

BALANCING RISK AND RETURN IN A CUSTOMER PORTFOLIO*

Crina Tarasi, Central Michigan University
Ruth Bolton, Marketing Science Institute
Michael D. Hutt, Arizona State University
Beth A. Walker, Arizona State University

The study demonstrates how the tools of analysis used by professional investors can be adapted and applied to enrich market segmentation and customer portfolio management decisions.

First, the study identifies risk and demonstrates how efficient customer portfolios can be constructed. Second, the authors build on these components to develop an actionable approach that exploits the synergies of a diverse customer base characterized by heterogeneous risk-return profiles. Using forward- and back-testing, the study demonstrates how companies can efficiently reduce the risk associated with their customer portfolio without compromising revenue levels. In the long run, an efficient portfolio outperforms the current portfolio and a profit-maximizing portfolio. Guidelines for constructing a balanced customer portfolio are provided.

Research Category: Service Value Optimization and Measurement

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