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THE ROLE OF CUSTOMER CAPITAL IN CREATION OF COMPANY VALUE

Abstract

The changes in the current business environment have resulted in more intense competitive fight which, in its essence, is a fight for capital. The basic principle guiding a business's capital is that a customer selects a product marketed by the business, thus making it possible to transform the cost related to the manufacturing of the good into benefits. The level of these benefits determines the market value of the business and vice-versa: "an increase of the value enriches its owners." Consequently, a business that wants to survive and grow in the competitive market must enlarge its customer base. The quality of the base determines the size of the current and the future revenue streams generated by the business. In essence, the key element is customer capital, which should be managed by a business in a way that will allow it to maximize the profits obtained from the invested capital.

1. The role of customer capital in the value chain of a company

It is generally assumed that the principal objective of every company is to create value. Although there is no single definition of value in the literature, it is most often believed to be a certain characteristic that makes the company more or less desired, useful, respected, or important.² The dynamic growth of capital markets, the expansion of private capital, the increasing openness of economies, the revolution in information technologies, and the growing demand for capital have created a new outlook on the aforementioned objective, that of an owner-shareholder.³ What matters most to the owner are the financial benefits. Thus, the more benefits a company brings to its owner, the highest its value is. Consequently, the process of creating a company's value is most often understood as the process of growing the company's capital. This approach does not mean that a company can focus solely on furthering the owners' interests, namely their financial interests. To the contrary, a company can grow its capital only as long as it is capable of providing benefits to its stakeholders, while assuring a rate of return on capital higher than the cost of its operations. The level of such benefits translates to the market value of the company and vice versa.

Of all the stakeholders of a company, it is the customer that is of key importance. After all, it is the customer who gives the company a chance to recover and grow its capital by buying its products, thus

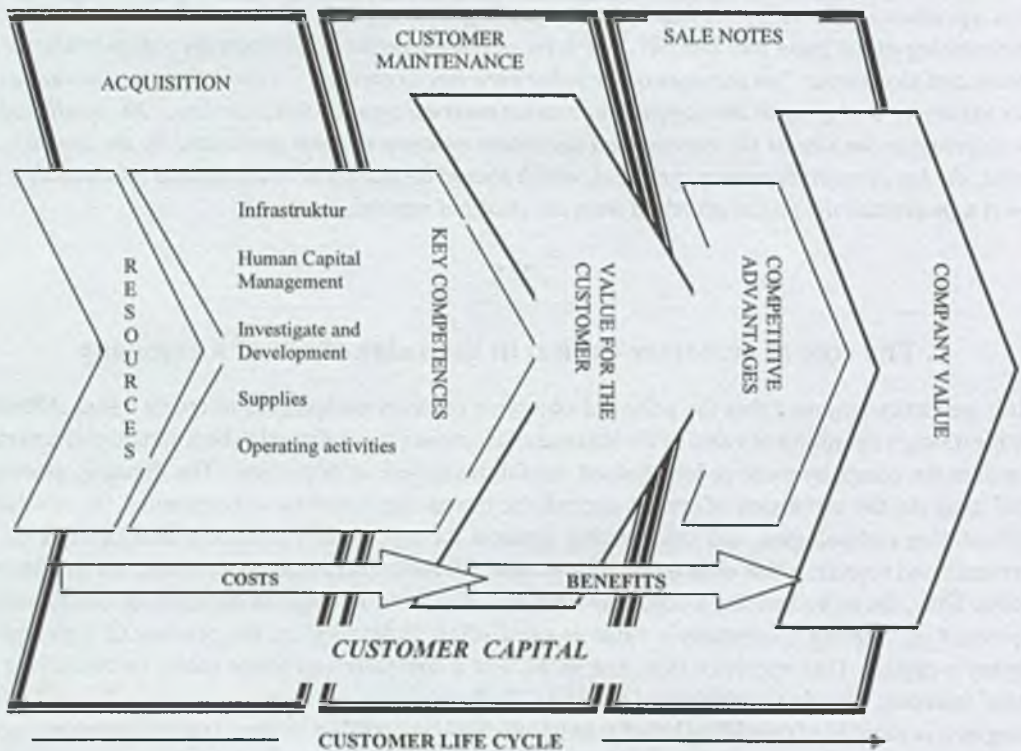
allowing the company to survive and grow. However, this does not mean that every customer creates a company's value. To create value for a customer, a company must use its capital and bear some costs, which must then be recovered on a level that guarantees a positive rate of return on capital. Thus, a customer base of a company is a source its financial assets and, consequently, directly affects the company's value. In essence, this is customer capital.

The term „customer capital” has not been uniformly defined in the literature. Its definitions focus either on describing customer capital by pointing at its key components, or on measuring the benefits a customer brings into a company.

The descriptive approach situates customer capital in the domain of marketing and reduces it to non-material sources of a company's value that lead to financial benefits in the future. In the quantitative approach, customer capital is the sum of benefits that a company obtains by providing a value to customers. It must be emphasized that the benefits do not result from a single transaction, but are obtained over the whole lifecycle of a customer.⁴ Of course, the two approaches are not mutually contradictory; to the contrary, they are intertwined and point at the efforts that a company should make to achieve the desired outcomes.

There is no question that customers are key providers of capital to companies. As a result, a company may not survive and grow without winning such a customer base that allows it to maximize the benefits it obtains by investing its capital (Figure no. 1).

Rys.1 Customer capital in creation of company value



The higher the level of such benefits, the higher the rate of return on the invested capital and, consequently, the higher the value of the company. Thus, companies must make efforts to win customers, to maintain their loyalty as long as possible, and to promote additional sales.

To achieve their key objectives, companies must manage their customer capital. They must:

- identify key components of customer capital,
- build a customer portfolio that maximizes their benefits in the long term,
- develop and implement a strategy for building and increasing customer capital, taking into account the individual sources and the growth of this asset in value,
- measure, monitor, and analyze the outcomes.⁵

3. The economic and financial condition of Grupa Żywiec in the years 2004-2008

Grupa Żywiec was established in 1998 as a result of the merger of Zakłady Piwowskie w Żywcu S.A., whose major shareholder was Heineken International BV, with Brewpole B.V. which owned the breweries in Elbląg, Leżajsk, and Warka. In the period being the subject of this analysis, the group changed its structure by way of mergers and acquisitions. The current structure of the group is shown in Table 1.

Table 1. Composition of Grupa Kapitałowa Żywiec S.A. as of 31 December 2008

UNIT NAME	CHARACTERISTICS OF CAPITAL RELATION (% OF OWNERSHIP)	ACQUISITION PRICE	DATE OF GAINING CONTROL OR SIGNIFICANT INFLUENCE
Grupa Żywiec S.A.	Dominująca		
Bracki Browar Zamkowy w Cieszynie Sp. z o.o.	Zależna (100%)	4 200 000	1997
Centrum Finansowo-Księgowe Żywiec Sp. z o.o.	Zależna (100%)	2 009 000	2007
Żywiec Trade Sp. Z o.o. w Łodzi	Zależna (100%)	2 330 000	1993
Żywiec Trade Sp. Z o.o. w Krakowie	Zależna (100%)	6 816 000	1993
Żywiec Trade Sp. Z o.o. w Warszawie	Zależna (100%)	36 360 000	1993
HBC – Żywiec Trade Sp. Z o.o.	Zależna (99,56%)	32 864 000	1998
Żywiec – Trade Sp. z o.o. w Poznaniu	Zależna (100%)	9 383 000	1992
Żywiec Sprzedaż i Dystrybucja Sp. z o.o.	Zależna (100%)	24 639 000	2000
Trans Trade - Żywiec Sp. Z o.o.	Zależna (100%)	3 904 000	1993
Grupa Żywiec Trade Holding Sp. z o.o.	Zależna (100%)	1 008 000	2005
Analda - Żywiec Trade Sp. z o.o.	Zależna (100%)	92 520 000	2000
Żywiec Trade Sp. Z o.o. w Żywcu	Zależna (100%)	2 013 000	1997
Żywiec Trade Sp. Z o.o. w Toruniu	Zależna (100%)	24 278 000	2000
Rapie Żywiec Trade Sp. Z o.o.	Zależna (100%)	76 869 000	2000
C. R. Dystrybucja - Żywiec Trade Sp. z o.o.	Zależna (100%)	4 317 000	2000
„Żywiec Trade Szczecin” Sp. Z o.o.	Zależna (100%)	2 552 000	2001
		326 062 000	

An analysis of the economic and financial condition of Grupa Żywiec in the years 2004-2008 shows that the Group is a dynamically growing company which, at present, has reached its maturity phase. In the analyzed period, Grupa Żywiec systematically improved its profitability, as confirmed by the indices for the consecutive years (Table 2).

Table 2. Key profitability indices for Grupa Żywiec in the years 2005-2008

Index structure	2005	2006	2007	2008
Return on sales indices				
profit from sales				
net revenue from sales of products, goods and materials	0.54	0.53	0.52	0.50
net profit				
net revenue from sales of products, goods and materials				
+ other revenue from operations				
+ financial revenue + extraordinary profits	0.12	0.10	0.12	0.11
positive net cash flow from operations				
net revenue from sales of products, goods, and materials	0.22	0.21	0.19	0.18
Return on assets indices				
net profit				
average value of total assets	0.14	0.14	0.18	0.17
net cash flow from operations				
average value of total assets	0.26	0.28	0.28	0.27
Return on capital indices				
net profit				
average value of own capital	0.28	0.31	0.50	0.55

Prepared by authors on the basis of financial reports of Grupa Żywiec S.A. for the years 2005-2008.

As the table shows, the profitability indices did not vary significantly in the period of analysis. Only the return on equity, which is particularly important to investors, has clearly increased and exceeded the level of 55% in 2008. The change in the value of the index is a result, in particular, of the significant changes in the company's liabilities. In the period of analysis, the structure of financing of the company's assets changed dramatically and shifted towards borrowed capital. While in 2005 nearly 50% of the assets were financed by borrowed capital, in 2008 this proportion increased to nearly 72%. The result in a systematic increase of debt burden on the assets from the level of 0.98 in 2008 to nearly 2.6 in 2008. What should also be emphasized are the changes in the structure of borrowed capital, where constant capital has increased its share year after year (Table 3).

Table 3. Debt indices for Grupa Żywiec in the years 2005-2008

Index structure	2005	2006	2007	2008
<u>liabilities and liability provisions</u> total assets	49.57%	61.27%	67.76%	71.95%
<u>liabilities and liability provisions</u> equity	0.98	1.58	2.10	2.57
<u>liabilities exceeding 1 year</u> total liabilities	39.59%	35.68%	13.85%	42.04%
<u>long term liabilities</u> equity	38.92%	56.44%	29.10%	107.83%

Source: Prepared by the authors.

A change in the debt level shows that the company increasingly finances its operations with borrowed capital. Although the change of the structure is rather risky, it may lead to a significant change of cost of capital. As various studies show, the cost of own capital is higher than the cost of borrowed capital. Having this in mind, the changes should be considered to be positive. It should also be noted that the changes in the asset-capital structure of Grupa Żywiec confirm the aforementioned observations (Table 4).

Table 4. Asset-capital structure of Grupa Żywiec in the years 2005-2008

Index name	Index structure	2005	2006	2007	2008
Fixed assets to equity ratio	$\frac{\text{equity}}{\text{fixed assets}} * 100\%$	70.23%	54.45%	47.05%	44.00%
Current ratio	$\frac{\text{short term liabilities}}{\text{current assets}} * 100\%$	106.22%	136.51%	185.46%	115.05%
Net current capital to total assets ratio	$\frac{\text{net current capital}}{\text{total assets}} * 100\%$	-1.75%	-10.54%	-26.90%	-5.46%
Net current capital to current assets ratio	$\frac{\text{net current capital}}{\text{current assets}} * 100\%$	-6.22%	-36.51%	-85.46%	-15.05%

Source: Prepared by authors on the basis of financial reports of Grupa Żywiec S.A. for the years 2005-2008

The above values show that, while balancing on the edge of maximum allowable values of debt indices, Grupa Żywiec has achieved positive values of debt service indices, which confirm its good financial condition and its capacity to cover the debt. Nevertheless, it must be emphasized that as a result of the global economic crisis, which has led among others to the depreciation of the Polish zloty and to limited access to borrowed capital, which has increased the cost of credit, this strategy may turn out to be very risky. Especially that the crisis has also led to higher unemployment and a general tendency to save. The products offered by Grupa Żywiec are not consumer staples and they may encounter decreased demand on the part of their potential consumers.

4. Customer capital of Grupa Żywiec in the years 2005-2008

After a period of dynamic growth, the market for beer in Poland is currently in the satiation phase. While in 1995, the volume of beer consumed per capita was 39 l, 10 years later the volume increased two-fold. However, in the recent years, the consumption volume per capita has stabilized on the level of 93 l. In 2008, the sales of beer compared to the previous year increased by less than 2%. It must also be emphasized that since the beginning of 2009, the sales of beer have decreased even further.

Table 5. Consumption of beer in Poland

YERS	Sales of beer (in hl)	Consumption growth (compared to the previous year)	Consumption of beer (in liters per capita)
1995	15 023 000	7,41%	39
2002	26 960 000	6,41%	71
2003	28 404 000	5,36%	74
2004	29 363 000	3,38%	77
2005	30 595 000	4,20%	80
2006	32 343 000	5,71%	85
2007	35 020 000	8,28%	93
2008	35 624 000	1,72%	93

Source: Prepared by the authors.

Despite the changes, Grupa Żywiec has for years been one of the leaders in the Polish market for beer. Other key players in the market are SABMiller Kompania Piwowarska and Carlsberg Polska (Table 6).

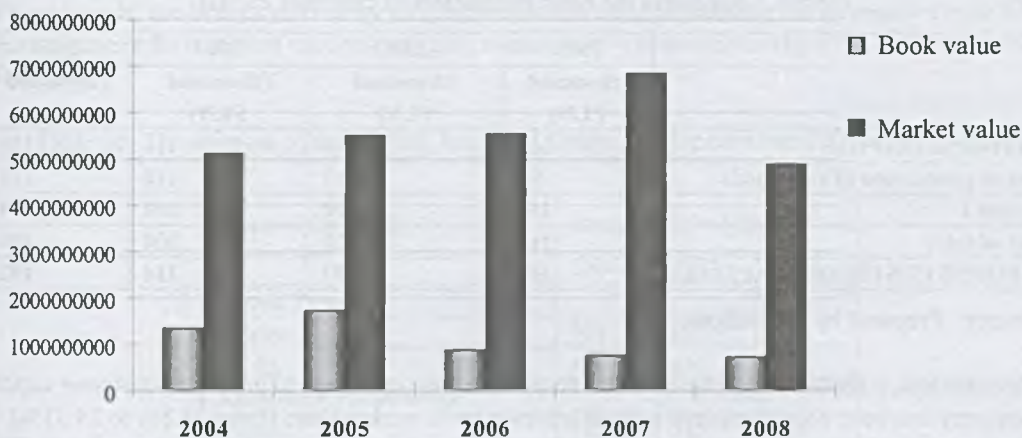
Table 6. Changes in the shares of the market for beer in the years 2003-2008

Biggest competitors	2003	2004	2005	2006	2007	2008
Absolute share in the market for beer						
Kompania Piwowarska	33.50%	36.40%	36.61%	38.30%	40.10%	42.11%
Grupa Żywiec	37.60%	36.60%	33.67%	33.50%	33.80%	34.31%
Carlsberg Polska	14.00%	14.20%	14.05%	14.00%	14.10%	14.60%
Relative share in the market for beer						
Kompania Piwowarska	89.10%	99.45%	108.73%	114.33%	118.64%	122.73%
Grupa Żywiec	112.24%	100.55%	91.97%	87.47%	84.29%	81.48%
Carlsberg Polska	37.23%	38.80%	38.38%	36.55%	35.16%	34.67%
Change in the market share compared to the previous year						
Kompania Piwowarska	-	8.66%	0.58%	4.62%	4.70%	5.01%
Grupa Żywiec	-	-2.66%	-8.01%	-0.50%	0.90%	1.51%
Carlsberg Polska	-	1.43%	-1.06%	-0.36%	0.71%	3.55%

Source: Prepared by the author on the basis of L. Oktab, *Akcyza zmniejsza konkurencyjność* [The excise tax decreases competitiveness], Rzeczpospolita, Ekonomia insert, 20 April 2004; and B. Drewnowska, *Browary wchodzą do pubów po prestiż* [Breweries go into pubs for prestige], Rzeczpospolita, Ekonomia insert, 1 March 2007.

As the table shows, the market position of Grupa Żywiec has deteriorated since 2004. Grupa Żywiec has been losing its market share to Kompania Piwowarska, which is now the unchallenged leader in the sales of beer in Poland. However, it must be emphasized that despite the loss of the leading position, Grupa Żywiec is still successful at building its value (Figure 2).

Figure 2. The market and book value of Grupa Żywiec in the years 2004-2008



Source: Prepared by the authors on the basis of the Warsaw Stock Exchange listings.

As Figure 2 shows, the market value of the company significantly exceeds its book value. Grupa Żywiec is still the unchallenged leader in growing its goodwill.

The above discussion leads to the following questions: What customer capital has Grupa Żywiec created? What is the impact of the customer capital on the value of the company? Let us take a look at the value of the customer capital generated by the company in the years 2004-2008. Due to the lack of detailed information, the customer capital is calculated on the basis of data provided in basic financial reports. The capital is calculated by subtracting the cost of production of goods and the cost of customer service from the revenue from sales of goods offered by the company.

Table 7. Customer capital of Grupa Żywiec in the years 2004-2008

	2004 (thousand PLN)	2005 (thousand PLN)	2006 (thousand PLN)	2007 (thousand PLN)	2008 (thousand PLN)
Net revenue from sales	2,788,499	2,844,891	3,162,640	3,513,816	3,810,360
Cost of production of sold goods	1,440,608	1,304,134	1,474,118	1,684,386	1,914,759
Margin I	1,347,891	1,540,757	1,688,522	1,829,430	1,895,601
Cost of sales	739,815	838,192	1,003,948	1,047,995	1,098,575
EXPOSED CUSTOMER CAPITAL*	608,076	702,565	684,574	781,435	797,026

* - the exposed capital does not reflect the cost of capital

Source: Prepared by the authors.

As the table shows, with the exception of the year 2006, customer capital grew in each of the studied years. In comparison to 2006, in the following years the capital grew by 11% and 16%. It should be emphasized, however, that in 2008 the growth rate of customer capital significantly dropped (2%). This was caused by both a drop in the revenue and an increase of the cost of production of beer and of the cost of customer service (Table 8).

Table 8. Changes in the basic parameters of customer capital

	2005 (thousand PLN)	2006 (thousand PLN)	2007 (thousand PLN)	2008 (thousand PLN)
Net revenue from sales	102	111	111	108
Cost of production of sold goods	91	113	114	114
Margin I	114	110	108	104
Cost of sales	113	120	104	106
EXPOSED CUSTOMER CAPITAL	116	97	114	102

Source: Prepared by the authors.

Nevertheless, it should be emphasized that despite the drop in the rate of growth of customer capital, the company has been able to achieve a small increase in its market share (from 33.8% to 34.31%). In the same period, Kompania Piwowarska has achieved a growth of market share compared with 2007 equal to 5.1%, and Carlsberg Polska – equal to 3.55%. This is a reason for concern, especially in the face of a significant drop in the rate of growth of beer consumption.

In analyzing the customer capital of Grupa Żywiec, one should also look at the share of the capital in the book and market value of the company (Table 9). Of particular importance is the systematic increase of customer capital in the book value of the company, which is clearly linked to the change in the financing strategy of Grupa Żywiec involving a more extensive use of borrowed capital. The strategy is conducive to limiting the cost of invested capital.

Table 9. The ratio of customer capital to the market value and the book value of the company

	2004	2005	2006	2007	2008
Book value	1,335,784,000	1,745,003,000	903,045,000	786,423,000	724,594,000
Market value	5,123,625,208	5,491,992,579	5,535,266,380	6,862,030,720	4,884,309,386
Customer capital	608,076,000	702,565,000	684,574,000	781,435,000	797,026,000
Ratio of customer capital to market value	11.87	12.79	12.37	11.39	16.32
Ratio of customer capital to book value	45.52	40.26	75.81	99.37	110.00
Customer capital ----- revenue	0.22	0.25	0.22	0.22	0.21
Customer capital ----- liabilities	0.25	0.3	0.29	0.32	0.31
Customer capital ----- Own capital	0.50	0.59	0.76	0.99	1.10

Source: Prepared by the authors.

As the analysis shows, Grupa Żywiec has been successful in creating its customer capital. It appears that these efforts focus on maintaining the current customer base, promoting additional sales, and improving the efficiency of asset use. One should also notice the difference between the market value and the book value of the company. It clearly shows that Grupa Żywiec bases its competitive potential on non-tangible assets, to include market resources. Among such resources, of particular significance are the brands offered by Grupa Żywiec. Research shows that despite the general drop in the strength of beer brands, the brands offered by Grupa Żywiec are currently among the strongest Polish brands. This influences the results of the company and, consequently, its perception by stock exchange investors (Table 10).

Table 10. The strength of the leading brands of Grupa Żywiec compared to the competition.

Name of the brand	Strength of the brand		
	2006	2007	2008
Grupa Żywiec			
Żywiec	703	687	647
Warka	686	632	589
Kompania Piwowarska			
Tyskie	715	715	628
Lech	653	632	587

Source: Prepared by the author on the basis of www.rankingmarek.pl.

Nevertheless, it should be highlighted that despite the fact that its brands are stronger than competing brands, Grupa Żywiec is less successful in the market. The company certainly focuses on building its organizational culture. It also makes efforts to build a positive image of the company. However, its actions directed towards its customers are limited. This is evident, for instance, in the level of cost of sales and in the weak dynamic of market share growth compared to the competitors. In the future, this may lead to a decrease of the value brought by the company's customers, which in turn may make Grupa Żywiec less attractive to investors.

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