting the user on the first place and use their input for improving their search engine. In addition, the company will be better able to collect data from a website, so that Google can show the most relevant content. Google generally likes fresh and new content that is unique and relevant. Two major updates called Caffeine and MayDay facilitate the changes in the search engine. Caffeine was an alternative way to create the search index, which essentially helps Google to index or search the web faster with its crawlers. Content is now instantaneously indexed by the search engine within approximately one minute. MayDay was the newly created search index of the websites Google can see and access in May 2010. Google now checks links to content how deep the links go on a website, which the search engine uses as a measure for the importance of the content or products.

Furthermore, Google manually checked certain websites and their pages for relevancy during the MayDay update. Many companies experienced position drops in the search results, because Google found some pages to be less relevant than previously indicated. These manual checks are not entirely new, because Google regularly removes new pages of a website that ranked in the top ten results to evaluate its content. This is the so-called “sandbox effect” where evaluates its contents in the sandbox in order to ascertain the value of the page before including it in their search results again. After this process, the position of the page is generally quite stable and findable by users, but it is very difficult explaining to a customer that they are findable in the search engine and after a few weeks not any more.

Another major trend is Google’s intent to apply local search on a large scale. The competition for the top-ranking sponsored results and organic results is very high for popular key words, which makes it highly important for websites to use local data as refinement tools. Local data is very specific to the firm and can adequately answer a search query. For example, a search query including the place-name already makes a map appear in the Google search
results, which makes the results more relevant to the user. A related update is personalized search that influence the search results of an unique user based on its IP address, preferences and search history, although this can be turned off in the options menu of Google. Note that there are many other algorithmic updates every year (about 400), which are often not explicitly discussed or mentioned by Google.

Developments in SEO and SEA
First, companies using SEO and SEA also have to adapt their websites to include niche words and popular search queries next to each other. The main reason is that people are using more and more specific key words in their searches than a few years ago. Essentially, “long tail” search words are used more often, which reflect specific desires and needs of users. Second, selling a complete online marketing solution has become more important. Companies can acquire expertise and knowledge in-house, hire experts from agencies or buy tools that they can use for online marketing. Using software for managing online marketing campaigns is a recent development that supports companies in their online activities. These tools automatically create management information concerning online marketing. In particular, companies with little experience can design and apply their online marketing activities without requiring extensive training and knowledge.

The largest difference between SEO and SEA is the time it can take before results are noticeable. SEA can generate results faster because an online advertisement can be active within minutes. In contrast, the warming-up period of SEO is longer and it is not entirely sure whether a top 10 result is achievable. Another major difference is that in SEA an advertiser pays for every click on the advertisement based on daily budgets to limit costs. SEO is a long-term investment without additional costs for more visitors on the website. Moreover, using SEO a company is mostly always visible on a certain and stable position for longer time without increased spends. Of course, both online marketing channels are typically used in conjunction to each other for amplified effects. A company that ranks high in the organic search results and uses an online advertising campaign has a higher likelihood to sell to a customer. High qualitative content helps in this regard because it increases the quality score of Google and can lead to discounts on the price for each click.