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KEY ACCOUNT MANAGEMENT IN A CASE COMPANY

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Tämä opinnäytetyö käsittelee avainasiakkuuksien hallintaa niin teoreettisesta näkökulmasta, kuin käytännönläheisesti. Yritys, jolle tämä opinnäytetyö tehtiin toimeksiantona, haluaa pysyä tuntemattomana, koska avainasiakkuudet ovat yrityksen isoimpia salaisuuksia. Tämän opinnäytetyön tarkoitus on antaa ehdotuksia siitä miten kohdeyritys voisi parantaa avainasiakkuuksiensa hallintaa.

Opinnäytetyön teoriaosio käy läpi kaikki avainasiakkuuksien hallintaan liittyvät pääasiat, aloittaen avainasiakkaan määrittelyllä. Sen jälkeen perehdytään siihen, miten asiakassuhteet kehittyvät ja millaisia sosiaalisia vuorovaikutteita asiakassuhteen hallinnassa on. Sitten tarkastellaan avainasiakkuuksien hallintaa kriittisestä näkökulmasta ja pohditaan siihen liittyviä riskejä. Lopuksi annetaan kaksi esimerkki- työkalua avainasiakkaiden luokitteluun asiakaan houkuttelevuuden ja asiakassuhteen vahvuuden mukaan.

Työn empiirinen osio kulkee osittain teorian mukana, valaisten sitä miten teoria ilmenee tosi-elämässä. Lisäksi yrityksen kolmea avainasiakasta analysoidaan niin tämän hetkisen tilanteen pohjalta kuin edellä mainittujen työkalujen avulla.

Tutkimusmenetelmät ja -prosessit kohdassa esitellään miten tämän opinnäytetyön empiirinen ja teoreettinen osio on kehitelty. Kyseinen osio myös antaa tarkan kuvauksen siitä, miten empiirinen tieto kerättiin, käyttäen haastattelu- ja tarkkailumenetelmiä.

Lopuksi annetaan vielä suosituksia avainasiakkuuksien hallinnan tehostamiseen jokapäiväisessä kanssakäymisessä kohdeyrityksen ja avainasiakkaiden välillä.

KEY ACCOUNT MANAGEMENT IN A CASE COMPANY

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International Business and Marketing Logistics,

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The topic for this Bachelor's Thesis is the key account management both from theoretical point of view as well as from practical angle. The case company that ordered the Thesis wishes to remain anonymous as the key accounts are one the biggest secrets. The purpose of this thesis is to give practical operational level suggestions on how to improve their key account management

The theoretical part of the Thesis describes all the main issues of key account management, starting with the definition of it. The next part covers the development of the customer relationship and what kind of internal and external influences to the social interaction there is between the customer and the supplier. The following part looks at the key account management from a critical viewpoint, highlighting the possible risk areas that have to be taken into consideration. Finally there are two examples of tools that can be used in order to rank customers based on their attractiveness and the strength of the relationship.

The empirical part goes partly hand in hand with the theoretical part, illustrating how the theory is applied within the case company. In addition to general overview, three of the case company's key accounts are analysed based on the current situation as well as using the previously mentioned tools.

In research methods and processes part, the development of the empirical part is presented. It gives a detailed description of the data gathering used to gain the information. The main data gathering methods were interviews and observations.

Finally in the last part, there are some recommendations how the case company could improve their key account management in the operational, everyday level.

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1. Introduction

This subject of this thesis is key account management both theoretically as well with in a case company that does not yet use key account management but still have key accounts. The case company wanted to see the current situation of the theory concerning the key account management and how they could improve their own processes. The case company operates in component manufacturing industry with customers all around the world, mainly in Europe. They are a long

time player and have solid markets. This bachelor's thesis will focus on key account management (KAM) and the analysis of three customers which the case company has classified as key accounts

The case company produces mainly two categories of components. The A-category components are more complex and challenging to produce and thus more expensive. Their demand is also noticeably lower than that of the B-category components. B-category components are more often produced in big batches as they are easier to manufacture and their demand is also much higher. A practical example of the differences in demand is difference between the front door of the apartment house and the front door of each individual apartment in the house. This analogy also applies as the front door has more specific requirements than the other doors as the doorways within the houses do not differ that much.

The data for this thesis was gathered during the summer 2008 before the sudden changes in the world's economical situation, so many of the statistics and estimations based on them will more likely be incorrect as the economical situation reflects strongly on component manufacturing industries as the customers as well as end user will be reducing their investments.

In order to avoid complicated structures with him/her, s/he, and such, in this thesis a single person, such as the key account manager will be referred as they.

2. Research Problems and Conceptual Framework

The topic for my bachelor's thesis is" Analysing Key Accounts for Case Company. The reason why the case company is interested in this subject is that they have identified their key accounts but have not done any further analysis of them. Furthermore, they are interested in possible ideas concerning improvements or developing operational level tools for continuous analysis and measuring tools that this thesis could provide. For me the interest in this topic comes from its Customer Relationship Management (CRM) roots as it is an interesting way of improving customer retention.

The main objective of this thesis will be the key account management (KAM) and its various aspects, in particular the analysis of key accounts. The theoretical part will be going over the major theories concerning the KAM, both in general as well as in operational level in order to give valid, useful recommendations to the case company. Even though the case company has identified its key accounts, the thesis will go over the theory to see if there are any differences between the theory and the practice within the case company.

The main questions that will be asked are:
- What is key account management and what is the current theory concerning it?
- What kind of tools there are for KAM?
- How to analyse key accounts?
- What is the current situation of KAM in the case company
- How can the case company improve its KAM?

There will be two different angles for the thesis. The main angle will be the analytical view on the key accounts and their management. Second angle will be looking at things from practical, operational level in order to make use of all the theory that is presented in the theoretical part of this thesis in order to find everyday uses for it. This thesis does not cover the strategic level of KAM as that would require extensive research into each function of the company. That level of research would require more time and resources that is this bachelor's thesis has available. The level of insight required for strategic recommendations cannot be gained before years of work in the industry. In order to give broader scope of issues, this thesis will look for counterpoints for KAM to see if there are alternatives that might be more suitable for the case company or if there are any particular weaknesses that they have to take into consideration. It is unlikely that this thesis will

provide better plan than the current system, but there areas that could be improved.

As a framework for the thesis, there is an interesting article that has already been used in definition of the subject. The article in question is by Jukka Ojasalo (2001, 199-218) and its title is "Key account management at company and individual levels in business-to-business relationships" In addition to that article, the thesis will be going over the KAM as a whole phenomenon as well as differences between Key account management and major account management.

In the theoretical part, the main sources will be various literatures about the subject, books as well as various theoretical articles and case studies. In the operational part, the main sources will be the information from the case company's intranet, statistics and interviews with various members of the case company, including the sales managers, sales coordinators, and by observing the sales staff. In the intranet there should be all the relevant information about each key account in general and what the current situation is. The statistics should be able to show me what has happened in the past and what the clients are like in quantitative sense. The statistics are also a basis for the estimation of what the development of each client will be like.

The best source for the detailed information and hands-on experience are the people who are in charge of each key account. By interviewing and observing the sales managers and account support persons, it is possible to create an information package, which summarises the current situation as well as offering ideas how to improve the current level of KAM so that those not yet familiar with the accounts will be able to understand the situations with relative ease. Interviews will be semi-structured, so that the critical topics will be covered in each interview while staying informal enough to adapt to the new information that might come out during the interview. In addition to the semi-structured interviews, the participatory observation offered practical way of seeing how the customers are managed currently.

After talking with the responsible parties within the case company, the conclusion is that this thesis will only focus on the internal aspects of KAM and will not interview the clients. The main two reasons for this are; to limit the amount of interviews to do as well as the wishes of the case company. The reason for this is that they centralised general satisfaction survey carried out on a regular basis. Furthermore there have been several events both within and without the case company that would have a strong effect on the results which would render the whole survey mostly invalid.

The biggest challenge with the topic is that the issues that this thesis covers are mostly confidential so extra caution needs to be used in presenting the information so no sensitive classified information is accidentally revealed, yet that the information is clear and the conclusions based on the data can be reasoned, without giving too much information to the competitors. This is especially true to the analysis part concerning the yearly sales volumes, an issue that no company wants to let outsiders know.

The objective is to create in-depth, yet concise, illustration of the situation of KAM in the case company and an analysis of each of the chosen key accounts for the case company and based on the discoveries; provide them with practical solutions and guides to everyday interaction. I do not expect to create phenomenal tool that will revolutionise KAM but something more down to earth which will make the managing of key account more comfortable and efficient.

CONCEPTUAL FRAMEWORK

KEY ACCOUNT MANAGEMENT

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                    ┌─────────────────────────┐
                    │ Identifying Key Accounts │
                    └─────────────────────────┘
                                 │
                                 ▼
┌──────────────────────┐   ┌─────────────────────┐   ┌──────────────────────┐
│ Basic Charasteristics │◄─│ Analyzing Key Accounts │─►│ Products and services │
└──────────────────────┘   └─────────────────────┘   └──────────────────────┘
                                 │
┌──────────────────────┐   ┌─────────────────────────┐   ┌────────────────────────┐
│ Relationship History  │◄─│ Selecting Suitable Strategies │  │ Organizational Structure │
└──────────────────────┘   └─────────────────────────┘   └────────────────────────┘
                                 │
                                 ▼
┌──────────────────────┐   ┌─────────────────────────┐   ┌──────────────────────┐
│ Relationship Commitment │◄─│ Developing operational   │─►│ Information Exchange  │
└──────────────────────┘   │ Level Capabilities       │   └──────────────────────┘
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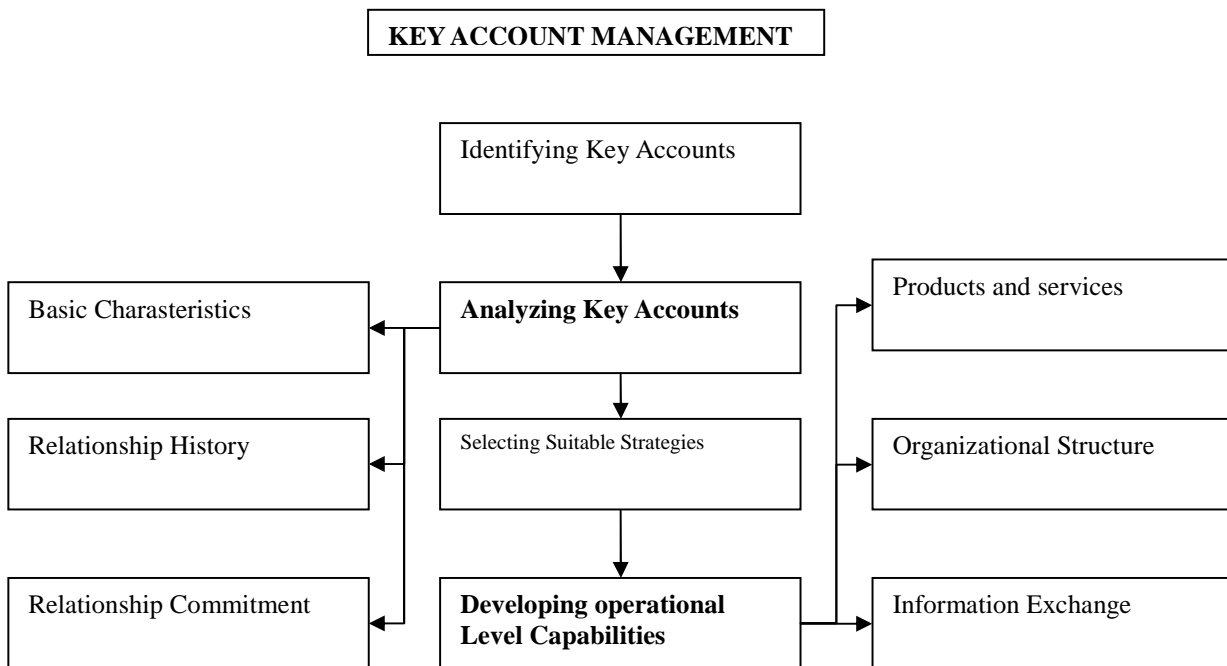
Figure 1. Conceptual Framework. Modified version of Ojansalo's "Elements of KAM" (2001)

The figure 1 is the conceptual framework for this thesis. It highlights the main

elements that should be taken into consideration when looking how companies manage their key-accounts and how they can analyse them. The key account management starts from the identification of the key accounts. In this stage the manager should define what criteria are important for the company (generated turn-over/revenue, complexity of buying process, future potential, reputation, etc...). When the criteria have been selected and ranked by importance, the analysing part can begin.

In the analysis part all the current information about the customer is gathered. The main three areas of information are the basic charastericstics, the relationship history and the commitment that both the supplier and the customer have for the relationship, such as joint projects. Based on the information and deductions done during the analysis, the suitable strategies for each key account should be selected. In the case of this thesis, the strategy part is left aside due to the complexity of it and the time it would require. Finally based on the analysis and the strategies chosen, the operational level decisions are made. Which services and products will be offered to which customer, what kind of organisational structure best supports each of the key accounts individually as well as in general, and how does the flow of information go between the two organisations. Here also all the possible problem areas and ideas for improvement are presented.

3. Key Account Management

There are some difficulties in defining what KAM is. One of the main reasons is that many companies have key accounts while the terms used in the literature vary. The four main terms are: key account, national account (NAM), major account or strategic account management (SAM). National account is more widely used in North America whereas Major account is more popular in Europe. Both of them are tied down to geographical location, turnover, and/or profitability. Strategic accounts are closer to the term key account as they can be based on other factors as well, such as the prestige of the customer, access to new technology or that the customers acts as an entryway to new markets that would be difficult to reach otherwise. In this Bachelor's Thesis the term key account management is used but the theory cited can have used any of these terms.

Millman (1997, 737) defines key account as a strategically important customer for the selling company in B-to-B (Business to business) markets. Thus KAM is "an approach adopted by selling companies aimed at building a portfolio of loyal key accounts by offering them, on a continuing basis, a product/service package tailored to their individual needs"

Sharma (2003, 141) defines key account management as a long-term buyer-seller relationship which focuses on creation, nurture and maintenance of stronger ties with customers. Furthermore it specialises in identification of specific customer needs which are then satisfied in comparison of general needs which are the focus in normal business relationships. One of the main reasons why KAM has become such a vital way of doing business is that ascent of just-in-time systems has brought need for close cooperation between buyer and seller

The definition of KAM in this thesis is a synthesis of the previous two definitions: KAM of is a way of identifying the core customer base and maintaining more in-depth relationship between the case company and the key accounts. This definition highlights two major dimensions of KAM, the individualistic approach towards certain customers and the importance of relationship management. The customisation opens new opportunities to better satisfy the customer's needs and the deeper relationship improves the knowledge that the two parties have of each other as well as strongly

affect the way that the two parties are communicating. In the case company the KAM can be seen as the way of dividing limited resources with maximum efficiency. Based on the importance of the customer, the resources are spent so that the customer is as satisfied as possible in relation to their worth to the case company (see the chapter 3. Analysing key accounts).

What complicates the relationship management is that it is rather difficult to give a concise definition of the term yet most us do understand what is meant by a business relationship. Usually words such as trust, respect, and honesty as used to describe what is needed in order to manage a business relationship. However in its essence, business relationship is all about exchange. Where normal business actions are exchanges of goods and/or services for money (or similar), relationship exchanges are more about exchanging short-time gains for long-term benefits. The supplier might exchange some of its current profit for future income and the customer abandons some of competitors' cheaper prices of today for supplier's better prices of tomorrow. What keep business relationships together is the switching costs. As both parties have invested in the relationship, "breaking up" will cause losses for both parties. The supplier party will lose all the resources it has spent to get to know the customer and to adapt to its special needs and the customer party will lose the resources it has spent to get to know the supplier. In the case of mutual investments, such as Electronic Data Interchange (EDI), or Enterprise Resource Planning (ERP)-systems, both parties will be losing parties as one of the parties always has to adapt to the system the other one is using. This can be either the supplier or the customer depending on the systems used and on the position of power. (Vitale& Giglierano, 2002, 342-343)

One of the issues that KAM has is the problem of ownership: "Who "owns" the relationship", as companies have often several different product lines and different people are in charge of them. Furthermore, there are many persons involved in the relationship, so who should be the person to consider as the key account manager. First there are the consultants who initiate the process, employees might have a good external network of contacts or have close relations with the customer, other one might have the best know-how concerning offered, and finally there are the different managers in the various levels of company hierarchy who have the decision-making power. All these parties have their reasons why they could be considered as a key account manager and a good key account manager should have traits from all of these people. They have to know very well both their own organisation and what is has to offer as well as the customer and what they are looking for. (Gummesson, 1999, 60)

This is the reason why most companies using KAM, have appointed specific key account managers

who act as intermediaries between the buying company (and its various contacts) and selling company's various experts and departments. It does not suffice that the key account manager knows the products but they have to have an up-to-date social network as its active use and management is the basis for marketing strategy. (Ford, 1997, xiii)

It is also important to realise that even if the focus of KAM is managing the relationship between supplier X and Customer A, customers B, F, H, and Z will also influence the relationship. Supplier that treats badly customer A, might have trouble later on with customer H, who has heard of what happened. Similarly if customer A receives more services free of charge, the other customers might start demanding the same benefits (even if they do not earn them). (Ford, 1997, xiii)

3.1 Identifying Key Accounts

When identifying the key accounts, it is important to know the company's strengths (either current or potential) and match them with the customers that might best reply to those strengths, making it easier to satisfy them and keep them that way. It is much cheaper to keep a customer than to acquire a new one. As mentioned earlier, the key account does not have to be big major account but have other interests to the supplier. One customer might be the trend setter of its industry, the target of benchmarking, or the one who defines the main policies in that industry.

In industrial markets, the customer base might not be that diverse and most of the companies have long histories of working together, in some cases even with different levels of cooperation. Despite the long history, the relationship between the supplier and the customer is in state of constant fluctuation. The relationship could be fully transactional, but then comes a joint project that requires deep cooperation and when the project finishes, the relationship might revert back to its transactional state (or if the both parties feel that they benefited from the project, they might deepen their relationship even more). Sometimes the customer might even stop purchasing from the supplier for a while but return again in few years. In some cases it might be the supplier that deems the customer as unprofitable and looks for other business partners. This "letting customer go" is always a tricky business as the customer might just be temporarily unprofitable or the word of the turning down might spread, harming the company's reputation. The "easiest" way of letting go of a customer is to raise prices so that the customer deems the supplier to be kept and looks for cheaper prices from competitors. This solution is good one as if later on the supplier wants to reconnect with the customer; they can lower their prices to about the previous level.

The information about the customers can be divided into objective and subjective information. The objective information is easier to analyse as it consists of all the figures of the relationship: turn over, profitability, money spent on the relationship, size of the product range offered, R&D budget, etc. The subjective side is much more difficult to analyse but it plays major part in the relationship. Good examples of objective information are trust between the two parties, how well they know each other, what is their reputation, etc. Another way of dividing the factors affecting the attractiveness of a customer is the two aspects, the demographics and psychographics. (Burnett, 2002, 66-69)

The demographic aspect includes all the physical traits in the buyer-seller relationship, meaning the benefits both parties gain from the relationship, such as competitive prices, improved quality and performance or brand strength. The Pareto's Law is also included in the demographic aspect. The Pareto's Law states that most activities in a company follows the 80:20 rule, such as 80% of the profit is generated by 20% of the customers, or that 80% of the costs are caused by 20% of products. (Burnett, 2002, 66-69)

The psychographic aspect consists of all the values and attitudes that the buyer and seller share. They are mainly intangibles parts of the relationship, such as the style of negotiating, problem-solving style, response speed and attitude towards helping. They also play a major part when the buyer and seller start deepening their relationship as while the demographic issues might be easily solved; differences in attitudes and values are much more likely source of conflicts. And if the seller and buyer have very different ways of managing conflicts, the vicious circle is ready and the development of the relationship is at risk of ending before it really started. In some cases the differences are such that there is little reason to start the relationship strengthening process as the two parties do not meet eye-to-eye (Burnett, 2002, 66-69)

KAM might also create an issue that should be kept in mind that KAM does not promote equality. Instead, it highlights the fact that some customers just are more "special" than others. The problem lies in the fact that it is hard to identify which customers merit the special status. Often they are chosen simply on the size of their profit and turnover. The problems might occur when the "normal" customers become aware that others get special treatment. While most of the B-to-B customers might be used to this, some companies might raise issues if they have considered the supplier as a

strategic supplier but the supplier does not recognize the customer's value or importance. (Pardo, 1999, 276-297)

The case company has ten key accounts in various market sectors. This thesis will cover three of these key accounts, all of which operate on the European markets. The customers Alpha and Beta have a turn-over of 2 to 5 million euros while the Customer Delta has the annual turn-over of 5 to 10 million euro. These three key accounts were chosen on several criteria, such as the similarities in size, markets where they operate as well as for the practical reasons which facilitates the analysis for this thesis. The Customers Alpha and Delta have longer relationship with the case company (extending over several decades) while the Customer Beta is relatively newer customer. Other factor that differentiates the Customer Beta is that unlike the Customers Alpha and Delta, their purchase more of category A components than category B. Customers Alpha and Beta are managed by the same key account manager.

The case company chooses the key accounts on the basis of the revenue they generate and thus could also be considered as major accounts as well. As they are bigger organisations, their ordering process is more complex, and the orders are more frequent and in bigger quantities than average customer The key accounts also have a range of additional services which are offered to them in order to beet accommodate their needs or to facilitate the order process. The most common method for streamlined ordering process is the EDI-systems as well various online solutions, where customer regularly updates their need for various products (See 6. Analysis of the key accounts for solutions offered for each of the key accounts).

There are several factors that the case company uses to differentiate key accounts from normal accounts. First of them is the most common one, the pricing policy. As the key accounts are the customers that order the biggest quantities on a regular basis, they are the ones who are more likely to benefit from the economies of scale. The key accounts also have better Incoterms and terms of payment. The reason for both of these benefits is the same. As they are big customers and their own organisational size is big, they have enough negotiation leverage to demand for better Incoterms and terms of payment. It is also in case company's interests to offer them to the key accounts as the risks are smaller than with smaller customers. What comes to Incoterms, the big order quantities enable the case company to gain from economies of scale, which reduces the cost per piece for transportation. The situation with the terms of payment is different. There the key issue is trust. The big companies are less likely to suddenly go bankrupt and stop paying where as the credit risk with smaller companies can be quite high. However the current situation is difficult as many banks and

credit rating companies are struggling. Third factor is the problem situations. In ideal situations, the production is planned so that each customer receives their orders on time, however this rarely the case in the real life. In the case of production problems or conflicting needs between customers, the key accounts are prioritised over the normal accounts. There are couple of reasons for this. First of them is of course the relationship management. The relationship between the case company and key account is much more important and valuable than the relationship between a smaller customer and the case company. Second factor is connected to the production. Bigger customers order bigger quantities which are more efficient to produce than smaller batches.

3.2 Key Account Relationship Development Cycle

All relationships evolve (and devolve) as time passes. Every single action is influenced by the history that the interacting parties share and at the same time history is shaped by every action that they take. Millman's (1997, 138-140) classic model for stages of KAM has six stages.

1. In Pre-KAM the seller does not have any information about the buyer and their relationship history is general buying-selling history without any special treatment or organisational structure. Most of the customers will always remain in this transactional level as neither party has any interest in developing the relationship or either party does not see the other party worth of the investments that the stronger relationship would require.

2. Early-KAM is the courting stage, where both parties are using the gathered information and experiences to find out possibilities for collaboration and to see if the other party is really worth the investments. In this stage competitors play a major part as their weaknesses (and strengths) must be well-known to persuade that the buyer will benefit from choosing the seller as one of the preferred suppliers over the competitors. At this stage the products and services offered are starting to get differentiated in order to boost performance and improve communication.

3. Mid-KAM is the stage when companies are dating, meaning that while the seller is not the only supplier of the product, it still is one of the main suppliers. In this stage the trust deepens and more in-depth view is taken in to solving problems. Both parties are getting to know each other and can better see what particular benefits their relationship has to offer. The senior management starts to take more active role in the reviewing and resource allocation in order to see if the relation could lead into partnership.

4. Partnership KAM is the mature stage where information is shared more freely and even sensitive commercial information might be shared. Cooperation is widely used and both companies rely on

each other. Both parties also know other's production plan in-depth. This makes it easy for customer to plan its purchases and for the supplier to plan its production according to the customers needs.

5. Synergistic KAM is the deeper level of partnership KAM, where the boundary between the two companies starts to fade and they share a view that they are a larger entity in order to add value and act more efficiently in the markets. The supplier plays active part in improving the added-value that the customer offers to their customers.

6. Uncoupling KAM is the final stage of all relationships, where for one reason or another partnership ends. Most common reasons are that one of the parties (usually the customer) stops seeing the relationship as profitable and that they can earn big enough cost savings if working with some other company. Another possible reason is that the relationship has been mostly based on personalities and when they leave their companies, the relationship ends as well.

The sixth stage is often seen as solely negative things as if the best relationship would be the everlasting one. The reason for this is that all the resources put in the relationship and its upkeep are lost when the relationship ends. What is often forgotten is that the costs related to ending the relationship might be lower than the costs of continuing unbeneficial relationship. A good example for this kind of situation is a married couple who have stopped liking each other. The cost and effort put into a divorce is still less than the costs and efforts that the continuing the relationship would require and the negative effect of it would have on everybody involved. A business life example of this would be a buyer that is having long-term financial issues (with the risk of bankruptcy), is in risk of being taken over or has changed management and the new management has a different attitude towards the seller. (Millman, 1997, p.138-140)

The customers and the case company have been interacting for couple of decades and both parties have learnt to know each other yet there are not that many shared endeavours. Throughout the years there have been joint projects. Practically all the projects have been between the case company's R&D and the customer's R&D. Usually so that the case company has trained the customer's engineers to better understand how the components are made and what kind of specification they can include and difficult they are to produce. Often it might be the case that the customer wants something done that is very difficult or expensive to do whereas there would be a similar solution that would benefit the both parties but as they lack the know-how of the component manufacturing, they do not know what to ask. There the role of the case company is to show how the customer could get what they want, even though they might not know what to ask for. .

The level of KAM for the three customers is mainly Mid-KAM. While there might be some aspects that would be defined as Partnership-KAM, other aspects they are still in the Early-KAM. Both parties know each other well and know what they have to offer. The case company is one of the preferred suppliers for the category A components and supplies most of the category B components as well. The case company offers services and solutions that they do not offer to normal customers. The senior management of both the case company and the customer meet every year in order to keep up with what is happening within each organisation and what kind of projects they have coming up.

This progress of the relationship does not have to follow each of these stages and might go backwards as well. For example, due to quality problems, a customer in the Mid-KAM stage starts looking for new suppliers and thus the relationship reverts into Early-KAM stage or that relationship in Early-KAM stage leaps directly to Partnership-KAM as the buyer and supplier start a joint project. (Millman, 1997, p.138-140)
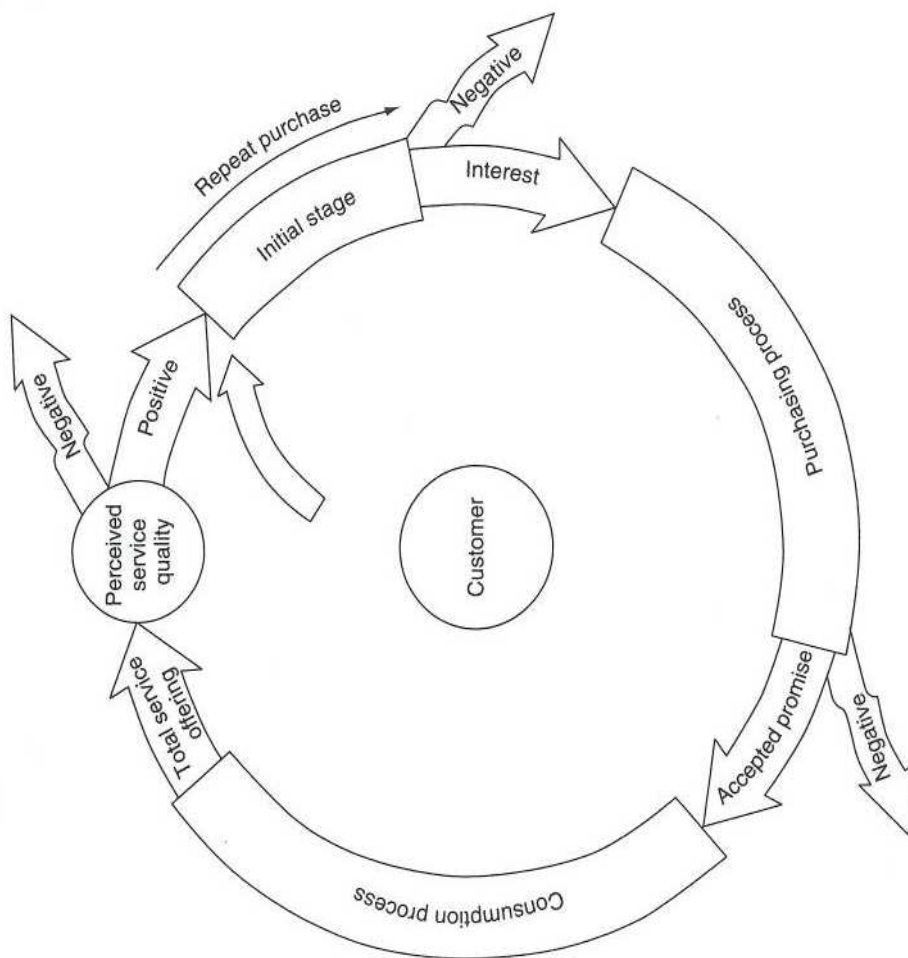

Figure 2. Customer Relationship Lifecycle (2000, p.268-270)

Another way of looking at the relationship is Grönroos's Customer Lifecycle. (2000) There the relationship is divided into three major parts, the initial stage, purchasing process and usage stage (consumption process). In initial stage the customer realises that they have a particular need for a product or service. They will look for potential sources where they can get this product or service. They will come across the seller company and will enquire them about their services. This enquiry will move the relationship to the purchasing process stage, where the seller will do its best to show what they can offer and how it best matches what the customer is looking for and the customer will define their own criteria. They will compare the seller's offer to see if it matches the criteria (especially price-quality ratio). If they find out that the seller's product or service matches their need, they will purchase it which moves the relationship into consumption stage. Here the customer will use the product/service and see how well it matches their expectations, requirements, and if the outcome is what they expected. If the customer is satisfied with the product/service, it is more likely that they will use the seller's services again later. However the relationship can end in all of these steps. If the customer does not become well-aware enough of the product/service, they might not be interested in enough to consider it as a valid purchase. In purchasing process, if the offer made to the customer does not match what they are looking for, or it does not seem to have the right price-quality ratio, they are more likely to choose another supplier. Finally if the product/service does not satisfy the customer's needs and expectations, they are more likely to switch to another supplier that is more likely to do so. (Grönroos, 2000, p.268-270)

It is important for the company to be aware of the steps that their customers are as different steps require different actions. For customers in initial stage, the key factor is creating great enough interest towards the product/service. In purchasing process the key factor is to ensure that the customer knows in-depth what the product/service is so that they can choose the best matching option. Here supplier will promise what the product/service will do. These promises combined with the expectations and impressions that the customer has creates the framework for the usage stage. In the usage stage the two key factors are the positive experiences that the customer has with the product/service and the degree with which the product/service matches to the promises made during purchasing process. If all these key factors are positive, the likelihood of lasting customer relationship increases. In the case of long-term relationship, small negative experiences are more likely to be ignored as the total experience is still positive. (Grönroos, 2000, p.268-270)

In the component manufacturing industry that the case company is operating in this lifecycle has several key points. First is the initial stage where the customer has realised that they need certain

component and know that the case company can provide it. They then express their interest in the products that the case company is producing by asking for quotation for the component with the particular specifications that they need. The R&D then processes that request to find out how feasible is the production and what are the costs and risks involved. Based on those two factors, the offer is made to the customer. The customer acceptance is often based on the quality of the piece and its price competitiveness. Then the initial order is made and the first serial production pieces are manufactured. If all goes smoothly, the customer confirms that the component matched all the required specifications and the serial production begins. This leads to repeated purchase where the initial stage is minimal as they will directly move to the purchasing process.

One of the critical areas in this process is that the R&D costs are relatively high. That means that a customer that has chosen the case company as the supplier of the component is not that likely to change suppliers if there is little bit of negative hassle as the original investment binds the customer to the case company. Also the R&D process is sometimes so time-consuming that the customer has to carefully consider changing the suppliers as the process might take a long time. Furthermore, there experienced supplier is less likely to have quality issues as they are familiar with the production and know the possible pit-falls. There is another side to this barrier as well, if the component is offered by one of the competitors of the case company, the customer is less likely to change the supplier unless they have serious problems with the current supplier or that the case company has much better price competitiveness compared to the other suppliers.

In component manufacturing industry, the lifecycle between the case company and the customer is often in all the stages. There are new components introduced (or at least modifications to existing components), there are the serial produced components and then there are those components that are in the way of becoming obsolete. The biggest reason for components becoming obsolete is that they are replaced with newer versions of that component or then replaced with totally new component. In the case company's industry, it is less likely to lose one particular component to another supplier than to lose the whole range of components offered to them. All three key accounts are in a similar stage. They have not had any major new components introduced within last couple of years but have made modifications and updates to the existing components. These updated versions go through the same development cycle. However, there are two points to take into account. First of all, both parties are already familiar with the component so the purchasing process is more simplified. The second point is that as both parties have certain expectations towards the component, the final outcome might not match them one hundred percent. This is especially true on

the customer's side as they might not have the same level of component manufacturing as the case company and thus might ask for modification that is not doable.

3.3 Social Aspects of Key Account Management

Often in B-to-B the focus is on concrete matters and decisions are supposed to be made based on solid facts and quantitative way. However, company does not make the decisions but the individuals within it. People always make subjective decisions. Even if the data is objective, how it is analysed isn't. This is especially true when there are problems. In example, the customer makes a complaint that the supplier delivers its goods late and they are not 100% the quality that they expected. In case of a new supplier, this can mean the end of the relationship. However, if the buyer and the supplier's contact person have a long common history, the buyer might be more forgiving. Long-term relationship also improves the efficiency of the promises that the seller makes. Buyer knows the seller who has shown that they can be trusted. This is the reason why the supplier has to be aware of the people who influence the decision making process within the company as well as their own key account manager and their strengths and weaknesses.

3.3.1 Key account manager

Key account manager is the person who is in charge of managing the business relationship between the company and its customers. In industrial markets the organisational structure for both companies become more and more complex as the size of the companies increase and the product range offered diversifies. This is one the reasons why key account managers are needed as they coordinate the cooperation between the two parties. They should have in-depth knowledge of the structure and ways of operating in their own organisation as well as the customers' organisation. They also act as an information manager. Key account manager absorbs, diffuses, generates and exploits information. Absorption relates to gathering new information from external and internal source. Generation of information applies to both creating new knowledge and making tacit knowledge explicit. Diffusion refers to sharing and the distribution of the information gained by the previous two methods and exploitation is the commercial use the knowledge gained. It is worth mentioning that often the key account manager is in no hierarchical superiority to their support systems. Instead they remind various internal functions of the importance of customer-focus and make sure that the customer and its special needs are not forgotten. The key account manager, along

with their team, offers a forum for interaction amongst the staff within the company and customers' organisation. This joint communication process reduces errors caused by miscommunications. (Pardo, 1999, p. 276-297)(Nätti, Halinen & Hanttu, 2006, 306-307)

The case company does not use KAM fully but has adapted certain KAM structures. There are 10 customer support persons and 6 sales managers. Each sales manager is responsible for 1-3 key accounts and 10-25 normal customers. Each of the customer support persons is responsible for 1-2 key accounts. There are about 20 key accounts and 200 or so normal customers. The customers are divided by the three main product categories as well as geographically. This thesis covers one of the main product categories in the European markets. The key accounts (and normal accounts to certain extent) are divided between the key account managers so that their skills best align with the needs of the customers (in particular in relation to language skills).

One of the under-valued aspects of good key account manager is personal connections that they have. In many cases the connections are the key factor for creating long-term sustainability as they promote trust and commitments as both parties learn to know each other. A manager with long experience of working with the customer might be able to predict problem areas before the customer is aware of them and thus improve their service level. This might be a risk as well as all the efforts and investments made for the relationship can be easily lost if the manager leaves. Social connections and long history of working together are nearly impossible to copy or to imitate, giving the company one more edge against its competitors. Furthermore, in the case if something does go wrong, if the personal connections are strong, they can reduce the dissatisfaction or ease the regain of trust and satisfaction. That is why the importance of personal ties should not be belittled in recruitment process and training as the loss of capable account manager with strong connections is a loss that cannot be compensated with classic methods. In industrial markets, often the reasons for supplier selection are seen almost purely based on price and specifications but personal relationships have their effect on the decision making process as well. (Sharma, 2006, p. 144-147)

In the case company both the sales managers and the sales staff have a long history of interaction with the key accounts and are in regular contact with the customers. This long history of cooperation has in turn aided in strengthening the relationship between the case company and the key accounts. Their knowledge of the customer's special needs and requirements makes it possible for them to resolve issues that less experienced persons might not be able to solve and they have the creditability needed to comfort the customers in the case of any problems. Furthermore, the long

common history also helps to prevent miscommunication and the negative effect that different cultures might cause. The "key account managers" are in regular contact with the customer; whether the case is new R&D-project, reviewing the prices, adjusting the yearly volume, and of course if there are any acute issues. The yearly volume is updated monthly within the case company and once a year with the customer. However due to the current global economical situation, both the case company and its customer are more interested in how the other one is operation, increasing the frequency of volume discussions. In addition to emails and phone calls, the manager meets with the customer at least once a year but usually 2-4 times a year. The meetings are mainly held at the customer's facilities but depending on the situation, they are also kept at the case company as well. Mostly this is if there are any issues that require joint effort to solve, but can include issues like, introduction of totally new component, or starting a new joint operation (such as EDI-system or, composite orders), or just regular meeting where both parties can bring up issues that they want to discuss. The managers try to have meetings not only when there is a problem to be solved but also when everything is going fine. This is to show that the customer is important and that there does not come a connection between manager's visit and problems.

3.3.2 Key Roles within Customer Organisation

In order to effectively manage the key accounts, the manager has to be aware of all the parties who actively take part in the buying process. In smaller organisations this is not that difficult as there are several key persons who are easily identifiable. However in bigger industrial organisations the identification process is much more complicated as there are many players within the customer's organisation and their customers can also play an active role in the decision processes as do the end users. An additional problem arises from the fact that in many bigger organisations there is certain fluctuation in the work force, which can quickly outdate the information that the key account manager has. There are five main roles that have to be taken into consideration when identifying those parties that have power in the decision-making process.

First of all, there is the *decision-makers* themselves. They are the ones who formally (or in some cases informally) decide which suppliers are used and which products are bought. They might be the same person as the buyer who has the authorisation to make the buying-decision but not necessarily. *Buyers* set up the terms of purchase and are in charge of the supplier selection before the decider finalizes it. As neither one of them might not be aware of all the details concerned about the supplier, the specifications of the products, or use of the product, *the influencers* give them

information on which product or supplier to choose. They do not have to be internal experts but can be external consultants or, for example, other customers of the supplier who are asked for recommendations or opinions. In many cases the influencers pass their information to *gatekeepers* who are in charge of distributing the information to those parties they deem to need the information. Gatekeepers might not have any real power over the decisions made but can indirectly affect the process by deciding to whom the information is passed to. Finally there is *the user of the product*. They are the ones who inform the other parties of their needs and have in-depth knowledge of the product. The key account manager rarely interacts directly with them. Instead the users give their feedback to buyers and/or gatekeepers who then pass the information to key account manager. The most difficult role for the key account manager to discover is the influencer as they might be other external players. Nevertheless the influencers are the ones that should be identified as they play a big part in the decision making process. (Rossomme, 2003, p. 183-189)

The reason why these roles should be identified is that different roles have also different expectations from the product, supplier, the relationship and the key account manager. Whereas the user is mainly interested in the product being up to the specifications given and that it does what it is supposed to do and are not that interested in the relationship between the their organisation and that of the supplier's. The deciders are interested in any cost savings or unexpected costs that the product might generate and general effect the supplier and its products have on the company. Buyers expect that the selection process and its follow-up go smoothly and that there are not unexpected problems. Buyers might favour one supplier over another based on their reputation or prestige. They are the ones who are most likely interested in developing the relationship in order to make the repurchase process as simplified as possible and that planned schedules are kept. Internal influencers are interested in the relationship as it might support their objectives and goals, on the other hand external influencers most likely do not care about the relationship or not even aware of it. In some cases, users require training offered by the supplier in order to use the product. This brings additional dimension to the after-sales process as well as possibility of offering additional value services, although this is rarely the case in industrial markets such as the markets where the case company belongs to. (Rossomme, 2003, p. 183-189)

3.3.3 Bonds and Barriers

The key account manager also has to be able to recognize the bonds that connect the supplier and the customer. These bonds decrease the likelihood that the customer stops using the supplier's services. The four different types of bonds are: Financial bonds, Social bonds, Customization bonds,

and Structural bonds. Financial bonds are the most common ones, as long-time customers receive discount based on the length of the relationship as well as for the frequent usage. In a long-term relationship the prices tend to become stable as they do not fluctuate so much and occasional augmentation of price is balanced by the discounts given to the long-term customers. Financial bonds can also present themselves in form of barriers of entry or exit.

Barriers of entry prevent competitors from entering into relationship with the customer while barriers of exit help to keep the customer connected to supplier. Furthermore, as the customer already knows the company, they are more open for different kinds of bundle deals or added-value services. One of the main bonds in KAM itself is the social bonds. Many customers have a long relationship with the supplier and they will learn to know each other. This interpersonal knowledge will help to formulate offers that are more attractive to that particular customer. Social bonds are also more difficult to imitate, or to copy, giving a strong competitive edge over competitors. Personal connections can also serve as a way of sustaining the relationship through a rough patch, as the customers are more likely to be sympathetic to occurring problems, and in finding the solution in cooperation.

Customization bonds are more technical bonds, offering each customer the possibility of having tailor-made products or services. They are closely connected to social bonds, as the social bonds enable the identification of need for custom services. If the custom product is something that is difficult to produce or has some intrinsic risks, the supplier is more likely to produce such product for a customer with whom they have a lasting relationship. Customized solutions often lead to structural bonds; this is especially true in B-to-B where joint project require investments from both parties.

Structural bonds are also the most long lasting and solid as cutting them is rarely profitable for either party. Good examples are joint R&D projects, matching information systems (such as EDI), and tools used to make custom products. The structural bonds are especially strong in industrial markets, where the product development can be a long and arduous process. Furthermore as the process takes a long time, the changing of suppliers might be an expensive decision as they might have invested in special tools for the supplier. (V. Zeitham, M. Bitner, 2003, 174-181)

As mentioned earlier, one of the main barriers of exit is the high costs related to R&D and launching of a component. These investment costs are partly based on the work and effort allocated to design the new component and partly based on the material costs of creating the new tools with

which the component can be made. The customers are less likely to consider other suppliers if they have heavily invested in producing the component in the case company. Furthermore, the case company might have a long-term experience from producing the component, so they have more optimal manufacturing processes than potential suppliers.

Another barrier of entry is the close relationship between the key account managers and the customers. The key account managers have been responsible for their account for over five years, which gives them insight on the customers' needs and expectations as well as smoothens the interaction as both parties are used to communicate with each other. Same applies to the key accounts as their responsible persons have also a long-term experience of working with the case company so they are more likely to favour the case company and be sympathetic in the times of trouble. This could also be seen as a barrier of entry for competitors. However in field of industry that the case company belongs to, there are not that many competitors or potential customers. This means that most of the competitors know each other quite well and the customers have done, or are doing business with most of the competitors.

One of the major barriers of entry is that the components produced are highly customised and difficult to produce. This reduces the amount of potential competitors as they lack the technology or know-how required to manufacture the component. While most of the B-category components are relatively simple to produce, the more complex A-category pieces encourage the customer to order both categories from the same supplier.

3.4 Key Account Management Implementation Process

The KAM process begins with analysis of the chosen customers as well as the situation of the supplier itself and its competitors. What are the special needs and existing solutions of the customer? What are the competences and ways of working of customer as well as the supplier? In order to measure the effectiveness of the KAM, criteria for success have to be defined. This part of the process serves as an analytical tool that can be used to realize a plan for everyday management of each of the key accounts with customisation for their special needs and expectations (Zupanic, 2008, 325-326)

Table 1. Five dimensions of Key Account Management (Zupanic, 2008, 325-326)

Strategy	analyze	Information the key account manager and his/her team should know about their competitors and the key account.
	realize	The strategy how the company should serve the key account
Solutions	analyze	Special needs of the key account concerning the own range of products and services. The products and services that are delivered to the key account currently
	realize	Customizing a solution (products, services, etc) that will be offered to the key account to add value and to realize the chosen strategy The degree to which innovations are developed in close cooperation with the key account
People	analyze	Competencies that are necessary to realize and deliver the solutions for the key account The existing people being involved in the relationship with the key account and their individual needs
	realize	Nomination of members and forming of the KAM team
Management	analyze	The current ways of working with the account The current targets and leadership approaches of the people being involved in the relationship with the key account
	realize	Definition and realization of processes that are necessary to serve the key account Coordination of interfaces and resources within the own company
Screening	analyze	Existing approaches to measure the success of KAM activities Existing tools to support the KAM process
	realize	Measuring the KAM success by various criteria Safeguarding knowledge management and corporate learning based

Table 1 shows the five different dimensions of KAM on two levels. The first level is the analysis level where the current situation is investigated and the objectives for the second level are set. The realisation level is where the objectives defined earlier are put into more down to earth terms and concrete suggestions, proposals and tools are created.

Strategy: There are three different levels of strategy that need to be taken into the consideration. First is a specific strategy for the selected key accounts. Secondly there is the general KAM strategy. They should be aligned with the general strategy of the company. There are also three parties that have to be identified and analyzed. They are: the supplier, customer and competitors that are doing business with the key account. The suitable strategy should be formulated based on the information on all three players and so that all three levels of strategy support each other.

Solutions: What separates key accounts from normal accounts is that they receive special services,

often custom-made for them. Key account manager has to have a plan of consistent solutions to all aspects of the relationship, from ordering, and pricing to support services. The chosen solutions have to match to the chosen strategy for that account and have added value for the customer. There should be a plan for what kinds of solutions are offered when problems occur.

People: No KAM-program exists without right persons in right positions. This dimension deals with the skills that the KAM managers have, their personal development, career plans and other personal factors. Most of the long time managers have an extensive network of people that they know, both within the customer's organisation and outside of it, that have influence on relationship.

Management: What are we doing with the account at the moment? What are the supportive structures, and processes that assist in the KAM? Based on the strategy, people, and solutions, suitable processes should be defined and applied both internally and externally. The internal processes should strengthen the connections that the key account manager has with various departments so that the information can flow smoothly and that the key account manager is aware of what is happening.

Screening: No plan is good if you don't know when you are succeeding. It is important to define how to measure the success of the KAM, as without any metrics, it is near impossible to know if the actions taken are working or not. Here is included all the tools that support the KAM. Finally screening is about successful flow of information. It is more of a result of KAM but nonetheless it is required in order to manage the key accounts and to create the measuring tools (These dimensions will be covered more in-depth in the chapter 6).

There are certain prerequisites for smooth implementation of KAM. First of all, as the KAM will lead into changes in the organisation, people might lack faith in its efficiency and see it as an additional work burden instead of the benefits that it might provide unless the senior management stands strongly behind the idea of KAM. The senior management's participation shows to the customer that they value both the customer and the staff working with them. This in turn assists the KAM application process. The senior management should be aware of the whole picture (both function and marketwise). Senior managers should listen to the people who are in charge is everyday interaction with the customers in order to prevent making decision that clash with reality. Secondly, the focus has to be changed from internal supplier concerns into customer problem solution. This means that there needs to be an atmosphere of cooperation and willingness to meet the customers' needs as they rise. One of the potential pitfalls here is if the company is in leading

position. As the market leader they are more likely to assume that they are already sufficiently customer-orientated and that planning of further advancements is useless. Thirdly the collaborative culture assists in adopting an attitude of flexibility where changes are made into own systems in order to better meet the needs of the customer. (Millman & Wilson, 1999, 329-330)(Simkin, 2002, 14-16)

There are certain external factors that have to be taken into the consideration as well. First of all, during these times of globalisation, the processes and ways of doing thing might vary greatly between various sites around the world. As in every case a certain policy has to be determined, some sites are bound to be against the policy as it is conflicting with the current site policy. The nature of the markets also play a part in the implementation process as the planning has to be flexible enough to quickly react to sudden changes in the markets. Changes might come in various forms, for example in cell phone industry the changes originate from new technological invention, in manufacturing industries the price fluctuations of oil and other raw materials, and from wars and natural catastrophes in almost all industries. The market positions might also be such that achieving strong enough relationships with the customers is difficult or that the customer base is monopoly-centric which greatly affects the positions of power between the supplier and the customer. (Millman & Wilson, 1999, 329-330)(Simkin, 2002, 14-16)

When these requirements are more or less met and problem areas identified, and if possible solved, the KAM process starts by identifying the suitable customers who might be eligible for key account status. While this identification is more subjective than objective, it does contain both hard (profit, sales, etc) and soft (compatibility, fit, trust, commitment) criteria. It is not enough that the sales department is aware of the key accounts but the whole selling company should be aware of the key accounts as their participation is needed in the problem solving. Interestingly, it might be better if the customer is not informed about its special status as that might lead into abusing of the status in form of bigger discounts or additional services free of charge. When the key accounts are identified, the important parties within the buying organisation have to be defined as well. It is not enough that the companies share product and technical information but they have to form networks between various departments in both organisations. (Millman & Wilson, 1999, 329-330)

There is little reason trying to meet the customer needs if there is no capability to do so. In order to reason the deeper interaction between the parties, the selling company has to have near perfect products and great knowledge of technical capabilities and processes. These capabilities are needed in order to effectively work together to find solutions to occurring problems. The nature of the

problems can be used to estimate the stage where the relationship is KAM-wise. Product orientated problems are more for early stages of KAM whereas process issues are more on the mid-KAM stages. Finally shift in focus to facilitation leads to partnership/synergistic KAM. (Millman et al, 1999, 329-330)

3.5 Weaknesses of Key Account Management

As with all theories, there has been criticism towards KAM and its practicality. Nigel Piercy and Nikala Lane (2006) point out several issues that for now have been mainly ignored in the theoretical studies. They comment that the research done so far has lacked long-term effect on strategic decisions and impact on the relationship. The biggest weakness of KAM, they point out, is the fact that most KAM plans are focused on developing the current relationship towards partnership. This usually is a positive development but, for example, in industrial markets the customers are becoming fewer and fewer with increased strength and complexity. In this case it is more important to focus on planning how to react and meet the increased demands from the major customers. Furthermore, companies often define the Key Accounts solely based on their size as their complexity and amount of sales requires more attention. However this leaves out several possible groups of potential key accounts, notably important R&D-partners, threshold companies to new markets, and prestige customers.

Piercy and Lane also argue against the Pareto's Law, stating that any company whose business is in the situation that 20 percent of the customers bring 80 percent of profits or revenue is a company that has failed its business model. The reason for this over-exaggeration is that they have become over-dependant on small amount of customers. They have no power over their few, large customers but have to act out their demands which will lead to decreased prices, and thus to decreased profits. In cases like these, the situation is not suitable for partnership as one party more or less dictates what the other party does, which does not really promote cooperation. Furthermore, if the most powerful customers exercise their market power, it will lead to higher risks when interacting with them. This in turn makes them less appealing than less powerful customers. In cases like these, it is hard to find arguments, why to focus more on the high-risk, low-profit customers. The application of KAM is expensive process so when combined with the decreased profits will make the big accounts even less profitable and appealing. (Lane et al, 2006)

The old proverb of riding a lion applies very well with companies who only have few, large customers. They might be enjoying the ride and earn good, steady revenue, even big profits but they cannot choose where the relationship is going and have to follow the customers and do their bidding. If the customer uses its power over the prices, the supplier has to obey. For this reason, companies should diversify their customer base to maintain alternatives for the major accounts in order to decrease dependency as well as developing more profitable relationships. The optimal case would be that the once small customer flourishes into big, major customer. In essence the attractiveness of KAM comes from its idea that with increased attention given to the customer, hopefully, the customer will respond with increased loyalty and long-term strategic benefits. (Lane et al, 2006)

This is also the reason why the case company has not deepened their relationship with the key accounts deeper. As the key accounts are all major players in the European markets, their negotiation power is high. This leads to the fact that relaying too much on the big customers, and the turnover they generate, opens the case company to all sorts of trouble as the lesser accounts could easily suffer as more and more attention would be paid to the key accounts. The increased attention might also hurt the key accounts profitability if the investments do not aid in generating more revenue.

4. Analysing Key Accounts

Analysing key accounts consists of assessing the basic characteristics of the key account along with the relationship history (sales volumes, buying behaviour, special needs, profitability), and the level of commitment to the relationship by both parties. It is also important to find out how well do the supplier's and customer's goals for the relationship align. If the goals are very different, it is highly likely that the relationship will not develop anything more than a transactional relationship where the customer buys and the supplier provides. However if they goals align almost completely, it is more than likely that the relationship will develop into beneficial solution for both parties. The switching costs should also be assessed as in some cases the switching costs might be so high that the customer cannot change suppliers even if they wanted to. (Ojasalo, 2000, 5-6)

One of the main factors when analysing any customer, not to mention a key account, is their profitability. While calculating revenue generated by each customer is relatively easy and simple,

profitability is much more difficult as costs are difficult to assign to each customer and often form complex structures. The simple formula for this is "Revenue – Costs during a certain period". The problem occurs when the costs are defined as allocated. There are direct costs, indirect costs, fixed cost, variable costs, etc. Many of these costs are difficult to assign in proportion between the customers. Furthermore, profitability fluctuates constantly. Companies that were profitable last year might not be that profitable this year. That is why profitability has to be closely monitored at least annually. This is reason why many companies still do business with their non-profitable customers. Even if they are not profitable at the moment, maybe they will be next year. Another aspect of profitability is that some customers generate benefits that are (nearly) impossible to take into consideration when calculating profitability, such as reputation, new markets or streamlined production. (Farris, Bendle, Preifer& Reibstein, 2006, 138-143)

4.1 Metrics for Account Analysis

Osman Gök, (2008) in his article "Linking account portfolio management to customer information: Using customer satisfaction metrics for portfolio analysis" combines most of the current account portfolio management theory into a CRM tool. The tool is based on three factors: Relationship strength (RS) customer's business potential (CBP) and Customer satisfaction (CS).

Table 2 Variables used for measurement of relationship strength (RS) and Customer Business Potential (Gök, 2008, 4-6)

Relationship Strength Variable	Weighting
Customer Share	0,20
Length of the relationship	0,15
Dollar value of purchases (last year)	0,15
Management distance (frequency of contact	0,10
Degree of cooperation	0,10
Customer's Business Potential Variable	**Weighting**
Competitor's share of customer's purchases	0,15
Dollar value of customer's purchases	0,15
Growth rate of customer's purchases (per year)	0,15
Customer's capacity utilisation (unused capacity)	0,10
Future capacity expansions (in volume terms)	0,10
Links with export markets (% exports of turnover)	0,10
Contribution margins (of products sold to customer)	0,10
Account prestige (reputation)	0,10

Sensitivity to price	0,10

Both RS and CBP variables are rated on 1-5 scale while CS is based on the CS surveys. The weighting is subjective and should be formatted according to the company's strategies and objectives. This is done in order to better evaluate the situation. The first three variables of RS are gathered from marketing reports, while the others are rated by the managers who are most familiar with the customers. The CBP variables are based on internal sales data as well as external information (such as industry statistics, annual reports, and third-party organisations). (Gök, 2008, 4-6)

Re lat io ns hi p St re ng th 1. 5 3. 6 5. 0	1. Open to Competitor's Offerings	4. Today's Loyal Customers
	2. Competitor's Customers	3. Tomorrow's Loyal Customers
	70 83.7 100	
	Customer Satisfaction	

Figure 3. Customer's Relationship Strength–Satisfaction Matrix (Gök, 2008, 5)

From Figure 3 we can see the four types of customers based on the relationship strength and satisfaction. The customers in quadrant 1 have formed relationship with the supplier but for some reason or another are not satisfied. The likelihood of increasing their market share is slim and more likely they are looking for new supplier. In quadrant 2 are the "worst" customers, those who are most easily lost and who might not be that interested in developing the relationship further. They are also the least suitable candidates for status of key account. The customers in quadrant 3 are the new customers. They are pleased with the supplier but there has not been enough time for a deeper relationship to form. If they meet the supplier's standards for key account status (such as turnover), they are highly likely to become key accounts in the future as the relationship progresses. Finally,

in quadrant 4 are the stable customers. They are happy with the supplier and they have long history of cooperation. These are the customers who are most likely already key accounts or at least have some customized services. (Gök, 2008, 4-6)

| Cu sto me r Bu sin ess Pot ent ial | 1. Cogitate | 4. Retouch |
| | 2. Stop | 3. Retreat |

70 83.7 100

Customer Satisfaction

1.5
3.6
5.0

Figure 4. Customer's Business Potential – Satisfaction Matrix (Gök, 2008, 5)

Figure 4 shows the relationship between customer's business potential and satisfaction. "Cogitate" in Quadrant I refer to the state of the customer, as they have good potential but are not satisfied, this means that action must be taken in order to prevent the loss of the customer. Quadrant II is the least important customers. That is why it is marked "Stop" as the return on investment on this relationship will be small or negative. The customers in quadrant III are the difficult ones to manage, they are satisfied with the product but their potential is small. They are the challenging accounts to manage as it will be difficult to determine whether to allocate more resources into them to boost their potential, remain at status quo as they are satisfied or to reduce the investments as they do not "earn" the current use of resources. Finally in quadrant IV, "retouch", are the customers who are to be guarded as they are satisfied and have great potential. In industrial markets, these customers become even more critical as all the competitors as well know their potential so they are attractive to them as well. If the satisfaction survey has shown any problem areas, they should be fixed as soon as possible. They are most likely already key accounts due their high potential and satisfaction levels. (Gök, 2008, 4-6)
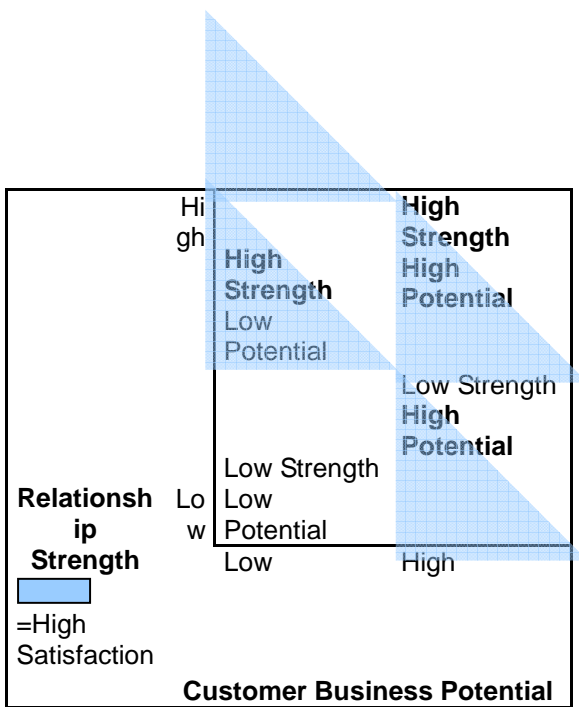
Figure 5 Three-way model of Relationship Strength, Business Potential and Customer Satisfaction. (Adaptation from Gök's figures)

The Figure 5 shows the relationship between the both matrices. From the combined table it is possible to identify the current situation with the customer as well as to define suitable strategies for each individual customer. This information is useful when planning which direction the relationship should go and what kinds of investments are most likely to bring strong positive returns. Furthermore, it should be kept in mind that KAM does not mean that the relationship has to be formed at all costs but spending the amount of resources that the relationship merits. In some cases, this might even mean reducing investments if the potential of the customer is limited and there are no hidden benefits left unnoticed by the variables used. The satisfaction survey in relation to the two other factors of the matrix will highlight the problem areas in the relationships as well as suggest actions for each customer. (Gök, 2008, 4-6)

Table 3. Attractiveness of Customer (Burnett, 2001, 79-81) (companies A and B for illustrative purposes only)

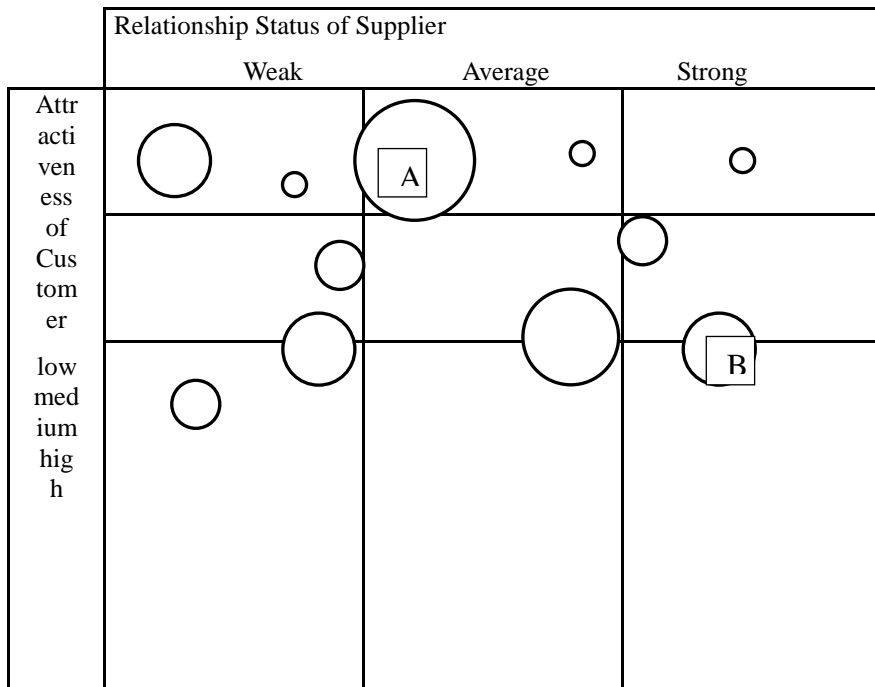| Attractiveness of customer		Customer A		Customer B	
Criteria	Weighting (1-5)	Rating (0-4)	Weighted Score	Rating (0-4)	Weighted Score
Sales Potential	5	3	15	1	5
Current Sales volume	2	1	2	2	4
Growth of Demand	2	4	8	0	0
Profit Margin	4	3	12	1	4
Market Image	1	4	4	1	1
Long-term Supply	3	3	9	1	3
Exclusivity of Supply	2	2	4	3	6
Financial Strength	2	4	8	2	4
Technological Orientation	2	4	8	1	2
Logistics	2	3	6	2	4
Total	25		76		33

Table 4. Relationship Status with Customer (Burnett 2001, 79-81) Companies A and B for illustrative purposes only

Relationship Status with Customer		Customer A		Customer B	
Criteria	Weighting (1-5)	Rating (0-4)	Weighted Score	Rating (0-4)	Weighted Score
Share of Customer's Purchases	5	1	5	3	15
Relative Share/largest Competitor	3	1	3	4	12
Share Trend	2	1	2	3	6
Breadth of Contact Base	4	1	4	4	16
Age of Relationship	3	3	9	4	12
Price Competitiveness*	3	2	6	3	9
Quality Competitiveness*	2	2	4	2	4
Your Image (Brand) Strength*	1	2	2	3	3
Your Technical Strength	2	4	8	3	6
Total	25		76		33
					as perceived by the customer

Burnett (2001) suggests another way of measuring the current relationship status, one that is more aimed at the key accounts. The measuring tool consists of four stages (See tables 3. and 4. above). In the first stage two lists of criteria are chosen, one for measuring customer attractiveness and the other one to measure the current situation. There should not be more than ten criteria per list unless the business is highly complex. In the second stage, each criterion on the lists is given a weight, scaled accordingly to its importance. The weighting should be done in groups in order to get as many different viewpoints as possible. The scaling should be simple enough and done so that no single criterion gets disproportionate rating compared to others. In the third stage, each customer is

given a rating in each of the criteria. In order to do this, each rating has to have a precise scaling (such as sales volume criterion: 0= <10 000€ 1=<20000€, 2=<30 000€, 3=<40 000€, 4=>40 000€ per year). In the fourth step each rating is multiplied with the weighting to produce the score for each customer in each of the criterions as well as the total score. (Burnett, 2001, 79-81)

Table 5. The Nine-cell customer strategy grid (Burnett, 2001, 82)

The information gained from the two lists is then used to create a nine-cell customer strategy grid (see table 5). The horizontal axis shows the relationship status and the vertical axis shows the attractiveness of the customer. The size of the sphere shows the potential of the customer and the smaller segments of each sphere represent the current share of the customer (Burnett here does not really specify what he means by potential or how it is sized but it is likely that he is referring to the total share of the customer at the given moment). (Burnett, 2001, 82-84).

There are couple of difference between Gök's and Burnett's analysis tools. The biggest difference is the viewpoint. Burnett's criteria are more objective, numerical values, where concrete values are relatively easy to give. Gök on the other hand uses more subjective criteria such as information sharing, trust and friendship. It is difficult to give concrete values but they have great impact on the nature and the strength of the relationship as they add value to the relationship that is difficult to copy, imitate or regain if lost. Another difference is the dimension of customer satisfaction, which is an individual variable for Gök but is included in relationship strength criteria in Burnett's tool in form of customer's perceived image of the supplier (something that is often covered in customer satisfaction surveys). (Burnett, 2001, 79-84)(Gök, 2008)

The point that both Burnett and Gök agree upon is the actions that need to be taken for each type of customers. The four possible actions are Develop, Defend, Maintain and Withdraw. Developing is for those accounts with good potential but weak (or medium) relationship strength while Defend is for those key accounts whose potential is limited. For less potential customers, the two alternatives are Maintaining and Withdrawing, depending on nature of the key account. (Burnett, 2001, 79-84)(Gök, 2008)

5. Conducting the Research

5.1 Research Methodology

As the objective of this thesis is to see what the key accounts of the case company are like, the optimal research approach is the case study. The case study is a way of doing research involving the empirical investigation of a particular phenomenon in the real life, using various sources of evidence. The case study answers to "why", "what" and "how" questions. However the "what" and "how" are more often connected to the way the research is carried out. Usually case studies include qualitative data collection methods, such as interviews, observation and questionnaires. Whereas the case study might not be the optimal way of deducing new theories, it is good way of seeing how the theories already created apply to certain real life examples. Case studies can also serve as gateways to new theoretical studies. In this thesis, the objective is to find out what the key accounts are like and how the relationship with them could be improved. The objective of case studies might change during the research as the acquired knowledge shows the situation in new light, which makes the original objective irrelevant, obsolete or incorrect. (Saunders, Lewis, Thornhill, 2003, 93-97)

The research carried out is both cross-sectional and longitudinal. The parts referring to the development of the relationship include the sales history and the overall development of the relationship will be longitudinal but the main part of the case study will be cross-sectional in order to show what the current situation is with each of the key accounts. The cross-sectional study is also strengthened by the fact that most of the information gained during the research have come from interviews, which are more focused on today than what has happened before. (Saunders, Lewis, Thornhill, 2003, 93-97)

The main sources of information for this thesis were the interviews with the staff of the case company, observing their work and using the documentation available at the company's intranet. The interviews were semi-structured and the observation was participative observation.

In semi-structured interviews, the interviewer has prepared a list of questions or topics that they want to cover during the interview. However, the questions might vary between respondents, even if they are performing a similar function within the company. The semi-structured interview also gives adaptability to the interviewer as the respondent is likely to give answers that will lead into further questions and topic that might not have been covered in the original list of questions, prepared by the interviewer. Usually data is recorded by hand or by using a tape recorder. Semi-structured interview also gives the interviewer the ability to shape the question battery into a form that is best suitable for the respondent. Semi-structured interview is less formal than a structured interview, making the respondent more at ease as they are not bombarded with questions but can tell about the topics in more narrative way. The biggest problem with the semi-structured interview is that all the interviews are different so finding the common issues might be difficult. Furthermore, the interviewer has to have good enough knowledge base to know which questions are important and which of the respondents answers should be delved deeper. (Saunders, Lewis, Thornhill, 2003, 245-247)

Participant observation is a method of doing research where the researcher investigates the topic by actively taking part in the environment. Good example would be a study about flow of information within the organisation, where the researcher would act as a part of the organisation and doing the same tasks as others while observing how everybody communicates and with whom. The researcher can observe either openly or covertly. The benefit of covert observation is that the observed are not afflicted by the fact that they are observed. However, this might cause problems later and has its ethical issues as well. One way to reduce the observer effect is to observe long enough so that the observed become used to being observed. Furthermore, the observation should be conducted on different weekdays and months to reduce the possibility of time-related errors (think of observing workers eating ice cream everyday during the summer Mondays but never any other day. If the observer would visit only during the summer time and on Mondays, they would get incorrect impression on the ice cream consumption within the organisation). (Saunders, Lewis, Thornhill, 2003, 221-237)

5.3 Research Process

The changes mentioned in the previous chapter also influenced research process. The original plan was to analyse the key accounts in-depth in order to give recommendations for future actions as well as to give more precise instructions. However with the current world situation being what it is, it was deemed to be wrong time for such research and instead the research should focus on how the customer relationship is handled with the key accounts within the case company.

The major part of the information concerning the case company was gathered from the company intraweb or by interviewing the sales managers and customer support staff as well as observing their daily interaction with the customers. The interviews gave access to explicit information about the customers, about the processes involving them as well as the overview of the current situation. The observations allow finding out tacit knowledge affecting the everyday interaction with the customer. Often the people participating in the daily interaction have done it for so long that they easily "forget" some aspects of the work. They might know what they are doing but do not know how to articulate to the interviewer or they consider it something that the interviewer might not be interested in. By observing the processes and ways of doing, the interviewer also knows better what kind of questions to ask and what kind of recommendations are welcome and which should be forgotten as they do not suit to the case company's needs or values. The method of observation for this thesis is participative observation with the sales staff (excluding the key account managers themselves due to their fully booked schedules and the confidential information they handle everyday).

The observations were carried out during summer-autumn of 2008. Each observation lasted for one week. The first observation week was in June, before the summer vacations for the staff begun. It was ideal beginning for the observations as the average work load was less than it would have been on more hectic time (such as autumn or winter). The staff had more time for questions and explaining due to the lighter work load and they were less stressed. The second observation week was during the holidays. The reason for the second round of observation was to see how staff prepares for the coming busy season and to improve and strengthen the relationship between the sales staff and I. It is important that there is a good relationship between the observer and the people they are observing as then they can trust the observer and share with them issues, information and concerns that they might not share with everybody. The quieter time also gave a possibility of

asking questions concerning the observations so far. The third and fourth observation weeks were in autumn (September and October). These were the two more important observation weeks as they showed a more realistic image of the work that the sales staff carries out as their work load was closer to (or more than) average.

The two most important details about the observations times were that the times chosen would give as good over-all image of the issues as possible. This means that each observation lasted one week in order to exclude the variance caused by different work days (Mondays are usually more hectic than Fridays and the staff's attitude on Fridays was more cheerful than on Mondays). The other factor was that the observation weeks were divided equally between the busy season and the calmer season to see how the work stress varies between them.

The participatory observation makes it easier for the observer to understand how the customer relationship is managed. If only looking at someone else do it, there might be lapses in attentiveness or lack of understand how or why something is done. Active doing makes it possible to familiarise with the processes and policies as well as understanding of the under-laying influences and influencers.

The interviews with the two key account managers were carried out during these observation weeks. The first interviews were carried out during the first observation week and they were more general discussion about the case company and how they do things in order to better understand the environment where they act. Some of the interviews were more formal, with pre-planned questions and outline of issues that needed to be covered, (see the appendix for the outline while others were more spontaneous interviews originating from the observations. Due to the ex tempore interviews, it is difficult to give the exact amount of them. There were no interviews during the summer vacation observation week as the managers were surprisingly enough, on a vacation. The interviews that were carried out in September focused mainly on the details that had surfaced during the summer holiday observation. If there was a question that they did not know the answer straightaway, they answered the question later (face to face or by email) when they had found out the answer.

The process of finding information about the case company started with observing how the key account managers and the sales staff operate. After acquiring broad enough viewpoint on the current situation and how people react in various circumstances, the interviewing process was started. The

interviews focused first on the general level of KAM within the case company so see how the staff relates to it and how they see things.

5.2 Validity and Reliability

Validity and reliability are the cornerstones of scientific research. Reliability means that the results received from the study can be repeated and that the results are always the same. The results should not be dependant on who does the observations nor that there is no or little connection between the data and the conclusions. Validity means that the findings match to what they were supposed to be. In example if the study subject was the amount of ice cream eaten during summer, study focusing on the amount of sunny days and drowned people during the summer time would be invalid as it does not cover the ice cream eating. Furthermore, there has to be a causal effect between the two. While there is a cause and effect relationship between ice cream eating and sunny days, and between sunny days and drowning; there is no such relationship between ice cream eating and drowning. (Saunders, Lewis, Thornhill, 2003, 101-102)

The biggest challenge with the reliability and validity of this thesis is that the current situation globally has changed dramatically. The economical prospects for most companies are going downwards. This means that the buying behaviour that the key accounts have had so far is likely to change within the next half a year of so. How much it will change is impossible to forecast as the current situation could develop for better or worse. (Saunders, Lewis, Thornhill, 2003, 93-97)

Another factor affecting the reliability of the thesis is that the main information gathering methods were interviews and observing. Both of these methods are highly sensitive to time they are carried out. There can be sudden events during the observation that do not normally occur which will distort the analysis of the observation. The attitude of the interviewee also has a big effect on the answers they give, meaning that if they are less stressed and busy, they are able to give more in-depth precise answers (which in turn help to formulate the follow-up questions). (Saunders, Lewis, Thornhill, 2003, 93-97)

Observing is also unreliable method in the way that it is based on the issues that the observer sees (or does). The observer is always at least somewhat biased as they have their viewpoints and opinions. However the subject of this thesis is such that it does not have accurate right responses so certain amount of subjectiveness is allowed. Furthermore, KAM has lot to do with the persons who

are interacting so they are difficult to express in numbers and figures. Such qualitative research has certain amount of unreliability. (Saunders, Lewis, Thornhill, 2003, 93-97)

The results of this thesis are however valid (or at least were at the moment they were done) as they refer to the situation within the case company and their application to other companies is difficult.

6. Analysis of the Key Account for the Case Company

6.1 Customer Alpha

The special services offered to the customer Alpha include EDI-based ordering as well as additional orders based on schedules where the customer informs when they will need the components at their facilities. This is especially important as they are using JIT manufacturing, meaning that if the components are delivered late, their own sales will be late as well. The schedules also act as a checks and balances system as the EDI orders are also marked within the schedules so in case of erroneous input in EDI, the schedules will inform of the error and the incorrect order can easily be removed. However, the monitoring between the EDI-orders and schedule orders have to be done manually which increases the risk of false orders, whether they are extraneous orders or ones that should have been sent but are not. The EDI orders can be forecasted over half a year forward but the schedules are two months forward and all orders with delivery date within one month are considered locked and they should not be modified. This arrangement allows both the customer and the case company to forecast what the demand for various components will be in order to efficiently plan the production.

In addition to EDI and schedule orders, there are also one time orders for urgent components. For example in cases where components are broken at the customer's so they need replacements as soon as possible. There are also composition orders where there is certain composition of various components that need to be delivered at the same time. The challenge with these orders is that if one of the components is not ready, all the components will wait for delivery. Usually there are minimum order quantities for each of the components but if they are ordered in compositions, the restriction does not apply. The advantage of these compositions is that they facilitate the deliver and

warehousing at the customer's site. They will know that certain package includes all the necessary components for particular final product.

Customer Alpha orders are almost completely B-category components with only 6% A-category component on average. The A-category pieces generate on average 14% of the revenue. The order quantities decreased drastically in the second half of 2007 but have returned to the previous levels since. There one of the main reasons for the lapse is the summer closure that the customer traditionally has in July-August. However the revenue it generates has been decreasing since the 3rd quarter of 2005 and did not rise until beginning of 2008 and has now reached the level of 2005. This shows that the components that they have ordered have mainly been lower end of the price scale.

On the Burnett's evaluation scale the Customer Alpha has the rating of 82 in attractiveness and 93 in Relationship status, putting them into Defend-category. This rating is not much of a surprise as they are a long-time customer with the case company and they supply most of the components that Alpha needs. That means that the current resources allocated into the relationship management are on an appropriate level as the current share of customer is high but the future potential is low so there is little reason to invest more into the relationship. However the key account manager has to make sure that they stay updated with what is happening within the Customer Alpha in case there are new business opportunities that will improve its attractiveness.

6.2 Customer Beta

Customer Beta has similar customised services. They do not have EDI system but they have schedule based ordering system. The schedules are fixed for following three weeks with policy of no changes into them. The following two months have forecasted amount that can be freely modified. This three month period has a forecast for each individual week. In addition to the weekly forecast, there is the monthly forecast for the next half a year. The three month forecast gives the rough impression of when the components will be needed at the customer's site. This information improves the case company's efficiency as they can better plan their production and deliveries. The schedules are updated each week but the forecasts are usually only updated in the beginning of the month. The dates marked to the schedules are the dates that the components will be used by the customer. This means that the components have to be there by latest that day (in the case that they do not have any pieces in stock).

In addition to schedules, the Customer Beta also has composite orders. The quantities needed are

marked on the schedules but they are ordered and delivered in pre-defined groups. This means that the schedules show the precise time when each of the components will be needed. This system is slightly more confusing than the Customer Alpha's system as the dual upkeep on the composite orders makes the forecasting of the demand more difficult. As various components are needed for various composite orders, they are marked in different places in the schedules. But as the composite orders are delivered in groups of ten or more, the individual forecasts for the pieces can be difficult. Furthermore the delivery date for the composition might differ almost a month for the date marked on the schedule so the matching of schedule to the right order can be challenging. On the other hand, the components that belong to composite orders cannot be ordered individually, so their precise weekly forecasts are not that important. Furthermore, the schedules show how many pieces they have already in stock and how many they are missing from their orders. In the case of composite orders, the stock numbers can be misleading as they implicate that they would have stock which they do not have as the pieces are reserved for particular order.

They order almost 50/50 of both components, with slight favour of A-category components. However the A-category components generate over 80% of the total revenue. When looking at the long-term development of the orders, we can see that they are a rising star as the order quantities and turnover have both steadily increased with the exception of 3rd quarters. The reason for this that the Customer Beta has little or no activities in August so the lapse is not statistically relevant.

On the Burnett's evaluation scale the Customer Beta has the rating of 91 in the attractiveness and 70 in the relationship status, putting them into Develop-category. This means that more resources should be invested in the relationship as there is plenty of untapped business. The most of the potential lies within the category B components as can be seen from the development during last couple of years. Customer Beta is the newest of these three customers which has an effect on the ratings as they have still plenty of untapped potential but there has not been enough time for the relationship to consolidate into strong connection like with the other two customers.

6.3 Customer Delta

Customer Delta has similar solutions offered as the customers A&B. The have multiple site across Europe which have different combinations of services. Most of the sites order their components by regular faxes or emails (both category A and B). They do have composite orders. The structure of the composite orders is not fixed but customer can choose any combination of category B components.

Customer Delta is a long-time customer with the case company. Their relationship started over thee decades which gives both companies keen insight on how the other party operates and expects. They are in the top 5 companies in their field of business and have a preferred supplier contract with the case company. This means that all A-category components and almost all of B-category components (over 90%) are supplied by the case company.

They have six main hubs in Europe, each one with their own solutions. Most of the sites order by faxing or e-mailing the orders and each order is send individually. There are couple sites who order also by using schedules and/or composite orders. The composite orders are all of the B-category components and there are no existing fixed structures but each composite is different (this is so that their customer is free to order which ever combination they want).

They do not have specific minimum order quantities, unlike the previous two key accounts. Instead there is certain coefficient used in the case of unusually small orders with the exception of one site that has fixed order quantities.

On the Burnett's scale the Delta has attractiveness rating of 79 and relationship strength rating of 95. This means that they are quite similar to the Alpha, with lower attractiveness rating but high relationship strength rating. They are a very long time customer with the case company, with relationship extending over three decades. This means that the current business is strong but there is not that much unused potential. Now the most important thing is to defend the current share of the customer while monitoring any possible changes in potential.

7. Recommendations

The observations and the interviews showed the general level of KAM is quite good, however as always there are some areas of KAM that the case company could improve. Not all improvement areas are directly linked to the supplier-buyer relationship yet they bring added value to the case company and the customers, whether is by decreasing delivery costs, optimising ordering or smoothening the flow of communication.

The organisational structure of the key accounts is complex by default as they are the biggest customers. In smaller companies, there might be one purchase manager who takes care of all the

communication but with bigger customers, it is not that simple. There are various purchase managers, quality managers, R&D-staff, financial monitors etc. There is also certain degree of fluctuation within the customer organisations (as well as within the case company). That is why, it is difficult to always have the up to date contact information for all the relevant people in the customer organisation. Furthermore, there are also some changes in the case company organisation where members of sales staff change (or temporarily take care of each others accounts) and the new member might not be aware of who does what in the key account organisation. That is why it would be good if there were an information factsheet with all the relevant information. The fact sheet itself would be a document of several pages, depending on the customer with only the most primary information.

The information stored within this factsheet would be the contact information of all the major contacts within the customer organisation (namely purchasing managers, quality control, finance, R&D, logistics), the size of the customer, their product range (that is, what their final products are called), and presentation of the components included in each model. Finally there would be the practical guidelines for each of the customers. What specialities they have (EDI, Schedules, order processing procedures), what are the current R&D-projects, and other major information that needs to be known when interacting with the customer (such as communication issues due to lack of common language, thus needing an interpreter). The information could be segmented so that if there is some information that is more discreet, it could be shielded from unauthorised viewers (such as the detailed financial information)

The benefits of such factsheet of each customer would be that it serves as information storage for the multitudes of contact within one customer organisation. Some of the contacts are less frequent (like the financing department, which would only be contacted in case of problems with the invoicing). Furthermore, the active address book facilitates the training of temporary workers or when colleagues substitute each other as it would simple to look up the contacts for the factsheet. That is the reason for the guidelines for each of the customers as many of the customers have some particularities that have to taken into account while processing their orders, whether is it a change of address or delivery terms or putting specific production note for certain products. This is especially true with the key accounts analysed within this thesis as all of them have composite orders which have to be processed differently than regular orders and the procedure is little bit different for each of the customers.

The details concerning the customer's product range is part of the factsheet as then all different departments within the case company can better understand the whole picture of the components manufactured for that customer. If would also make the communication between the customer and the case company easier as they would refer to the particular product and all the staff in the case company would know which is the component in question. The current situation is that there are three different codes for each of the components; one for the customer, one for the case company; and one used during the production. The use between the case company code and the production code is of course smooth and without hassles but when interacting with the customer who understandably uses their code, makes the communication little bit more difficult. Furthermore, the brief description of the final product will help the shop floor as well as then they have better idea what the component does in the final product and how the component should be like.

As mentioned earlier, the customer B uses both schedules and composite orders. There is one problem area. The same components are forecasted in the schedules that are sent only in composite orders. This creates the problem that the pieces are forecasted individually but produced and delivered in certain mixes. The deduction of the composite orders from the schedules is difficult or nearly impossible. Because of this problem, it might be easier for both parties if the orders would arrive through EDI. There the customer could more easily forecast the demand in a way the case company would know which composites are needed and when. That knowledge would enable more streamlined production planning with less last minute adaptations. This in turns leads to greater customer satisfaction as the possibility of late deliveries is even less than it currently is. Currently the composite orders are in a form that the customer uses internally, which is not the optimal information package for the case company as it has information that the case company does not need while lacking specific information concerning the composite structure.

Another problem area with the schedules is the discrepancy between the schedules and the EDI for Customer Alpha. The orders are first input to the system by EDI. They might be looking forward for a half-a-year or so whereas the schedules look only for couple of months. Occasionally there are EDI orders which are not on the schedules or vice versa. This miscommunication can cause some orders to be forgotten while there might be extraneous orders that the customer does not need.

Third area for improvement is not directly aimed at the customer but they will benefit from it as well. It is the optimisation of the deliveries, in particular the packaging sizes. Currently there are

three (possibly) different packaging sizes: The packaging size in the factory system, the real-life packaging size, and the minimum order quantity size. There are two different conflicts. First conflict is that some components are packed so that there are many less (or more) pieces per package. This in turn directly affects the profitability of the component as the cost calculations take into account the optimal packaging size, then when the components are actually delivered in smaller packages, their cost per piece increases. It also makes the order processing more difficult as the package size does not match. When the order is put into the system, the sales person might contact the customer to see if the order size could be modified so it matches better with the packaging size. However if the information relating to the packaging size in the system does not match with reality, the discussion becomes irrelevant or even a problem (for example, if there is room for more one more crate within the container but the order takes up more than one crate, there will be extra pieces

Another conflict is between the real packaging size and the minimum component order quantity. This minimum order size can vary from 5 to 105 pieces. It is agreed usually when the bid for the component is made. However, the optimal packaging size should be taken more into consideration. If the minimum order quantity is 20 pieces but one package only fits 17 pieces. It is more profitable for both parties if the minimum quantity is agreed to be a multiple of packaging. This would usually be one package but in some cases several packages or even a container load. The downside of this arrangement is that the customer's desired order quantity might be less than one package or between.

The composite orders are a great added value for the customers as they can store all to components for one product in one package. However if there is broken components the whole package is useless until the broken component is resent. That is why there should be some kind of safety stock practice between the case company and the key accounts. The stock could be either at the customer's facilities if they have the required storage space or then at the case company. Not all components that possibly belong to the composite orders should be included in the safety stock, but just the selected components that belong to as many compositions as possible. This way if there would be broken components within the delivery, the customer's production would not be disturbed.

This thesis had two main objectives. The first objective was to delve into the current theory concerning the key account management and highlight the most important theories. The second

objective was to offer practical suggestions to the case company concerning their key account management. The theory presented in the thesis shows that the key account management has been in the focus for researchers during the previous years and there has been good progress. However it is also clear that there are still many areas to investigate more deeply. One of the most challenging areas is the longitudinal study of the companies which have used KAM for more than 5 years as there did not seem to be much of such theory. This is most likely due to the fact that the whole field is rather young and not so many companies have started to apply it yet.

The empirical part of the thesis illustrates how the key accounts are managed on the daily basis as well as giving practical recommendations how it could be improved. The next challenge would be to see how the recommendations could be best put into practise and which of them yield concrete benefits

The biggest challenges for this thesis were in the empirical part. The key accounts are in the core of any company's business and trying to understand them and how they are managed in a quite limited time is difficult. While this thesis does give good overall impression, there are still many smaller areas where more in-depth investigation could be done. However, this would have delayed the process too much.

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APPENDIX 1

OUTLINE FOR THE INTERVIEWS

First interview:
- Presentation of the case company
- Structure of the Sales Department
- Current environment for the case company
- Definition of key account in the case company
- Brief presentation of each of the key accounts (KA):
  - o Duration of the relationship
  - o KA's market share
  - o Share of KA's wallet (for category A and category B components)
  - o Demographical information (size, location(s), turnover, etc…)

Second interview
- Change of perspective due to new circumstances
- Main problem areas with each of the KA
- Special solutions offered to KAs
- Quality management

Third interview
- Development with the case companies during last couple of years
- Communication with the KAs (emails, visits, trade fairs)
- Analysis of each of the KAs
- Buying Behaviour

Fourth interview
- Future of the KAs
- R&D projects with the KAs
- Recommendations for the KAM
- Objectives for the relationship between the KAs and the case company