



Iiro Nuutinen

# Improving Process for Managing Key Customer Agreement Pricing at the Case Company

Metropolia University of Applied Sciences

Master of Engineering

Industrial Management

Master's Thesis

April 29 2022

The past 8 months have been intensive and challenging, but also very learning and rewarding. There is nothing I would change about this journey. Having accomplished the studies and exceed my expectations is overwhelming to me. Almost 10 years ago I completed my bachelor's degree, and now I am preparing to graduate from the same master's program.

It was an honor to be given this opportunity to participate in the organizational development and to grow my professional expertise within the studies. For all your knowledge, contributions, discussions, and the energy, I would like to thank the management and my colleagues, the key account management team.

I would like to thank my thesis instructors Dr. Thomas Rohweder for the guidance and M.A. Sonja Holappa for giving the guidance in writing. And the other professionals Dr. Juha Haimala and Dr. James Collins of the Industrial Management program. Your role has been significant to my learning process and mastering research skills within these studies. Also, I would like to thank all fellow students for their valuable collaboration and support, especially Arttu, Juhani, Mikko and Tom.

Thank you to my family and friends for supporting me. Thank you Tiina, Pekka, Kari, Atte and Ville for motivating me to go to cross-country skiing. It was a very well spent time for having such breaks from my studies during the wintertime.

Special thanks to Heidi for being there for me and giving me this opportunity to study intensively besides working full-time.

I was motivated and committed to taking this opportunity and challenging myself. I am glad that I pushed myself to achieve the results. Who knows what may happen next? I am well deservedly looking forward to the summer, and I plan to do something very different, like fishing.

Iiro Nuutinen  
Vantaa  
29 April 2022

## Abstract

Author: Iiro Nuutinen  
Title: Improving Process for Managing Key Customer Agreement Pricing at the Case Company  
Number of Pages: 91 pages + 2 appendices  
Date: 29 April 2022

Degree: Master of Engineering  
Degree Programme: Industrial Management  
Professional Major: Service Management  
Supervisors: Dr. Thomas Rohweder, Principal Lecturer  
M.A. Sonja Holappa, Senior Lecturer

---

Businesses should be always profitable for companies, otherwise they should not exist. The same will apply to customers, companies should have profitable customers. Processes within companies should deliver their expected results, which are monitored by the outcomes and the key performance indicators of the processes. The identified business challenge, the process used to manage the key customer agreement pricing at the case company was unclear and inefficient with no official specifications available. Therefore, the objective for this study was to improve the existing process for managing key customer agreement pricing at the case company. This improved process could be implemented to other sales functions in the case company.

The research approach of this study is design research, which includes four stages. The first stage addresses the strengths, weaknesses and key improvement areas in a current state analysis which was conducted for the existing process. The second stage is a literature review of the existing knowledge and best practices focused on the selected key improvement areas and establishes a conceptual framework for this study. The third stage is a co-creation effort to improve the existing process and build the proposal draft by utilizing the outcomes from the previous stage. During the fourth stage, the head of key account management validates the proposal draft and provides feedback to establish the final proposal for this study.

Several strengths and weaknesses were identified during the current state analysis. These findings were categorized by their temper and the key improvement areas were selected based on the priorities establishing a scope for this study. The conceptual framework concentrated on these key improvement areas of the study, which included process basics and key performance indicators of the process.

The outcome of this study is the final proposal for improved process for managing key customer agreement pricing. The selected key improvement areas from the current state analysis have been improved for the final proposal. The proposed process improvement should support the company in maintaining the proper earnings effectively from the key customers and ensure competitiveness for the case company.

Keywords: Process Improvement, Key Performance Indicator, Key Account Management, Profitability, Key Customer Relation

# Contents

Preface

Abstract

Table of Content

List of Figures and Tables

List of Abbreviations

1	Introduction	9
1.1	Business Context of the Case Company	9
1.2	Business Challenge, Objective and Outcome	10
1.3	Outline of the Study	12
2	Project Plan	14
2.1	Research Approach	14
2.2	Research Design	15
2.3	Data Plan	17
3	Current Process for Managing Key Customer Agreement Pricing	20
3.1	Overview of the Current State Analysis	20
3.2	Description and Analysis of the Current Process for Managing Key Customer Agreement Pricing	22
3.2.1	Overview of the Process for Managing Key Customer Agreement Pricing	26
3.2.2	Process for Managing Key Customer Agreement Pricing	28
3.2.3	Information Flow Between Purchasing and Key Account Management	30
3.2.4	Supporting Functions	31
3.2.5	Triggers to Execute the Process	33
3.2.6	Process Key Performance Indicators	34
3.3	Summary of Findings of the Current Process	35
3.4	Key Improvement Areas of the Current Process	36
4	Ideas from Literature on Improving Process for Managing Key Customer Agreement Pricing	38
4.1	Process Basics	38
4.1.1	Business Process Re-engineering (BPR)	40
4.1.2	Standard, Customized, Nascent or Artistic Process?	41

4.1.3	Standardization in Knowledge Work in Process Enterprises	43
4.1.4	Applying LEAN Principles to Knowledge Work	44
4.1.5	Process and Enterprise Maturity Model (PEMM)	45
4.2	Key Performance Indicators	47
4.2.1	Winning Key Performance Indicators	48
4.2.2	Approach for Setting SMART Objectives	48
4.2.3	Lagging and Leading KPIs	49
4.2.4	Customer Profitability	50
4.3	Conceptual Framework of the Study	52
5	Improving Process for Managing Key Customer Agreement Pricing	54
5.1	Overview of Proposal Building Stage	54
5.2	Summary of Data 2 Findings and Improvement Ideas	55
5.3	Improving Weakness Process Basics	58
5.4	Improving Weakness Key Performance Indicators	61
5.5	Embedding Current Strengths into Proposal	63
5.6	Proposal Draft	64
5.6.1	Process Owner, Objective and Strategy	67
5.6.2	The Improved Process	68
6	Validation of Improved Process for Managing Key Customer Agreement Pricing	71
6.1	Overview of the Validation Stage	71
6.2	Received Feedback and Adjustments to the Proposal Draft	72
6.3	Summary of the Final Proposal	74
7	Discussion and Conclusion	77
7.1	Executive summary	77
7.2	Practical Next Step Recommendations	80
7.3	Self-Evaluation of the Thesis Project Credibility	81
7.3.1	Validity	83
7.3.2	Reliability	85
7.3.3	Logic	86
7.3.4	Relevance	87
7.4	Closing Words	88
	References	90

## Appendices

Appendix 1: The Process and Enterprise Maturity Model (Hammer, 2007)

Appendix 2: Final Proposal of Improved Process for Managing Key Customer Agreement Pricing

## List of Figures

Figure 1. Research Design of this Study.	15
Figure 2. The Current Process for Managing Key Customer Agreement Pricing.	23
Figure 3. The Scope of This Study and Summary of Findings.	25
Figure 4. Model of a Simplified Process (Martinsuo and Blomqvist 2010: 8).	39
Figure 5. The Process Matrix (Hall and Johnson, 2009: 61).	41
Figure 6. The Conceptual Framework of this Study.	52
Figure 7. Proposal Draft for Improved Process for Managing Key Customer Agreement Pricing.	66
Figure 8. Overview of the Improved Process.	70
Figure 9. Final Proposal for Improved Process for Managing Key Customer Agreement Pricing.	75

## List of Tables

Table 1. Data 1 Collection.	17
Table 2. Data 2 Collection.	18
Table 3. Data 3 Collection.	19
Table 4. Summary of Strengths and Weaknesses.	35
Table 5. CSA Findings Divided into Categories for Literature Review.	36
Table 6. Improvement Ideas to Process Basics (Data 2) Grouped According to the Weaknesses (Data 1).	56
Table 7. Improvement Ideas to Key Performance Indicators (Data 2) Grouped According to the Weaknesses (Data 1).	57

## **List of Abbreviations**

COVID-19: Coronavirus disease 2019

ERP: Enterprise Resource Planning

KPI: Key Performance Indicator

CSA: Current State Analysis

BI: Business Intelligence

CF: Conceptual Framework

BPR: Business Process Re-engineering

PEMM: Process and Enterprise Maturity Model

KAM: Key Account Management

## 1 Introduction

A company or an organization organizes and manages its operations into processes. A set of appropriate key performance indicators (KPIs) are used to measure the outcome and efficiency of these processes as well as facilitate their further development and improvement. A company's processes enable its business units, departments, functions, teams, and individual associates to perform in a controlled, repeatable, and reliable performance (Hammer, 2007: 111-123).

Processes are always representing the current situation at a particular time of the organizations and they are influenced by the company's strategy, targets, stakeholders, and resources. Therefore, processes are requiring continuous measurement and abilities to change (McCoy, 2018: 21-23).

This study focuses on analysing and identifying potential improvement areas in the case company's existing process for managing key customer agreement pricing.

### 1.1 Business Context of the Case Company

The case company is operating in the wholesaling industry, offering, and selling industrial products to various industries. The case company's offering consists of both products and services, which are provided mostly in Finland. Moreover, the case company maintains some global customer relations, which are primarily a result of historical collaboration and agreements signed in Finland. Deliveries to these global customers consist of supplying products to countries in Europe, Asia, and America.

The case company belongs to a parent group which was originally founded nearly 100 years ago. The parent group is developing a comprehensive range of

industrial products to meet the industrial needs. The parent group contains over 20 companies and 1500 employees in Finland, Estonia, and Sweden.

The case company has been formed from several company acquisitions in the 21st century and the current operations consist of nationwide sales office network, central logistics center and a few manufacturing units in Finland. The case company's purpose is to offer and provide a comprehensive range of industrial products and efficient logistics so that their customers can concentrate on the core competences on their own businesses. The comprehensive range of industrial products requires efficient purchasing and logistics operations and flexible functionalities from an ERP system, because the case company must collaborate with thousands of different suppliers, manufacturers, and brand representatives.

The case company has reorganized some of its operations and personnel especially in the management and focused on developing its processes and operations in the last years. This is mainly due to the earlier company acquisitions and mergers with the case company; standardizing practises and processes by gaining efficiency and meeting more challenging market expectations.

## 1.2 Business Challenge, Objective and Outcome

The case company has experienced a significant transformation in the past decades which has included company acquisitions, mergers, focusing on standardizing its operations, developing, and extending its offering. Among these are development projects and investments, especially in logistics and procurement, with the intention of generating cost-efficiency by improving operations at the case company. The case company has also concentrated on developing its sales functions and processes, such as building its service concept, but more effort and focus should have been put to sales in the last years to reform some of the outdated ways of working. The sales functions and processes should be actively developed to manage existing customer relations

properly, acquire new customers, and sustain reasonable sales earnings from the customers to the case company.

The challenge of this study is related to managing the existing key customer agreement pricing at the case company. The process is unclear and inefficient and there is no official documented process description available. The case company's salespersons who are in charge of the key customers and their pricing do not have enough transparency to purchasing department and changes in purchasing costs. Purchasing costs may have increased for the case company, but a salesperson may not be aware of the changes and is unable to start negotiation with the key customer. Lowered earnings from the key customers may have a negative impact on the income statement of the case company and make it more difficult to serve its key customers with high quality and flexibility.

Due to the company's strategic choices, the comprehensive range of industrial products and wide supplier network, it is challenging to maintain pricing up to date, competitive and market-related for the key customers because the focus is not only on one specific product area or supplier, but rather on a large segment of the industrial market and thousands of suppliers.

As a result of the COVID-19 virus and significant increases in overall demands in global market which are causing shortages in product availability, increasing raw-material, manufacturing and purchasing costs and container shortages in global vessel transportation while increasing logistics costs which are influencing import costs of the products. The current market situation is generating an urgency for development and this study.

The case company's key account management team consists of 9 members including head of key account management, 7 key account managers, team support and assistant. The key account management team is working in a matrix organization structure under the management and is responsible for managing contracts and total pricing of the key customers at the case company, as well as

coordinating and developing their existing collaborations. The author of this study is a member of the key account management team.

The objective of this study is to improve the existing process for managing key customer agreement pricing and with minor effort the improved process can be implemented to other sales functions in the case company. The outcome of this study is an improved process for managing key customer agreement pricing and with minor effort the improved process can be implemented to other sales functions in the case company.

### 1.3 Outline of the Study

This study is limited to the key account management and the key customers in the case company. In addition, the purpose of this study is limited analyzing the case company's current state analysis of the process for managing key customer agreement pricing and improve the process in co-operation with relevant stakeholders based on the key improvement areas found from current state analysis.

The improved process is limited to the key account management, but keeping the objective in mind, the utilization of the improved process should not be limited only to the key customers. It should be also duplicated and implemented to the other sales functions at the case company as well. This study does not include implementation or any further development of the improved process.

This study includes 7 Sections, where Section 1 is the introduction of the study. Section 2 is describing the project plan, the chosen research approach and design and data plan of the data collection. Section 3 introduces a current state analysis of the process for managing key customer agreement pricing at the case company, summarizes the findings and presents key improvements areas. Section 4 is concentrates on analyzing the relevant literature based on the key improvement areas in Section 3 and establishing the conceptual framework of the study. Section 5 introduces the proposal draft for the improved process for

managing key customer agreement pricing. Section 6 examines the created proposal draft for the improved process for managing key customer agreement pricing and validates the proposal based on the feedback from the relevant stakeholder, the head of key account management. Section 7 includes discussion, conclusions, and self-evaluation of the study.

The next section describes the project plan and provides a detailed overview of the selected research approach and design, and data collection.

## 2 Project Plan

The business context, challenge, objective, and outcome related to this study were introduced in the previous section. This section describes the selected research approach and design, methods of the data collection and analysis.

### 2.1 Research Approach

According to Saunders et al. (2016) research projects can have many different purposes and contexts. A company may have to examine a narrow detail within its own operations, to conduct an industry-wide investigation or to examine and understand an impact of a known phenomenon. Research that aims to expand the current knowledge of the management and business processes is known as basic, fundamental, or pure research. Basic research serves a general purpose and doesn't address a specific issue or problem (Saunders et al., 2016: 177-178).

Saunders et al. (2016) also describes that basic research has an alternative from a concept of applied research. These two approaches differ from each other in certain recognizable ways, but they are not opposites. Applied research is distinctly limited to examining and solving a particular problem or an opportunity. Therefore, applied research is highly relevant for the case organization or with the addressed problem or opportunity, but less relevant in a general academic sense when compared with basic research. Applied research can contain several paths, including case study, action research or design research (Saunders et al., 2016: 9-10).

According to Jorma Kananen (2013) design research produces practical and functional solutions which should improve operations in organizations by combining both development and research. In addition, Kananen (2013) explains that design research is close to an organization's natural development work while they try to improve the operations, and that development work can be considered science when it has been properly documented, appropriate scientific methods have been used and new knowledge is produced (Kananen, 2013: 20-22).

In this study, design research was chosen as the research approach and use of qualitative methods. When considering the most suitable approach for this study, design research was selected, since the scope of the study is a specific organizational business problem occurring in the case company. In addition, the objective is to improve a specific process and the outcome is to create knowledge on how to improve the process in the case company. Since the objective and outcome of this study do not include implementation or any further development of the improved process, therefore a qualitative approach was selected instead of quantitative approach for the data collection.

## 2.2 Research Design

This study includes four stages. The business challenge and the current market situation were the initial motives for the study. The research design of this study follows these four stages, a logical step-by-step process in order to achieve the objective and produce the outcome based on the business challenge. Figure 1 illustrates the research design of this study.

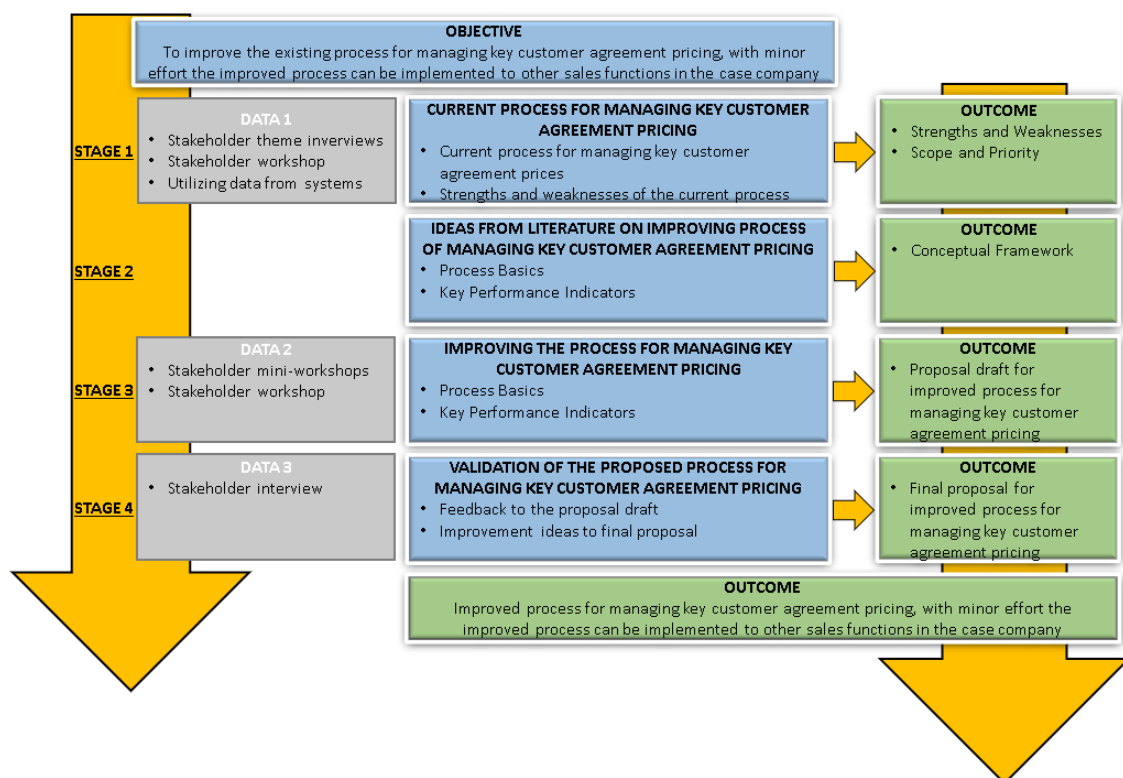


Figure 1. Research Design of this Study.

As illustrated in Figure 1 the current state analysis is the first stage of the study. In this stage, it is important to first analyze and understand the existing situation before working on improving it. The current state analysis was conducted for the target process for managing key customer agreement pricing at the case company. The current state analysis was started by reviewing the case company's sales data at its reporting systems and conducting stakeholder interviews. In those stakeholder interviews, the participants revealed individual observations, experiences and expectations and knowledge of how the process was executed. After all the stakeholder interviews were conducted, a workshop was organized, and the current process was mapped with the stakeholders. In the end of the stage, the current state was analyzed and the findings were summarized and categorized into strengths and weaknesses and key improvement areas were selected for this study.

The second stage illustrated in Figure 1 contained the ideas on improving the process from literature. As a result of gaining knowledge of the current situation of the process, the most appropriate professional academic literature was searched concentrating on the selected key improvement areas of the process. The Ideas from literature on improving the process established the conceptual framework of this study.

The third stage involved capturing and developing the proposal draft for the improved process in co-creation with the stakeholders based on the conceptual framework and selected key improvement areas of the current process. The stakeholder mini-workshops were performed in addition to the stakeholder workshop to ensure greater diversity in collaboration. The proposal draft for the improved process was the outcome of this stage.

As illustrated in Figure 1 the fourth and last stage included a validation of the proposal draft for improved process. The proposal draft was validated by presenting it to the relevant business management. At this stage, the head of key account management was the relevant stakeholder. Upon receiving constructive feedback from the head of key account management of the case company, the

proposal draft for the improved process was adjusted accordingly forming the outcome of this stage and study, the final proposal for the improved process.

## 2.3 Data Plan

The data for this study was collected from a variety of sources in three data collection rounds, including observations, internal systems and documents, stakeholder structured interviews, mini-workshops, and workshops. Overviews of all the data collection rounds are presented in the three different tables on below. Table 1 presents the Data 1 collection for the current state analysis including interviews, one workshop and examination of internal systems and documents.

Table 1. Data 1 Collection.

<b>DATA 1 - CURRENT PROCESS FOR MANAGING KEY CUSTOMER AGREEMENT PRICING</b>					
Content		Description, Strengths, and weaknesses of the current process			
#	Source	Data Type	Topic	Timing	Documented
1	ERP & reporting systems and BI software	Data (from systems)	Current state of key customer price lists, earnings levels	Accessed Nov 2021 to Mar 2022	Field notes
2	Key Account Management team meetings; weekly	Observations (in meetings)	Process operations	Dec 2021 to Mar 2022	Field notes
3	Key Account Manager1	Interview (Online, Ms Teams)	Operations and current state of the process	3 Jan 2022 11:10-12:00	Recording & field notes
4	Key Account Manager2	Interview (Online, Ms Teams)	Operations and current state of the process	3 Jan 2022 14:30-15:30	Recording & field notes
5	Key Account Manager3	Interview (Online, Ms Teams)	Operations and current state of the process	4 Jan 2022 10:00-11:00	Recording & field notes
6	Key Account Manager4	Interview (Online, Ms Teams)	Operations and current state of the process	4 Jan 2022 14:00-15:10	Recording & field notes
7	Key Account Manager5	Interview (Online, Ms Teams)	Operations and current state of the process	5 Jan 2022 11:10-12:00	Recording & field notes
8	Key Account Manager6	Interview (Online, Ms Teams)	Operations and current state of the process	10 Jan 2022 11:00-12:00	Recording & field notes
9	Key Account Support	Interview (Online, Ms Teams)	Operations and current state of the process	20 Jan 2022 12:00-13:30	Recording & field notes
10	Internal Purchasing department document	Document (Excel file)	Observations how purchasing department monitors the latest pricing changes agreed with suppliers	Accessed Jan 2022 to Mar 2022	<i>Toimittajien hintamuutokset.xlsx</i>
11	All stakeholders	Workshop (Online, Ms Teams)	Operations and current state of the process, mapping the process	24 Jan 2022 10:00-11:30	Recording & field notes
<b>Outcome</b>		<b>Strengths and Weaknesses &amp; Scope and Priority</b>			

As seen in Table 1, the Data 1 collection round, the goal was to gain the necessary knowledge and understanding to conduct a current state analysis. The Data 1 included the stakeholder interviews of the process, one workshop, observations while participating in weekly team meetings, and accessing internal documents and data from the case company's document platform, ERP, and reporting systems. Due to the ongoing situation with the COVID-19 corona virus and the distance between the key account management team members, all the interviews and workshop were conducted by using the Microsoft Teams online meeting application. The following Table 2 presents the second round of the data collection, Data 2 for creating the proposal draft for the improved process.

Table 2. Data 2 Collection.

<b>DATA 2 - IMPROVING PROCESS FOR MANAGING KEY CUSTOMER AGREEMENT PRICING</b>					
Content Improving Process Basics and Key Performance Indicators of the Process					
#	Source	Data Type	Topic	Timing	Documented
1	Key Account Manager1	Mini-workshop (Online, Ms Teams)	Co-creating of process basics and key performance indicators	18 Mar 2022 10:00-11:30	Recording & field notes
	Key Account Manager3				
2	Key Account Manager2	Mini-workshop (Online, Ms Teams)	Co-creating of process basics and key performance indicators	21 Mar 2022 09:00-10:00	Recording & field notes
	Key Account Manager4				
3	Key Account Manager5	Mini-workshop (face-to-face)	Co-creating of process basics and key performance indicators	21 Mar 2022 11:00-12:15	Recording & field notes
	Key Account Manager6				
	Key Team Support				
4	All stakeholders	Workshop (Online, Ms Teams)	Finalizing the proposal draft for improved process	28 Mar 2022 10:00-11:30	Recording & field notes
<b>Outcome</b>		<b>Proposal Draft for Improved Process for Managing Key Customer Agreement Pricing</b>			

In the second data collection round, the proposal draft for improved process were co-created by the stakeholders in three mini-workshops and a workshop. The meetings were conducted mainly by using the Microsoft Teams online meeting application due to the ongoing situation with the COVID-19 corona virus the distance between team members, except one which was organized face-to-face in the case company's headquarters in Helsinki. The following Table 3 presents the third and last round of the data collection, Data 3 for receiving the feedback from validation of the proposal draft for the improved process.

Table 3. Data 3 Collection.

<b>DATA 3 - VALIDATION OF THE PROPOSED PROCESS FOR MANAGING KEY CUSTOMER AGREEMENT PRICING</b>					
Content Improvement ideas to final proposal					
#	Source	Data Type	Topic	Timing	Documented
1	Head of Key Account Management	<b>Interview</b> (face-to-face)	Proposal draft for improved process	11 Apr 2022 13:00-14:30	Field notes
<b>Outcome Final Proposal for Improved Process for Managing Key Customer Agreement Pricing</b>					

The last data collection of this study was Data 3. As shown in Table 3 the validation was carried out with one stakeholder interview with the head of key account management and conducted in the case company's headquarters in Helsinki.

The next section of this study presents the findings from Data 1 collection as well as an analysis of the current state of the case company's process for managing key customer agreement pricing.

### **3 Current Process for Managing Key Customer Agreement Pricing**

This section describes the current state of the process for managing key customer agreement pricing at the case company, discusses the findings categorized into strengths and weaknesses and the key improvement areas. The data collection to establish an understanding of the current state in the case company was introduced in the previous section.

In this section an overview of the current state analysis (CSA) is provided of the process. The existing process is described, mapped, and analyzed and the findings are summarized into strengths and weaknesses and the key improvement areas were selected.

In the current state analysis, current process must be kept separate from ideal process. This is why companies official process descriptions are typically insufficient when identifying the activities that are actually performed on a daily basis. Therefore, an analysis of the current state is necessary since the official process descriptions might be describing an ideal target state instead of the current state at that time.

#### **3.1 Overview of the Current State Analysis**

The data collection began by examining the ERP system and analyzing Business Intelligence (BI) software. In the ERP system an overview and current status of the key customer agreement price lists in general were generated. An overview and current status of how the key account management team and each of the key account managers have performed in the past, as well as how sales figures and the case company's earnings have developed in the past year were examined in the BI software.

Managing key customer agreement pricing is the process under a key account management process. Both of these processes did not have official process descriptions or specifications to review at the case company. It was more

reasonable to focus on improving the process for managing key customer agreement pricing in this study rather than improving the main process, key account management process due to the current market situation and the urgency to improve the process for managing key customer agreement pricing. Without seeking improvement to the process, the case company might lose some of its earnings from the key customers, which would result in a loss of profit for the case company.

Actual observations of the process for managing key customer agreement pricing started in the stakeholder interviews. The stakeholders were limited to the key account management team since the team is responsible for managing the key customer collaboration and key customer total pricing at the company. The interviews were performed in person in Microsoft Teams online meeting application. The interviews were structured, and a set of general topics and prepared questions were shared in advance with the interviewees. Together with the interview structure, the interviewees were encouraged to elaborate on their own experiences and thoughts about the current state of the process for managing key customer agreement pricing. The Interviews were recorded, and the observations made during the interviews were entered into field notes during the meeting and written immediately after the discussions.

After the interviews were conducted and a summary of findings were finalized, a workshop was facilitated with the key account management team to map the current process for managing key customer agreement pricing. Preparations for the workshop were done based on the summary and findings of the interviews. The workshop was conducted using Microsoft Teams online meeting application, it was recorded, and the observations were entered into field notes during the workshop. The outcome of the workshop was mapped and captured a current state of the process for managing key customer agreement pricing at the company.

### 3.2 Description and Analysis of the Current Process for Managing Key Customer Agreement Pricing

Due to the lack of an appropriate and up-to-date visualization of the process for managing key customer agreement pricing, the process had to be mapped during the current state analysis. Visualization of the managing key customer agreement pricing process is illustrated in Figure 2 in next page. All of the analysis findings are presented in the summary of strengths and weaknesses in Table 4. in Section 3.3.

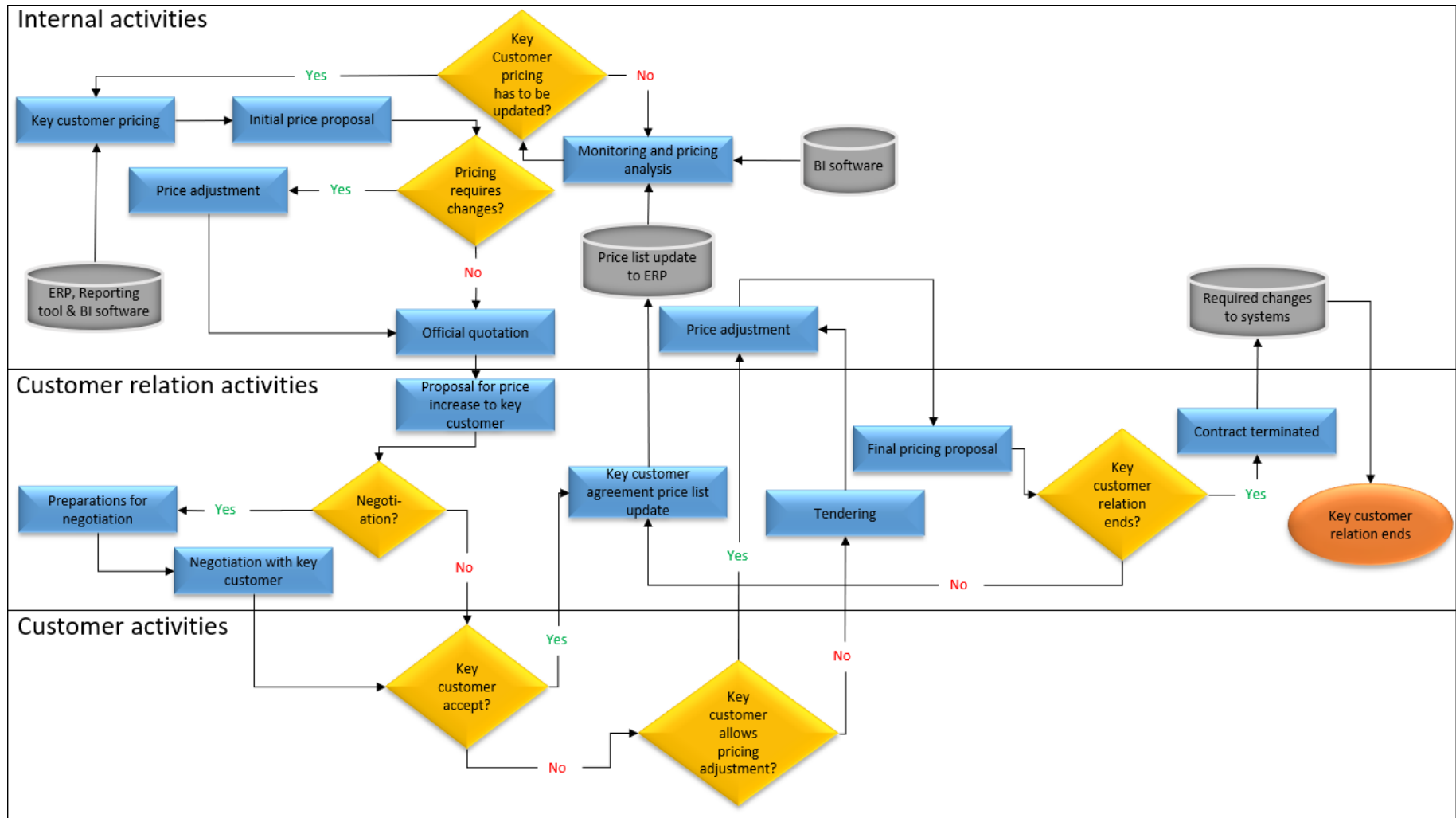


Figure 2. The Current Process for Managing Key Customer Agreement Pricing.

In Figure 2 the current process for managing key customer agreement pricing is illustrated in a process flow diagram. The process flow diagram includes three roles, internal activities, key customer relation activities and the key customer activities. The Internal role includes a set of activities and decisions that will be executed internally within the case company. The key customer relation role includes activities and decisions which will be conducted most likely together in the collaboration with the key customer. The key customer role includes two primary decisions which are expected to be made by the key customer during the process. Next, the scope of this study in the current process is presented in Figure 3 where the improvement areas will be sought later.

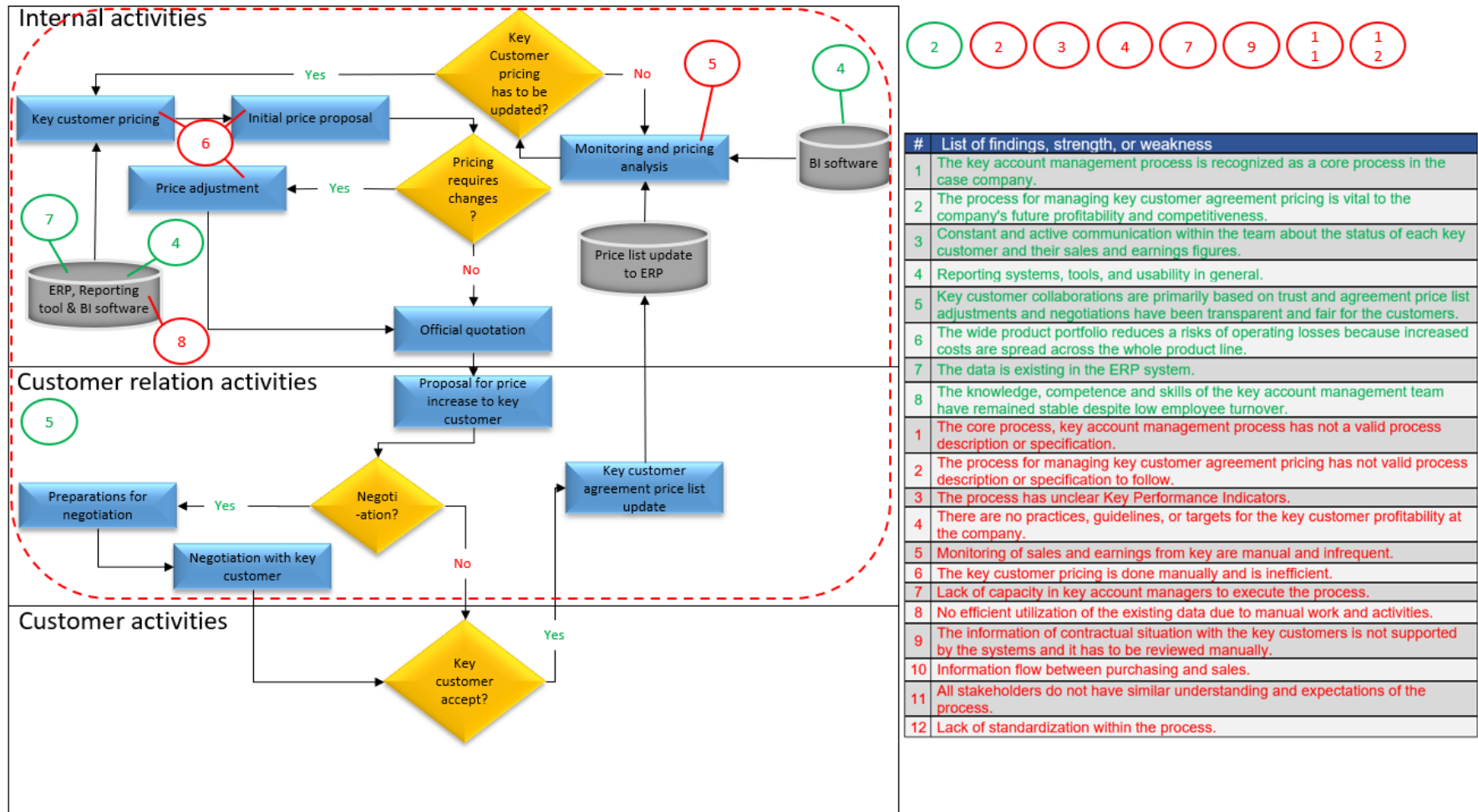


Figure 3. The Scope of This Study and Summary of Findings.

In Figure 3 the scope of this study is illustrated. The study is limited to improving the current process in internal and customer relation activities from the case company's point of view. The scope of this study is marked with red dashed line. Overview of the findings, strengths and weaknesses are illustrated beside the focus of this study. The overview of the findings is also presented in Table 4 in section 3.3. Figure 2 illustrated the possibility that the key customer price list adjustment and negotiation may trigger a tender by the key customer, which might threaten the future collaboration. However, because of long, transparent, and trustful collaborations with the key customers and fact that the partnerships were rarely lost, the rest of the process were excluded from this study. Due to the current market situation, it is urgent that internal activities are investigated and improved in order to agree adjustments to the key customers agreement price lists sooner.

### 3.2.1 Overview of the Process for Managing Key Customer Agreement Pricing

Even when the main process, the key account manager process, and one of its most important processes, the process for managing key customer agreement pricing did not have an official process descriptions or specifications, the key account management team has its practices in place and the team has been working together quite closely from short weekly meetings to longer sales meetings. During these team meetings, the key customer sales and earnings figures were presented and monitored with the whole team and the progresses of each key customer were followed. In addition, there was also regular discussion of the statuses of current collaborations with the key customers which were shared and reviewed together with all team members. Employment turnover within the key account management team has been zero during the last years and the knowledge and competence has been able to sustain at the team and the case company.

An observation made during the CSA which was also pointed out by the stakeholders during the interviews; the key account management process is

recognized to be an important core process for the case company. Approximately 40 percent of the company's annual revenue is generated by the key customers managed by the key account management team. As part of the key account management process, the key account management team is responsible for managing and sustaining the existing key customer relations.

The key account management team is taking care of the key customers and trying to maximize commitment and satisfaction of the key customers. The key customer commitment and satisfaction will be maintained by developing collaborations and strengthening the existing service level, seeking efficiency and utilizing the company's service concepts and offering in appropriate ways. In addition, the key account management team is responsible for the total pricing, identifying new sales opportunities from the key customers, maximizing sales from the key customers, and ensuring profitability for the case company.

The process for managing key customer agreement pricing is recognized to be one of the most important processes within the key account management. The process for managing key customer agreement pricing is crucial to retaining the company's future profitability and competitiveness. The process can ensure that the company earns the appropriate and reasonable amount of income from its key customer compared to an existing market situation. At the same time, it should make sure that it maintains a competitive total pricing for the key customer, ensuring that both parties are satisfied. There are a few key suppliers in the market, the competition is tough, and the key customers are usually price-conscious.

However, all of the stakeholders did not have similar understanding and expectations for the process for managing key customer agreement pricing. Since the process was not mapped before and the existing process description and specification are missing, it was identified that the process includes many manual activities where working is based on the key account manager's own competence, knowledge, and choices. It was noted that there is a lack of standardization within the process.

### 3.2.2 Process for Managing Key Customer Agreement Pricing

The process for managing key customer agreement pricing starts usually at monitoring and pricing analysis activity because the case company is already having the existing key customer collaboration to monitor. This activity is carried out in the BI software which is utilized to review and analyze the key customer sales and earnings figures between different set of periods. After the analysis, if the key customer pricing should be adjusted and negotiated, the key account manager has to make a decision to start reviewing the current agreement pricing. If not, then the process will return back to the monitoring and pricing analysis activity. In this activity and decision, a contractual situation or the past collaboration with the key customer may have some influence on the decision.

The key customer agreements are archived and maintained in an internal cloud document platform where they can be reviewed and updated on a regular basis once new agreements have been signed. This current contractual status with the key customer, for example agreement period or next opportunity to propose and agree mutual adjustment to the existing agreement pricing are not available in the daily tools used by the key account managers such as the ERP system, the BI software, or a customer relationship management software. Reviewing the contractual period of the key customer is currently challenging.

The key account manager begins to work on the key customer existing agreement pricing and preparing a proposal for the key customer. This includes a review of the key customer existing agreement pricing in a subprocess and two or three different activities and one decision. The required data for these activities are utilized and exported from systems such as the ERP, the BI, and the reporting system. This usually includes the key customer's current agreement price list, their purchases from the last year or rolling 12 months period, current purchasing prices to the products and so on. After the current agreement pricing has been re-calculated and reviewed, new key customer pricing is formed, and an official quotation is created and sent to the key customer as a proposal or price letter to adjust the current agreement pricing.

Following that, a mutual decision must be made between the key customer and the case company if the price letter requires negotiation or not. The common trend has been to discuss openly the content, reasons, and the latest market changes behind the price increase proposal more in details in the negotiation. In some cases, the proposal to adjust the existing agreement pricing have been accepted by the key customers without the negotiation. In case the negotiation is required, the key account manager has to prepare reasonable material for the negotiation. In the negotiation the information needs to be shared with the key customer and the key account manager must seek their understanding and acceptance of adjusting the existing agreement pricing with the new proposed pricing.

During or after the negotiation if the key customer accepts the proposed new pricing and the adjustment, then the agreement price list will be updated accordingly with the key customer. When this activity has been done, the key account manager has to also update the key customer agreement pricing in the case company's ERP system. After the new agreement price list has been updated, the process will return to the monitoring and pricing analysis activity. This activity will start monitoring the key customer new agreement pricing and when the monitoring recognizes a new process trigger, the key account manager should again make the decision to start executing the process and work with the key customer agreement pricing with the key customers.

If the key customer refuses to accept the proposed new pricing and the adjustment for existing agreement pricing, usually the key account manager reviews the proposed pricing and seeks for alternatives to decrease the total price increase. This loop of the process is mapped quite narrowly in order to retain sense on the visualization. It is possible and an existing threat that the pricing letter and the negotiation with the key customer may trigger a tendering organized by the key customer. In worst case scenario the existing relation ends, and the existing contract will be terminated between the parties. This might happen, if the key customer decides to continue with a competitor instead of the case company. However, this has not been very common, since the pricing proposals, the

negotiations and the collaborations have based mostly on transparency, trust, and fairness.

### 3.2.3 Information Flow Between Purchasing and Key Account Management

A majority of the interviewees mentioned that the information flow from the purchasing department to the key account management is not working properly and for this reason the process for managing key customer agreement pricing is getting more challenged. The relation between the purchasing department and the key account management is not illustrated in the process flow diagram in the Figure 2. The key account management team is expecting to receive information from the purchasing department more frequently of the latest changes in the market or changes in the purchasing costs.

In addition, the reporting tools does not provide effective support for the daily work since there are not currently any tools to monitor the changes in purchasing costs very efficiently. In certain cases, the key account managers have been unable to predict increases in purchasing costs of particular products, while agreeing new adjustment to the existing agreement pricing with the key customers. In these cases, the key account managers may be contacted by sales representatives which are informing about negative earnings within a delivery.

In the purchasing department is working plenty of purchasers, product managers and category managers. It was recognized that the purchasing department and the product management have been more proactive and independent in informing the key account management about becoming changes in their own responsible products occasionally but not always.

The purchasing department is maintaining an internal document at the company to keep track of an overview and progress of agreed changes between the purchasing department and the suppliers. Few of the interviewees commented that the document is “nice-to-know” information to the key account management and is not providing any efficiency to the process. But rather than the document,

the same information should be available in the key customer agreement price list level when the key account manager would be able to monitor the changes in purchasing costs. Then the key account manager could start executing the process and working with the required price adjustments with the key customer. In general, the key account management team and the company's other sales functions lack the required transparency to the changes in purchasing costs, making it difficult to maintain reasonable earnings levels from the key customers.

As long as the agreed changes between the suppliers and the purchasing department are not transparently available in the sales in the key customer price list level, we have very limited capabilities to adjust and negotiate prices accordingly with the key customers. (CSA interviewee)

It was identified that a majority of the challenges related to the information flow between the purchasing department and the key account management team can be attributed to the current market situation. The purchasing department had to agree 4-5 times more price increases with the suppliers for the year 2021 than for more stable years in the past. A continuous price negotiations with the suppliers challenged the purchasing department in the year 2021 and reduced the ability to provide information to the key account management proactively.

#### 3.2.4 Supporting Functions

One of the major observations and identified challenge within the CSA was lack of supportive functions. This includes supportive functions such as IT, business, and sales support. Many of the interviewees commented that most of the process related activities to the process are manual, inefficient and requires too many resources and effort. In addition, the key account management is solely responsible for maintaining and updating the agreement price lists to the key customers.

The key account managers commented that they do not have enough capacity to execute the process by themselves for all of their key customers. This challenge in capacity has increased now during the current market situation. The

key account management has one supportive person who is supporting the key account managers to propose, adjust and update the existing key customer agreement pricing. Furthermore, also the capacity in the supportive function within the team is limited to only one person, and response times are getting longer.

The monitoring and pricing analysis activity is primarily done in the BI software which is mostly manual and infrequent. The ERP and the BI has all of the data to consider within the analysis but the key account management or the case company have not defined where the focus should be on.

The key customer pricing and generating the official quotations are primarily done in the Microsoft Excel where pricing calculation activities are manual. The data for these activities are gathered and exported from several systems, such as the ERP, the BI, and the reporting tool. The key account management team praised reporting systems and tools in general and how user-friendly they are in terms of usability. Despite this strength, this is not having significant benefit in the process for managing key customer pricing.

The company has business support department which is supporting the whole company. The business support is not capable to support the key account management in required level and providing pricing calculations or frequent data or other relevant information for the team. It was mentioned by the stakeholders that the business support appears to be focused on other business functions than supporting the key account management. The company do not have designated sales support department. However, the supportive person working in key account management is executing similar activities for the team, than would be required from the sales support department.

The data is existing already in the ERP system, but it is not utilized very effectively in the key account management. (CSA interviewee)

According to most of the interviewees, when the purchasing department agrees to the required changes with the suppliers, the information and new prices are imported into the ERP system. Furthermore, the historical purchasing prices are

available. The data is found to exist in the ERP system, but there are no specific practices for utilizing the data efficiently within the process or in the key account management.

### 3.2.5 Triggers to Execute the Process

As described earlier, the process begins at the monitoring and pricing analysis activity which is done by using the BI software. During the CSA four different process triggers were recognized to start executing the process and were listed on as below:

- Market observation, purchasing prices or costs are increasing and influencing significantly to the key customer profitability based on historical purchases.
- Monitoring and pricing analysis activity indicates lowered earnings from the key customer between two separate time periods.
- Contractual situation, existing agreement with the key customer allows price negotiations and adjustment.
- The key customer contacts the company in terms of current pricing or new tendering.

Market observations are highly depending on the information received from the purchasing department. The information flow from the purchasing department to the key account management was described to be challenging and the systems are not supporting it. Also, when the product portfolio and the supply chain are wide, the key account management cannot get clear understanding of the market changes in required level. However, during the current market challenges one of the strengths was discovered, when the product portfolio is wide and only few product categories are heavily influenced, the company's whole offering is lowering risks in operating losses because increased costs in few products are divided between the whole offering.

As mentioned earlier, the monitoring and pricing analysis activity was done in the BI software and is mostly manual and infrequent. However, the key account management team regularly discusses the statuses of the key customers and

sales and earnings figures are frequently monitored. There are no standardized ways to follow the key customer progress within the team and individually.

The key customer contractual situation and how it can be followed were discussed earlier. This process trigger includes the current challenge to keep up-to-date of the key customer contractual situation. The current daily work and the systems used do not support the information for starting the pricing discussion and negotiation with the key customer properly according to the contract.

The key customer may contact key account manager in terms of tendering or urgency to review the current agreement pricing. The process activities especially at the end, can vary, but it was important to have listed as one of the possible process triggers and recognized for the future improvements.

### 3.2.6 Process Key Performance Indicators

The key account management team monitors the progress of the key customer sales and earnings figures frequently in team meetings, in weekly review or longer sales meetings. The interviews revealed that the company has not set any specific guidelines or targets for the key customer profitability in general. In addition, there are not any proper KPIs in place for the process. It is impossible to determine if agreed price adjustment with the key customer has reached the company's expected outcomes.

The company has not set targets for the key customer profitability or KPIs, so I do not know how I have performed. (CSA interviewee)

The lack of key performance indicators and targets for the key customer profitability are challenging the whole pricing process. This includes the activities and subprocesses involved in adjusting and negotiating the agreement pricing with the key customer and the monitoring of what is being finally agreed with the key customer. In the absence of proper guidelines or targets, some of the key account managers have felt frustrated at some point during the process because there were no expectations and decisions had to be made solely on their own.

### 3.3 Summary of Findings of the Current Process

The findings from the current state analysis, considered to be either strengths or weaknesses of the process, are shown in Table 4. The strengths are colored in green and weaknesses in red.

Table 4. Summary of Strengths and Weaknesses.

#	List of findings, strength, or weakness
1	The key account management process is recognized as a core process in the case company.
2	The process for managing key customer agreement pricing is vital to the company's future profitability and competitiveness.
3	Constant and active communication within the team about the status of each key customer and their sales and earnings figures.
4	Reporting systems, tools, and usability in general.
5	Key customer collaborations are primarily based on trust and agreement price list adjustments and negotiations have been transparent and fair for the customers.
6	The wide product portfolio reduces a risk of operating losses because increased costs are spread across the whole product line.
7	The data is existing in the ERP system.
8	The knowledge, competence and skills of the key account management team have remained stable despite low employee turnover.
1	The core process, key account management process has not a valid process description or specification.
2	The process for managing key customer agreement pricing has not valid process description or specification to follow.
3	The process has unclear Key Performance Indicators.
4	There are no practices, guidelines, or targets for the key customer profitability at the company.
5	Monitoring of sales and earnings from key are manual and infrequent.
6	The key customer pricing is done manually and is inefficient.
7	Lack of capacity in key account managers to execute the process.
8	No efficient utilization of the existing data due to manual work and activities.
9	The information of contractual situation with the key customers is not supported by the systems and it has to be reviewed manually.
10	Information flow between the purchasing department and the key account management.
11	All stakeholders do not have similar understanding and expectations of the process.
12	Lack of standardization within the process.

As shown in Table 4, a total of 20 findings were identified. The findings are divided into 8 strengths and 12 weaknesses. Table 4 reveals that the weaknesses are

evenly distributed throughout the process. Therefore, any particular activities or areas of the process may be considered as the weakest.

### 3.4 Key Improvement Areas of the Current Process

Table 5 presents all the findings placed into five distinctive categories. The first two categories including all the weaknesses except the first key account management core process are following to Stage 2 and the literature review of this study.

Table 5. CSA Findings Divided into Categories for Literature Review.

Category	Findings
<b>Process Basics</b>	No valid process description or specification in the core process
	No valid process description or specification in the process
	Unclear understanding and expectations
	Lack of standardization
	Lack of capacity
<b>Key Performance Indicators</b>	Unclear KPIs of the process
	No guidelines or targets for the key customer profitability
<b>Information flow</b>	Information flow between the purchasing department and the key account management
<b>Lack of IT &amp; sales support</b>	Monitoring of sales and earnings are manual and infrequent
	Pricing is done manually and is inefficient
	The data is not utilized efficiently due to manual work
	Review of the key customer contractual situation is manual
<b>Strengths</b>	Core process of the company
	The process is vital to the company
	Activities and communication within the team
	Reporting capabilities in general
	Trust, transparency, and fairness within collaborations
	The data is existing
	The knowledge, competence, and skills within the team

As shown in Table 5, the findings were divided to four different weakness categories and strengths. Observation of the weakness in the key account

management process description and specification was done in the CSA and it was listed in the findings. However, due to the study objective it was left outside of the improvements and literature review. In order to improve the current key account management process, another study, objective, CSA, and literature review would have been required to conduct the study accordingly.

One of major improvement was noticed to be the lack of IT and sales support at the case company. These manual working activities within the process are inefficient and consuming too much time and many resources. This improvement area and the weaknesses were excluded from the improvement and literature review due to the applicability of this degree programme and the difficulty of finding relevant literature. In addition, the weakness identified for information flow between purchasing and the key account management was left out of the improvement, since the challenge is related mainly to the current market situation.

The first weakness category for literature review is related to process basics, which includes unclear process description, specification and understanding and expectations and lack of standardization within the process and capacity to execute the process. The second weakness category is for measuring and monitoring the process, and ideas on improving the key performance indicators of the process are drawn from the literature.

The improvement within this study is focusing on narrow but deep scope of two major topics: process basics and key performance indicators. In the next Section 4 the existing knowledge within academic literature is searched for improvements. The literature review aims to propose improvements specific to the identified weaknesses and selected key improvement areas of the current process by reviewing relevant literature.

## **4 Ideas from Literature on Improving Process for Managing Key Customer Agreement Pricing**

This Section 4 focuses on gathering the relevant existing knowledge found from the reviewed literature and generating the conceptual framework for the study. The literature search was conducted based on the outcome of the current state analysis described in Section 3.

In this section, two subsections summarize the key findings of the literature review. Each subsection begins by describing the relevant idea, concept, or methodology, followed by a discussion of the relevance to this study. Section 4 summarizes the most important knowledge in visual format, which establishes the conceptual framework for this study.

### **4.1 Process Basics**

An organization organizes its activities into processes. By developing and understanding activities as processes, an organization can implement strategy, improve efficiency, increase customer satisfaction, and promote cross-functional and cross-organizational collaboration. Processes are activity chains that create customer value. These activity chains require organizations to invest resources, to manage and control them effectively. In order to achieve an organization's objectives, its processes must be managed and controlled properly (Martinsuo and Blomqvist 2010: 4-7).

According to Martinsuo and Blomqvist (2010) a process must generate economic profit for the organization in order to be considered a business process. Goals and objectives of processes, in particular business processes, should be clearly defined, and the progress toward those goals should be monitored. (Martinsuo and Blomqvist 2010: 4-7). In addition, mapping of an existing process may not be able to capture its ideal activities and outputs, while the captured process description may be chaotic, vague, and unclear. Martinsuo and Blomqvist (2010)

emphasizes that the ideal target process must be kept separate from the current state (Martinsuo and Blomqvist 2010: 17).

Process management enables an organization to improve its performance by developing its processes. Achieving these performance improvements an organization requires adequate data regarding the current level of performance and awareness of factors that affect it positively or negatively. Monitoring and evaluating activities must be systematically done and their value creation logic must be explicitly stated. Process-related performance indicators should support systematic monitoring and evaluation. Setting goals for processes according to organization goals, tracking and understanding feedback from processes, and using the feedback data to develop processes are the keys to process management. In figure 4 a simple process model and flow of feedback is illustrated (Martinsuo and Blomqvist 2010: 4-7).

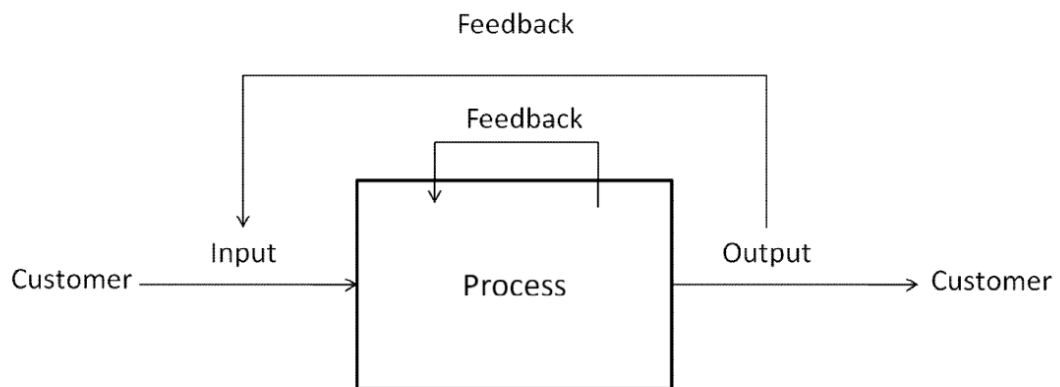


Figure 4. Model of a Simplified Process (Martinsuo and Blomqvist 2010: 8).

Even though Figure 4 shows a very simple model of a process it still contains a lot of valuable information that might be easily forgotten in an organization's daily operations. In Figure 4 the customer is mentioned twice to emphasize that there should always be an internal or external customer need for the operation. It is obvious from Figure 4 that the process is a transformation that adds value to the customer. Additionally, also the word feedback appears twice, emphasizing the importance of monitoring both the output and the process itself. Feedback within

this process allows for improvement in the process, regardless of the quality of the output.

#### 4.1.1 Business Process Re-engineering (BPR)

As a collection of processes, an organization can be divided into three categories: strategic, operational, and enabling. Armistead et al. (1995) introduces Business Process Re-engineering (BRP) as an approach to achieve extreme improvements in performance by utilizing resources in a way that maximizes activities that adds value and minimizes activities that are only adding cost. They have combined the principles proposed by Hammer (1990) and the characteristics of Hammer and Champy (1993) summarized them into eight rules to improve processes as follows:

- 1 Focus on outcomes, not tasks.
- 2 Execute the process with those people who will use the output.
- 3 Make hybrid centralized and decentralized organizations from geographically dispersed resources.
- 4 Organize activities in a natural order and execute them in parallel.
- 5 Execute work where it is most appropriate, particularly, decision-making, processing of information, checks and controls making them a part of the process.
- 6 Reduce reconciliation by capturing information once and at the source.
- 7 Create a single point of contract by combining several jobs into one.
- 8 When necessary, create multiple versions of a process (Armistead et al. 1995: 46-47).

Armistead et al. (1995) states that processes can be all measured. There are important measures that are related to customers. These measures help to serve the customers by the reorientation of process thinking. In addition, a process has great benefits from an ownership of higher-level business processes and lower-level task-oriented processes. If ownership is not taken, the process may not be

followed as it should be, may never be developed, and may not receive attention from the organization (Armistead et al. 1995: 51-52).

#### 4.1.2 Standard, Customized, Nascent or Artistic Process?

Increasingly, process standardization is adopted by organization on today's businesses. Even when there is no clear reason why the standardization is so important. Hall and Johnson (2009) present a three-step approach to help identifying and successfully integrating the processes into organization's businesses (Hall and Johnson, 2009: 59).

What is an artistic process? Hall and Johnson (2009) describe "art" with following quotes "judgment-based work", "craft work" and "professional work". Common to all these types of art or work is variability in both inputs and outputs of the process. Art may be usually required in environments that keeps changing. Few conditions that can favor these artistic processes: Environment is highly variable and customer value is created through output variation. Many processes are art, such as customer service, customer relationship management or business development (Hall and Johnson, 2009: 59-62).

		PROCESS ENVIRONMENT	
		LOW VARIABILITY	HIGH VARIABILITY
VALUE OF OUTPUT VARIATION TO CUSTOMERS	POSITIVE	Mass customization	<b>Artistic processes</b>
	NEGATIVE	Mass processes	Nascent or broken processes

Figure 5. The Process Matrix (Hall and Johnson, 2009: 61).

According to Hall and Johnson (2009) the process matrix includes four types of processes: mass processes, mass customization, nascent or broken processes and artistic processes. Managers can use the process matrix to categorize processes in their organization and judge how they might or should change (Hall and Johnson, 2009: 61).

Hall and Johnson (2009) have defined the three-step approach for managing artistic process in the organizations:

- 1 Identify which processes should be artistic and which not.
- 2 Develop an infrastructure to support artistic processes.
- 3 Periodically re-evaluate the division between artistic and other processes.

The goal of mass processes is to eliminate variation in output. In these cases, all artistic discretion should be eliminated. They are appropriate for narrow-range products and services whose output should be totally consistent. Mass customization is a scientific method of producing controlled variations in output. Typically, mass customization provides the best of both worlds: control and variation. However, when customers demand true customization, mass customization falls short. Processes that are nascent or broken can't produce the consistent output that customer requires. Managers should consider whether it is possible to control output variation. In cases where variation cannot be controlled, but customers can be persuaded to value it, an artistic process may be the answer. When customers refuse to accept variation, they need to understand its causes and create a standard process (Hall and Johnson, 2009: 61).

Using artistic processes, an organization can create variations of outputs that customers will value. These processes leverage variability in the environment and they rely based on the judgement and experience given by the performers of the process. Understanding the customer's needs and expectations about output variations will be crucial before choosing an artistic process. Some managers believe the company demands an artistic output when the vast majority of customers want a standard product. The questions that managers should explore are "Where will the artistic process add value?", "How Should artistic process be

supported?” and “How should artistic process evolve?” (Hall and Johnson, 2009: 60-61).

#### 4.1.3 Standardization in Knowledge Work in Process Enterprises

According to Hammer and Stanton (1999) companies are operating faster and more efficiently and utilizing information technology more effectively because of re-engineering. This has improved the jobs of employees, empowering them with more authority and they are able to view how their work is integrated into the overall operations. Customers have been rewarded with better quality of products and customer-centric service. It has reduced costs, increased revenues, and values of the companies (Hammer and Stanton 1999: 108).

A company can benefit and make a leap from process redesign to process management. The companies that make the leap have great opportunity to become a true process enterprise company and have management structures in harmony with the core processes (Hammer and Stanton 1999: 109).

Hammer and Stanton (1999) describes the following transformations may be required for an organization to take such leap:

- 1 Appointing the best managers to be process owners and giving them real authority over work.
- 2 Shifting the focus of measurement systems from department goals to process goals.
- 3 Changing the way assigning and training employees.
- 4 Emphasizing the processes as a whole, instead of a focusing on narrow tasks.
- 5 Changing the organization’s culture in subtle but fundamental ways.
- 6 Emphasizing and prioritizing teamwork and customers over turf and hierarchy.

The existence of process owners is one of the key differences between a traditional organization and a process enterprise. A process should have a

process owner, most likely a senior manager, who has real end-to-end responsibility and authority for designing and monitoring the process, as well as training the employees who execute the process. Supervisors and managers often serve as facilitators or coaches, since process teams usually consist of cross-functional groups of individuals. Process ownership must be a permanent role. As business conditions change, process designs must evolve, and process owners must guide this evolution. Also, without strong process owners, old organizational structures will soon re-emerge (Hammer and Stanton 1999: 111-114).

The key challenge in a process enterprise is process standardization versus process diversity. Process standardization in organizations may offer many benefits. It reduces overhead costs since it requires only one process owner and staff, one set of training materials and documentation, and one information system. With standardized processes, a company can present its suppliers and customers with one contact, providing cost-efficiency and reducing transaction from the company and stakeholders. Additionally, an organization can increase its flexibility through process standardization. Having all departments perform a process in the same way allows a company to easily reassign people within the organization when its organizational structure is more flexible. One argument for standardization is process diversity may offer important advantage: The company can serve different types of customers in different ways. Hammer and Stanton (1999) suggests companies to standardize processes as much as possible without affecting their ability to meet the needs of a variety of different customers (Hammer and Stanton 1999: 114-115).

#### 4.1.4 Applying LEAN Principles to Knowledge Work

According to Staats and Upton (2011), The LEAN principles were developed by the Toyota Production Systems for improving the efficiency of manufacturing industries. The LEAN principles are extremely difficult for knowledge workers to apply. While assembly work directly involves knowledge and judgement, knowledge-based work does not require repetition, nor clearly defined involving

expertise and judgement, but relies only on so-called tacit knowledge generated by workers (Staats and Upton, 2011: 101).

However, Staats and Upton (2011) clearly state that though knowledge work may not seem the most obvious place to apply the LEAN principles. Studies across multiple industries have demonstrated that knowledge work can benefit from these methods of increasing efficiency when following six principles are applied:

- 1 Make sure that waste is continually rooted out.
- 2 Tacit knowledge should be made explicit.
- 3 Describe how employees should communicate.
- 4 Problems should be solved quickly by applying the scientific method.
- 5 Understand that a lean system is a work in progress.
- 6 Leaders should lead the way.

The majority of knowledge work involves tasks that do not require any judgement. Therefore, knowledge work can be streamlined to improve collaboration between stakeholders by training workers to identify and minimize waste. (Staats and Upton, 2011: 102-103).

#### 4.1.5 Process and Enterprise Maturity Model (PEMM)

Michael Hammer (2007) developed a framework for assessing and implementing changes to an organization's processes. This framework is called Process and Enterprise Maturity Model (PEMM). The framework consists of insights of a well-designed and functional process. The model contains multiple statements that are compared with the target process. The PEMM tool includes five enablers and four enterprise capabilities. The process enablers apply to individual processes while the enterprise capabilities apply to an organization's potential. These process enablers are design, performers, owner, infrastructure, and metrics (Hammer, 2007: 111-123). The PEMM tool is shown in Appendix 1.

A process must have a well-defined design; without the design the employees who are responsible for performing it might not know what they should be doing or when. The employees who are executing the processes are called the performers. These performers must be having suitable competence in terms of skills and knowledge, without it they couldn't be able for implementing the design. The process must have an owner, most likely a senior executive who is having the responsibilities and authority to ensure that the process is delivering expected results, otherwise it will be worthless. The company is responsible for aligning its infrastructure, which includes such as information technologies and HR systems and supporting the processes. Without them most likely its performance is being disturbed. Eventually the company has to set and utilize the right metrics in order to evaluate the performance of its processes over time, without having the evaluation in place the processes might not be delivering the right or expected results. These characteristics are called enablers which are giving an organization's process the required potential to deliver high performance (Hammer, 2007: 111-123).

In order to provide high-performance, businesses need to provide supportive environments for their processes. Companies need to manage and develop capabilities within their organizations in four different areas, leadership, culture, expertise, and governance. These are the four enterprise capabilities introduced in the framework (Hammer, 2007: 111-123). In Hammer's concept of comprehensive end-to-end process redesign, the enterprise capabilities are crucial, but they are outside the scope of this study.

Essentially, PEMM is a tool for auditing processes, but it can also be utilized to create the basic building blocks and requirements for a business process. The tool identifies four levels of process maturity, which contribute to the improvement of the process.

## 4.2 Key Performance Indicators

Key performance indicators (KPIs) are crucial tools managers use to determine whether their business is on track or heading off course. By setting up the right indicators, managers will be able to identify where performance needs improvement. KPIs can guide managers, but without them they don't understand the direction of their work (Marr, 2013).

According to Parmenter (2015) key performance indicators of an organization are those indicators focusing on aspects of its performance that are crucial to its success now and in the future (Parmenter, 2015: 7).

Taylor and Ahmed-Kristensen (2016) suggest following six criteria for effective KPIs:

- 1 An organization's strategy should determine KPIs.
- 2 KPIs should have an explicit purpose.
- 3 Methods of collecting data and calculating performance must be transparent.
- 4 Selection of KPIs should involve all stakeholders.
- 5 KPIs should take into account an organization.
- 6 KPIs should be adjusted as circumstances change.

It seems to be likely that most managers are unable to identify the few most important management metrics. Instead, they collect and report a vast amount of data on everything that can be measured. The most effective managers and decision makers are usually those who understand all key aspects of their business and distill all of them into key performance indicators. Failures or weaknesses to understand key metrics can cause anxiety and negatively impact performance (Marr, 2013).

#### 4.2.1 Winning Key Performance Indicators

According to Parmenter (2015) organizations often use the wrong measures, mainly result indicators based on the organization's historical results. Parmenter (2015) has defined the seven characteristics of key performance indicators:

- 1 **Nonfinancial.** In terms of business performance, financial measures are important, but they are not used as indicators of change.
- 2 **Timely.** It is important to monitor KPIs daily or at least weekly. Measures that are monitored only monthly or less frequently cannot be considered as indicators of the business.
- 3 **CEO focus.** Every KPI of the business should be important and making a difference and they should have always the CEO's attention and interest.
- 4 **Simple.** All KPIs should automatically reveal what needs to be done. Simplicity of understanding it and making the correct actions.
- 5 **Team based.** KPIs should always be associated with a team. The KPI should be owned and managed by someone. Just like all the businesses, teams, or processes.
- 6 **Significant impact.** There cannot be any KPIs that are irrelevant to the business, they must affect one or more of the critical success factors.
- 7 **Limited dark side.** KPIs should not lead to dysfunctional behaviors like partial optimization at the expense of others.

Parmenter (2015) has suggested three tasks towards finding the Winning KPIs:

1. An organization should ensure that KPIs meets all the above seven characteristics,
2. An organization should limit company-wide KPIs to 10 or less,
3. An organization should test all KPIs in three pilots. In addition, the organization's KPIs must be fully understood by all employees (Parmenter, 2015: 205-206).

#### 4.2.2 Approach for Setting SMART Objectives

Different people have defined the meaning of SMART in different ways. According to (Bjerke and Renger, 2017) SMART stands for Specific, Measurable,

Assignable, Realistic, and Time-related. The SMART method can be used as a guide on how to write an effective management objectives. The SMART method has become mainstream and management professionals commonly use the SMART method to establish measurable, effective goals and objectives (Bjerke and Renger, 2017: 125).

The SMART method is more advantageous for organizations that use evaluation principles to monitor and improve processes and operations despite limited resources. However, in many organizations, the SMART criteria are applied “blindly” without understanding the rationale behind each of the SMART criterion (Bjerke and Renger, 2017: 125).

It may not be always possible to achieve smart objectives by following a SMART approach in one step. When there is no appropriate baseline information available, it will be difficult to set realistic or time-related objectives. Thus, a stepwise approach may be required to creating SMART objectives. It may be helpful to start with defining specific, measurable, and assignable objectives and then gathering baseline data. After the appropriate baseline data has been gathered the last two criterion, the realistic and time-related could be applied. Setting the SMART objectives requires caution, evaluating the context always, and following a step-by-step approach should be considered (Bjerke and Renger, 2017: 126-127).

#### 4.2.3 Lagging and Leading KPIs

Kaplan and Norton (1996) present two categories for performance indicators. These performance indicators are divided between lagging and leading indicators. Lagging indicators or outcome measures reports how an organization’s strategy has worked in the past period but are not able to predict well enough the future. These lagging indicators typically consist of financial indicators. Leading measures or performance drivers are those measuring factors that impact a process and that predict an organization’s future performance, such as satisfaction surveys (Kaplan & Norton, 1996:55-76).

Lagging indicators might provide information too late to adjust and modify the outcome. These indicators only report what has happened. However, an organization should include lagging indicators in set of KPIs because they provide insight to the organization how the business has performed against targets (Marr, 2015).

There should be always be a balance between leading and lagging KPIs. Lagging KPIs alone cannot communicate how to achieve the expected results of a process. Leading KPIs helps management identify where adjustment need to be made to ensure a process success and monitors variables that influence success (Taylor and Ahmed-Kristensen, 2016: 1616).

#### 4.2.4 Customer Profitability

Customer satisfaction or, more likely, 'delight' has become a corporate mantra in recent times, with the belief that organizations can earn profits by satisfying the needs of customers. According to customer analysis by a US-based insurance company, 15-20% of customers generate 100% of profits. The most profitable customers generate 130% and the least profitable 5% of customers do not generate profits at all (Marr, 2013).

Customer profitability is calculated by dividing revenue earned by an organization by its costs associated with the customer relationship for a set period. In other words, customer profitability is the net euro contribution made by an individual customer to the organization. Customer profitability is not a single measure since it covers several time-frames (Marr, 2013).

Marr (2013) has listed four primary measurements of customer value:

- **A customer's historical value.** Value earned from providing a service to a customer over an extended period of time, such as the prior quarter, year, or since the relation began. Value can be measured as a simple average of historical periods or time weighted, by placing higher emphasis on previous periods.

- **A customer's current value.** It will be measured in a shorted time-frame, usually a month. Current value is often volatile since a single month cannot provide accurate progress of the relationship status. However, it has advantages and highlight the impact of changes in the customer relation when comparing to current values from previous periods. It will be most useful when measuring the impact of campaigns, new offers, and pricing changes on customer value.
- **A customer's present value.** Is measured future-oriented. This typically considers the revenue gained in the future and existing costs associated with the business with a customer. Usually, this measure is extended only to the contractual lifetime of ongoing products and services. Present value can be used for customer ranking according to their value and determine sales compensation rates. It is frequently used to model the impact of price and service decisions before they are implemented.
- **A customer's lifetime value.** It is another future-oriented measurement. What differs it from present value is a following component: The lifetime value of a customer is calculated by taking into account both existing revenue streams and future revenue streams expected from the customer relation.

Many organizations will more likely use time-based activity-based costing as part of assessing customer profitability, which measures the present total cost of providing products or services to a customer. It is important to measure customer profitability, but it is expensive, especially when an organization desires to analyze the profitability of many customers (Marr, 2013).

According to Kaplan and Norton (1996) successful customer satisfaction does not always guarantee that the customer is profitable. Organizations should aim for more than just happy and satisfied customers; to succeed, they should need profitable customers. Companies are able to measure individual and aggregate customer profitability using activity-based cost (ABC) systems. Customer profitability is a financial measure that can prevent customer-centric organizations from becoming customer-obsessed (Kaplan & Norton, 1996:61).

### 4.3 Conceptual Framework of the Study

The previous sections describe the improvement ideas found in the relevant literature. The key ideas from the literature are summarized and illustrated visually in figure 6.

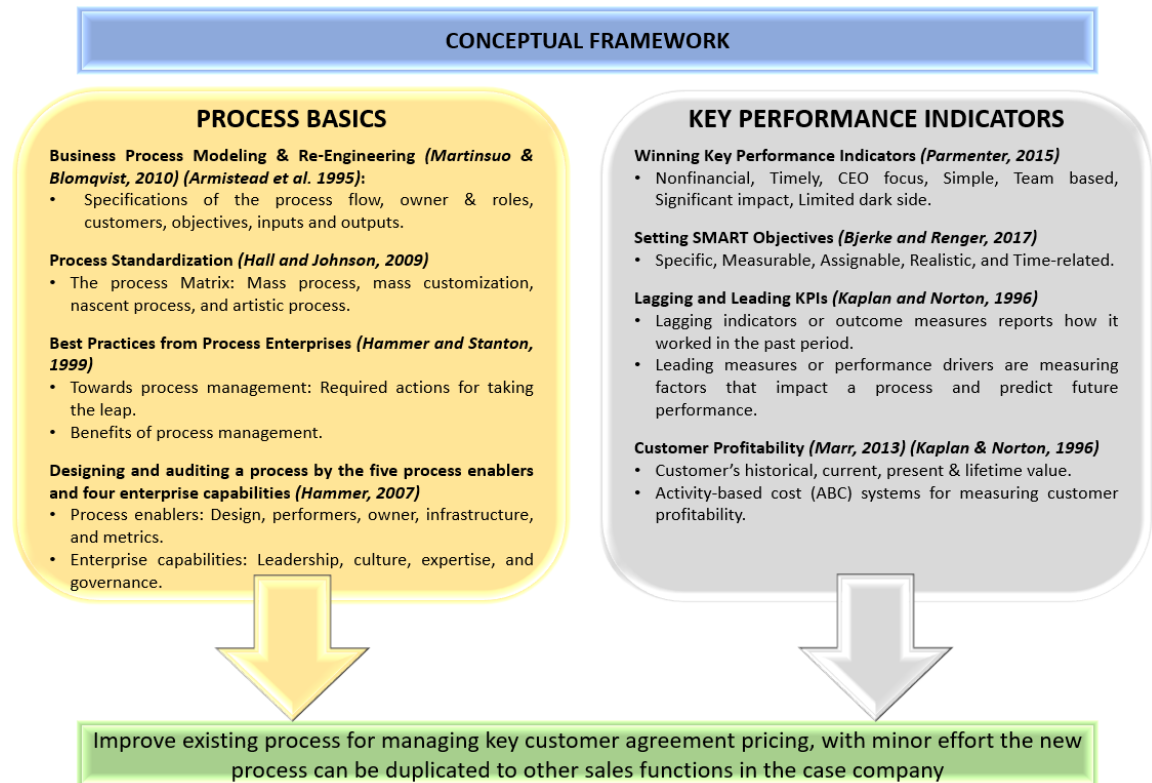


Figure 6. The Conceptual Framework of this Study.

As shown in Figure 6, the conceptual framework is divided in two categories following the logic of findings from the current state analysis. These identified weakness categories were process basics and key performance indicators (KPIs).

Process basics includes best practices, instructions, and visual guidelines how to create a solid process description. In addition, it includes the process matrix for process standardization, best practices from process enterprises and created tool for designing and auditing process, called Process and Enterprise Maturity Model (PEMM).

Key performance indicators category includes beneficial performance indicators as well as the difference between lagging results measurements and performance driving indicators. In addition, customer profitability and how it can be measured was considered one important theme under KPI category.

Section 5 outlines the process improvement based on the conceptual framework. In collaboration with the key stakeholders, the conceptual framework is used to eliminate the weaknesses identified during the current state analysis, while integrating the recognized process strengths, and therefore to solve the original business problem and result the outcome, the improved process.

## **5 Improving Process for Managing Key Customer Agreement Pricing**

This section 5 summarizes the findings of the current state analysis and the conceptual framework with a purpose of building a proposal draft for an improved process for managing key customer agreement pricing. The proposal draft is presented in Figure 7 in the end of subsection 5.6. The proposal draft is created for the existing process in which development is sought based on the key improvement areas found from the current state analysis. The created proposal draft is validated later in the following Section 6.

The current process for managing key customer agreement pricing and its implications for the key account management team and the case company are of major importance. The current process for managing key customer agreement pricing is extensive, including subprocesses, and the process activities which are not only limited to the internal role, but also to the customer relation and the customer roles. The improvement of the existing process is limited to the internal activities done in the internal and the customer relation roles. Pricing and negotiation strategies are also important aspects of the process that are not addressed in this study.

### **5.1 Overview of Proposal Building Stage**

The proposal draft for the improved process were co-created in three mini-workshops and one workshop. Each of the mini-workshop was organized with 2 or 3 stakeholders and all of the stakeholders were present in the workshop when finalizing the co-creation together the team. The purpose with the mini-workshops was to utilize the time more efficiently and allowing the stakeholders to take part more freely and deeply in the discussions instead of the stakeholder one-on-one interviews or larger stakeholder group workshops.

All of the mini-workshops started by a general introduction of the initial business problem and the objective and the outcome for this study. Next, the current

process was illustrated and all the findings from the current state analysis were reviewed. Following the overview of the study in general, the focus of the mini-workshops in question was presented. The themes of the mini-workshops were organized around the same two categories as the findings from the current state analysis: process basics and key performance indicators. During these mini-workshops the ideas from the conceptual framework were utilized within the discussions.

Two of the mini-workshops and the workshop were organized with the Microsoft Teams online meeting application and one mini-workshop was organized face-to-face in the case company's headquarters in Helsinki. As a result of discussions in three mini-workshops, the proposal draft was built to improve the current process based on the stakeholder suggestions from the mini-workshops. The proposal draft was then presented to the stakeholders in workshop using Microsoft Teams online meeting application to provide an overview of the proposal. The key stakeholders providing Data 2 were the key account management team, including six key account managers and one key account management team support, the same stakeholders who also provided the Data 1 within the current state analysis. All of the workshops were recorded, and summaries of field notes were written after each of the workshop.

Finally, the proposal draft for the improved process were built from the Data 2 findings with the support of the conceptual framework. The summaries of the Data 2 findings are illustrated in the next subsection 5.2 in Tables 6 and 7. The improvements were following the same logic as before, categorized in weaknesses in process basics and key performance indicators.

## 5.2 Summary of Data 2 Findings and Improvement Ideas

In order to build a proposal draft for the improved process for managing key customer agreement pricing, suggestions, and improvement ideas were collected from the stakeholders in the proposal building stage. Table 6 illustrates the improvement ideas to process basics based on the identified weaknesses from

the current state analysis (Data 1) and suggestions from the stakeholders (Data 2).

Table 6. Improvement Ideas to Process Basics (Data 2) Grouped According to the Weaknesses (Data 1).

	Weakness from CSA (Key focus area) (Data 1)	Suggestions from stakeholders (Data 2)	Description of the improvement idea
1	The process has no valid process description or specification to follow	The process description and specification should be made official	<ol style="list-style-type: none"> <li>1. Define the process owner.</li> <li>2. Utilize key characteristics from the PEMM process enablers in the process.</li> <li>3. Redefine and illustrate inputs and outputs, purposes, activities, and decisions of the process.</li> <li>4. Start gathering feedback data from process and output for continuous process development.</li> <li>5. Design, visualize, document, and make official the process.</li> </ol>
2	All stakeholders do not have similar understanding and expectations of the process	<ol style="list-style-type: none"> <li>a) The purpose of the process should be brightened to the team</li> <li>b) The company's expectations of the process for the key account management should be clearly defined</li> </ol>	<ol style="list-style-type: none"> <li>1. Redefine the process objective and strategy.</li> <li>2. Improvement on topic 1 should bring clarity to this.</li> </ol>
3	Lack of standardization within the process	We could utilize the best practices from each of us within the process	<ol style="list-style-type: none"> <li>1. Define each activity and subprocess within the process with the process matrix.</li> <li>2. Seek best practices within the team, set standards for the activities and subprocess.</li> </ol>
4	Lack of capacity in key account managers to execute the process	The key account managers do not have to completely execute the process. The amount of supporting functions could be increased within the process	<ol style="list-style-type: none"> <li>1. Redefine all the key-roles in the process.</li> <li>2. The overall process improvement should bring relief.</li> </ol>

As shown in Table 6, there were on total 4 process basics related weaknesses which were discussed with the stakeholders during the events with a purpose to find relevant suggestions and improvement ideas. There were on total 9 improvement ideas. When improving the current process, the focus should be also in the process flow and ensuring that the improved process is efficient and smooth to be executed.

Table 7 illustrates the improvement ideas to key performance indicators based on the identified weaknesses from the current state analysis (Data 1) and suggestions from the stakeholders (Data 2).

Table 7. Improvement Ideas to Key Performance Indicators (Data 2) Grouped According to the Weaknesses (Data 1).

	Weakness from CSA (Key focus area)  (Data 1)	Suggestions from stakeholders  (Data 2)	Description of the improvement idea
1	The process has unclear Key Performance Indicators.	<p>a) Following and understanding how purchasing costs have increased in particular key customer price list would be useful information</p> <p>b) Currently, we track and monitor only historical sales and earnings progress from our key customer which is not frequent</p>	<p>a) Establish trigger KPI (lagging) for the process. Measure and monitor in the BI software with purchasing cost index how purchasing costs have been changed in particular key customer agreement price list.</p> <p>b) Establish outcome KPI for the process. Measure and monitor in the BI software both the key customer's sales and earnings historical value (lagging) and present value (~leading).</p>
2	There are no practices, guidelines, or targets for the key customer profitability at the company.	The company should measure customer profitability from the key customers by taking into consideration the major costs required to service the customer	Establish primary KAM team outcome KPI, set targets, monitor, and measure customer profitability from the key customers historical (lagging) value utilizing activity-based cost (ABC) systems. (The indirect costs associated to serving the customer)

As shown in table 7, there were on total 2 key performance indicator related weaknesses which were discussed with the stakeholders. There were on total 3 different improvement ideas. It is a good idea to monitor the key customer profitability but its suitability to this process specifically needs to be evaluated. More likely the customer profitability should be measured and monitored at the key account management process level in the team.

The conceptual framework identifies science evidence-based best practices whose applicability to the case company's operations at the process level must be carefully evaluated. With the conceptual framework, the following subsections aims to improve the existing process weaknesses identified in the current state analysis. Next, subsections 5.3 and 5.4 describe the co-creation with the stakeholders and the suggestions and improvement ideas for improving the process in two weakness categories process basics and key performance indicators.

### 5.3 Improving Weakness Process Basics

In spite of the case company's success in the industrial wholesaling market, there is a clear lack of process management and orientation in its operations. This was noticed after the current state analysis and the conceptual framework was established for this study. For example, when the current process and the core process of key account management did not have official process descriptions or specifications, they were more like a way of working.

During the co-creation of process basics weaknesses in the mini-workshops it was recognized that the current process requires an official, an owner for the process and the process objective and strategy should be redefined.

The key account managers have defined responsibilities, but the current process is not described in detail. The official description of the process and expectations would bring clarity to the daily work. (Stakeholder comment)

The current process does not have an owner. In order to manage and develop the process, an owner must have understanding and extensive knowledge of the process management, pricing, and negotiation strategies. Most likely this owner would be the head of key account management. However, it is also possible that one of the key account managers would be appointed as the process owner, however, this person must be given real authority over the work so that the person can continuously improve and ensure the performance of the process.

The co-creation also noticed that the process for managing key customer agreement pricing involves a lot of knowledge work which may be difficult to standardize. In addition, each of the key customer agreement price lists differs from the other. Because the key customer pricing is always individual, the inputs and outputs of the process are highly varied. However, with the pricing variety the case company can ensure profitability.

According to the process matrix, the process is an artistic process, and it should be supported by a proper infrastructure. There are, however, some subprocesses and activities that would benefit from standardization while utilizing the team's best practices and making the way of working more efficient. If the team's ideas and best practices are brought together and everyone carries out the process in a similar manner, standardization, particularly in the key customer pricing activities, should enhance efficiency.

There should be an opportunity to learn from each other within the team. (Stakeholder comment)

We could outline the best practices within the team, implement them and into the daily work and execute the process activities in the same way. (Stakeholder comment)

The PEMM was selected within the conceptual framework of this study because its excellence at auditing processes. During the co-creation, it was noted that since this study's objective is to establish improved process and there is no official current process description or specification in place, it is not reasonable to audit anything. Instead of auditing it was decided to utilize the key characteristics from the PEMM in the improved process.

The process enablers, including, design, performers, owner infrastructure and metrics are all relevant. Design will be the proposal draft for the improved process. Performers are the key account management team, more specifically the key account managers and the team support. However, the current capacity in the team support should be evaluated and extended later. The process owner was already discussed. Infrastructure is in place and the current one is used with strengths and weaknesses identified in CSA; however, this study does not focus on improving the business analytics and tools, systems and reports which are utilized in the process. Metrics will be discussed separately in subsection 5.4 when improving the key performance indicators of the process.

During the current state analysis, the key account managers expressed a lack of capability to execute the process and maintain a reasonable level of earnings from the key customers especially during the current market situation. But it was observed to be difficult also earlier as well because there were some key customer price lists lagging behind and no proper KPIs were monitoring the situation.

The majority of the work was done by us before the team support. The roles of relevant subprocesses and activities could be redefined so that we, the key account managers, can have more time to focus on the key customers. (Stakeholder comment)

The process does not have to be executed fully by the key account managers. There are certain activities which can be executed by the team support. All of the key-roles in the process will be redefined. This might result the key account managers to spend more time on the ground with the key customers than executing the activities at the office.

It is good to remember that the conceptual framework suggests executing the process with those who use the output. Once the key customer pricing has been completed, the output an official quotation will be negotiated with the key customer. The team support can do the key customer pricing, but before an official quotation is established the pricing should be reviewed together with the key account manager and the team support. Additionally, if the team support

handled the key customer pricing for the official quotation, both key account manager and the team support should be present at the key customer negotiation.

The proposal draft for the improved process for managing key customer agreement pricing is designed based on ideas and best practices from the conceptual framework. This includes process modeling and ensuring smooth process flow, inputs, outputs, purposes, activities, and decisions of the process. The improved process flow is presented in Figure 8 in subsection 5.6. As soon as the improved process is made official and has been documented, the process description and specification, process objective and strategy are should bring clarity to the daily work within the key account management team. There were no key performance indicators in place for the process and they were unclear. These will be discussed separately in following subsection 5.4.

#### 5.4 Improving Weakness Key Performance Indicators

The key performance indicators (KPIs) co-creation began with the highlighting the weaknesses in the current process. The KPIs are unclear and there are no practices, guidelines, or targets for the key customer profitability. It was observed during the CSA that the key account team have one strength in the team's meetings and communication and frequent follow-up of the key accounts' collaboration statuses and sales and earnings figures. However, this so called KPI for monitoring the key accounts sales and earnings progress currently used was a lagging indicator, measuring the past outcomes and not estimating the future performance.

The first co-creation was related to the current market situation and the key customer agreement price lists. It was the challenge in the current process for the key account management to be aware of the latest changes in the purchasing costs for the products the purchasing department had to agree with the suppliers. In order to monitor the impact of the purchasing changes in the key customer agreement price lists, a trigger KPI was determined to be necessary.

The number of suppliers and the product portfolio are so wide that we need exact information of purchasing changes in order to react and be efficient. (Stakeholder comment)

When the pricing adjustment proposals and the negotiations with the key customers are based on the actual happened impact to the case company. The role of the key account managers is to react to the changes and agree best possible results in order to sustain reasonable earnings from the key customer. For this reason, the purchasing cost index in the key account agreement price list was established; the KPI aims to monitor the impact in purchasing costs and support the key account manager to trigger the process in order to start executing it as soon as possible. The purchasing index can also be utilized in the key customer pricing so to that the pricing could be done more effectively when there is a KPI defining the estimation on how much the executor should catch up in the pricing due to the changes in the market.

We have monitored only the key customer's historical sales and earnings values, but the idea of the more future-oriented approach sounds interesting. (Stakeholder comment)

There were already some practices in the key account management team to follow the key customer's sales and earnings with historical values which is a lagging indicator. The KPI however was not rooted in the process level that it would be recognized very well. Discussions were held regarding the current KPI, and it was decided to describe it more in detail and bring an aspect of leading KPI by measuring both historical and current values of the key customers.

The present value is more future-oriented, measuring the value according to today's purchasing prices. The KPI is measuring the outcomes of the agreed price adjustments with the key customers. The outcome KPI together used the trigger KPI, there should be opportunities to identify any purchasing related changes and if the earnings have declined. These two created new KPIs should be monitored enough frequently in order to be recognized as KPIs of the process. They should be monitored daily or at least weekly.

There were also discussions during the co-creation around the identified weakness, that the case company does not monitor if its key customers are profitable to the company. The activity-based cost systems would be the required tool or practice to calculate the customer profitability. The calculation would include the major indirect costs which are associated with servicing the key customer. These indirect costs would include the cost of sales personnel, logistics costs such as investments to the services and if the freights are paid by the case company and other major contractual terms impacting on the case company's profit, such as the key customer payment term, safety stocking rate for the customer and annual or volume rebates.

As a results of the established outcome KPI for monitoring the key customer profitability did not fit this process level and it was planned to be recommended at the key account management process level. When the case company's strategy is to achieve X % operating profit, more likely these key customers should be more profitable since the calculation might not consider all the relevant costs but instead, giving the best estimation. Also, instead of focusing the sales and earnings figures, the key account management's and the case company's strategy should be to require profitable customers.

A challenge in the co-creation was finding any leading, real future-oriented performance indicators for the process. However, there were discussions around the frequent key customer satisfaction surveys. These key customer satisfaction surveys are recommended to be organized at the key account management process level, but they require more planning.

## 5.5 Embedding Current Strengths into Proposal

The key account management is recognized as one of the core processes in the case company. Having the low employee turnover in the team, the key account management team has extensive knowledge, competence, and skills in working with the key customers. The low employee turnover in the team has enabled the team to grow its sales budget and succeed with the key customers over the last

years. The team also has very active and constant discussions regarding collaboration statuses of each key customers. The key account management team has a great opportunity to succeed in the industrial wholesaling market with the key customers also in the future.

The process this study attempts to improve is recognized as one of the key processes in the key account management. The process aims to retain sufficient earnings from the key customers, but also competitive pricing to the key customers in order to keep them satisfied and engaged to the case company. This is vital to the case company's future profitability and competitiveness. It is desirable how the key account managers manage the key customers. In most cases, the parties have trust between the collaborations, and the adjustment and negotiations of the agreement pricing have been transparent and fair to the key customers. The pricing adjustments rarely have led to a loss of the key customer.

The case company has very user-friendly and extensive reporting tools and systems. These tools and systems are used in the key account management continuously and in the business operations of the case company. The tools and systems are frequently developed and updated, and the IT-department and the business support has very strong position in the success. There are also significant amounts of data in the case company's ERP system. The data correctly utilized in the business operations could contribute to the overall success of the case company in the near future. There is a proper infrastructure in place at the case company for these two processes.

## 5.6 Proposal Draft

The proposal draft for an improved process for managing key customer agreement pricing is presented in process flowchart in Figure 7. The proposal for the improved process emphasizes having an effective and described process flow, using the proper resources, having the process objective, strategy, specifications and KPIs in place in order to ensure better stakeholder understanding of the process and high process performance. In addition, the

process owner is responsible for ensuring future performance and development of the process.

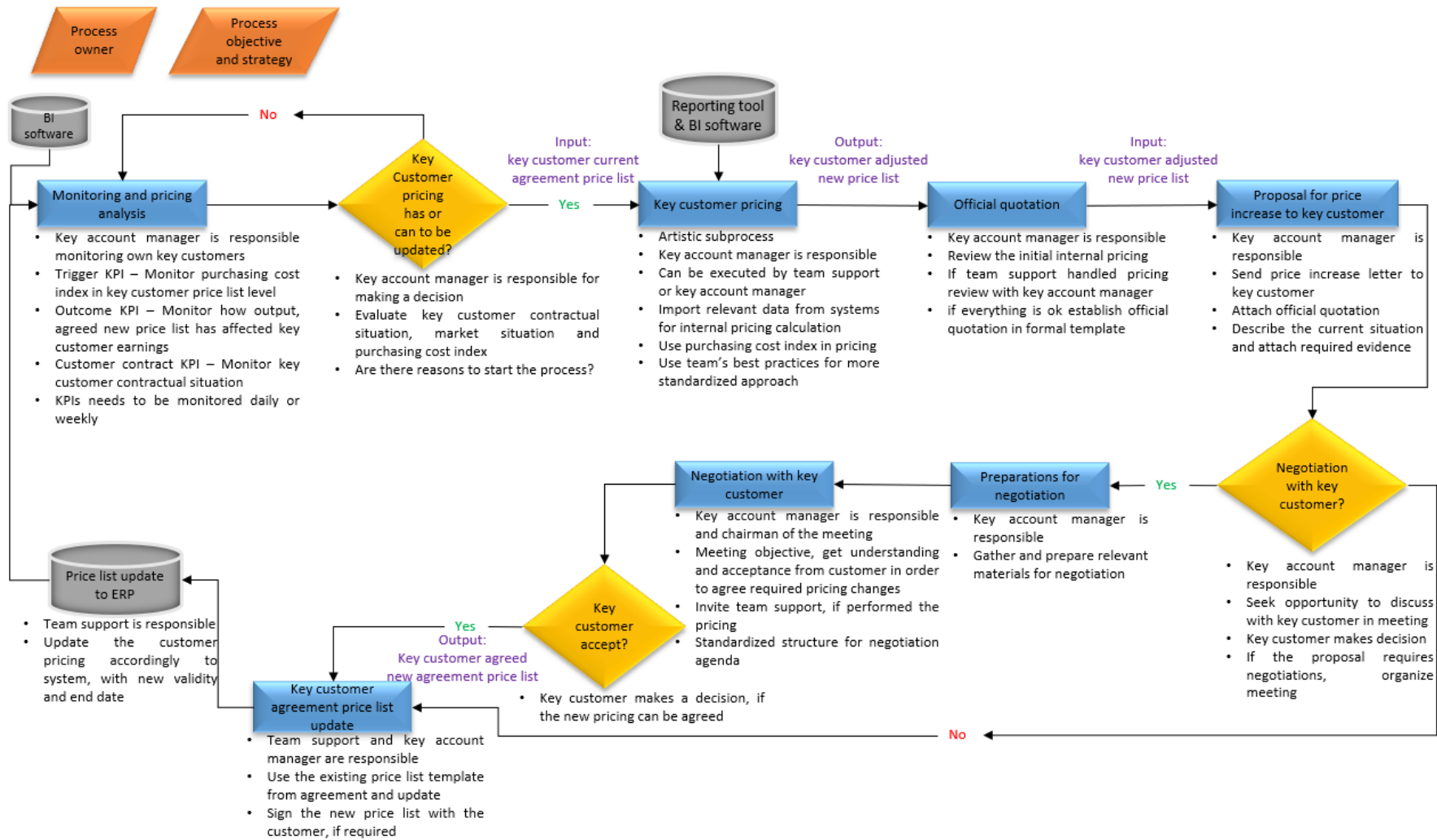


Figure 7. Proposal Draft for Improved Process for Managing Key Customer Agreement Pricing.

Figure 7 illustrates how the improved process for managing key customer agreement pricing would include a process owner, a redefined process objective and strategy, an effective process flow, and a description and purposes of the activities of the process. In addition, proper KPIs would be established and monitored daily or weekly to ensure the best performance from the key account management team. These KPIs would also be used to support the work during the execution of the process, such as purchasing cost index, which could be used in the internal key customer pricing process. The next subsections describe and discuss the improvements to the process in greater detail.

### 5.6.1 Process Owner, Objective and Strategy

The process will be carried out under the key account management and the link between the key account management core process should be investigated later after this study. The process owner is defined to ensure optimal process performance within the team. The process owner is responsible for developing the existing process and adapt to the future as the requirements changes.

The process is intended to adapt to market changes and to agree on any necessary changes with the key customers, especially increases, to prevent the case company losing profit from its operations and to be able to provide the services the key customers require also in the future. The latest changes in the market will be monitored by the purchasing cost index at the key customer agreement price list level. In addition, this index will be used internally when performing the key customer pricing for the new agreement price list for the key customer's approval.

When serving the existing key customers, the key account managers must ensure that the current collaborations will continue and are "profitable" for the case company. "Profitable" because the company does not currently use activity-based costing systems to measure if the key customer is truly profitable for the case company. At the same time, the key account managers must ensure that

the agreement pricing is fair and competitive compared to the market to the key customers, so that the collaborative relationships can be maintained in the future.

As a first objective, the process is designed to adapt to the current rapid and continuous purchasing cost increases. After the market prices have increased significantly, the next phase may include for instance falling prices, which means that the process has to re-adapt to proactive internal work and collaboration with the key customers in order to offer competitive market related prices and maintain the key customer relationships.

### 5.6.2 The Improved Process

As part of the improvements to the process, specifications and purposes of the processes and activities are described in a documented process design. The roles and responsibilities of each activities and subprocesses are redefined. The purpose is to use the team support in the internal key customer pricing more frequently, allowing the key account managers to use more time with the key customers.

The input for the process is the key customer current agreement price list. The output is agreed new key customer agreement price list. The outcome of the adjustment must be monitored with the outcome KPI in the BI software. There are two primary processes, the internal key customer pricing, and a key customer relationship. As a result of those processes, the output should be an adjustment to the current key customer agreement pricing that will support the case company's economic in the future.

Now, the monitoring and pricing analysis include three primary KPIs, trigger KPI which monitors and defines how purchasing costs have been changed in the key customer agreement price list, outcome KPI which monitors the adjusted and agreed pricing changes with the key customers and KPI for monitoring key customer contractual situation to agree next step pricing changes according to the agreements with the key customers. Each of these set KPIs must be

monitored frequently and systematically, daily, or weekly. Each of the key customer price list must be updated and adjusted within the proper time frames, depending on individual contracts and its pricing conditions. These KPIs will monitor the performance of the process and express the requirement to start executing the process in the key customer and price list level.

The internal activities include the key customer pricing, which is used to prepare new official quotation for the key customer. To finalize the key customer pricing effectively, purchasing cost index and the team's best practices are used. After that, in the key customer relationship process the official quotation is discussed and negotiated with the key customer with proper evidence and information. After there is agreed conclusion with the key customer, the process will have its output and agreed new agreement price list will be updated to the valid contract and the case company's ERP system accordingly.

The internal key customer pricing process has the same output as the entire process if the key customer accepts the pricing adjustment. However, the output can vary depending on the key customer's willingness to accept the official quotation as price adjustment to existing agreement price list. This will leave room for the key account manager's professional, communication, and negotiation skills to ensure that the same output is met at the end of the process. The key account managers performance and ability to negotiate the required changes to the existing key customer agreements could be monitored by these outputs later. Following Figure 8 will illustrate an overview of the process inputs and outputs and improvement to gather feedback for continuous process development.

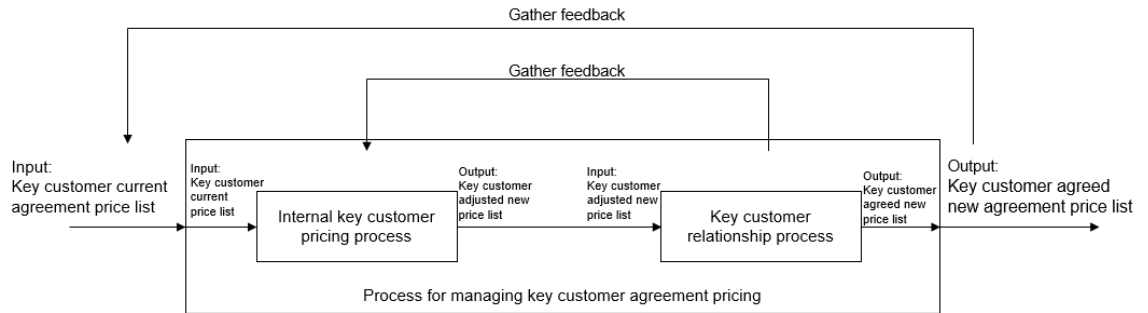


Figure 8. Overview of the Improved Process.

In Figure 8 the overview of the process is illustrated. As part of the improvement, feedback data is gathered from output as well as process itself. Later, the feedback data will be used for ensuring continuous process improvement. Next, the proposal draft is then validated for further improvement ideas in Section 6.

## **6 Validation of Improved Process for Managing Key Customer Agreement Pricing**

In this Section 6 the validation of the co-created proposal draft for improved process for managing key customer agreement pricing is described. The overview of the validation stage is followed by detailed descriptions of the changes and additions made to the improved process for managing key customer agreement pricing, forming the final proposal for the improved process for this study.

### **6.1 Overview of the Validation Stage**

The proposal draft validation was carried out in collaboration with one relevant stakeholder interview. The stakeholder was the head of key account management and chosen for the validation stage for being the key decision maker regarding the key account management and the process for managing key customer agreement pricing. In addition, the head of key account management has detailed knowledge and understanding of the strategy regarding the key customers at the case company, as well as resource capabilities and engagement to influence on the key account management development. Field notes were written up during the meeting and finalized afterwards in order to provide the final proposal.

The validation interview started with an overview of the business problem, objective, and outcome of this study. Followed by the findings from the current state analysis, strengths and weaknesses and a summary of the conceptual framework of this study. After the background of the study was completed, the co-created proposal draft was presented to the stakeholder of the validation stage. Following the presentation, evaluation and elaboration took place and suggestions for further process improvements were collected.

## 6.2 Received Feedback and Adjustments to the Proposal Draft

The feedback received during this validation stage covers the Data 3 for this study. Although the validation stage and the interview were co-creative, but the findings of the Data 3 are not presented in a table due to the limited number of concrete and new improvement ideas to the existing proposal. The results of the Data 3 findings will be discussed separately within this subsection.

Based on the received feedback, the illustrated process flow was pointed out to be clear. There was sufficient alignment between the overall structure of the processes and activities with the purposes and objectives. The standardization within the process was noted to be very positive improvement, even when the team collaborates closely, the standardization and best practices have not been considered as an opportunities before.

The key roles of the process had short discussion, since of the previous findings. Although the improvements were clearly made in the right direction, however the team support's involvement and execution in the process more and more independently could still be sought. The team support could be responsible for the monitoring and pricing analysis, as well as monitoring the KPIs of the process for the key account managers. As an ideal situation, the team support would be able to work quite interpedently until the internal key customer pricing, when the expertise of the key account manager might be required at this stage.

Based on the feedback all three process KPIs were relevant for the process. However, the final structure of the KPIs between the key account management process and this process should be later examined. The KPI for monitoring and measuring customer profitability using activity-based costing system was not a part of the process improvement, since this should be clearly outlined within the key account management process level. The improvement idea was interesting and greatly appreciated since there are no previous approaches to measure customer profitability at the case company. Customer profitability should increase

over time, when serving the key customer and it would be interesting to know the key customer's lifetime profitability to the case company.

After discussion of the set KPIs, the discussion shifted to the team's current workload and the current market situation. The approach in the agreement pricing negotiations and changes are based already occurring changes in the purchasing prices, as well as when there are multiple key customer agreement price lists to proceed continuously. Two topics were discussed; prioritization and KPI for following and ensuring that each of the key account manager has their own key customer price lists always up-to-date.

The prioritization could have been also one of the CSA findings categorized as a weakness, but it was not recognized earlier. During the current market situations, a higher degree of prioritization is required. The prioritization might be too extensive and will require their own category and own part in the conceptual framework. The purchasing cost index, however, should help to identify and prioritize the most urgent key customer price lists at first. Additionally, the process objective will involve the prioritization based on the key customer contractual situation, the impact of the highest to lowest on the purchasing cost index or a current too low earnings level at the key customer price level.

Due to the lagging approach for reaching to the market situation and agreeing the pricing changes with the key customers, the key account managers should monitor their own key customers price lists more efficiently. In addition, the head of key account management should be able to review the situation of the team and each individual key account manager. The fourth KPI for the process is established to monitor that all key customer price lists are negotiated and adjusted with the key customers accordingly and on-time.

Based on the received feedback, adjustments have been made to the existing proposal draft. After the necessary adjustments was made, the final proposal was created. The final proposal is illustrated in the next subsection if the Figure 9.

### 6.3 Summary of the Final Proposal

Upon receiving the feedback and improvement ideas during the last stage, the validated proposal draft is improved. The outcome of this stage is final proposal for improved process for managing key customer agreement pricing. The final proposal is presented in process flowchart in Figure 9 on next page. The improvements to the proposal draft are highlighted in yellow. The polished version of the final proposal for improved process for managing key customer agreement pricing is presented in Appendix 2.

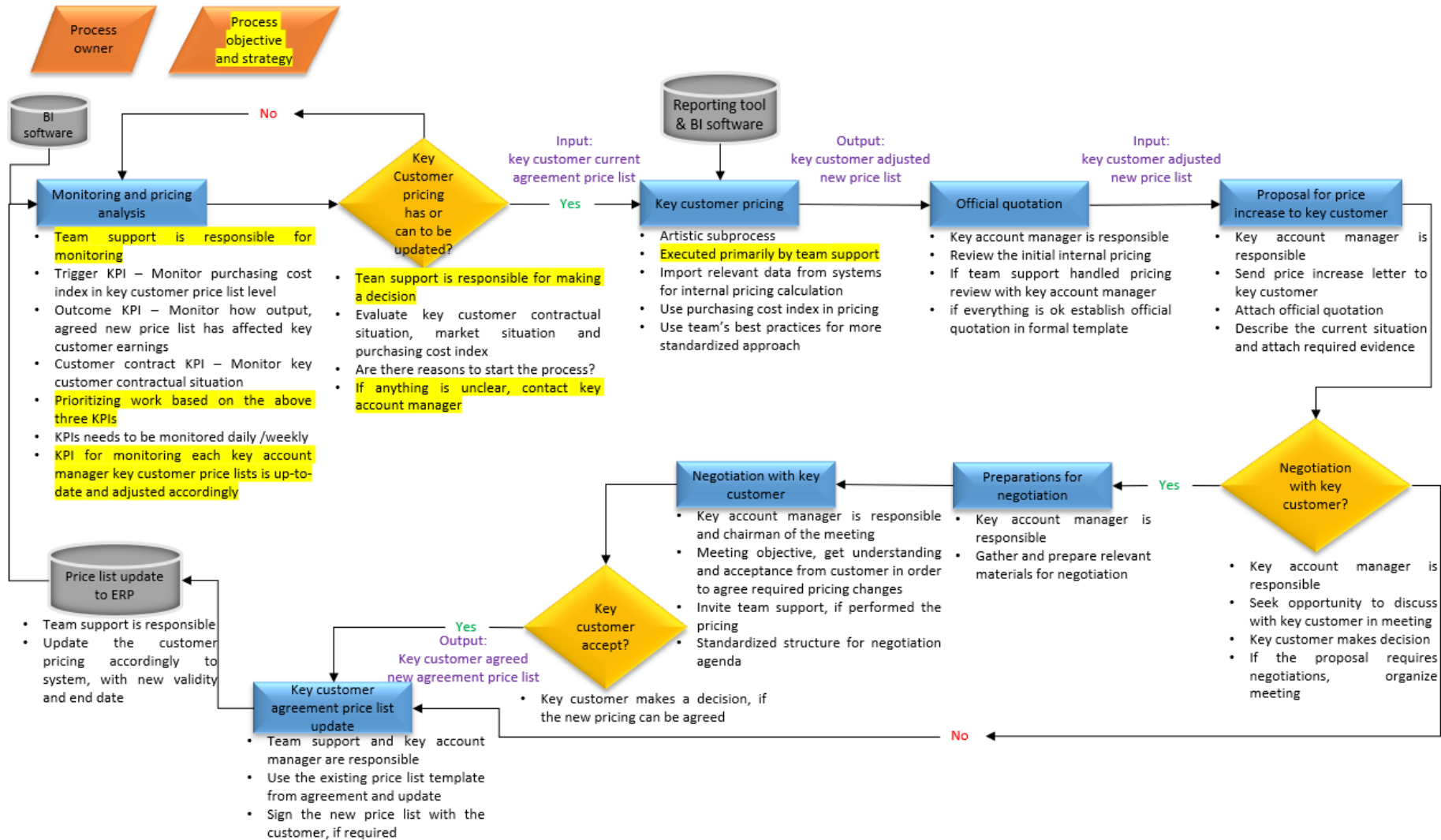


Figure 9. Final Proposal for Improved Process for Managing Key Customer Agreement Pricing.

Based on Figure 9, the improvements have been made to process objective and strategy, prioritization of the work, key roles, and KPIs of the process. The process strategy and objective redefine the roles of the process. The key account managers are responsible for sustaining reasonable earnings from the key customer. However, the team support is responsible for the monitoring and pricing analysis of the key customers. As a result, this will allow the team support to work more individually and support the key account managers, while the key account managers will have more time to focus on the key customers.

The fourth KPI is set for the process, when the key account managers can review all of their key customers agreement price lists. By establishing this KPI, the team can ensure that price changes are made whenever required and possible with the key customers and that no outdated key customer price lists remain unreviewed in the system. In addition, the head of key account management can monitor and review the statuses and performance of each of the key account managers.

The trigger KPI, the outcome KPI, and the key customer contract KPI will be used to prioritize the work within the team. If the key customer contract KPI indicates a deadline for starting the pricing negotiations with the key customer whose agreement price list is mandatory to adjust first. This work should be prioritized before other key customers, even whose agreement price lists have more pressure according to the purchasing cost index but have more informal contractual terms, or possibility for later time periods to begin negotiating.

The validation of the proposal draft was accomplished as planned and the stage met the expectations by improving the proposal draft based on the received feedback. Because of the significant collaboration of the key stakeholders during the previous stages, the proposal draft presented in the validation interview had already been refined and feasible. The seventh and the final section of this study summarizes the study and its work, provides practical next step recommendations towards the implementation of the improved process, and provides a self-evaluation of the study and closing words.

## 7 Discussion and Conclusion

This final section of the study contains an executive summary, practical next step recommendations, a self-evaluation of the thesis project credibility and finally the closing words.

### 7.1 Executive summary

The objective of this study was to improve the existing process for managing key customer agreement pricing and with minor effort the improved process can be implemented to other sales functions in the case company. The outcome of this study is the improved process which should allow the key account management to work and execute the process with increased performance. In addition, the team should be able to manage the key customer agreement pricing more efficiently.

The process for managing key customer agreement pricing under the improvement in this study had similar findings than its main process, the key account management process. Yet the main process did not have an official description in place and is having unclear understanding, expectations, and key performance indicators for the process. This key account management process was noted to be one of the core processes at the case company. As a result of the current market situation, it was more reasonable to go one process layer below and investigate how these key customer agreement prices could be monitored and managed more efficiently.

In this study, the research approach of the study was design research using qualitative data gathering methods. This study was divided to four stages: the current state analysis, creation of the conceptual framework according to the relevant literature, building the proposal draft for improved process, and finally validating the proposal draft and creating the final proposal for improved process. The research primarily collected qualitative data through interviews and

workshops with the relevant stakeholders, the case company's internal documents and the ERP system and the BI software.

The first stage of this study included the current state analysis of the case company's existing process managing key customer agreement pricing. The current state analysis was performed by collecting data and gaining knowledge in the case company by conducting interviews and one workshop with the key stakeholders and analyzing data from the internal documents and the ERP system and the BI software. The outcome of the CSA was findings divided into strengths and weaknesses, and key improvement areas. The findings included five categories including strengths and four different weakness categories. This study was limited to improving two weakness categories, which included process basics and key performance indicators. These two categories were the key improvement areas for this study. During the CSA, the key account management process was identified and included in weaknesses but was not included in this study due to the objective.

After the current state analysis was performed in the case company, the second stage included establishing the conceptual framework for the study. The conceptual framework was established by searching the relevant literature and summarizing it based on the findings, where the focus was on improving the selected key improvement areas, process basics and key performance indicators. The conceptual framework includes the existing knowledge and best practices targeted at the selected key improvement areas.

The third stage included creation of the proposal draft for improved process for managing key customer agreement pricing based on the selected key improvement areas and the established conceptual framework. During this stage the proposal draft was built in co-creation in three mini-workshops and one workshop with the key stakeholders. All of the workshops started by an introduction of this study in general, the findings of the current state analysis, and the relevant existing knowledge selected for this study. After that the focus and discussions were on improving the selected key improvement areas, process

basics and the key performance indicators. The key stakeholders' ideas and suggestions were incorporated into the proposal draft. The proposal draft included the improved process flowchart that included the owner, objective, and strategy of the process. In the improved process, the KPIs, roles, and specifications were clearly defined, as well as the process execution was designed for a more linear approach for more efficient working.

The fourth and last stage of this study included validation of the proposal draft for improved process for managing key customer agreement pricing. The validation was performed in one stakeholder interview with the head of key account management. The interview started by an introduction of the study in general, the findings of the current state analysis, and the relevant existing knowledge selected for this study. Following the introduction, the co-created proposal draft for improved process was presented. The proposal draft was evaluated and commented by the head of key account management. Generally, the response was positive, and the proposal draft was seen as an opportunity and a benefit for the key account management in the future. In the interview, constructive feedback was received, which was used to improve the presented proposal draft.

After the proposal draft was co-created with the key account management team and validated by the head of key account management, the final proposal for the improved process was established. The final proposal includes a comprehensive process design in flowchart, including owner, objective, strategy and purposes, roles and KPIs, as well as descriptions of activities, subprocesses and decisions. The improved process should result in enhanced performance from both the process and in the key account management team. Monitoring and managing the key customer agreement pricing should be more efficient within the key account management team and ensure that the key customers will generate reasonable earnings for the case company in the future.

## 7.2 Practical Next Step Recommendations

Implementing the outcome of this study, the improved process for managing key customer agreement pricing, should be performed in a specific order. As a first priority, the purchasing cost index must be established and monitored accordingly individually in the key customer agreement pricing. Due to the current market situation this is the most urgent KPI that should also help the key account managers to understand the required level of adjustment that must be negotiated with the key customers.

The priority two is to develop a more standardized approach for the internal key customer pricing. This standardized approach requires the creation of proper infrastructure and tools around this artistic process. In addition, the key account management team's best practices should be utilized in order to set proper tools and calculation templates for new internal key customer pricing. Combining the trigger KPI (the purchasing cost index) with the more standardized approach to the internal key pricing should increase efficiency, since it is expected to make the key customer pricing adjustments quicker for the negotiations.

The next step could be the process re-engineering, which involves documenting the process flowchart and defining various characteristics of the new process, such as the process owner, objective and strategy, specifications, and purposes of each activity, subprocess and decisions. The subprocesses could be explained in more detail. One of the key characteristics is the roles within the process. As a result of the re-engineering, the process should be designed so that the key account managers have more time to concentrate on the key customers, while the team support executes the process more individually and prepares the internal key customer pricing for the key account managers.

After the existing process is improved, the improved process could be audited with the Process and Enterprise Maturity Model (PEMM) tool to determine the process baseline. To drive continuous process improvements, the baseline is

periodically compared with the future audits results. The PEMM tool is provided in Appendix 1.

After this study and implementation of improvements to the existing process for managing key customer agreement pricing, the core process of key account management should be examined. A similar study could be carried out to list the findings from its current state analysis and document the key account management process. At least outlining the process' description and specifications, setting and monitoring clear key performance indicators. One improvement idea discussed in this study was related to the key customer profitability and the use of activity-based costing systems. In addition, the connection between this process and the key account management process should be clearly defined.

### 7.3 Self-Evaluation of the Thesis Project Credibility

The initial business problem was an unclear and inefficient process for managing key customer agreement pricing in the case company. In addition, the process did not have an official documented description available. The study objective was to improve the existing process based on the business problem. The outcome of this study, provided in Section 6, is an improved process for managing key customer agreement pricing, validated by the case company's head of key account management. Accordingly, the results of this study are fully in line with the objective. The outcome of this study should be transferable as a whole to other sales functions at the case company.

In this study, the results are specifically targeted and narrowed towards two selected key improvement areas from the weaknesses of the current state analysis: process basics and key performance indicators. There is a possibility of questioning whether all the weaknesses were identified during the current state analysis, such as the prioritizing which appeared during the validation. Or whether the findings taken forward to the improvement were selected correctly. This study focused on solving the business challenge particularly in the key account

management team of the case company. For this reason, the key account management team was the relevant and only stakeholder for this study, any other business units or functions were not taken into consideration.

Starting from the current state analysis, the study allowed a large and diverse group of stakeholders to share their observations, experiences, and opinions. There is no guarantee that all strengths and weaknesses have been identified. It is possible that not all the stakeholders were able to identify and communicate all the findings. Nevertheless, this study fulfilled its objective as findings since a large number of strengths and weaknesses were captured from a wide group of informants, with some of the same findings repeating themselves.

The author of this study is a member of the key account management team that executes the process under development. Historical experience and involvement in the process was a key advantage, since participation in the interviews and workshops, and other activities occurred naturally without the need for any special arrangements. Furthermore, by having the experience and understanding of the process, a possibility of the stakeholders coloring their testimonies or hide something was reduced. The data was collected from the stakeholders, with the author as one of those stakeholders without any additional weight on the opinions. Once the data was gathered, it was analyzed and processed using the author's interpretation. The key stakeholders' involvement for the study was mandatory.

Starting in the autumn of the year 2021, the market situation has challenged the sales work of the key account management in the case company, and since the spring of the year 2022 the cycles of suppliers adjusting and increasing their prices are only about to speed up. Additionally, this have had a significant impact on the key account management and have force them to start pricing adjustments and negotiations more frequently with the key customers. The market challenge brought the urgency for this study, but also forced the key account management and the case company to investigate possibilities to develop the existing operations outside of this study. Even, when the key account management was

highly involved in adjusting and negotiating the key customer agreement pricing, there was high involvement and commitment to participate in this study to seek the improvement for this process. A faster execution of the research design would not have been possible since all of the stakeholders were required to participate in each of the stage.

In the following subsection, this study is evaluated by its validity, reliability, logic, and relevance by explaining how these terms have been defined in the research literature first.

### 7.3.1 Validity

According to Catherine Taylor (2013) as an adjective, validity is always used for claims such as the validity of conclusions drawn from the results of the research. By evaluating the validity of these claims and supporting them with evidence, we can determine whether the item in question is legitimate (Taylor, 2013: 2). The goal of internal validation in research is to determine whether the results obtained are as a result of the design and execution of the study. While there is some threat to the validity of the internal data, the main principle is to determine whether the results reflect the truth without regard to the researcher's bias or the study's methodology. The claims of internal validity must be supported by evidence and logical arguments. Taylor (2013) describes external validity is the claim that the research results can be generalized beyond the specific situation and context of the study (Taylor, 2013: 10-14).

Andrew Shenton (2004) has compiled a list on his article of elements and aspects of trustworthiness in a qualitative research evaluation with internal and external validity, creditability, and transferability. Shenton (2004) promotes the use of triangulation as a method to increase the trustworthiness and credibility of a study. The triangulation is used as a method of gathering evidence using multiple different methods, using a wide range of sources and informants, and using diverse sources and informants (Shenton, 2004: 63-66).

According to Saldana et al. (2011) credibility is linked to the credibility of the author's research. It is important and mandatory to present convincing arguments in qualitative research projects. Even so, the trustworthiness can never be proved conclusively. In addition, according to Saldana et al. (2011) the triangulation is suggested as a means of establishing credibility (Saldana et al., 2011: 135).

According to Jorma Kananen (2013) qualitative research is transferable when the results are consistent, but only when the cases are comparable. Within a research study, a comparison must include relevant and detailed background information presented. If a study is investigating development of an organization, it might include, for instance, the type of industry and the size of the organization, the revenue or any other indicators of finance, the number of employees, operating business areas or any other relevant information. Yet it is not the researcher's responsibility if the provided data is suitable and can be compared in the future (Kananen, 2013: 191-192).

Triangulation was used to ensure creditability and internal validity in this study. Data 1 collection was performed during the current state analysis by using multiple methods and diverse sources. Data 1 was gathered by reviewing the existing internal documents, by conducting the stakeholder interviews and one workshop. Data 2 was gathered at the co-creation of the proposal building stage by conducting three mini-workshops and one workshop with the stakeholders. It was possible to ensure a more diverse and free participation by dividing the Data 2 collection into several events. Triangulation was also utilized by circulating the earlier event outcomes into the following events.

The Data 1 and Data 2 informants were selected to represent the entire key account management team, which had the responsibility and involvement in the execution of the case process at the case company. The informants have had long histories of working in different positions in the organization at the case company. Their current or present professional careers as a key account manager, working and collaborating with different key customers. The participants were the managers and the supporting function. In Data 3, the

selected stakeholder was the head of key account management in charge of the entire key account management team and its performance.

The outcome of this study might not be transferable as a whole to another organization or another context. However, if not going too deeply into the details of activities, tasks and subprocesses, at least the overall structure should be transferable to sales departments in other organizations. Additionally, the results include many elements that can be taken into consideration or utilized to improve any other general business processes. For example, use of a process owner, defining or clarifying a process objective and strategy, standardization, KPIs, responsibilities and roles etc. Also, an example of using a universal item, the Process and Enterprise Maturity Model tool for assessment of any business process. An example of common item is to gather feedback data from a process and its outputs to run continuous development for the process. Sections 1 and 3 gives background information on the case company and the case process for this study.

### 7.3.2 Reliability

According to Andrew Shenton (2004) reliability and dependability of a study is determined by how similar the results would be if the study were repeated in the same context and method and with the same participants. To increase the reliability of the study, the process should be described in detail so that the future researchers may repeat the study. Accordingly, a study report should include a description of the research design, the execution of the research, as well as a detailed description of the data collection from the field and assessment of the project comprehensively (Shenton 2004:71-72).

The research design of this study is presented in Section 2.2 and details of its execution are described throughout the report, including the current state analysis in Section 3, the literature review in Section 4, the creation of the proposal draft in Section 5 and the proposal draft is validated and the final proposal is established in Section 6. The data collection is described in detail

showing all the event types, locations, times, and topics. This section 7 provides a comprehensive self-evaluation of the study.

According to Creswell and Miller (2000) research reliability and transparency can be improved by establishing an audit trail. Recording a chronological and clear history of all the data collection activities establishes the audit trail. If necessary, the data of the research can be audited by an external entity using the detailed log (Creswell and Miller, 2000: 128).

All the information observed by the author, captured from the informants, or read from existing internal documents and systems were documented in the author's field notes, establishing an audit trail for the study. The field notes contain data that is connected to a source, a context, a place, and a time. Most of the events with the informants were also live recorded online, using the Microsoft Teams online meeting application.

### 7.3.3 Logic

According to the Merriam-Webster dictionary online (2022) logic is defined as "particular mode of reasoning viewed as valid or faulty." According to the Cambridge Dictionary online (2022) logic is defined as "a particular way of thinking, especially one that is reasonable and based on good judgment." This study evaluates logic in three stages: first for the chosen research approach, second for the initial project plan, and third for the execution of the project plan. This study's research approach and project plan are presented in Section 2.

Design research was chosen as the research approach, it satisfies the study objective due to its qualities. This study was expected to provide a practical, functional solution to a specific business problem, and to be primarily relevant to the case company. It was logical to conduct the study with an applied research and design research.

The research design consisted of four different stages. Due to the fact that the business problem involved an existing process, it was first necessary to examine how the existing process actually worked. In addition, during this stage, the key improvement areas for this study were selected as well. During the second stage, best practices in the relevant literature were reviewed, focusing specifically on the selected key improvement areas. The findings from the literature review formed the conceptual framework of this study. Based on the findings from the first stage, the conceptual framework was then used in the third stage to co-create the proposal draft for the improved process for the case company. Finally, in the fourth stage, the head of key account management validated the proposal draft for the potential, feasibility, and applicability. The logic of the study is to specify the problem, plan and define the best cure, develop a precision remedy, and validate it. The study is then executed according to the project plan logic exactly.

#### 7.3.4 Relevance

According to Stefano Mizzaro (1997) relevance comes in many forms, not just one. In other words, relevance is defined as the relationship between two entities, such as document containing information and a problem that must be solved. A relevance can now be seen in a correlation between the information in the document and the solution to the problem (Mizzaro, 1997: 811). When evaluating the relevance of this study, it should be considered at how relevant the outcomes are to the case company.

This study shows relevance from the beginning since the case company selected and set the initial business problem. The study attempts to improve a genuine and acknowledged problem, rather than an alleged innovation or external idea. Consequently, the premise is relevant.

As part of the study, relevance is ensured by involving the key stakeholders of the case company in the data collection rounds and in the co-creation of the outcome. The key stakeholders who provided contributions, observations and knowledge for the study are involved in the process in question, so all of the

stakeholders are relevant for the study. The conceptual framework stage was relevant by searching for knowledge specific to the weaknesses that were selected as the key improvement areas in the current state analysis. Only relevant literature was taken along to address the selected key improvement areas.

The co-created proposal draft was validated by the head of key account management. The validation included consideration of relevance of the proposal draft for improved process. Only a few minor changes and additions were made to the proposal draft. The majority of the content of the proposal draft was considered to be relevant for the case company and objective of this study. After the proposal draft was adjusted in accordance with the validation feedback of the head of key account management, the final proposal was even more relevant.

Despite the fact that the objective of this study was to improve an existing process, few practical next step recommendations have been included in subsection 7.2. The practical next step recommendations are intended to increase the study's relevance to the case company by taking into account the priorities for implementing the outcome and suggestions of other areas for improvement not included in this study.

#### 7.4 Closing Words

The key customers are generating over 40 per cents of the case company's annual turnover. The key account management team is responsible for managing these key customer relations at the case company. The key customers and the key account management team have significant importance to the case company. Businesses should be always profitable, including those key customer relations.

This thesis establishes the necessary improvements to the case company's process for managing key customer agreement pricing. Having a robust process in place is crucial to the case company's future as it allows the company to sustain

its profitability and proper earnings from the key customers, also during the current market situation. The final proposal has been made in co-operation with the case company's key account management team, ensuring the relevant process improvements. When implemented, the improved process for managing key customer agreement pricing could increase performance of the process. This means a more controlled, systematic, and standardized approach to daily work, proper KPIs are in place for daily and weekly monitoring, and an overall more effective way of handling these key customer agreement price list adjustments between the key customers and the case company.

When this thesis was returned, no concrete changes have been implemented yet in the case company's process for managing key customer agreement pricing. However, since the market situation is generating more urgency, a discussion of the development has continued. In order to start an improvement for the process, the elements of the conceptual framework of this study would be required. There will be the next steps for sure.

## References

- Armistead, Colin, Harrison, Alan & Rowlands, Philip. 1995. Business process re-engineering: Lessons from operations management. *International Journal of Operations & Production Management*. 15(12). pp. 46-58.
- Bjerke, May Britt & Renger, Ralph. 2017. Being Smart About Writing SMART Objectives. *Evaluation and Program Planning*. 61. pp. 125-127.
- Cambridge Dictionary of English online. Available from: <https://dictionary.cambridge.org/dictionary/> (Accessed 22 April 2022).
- Creswell, John & Miller, Dana. 2000. Determining validity in qualitative inquiry. *Theory into Practice*. Summer. 39(3). pp. 124-130.
- Hall, Joseph & Johnson, Eric. 2009. When Should a Process Be Art, Not Science? *Harvard Business Review*. 87(3). pp. 58-65.
- Hammer, Michael. 2007. The Process Audit. *Harvard Business Review*, 85(4). pp. 111-123.
- Hammer, Michael & Stanton, Steven. 1999. How Process Enterprises Really Work. *Harvard Business Review*. 77(6). pp. 108-118.
- Kananen, Jorma. 2013. Design Research (Applied Action Research) as Thesis Research: A Practical Guide for Thesis Research. Jyväskylän Ammattikorkeakoulu.
- Kaplan, Robert & Norton, David. 1996. Linking the Balanced Scorecard to Strategy. *California Management Review*, 39(1). pp. 53-79.
- Marr, Bernard. 2012. Key Performance Indicators (KPI). *The 75 Measures Every Manager Needs to Know*. Pearson Business.
- Marr, Bernard. 2015. *Key Performance Indicators for Dummies*. Wiley.
- Martinsuo, Miia & Blomqvist, Marja. 2010. Process Modeling for Improved Performance. Aalto University, School of Science and Technology, Department of Industrial Engineering and Management, Teaching Material 2010/1, Espoo.
- Merriam-Webster dictionary online. Available from: <https://www.merriam-webster.com/dictionary/> (Accessed 23 April 2022).
- Mizzaro, Stefano. 1997. Relevance: The whole history. *Journal of the American Society for Information Science*. 48(9), pp. 810-832.
- McCoy, Roger. 2018. How Do You Measure KPIs? *Franchising World*. 50(12). pp. 21-23.

Parmenter, David. 2015. Key Performance Indicators: Developing, Implementing and Using Winning KPIs. 3<sup>rd</sup> edition. John Wiley & Sons, Inc., Hoboken, New Jersey.

Saldana, Johnny, Leavy, Patricia & Beretvas, Natasha. 2011. Fundamentals of Qualitative Research. Oxford University Press. Incorporated. USA.

Saunders, Mark, Lewis, Philip & Thornhill, Adrian. 2016. Research Methods for Business Students. 7th ed. Harlow. Pearson Education.

Shenton, Andrew. 2004. Strategies for Ensuring Trustworthiness in Qualitative Research Projects. Education for Information. IOS Press. 22(2). pp. 63-75.

Staats, Bradley & Upton, David. 2011. LEAN Knowledge Work. Harvard Business Review, pp. 101-110.

Taylor, Catherine. 2013. Validity and Validation. Oxford University Press, Incorporated, USA.

Taylor, Tom & Ahmed-Kristensen, Saeema. 2016. Global product development: KPI selection support. Proceedings of International Design Conference, DESIGN, DS 84, pp. 1615–1624.

## The Process and Enterprise Maturity Model (Hammer, 2007)




**To be used in conjunction with "The Process Audit" by Michael Hammer (HBR April 2007, Reprint R0704H).**

### How Mature Are Your PROCESSES?

You can evaluate the maturity of a business process and determine how to improve its performance by using this table. Decide how the statements defining the strength levels, from P-1 to P-4, for each enabler apply to the process that you

		P-1	P-2
<b>Design</b>	Purpose	The process has not been designed on an end-to-end basis. Functional managers use the legacy design primarily as a context for functional performance improvement.	The process has been redesigned from end to end in order to optimize its performance.
	Context	The process's inputs, outputs, suppliers, and customers have been identified.	The needs of the process's customers are known and agreed upon.
	Documentation	The documentation of the process is primarily functional, but it identifies the interconnections among the organizations involved in executing the process.	There is end-to-end documentation of the process design.
<b>Performers</b>	Knowledge	Performers can name the process they execute and identify the key metrics of its performance.	Performers can describe the process's overall flow; how their work affects customers, other employees in the process, and the process's performance; and the required and actual performance levels.
	Skills	Performers are skilled in problem solving and process improvement techniques.	Performers are skilled in teamwork and self-management.
	Behavior	Performers have some allegiance to the process, but owe primary allegiance to their function.	Performers try to follow the process design, perform it correctly, and work in ways that will enable other people who execute the process to do their work effectively.
<b>Owner</b>	Identity	The process owner is an individual or a group informally charged with improving the process's performance.	Enterprise leadership has created an official process owner role and has filled the position with a senior manager who has clout and credibility.
	Activities	The process owner identifies and documents the process, communicates it to all the performers, and sponsors small-scale change projects.	The process owner articulates the process's performance goals and a vision of its future; sponsors redesign and improvement efforts; plans their implementation; and ensures compliance with the process design.
	Authority	The process owner lobbies for the process but can only encourage functional managers to make changes.	The process owner can convene a process redesign team and implement the new design and has some control over the technology budget for the process.
<b>Infrastructure</b>	Information Systems	Fragmented legacy IT systems support the process.	An IT system constructed from functional components supports the process.
	Human Resource Systems	Functional managers reward the attainment of functional excellence and the resolution of functional problems in a process context.	The process's design drives role definitions, job descriptions, and competency profiles. Job training is based on process documentation.
<b>Metrics</b>	Definition	The process has some basic cost and quality metrics.	The process has end-to-end process metrics derived from customer requirements.
	Uses	Managers use the process's metrics to track its performance, identify root causes of faulty performance, and drive functional improvements.	Managers use the process's metrics to compare its performance to benchmarks, best-in-class performance, and customer needs and to set performance targets.

are assessing. If a statement is largely true (at least 80% correct), color the cell green; if it is somewhat true (between 20% and 80% correct), shade the cell yellow; and if it is largely untrue (less than 20% correct), mark the cell red.

		
<b>GREEN:</b> largely true	<b>YELLOW:</b> somewhat true	<b>RED:</b> largely untrue

		P-1 P-2 P-3 P-4			
		P-1	P-2	P-3	P-4
<b>P-3</b>	<b>P-4</b>				
The process has been designed to fit with other enterprise processes and with the enterprise's IT systems in order to optimize the enterprise's performance.	The process has been designed to fit with customer and supplier processes in order to optimize interenterprise performance.				
The process owner and the owners of the other processes with which the process interfaces have established mutual performance expectations.	The process owner and the owners of customer and supplier processes with which the process interfaces have established mutual performance expectations.				
The process documentation describes the process's interfaces with, and expectations of, other processes and links the process to the enterprise's system and data architecture.	An electronic representation of the process design supports its performance and management and allows analysis of environmental changes and process reconfigurations.				
Performers are familiar both with fundamental business concepts and with the drivers of enterprise performance and can describe how their work affects other processes and the enterprise's performance.	Performers are familiar with the enterprise's industry and its trends and can describe how their work affects interenterprise performance.				
Performers are skilled at business decision making.	Performers are skilled at change management and change implementation.				
Performers strive to ensure that the process delivers the results needed to achieve the enterprise's goals.	Performers look for signs that the process should change, and they propose improvements to the process.				
The process comes first for the owner in terms of time allocation, mind share, and personal goals.	The process owner is a member of the enterprise's seniormost decision-making body.				
The process owner works with other process owners to integrate processes to achieve the enterprise's goals.	The process owner develops a rolling strategic plan for the process, participates in enterprise-level strategic planning, and collaborates with his or her counterparts working for customers and suppliers to sponsor interenterprise process-redesign initiatives.				
The process owner controls the IT systems that support the process and any projects that change the process and has some influence over personnel assignments and evaluations as well as the process's budget.	The process owner controls the process's budget and exerts strong influence over personnel assignments and evaluations.				
An integrated IT system, designed with the process in mind and adhering to enterprise standards, supports the process.	An IT system with a modular architecture that adheres to industry standards for interenterprise communication supports the process.				
Hiring, development, reward, and recognition systems emphasize the process's needs and results and balance them against the enterprise's needs.	Hiring, development, reward, and recognition systems reinforce the importance of intra- and interenterprise collaboration, personal learning, and organizational change.				
The process's metrics as well as cross-process metrics have been derived from the enterprise's strategic goals.	The process's metrics have been derived from interenterprise goals.				
Managers present the metrics to process performers for awareness and motivation. They use dashboards based on the metrics for day-to-day management of the process.	Managers regularly review and refresh the process's metrics and targets and use them in strategic planning.				




To be used in conjunction with "The Process Audit" by Michael Hammer (HBR April 2007, Reprint R0704H).

## How Mature Is Your ENTERPRISE?

To determine if your organization is ready to support a process-based transformation, evaluate the statements in this table. They show the strength levels, from E-1 to E-4, of the capabilities that enterprises need in order to develop their busi-

		E-1	E-2
<b>Leadership</b>	Awareness	The enterprise's senior executive team recognizes the need to improve operational performance but has only a limited understanding of the power of business processes.	At least one senior executive deeply understands the business process concept, how the enterprise can use it to improve performance, and what is involved in implementing it.
	Alignment	The leadership of the process program lies in the middle management ranks.	A senior executive has taken leadership of, and responsibility for, the process program.
	Behavior	A senior executive endorses and invests in operational improvement.	A senior executive has publicly set stretch performance goals in customer terms and is prepared to commit resources, make deep changes, and remove roadblocks in order to achieve those goals.
	Style	The senior executive team has started shifting from a top-down, hierarchical style to an open, collaborative style.	The senior executive team leading the process program is passionate about the need to change and about process as the key tool for change.
<b>Culture</b>	Teamwork	Teamwork is project focused, occasional, and atypical.	The enterprise commonly uses cross-functional project teams for improvement efforts.
	Customer Focus	There is a widespread belief that customer focus is important, but there is limited appreciation of what that means. There is also uncertainty and conflict about how to meet customers' needs.	Employees realize that the purpose of their work is to deliver extraordinary customer value.
	Responsibility	Accountability for results rests with managers.	Frontline personnel begin to take ownership of results.
	Attitude Toward Change	There is growing acceptance in the enterprise about the need to make modest change.	Employees are prepared for significant change in how work is performed.
<b>Expertise</b>	People	A small group of people has a deep appreciation for the power of processes.	A cadre of experts has skills in process redesign and implementation, project management, communications, and change management.
	Methodology	The enterprise uses one or more methodologies for solving execution problems and making incremental process improvements.	Process redesign teams have access to a basic methodology for process redesign.
<b>Governance</b>	Process Model	The enterprise has identified some business processes.	The enterprise has developed a complete enterprise process model, and the senior executive team has accepted it.
	Accountability	Functional managers are responsible for performance, project managers for improvement projects.	Process owners have accountability for individual processes, and a steering committee is responsible for the enterprise's overall progress with processes.
	Integration	One or more groups advocate and support possibly distinct operational improvement techniques.	An informal coordinating body provides needed program management while a steering committee allocates resources for process redesign projects.

ness processes. If a statement is at least 80% correct, color the cell green; if it is between 20% and 80% correct, shade it yellow; and if it is less than 20% correct, make it red.

		
GREEN: largely true	YELLOW: somewhat true	RED: largely untrue

E-3	E-4	E-1	E-2	E-3	E-4
The senior executive team views the enterprise in process terms and has developed a vision of the enterprise and its processes.	The senior executive team sees its own work in process terms and perceives process management not as a project but as a way of managing the business.				
There is strong alignment in the senior executive team regarding the process program. There is also a network of people throughout the enterprise helping to promote process efforts.	People throughout the enterprise exhibit enthusiasm for process management and play leadership roles in process efforts.				
Senior executives operate as a team, manage the enterprise through its processes, and are actively engaged in the process program.	The members of the senior executive team perform their own work as processes, center strategic planning on processes, and develop new business opportunities based on high-performance processes.				
The senior executive team has delegated control and authority to process owners and process performers.	The senior executive team exercises leadership through vision and influence rather than command and control.				
Teamwork is the norm among process performers and is commonplace among managers.	Teamwork with customers and suppliers is commonplace.				
Employees understand that customers demand uniform excellence and a seamless experience.	Employees focus on collaborating with trading partners to meet the needs of final customers.				
Employees feel accountable for enterprise results.	Employees feel a sense of mission in serving customers and achieving ever-better performance.				
Employees are ready for major multidimensional change.	Employees recognize change as inevitable and embrace it as a regular phenomenon.				
A cadre of experts has skills in large-scale change management and enterprise transformation.	Substantial numbers of people with skills in process redesign and implementation, project management, program management, and change management are present across the enterprise. A formal process for developing and maintaining that skill base is also in place.				
The enterprise has developed and standardized a formal process for process redesign and has integrated it with a standard process for process improvement.	Process management and redesign have become core competencies and are embedded in a formal system that includes environment scanning, change planning, implementation, and process-centered innovation.				
The enterprise process model has been communicated throughout the enterprise, is used to drive project prioritization, and is linked to enterprise-level technologies and data architectures.	The enterprise has extended its process model to connect with those of customers and suppliers. It also uses the model in strategy development.				
Process owners share accountability for the enterprise's performance.	A process council operates as the seniormost management body; performers share accountability for enterprise performance; and the enterprise has established steering committees with customers and suppliers to drive interenterprise process change.				
A formal program management office, headed by a chief process officer, coordinates and integrates all process projects, and a process council manages interprocess integration issues. The enterprise manages and deploys all process improvement techniques and tools in an integrated manner.	Process owners work with their counterparts in customer and supplier enterprises to drive interenterprise process integration.				

## Final Proposal of Improved Process for Managing Key Customer Agreement Pricing

