



## Suggestions for Customer Strategy Updates

Finnish Customs

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## ABSTRACT

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<p>The case organization Finnish Customs wanted to be provided with new suggestions for their customer strategy updates. The first objective of this study was to study how the needs of the partnership and key customers are met in the customer strategy and provide suggestions for improvements. Another objective was to research the legislation influencing the customer strategy development.</p> <p>The customer strategy was created in 2004 and it was combined with other strategies in 2013. The customer strategy consists of three customer segments as follows: partnership, key and small customers. To become a partnership customer, the company must manage the partnership candidate program. Many companies in the partnership segment are also Authorised Economic Operators, AEOs. The segmentation in the public sector is based on the market segmentation and its theories. The objectives of the segmentation in the public organization are the efficiency and promptness by making the services as simple as possible.</p> <p>The qualitative research methods were the basis of the methodology. Literature review of the theories of Customer Relationship Management CRM and the customer segmentation and its processes assisted in building the theoretical ground for the research. The secondary data consisted of the legislation which was referred to in order to detect the limitations which it may set. The semi-structured interviews of the personnel and direct observations were conducted for the data collecting.</p> <p>The results suggest that the partnership customers may improve their performance in the accuracy of the data and Customs has already decreased the level of intervention. Mobile devices may improve the efficiency at work and the legislation is encouraging to create paperless environment. The research did not disclose any particular limitations set by the legislation to the improvement of the customer strategy. The WTO and the WCO policies set some boundaries for how much customs procedures can be simplified in the segments. The customer strategy was not in conflict with the legislation. Previous research of the public segmentation was scarce for the purposes of this research. Further studies are needed for generalizing the results in the larger context.</p>
Keywords: Customer Strategy, Public Segmentation, Customer Prioritization

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## ABBREVIATIONS

AEO	Authorized Economic Operator
CITES	The Convention on International Trade in Endangered Species of Wild Flora and Fauna
CRM	Customer Relationship Management
DSS	Decision Support System
ERP	Enterprise Resource Planning
EU	The European Union
ICT	Information and communications technologies
INTRASTAT SYSTEM	The system for collecting information and producing statistics on the trade in goods between countries of the European Union (EU)
IT	Information technology
SCM	Supply Chain Management
TIR	The Convention on International Transport of Goods Under Cover of TIR Carnets is a multilateral treaty to harmonize the administrative formalities of international road transport
TREATY OF LISBON	An international agreement that form the constitutional basis of the European Union
WCO	The World Customs Organization
WTO	The World Trade Organization

## 1 INTRODUCTION

### 1.1 Background and Motivation

As a member of the European Union, Finland and 27 other EU-countries implement the common Customs Code. The goal of single market in the area demands control on the external borders in every country. Even if protecting the citizens' safety and healthy are crucial, Customs must also guarantee a continuous flow of import and export goods and make the process as fluent as possible. To ensure competitiveness of the European Union area, the Commission and the Parliament released a Decision No 70/2008 of paperless Customs services (European Commission 2013b). According to this Decision, efficiency is required and the development of paperless processes must be measured. ICT for Customs purposes is the crucial interest. The Commission emphasizes cooperation between economic operators, the Commission and customs authorities, when creating paperless environments. Also countries pending for membership, acceding or candidate, are in the process. The system is promoted also for economic operators and authorities in third countries. Creating paperless environment is challenging, because the certain procedures are binding companies and customs organizations in several countries. (European Union 2013, 21-23.)

The information exchanged is in a harmonized form. Thereby, data can be shared internationally even if the states have their own customs IT systems. Independent of where the company is operating internationally, customs data collection is similar everywhere. However, data is not collected when importing and exporting goods inside the EU, only Intrastat statistics are created based on the information the companies deliver to customs authorities (Finnish Customs 2013a).

These cases mentioned above are examples of processes that are developing in international customs environment. At the national level, Customs is going through the strategy development process. The implementation of the strategy is the responsibility of Customer Services that is operating under supervision of Foreign Trade and Taxation Department. Earlier customer strategy was separated, but now it is combined with the other strategies in Customs. The development of the strategy is based on the Customer Strategy of the Public Management project. (Ferm and Lempiäinen 2013.)

The Customer Strategy of the Public Management was developed in Ministry of Finance together with the customers and other partners in the workshops. The objective of the strategy is to create the mutual view of the development premises which are the basis of the future customer service. The strategy covers all the service channels and services of the public sector. The vision of the strategy is that the customer is able to participate in planning, developing and implementation of the services. The personalized services needed are available for the customer. According to the strategy, the services are simplified and clear, managed by the customer needs and cost-effective. The services are modified for the current needs. (Ministry of Finance 2013, 4.)

The customer strategy of Customs was researched also in the Bachelor's Thesis of the customer management. The study was made in Satakunta University of Applied Sciences in the year 2008. The title of the study was The Implementation of the Customer Strategy in Pori Customs. The study was conducted by interviews of the personnel and the customer in all the segments. (Viljanen 2008.)

## 1.2 Research Objectives and Questions

The primary objective of this study is to find out how the customer strategy meets the current needs of the customers in the key and the partnership segments and provide suggestions for the updates. The another objective of this study is to find out how both international and national legislation affect the customer strategy development in Customs.

Drawing from the objectives of this Thesis, the research questions are as follows:

- What are the objectives of the customer strategy in the public organization?
- How the customer strategy meets the current needs of the customers in the applied segments and how it can be updated?
- How the national and EU legislation affect the customer strategy?

The first research question defines the theoretical background. The answer of the first research question will be answered in the theoretical part of the Thesis. The second research question analyzes the customer strategy in Customs and discusses about customers strategy updates. The third research question discusses how the legislation

affects the customer strategy development in the point of view of Customs. The study covers the segments of key and partnership customers. The focus is on the partnership customers. The small customers' segment is not the objective of this study.

### 1.3 Case Organization Presentation

As a part of the European Union (EU) customs system, Finnish Customs (hereinafter Customs) is a central state agency operating under the supervision of the Ministry of Finance. Customs is operating in cooperation with domestic and foreign authorities. Approximately 2,400 people are working in Customs in its 200-year-old organization (Finnish Customs 2013d). Customs Organization chart is presented in Figure 1, Appendix 1.

The main tasks of Customs are to secure the internal markets in the EU, protect the health and safety of the citizens against threats that the goods may cause, collect the taxes and duties according to the rules and prevent criminal actions. The collection of 10.5 billion Euro in taxes and other fees which was almost 30 % of the total taxation income for the state during the year of 2011. (Finnish Customs 2013d.)

### 1.4 Structure of Thesis

Chapter 2 presents the methodology applied in this study. Chapter 3 approaches the customer segmentation through literature and Chapter 4 introduces the current customer strategy. The interviews are discussed and analyzed in Chapter 5. In Chapter 6 the limitations set by the national and EU legislation are analyzed. Finally, Chapter 7 concludes the Thesis and provides the suggestion for improvements.

## 2 METHODOLOGY

In Methodology Chapter the theory of qualitative research by Yin (2011) is referred. Furthermore it is presented how the theory is implemented in this research. The methodology in this Thesis is based on qualitative research methods. Theoretical ground is reviewing relevant literature of customer strategies and the Customer Relationship Management.

### 2.1 Research Methods

According to Yin (2011, 8), the features of the qualitative research are representing the opinions and views of the participants and using multiple sources instead of using only one source. Additionally, in the qualitative research the phenomenons or behaviors are presented in existing or emerging concepts. The contextual conditions are covered in the research method. (Yin 2011, 8.)

Yin (2011, 10-11) suggests that the view of the researcher affects the results of the study. The researcher is in the inevitable selection process when choosing the sources for the study and may ignore some documents that may affect the results. In the qualitative research all the materials and documents must be available for inspection. Yin (2011, 19) underlines the transparency of the research. He also persists that studies should be made methodically and leave some room for unexpected events. Avoiding bias and distortion are the responsibilities of the researcher. To basis of conclusions is to analyze the data with literature i.e. empirical research. (Yin 2011, 20-21.)

### 2.2 Data Collection and Analysis

Empirical data was acquired using multiple data collection techniques as follows: the semi-structured e-mail interviews with the key informants of the personnel, the semi-structured interviews for the employees in the Electronic Service Center of Customs and direct observations. The theory and the empirical data are partially overlapping in this study.

The first interview was conducted to find out if the prospective respondents were familiar with the customer strategy and their attitudes and opinions towards it. The interview was



made in Finnish. The questions were first sent to the management of the Electronic Service Center of Customs with a request to deliver them to 15-20 selected employees of the Center by e-mail. These employees were working with partnership and key customers in the daily basis. The questions were sent forward by the management to 17 employees. The questions are presented in Appendix 2. Five of the employees answered anonymously, four by e-mail and one by post. The answers were sent directly for the researcher.

After the answers were received, they were analyzed one by one and the respondents experiences provided by their answers were registered. Since there were only five respondents, generalizing the answers was not appropriate. The opinions and observations of the individual respondents were referred in the study. Thereafter the original documents were archived. According to the request of Customs, the customers were not interviewed. The confidential customer data were not used, because the results of this research are public. That is why all the respondents were the members of the personnel.

Additionally, the personal interviews were conducted with Senior Customs Officer Juha H. Lempiäinen and Director of Customer Relations and Tax Collection Tom Ferm. They were interviewed together. Customer Service Manager Sari Bjong answered the questions about the partnership customer segment. All these semi-structured interviews were conducted by e-mail and there were also options for asking additional questions afterwards. The respondents were guided with the topic of the discussion, but the answers were not limited. The respondents were the decision makers of their departments in Customs and the questions were drawn based on the information of their positions and responsibilities. Their opinions and observations were referred in the text in the context with the topics of the chapters.

When summarized, the theoretical grounds of the study are the literature review of the customer segmentation theories. The secondary data consisted the legislative documents. The empirical data is collected by the semi-structured interviews for the personnel and direct observations. The interviews are analyzed by the methods of the qualitative research. The qualitative research method was also chosen instead of quantitative methods, since the amount of the interviews and respondent was limited.

### 3 CUSTOMER STRATEGY AND CUSTOMER SEGMENTATION

Chapter 3 introduces few theories of the customer segmentation. The literature review refers articles and books of the market segmentation. Additionally the articles of the public segmentation are the sources of this Chapter.

#### 3.1 Customer Relationship Management

The social psychology is the basis of the basic theoretical approach of the relationship marketing research (Stefanou, Sarmaniotis and Stafyla 2003, 619). Customer relationship management CRM is managing the interactions of the organization with the current and future customers (Kumar and Reinartz 2012, 3). According to Nguyen, Sherif and Newby (2007, 102) the CRM “can be interpreted as a process of digitalizing a staff's knowledge about his or her customers”. Otherwise the service personnel would be expected to remember the individual needs of the customers. Payne and Frow (2005, 168) suggests that the definition of the CRM is depended on the view of the organization. For some organization the CRM is a database, some consider it a call-center or “a wide range of customer-oriented IT”. Additionally, the CRM may be a strategic and holistic approach to the customer relations to create the value for the organization. (Payne et al. 2005, 167-168.)

The traditional mass marketing have ignored the needs of the individual customers. The model of customer-centric strategies has been introduced. Earlier the product-centric strategies have been the basis of the marketing. Since the development of the technologies, recognizing easily the individual needs of the customers has been possible. Additionally the customer knowledge has increased since Internet provides the information rapidly and the customers appreciate fast services. The social media and mobile applications are the latest options to contact the customers. The phenomenon of the customers' increasing expectations and is challenging for the service providers. However, the loyalty programs have changed the customers' focus from pricing only. (Kumar et al. 2012, 6-13.)

Kumar et al. (2012, 14) suggest that the service providers have changed their attitudes. Now they are seeking profitable long-term customer relationships instead of quick profits. The traditional marketing campaigns are expensive and the response level of the customers

may be low. New service channels demand more from the companies and other organizations since they must actively coordinate these channels (Kumar et al. 2012, 15). The CRM may be connected with other decision support systems (Nguyen et al. 2007, 103) which Stefanou et al. (2003) also notify in the study presented later in this chapter.

The CRM is considered more as a strategy than as a solution. Kotorov (2003, 566-567) suggests that the organization that has a strategic approach for the CRM, can fit it for its own business needs. The main challenges from a tactical perspective are how to integrate business processes and systems or applications with the CRM. Both of these integrations are needed to achieve better personal services and guide the customers to the self-services in Internet. The challenge of the partial integration is not to confuse the customers, if they even are reached with the partial integration. The another challenge is the coordination inside the organization. The personnel may categorize the customers from the different point of views, e.g. in sales or in accounting departments. According to the study, it is essential to control the quality of the customer data to maintain the usability (Kotorov 2003, 568-570). Stefanou et al. (2003, 623) suggest that the companies and other organizations have four different CRM development stages. The stage is depended on the development of the CRM systems in the organization.

On the first preliminary stage the processes are non-IT assisted. Customers are investigated with the surveys and the results are recorded manually. According to the study, it is called “Defensive Relationship Marketing”. On the second stage the CRM is IT-assisted, e.g. the organization has the spreadsheet-databases of the customers. The contact channels are the call-centers, e-mail and the websites. The organization is expected to manage effectively the customer contacts and complaints. This is called “Customer Satisfaction-Complaint Management”. (Stefanou et al. 2003, 623-624.)

On the third stage the organization has developed to use IT-automated CRM. On this stage the organization is using Enterprise Resource Planning ERP. The organization is marketing and contacting their customers online and operate effectively in the customer service. The organization is implementing “Customer Accounts-Orders Management”. (Stefanou et al. 2003, 623-624.)

The highest CRM development stage is the fourth stage. The organization is using more developed ERP than on the third stage. Additionally the organization has the analytical CRM, the Supply Chain Management SCM and the Decision Support System DSS. With these applications the organization is able to monitor the personalized customer needs and the customer-centric information is available for the every decision-maker in the organization. On the fourth stage this kind of organization implements “Customer Personalization Management”. (Stefanou et al. 2003, 623-624.)

Nguyen et al. (2007, 106) introduce, based on the research of Ramsey (2003) the strategies used for the CRM implementation. The first is the customer strategy. According to the study, the customer segments must be identified and decide which interactions are implemented to maximize the benefits both for the organization and the customers. The theories of the customer segmentation is presented in Chapter 3.2.

The second strategy, according to Nguyen et al. (2007, 107), is the channel strategy. The organization decides which are the distribution channels for the services now and in the future. Avoiding the conflict of the channel strategies in the organization is important. The organization is also evaluating which channels are the most effective for its purposes. (Nguyen et al. 2007, 107.)

By promoting the third strategy which is the brand values strategy, the organization's objective to understand the needs of the customers' is easier to achieve, emphasize Nguyen et al. (2007, 107). The brand is more than a logo, name or slogan, because all the interactions the customer has done with the organization affects the image. The strong brand is built on the effective communication, accuracy of the schedules agreed with the customers and the personalized products. For the improvement purposes, collecting feedback is necessary. To conclude the CRM implementation process, the organization decides which CRM application is chosen. The successful CRM implementation demands the strategic context, the competence assessment, the business case development and strictly defined plan for the implementation. (Nguyen et al. 2007, 107-110, 113.)

Payne et al. (2005, 169-170) discuss about the conceptual framework for the CRM. According to the study, they identified five generic CRM processes. Afterwards these processes were the basis of the conceptual framework creation. The identification of these

processes were made by interviewing the professionals and by the literature review (Payne et al. 2005, 169-170). There are similarities to the earlier study of the CRM strategy implementation by Ramsey (2003).

The first process according to Payne et al. (2005, 170) is the strategy development process. It consists business and customer strategies which should be developed with cross-functional approach, together with different departments of the organization. The next process is the value creation process which main concepts are as follows: what kind of value the organization provides for its customers, what kind of value the organization receives from the customers and how to manage this value exchange. (Payne et al. 2005, 170-172.)

The multichannel integration process is the third process mentioned in the study. Like in the study of Nguyen et al. (2007, 107) the most appropriate combination of CRM channels are chosen to add value for the organization. The fourth process is the information management process. Collecting and analyzing the customer data is the main objective. The data is used to plan the marketing actions. The information management process consists data warehouses and other IT systems with analytical tools. The applications used in logistics, customer service, warehouse management or sales by vendors are supporting to operations in the organization. These are called the front and back office applications. (Payne et al. 2005, 172-173.)

The last process discussed in the research is the performance assessment process. The objective of the this process is to ensure that CRM enables the organization reduce costs by developing the CRM i.e. launching new electronic channels like the self-service customer applications. The performance monitoring is used to monitor the success of the CRM is necessary to find out how the customer retention and satisfaction have developed after the implementation of the CRM in the organization. These processes form the conceptual framework for the CRM. (Payne et al. 2005, 173-174.)

### 3.2 Customer Segmentation

The essential ground for market segmentation is to reach competitive advantage and increase profits. To reach these objectives, the organization must identify the segments,

target the most desirable segments and create the appropriate products and services for each targeted segment (Hunt 2010, 412). McDonald and Dunbar (2012, 8) suggest that the organization must define the markets in which it is operating or wishes to operate. McDonald et al. (2012, 8) emphasize that without defining the markets and applying the customer segmentation, the marketing will never reach the central role in the organization strategy.

Homburg, Droll and Totzek (2008, 110-111, 118) argue that it seems to be the common sense that prioritizing customers increases profits. When some customers find themselves underestimated and not receiving service at the requested level, it may cause negative effects on reputation. In their research Homburg et al. (2008, 110-111, 118) found out that even if some negative effects exist, generally the organizations had better customer satisfaction level in all segments and higher profits than before prioritization. Additionally the costs of marketing and sales decreased. Some organization have had problems to implement the prioritizations requested in the strategy: the culture, hierarchy or resources have not been appropriate. The organization must have updated information of the customers and ability to read it. The personnel should be aware of how the profitability affects the service level and not to waste resources in low-tier customers (Homburg et al. 2008, 110-111, 118). These thoughts were presented in the commercial context. However, some of them are relevant in Customs too, because of cost-effectiveness, for instance.

Dibb and Wensley (2002, 232) suggest, based on the research of A. Weinstein's Market Segmentation (1987), that the costs of the customer segmentation process must be considered in the beginning. An important question to answer is what the organization achieves by segmenting customers when the process itself spends resources of the organization. The customer characteristics must be usable, otherwise customer segmentation is not profitable. In addition, Weinstein suggests that the problem of variance inside the segments must be solved, because the customers may be different inside the segments. However, they introduce the idea of "low cost" segmentation. For example, marketing or products are lightly tailored for the needs of each customer segment, the basement remains the same. (Dibb et al. 2002, 244-246.)

According to Wedel and Kamakura (2003, 17-18) the basis of the market segmentation research have been classified in two ways. The first option is to use the terms of a-priori



accountability, efficiency and legitimacy. Since the organization receives public funding, it must show willingness to be transparent, open and reactive. Since the organization's task and responsibility is to offer services, it must communicate and operate efficiently. They share the idea of legitimacy in the context where organization may lose its touch with ordinary customers when it should take care of its responsibilities for all segments (Barnett et al. 2011, 8-9.)

The basis of the customer segmentation in the public sector has been adopted from the market segmentation theories. These were presented in Chapter 3.1. It is not similar, but the same techniques and other tools are usable also in the public sector. As was discussed previously, customer segments may be homogeneous, but there is always variance inside them. Basically, segmentation is discriminatory. The private companies may be free to choose the segments they want to co-operate with, but the public sector usually is not able to make these kinds of decisions. This is one of the biggest differences in segmentation between the private and the public sector. (Barnett et al. 2011, 11).

The data collected on the customers is used when classifying customers into the segments. In the market segmentation, variables are used for identifying the segments. Customers may be sorted by the socio-demographic variables, e.g. age and gender. (Barnett et al. 2011, 12-13). When customers are companies, the variable could be, for instance, the turnover or profitability. In this case, the amount of international trade is one variable.

Barnett et al. (2011, 13) present the geo-demographic variable. These are the segments by location. The behavioral and psycho-graphic variables generate information of beliefs, trends or interests of the customers. These are usable in public segmentation, but segmentation of the company customers is not efficient by these variables, because the amount of segments is limited and for example beliefs are not the essential information in Customs in the segmentation.

The ethics of the segmentation must be considered when the segments are made in the public sector. In Customs, the customer must apply to become the partnership customer. It is clear that the customer is aware of being in a different segment after joining the program. However, being a small customer for any small company is not a daily problem, when their focus is not on international trade. Barnett et al. (2011, 20) point out that the segmentation



is a reputational risk. They also question the public organization's role to segment by using information their customers must give. However, they mainly discuss private people. In Finland, the company information is mainly public and in Customs the customer must apply to be a part of the program, as discussed previously. However, ethical discussion about collecting information available for segmentation exists. Customs operates transparently in the segmentation process when the segments are present in Customs websites for everyone.

## 4 THE CUSTOMER STRATEGY OF CUSTOMS

In this Chapter the customer strategy of Customs is presented. The main source is the Customer Strategy document (2004). Recently the customer strategy has been combined with other strategies. The draft of the new strategy is presented in Chapter 4.6 only from the view of the customer strategy development, since it has been available for the research only during the finishing of this Thesis.

### 4.1 Role of the WCO and the WTO in the Customer Strategy

The World Customs Organization WCO represents 179 Customs organizations worldwide. Approximately 98 % of the international trade is operated in these countries. The WCO's role is to decrease a gap between the member organizations and partners by creating a transparent and predictable customs environment. In addition, it has a role in preventing international criminal actions to protect the society (WCO 2013a). At the practical grass-roots level, the WCO harmonizes procedures and documents in international customs operations.

The WCO's vision is “Borders divide, Customs connects. Dynamically leading modernization and connectivity in a rapidly changing world”. The WCO's mission statement is as follows: “The WCO provides leadership, guidance and support to Customs administrations to secure and facilitate legitimate trade, realize revenues, protect society and build capacity.” In its values the WCO informs that it is a knowledge-based and action-oriented organization which objectives are to respect transparent, honest and auditable governance procedures. It is eager to be responsive to its members and, in addition, stakeholders in trade, and society. Innovation and technology are the aspects they want to capitalize on. The WCO goals are strategic, connecting with its vision, mission and values. Creating stability, effectiveness and new guidelines in customs operations are provided in the WCO's strategic goals list. (WCO 2013b). The WCO's project of AEO-operators is presented in Chapter 4.5.

The World Trade Organization WTO was established in 1995 to manage its member states' multilateral and plurilateral trade agreements. It is also a forum for negotiations and it monitors member states' trade policies and assists developing countries in trade questions.

The ongoing Doha Development Round of the WTO has been criticized. Doha's target has been over a decade to create and update the WTO's global trade rules. Instead of that, negotiations do not progress and member states concentrate on creating trade agreements inside a small group. This also impairs the role of the WTO to be only a forum of disagreements. (Jacobsson and Stocchetti 2013, 3.) Since Finland is one of the members of both the WCO and the WTO, Customs organization must follow their policies when updating any systems connected to international trade.

As indicated in Chapter 1.1, the basis of the strategy development is in the Customer Service Strategy of Public Management by Ministry of Finance. Customs had earlier three independent strategies, i.e. customer, control and resource strategies. In addition, the control strategy is divided into two categories as follows: inspection and crime prevention.

The customer strategy of Customs has been applied since 2004. The customers have been divided in three segments, i.e. small, key and partnership customers. The segment is based on the risk profile and also service level the customer needs. The objective of the customer strategy is to define how in Customs the customer based operations are developed. The external objective is to offer for every segment the suitable and cost-effective way to deliver customs documents and manage other formalities in the first instance using electronic solutions. The internal target is to operate the right way, cost-effectively, minimizing risks and in an increasingly customer-oriented way. (Finnish Customs 2004.)

According to the current customer strategy, services are for the customers with a declaration, taxation needs or a statistics request. In addition, some customers also expect to receive information, support or guidance in taxation or customs questions. Based on these needs, the customer strategy defines the customer segments. The development and action programs have been created for the customer-based approach. In the development program the indicators follow if the targets have been reached. The indicators are confidential. (Finnish Customs 2004.)

Customs must follow its values when applying the customer strategy. Customs has four values as follows: professionalism, reliability, willingness to be of service and individual's valuation. When considering professionalism in customer strategy, it is important that the customers get the right impression of Customs' know-how and reliability. The personnel

can show individual's valuation by willingness to service and also help each others. (Finnish Customs 2013b.)

Customer management is practically the tool to implement the customer strategy. The customer management is divided into categories of customer segmentation, creating service products, customer data and quality management. The operations and means together are the customer management and the implementation is based on the needs and risks the customers have. (Finnish Customs 2004.)

When the customer is operating internationally, the information of the delivered products are demanded by the customs authorities as follows: the amount and value of the goods, terms of delivery, danger, buyer, seller, freight forwarder and the country of origin. These conditions affect how much taxes or other fees are paid and if other procedures are demanded. These taxes and fees are agreed in the EU customs by the members area and are not negotiable.

If the companies import products to the EU area, taxes are paid on the border or companies have a credit agreement. However, the customs declaration must always be presented when crossing the border with cargo. In addition, the phytosanitary or other certificates must be presented, depending on the origin and quality of the goods. Importing and exporting of CITES-goods e.g. animals and leather is strictly limited and certificates of the origin are demanded. (Finnish Customs 2004.)

#### 4.2 Partnership Customers

The partnership customers are large companies that constantly require customs services. They are freight forwarding companies, large importing and exporting companies, including Intrastat-customers and companies with excise taxation obligations. Customers' expectations are the customs services to be fast and efficient, always available and the decisions to be as expected and correct. Customers in this segment are willing to improve the services together with Customs. (Finnish Customs 2004.)

Partnership customer candidate must meet the criteria of customs processes generally and also economically. To define the partnership, the customer's most important customs

process is evaluated. This process can be importing, exporting or car taxation, for example. However, when the candidate is a company in the freight forwarding business, it must meet the criteria of all customs processes it is dealing with. (Finnish Customs 2004.)

Generally the candidates must be able to agree on their customs issues and actions with Customs and be willing to develop these processes. The candidates must be reliable to be able to share the responsibilities with Customs. Electronic information must be delivered directly from the data systems. Problems with customs procedures are documented and after this the customer is guided by Customs. Proper information is delivered for Customs and mistakes are corrected, if noticed. The personnel of the companies are trained to be able to work with customs issues and they are expected to be reliable. When the candidate is operating together with its own customers, it confirms their risks and quality. If criminal actions are noticed in any transactions, the candidate must be willing to co-operate with Customs to prevent such transactions. The candidate is an economically stable company and has paid its dues continually. (Finnish Customs 2004.)

Because the company is responsible for the self-monitoring, it does not demand the physical inspections by Customs as much as the companies not participating the program. Risks and procedures are defined together with Customs. To rate the products, the company and Customs work together. When mistakes have been noticed, Customs assists and offers guidance to avoid them in future. The customer has its own contact person in Customs. In addition, the training and guidance are available for the personnel in the company by Customs (Finnish Customs 2004). According to the Annual Report of the year of 2011, in the end of the year there was 28 partnership customers. One company had passed the partnership candidate program during the year 2011 and one company had resigned from the partnership program (Finnish Customs 2012a, 8-9). In the beginning of the year there are 29 partnership customers. (Bjong 2014.) In Chapter 5 the interviews provide more detailed information of the partnership customer program.

#### 4.3 Key Customers

Key customers are the second customer segment. They are companies that contact Customs regularly and they have a credit account for their duties. They have applied licenses to their procedures in customs processes. Most of the procedures in Customs are based on the

needs of these companies. The companies operate in importing, exporting and excise taxes, for example (Finnish Customs 2004). At the moment there are approximately 2300 key customers. (Bjong 2014.)

Customs offer as widely as possible licensed procedures for the key customers. The target is that their processes in Customs are simplified, cost-efficient and effortless. The center of gravity in procedures should be in electronic ones. When advising key customers, the advisors come mainly from the same area of Finland in which the customer operates. The key customer must have credibility and be qualified to apply for the simplified procedures. (Finnish Customs 2004.)

#### 4.4 Small Customers

Small customers are companies or individuals that occasionally visit Customs and they are the third customer segment. They can also be companies who have a credit account in Customs, but have not applied for any simplified procedures. Their know-how of customs procedures is variable. The control of these customers is based on analysis by Customs (Finnish Customs 2004). The amount of the small customers is at the moment approximately 17 000. (Bjong 2014.)

The product range of Customs consists of general basic products for all the customers and special products and procedures for credit and other applied customers in key and partner customers segments. Basic products are for small customers. Customs offers standardized products for the key customers and also customized products for the partnership customers. (Finnish Customs 2004.)

#### 4.5 AEO-operators

AEO-operator is a company that has passed the assessment for its customs and logistics procedures by Customs. The company is allowed to receive benefits in licensing in the EU area after the certification. AEO was established by the WCO and it is not a customer segment in Customs, but it has the similarities with the partnership and key customer segments.

Briefly, after the company is certified to be the AEO-operator, it is trusted by other customs authorities too in the EU. In future, the WCO's objective is to achieve the two-way approval with the United States and China for the AEO-operators. (Finnish Customs 2013c.)

The main qualifications for the AEO-operators are the company location in the EU area and the economic stability. When the AEO-status is applied in Finland, the company must have Finnish VAT number. Additionally, the companies must have the logistics and accounting systems that are available in Finland for Customs for inspection when needed. (Finnish Customs 2013c).

In the EU area the authorities are developing the self-assessment approach which means that the SA-customers (self-assessment customers) are monthly responsible to calculate the amount of their customs debt and to report it to Customs. In the same time the IT based approach is developed for controls. (Finnish Customs 2014b, 12.)

In the end of the year 2011 there was approximately 50 AEO-operators in Finland. In the EU there was approximately 9 500 companies that were the AEO-operators. The WCO was expecting that the AEO-operators are located in 50 countries worldwide in the near future (Finnish Customs 2012a, 9). Customs discuss with the partnership customers of the AEO-status, but most of the partnership customers already have it. (Bjong 2014.)

#### 4.6 New Strategy

In the old strategy (Finnish Customs 2012b, 5-6) the basis of the new strategy is presented. The strategic intentions of Customs are as follows: “to be a multi-ranged service and law enforcement organization, to confirm the fluent and correct international trade and to be the authority of the internal security”. The tasks and values of Customs are presented, these have been provided earlier in Chapters 1.3 and 4.1.

In the new strategy the operations of Customs are based on three basic strategies. These are the customer strategy, the control strategy and the resource strategy. The customer-oriented approach is defined by the customer strategy. The tools of the strategy are the customer segmentation, the service processes and the services. Additionally the management of the

customer data and the quality management are included to the customer strategy. (Finnish Customs 2012b, 5.)

The organization of Customs has been renewed in the year 2012 as a part of the implementation of the new strategy. The needs of the mobile patrols and electronic services development are answered by the organization renewing. The operational processes covers the responsibilities of 11 different Ministries. (Finnish Customs 2012b, 6-8.)

The new strategy draft introduces the circumstances that affect the operational environment of Customs. The government policy sets the guidelines. In customs-related issues, the current government has concentrated in the excise taxation, Russia, the unreported employment and the internal security. The electronic services, the service network and the needs of the business and industry, as well as development of the management and employment policy are also listed (Finnish Customs 2012b, 9-11). When analyzing these, many of them are connected with the customer relations i.e. the service network which means the integration of CRM processes and providing the appropriate service channels.

When the government policy set the guidelines above, the another circumstances are provided by the EU as follows: the development of legislation, IT systems, the strategy of internal security and the crisis management. Additionally the growth of Internet trade, the responsibilities of chemical control and the WCO membership are affecting the operational environment (Finnish Customs 2012b, 11-13).



## 5 THE INFORMATION PROVIDED BY THE PERSONNEL

In this Chapter the interviews of the personnel are presented and analyzed. The interviews presented in this Thesis were conducted by e-mail and respondents were chosen because of their positions in the organization.

As mentioned in Chapter 2.1, the questions of the semi-structured interview were sent to 17 employees in Electronic Service Center of Customs. The questions are listed in Appendix 2. Five of employees answered either by e-mail or post. The first two questions inquired what the respondents knew about the current customer strategy and how they had learned about it. The third question is how the personnel experiences the key and the partnership customers' customs processes.

On the basis of the first responses received, it was evident that the third question was not clearly settled, because the respondent were not sure what means the term of “credit customer”. The terms of key and partnership customer should have been used instead and the respondents indicated their confusion.

In the semi-structured interview every respondent provided the information that they had participated in the meetings about the customer strategy. Most of them had also discussed the customers strategy with their superiors during the official annual discussions. Some of the respondents expressed as their understanding that after the customer company had passed the partnership program, they may become inaccurate in their customs procedures. Re-correcting the same mistakes in the documents several times was frustrating for them.

The respondent of the next interview work at Foreign Trade and Taxation Department. The questions of the semi-structured interview of Ferm and Lempiäinen are presented in Appendix 3. According to the interview of Ferm et al. (2013), the current strategy was established in 2004 as a part of strategy creation in Customs. In 2013 all the strategies were combined into one common strategy. The development were still under processing and changes are made (Ferm et al. 2013).

The benchmarking came true in the development process since the segmentation model was adopted by researching other customer strategies in the similar organizations. When

creating the new common strategy, experiences from other public organizations operating under the supervision of The Ministry of Finance were collected and developed. The implementation of the strategy is monitored by the management by objectives and the action plans. In their answers Ferm et al. emphasized that all the objectives for strategy renewing are discussed in the strategy sessions where the new strategy is launched. (Ferm et al. 2013.)

The third interview was conducted with the manager of Customer Services. The objective of the interview of Ms. Bjong was to find more detailed and practical information of the partnership program. The questions are presented in Appendix 4. This semi-structured interview was conducted by e-mail too.

The marketing of the partnership program is done in the websites where the key and partnership programs are presented for the potential customers. The Customer Service prepares the annual business advise plan for the internal use with priorities to discuss with the key and small customers. When discussing with the companies with the help of the business advice plan, the partnership may be the objective under the appropriate conditions. Additionally, both of the parties must find the partnership beneficiary. (Bjong 2014.)

The plan has been implemented in the Customer Services since the year 2010. The first objective of the plan was to offer efficient and authentic information for the customers based on their needs. In addition, the another objective was to manage the customers' knowledge of customs procedures. (Finnish Customs 2011, 6.)

After applying the partnership status the company becomes the partnership candidate customer as mentioned before. The candidate customer must have commitment and resources for the process which duration is approximately one year. It consists 15-20 meetings with the experts of the applied operations in Customs. The candidate customers must reserve approximately 200-300 working hours for the process. They must nominate the contact person and the personnel must be aware and committed to the self-monitoring in the partnership issues. In case the company does not conduct all of the electronic procedures, they may have to invest for the new ICT. (Bjong 2014.)

In Customs the partnership candidates do not have the similar customer training. For instance, during the candidate customer program, Customs is discussing with the customer company of the conditions and how they are fulfilled by the customer. The topics for the discussion are the flows of goods and information, the ICT, the internal control, the potential risks and how to minimize these risks. These are the basis of the self-monitoring plan that the company implements when controlling the customs procedures after it has become the partnership customer. (Bjong 2014.)

The customer has a contact person in Customs. If the problems are noticed by Customs in the customer's customs procedures, the contact person contacts and advises the customer to focus in the correction of the mistakes. The most common problems are delays of the clearance schedule, delays in the information and the drive-by without the customs clearances. If the partnership customer does not commit to operate according to the partnership program after advising, the partnership status is canceled. Other reasons for canceling the status may be the major changes in the customer's business, the low economic position, the criminal actions or the customer's willingness to cancel the status. (Bjong 2014.)

The interviews provided complementary information and some details of the implementation of the customer strategy. It was unexpected that the respondent working in the Electronic Service Center had similarities in their answers. Since the amount of the respondents was limited, the generalization of these opinions is not reasonable.

## 6 LIMITATIONS SET BY THE NATIONAL AND EU LEGISLATION

Even if the key and the partnership customers would be quite independent and self-controlled, the legislation, the international rules and the security issues set restrictions on to how Customs controls their actions. In this Chapter the national and EU legislation is referred and analyzed in purpose to find the limitations for the customer strategy updates. The analyzed legislation was selected from Finlex database and the EU legislative databases.

### 6.1 National Legislation

The national legislation has been gradually harmonized not to be in conflict with the EU legislation. Hereby the limitations of the simplified procedures are analyzed from the point of view of The Customs Act 21.12.2012/961 and The Non-Discrimination Act 20.1.2004/21. According to Finlex (2014a), The Customs Act (961/2012 28§), the customers that have IT-based electronic data transfer are notified by the message when the duties are registered in their accounts. These customers have the credit agreements. When the customer does not have the credit agreement, the amount of the customs duties are notified by a clearance decision. “The customer shall be deemed to have been informed of the amount of duties, unless otherwise provided, at the time the clearance decision has been issued to the customer, or on the seventh day from the day the clearance decision has been subjected to postal delivery.” (Finlex 2014a.)

Small customers may also be credit customers, but they do not use the simplified procedures or other simplifications (Finnish Customs 2004). Key or partnership customers receive their clearance decisions faster by the data transfer system and the fast reaction to make corrections is possible when needed. However, the cash customers payments are expected in 10 days and the customs clearance is not finished until the payment.

The purpose Non-Discrimination Act (21/2004) is to foster and safeguard equality and enhance the protection provided by law to those who have been discriminated against in cases of discrimination that the Act covers (Finlex 2014b). When studying the objectives of the Act, the conclusion of the research is that is not valid when analyzing the segmentation

of the companies by the public organization. When the customers of Customs are the citizens, the Non-Discrimination Act is valid.

## 6.2 EU Legislation

The customs union of the EU was founded in 1968 by six Member States. The customs legislation was fully harmonized in 1992 and now it is implemented by 28 Member State administrators. The new Union Customs Code was agreed in 2013. The main improvements concern the operations of AEO-operators and creating paperless and fully electronic customs procedures. One of the reforms is harmonizing the sanctions of customs violations. (European Commission 2013a.)

According to the European Commission (2013c, 13), the simplifications in customs procedures are highly recommended, the modernized approach for the customs control. Additionally, the amount of procedures should be minimized to those that are justified from the economic point of view. The purpose is to ensure the competitiveness of the companies in the EU area (European Commission 2013c, 13-14). In the context, the partnership customer segment and other segments in the customer strategy are in line with the regulations of the European Commission.

According to the new strategy draft (Finnish Customs 2012b, 11) the new Customs Code was modified to fill the needs of Treaty of Lisbon. The schedule of the electronic service environment has been challenging in the EU. The integration and implementation of electronic services in the international customs network is the objective of the development in Finnish Customs. The importance of the trouble-free electronic services has grown since other the traditional service channels e.g. Customs offices, personal services etc. have decreased. (Finnish Customs 2012b, 11-12.)

The general phenomenon in EU legislation seem to be that in its development the increasing internal and international trade were notified. The legislation ensures that more services are available online which decreases the personnel resources in customs organizations. Additionally the tasks of the personnel are changing and some tasks may disappear or come into existence during the change process. The increasing role of ICT appears in the legislative texts generally and this causes the continuous change processes in

several public organizations as well as their in their partner organizations: customer companies etc. The examined legislation data did not disclose any particular limitations concerning the updating of the customer strategy of Customs.

## 7 CONCLUSIONS

The Conclusion Chapter summarizes the results of this Thesis and also discuss about the limitations realized during the research process. The suggestions for the future research are also proposed.

### 7.1 Summary of Findings

The basis of the public segmentation is in the market segmentation. Many of the theories of customer strategy and segmentation are adopted directly from the market segmentation. However, in the public sector the grounds of public service must be considered when segmenting customers. Based on this Thesis, Customs is operating on the highest stage of the CRM development, since it has integrated CRM and set clear channels for the customers to contact Customs.

However, many companies may use mobile devices e.g. iPads or smartphones in daily business and it is clear that using these devices is the growing trend. Customs may have to consider how to ensure that the applications are modified to be easily used in the customer and personnel mobile devices. Additionally, launching mobile devices for the personnel working “in the field” may be one option since many issues are documented in writing to the paper and later rewritten to the systems. On the other hand, even if Customs is implementing CRM in the high stage, on the other hand some work is done in traditional way at the practical level. These observations are based on the experiences of the writer.

The segmentation in Customs is public and transparent, since the customer must apply to become the key or the partnership customer. The customer's responsibility of the procedures emphasizes after applying for the partnership candidate program. Based on the data collected in the interview, the personnel of the Electronic Service Center suggested in their answers that the partnership customers may improve their performance with the data and Customs may evaluate the level of intervention. This may be one option for the development in the implementation of the customer strategy. According to the interviews of the management, the action plan for the interventions already exists.

There are several regulations and other legislation that control the customer segmentation in Customs. The regulations of the WTO and the WCO, the national and EU legislation that are also constantly changing. Additionally the court of justices continually interpret the legislation which is considered in customs issues too. The national and EU legislation enables Customs to permit the customers to use self-monitoring in their customs procedures. This study did not reveal any conflicts between the customer strategy and the legislation.

The objectives of the segmentation in the public organization are cost-efficiency and the proper use of the limited resources without ignoring transparency. Also the responsibility to provide public services must not be ignored.

The customer needs are dependent of the services they expect from the Customs. The different backgrounds of the companies also inside the segments are the variance which Customs has managed by modifying the provided services, specially in the partnership customer segment. One improvement may be in the future to apply few more segments for different types of company customers. This development is also depended on the responsibilities the government policy and the legislations set for Customs.

The customer relationship with Customs is dependent on what kind of business area they are operating in, i.e. importing, exporting and/or excise. Since it is not public information what kinds of agreements Customs have with its customers, some of the suggestions may already implemented.

Customs already have created the customer networks and are developing them. Alatalo (2013, 16) presents the new customer networks in Customs. They have been grounded on the side of the customer cooperation boards. Since the autumn 2013 the customer cooperation concept was updated and the networks grounded. The objective of these networks is to reach more efficiently the customers to participate in the EU customs legislation updating. The networks are sorted by the customers' fields of business or the area. The customer networks are as follows: freight forwarding, maritime transport, air services, express freights, electronic services, imports, exports and the Åland Islands. The customers are requested to register to the networks online and they share their opinion of the issues discussed in the customer cooperation boards. The customers that are the



members of the customer cooperation boards are automatically members in the the customer network. (Alatalo 2013, 16.)

Since the customers are using electronic procedures, giving feedback in during the same session may be one improvement. For example, after finishing the document filling, the customer could be able to click the link to the feedback page. After all, it is a risk that some customers may consider this as the official way to provide more information or cancel their procedure. Additionally, resources for analyzing and responding the feedback are needed if the system is created.

Customs has the informative website, but it does include interactive tools, excluding the feedback form. The social media may be one tool to share the information and receive the feedback. For example LinkedIn and blogs are followed by professionals and there is potential to reach the customers in all the segments. The public conflicts are the risk of interactive public medias. Participating the social media requests resources, since the role must be active if these channels are provided by Customs.

The company customers may have different backgrounds even if they would be in the same segment of the key or partnership customers. The needs of the freight forwarding company may differ from the needs of the company paying excise taxes. The personalized training that Customs provides during the partnership candidate program is positively unusual when considering the customer segmentation programs generally.

## 7.2 Limitations

The amount of respondent in the semi-structured interviews was limited and that is why generalizing opinion in them is not possible. The answers describe more opinions and knowledge of the single employees. Another limitation concerning this Thesis is the objectivity, since the writer has been working in Customs. The interpretation of the information may be affected by the own experiences and the risk of a biased view is recognized. The third limitation is the interpretation of the legislation. This is the Thesis of the International Business Management and the Thesis of Law may provide different perspectives, since the knowledge of interpreting the legislation may be wider. The list of

references is comparatively long since the information of the public segmentation is disintegrated.

### 7.3 Proposals for Future Research

The amount of public segmentation research is very limited when comparing with market segmentation studies. That is why this field of segmentation may be a topic for future research. The source material were found mainly from The United States and Australia.

Generally, the EU legislation is under constant change process and additionally the national legislation are harmonized in the EU area. The customs legislation is one of the main grounds of the EU operations. When the legislation is changing, the basis of customer segmentation may change.

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## APPENDICES

Appendix 1. The organization of Finnish Customs 1 January 2013

Appendix 2. The questions sent to personnel

Appendix 3. The questions sent to Ferm and Lempiäinen

Appendix 4. The questions sent to Bjong

## APPENDIX 1

Figure 1. The organization. <[http://www.tulli.fi/en/finnish\\_customs/about\\_us/more\\_information/organisation\\_customs.pdf](http://www.tulli.fi/en/finnish_customs/about_us/more_information/organisation_customs.pdf)>





## APPENDIX 2

Questions sent to the personnel. The translation in the end.

1. Kerro, mitä tiedät Tullin asiakasstrategiasta?
  2. Missä olet tutustunut Tullin asiakasstrategiaan?
  3. Miten luottoasiakkaiden itsepalvelu tullausprosesseissa toimii? Mitä ajatuksia tämä herättää?
- 
1. What do you know about customer strategy of Finnish Customs?
  2. How have you learned about customer strategy?
  3. How does the self-service in customs processes work by credit customers? What do you think about it?

## APPENDIX 3 1(2)

The questions sent to Ferm and Lempiäinen. The translation on the page 42.

1. Tullin asiakasstrategista, kertoisitko meneillään olevasta kehitystyöstä? Esimerkiksi milloin se on aloitettu, kenen aloitteesta, kuka sitä koordinoi?
2. Ketä on työryhmässä ja kenelle työryhmä raportoi?
3. Mikä on uudistamisen aikataulu?
4. Mitkä ovat asiakasstrategian uudistamisen tavoitteet? Miksi uudistetaan?
5. Onko ”vanhaan” strategiaan sovittu jo jotain muutoksia?
6. Minkälaisia resursseja tai määrärahoja strategian uudistamiseen on varattu?
7. Onko asiakasstrategian suhteen yhteistyötä tai benchmarkingia eli otetaanko mallia muista organisaatioista? Mitä ajatuksia tämä herättää?
8. Konsultoidaanko ulkopuolisia asiantuntijoita? Miten?
9. Miten uusi strategia ”jalkautetaan” Tullin henkilöstölle?
10. Miten strategian toteuttamista seurataan (nyt ja tulevaisuudessa)?

## APPENDIX 3 2(2)

1. Regarding the customer strategy of Customs, would you please tell about ongoing development project? For example, when did it begin, by whom and who is coordinating it?
2. Who are the members of the team? Who do they report to?
3. What is the schedule for the project?
4. What are the targets of the project? Why is renewing needed?
5. Are there already some reforms made for the current strategy?
6. What kinds of resources or allocation are available?
7. Is there any benchmarking or cooperation with other organizations? What do you think about that?
8. Are you using consults in the project? How?
9. How is the new strategy shared for the personnel?
10. How is the implementation of the strategy controlled, now and in the future?

## APPENDIX 4 1(2)

The questions sent to Bjong. The translation in the end.

1. Miten kumppani- ja avainasiakkuuksia markkinoidaan asiakkaille? Tuleeko aloite asiakkailta vai Tullista? Onko näiden asiakkaiden löytämiseksi olemassa jotain järjestelmää tai suunnitelmaa?
2. Minkälaisia resursseja tai investointeja ja kumppaniasiakkuus asiakkaalta vaatii?
3. Suositellaanko AEO-toimijalle kumppaniasiakkuutta ja päinvastoin?
4. Ovatko asiakkaat luopuneet kesken hakuprossin kumppanistatuksen hakemisesta tai onko näin tehty Tullin aloitteesta? Miksi?
5. Kertoisitko tarkemmin kumppaniasiakkuuteen liittyvästä asiakaskoulutuksesta?
6. Miten kumppaniasiakkaiden mahdollisesti tekemiin virheisiin puututaan? Antaisitko käytännön esimerkkejä?
7. Jos yritys on hyväksytty kumppaniksi, nopeuttaako se saman konsernin muiden yhtiöiden hakuprosessia? Millä edellytyksillä?
8. Minkälaisissa tilanteissa kumppanuus voidaan peruuttaa?
9. Mikä on asiakkaiden prosentuaalinen jakauma eri asiakasryhmiin?

## APPENDIX 4 2(2)

10. Minkälaisia lainsäädännöllisiä rajoitteita sinulla tulee mieleen liittyen asiakasstrategian kehittämiseen?

1. How marketing of the partnership and key customership managed? Which one is initiative, the customers or Customs? Is there some kinds of system or plan to find these customers?

2. What kind of resources or investment the customer must have?

3. Is the partnership recommended for the AEO-operator by Customs and the AEO-status for the partner customer?

4. Have the partnership candidates resigned from the program or has Customs terminated it? Why?

5. Please describe the customer training concerning the partnership.

6. How Customs respond to the mistakes the partnership customers may make? Please provide examples.

7. If the company has passed the partnership program, does it expedite the partnership process of other companies in the same Group? In which conditions?

8. Under which circumstances the partnership is canceled?

9. What is the distribution of the customer segments in percentages?

10. What kind of limitations by legislation have been found to develop the customer strategy?