

The Significance of Customer Value within the Project Portfolio Management

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Abstract

In most companies project work becomes more and more important. In order to optimize the alignment of projects with company strategy, adequate management of the project portfolio is required. In addition to the growing importance of projects and project portfolio management, a paradigm shift within the customer orientation takes place. In this case the customer value, which is characterized by the sum of all monetary and non monetary customer value propositions, is given priority. In addition to the current application areas of customer value, its use within the project portfolio management appears to be necessary as well. Therefore, the importance of customer value in the project portfolio management is being identified in this paper as well as the part of the project portfolio management in which the customer value should be considered. For this purpose a survey among 14 experts - department managers and business consultants - has been conducted.

Keywords: Customer Value, Project Portfolio Management

1. Current status of the project portfolio management

For most companies project work is of great importance. On the one hand they have to optimize their core business and evaluate ideas for new products and processes. They do this with the help of projects. On the other hand project work becomes part of the core business in an increasing number of companies [1].

A project is a unique, temporary endeavor that is typically characterized by the following features [2] [3]:

- clear objectives
- complexity
- application of various techniques and methods
- collaboration of experts from different fields
- managing new and unknown problems
- high risk
- assignment of an own budget
- particular stress for the participants

To categorize projects, both task type and distance between client and contractor are often used. According to the task type, following projects can be distinguished [1]:

- Organizational projects
- IT projects
- Research and development projects
- Construction and investment projects

In addition to these four project categories, usually the distance between client and contractor is applied. Therefore, it is possible to distinguish internal projects from customer projects, in which the clients belong to external companies [1].

Project management, i.e. the control of individual projects, is not sufficient to implement the company strategy [1]. In fact, all the projects that are simultaneously realized in a company – the so-called project portfolio – have to be consistent to reach an optimum for the company [1] [4] [5]. It is the purpose of project portfolio management to optimize the results of the project portfolio [4]. Therefore, one has to select those projects that lead to an optimal use of the invested capital and resources and efficiently increase the company's value [6] [7]. In order to increase the alignment with strategy as well as the probability for success, the project portfolio management should ideally go along with every project from the idea to the realization [7].

Companies have to execute different processes to optimize the project portfolio. These are [1]:

- *Management of project ideas:* Ideas for new projects can originate from different sources like the company's staff, suppliers, customers and competitors. The aim of this process is to utilize the imagination and potential of creativity from as many sources as possible and to document, classify and evaluate the project ideas [1].
- *Preparation of projects:* The focus of this process is the evaluation of a project idea in comparison to other current or scheduled endeavors. This is followed by the decision about the start or the postponement of the project, the definition of the project frame and the creation of content and organizational requirements [1].
- *Differentiation into project categories:* It is not reasonable to use the same methods and regulations for all the projects. Depending on the project the constitution of the management committee, the application of certain planning and control methods or the frequency of project reviews can vary. An adequate approach would be the creation of project categories and the classification of the methods and regulations used [1].
- *Evaluation and prioritization of projects:* Projects have to be evaluated according to different criteria. One key criterion is the conformity with strategy, i.e. the project's contribution to reach the strategic goals. In

addition, the economical benefit has to be considered in the evaluation. In internal projects the benefit can be calculated with the Return-On-Investment (ROI). In external customer projects the economical profit is calculated with the respective marginal return. In addition to the mentioned evaluation criteria the availability of human and financial resources as well as the risks involved has to be considered [1] [8].

- *Planning the resources in a multi-project environment:* In many companies labour costs are the largest cost position. Therefore, adequate planning of the resources is necessary in order to guarantee efficiency and profitability. This is the decisive factor for realistic project planning, accurate decision making, identifying bottlenecks at an early stage and determining long-term personnel requirements [1].

Among these processes in managing the project portfolio, the creation of several project portfolios is of great importance. In this way, the project landscape can be structured in a reasonable way. Criteria for the creation of individual projects portfolios can be e.g. the constraint to execute, the scope and duration of projects or the alignment with strategy [8].

2. Determining factors and possible applications of the customer value Due to their role as purchaser of entrepreneurial services, customers are of existential importance for the company's success. However, various studies show that not all customers of a company accomplish the same value proposition and that a considerable part of customers even destroys value. In order to guarantee an efficient allocation of the short corporate resources, the corresponding value proposition of the customers must be considered within the framework of the customer orientation [9]. This value proposition is called customer value

and covers all positive and negative contributions of a current or potential customer to the company's success during the course of the consumption life cycle [10]. Thereby not only the monetary value propositions like turnover or marginal return are considered. In fact also the further value propositions which a customer generates due to his different roles in relation to the company are of importance. In addition to his function as a purchaser of services, a customer can also act as co-producer or supplier of external factors among other things, such as information [11].

For the calculation of the customer value many different models exist already. These customer value models can be basically distinguished between one- and multidimensional models. One-dimensional models have the disadvantage that they consider only a single monetary or non-monetary quantity. The widely spread ABC-analysis, which subdivides the clientele into at least three groups (A, B and C-customers) on the basis of the achieved turnovers, is an example of this [12]. Since companies, however, profit of the customers by most different value propositions, multidimensional models are necessary for the reality-fair determination of the customer value. These integrate monetary and non-monetary quantities [10].

In the current literature various determining factors of the customer value are mentioned. Therefore, in the further remarks of this work it should be drawn on the results of the study, accomplished by TOMCZAK and RUDOLF-SIPÖTZ in the year 2006 spanning various sectors of the economy (cf. [13]). According to this study the market potential and the resource potential of a customer are to be differentiated in principle as determining factors, which consist of several components in turn (cf. figure 1). These two potential quantities cover both the current profit contribution of a customer and his future potential [13].

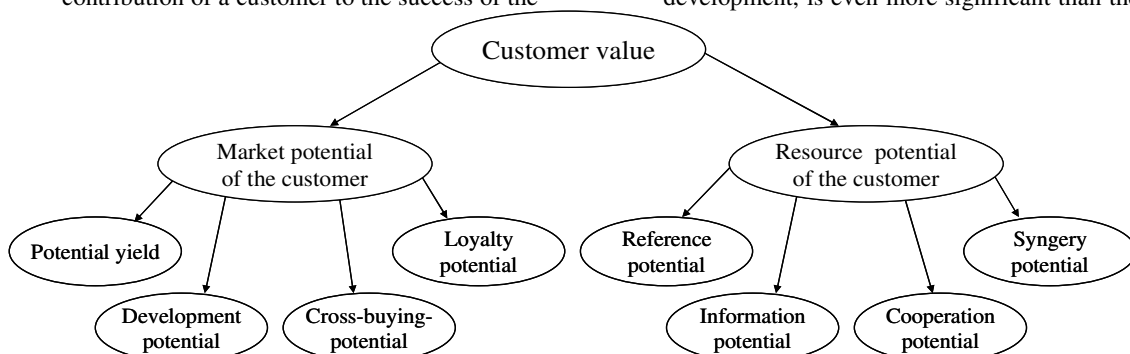
Fig. 1: Determination factors of the customer value according to TOMCZAK and RUDOLF-SIPÖTZ ([13])

The market potential of a customer expresses the profit which the company obtains from the business relation with a customer at the present time and in the future [13]. According to that it consists of the following components [13]:

- *Potential yield:* The potential yield of a customer represents the current monetary contribution of a customer to the success of the

company. In particular the customer profitability, which considers the proceeds and costs resulting from the customer relationship, is suitable as an identification number for this profit contribution [13].

- *Development potential:* The development potential of a customer, describing his future development, is even more significant than the



potential yield. That way a customer who contributes negatively at present to the company's success can achieve very much a positive value proposition in the future. The life cycle of the respective business relation is cause for that. Similar to the product life cycle concept, business relations also run through different phases which depend on the current life phase of the customer in each case [13].

- *Cross buying potential:* The cross buying potential is connected closely with the development potential. It describes the extent to which a customer makes additional dealings from other than the previous fields of the provider's service offering [13] [14].
- *Loyalty potential:* For companies it is decisive that customers also inquire services in the future. This fact is described with the loyalty potential and depends in particular on the customer satisfaction and the confidence of the customers [13] [15].

Besides the profit-oriented market potential the resource potential refers as a second determining factor to the role of the customer as a resource of the company. Frequently customers serve the company due to their different functions as a resource and thus contribute to the company's success [13]. Correspondingly the following components of the resource potential must be considered [13]:

- *Reference potential:* The reference potential reflects the readiness and ability of a customer to influence third party purchase decisions by recommendations and therewith to contribute indirectly to increase the company's turnover as well as to decrease the acquisition costs. This potential is largely determined by the recommendation behavior, the influence ability, the contact frequency and intensity as well as the size of the relation network of a customer [13] [16].
- *Information potential:* While the reference potential is referring to the communication between a customer and his social environment, the information streams from the customer to the company comes to the fore by the information potential. This contains all information which a customer provides for the company. Thereby it can be - among other things - a matter of suggestions for improvement, incitations or complaints which can be used for product and/or process modifications and innovations by the provider [13] [17].
- *Cooperation potential:* Unlike the information potential, which is characterized by the exchange of information streams, the cooperation potential refers to the exchange of material and human resources. Thus the cooperation potential describes the readiness and ability of customers to bring corresponding resources in the production of

goods and services of the provider for limited time [13].

- *Synergy potential:* Besides the external synergy possibilities, which are described by the cooperation potential, company-internal synergies can also be in existence. Hence, this synergy potential contains all interactions which arise as a result of a customer in the clientele. According to this, there is a high synergy potential e.g. if the share of sales of a customer at the total turnover is high or if a customer transacts turnover relations with an affiliated company [13].

In the operational practice the customer value is currently mainly used in two fields. On the one hand the increasing customer orientation leads to a rising importance of the customer value as an immaterial property component of companies, whereby the customer value stands in direct connection with the shareholder value concept. Furthermore the customer value is used fortified as a value-oriented control instrument in the distribution and marketing field. At this point it allows statements about onto which customers companies should focus, how intensively customers should be cared for and when customer-oriented measures should be taken [9] [18].

3. Research Methodology

In the previous chapters the current status of the project portfolio management and the customer value has been indicated. On closer inspection of these explanations it appears that there are significant interfaces between both subject areas. Hence, a survey has been conducted among department managers and business consultants of the subject areas customer relationship management and project portfolio management. Altogether 14 experts have been interviewed. The results of this survey are being presented in the following chapters.

4. Integrative examination of project portfolio management and customer value

As already pointed out in the first chapter, project portfolio management is supposed to implement a company's vision and give a visual image of its strategy. The interviewed experts mainly share this view: 41.67% of them consider project portfolio management of very high importance in the implementation of the business strategy, 50.00% consider it of high importance. Thus, customers providing the largest contribution to the company value and therefore represent a high intangible asset should be given greater importance in the project portfolio management. The consideration of the customer value seems particularly reasonable regarding three aspects of the project portfolio management.

For one thing the consideration of customer value is obvious when it comes to managing project ideas. Not only the company's staff, but also customers are an important source of project ideas. As consumers of entrepreneurial services they decide directly or indirectly about the success of the corresponding projects. For this reason the customer value of those idea suppliers should be incorporated in the management of project ideas. Consequently, ideas of high value customers could be rated higher. This way, the requirements and needs of high value customers can be met and result in a higher turnover and stronger customer retention. The importance of the customer value in the management of project ideas can be confirmed empirically with the expert survey. 71.43% of the interviewed experts think that the consideration of customer value is of high or very high importance. For at least 21.43% it is of moderate, and for another 7.14% of minor importance.

71.43% of the interviewees consider customer value as an important factor in the evaluation and prioritization of projects. For 21.43% it is at least of moderate importance. At this stage of the project portfolio management it appears to be reasonable to

assign higher priority to projects of customers with higher customer value. The marginal return is the criterion for the evaluation so far. However, as stated in chapter 2, customers not only contribute to the profit of a company, but also account for different value propositions. Therefore, the customer value, as the sum of all value propositions provided by a customer, should also be taken into account in external customer projects. 76.92% of the interviewees hold the opinion that even selected customer projects with a negative marginal return should be implemented as long as the customer has a high customer value.

As stated at the beginning of this paper, an adequate structuring of the project landscape into several project portfolios is necessary. Therefore, it seems reasonable to set up appropriate project portfolios for customer projects. 61.54% of the experts agreed to this demand, 38.46% agreed partly. Furthermore, it seems promising to create several customer project portfolios. For this purpose, customers with a comparable customer value can be classified in one portfolio. With the adequate assignment of the budget and resources to several customer project portfolios, projects of high value customers can be adequately prioritized and controlled. 41.67% of the interviewees agreed to the necessity of creating several customer project portfolios, 58.33% agreed at least partly.

Considering the customer value in the project portfolio management the question comes up in which kind of projects the customer value is especially significant. The results of the expert survey are revealed in figures 2 and 3. As shown, 92.86% of the experts attach high respectively very high importance to the consideration of the customer value in customer projects (cf. figure 2). But also with internal projects the customer value is important: 64.29% attach high, 21.43% moderate and only 14.29% minor importance to the customer value.

Table 1: Importance of the consideration of the customer value within different kind of projects (categorization according to distance between client and contractor) - results of the expert survey

	Unimportant	minor importance	moderate importance	high importance	Very high importance
Internal projects	0.00%	14.29%	21.43%	64.29%	0.00%
Customer projects	0.00%	0.00%	7.14%	28.57%	64.29%

From the experts' point of view, the customer value is also important with all kind of projects categorized by type of the tasks (cf. figure 3). Here, especially research and development projects are

mentionable: 78.57% of the experts attach high respectively very high importance of the customer value in these projects.

Table 2. Importance of the consideration of the customer value within different kind of projects (categorization according to task type) - results of the expert survey

	unimportant	minor importance	moderate importance	high importance	very high importance
Organizational projects	14.29%	14.29%	7.17%	50.00%	14.29%
IT projects	0.00%	14.29%	50.00%	21.43%	14.29%
Research and development projects	0.00%	0.00%	21.43%	57.14%	21.43%
Construction and investment projects	7.14%	35.71%	21.43%	21.43%	14.29%

5. Summary and prospects

This research paper points out that customer value is a decisive element within the project portfolio management. Regarding the relevance of customer value, its consideration seems necessary especially in the management of project ideas, the evaluation and prioritization of projects as well as the creation of project portfolios. Furthermore, it has been stated that customer value should not only be incorporated in customer projects, but also in other kinds of projects. Therefore, further research papers should analyze how and to what extent customer value should be considered in the mentioned areas.

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