Managing customer relationships in media industry – case study Subtv Oy

• • • • • • • • • • • • • • • • • • • •

Hupli, Miika

2009 Leppävaara

Laurea University of Applied Sciences **Abstract**
Leppävaara
Degree Programme in Business Management
International Business to Business Marketing

Miika Hupli

Managing customer relationships in media industry – Case study Subtv Oy

Year 2009 No. of pages: 59

Objective of this research is to analyze the importance of customer relationships in media industry and evaluate the current situation in case company. In addition, this report should provide answers to help improving relationship management in the case company. Case company of this research is Subtv, part of MTV Media. Subtv Oy manages TV Channel Sub and Internet site sub.fi. Customer relationships in business-to-business (B2B) sector are discussed in this thesis. The customer relationship and the impact of good relationship management are evaluated. Subtv Oy and Sub are both discussed in this thesis. To avoid confusion, it is important to realize that Subtv Oy is name of the company, and Sub is the name of TV Channel.

Media industry consists of numerous diverse operators that operate to achieve their own goals. Companies use media to reach their prospective customers and to be able to accomplish, they usually need help of advertising-agencies and media-agencies. These three parties form the decision making unit that selects the appropriate media to be used. Sub is a rapidly growing national TV-Channel that operates on commercial basis in Finland. In other words advertising customers are the main source of incoming cash flows. Sub is competing in rapidly growing operating environment where each customer relationship is seen as a new opportunity and customer loyalty is the focus of all companies. This report discusses how a company can differentiate with customer relationship management and evaluates the actions conducted in Subtv Oy. Business-to-business relationships between Subtv Oy, its customers, media agencies and advertising agencies are considered the customer relationship in this research.

Theoretical study is conducted according to many studies on customer relationship management (CRM). Relationships are categorized by their type and value and the link between long term customer satisfaction, loyalty and profitability is discussed. All relationships cannot be considered equally important, and therefore some relationships require more focus. The reasons to select most important customers are discussed as well as methods to manage the key accounts. Also customer relationship strategies are discussed in theory section.

Empirical research is conducted using qualitative methods. Industry is taken into account as characteristics of media industry are described. Case company’s Sales director and sales managers, marketing director and channel manager are interviewed to collect accurate information about case company.

Key Words: customer relationship, customer relationship management, Subtv Oy,

Laurea University of Applied Sciences **Tiivistelmä**
Leppävaara
Liiketalouden Koulutusohjelma
Kansainvälinen Yritysmarkkinointi

Miika Hupli

Asiakassuhteiden johtaminen media-alalla, case: Subtv Oy

Vuosi 2009 Sivumäärä 59

Tutkimuksen tavoitteena on selvittää ja arvioida asiakassuhteiden tärkeyttä media-alalla, ennen kaikkea mainostajien keskuudessa ja tarkastella tämänhetkistä tilannetta Subtv OY:ssa. Lisäksi raportin tavoitteena on selvittää kuinka asiakassuhteiden johtamista voidaan tulevaisuudessa kehittää. Subtv Oy kuuluu MTV Mediaan ja sen hallintaan kuuluu ensisijaisesti televisiokanava Sub ja Internet sivusto sub.fi.

Media-alan pelikenttä koostuu useista eri vaikuttajista jotka harjoittavat liiketoimintaansa saavuttaakseen omat päämääränsä. Yritykset hyödyntävät medioita saavuttaakseen potentiaaliset asiakkaansa, ja tarvitsevat avukseen useimmiten mediatoimistojen ja mainostoimistojen palveluita. Nämä kolme osapuolta muodostavat yhdessä päätöksensä heille sopivimman median käytöstä. Sub on kasvava kansallinen TV-kanava, joka toimii mainosrahoitteisesti. Toisin sanoen mainostajilta tuleva raha on kanavan pääasiallinen tulonlähde. Markkinointi mix voidaan toteuttaa monin eri tavoin, mutta tässä raportissa keskitytään tutkimaan asiakassuhteiden johtamista ja niiden merkitystä. Yritysten välisinä asiakassuhteina käsitetään tässä raportissa Subtv Oy:n ja sen mainostavien asiakkaiden, sekä mainos- ja mediatoimistojen väliset suhteet.

Tutkimuksen teoreettinen osa painottuu laajaan asiakassuhdejohtamisen kirjallisuuteen. Asiakassuhteet jaotellaan eri tyyppien ja arvojensa mukaisesti ja yhteys pitkäaikaisen asiakastyytyväisyyden, lojaaliuden ja kannattavuuden välillä tuodaan lähteiden valossa esille. Perusteet asiakassuhteiden erottelulle ja valinnoille käydään läpi, kuten myös konkreettiset seikat tärkeimpien asiakkaiden, niin sanottujen avainasiakkaiden hoitamiseksi. Asiakassuhdejohtamisen strategiat käsitellään teoriaosuudessa ja viedään käytäntöön empiirisessä osuudessa.

Empiirisessä osuudessa teoriat sovitetaan käytäntöön kvalitatiivisen, eli laadullisen tutkimuksen pohjalta. Media teollisuuden haasteet ja pelikenttä on otettu empiirisessä osiossa huomioon ja selostettu ennen haastattelutulosten analysointia. Haastatteluissa tiedusteltiin asiakassuhteiden nykytilaa sekä Subtv:n myynti, kanava-, että markkinointijohdolta.

Asiasanat: Asiakassuhteiden johtaminen, asiakassuhteet, Subtv Oy

Table of contents

1 Introduction 7
  1.1 Research problem and objectives of the study 7
  1.2 Structure of the thesis 9
  1.3 Limitations 9
2 Theoretical Background 10
  2.1 Definition of business-to-business marketing 10
  2.2 Definition of a customer 11
3 Customer relationship Management 12
  3.1 Definition 12
  3.2 Objectives and characteristics of CRM 13
    3.2.1 Knowing the Customers Value Creation Process 15
    3.2.2 Process Nature 16
    3.2.3 Provider’s responsibility 16
  3.3 Customer Satisfaction 17
  3.4 Customer loyalty 18
  3.5 Customer retention 19
  3.6 Customer relationship memory 20
  3.7 Customer relationship life-cycle 21
  3.8 Measuring values of relationships 23
  3.9 Types of relationships 25
    3.9.1 Key accounts 28
    3.9.2 Key account management 28
  3.10 Selection of most important customers 30
  3.11 Designing the offering in relationships 32
  3.12 Selecting customer relationship strategy 33
  3.13 Summary of customer relationship management 35
4 Framework 36
5 Methodology 36
  5.1 Research methodology 36
  5.2 Selection of the research method 36
  5.3 Data analysis 37
  5.4 Data Collection 38
  5.5 Reliability and Validity 38
6 Empirical Research 38
  6.1 Finnish media environment 39
  6.2 Introduction of case company Subtv Oy 42
    6.2.1 Sales operations in Subtv 44
  6.3 Case company’s operating environment 45
  6.4 Sub’s Customers 45
  6.5 Customer relationships in Sub 47
  6.6 Managing customer relationship in Sub 49
    6.6.1 Basics of customer relationship management in Subtv Oy 49
    6.6.2 Relationships data collection 49
    6.6.3 Customer loyalty and losing customers 50
    6.6.4 Types of relationships 51
    6.6.5 Valuation of relationships 53
    6.6.6 Relationship strategies 54
  6.7 Conclusions 54
  6.8 Suggestions for further studies 55
List of references 57
Appendix 1 59

1 Introduction

Customers are considered essential for any company. When companies try to manage in competition, loyal customers are the main resource of future hope. Managing customer relationships has therefore been a popular topic in literature during the past. Companies often have many customers. Some customers have a minor effect on a selling company's actions, but bigger customers can be such a vital source of incoming cash flow, that selling company might even need to adapt own processes to optimally serve customers and provide added value with enhanced service as well as other benefits.

Customer-driven orientation in management gives companies possibilities to strengthen their market positions and serve their customers with maximum performance. Also goal of customer relationship management is to maximize sales performance. Objective is to make maximum revenue with minimum costs and time. As awareness of customer management has developed, customers have started to have higher expectations to their suppliers and therefore selling companies have pressure to constantly enhance their customer related operations. Customers are an increasingly important source of learning, and improvement ideas should be collected and companies should be able to learn from their mistakes to avoid them in the future. Once a company is able to provide customers optimal service, the amount of compensation can be minimized. Another important factor is use of resources. Once processes are adjusted to suit customer needs, misuse of resources is nonexistent, and resources can be targeted to suit customer base better and better.

Cost efficiency is one of the main reasons to start adapting customer relationship management methods, but it cannot be seen as the only reason. Customer relationship management helps companies increase their customer satisfaction, and customer satisfaction has, as will be discussed later in this research, instant effect on customer loyalty. Loyal customers are important to companies because they need the least long-term maintenance and efforts can be targeted to searching new customers.

This report will focus on relationships in business-to-business (B2B) environment and especially in media industry. Theoretical background will provide guidelines to the empirical section where all theories will be evaluated in case company, Subtv Oy.

In this thesis Subtv OY and Sub will be discussed. Subtv Oy is the company that operates TV Channel Sub and internet site sub.fi.

1.1 Research problem and objectives of the study

During the past century a lot of literature has been published with the objective to strengthen the emphasis on managing customer relationships. Consultants and managers have created solutions for companies, software engineers have sold their own ideas, but companies have problems to be able to adapt all these tools and functions to everyday operations. In other words, many companies are not fully aware of all the possibilities that the customer relationship management approach could give them.

This report will discuss above mentioned issues in the target company. Scope of this study is to reveal the customer relationship management process of the case company. Customer relationship management as a process is often regarded as one of key functions of an enterprise and therefore the process should flow as fluently as possible to maximize customer wealth without consuming too much resource. Objective of this research is not to provide information on customer needs, and it is important to state at this point that this research is not a customer satisfaction survey. Objective is to reveal how customer relationships are managed in the case company, Subtv OY, and reflect the findings with the theory section. Based on these findings future developments will be suggested. According to this research the target company should be able to analyze own status and realize if needs to develop customer relationship management processes appear.

Objective of this thesis is to be able to answer questions: What is the current status of customer relationship management in case company, and what kind of solutions and actions should be considered when enhancing customer relationship management. Theory section of this thesis should be able to set guidelines for the empirical study. Conclusions and suggestions for above-mentioned two main questions are provided based on observations of the empirical study.

Subtv OY is operating in the Finnish television business which is constantly growing as a whole. The company was selected to be the target company of this research because Subtv Oy's management considers themselves as challengers in the market and even though already a rather big player, still not considered seriously interesting by advertisers. Customer relationship management study should reveal what is done in the company to fulfill customer needs and what should be done in the future. It is important for Subtv Oy to maintain and enhance current customer relationships. Other important aspect is to realize what could be done to gain new customers and what knowledge current customer relationships could provide to improve performance constantly in the future.

The future is challenging for the channel. As mentioned the markets are expanding constantly, new channels arise, and electronic development brings constantly new alternative media to life. To be able to compete in the future Subtv needs to predict major changes and continuously invent new solutions to provide customers. Subtv Oy must be able to keep current customer relationships and constantly establish new in order to keep growing.

1.2 Structure of the thesis

Introduction introduces the thesis and some key concepts that will be more deeply discussed later in this thesis. Introduction gives the reader a brief summary of the future structure, and also the scope of the study is explained. Also the purpose of the study is discussed. Plenty of theory has been previously published about customer relationship and the management of customer relationships, and in introduction this study is limited to focus on an independent case.

In the theory of this thesis the theories of customer relationship management are gathered and connected. First the basic definitions, such as a customer, a customer relationship and customer relationship management are defined. Also the most important factors in business-to-business marketing are discussed. Customer relationships are then discussed more deeply as the objectives and characteristics of customer relationships are analyzed. Customers are also differentiated according to their purchasing status and value. These different groups of customers require changing amount of service and later in theory the practical steps in customer relationship management are described according to literature.

In methodology the actual research method is presented and selected study is explained in detail.

In empiric study the findings of the research are compared with the theory. The status of customer relationship management is analyzed in practice in case company and future threats and opportunities are identified. According to the findings in empirical part some conclusions will be drawn.

1.3 Limitations

As mentioned above, this research is not designed to be a customer satisfaction survey. Therefore quantitative customer satisfaction queries will not be conducted. The emphasis is on the management systems of the case company. Objective is to discuss the theories of customer relationship management in reality in the case company. The source of primary data is inside the case company, as managers and sales personnel will be interviewed. Secondary source of information is in previously published academic literature and publications of the target company. Also the internet and case company’s intranet will be an important source of secondary information. Research design is described above in figure 1.

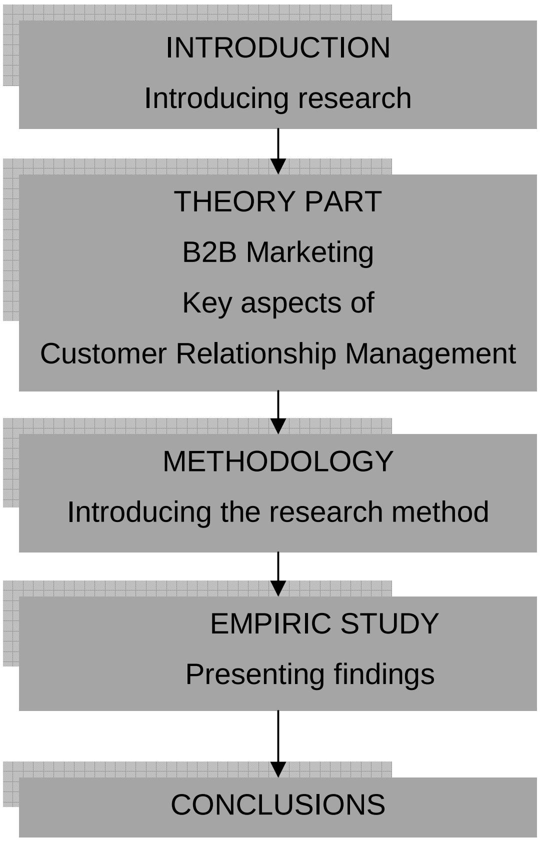
INTRODUCTION
Introducing research
THEORY PART
B2B Marketing
Key aspects of
Customer Relationship Management
METHODOLOGY
Introducing the research method
EMPIRIC STUDY
Presenting findings
CONCLUSIONS

Figure 1. Research Design

2 Theoretical Background

Theoretical background will provide the theoretical background for the research. Theoretical background is based on literature about customer relationship management. Theory in general should give sufficient guidelines to later discussion of same matters in practice in empirical research.

2.1 Definition of business-to-business marketing

This report will discuss the implications of customer relationship management especially from the business to business point of view, and therefore it is reasonable to refer to some basic facts about B-to-B marketing. Marketing and sales efforts have similarities and differences when comparing business-to-business and business-to-customer environments.

Business-to-business is also referred as B2B and b-to-b. Business markets consist of all organizations that purchase goods and services to use in the creation of their own goods and services. Business markets consist of fewer customers, but customers are generally larger than in consumer markets. All companies that need other company’s goods to satisfy their own customers are basically involved in business-to-business environment. (Vitale & Giglierano 2002, 5)

Some companies operate only with other companies, while some companies operate with both other companies and consumers. For example, companies that provide an information technology (IT) solution especially for companies, operates only in b-to-b markets. A company buying a new cash register IT system operates in both consumer and b-to-b markets, because it needs b-to-b relationships to satisfy its customers.

In business-to-business environment relationships vary, since different types of participants are taking part. Same product can be bought for consumption, raw materials or for retail. For example milk can be bought by a company that produces cheese, a hospital might need it for patients, and another company might need the milk to sell it. All of these companies and organizations have their own different way to bond different relationships. “Business marketing is the process of matching and combining the capabilities of the supplier with the desired outcomes of the customer to create value for customers, or their customers and hence for both organizations.” (Vitale & Giglierano 2002, 5)

The buying process is much more complex than in consumer markets, because the organizational decision-making process has to take all instances into account, for example stakeholders, and consider the future of the company based on long term objectives. (Vitale & Giglierano 2002, 5) The actual buying process in the media industry has many exceptions and these will be discussed in the empirical study of this thesis.

2.2 Definition of a customer

The concept of a customer is not equally defined in business-to-customer and business-to-business relationships. Traditional business-to-customer defines a customer as the subscriber of the product or a service. A customer can either be the buyer or the consumer of the product or the service. On the contrary, in business-to-business environment, a customer is a combination of all people and instances that are involved in decision making, forming a buying group, or a decision-making unit. This group includes the actual buyer, end users, official decision makers, finance managers just to name a few. In this report the focus is primarily on business-to-business customers and actions to enhance these relationships.

3 Customer relationship Management

Customer relationship management is now discussed and focus will be mostly on the supplier's side, but since the discussion is about relationships which involve more than one participant, it is appropriate to discuss some aspects with a wider perspective.

As discussed earlier, in business-to-business environment, relationships with supplier and the customer are more complicated than in business-to-customer environment. Companies have different types of customers, and customers are served differently according to their value. The different types of relationships and values of customers are now discussed in theory. Strategies to manage different types of customers are also introduced and all introduced theory is tied up and summarized in the end of this section of the study.

3.1 Definition

There is a remarkable amount of literature written about customer relationship management. In this section the fundamentals of customer relationship management will be discussed according to literature. In later sections, especially in the empiric section of this research, these issues of customer relationship management will be considered in reality in the case company and the use in media industry is evaluated.
Nykamp (2001, 4) considers customer relationship management as a focus on providing optimal value to customers. It is implemented through communication, marketing and service, as well as through the traditional means of product, price, promotion and place of distribution.

A company that considers itself customer oriented strives with all available resources to collect data about customers and how customers create value for business. (Storbacka & Lehtinen 1997, 20) Customer-oriented company should be aware of customer's current needs and ambitions and also identify their future needs. Focus is on customer's needs, providing products and services that meet those needs and then managing the customer relationship to ensure customer satisfaction and that repeat purchases occur. (Brown 2000, 1)

Customer relationship management usually involves internet capabilities and database software to manage customer base in most efficient and organized way. Databases provide exact information about customers and can be accessed by management, salespeople, service providers or even the customer itself. Knowing the purchasing history, special needs and offerings and future plans is silent knowledge, and it is suitable to be written down systematically to be identified and taken into account in future planning. (Xu & Yen & Binshan & Chou 2002, 442)

According to all definitions, in rapidly changing economy, corporations must take care of their customer organizations and make sure they remain loyal in order to be profitable in the long run. As global companies merge, the number of them decreases as well as the number of their providers. Therefore customer-oriented companies must see the importance of their current relationships. Certain specifics of a customer-focused company are that it does not only put effort towards selling and buying, but also in developing the relationship it is involved in. That is how a company maximizes the profitability of each relationship in the long run and is able to reduce costs and irrelevant processes from the relationship. Customer relationship management is the overall function that integrates sales, customer service, marketing, field support and other functions that are visible to customers. (Xu et al. 2002, 442-443)

Establishing new relationships in business-to-business markets is expensive and requires significantly more resources than developing current relationships. Loyal customers can also help gaining new customers for supplier with positive word-of-mouth. (Arantola 2003, 18) With appropriate customer relationship management system relationship costs are minimized and customer satisfaction and future potential are maximized. (Xu et al. 2002, 443)

3.2 Objectives and characteristics of CRM

Long-term customer relationships are considered essential while the infrastructure where companies operate is becoming constantly more complicated. Therefore many companies consider themselves customer-oriented and try to observe operations from a customer point-of-view. (Payne 1995, 223) This way of corporate thinking considers the customers as relationships, where both parties play a role to enhance it. Customer orientation is important to most companies, but only the companies that consider it as a management approach can actually be described as customer-oriented.

Long-term customer relationships and the profitable maintenance of them is one of most important factors of the customer relationship approach. A company tries to create a dialogue with the customer, where the information flows towards both directions. Common interaction is important, because it enhances the possibilities of common understanding. Creating a common understanding is one of the most important activities of marketing. (Siukosaari 1997, 124-125) Siukosaari points out that a company does not actually have customers, but customer relationships. Relationship is working most fluently when both, seller and supplier realize the importance of the relationship and focus on adjusting each other’s processes to maximize the value of relationship.

Customer relationship approach has been studied during the past and had many topics. First, it was considered as a vital part of marketing and discussed as customer relationship marketing. Christian Grönroos & Tillman (1993, 11) defines customer relationship marketing as a marketing focused strategy, and its primary function is to create a mutually beneficial relationship and develop and maintain this relationship with selected customers. Gummesson (1998, 21-22) defines customer relationship marketing as marketing which is regarded as relationships, networks and interaction. Later, as the customer orientation became an important management approach, the term customer relationship management was created. Customer relationship marketing is a part of customer relationship management, which is a more universal way of managing an enterprise.

Fulfilling the customer needs is not considered a source of competitive advantage when discussing the issue from the customer relationship perspective. It is only considered as the first step of the customer relationship marketing strategy, where developing the relationship is more important. Customer considers the relationship more valuable than a transaction and becomes loyal, and that is the real source of competitive advantage and the factor that makes a company better than its competitors. (Blomqvist & Dahl & Haeger 1993, 39)

A company that considers itself truly customer relationship oriented does not only focus on customer relationships from a marketing point of view, but has a companywide customer focus on customers. Customer relationship management is the approach that has ended discussion about customer relationship marketing. In customer relationship management a company designs its processes to be able to define customers' different needs and then providing them with customized services. In reality customer's welfare should be taken into account in all strategic and management decisions. (Lindberg 2000, 4)

Most commercial relationships can be divided into three categories, price-, product-, and customer-driven organizations. Price-driven organization sees price as a differentiator, concentrates always on margins, and main competitive advantage of these companies is price. Product-driven companies differentiate with their product, which is unique, particularly good, efficient, cost effective or economic to use. Price- and product-driven companies have problems achieving customer loyalty, if a competitor offers a better product with cheaper cost both organizations are having challenges. Customer-driven companies do not compete with price or product as long as they are of an acceptable standard. They see customers as part of their overall business process, and develop their business to maximize their customer satisfaction. (Faulkner 2003, 13-14)

CRM has four characteristics; sales-force automation, customer service and support, field service and marketing automation. Sales-force automation means that the sales-force has access to data collected about the customer. Transactions, prices and special information are collected and can be monitored. Customer sales process can also be monitored. Sales-force is able to enhance their performance using the tools provided by the CRM system. The second characteristic is customer service and support, which means that the data collected when sales were conducted, is used to efficiently solve customer problems. Customer problems are also used to predict other companies' problems too and to be proactive. The third characteristic is the field service. Field employees can receive accurate information about customers' problems from the customer service and efficiently meet customers' individual expectations. If problems occur with other companies, similar problems can be avoided with proactive actions by the field force. The fourth characteristic is marketing automation. That means that companies can approach their customers with updated information and learn their likes and dislikes and understand their needs better. Marketing actions are then considered according to background information and companies are able to provide more value to their customers than their competitors. (Xu et al. 2002, 443-444)

In this report the focus will be on customer relationship management, and how a company should structure, design and plan operations to maximize profit of the relationships.

Customer relationship approach has three principles: knowing the customers' value creation process, process nature of the relationship and responsibility of the customer. (Storbacka & Lehtinen 1997, 19-20) In the following these three principles are discussed more deeply.

3.2.1 Knowing the Customers Value Creation Process

In order to be able to develop a customer relationship, a company must identify the customer's value creation process. A company must identify the customers' needs and know the factors that affect purchasing decisions of customers in order to be customer centric. (Ylikoski 1998, 27)

Detailed definition of the customer's value creation process and identifying and analyzing customer needs are essential tasks in customer value creation process. The provider must consider how processes could be adjusted to suit customers' processes. (Storbacka et al. 1999, 15)

When supplier knows customer value creation process, supplier can estimate which of its competences could be helpful for the customer. The objective of customer relationship management is not to maximize the profit of a single transaction, but to create a bonding relationship with the customer. (Storbacka & Lehtinen 1997, 19-20) Previously explained approach can be considered as the opposite for transaction marketing, in which the objective is to maximize each sales transaction. (Gummesson 1998, 36)

3.2.2 Process Nature

In the past, companies considered their selling processes simply as selling, but gradually, the topic has changed and the process is called relationship management. It is important to view customer relationships as processes, because that increases the chance of identifying new opportunities in relationships. (Storbacka & Sivula & Kaario 1999, 21)

Seller and buyer should forget that they are opposites, and establish an interactive relationship that focuses on common good. The objective of a relationship like this is to see the objectives and intensions of customers and provide solutions for ultimate customer satisfaction. In order to maximize the relationship value from customer perspective, companies have to concentrate on how they are able to transmit their competence to their customers. (Storbacka & Sivula & Kaario 1999, 21)

3.2.3 Provider’s responsibility

The third principle of the customer approach is the provider’s responsibility. Satisfying the customer itself does not create strong relationships. A company can build strong relationships only if it bears the responsibility of the relationship and its development and provides customer new means to provide value. (Storbacka & Lehtinen 1997, 19-20) Practically this means that customers are not offered products that are not necessary and relationships benefit is seen from customer perspective. Customer centric approach should be visible for the customer. Customer should be able to feel that the organization is interested in its needs and expectations and also served well. (Ylikoski 1997, 30)

A company bears the responsibilities well if it for example provides its own capabilities to customer. A customer’s processes can be intensified with competences that are provided by the supplier. Customers appreciate if the supplier offers them strategically beneficial information and therefore the supplier should provide information of current situation and also of future challenges and experience them with the customer. These competences should be presented to customers in order to help them maximize the relationship. (Storbacka & Lehtinen 1997, 21-22)

3.3 Customer Satisfaction

Once a customer makes a purchasing decision, there are often a certain expectations involved. Customer satisfaction is defined as the extent to which these expectations are fulfilled. (Kotler & Armstrong 2004, 17)

Customer's expectations consist for example of previous experiences, the quality of a product or service, word-of-mouth, price, the interaction situation and brand image. Many issues affecting customers' expectations are not intended by the provider, but the provider must be able to accept that. Quality and satisfaction are often used as synonyms. Satisfaction is, however, a wider concept, of which quality is only one affecting factor.

To solve the current status of customer satisfaction, companies should constantly implement customer satisfaction surveys. Customer satisfaction surveys reveal critical weaknesses and the selling company is able to develop processes to better suit customer needs. Satisfaction surveys can be universal, in other words they can widely include every part of the sales process and the end product and the service, or it can simply focus on issues that are considered the most crucial. (Lahtinen & Isoviita 2001, 81) To receive constant and accurate information it is appropriate to establish an information gathering system concurrently with the customer relationship management systems. Only if customer satisfaction is constantly measured the change could be identified and solutions provided.

Interest towards customer satisfaction has increased significantly and important customers are being increasingly more surveyed in the hope of receiving feedback so that companies could respond more effectively on specific needs. In customer satisfaction surveys also competitors should be taken into account. This is an option among others to clarify attitudes towards competitors and evaluate satisfaction of own customers to satisfaction of competitors' customers. (Lahtinen & Isoviita 2001, 81)

Satisfied customers are not always loyal. A lower price or competitor's offer with better value might cause a change in supplier. Selling companies' biggest challenge is not to keep customers satisfied, but to keep satisfied customers loyal (Storbacka et al 1999, 61) Reasons of customer retention are listed by Lahtinen and Isoviita (2001, 10) and the list (figure 2) shows that most customers change supplier because of insufficient customer relationship management or bad customer service.

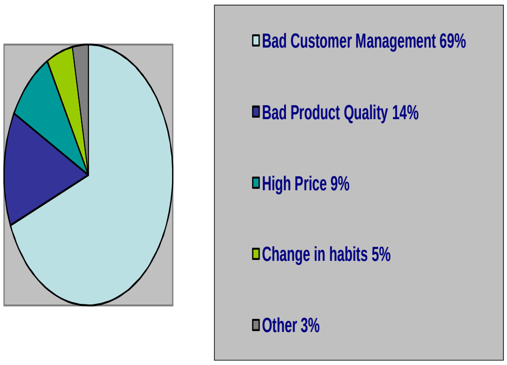

Figure 2. Reasons for customer retention (Lahtinen & Isoviita 2001, 10)

The picture above reinforces the importance of good customer relationship management. According to the facts presented in the graph, companies can even compensate the bad technical quality and high price with excellent customer relationship management and customer service.

3.4 Customer loyalty

In business-to-business relationships the objective is often to reach a state in the relationship where both parties are loyal. In that case, companies are able to adjust their processes to fulfill each others needs. When both companies can trust each other, the relationship is considered most profitable. Customer loyalty is defined as a “deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior.” (Oliver 1997, 22) As discussed earlier, customer satisfaction is about matching buyers’ expectations, so the difference between customer satisfaction and customer loyalty is immense, and they should not be disturbed. Even though a customer might be satisfied with product or service provider, the relationship must also be appropriately managed. To establish loyal customers, it is necessary first to keep them satisfied, but also to offer them some added value that other providers are not able to deliver.

Customer loyalty is the result of an organization creating a benefit for a customer, so that customer will maintain or increase their purchases from the organization. A customer relationship may allow both companies to reduce unnecessary processes, when processes are integrated to operate together.

When defining customer loyalty, there are three approaches to measure, behavioral, attitudinal and composite measurements. Behavioral measurement concentrates on repurchases, but the challenge is that it does not necessarily take into account psychological factors, for example the commitment to the brand. Attitudinal measurements only consider the attitudes towards product or service but do not reflect the real use or consumption. A customer might for example consider a cigarette brand unique, but non-smoking, does not use the product at all. The best measure is the composite measure which takes into account both of the previous measures. It measures consumers purchase history and brand or product preferences and gives a stable reference of customer loyalty. (Bowen & Chen 2001, 213-214)

Attracting new customers requires time and money, and it needs time for new customers to become profitable enough to pay back the acquisition costs. The longer customer stays, more likely they are to build an emotional bond and recommend others to conduct business with the same supplier. According to this assumption loyalty equals profitability. (Faulkner 2003, 3)

Loyalty can be attained, but the organization has to work continuously to maintain it and it will not be possible with all customers. A win-win relationship must be established, and this cannot be accomplished if both parties do not see the concrete benefit. (Brown 2000, 56) Loyalty can be measured based on the length of the relationship and the value of the relationship. Value of the relationship will be more deeply discussed later in this report. Loyal customers can be described as customers that hold favorable attitudes towards the company, commit to repurchases and recommend the product or service to other consumers. (Bowen & Chen 2001, 214)

3.5 Customer retention

Companies most often focus on steady growth, and therefore the focus of salespersons is typically prospecting new customers. As organization does best to establish new relationships, old ones are forgotten and ended by the customers. Gupta & Lehmann (2005, 70) describe this phenomenon as “leaky bucket”. Forfeit customers are very expensive for companies. Acquiring a new customer relationship is 5 times to 10 times more expensive for companies than satisfying existing companies. Therefore companies need to focus on satisfaction. (Kotler 2003, 41)

Studies report that in the U.S. companies, on average, 20 percentages of customers defect every year. This means that the average company loses the equivalent of its entire customer base in five years. Studies also show that the cost of acquiring new customers is remarkably higher than the cost of retaining existing ones. (Gupta & Lehmann 2005, 70) Such example, however, suggests that all relationships are equally valued.

Companies often make crucial mistake and do not realize the existing potential of the current customer base. Companies conduct all activities to reach the market leader position. Problems emerge when the markets are convinced of the need to have their product or service, but because the focus is on new customers, the old ones decide to purchase solutions for their problems from other providers. Another factor that might cause such symptom is that the customer base grows faster than the company, and resources are rather focused on manufacturing than selling. Customer retention is the direct opposite of customer loyalty, in cases where relationships are not well managed; customers actively look for alternative suppliers. Emotional bonds do not exist. Losing customers leads to a new acquisition process. This is, as explained previously, much more expensive than spending limited amount of money to keep existing customers. (Faulkner 2003, 3)

According to Kotler (1999, 138), all customer relationships are not necessarily worth maintaining, because some customers buy too seldom and too small quantities, still requiring remarkable amount of service capacities. If a selling company is not able to enhance the customer’s behavior to be more profitable, the capacities can be targeted to other, more profitable customers instead.

3.6 Customer relationship memory

Companies collect a remarkable amount of data about their processes. Information about buying patterns, buying sequences, product purchase and complaints is, or at least should be, constantly collected. With collected data companies should be aware of their customers and realize their individual specifications and habits. The biggest problem universally in data collection is not the lack of collecting, but the lack of using it. (Faulkner 2003, 3) The data that is probably collected by the marketing or sales department should be shared with the whole organization and analyzed, either by transaction, value, location or geography. Only shared data is valuable data. (Faulkner 2003, 15)

A lot of data can be collected about each customer and it can include some of following:
Interaction history, customer profile, credit ratings, financial transactions, product/service usage and market research survey responses. Even though a lot of resources are used to collect the data, similar amount should be invested to make the data easily accessible. Data collection should be a systematic part of everyday operations, and each individual should be aware of the needs and benefits of data collection. Companies compete to get good employees and employees change working places, remarkable amount of silent knowledge is lost

along with the employee. For companies it is very important that the maximum amount of practical information is collected into a database. The biggest threat in data collection is that too much data is collected and presented without first analyzing it; too much raw information is confusing. Employees often need help in transforming data into true customer insight. (Crosby 2002, 274)

Customer relationship management does not only mean information technology resources are valid, it is a business strategy. For many companies CRM is not more than a name and it means that an information system is created for the customers, and the customer should use the system to manage own problems. In other words, sales processes are automated and costs are minimized. This is not what to expect from a good CRM solution. (Crosby 2002, 271) To summarize the need to customer relationship memory; companies need to transform the knowledge of their employees to knowledge of the company. For this purpose they need to develop an information system where data is warehoused and can be easily accessed by employees.

3.7 Customer relationship life-cycle

According to Grönroos (2000, 236) organizations view their customers too often as an abstract phenomenon or anonymous mass, and customers are then seen as numbers. From a customer's point of view, every customer should be seen as a relationship that could be maintained and improved.

From a customer point of view, the customer relationship life cycle consists of three main parts; the initial phase, the purchasing phase and the consumption phase. In the initial phase, customer is unaware of a need for the company or its offerings. When the need emerges, the customer might search for a solution and take the second step of the process, the purchasing phase. During this phase the actual relationship is established, and the customer receives an offer to be evaluated. If the customer decides to make the purchase, the customer moves to the final consumption phase. This phase can be called also the usage phase, which describes it better in the B2B environment. If the relationship ends in this phase, depends on customer satisfaction if the relationship will continue. This process is pictured below in figure 3.

From a seller point of view, the customer relationship life-cycle appears very different. The typical simplified life-cycle consists of five phases. First, a seller conducts a market research to identify customers, the interesting and potential customers are contacted and a relationship is established. As the relationship has emerged, it is the seller's responsibility to maintain the relationship and satisfy the customer to perceive loyalty. The final phase of this life-cycle is either to enhance the relationship or terminate it. Often the objective is to enhance the relationship and try to reach higher sales volumes for example, but in some cases a seller must terminate the relationship. If the relationship must be terminated, it should be done in a way that it could be re-established in the future. (Grönroos 2000, 244)

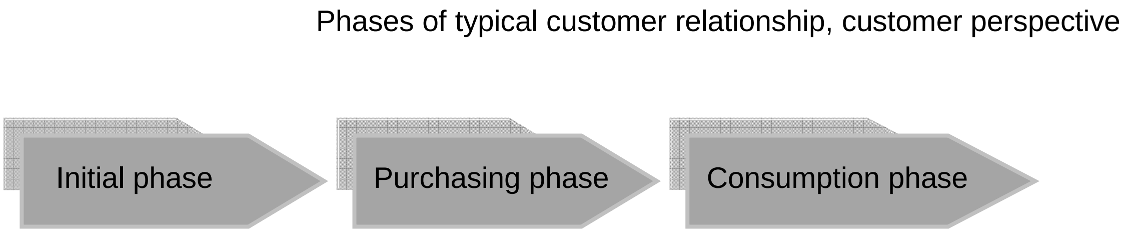
Phases of typical customer relationship, customer perspective
Initial phase
Purchasing phase
Consumption phase

Figure 3. Customer Relationship Life-cycle, customer perspective (Grönroos 2000, 236)

In the figure 4 below the typical customer relationship life-cycle is described. As seen in the figure the relationship starts with identifying the customer needs. Seller and customer bond a relationship to mutually provide a solution to customer needs and the actual relationship is established. The relationship does not require a transaction. The selling company should only concentrate in determining the needs of the buying company in order to create a long-term relationship and actual transaction is not crucial in the beginning. Both companies typically adjust their processes as the relationship is established, and hopefully form a relationship that can be maintained for long. As relationships need constant treatment, both parties should determine whether to maintain enhancing the relationship or not.

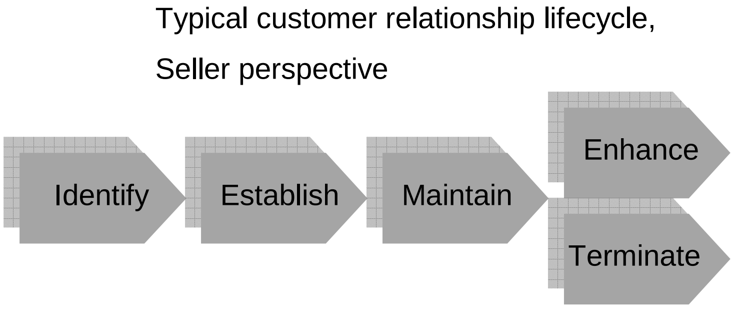
Typical customer relationship lifecycle,
Seller perspective
Identify
Establish
Maintain
Enhance
Terminate

Figure 4. Typical customer life-cycle, seller perspective (Grönroos 2000, 244)

In the figure above the typical customer relationship life-cycle is described. As seen in the figure the relationship starts with identifying the customer needs. Seller and customer bond a relationship to mutually provide a solution to customer needs and the actual relationship is established. The relationship does not require a transaction. The selling company should only concentrate in determining the needs of the buying company in order to create a long-term relationship and actual transaction is not crucial in the beginning. Both companies typically adjust their processes as the relationship is established, and hopefully form a relationship that can be maintained for long. As relationships need constant treatment, both parties should determine whether to maintain enhancing the relationship or not.

3.8 Measuring values of relationships

The value of a business-to-business relationship is seldom measured in money. Economic return is only one of five main criteria of measuring relationship value. Other important factors are future business potential, learning value, reference value and strategic value. (Storbacka & Sivula & Kaario 1999, 14)

Economic return discusses simply the cash flow of the relationship. In business-to-business these types of relationships are considered with rather short-term objectives. Companies with future business potential do not immediately provide cash flows, but it is considered beneficial in the long run and the relationship is established with high expectations. (Storbacka et al. 1999, 14)

Some customers might have a learning value by giving the provider an opportunity to participate in innovative projects and helping the provider to develop business. The reference value of a relationship is beneficial when attracting new customers by presenting the impressive customer base. Strategic value can offer access to new markets, barriers to new entrants or simply strengthen the current position in the markets. (Storbacka et al. 1999, 14)

Customer value is often calculated according to transactions, but more interesting value is the potential lifetime value of the relationship, which indicates the value of transactions customer may make over the lifetime of the relationship. Customers’ lifetime value can be calculated for a single customer or a whole segment and it enables the company to maximize the service offering to each group. Customer lifetime value is often referred to as relationship value. (Faulkner 2003, 63)

As the value of a relationship can be measured in many ways, the whole sales and marketing organization should be aware of the criteria. If some companies with small economic return are neglected, a company might lose a remarkable amount of strategic competence with such a customer. (Storbacka et al. 1999, 14)

It is important to constantly develop relationships in order to decrease resources used in a single relationship for example by reducing processes. New technology has brought opportunities to use new channels between supplier and customer and reduce costs. A supplier can also consider methods to convince a buyer to perform actions that increase the value of the relationship from the company perspective. (Storbacka & Lehtinen 1998, 63)

There are three ways to enhance profitability. Those three aspects are described in the figure below. In the figure 5 below there are three main dimensions that should be taken into account when enhancing relationship value. The goal is to increase the relationship profitability, simultaneously reducing costs and extending length of the relationship.

Profits can be enhanced with pricing or increasing the number of customers. As well as increasing the relationship profits, also the costs regarding the customer relationship are relevant when considering the profits of the relationship. First a company must determine the design of the customer relationship by analyzing the functions and meetings that must be initiated by the company. The findings are the basis to analysis whether the relationship process could be simpler. If relationship length is extended and a customer is more intensively involved in the relationship, a supplier can immediately use the available resources or simply reduce costs. (Storbacka & Lehtinen 1998, 64, 71-74)

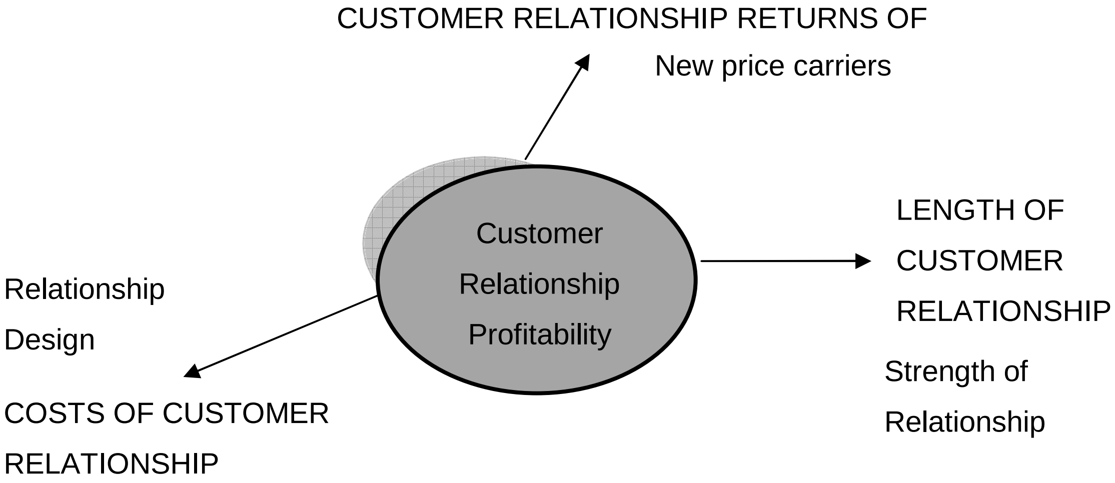
CUSTOMER RELATIONSHIP RETURNS OF
New price carriers
Customer Relationship Profitability
LENGTH OF CUSTOMER RELATIONSHIP
Strength of Relationship
Relationship Design
COSTS OF CUSTOMER RELATIONSHIP

Figure 5. Customer relationship profitability aspects (Storbacka & Lehtinen 1998, 64)

Relationship value to the customer should be discussed individually because the aspects of the relationships are remarkably different from customer perspective. As the objective for the company is to be profitable in the long-term, the challenge for the customer is to reduce unnecessary processes in order to be fully able to concentrate on primary task. Providing value to the customer is one of the fundamental preconditions to form a loyal customer relationship. Value is the binding factor between a supplier and a customer. A customer evaluates the value of the relationship and if the value is not good enough, a customer will start looking for other suppliers, finally forming a relationship with different supplier if the offered value is better. (Blomqvist et al 1993, 117).

Kotler (1997, 38) defines customer value as the difference between the total costs used within the relationship and complete benefit delivered by the relationship. According to this assumption customer individually defines the value of the relationship because the experienced value is strongly based on expectations and beliefs. The offered service or product must have delivered added value to the customer in order to be considered valuable by the customer.

Customer satisfaction and customer value should not be mixed. Customer satisfaction measures how well a supplier has understood the needs of the customer and been able to affect customers’ expectations and finally reflect them. The value is a combination of trust, reliability, and continuity etc., which increases customers’ trust towards supplier and therefore increase loyalty. The value can be something the customer realizes. In other words, the value is not what the supplier has stated that it will be. Also, the customer value is the sum of all interactions between supplier and customer, not only a single interaction or transaction. (Woodruff 1997, 141)

3.9 Types of relationships

Companies have several types of customers. As mentioned before, customers can be divided by their value to several different groups, but it is also effective to divide customers according to their activity. A customer relationship pyramid is an easy way to visualize, analyze and improve the behavior and profitability of customers. (Curry & Curry 2000, 8) The following figure 6 is a simple example of a typical customer relationship pyramid. The active and most profitable and frequent customers are pictures in the peak of the pyramid, but not more. Most of the space in the pyramid is occupied by inactive customers or simply potential customers.

The following are the basic elements of the customer relationship pyramid. Active customers have purchased goods or services and are potentially purchasing within a given period, for example 12 months. Inactive customers have purchased goods but not within the given period of time. These customers are a very beneficial source of revenue and also very important source of information about what to do to prevent active customers becoming inactive customers.

The “prospect” customers are in a relationship with seller, but have not yet purchased anything. Examples of these customers are the ones who order catalogues, visit websites or even request a bid. These companies are very potential to become active customers in the future.

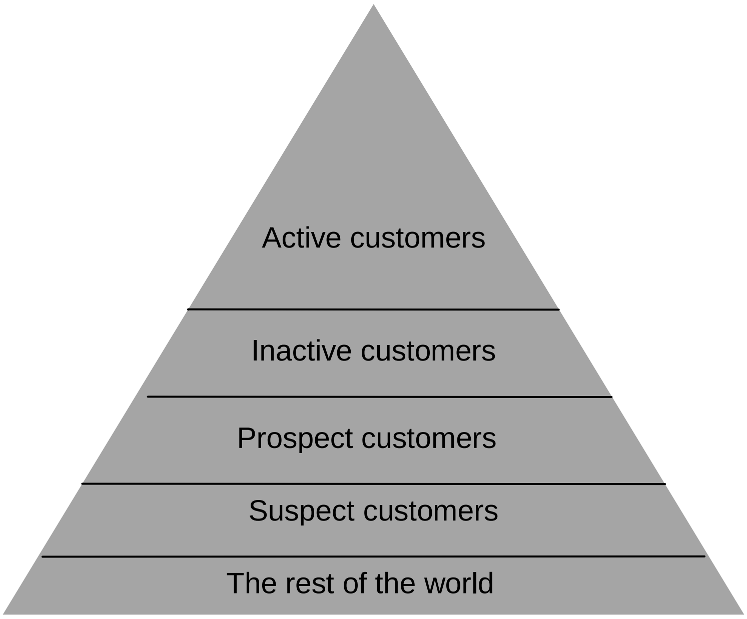

Figure 6. Customer Pyramid (Curry & Curry 2000, 8)

The “suspect” customers are the ones that could be served with products or services, but there is no relationship yet. It is normal to begin a relationship with suspects and upgrade them to prospects, with longer-term goal of converting them to active customers.

“Rest of the world” is a group that clearly has no intention or need to purchase any goods or services. Since this group is never beneficial, it is important to consider how much money and effort will be put on marketing and communicating with this group anyway. (Curry & Curry 2000, 8)

Curries (2000, 9) suggest especially for companies that operate in business-to-business environment and concentrate on sales, that it is beneficial to subdivide the group of active customers into even smaller groups. These customers should be divided according to a critical measure, for example sales revenue. The groups could in that case be top, big, medium and small. Top customers are only 1% of all active customers and big customers would be the next

4% of customers. The medium group is altogether the next 15% of active customers and the small active customers are the next 80% as shown in the figure 7 below.

Once a company has divided customers according to the pyramid, it is easy to identify required marketing effort for each customer. Companies focus often too much on “rest of the world”-group; marketing their products for companies that have no need or interest to invest in what the supplier has to give.

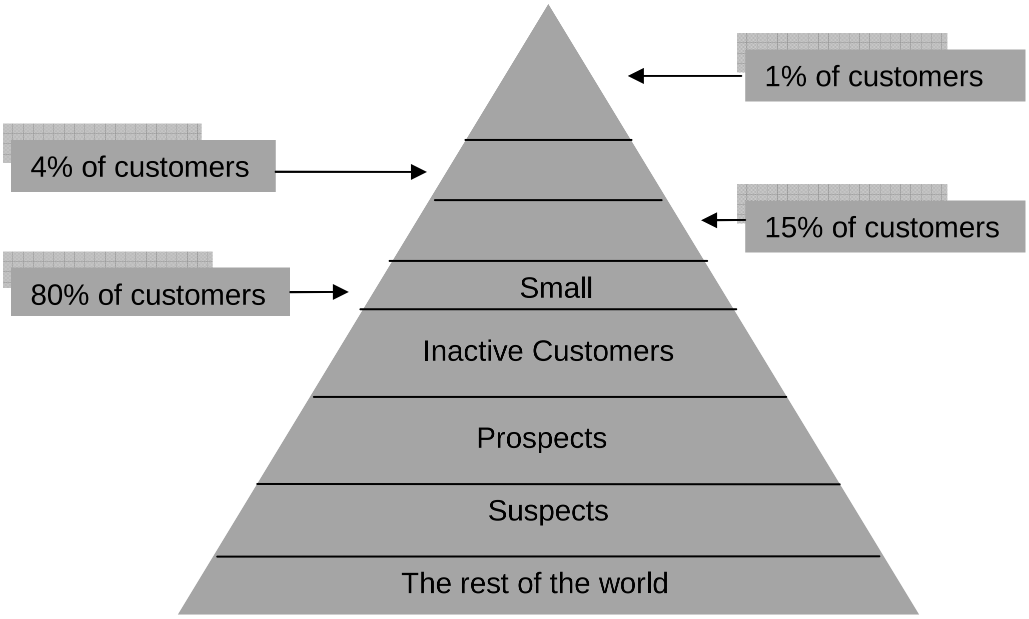

Figure 7. Customer Pyramid 2 (Curry & Curry 2000, 9)

Once a company has divided customers according to the pyramid, it is easy to identify required marketing effort for each customer. Companies focus often too much on “rest of the world”-group; marketing their products for companies that have no need or interest to invest in what the supplier has to give.

In practice a selling company’s primary focus is not the “rest of the world”-group, but in the “suspects” and “prospects”. Those customers can potentially be transformed into active customers. Both groups are currently inactive, but might use a product or a service of a competitor. A company should establish a clear method on how to attract these companies into their customer portfolio and also, very importantly, how to maintain their activity.

3.9.1 Key accounts

Customer relationship pyramids give a good basis for understanding that top 20 percentages of active customers provide 80 percentages of the economic return. In the previous pyramid this 20 percentages would then include the top, big and medium customers. This group of most beneficial customers is called key accounts.

Since this group is important in revenue, it is very important that these relationships are managed with larger resources. Management of these customers is called Key Account Management (KAM). The customer base evolves constantly and therefore it needs to be evaluated to be able to determine the current state of relationships. Companies must invest remarkable sums of money and effort to infrastructure and adjust their processes in order to be able to concentrate on these customers sufficiently.

3.9.2 Key account management

Key accounts, also called strategic accounts, are such vital relationships for companies that they require special management. The objective for selling companies is to establish long-term relationships with these most profitable customers, and secure the loyal behavior of customers. The objective of key account management is to ensure that current accounts are utilized with full potential and opportunities for additional business are identified. In addition, the objective is also to ensure that the customer considers the relationship valuable in terms of its ability to support its own customers. (Storbacka et al.1999, 16) Key account management (KAM) is defined by McDonald and Rogers (1998, 1) as "an approach adapted by selling companies, aiming to build a portfolio of loyal and most important customers and offer them, on continuing basis a product/service package tailored to their individual needs". Key account management is visualized in figure 8.

According to McDonald and Rogers (1998, 8) key account management (KAM) is considered as a strategic long-term activity and its objective is to identify potential customer to create a relationship and achieve the full potential out of the relationship. "The process of transferring a potential customer to beneficial partner can take even ten years." Sellers often create precise plans for their key accounts' future and create functions for most crucial customers to be able to optimally serve them. Typically, selling companies have separate managers responsible of continuous sales for key accounts. Processes with key accounts are planned in the long-term and commonly these processes are planned for a minimum of 3-5 years. (McDonald & Rogers 1998, 8)

Development of customer relationships to key accounts is visualized in figure 9. Each step is specified. Each particular relationship is positioned according to the analysis of two factors. The first considers the proportion of business which is placed with the supplier. The second considers the number of interactions between the two companies. (McDonald & Rogers 2001, 8-9) As seen from the figure 9, as relationships become more collaborative and in the end synergistic, they also become constantly more complex. Key account management (KAM) can be divided to several stages. The graph shows five of the six stages identified by Millman and Wilson (1994): pre-KAM, early-KAM, mid-KAM, partnership-KAM, and synergistic-KAM. The sixth stage, uncoupling, can occur in any stage of the process, it basically means that the relationship ceases.

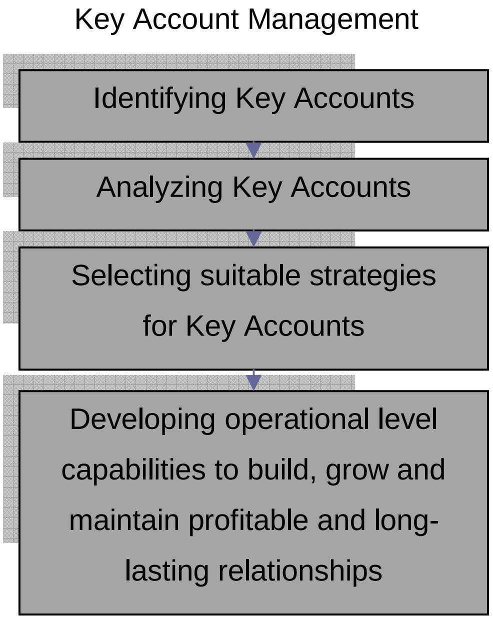
Key Account Management
Identifying Key Accounts
Analyzing Key Accounts
Selecting suitable strategies for Key Accounts
Developing operational level capabilities to build, grow and maintain profitable and long-lasting relationships

Figure 8. Key account management (Ojasalo 2001, 202)

The pre-KAM stage is the prospecting stage where selling organizations analyze the customer base to identify customers with key account potential. In the early-KAM stage, some transactions are already made, but companies are not especially important for each other. As the responsibility and credibility increases, the organizations start moving towards the mid-KAM stage. At this point the selling organization is a preferred supplier and complexity of relationship affects many people in both companies. The role of social matters increases and everyone in the selling organization should be aware of key accounts and the service they should be provided. (McDonald & Rogers 1998, 10-14)

If companies consider each other as important resources, they might proceed to the partnership-KAM stage. In this stage, companies share strategic sensitive information and become parts of each other's businesses. In this stage, the buyer does not use other suppliers to satisfy similar needs and supplier might not have others to supply. Also expertise will be shared in this stage. (McDonald & Rogers 1998, 15-16)

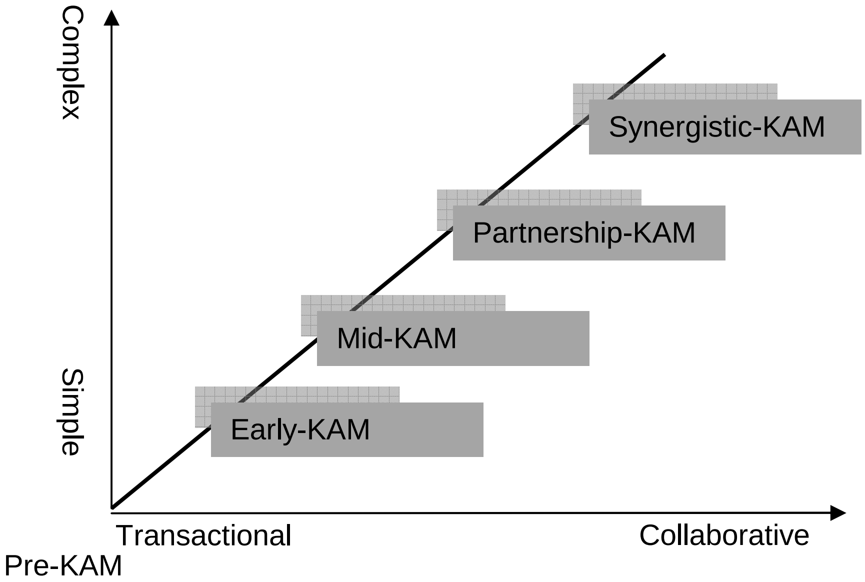

Figure 9. Stages of KAM (McDonald & Rogers 1998, 9 ref. (Millman and Wilson 1994)

Even though companies in partnership-KAM are very important to each other, there still is one greater bonding. In synergistic-KAM the join is invisible, and both companies work together to create value to marketplace but still play own roles as supplier and customer and not affect each other's strategic planning. Also cost questions become transparent finally at this stage. (McDonald & Rogers 1998, 17) Companies must determine whether it is fulfilling to develop any relationships to synergistic stage. Since relationship become more complex and both companies become more dependent on each other's businesses, the decision should be deeply analyzed. Once the relationship is on synergistic level, especially the seller does not necessarily operate with any other customer, but seller's point of view still isn't taken into account in buyer side when making strategic decisions.

3.10 Selection of most important customers

As the main elements and objectives of customer relationship management are discussed previously, it is time to analyze the requirements and concrete actions that need to be conducted when proceeding with a customer-focused approach. Customer relationship profitability provides fundamentals for identifying the most important customers from the seller's point of view. A customer-focused company must be aware of most important customers and what sort of a solution is offered to each customer. Also a company should analyze what strategy they should implement in each relationship. (Storbacka et al. 1999, 41) In the following these important questions are discussed more deeply.

The first matter a company must do when selecting a customer-focused approach is to analyze the customer base. The analysis should be conducted constantly to gather accurate data. In this analysis monetary aspects, such as sales and customer profitability, should be discussed as well as non-monetary aspects, such as reference value, competence value and strategic value. (Storbacka et al. 1999, 50) Before a company starts to identify top customers, it is important to figure out how market works and what are the key segments. Market segmentation is an essential skill for effective key account management, and a way to gain differential advantage against competitors. (McDonald & Rogers 1998, 52)

Market segmentation can be started by drawing a market map. A market map is a definition of the value chain from supplier to end-user and takes into account all buying mechanisms of the market as well as the part played by influencers. Knowing the dynamics of the market is also highly respected by key accounts. Market mapping helps companies identify buyers and what they are buying. If the information is available and a company has sufficient resources, it is also convenient to analyze the reasons for purchases. If a seller is aware of all these crucial factors of own market, the seller can offer a differentiated product or service to each type of customer. (McDonald & Rogers 1998, 53)

As discussed previously in this thesis, top 20 percentages of a company's active customers form most of the sales volume, as a large number of customers remain less profitable. If a company requires more resources than the experienced positive cash flow, the relationship should either be enhanced or terminated. All customers should be taken into account once the customer profitability is analyzed.

Once a company has analyzed the customer base, it should also determine the actions to take with the customers. According to Storbacka et al. (1999, 50) small customers can not be very unprofitable. From this perspective, companies with large volumes have the greatest potential to be the most unprofitable ones, and therefore, it is necessary to carefully analyze whether to improve the unprofitable relationships or to terminate them. Customers that provide high volume often provide positive future opportunities, and therefore these relationships should be enhanced, even though large risks are involved.

Customers should be differentiated according to two major indicators; customer attractiveness and business strength. As visualized in the following figure 10, attractive customer relationships with high strengths should be developed and on the contrary, relationships with low strengths and low attractiveness should be reconsidered. The whole customer base should be analyzed to recognize most potential relationships to be invested. McDonald and Rogers (1998, 81-84) state that once customer base has been analyzed and potential key accounts recognized, they are recommended to be reanalyzed to finalize the analysis.

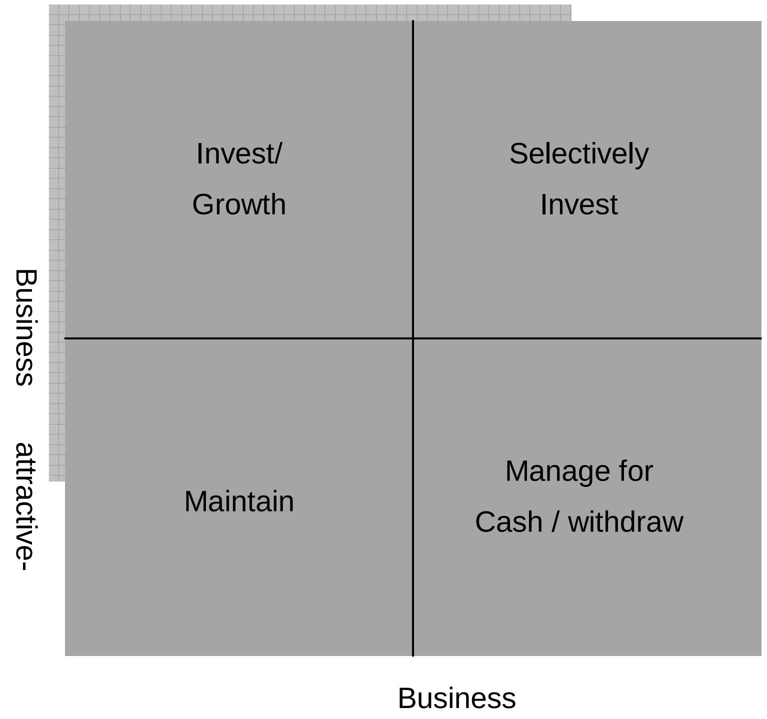

Figure 10. Customer Differentiation (McDonald & Rogers 1998, 82)

3.11 Designing the offering in relationships

Once a company has determined who their most important customers are, it is necessary to discuss the offering to each customer, or customer group. After discussion a company can save resources and costs, when processes are not wasted on customers that do not need them. The needs of customers vary. Especially if a company has customers in several industries the demands might be very different.

The link between customer satisfaction, customer loyalty and increased revenue has been studied and proven by numerous organizations. Loyalty is impossible to quantify exactly but the customer behaviour is the closest factor that can be measured. Companies should remember that when serving the customers one negative experience might lose a potential customer. The loyalty can be used to predict customer behaviour; a customer might repeat business and continue a business relationship even when a potentially superior competing product and services are available.

3.12 Selecting customer relationship strategy

Customer relationship strategy is optimally about creating a collaborative, long-term relationship with customers based on mutual trust. Customers are seen as lifetime investments and therefore valued highly. Customers are often willing to collaborate in order to receive optimal service and gain stable relationships. (Crosby 2002, 272)

Primary function in customer relationship is adjusting. In order to create a working relationship, processes must fit together. Either it is the customer who adjusts to the seller's processes, a company adjusting processes to suit the customers, or both adjust their processes to fit each other. Storbacka & Lehtinen (1998, 123) have created a model that divides customer relationship strategies into three groups, which will be discussed in the following. The strategies are named to easily reflect normal lives. Clasps are used to hang wet clothes, it holds but the clothes are only connected to the line where clasps are, while other parts leak. In zipper strategy both companies adjust their processes to suit each other's needs and operate together like a zipper. Velcro strategy requires company to adjust according to customer needs.

A clasp strategy is used when relationship encounters are happening on the terms of the provider, and the customer adjusts to these processes. A selling company opens internal processes, so that customer can adjust processes and that way processes meet. Nature of these meetings is such that it does not require any deeper collaboration or common adjusting of processes. A clasp strategy can only function, when the company understands the customer's situation and objectives. (Storbacka & Lehtinen 1998, 123) Example of this could be a supermarket that offers a product which a customer can purchase.

Profitability is the ultimate objective when using a clasp approach, because efficiency is an important factor to reach profitability. Most likely the clasp strategy is used in businesses which focus on exchanging goods, rather than exchanging knowledge. Some customers might not care much about a personal sale, or that the sales agent will smile at them when receiving the good; they will rather want an efficient exchange, including services such as warrantees and maintenance. (Storbacka & Lehtinen 2001,104)

The clasp strategy is a challenge for every company that tries to achieve long-term relationships with its customer, because for a customer the relationship is not important. As earlier described what is important to the customer is efficiency, not a deep relationship. A strong brand is crucial with such a strategy. Companies often provide their regular customers some added value, with bonus systems for instance, to achieve wider customer loyalty. The clasp strategy is suitable for companies with mostly transactional measures and objectives, rather than ones that focus on developing a relationship with their customers. This strategy also involves a minimum amount of adjustment of processes.

In zipper strategy both, a company and a customer adjust their processes so that they operate optimally together. If working without errors, the zipper strategy is considered the best alternative in the business-to-business environment. (Storbacka & Lehtinen 1998, 130)

For example, companies might create such a system that purchasing does not have to be an individual process anymore, when customers' office supplies are minimal, a new supply is delivered by the provider. Zipper relationships require much trust and developed infrastructural resources. Also companies might become very dependent on each other which can be considered a threat in downturns of the economy. The Zipper relationship requires almost always legal contract signed between organizations. (Storbacka & Lehtinen 2001, 109) Compared to the clasp strategy, the zipper strategy involves more adjusting of processes from both companies. Companies might find it necessary to quit some business areas, as they are searching for synergy benefits and cost advantages.

The zipper strategy requires long-term collaboration and systematic analysis of how to adjust the processes even better. The zipper is most beneficial for companies that have similar processes that could be integrated. A win-win approach happens, as closing the zipper both companies seem to win. (Storbacka & Lehtinen 1998, 123) Loyalty is created when the customer becomes an advocate of the organization, without incentive. (Brown 2000, 55)

In the velcro strategy, a company will adjust its processes to completely suit customers processes. A company actually knows customers' processes as own ones, and is able to independently operate according to agreed roles. In the velcro strategy, a company adjusts the processes in such a way that the customer needs to waste minimum time and resources for the relationship. A customer does not often see it beneficial to change own processes because of such a relationship. (Storbacka & Lehtinen 1998, 123)

The velcro strategy might lead to a situation where the overall processes of these two companies are not optimal, because in order to function both processes should be looked together. This also puts the selling company at risk, because it is modifying its processes to suit the processes of the customer, but the customer could decide to take another offer whenever it wants.

Management consulting companies have used this approach. They adapt to a customer processes, but there lies a risk that their objectivity suffers. Consulting companies seem to be the only ones who can use this strategy successfully. (Storbacka & Lehtinen 2001, 110)

3.13 Summary of customer relationship management

Implementation of customer relationship management always begins with identification of corporate needs. As discussed earlier, CRM is a way to manage a company and all of its processes in a customer-oriented way. It includes plenty of collected data about customers and their behaviour in the market related to the selling company. Information about customer is gathered and used to serve customers with optimal value. Selling companies try to adjust their processes and optimize business relationships with their customers. A selling company constantly researches the market and analyzes the customer base to be aware which customers it is dependent on and which customers are unnecessary. Some customers are valued higher than others and therefore allowed more focus in the long-term.

Customer loyalty often equals profitability, and therefore companies should focus on keeping their customers loyal. As discussed, customer retention is a challenge and customers disappear if not served with care. Values of relationships should be analyzed and classified in selling company, and managed with a required focus. Money is not the only value to measure customer relationships, also future value, reference value, competence value and strategic value can be measured.

Once the customer value is clarified, a company must select and implement a most suitable strategy. This is important to reduce costs and maximize the profit of relationships. Both companies usually adjust to create an optimal relationship and establish synergies.

CRM must be fully completed to function properly. Even if it seamlessly connects sales, marketing and customer service, it is not enough. Also organizational and human resources must be exploited. Any company that sees itself as customer-oriented should be able to constantly invest in CRM structures, because it is one of the few true competitive advantages. (Xu et al 2002, 451) In most companies customer relationship management is considered a way to enhance the sales process, which is incorrect. According to this theory companies should adjust all their processes, not just sales and marketing having a customer in mind.

4 Framework

In the theory of this research the fundamentals of customer relationship management have been introduced. To be able to answer report's primary questions, how is the current status of customer relationship management in the case company and which solutions and actions should be considered when enhancing customer relationship management the theory must be reflected with practice.

Empirical study should reveal the form of processes currently. To be able to analyze data, it must be clear how the customer relationships are managed. The organization should be introduced and types of relationships as well.

Based on types of relationships, the empirical study should consider theories in practice. Customer loyalty and retention, valuation of relationships and customer relationship management strategies should be clarified in practice. Customer relationship data collection should provide also interesting information about the current status of relationship management and therefore it is important to be discussed.

Once these theories are considered in practice, the report should be able to provide answers to its main questions and solutions for the future.

5 Methodology

In methodology the research methodology will be explained. The research method selection criteria and data analysis are discussed as well as reliability and validity of the research.

5.1 Research methodology

The needed information commonly defines the information gathering method. The first matter to solve is whether the information could be found using qualitative or quantitative study. These two methods differ from each other by problem setting, actual research process and analysis of results and interpretation. (Seppälä 1995, 21)

5.2 Selection of the research method

The research approach is either quantitative or qualitative. Qualitative research is defined as an unstructured, exploratory research methodology which is based on small samples and intended to provide deeper information about the problem and therefore enhance awareness of the problem. Typically qualitative research is based on interviews. Interviews can also be conducted in groups, and in addition to traditional questions, also word associations can be used to reveal realistic and informal attitudes and expectations. Qualitative research may not be conducted in a formal way; questions are answered and also discussed to solve why the respondent has such attitudes. (Malhotra 1999, 40)

In qualitative research factors are usually discussed in their natural context and therefore received information is based on people or organizational knowledge and previous experiences. The objective of qualitative research is to deliver an understandable and natural illustration of phenomena or processes as a whole, rather than focusing on a single variable. (Seppälä 1995, 21, 34) “Qualitative data is based on meanings expressed through words, and as collected as non-standardised the data needs to be classified into categories. Analysis is conducted through the use of conceptualization. The conclusions are made according to few examples and based on assumption that they are rather standardised.” (Saunders et al 2003, 378)

Results gained from qualitative research are based on interviews with decision-makers and industry experts and therefore the results provide sufficient information to help the researcher understand the environmental context of the research problem. The environmental context discusses issues relevant for the company, past information and forecasts, resources and constraints, objectives of the target company and legal and economic environment, as well as customer behaviour and own skills. (Malhotra 1999, 41)

In this research, managers and sales personnel of Subtv OY are interviewed to clarify the current situation about nature of customer relationships. Employees of Subtv Oy have been interviewed individually or in pairs. Insights gained from qualitative research as well as discussions with decision-makers and industry experts give sufficient insight to understand the problem and the context. (Malhotra 1999, 41)

5.3 Data analysis

Two kinds of data will be analysed in this research. Primary data is the data collected by the researcher to answer open questions. The gathering of primary data is specifically designed for the research in question. Secondary data is the available data that has been collected previously for some other purpose or by someone else and used for the research in question. This kind of data may be economic data, environmental data or some other previously collected information necessary to be used for the research. (Malhotra 1999, 40)

5.4 Data Collection

Research data was collected during spring 2008. In order to collect valid data, sales president and marketing manager were interviewed individually and sales group managers were interviewed in pairs. The collected data was analyzed, and possible conflicts solved with additional interviews. Interviews were conducted in Subtv's office in Helsinki during 10th-14th of March, 2008.

In the questionnaire the interviewee's knowledge about customer relationship management strategy was cleared. This was conducted by asking them questions that reflect the theory. This way the answers could have been analyzed optimally, as the researcher knows if the answers were according to own attitudes and experiences or if some theory was referred to in their answers. All together, four persons from case company were interviewed, two males and two females. Interviews reason was cleared to the Interviewed. The names of the interviewees are mentioned in this research, as well as their positions at the time of the interview are revealed.

5.5 Reliability and Validity

All interviews were conducted in March 2008. The location of the interview is Subtv Oy's office in Helsinki. Interviews were informally arranged during breaks between normal working routines. The same questions were asked similarly from each respondent and the structure of the interview was identical. All respondents were native Finnish so to get as accurate answers as possible and in order to avoid language barriers all interviews were conducted in Finnish. Research will provide an analysis of customer relationship management situation in the case company, but since this is the first time such an analysis is made, it cannot be compared to any older research and therefore development of customer relationship management cannot be analysed. This report will provide current status of customer relationship management in the case company.

6 Empirical Research

Developing customer relationships is a complicated and long process. Usually it is started with clarifying the problems, expectations and needs of customers. Awareness of customer needs is not nevertheless always enough, if the principles of a company's management and field selling team differ. As discussed in the theory of this research, customer relationship management approach is a corporate-wide management approach and the rules that are applied must be agreed on every level of the company. Therefore in this research the empirical section will concentrate on clarifying certain standards and rules which should be applied in the future in order to optimally function in the future.

The theory of this research has constructed clear guidelines for the empirical research and the questionnaire will be formed according to that. Subtv Oy's sales management as well as the channel and marketing management will be interviewed to open questions in order to clear their individual ideas about matters related to customer relationship management. The facts discussed in the theory will then be considered in practice and according to the findings conclusions will be formed.

The research will take into consideration the different views of the management and the personnel. The management forms a view based on forecasts and results and the view is expected to be slightly more theoretical than the view of the sales group managers, who work in direct contact with their customers and form their view based on customers' attitudes and their long experience in managing these relationships. Once both parties are taken into consideration, a sufficient summary can be formed to deliver comprehensive data to the empirical research.

This report does not focus to provide attitudes of customers. The objective is to analyze the current status of customer relationship management, and the actions required in the management to enhance. As mentioned in the theory section, customer relationships must be managed in order to avoid losing customers and customers should be segmented according to their value. Customer relationship management tools are used in order to maximize the value of the customer base.

6.1 Finnish media environment

In this section of text media industry is presented in brief. Operators in the media industry are discussed, and certain practices are introduced as well.

Many types of operators appear in the media; government organizations spread information, news and entertainment to large audiences and are able to operate with tax and communal funding. Newspapers have their own customers who want to read their newspapers every morning and are willing to pay for that. Other newspapers are distributed free, but contain a remarkable amount of adverts, which is also the main income of those magazines. Radio can also be listened for free, and advertisers use it for their marketing. The internet can be browsed for free, even though some information is chargeable; many advertisements are placed there too. Television channels are divided into free channels and those that are liable to charge. Free television-channels show advertisements to fund their operations, and other channels require a fee for the viewing.

The media industry consists of companies and organizations providing communication to their viewers and listeners. Radio, television, magazines, internet, email and mobile solutions are all seen as tools used by modern media. The media is used for many purposes. Consumers for example tune in for their favourite music on the radio, watch their favourite shows on television, and meet friends in the internet. Companies want to know where their potential customers are and contact them with advertising. Media agencies provide services to advertisers and select appropriate media for them. Advertising agencies provide creative marketing solutions for advertisers and media agencies. The media tries to fulfil the needs of their consumers every day, and at the same time provide solutions for advertising customers, bond relationships with media agencies and also marketing agencies. The media industry's operating environment is presented in the figure 11 below. (Murole J, Mäkinen S. 2008)

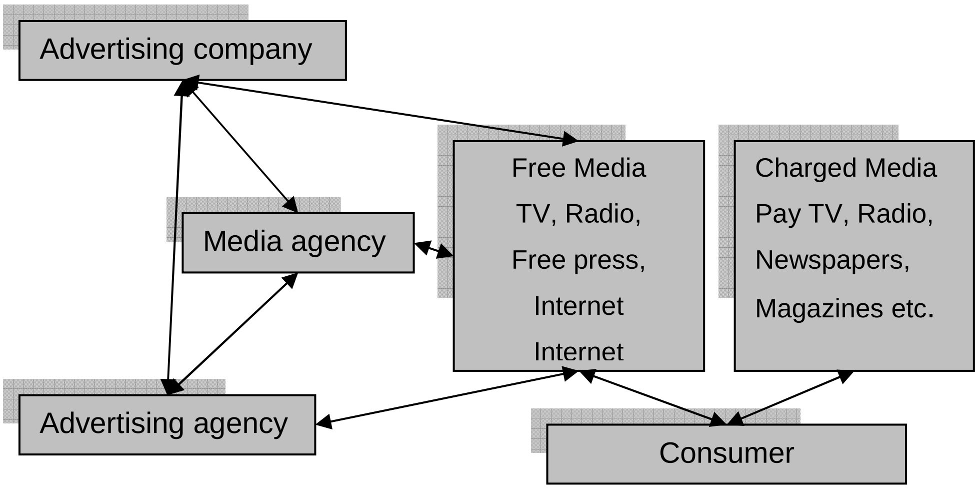

Figure 11. Media environment (Murole, J, Mäkinen, S. 2008)

As seen in the figure; free media that operates on advertising basis must operate in much more complex environment than the media that simply sell the provided entertainment to the customer. Subtv operates in the free media group. As seen in the figure 11, a consumer only sees television-channels, not the actual processes in them.

In Finland traditionally there have been two channels that operate with a viewing fee, and are owned by the Finnish broadcasting company (YLE). Later MTV3, Subtv and Nelonen have become other national channels but their operation is funded with advertisements. In addition to these many channels operate in cable networks, providing more differentiated programmes, such as movies, documentaries, cartoons and sports channels. Most of these channels also have a viewing fee, or their visibility is limited. (MTV Media intra, 2008)

In this report the focus is on three national commercial television channels, MTV3, Subtv and Nelonen, as this is the environment where the competition of commercial money is at the highest. Three largest television channels contact more people every day than any other newspaper or magazine, or any other media. (MTV Media Intra, 2008)

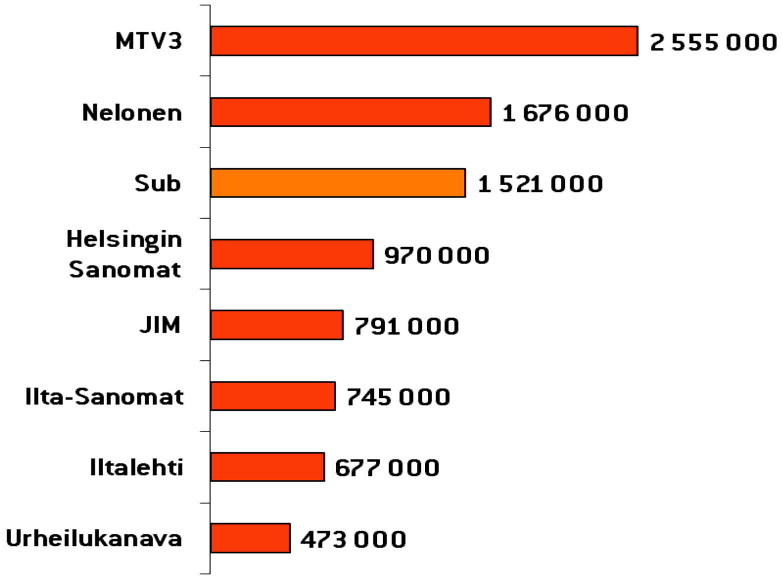

Figure12. Daily reach of Finnish Medias in February 2008, source Finnpanel TV meter research February 2008. (MTV Media intra 2008)

In the figure 12 the biggest Finnish media companies are presented according to their daily contacts. As seen all three highest companies are television channels. MTV3 is the largest of the TV channels and the gap between Nelonen and Subtv is also significant. (MTV Media Intra, 2008)

In the media industry campaigns are planned and created on a weekly basis and therefore weekly contacts are evaluated more precisely than daily contacts. As seen in the figure 13 above, three largest television channels all contact more than 70% of the Finnish population. Other channels have limited audiences and therefore MTV3, Subtv and Nelonen also are favoured by advertisers. Also, the largest newspaper is fourth in the list, Helsingin Sanomat. (MTV Media Intra, 2008)

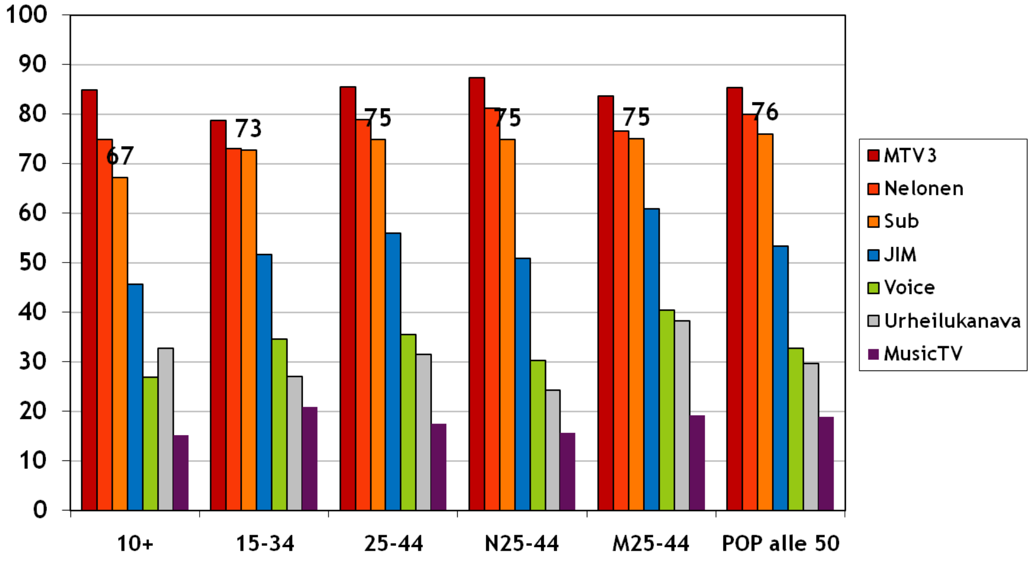

Figure 13. Weekly penetration of TV channels in February 2008. Source Finnpanel: TV meter research February 2008. (MTV Medias intranet)

6.2 Introduction of case company Subtv Oy

MTV OY was first established in 1957 as OY Mainos-TV-Reklam AB, and started operating on Finnish television as a first non-government owned channel. In 1982 the channel was renamed MTV3. Advertisements were the main source of incoming cash flow from the start. As the media environment was highly regulated in Finland, MTV was not allowed to show news or take role in Finnish government until 1981, when the first news was finally broadcasted. (MTV Media Intranet)

MTV3 became the largest channel in Finland and Alma Media bought the operations in 1998. In 2005 Alma Media sold shares to Nordic Broadcasting Company, which was equally owned by Swedish Bonnier&Bonnier AB and Proventus Industries AB. Nordic broadcasting is the sole owner of MTV Media. In March 2007 Proventus sold shares and Bonnier&Bonnier became the only owner of the company. The complicated organization is presented in the figure 14 below. (MTV Media Intranet)

As seen in the figure below, MTV Media has in portfolio two commercial TV stations in Finland (MTV3 and Subtv), a commercial Radio (Radio Nova) and a commercial Finnish web portal; mtv3.fi. In addition MTV Media has altogether seven pay-tv channels.

In August 2001 Alma Media established another television channel to compete in the rapidly growing Finnish television industry and it first named TVTV!. TVTV! had many challenges during first years, and the name was changed to Subtv in 2003. In 2008 Subtv was renamed Sub.

The growth has been rapid until 2007, when Finland's TV network was switched from analogue to digital. Since then every household with television has been able to watch Sub. Now Sub has become the third largest Finnish media, contacting maximum 1,8 million viewers every day and 3,1 million every week. The primary target group of Sub is 15-44 years-olds. 76% of primary target group watch Sub every week. (MTV Media intra, 2008)

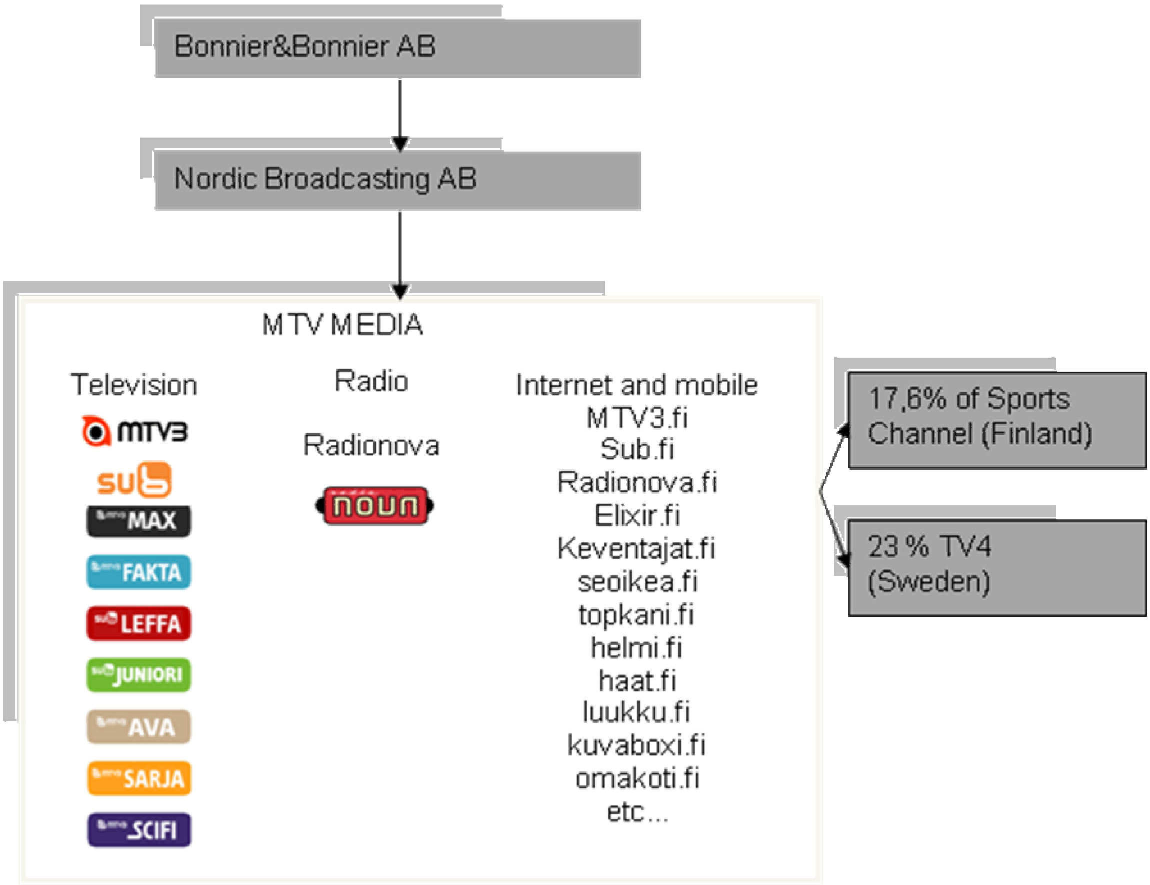
Bonnier&Bonnier AB
Nordic Broadcasting AB
MTV MEDIA
Television
MTV3
sub
MAX
FAKTA
LEFFA
JUNIORI
AVA
SARJA
SCIFI
Radio
Radionova
nova
Internet and mobile
MTV3.fi
Sub.fi
Radionova.fi
Elixir.fi
Keventajat.fi
seoikea.fi
topkani.fi
helmi.fi
haat.fi
luukku.fi
kuvaboxi.fi
omakoti.fi
etc...
17,6% of Sports Channel (Finland)
23 % TV4 (Sweden)

Figure 14. MTV Media (mtvmedia.fi)

Even though Sub is already larger than any other print media for example, it still identifies itself as challengers. Founded in August 2001, Sub is a new operator in the Finnish TV business. Sub wants to challenge traditional channels by doing things differently, by offering new alternatives both to viewers and to advertisers. Sub's programmes are entertainment only. The programme map consists of international daily drama series in the afternoon, quality drama series in the evenings and comedy series, reality shows and late night international talk shows. Even though most series are international, many shows are domestic production as well. Series that are regarded as too rebellious to be distributed on traditional channels are considered perfect for Sub, since the channel wants to be considered entertaining and wild. Sub defines itself as a "seriously taken entertainer". (MTV Media Intra, 2008)

6.2.1 Sales operations in Subtv

Business-to-business sales form the basis for the empirical discussion in this report. The sales organization, as will be discussed below, is practically responsible for managing customer relationships in Sub. Therefore the organization is discussed to provide the reader a clear structure of the operations of the team. Most of Subtv's and MTV3's operations are synergized, but channel management and sales operations are divided into their own divisions. As the objective of this research is to provide an insight to Subtv Oy's customer relationship management and analyze its effectiveness, the structures of the sales and marketing departments of Subtv Oy must be discussed.

The sales organization is relatively new, as it was established in 2006. Previously Sub did not have its own sales organization and all sales were conducted by MTV3's sales personnel. Sub's sales and marketing divisions were differed from MTV3's in 2006. In 2007 the sales organization has grown and it has been divided into two teams. The sales president is in charge of all sales operations. Sales group managers have their own teams, which they manage. In those teams are the sales managers who all manage their individual portfolio of customers. (Laakso, M. 2008)

The whole Subtv Oy's sales force consists of thirteen people. The group is rather small but as a small group, effective and flexible. Each sales manager has a portfolio of customers, and at the same time, a set of customer relationships to manage. Sales managers are responsible of contacting customers, and reporting them with changes of the market and also media products. Subtv Oy's sales organization is described in figure 15 below. (Laakso, M. 2008)

In addition to all this, Sub's sales personnel is supported by B2B marketing team, that works on providing sales managers material and arguments in changing environment. Product manager team constantly comes up with new and fresh commercial ideas. With this group of employees, Sub is able to find new customers, focus on certain segments and provide customers great value. (Laakso, M. 2008)

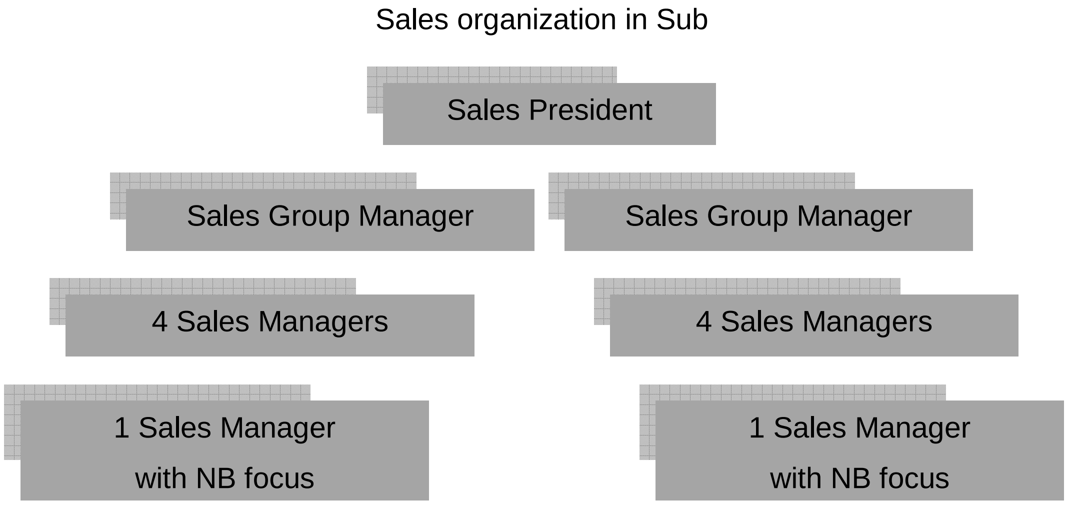

Figure 15. Sales organization in Subtv Oy (MTV Media Intra, 2008)

6.3 Case company's operating environment

In order to give the reader an inside view of Sub's operating environment it is important to discuss the operating environment.

Sub competes in media industry. It primarily competes with other commercial television channels to have a share of advertisers spending on marketing. Secondarily Sub competes with other media too. Advertisers of course consider all possibilities when starting their campaigns, print, radio, internet and television are all possible media to be used. Sales managers as well as whole organization are honoured when customer selects Subtv Oy as their media. (Laakso, M. 2008)

In commercial television business, Subtv Oy's main competitor is Nelonen. Those two channels are competing equally and customers often choose only one of the two. Sales personnel must be active and aggressive to provide customers with ideas and solutions. Subtv Oy is making buying easy for customers and that way trying to get market shares. (Laakso, M. 2008)

6.4 Sub's Customers

Sub's customers are now discussed. Customers are companies that either are advertisers or have or had potential to be or become an advertiser. Sub's customers mainly consist of large and medium-sized companies that use much resources and money for advertising and are very familiar with television advertising. Most customers make their campaigning through media agencies, and that makes media agencies important customers for Sub as well. Media agencies optimize advertisers' media efforts, and make sure customers receive maximum visibility in different media with marketing budget. Media agencies can choose which media to use, and therefore it is very important that sales organization contacts them continuously. (Laakso, M. 2008)

The customer of Subtv Oy can be any company or organization that needs visibility for products, a brand or services. The sales managers of Sub are responsible to make continuous prospecting to find new potential advertisers. Once the customer relationship is established, even though transactions would not be done instantly, sales managers determine whether to enhance the relationship or to terminate it. Reason for termination of a relationship could be legal (advertising is not allowed like gambling companies), economical (advertisers bankruptcy or paying problems), or that both parties agree that benefit from the relationship cannot be found. In most cases relationship is enhanced until the potential customer becomes an actual active customer. (Laakso, M. 2008)

Most typical customers are mobile operators, grocery-shops and brands, home-entertainment retailers, medical companies and travel agencies. Customer base is segmented regularly and certain industries are selected as focus industries. Customers are analysed and market maps are drawn. Focus industries are selected, and it is considered efficient. If a company selects to co-operate with Subtv Oy, other companies of the same industry most likely follow. When Subtv Oy wants for example insurance companies as their advertisers, it is considered valuable to allow better benefits to first company of the industry. Other insurance companies realize the potential after their competitor. Reference value is very important in that case. It is also cost efficient to create products and solutions to suit needs of certain industries and offer them to multiple customers. (Murole J, 2008)

Customers are divided according to value, and value is considered only on monetary basis. The more money customer spends, the more valuable customer is considered. Subtv Oy’s customer software gathers information on sales, but does not take other value indicators into account. As mentioned in the theory, also future business potential, learning value, reference value and strategic value should be gathered and easily accessed. These issues are very often taken into account when designing an offering or a solution to a customer. (Mäkinen T, 2008)

All interviewed persons agreed that sales organization was the only physical connection to the customers. Customers are also exposed to the channel through their television viewing, but in order to be kept informed of new products and other commercial issues, it can be stated that all actions towards customer ora conducted through the sales organization. Also management of customer relationships is completely sales team’s responsibility. As described below, sales managers manage their customer portfolios, and keep continuously establishing new relationships. (Wagello Y, 2008)

Single customer relationships profitability is also evaluated by the money spent by a customer versus discounts given. Challenging media must have lower prices and better discounts, and give customer a reason to remain as a customer. Price is not always a good enough reason for a customer to accept an offer; sometimes they must be proven that with Subtv Oy other benefits are received as well. Customers that have needed more time to become active might be more likely to be loyal customers as well. (Mäkinen T, 2008)

Sometimes measuring relationship value according to money used by a customer gives wrong kind of impression. For example a customer that spends much money to advertise on Sub might receive a discount of 30%. It can be assumed that two other customer that spend less, together spend same money as the bigger advertiser, receive discount of 15%. The same amount of money is received but with better monetary value. This assumption proves the theory that largest customers on monetary measure are most likely to become the most unprofitable ones. (Mäkinen T, 2008).

As suggested in theory, selling companies should remember a focus on new customers even when managing current customer relationships. Slight changes in the market and aggressive offers by competitors might be a reason for losing a customer. Subtv Oy is prepared to lose customers, and therefore primary task of two sales managers is to find and contact new potential customers. Objective of this activity is to have more active customers and that is considered a good way to grow. (Laakso M, 2008).

Sub does not have a separate key account system in use. Sales managers are aware who their key accounts are and often provide them with added value such as concerts and dinners. It is important for a customer-oriented company, that some sales managers are actively contacting customers and getting to know them. Only that way case company is able to adjust to customer needs. Customer must also experience that offering is made to suit customer’s individual specific needs. (Laakso M, 2008) Objective of activities with key accounts is to maintain top-of-mind role of Subtv Oy. (Mäkinen T, 2008)

Subtv Oy can be considered as customer oriented. Even though two kinds of customers must be served, viewers and advertisers, the offering for viewers is often designed to also please advertisers. Sometimes it is very challenging, and risks must be taken, but success is found when balancing in the middle. (Laakso M, 2008)

6.5 Customer relationships in Sub

Customer relationships in the case company can be described as in figure 16 below.

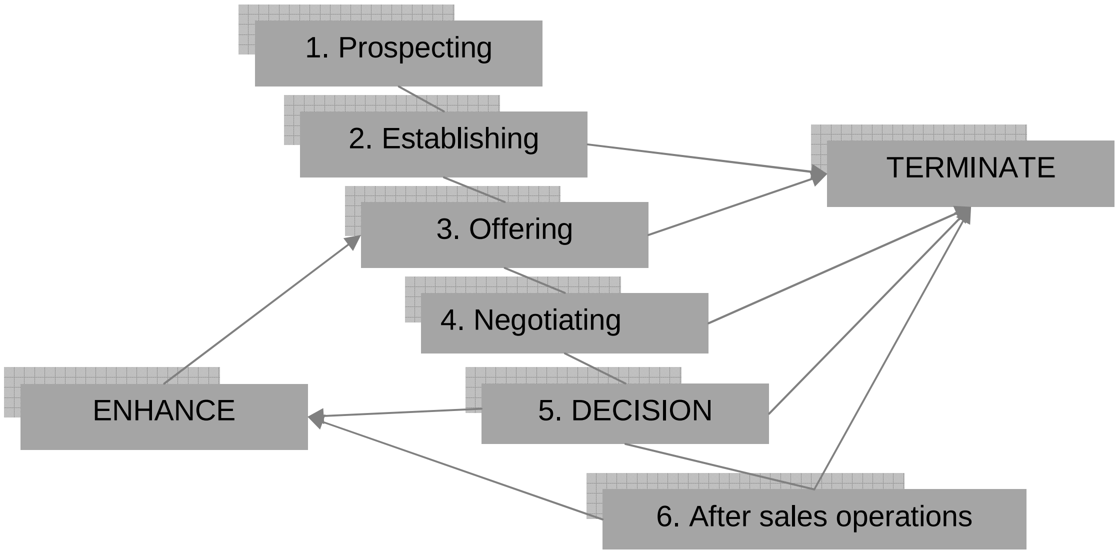

Figure 16. Customer relationship process (Mäkinen T, 2008)

Customer relationship usually starts with prospecting stage. Sales managers constantly search for new customers and contact them. Sometimes a customer contacts a sales manager in order to establish a relationship. This is rather rare though, on average only 5% of new customers relationships start after customer’s contact. Sales managers must therefore be constantly active and contact new potential customers. Once a relationship is established, the sales manager and a customer determine what each other has to offer, and the sales manager tries to find a solution for the customer. If the customer finds the offer interesting, negotiations begin. If negotiations are successful the contract is closed. The process does not end when decision is made. Sub often participates in planning and producing the campaign in question. As described in figure 16 above, the process can be terminated in any stage of the process. In most processes customer relationship is enhanced until the contract is closed. Most of the sales manager's work consists of offering, negotiating and enhancing. Active advertisers are continuously contacted and offered new ideas and products. (Mäkinen T, 2008)

The fifth stage in the figure 16 above, the decision can also be negative. That does not prevent sales managers from enhancing the relationship. If for example both customer and sales manager agree that this time transaction is not ideal for the customer, that might instantly increase the value of the relationship in the long-term and strengthen the trust between the two. (Laakso M, 2008)

6.6 Managing customer relationship in Sub

In this section of the thesis the customer relationship management in the case company is discussed. Theory has set guidelines for this section of thesis, and based on observations in this particular section, final conclusions are made.

This section discusses the basics of the customer relationship management in the case company, Subtv Oy. Also several topics that were headlined already in the theory will be discussed. Such topics are customer satisfaction, customer loyalty and retention, relationship types and valuation of relationships, and relationship strategies.

6.6.1 Basics of customer relationship management in Subtv Oy

To a question whether customers are seen as relationships or transactions, all persons who were interviewed agreed that it depends on the characteristics of the customer. If the customer is a convenience shop chain, it is definitely considered a relationship, but if it is for example an organization established for a single event, then it is considered a transaction. Principally customers are more likely considered relationships than transactions. This appears for example; when the customer's annual contracts are negotiated. Sales managers must often evaluate the status of the relationship, future potential, reference value and economic value of the relationships when offering the customer a solution. Annual contracts are negotiated with each customer according to customer's annual investment. That way customers are given the discounts as well as other benefits as agreed in annual contracts.

6.6.2 Relationships data collection

Customer relationships are formally and systematically followed, but data collected is mostly quantitative in Subtv Oy. Therefore it cannot be said that evaluation of customer relationships is on an optimal level. Customer relationships are evaluated, but the data is not formally gathered. Sales managers collect numerical data as sales volumes and intervals of activities to report but the phase or depth of relationship cannot fully be concluded according to the gathered information. Data remains in sales managers' heads and it cannot be used for organizational benefit. (Laakso M, 2008)

When analyzing a single customer relationship, the collected data in the case company shows the amount of money spent by the customer, the annual contract each year, and the benefits agreed in the contracts.

It does not, however, provide answers to questions why or how. Reasons why higher discounts are given, reasons for additional benefits, directions to manage the relationship in the future or the current state of the relationship cannot be solved according to the available numeric data. Whether or not this is relevant is the decision of management, but when discussing the company from a customer relationship point-of-view, this is one relevant aspect, and it is not implemented to the fullest in Subtv Oy. This lack is something that organization should start working on. Resources for analyzing are not available yet. (Laakso M, 2008)

When new customers are prospected, these customers are added to customer relationship management software used in the sales organization. The software allows everybody to see who has met whom from the customer organization, when the meeting has taken place and what was discussed. Depending on the relationship, sales managers must attempt to meet their customers as often as new important matters arise. Sales managers are evaluated and awarded according to activity. The software does not analyze anything. It clearly shows the state of the relationship, but does not analyze how it has evolved or suggest how to proceed in the future.

The future analysis would be most beneficial although very challenging to implement. Some of the latest software is able to analyze the future with various measures and such system should also be considered for MTV Media. Also since both MTV3 and Sub have separate sales organizations, the data should be gathered to suit needs of both companies. Now data can be available, but cannot be used. (Laakso M, 2008)

6.6.3 Customer loyalty and losing customers

As discussed in the theory section of this thesis, customer loyalty is very important to any company. Even though customer relationship in business-to-business environment would be beneficial, and the customer agrees to be loyal, there are no guarantees for continuity of the relationship. As stated before, there is a remarkable difference between customer loyalty and customer satisfaction. Customer must be satisfied in order to become loyal and only customers that are offered added value besides satisfaction can become loyal.

As discussed in the theory section, there are three approaches to measure relationship loyalty; behavioral, attitudinal and composite measurements. The easiest of these to collect is the behavioral data, in other words the customer’s purchasing data. Attitudinal measurement is collected through customer satisfaction surveys, which are conducted once a year. To identify buying customers’ attitudes, it is easy to segment the data collection by conducting it separately to active and inactive customers. That way it can be noticed whether attitudes are different and the focus of future work can be adjusted according to that. (Laakso M, 2008)

Even though the customer would seem loyal, the customer can suddenly change buying habits and start buying from competitors. In the business-to-business environment price is such an important factor that if the same contacts can be bought more profitably from competitor, customer easily starts new relationship. Lately as the environment and competition has become more demanding customer loyalty does not seem to matter so much anymore, it is an objective of Subtv Oy, but it has no guarantee. (Laakso M, 2008)

Sub has been growing for last couple of years rapidly, both in turnover and number of active customers. Also number of losed customer's has been minimal. To be able to prevent losing customers sales managers keep actively in contact with their current customers, and try to provide them added value. Another way to avoid losing customers from affecting turnover is to constantly focus on prospecting new customers. For this assignment, two sales managers focus only on new business, in other words, prospecting new active customers. (Wagello Y, 2008)

6.6.4 Types of relationships

Obviously the case company must be able to manage a wide diversity of relationships. To give reader an impression of the variation of relationships, in money they vary from a few thousand Euros to a million Euros. Even though some customers are more valuable than others when measured in money it is important to maintain relationships valuable customers. Finland is a small market, and people talk a lot with each other. A small company might be a large one in the future, or the decision maker might work for a larger company. (Laakso M, 2008)

Types of relationships can be identified based on money, but in that case only one segment of customers would be discussed. Media such as Subtv Oy, the advertiser, the media agency and the advertising agency form a group of peers, and this whole is the relationship that often must be managed. This is pictured below in figure 17.

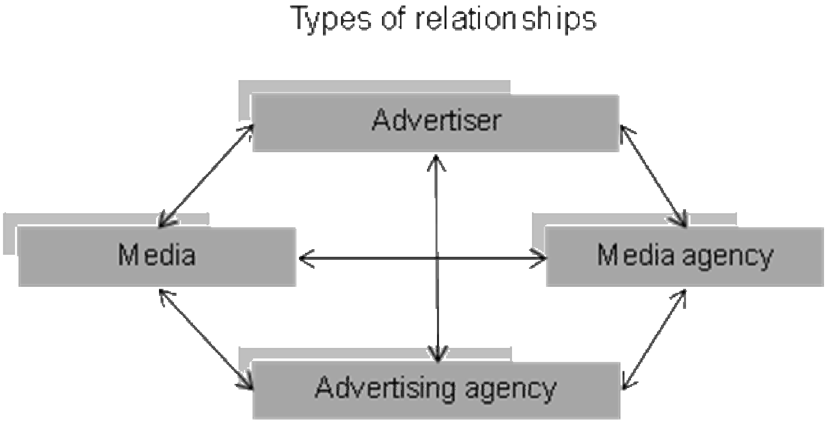

Figure 17. Types of relationships in the case company (Murole , 2008)

Some advertisers operate without media agency to decide which media to use, and even make their material domestically. Such companies are easiest to manage; the sales manager must only take care of the decision-making unit in the advertiser company and make sure there is an offering.

Some advertisers have outsourced their media buying to media agencies. This type of relationship is most often with international advertisers. In this case the media must take care of the media agency's contact persons to continuously be able to provide new solutions. Some advertisers let their advertising agency decide which media to use, and in that case they are important to be taken care of. Hardest and most complex relationships are the ones where advertiser makes decisions in collaboration with advertising agency and media agency. This is also the most common relationship, and also the one that requires most work every day. (Mäkinen T, 2008)

Each relationship is also individually established and the means to manage relationships vary. Basically, relationships are considered different to each other, and the sales manager responsible for the relationship must determine how to manage the relationship. Some relationships need and deserve more care than others. Customers should feel they are all served with equal respect. Small customers should feel that they are regarded as important as big ones. (Laakso M, 2008)

Media agencies are very important to MTV Media. As explained before, media agencies have a big role in media buying. Most advertisers decide only the budget they are willing to use for television and let their media agency decide which of channels to use. Strategically, buying is made a little easier for media agencies. Most customer relationships can be described with a clasp strategy, but media agencies and MTV media have a zipper relationship. MTV Media has created software together with media agencies that allows media agencies to book campaigns directly. Resources are saved and customers are flexibly served. Sales managers monitor and must continually be aware of their customer's actions. (MTV Media Intra, 2008)

Customer satisfaction is also measured continuously to identify whether customer needs have been fulfilled or not. Customer satisfaction surveys are conducted among customers, media agencies and advertising agencies. The feedback is then analyzed and processes enhanced to improve performance.

Customer relationships are divided only in active customers and inactive customers. The main task of two sales managers is to contact inactive potential customers, and try to enhance the relationship to an active relationship. These new-business sales managers then manage these new relationships towards future and hopefully change them into active customers. Otherwise customers and resources are not divided systematically. (Laakso M, 2008)

Each sales manager has a portfolio of customers. Customers are not divided according to branch, size, location or potential. The customers are divided to portfolios to make each portfolio more or less equivalent to others. As a result the sales managers remain motivated and equal. New-business sales managers are an exception to this. Relationship profit or potential growth is not principally taken into consideration when customer account managers are named. When sales managers have similar customers, they are able to help each other and provide each other solutions if problems occur. Sales managers themselves are encouraged to work with each other, since often ideas evolve when they are talked aloud. (Murole J, 2008)

The key account management system is not in use in Subtv Oy. This approach was tried few years ago, but it was not a success. Most customers are served like key accounts, even though it requires a lot of resources, but in practice that is the way to keep customers satisfied and loyal. This way customer recommends Sub and finds the relationship valuable. Subtv Oy does not have a need to develop relationships or adjust processes with customers. The model in use is functioning and does not require change.

6.6.5 Valuation of relationships

As mentioned in the theory section of this study, customer relationships can be valued according to several measures. Economic value is one of the measures; others are reference value, future potential, strategic value of the relationship and learning value. In Subtv Oy, the value of the customer relationship is measured mostly in money. The more money the customer spends annually, the better the sales conditions are. As explained earlier, sales conditions vary according to other values too, but the actual value of the customer is measured clearly in money spent (Murole J, 2008)

Economic, strategic and reference value are taken into account when establishing customer relationship, and when determining whether to enhance relationship or terminate it. For example a customer relationship that does not necessarily provide great economic return might be strategically worth enhancing, if the relationship can be seen as a good way to learn how certain branches operate. Learning value in terms of learning customer’s processes or developing own processes to match customers does not exist.

Larger value is often the reference value. In branches that don’t usually advertise on TV, or would not primarily have Sub as their marketing media, is beneficial to make a reference of one player of the market, and use that relationship to lure new customers from same branch. A new advertiser, coming from specialized field, might receive special sales conditions. As advertisers make good results with campaigning, they are willing to continue with a bit worse conditions in the future, and they also tempt their competitors to use Sub as their Media with worse conditions and better revenue. Valuating customers is based only on revenue. (Murole J, 2008)

6.6.6 Relationship strategies

As explained in the theory section of this report, relationship can be managed with different strategies. Three different types explained previously were clasp, zipper and velcro strategies. As discussed earlier, a clasp strategy is optimal for non-personal transaction. In velcro strategy seller adjusts according to customer needs, and in zipper strategy both parties adjust their processes.

In Subtv Oy, there are mainly two kinds of strategies in use. With media agencies the zipper strategy is implemented. Both companies have their own operational personnel and hardware, but software is adjusted to enhance the relationship. In other words, media agencies use software to book campaigns and they are given access to the intranet to find out the latest of the channel, pricing and shows. Other customer relationships are considered a mix of zipper and clasp. Even though the relationship does not require adjusting of processes, the relationship is interactive. Sales managers are active towards customers and constantly provide them new solutions to suit their needs. (Laakso M, 2008)

6.7 Conclusions

This report was designed to describe the current status of customer relationship management in the case company and what solutions and actions should be considered when enhancing customer relationship management.

Subtv Oy can be seen as a customer-oriented company. Customer relationships are identified and the processes to enhance relationships are available. Customers are considered when making strategic decisions.

Research revealed that all interviewed persons agreed that customers are seen as relationships rather than transactions. That is one of primary themes of customer relationship management. Later the study revealed that data collection is focusing on money and especially customer values are not systematically available. Other means to measure customer value such as reference value, learning value or strategic value are not systematically available.

Sales managers are encouraged to enhance relationships and to satisfy customers. Also customer loyalty is measured with continuous customer satisfaction surveys, and changes are made according to the findings.

Losing customers is taken into account, as current relationships are focused. Some sales managers focus on finding new customers and try to change these customers to active advertisers. It is a good way to prepare for retention and if retention does not happen, it helps as a great bumper for future.

Relationships are not divided according to their value or profit in practice and a system like key account managements is not available. Processes are also not much adjusted to suit customer needs. Clasp strategy in customer relationship management makes it easy for customers to bond a relationship. This can be seen as a moderate strength of a challenging company. On the contrary clasp strategy does not commit customers to maintain a long-term relationship either.

All together, Subtv Oy's customer relationship management is operating satisfactory. Management realizes the worth of relationships and relationship management is given the resources it requires. The case company takes care of their customer relationships and sees the meaning behind them. Since Subtv Oy clearly makes large strategic decisions according to customer needs and that certifies that company is customer oriented. As a suggestion, Subtv Oy should start systematically collecting customer data more accurately.

Much knowledge remains in sales managers’ heads. Sometimes it is challenging to state the value of a single relationship. Other customer value measures than money should be collected. If data was more complexly collected, it would be more effectively analyzed. The quantitative data that is currently collected in case company does tell what has happened and to some extent forecasts what will happen but cannot provide reasons. The current situation does not weaken the operations of the company but with this minor change Subtv Oy could enhance inner processes and provide useful information. Above described minor change would help in forecasting. Threats that limit future growth of Subtv Oy were not found as long as processes are implemented as they are now or even enhanced.

6.8 Suggestions for further studies

This report was a first study that discussed the customer relationship management in Subtv Oy. In order to find out if processes are enhanced, a new study could be conducted after some time to be able to evaluate the development. As growth has been phenomenal during last three years, it is important to keep proceeding the same way in the future.

In addition to this study, it would be beneficial to conduct a study where customers are asked what they want and how they consider Subtv Oy's customer relationship management currently. This study could be conducted in addition to customer satisfaction surveys.

List of references

Books

Arantola, H. 2003 Uskollinen asiakas, Kuluttaja-asiakkuuksien johtaminen. Finland: WS Bookwell Porvoo

Blomqvist, R, Dahl, J, & Haeger, T. 1993. Suhdemarkkinointi, Asiakassuhteet strategisena kilpailukeinona. Finland: Gummerus Jyväskylä.

Bowen J T & Chen S-L. 2001, The relationship between customer loyalty and customer satisfaction. International journal of contemporary hospitality management. USA: MCB University Press Limited

Brown, S A. 2000, Customer relationship management – a strategic imperative in the world of e-business. Canada: John Wiley & Sons Ltd.

Brown, S A, Moosha G. 2002. Performance Driven CRM

Crosby, L A. 2002, Exploding some myths about customer relationship management. Managing service quality volume 12 number 5. USA: MCB University Press Limited.

Curry, J & Curry, A. 2000, Customer Marketing Method, How to Implement and Profit from Customer Relationship Management. USA: Free press

Grönroos, C & Tillman M. 1993, Nyt Kilpaillaan Palveluilla. Finland: Weilin+Göös

Grönroos, C. 2000, Service management and marketing, a customer relationship management approach. England: John Wiley & Sons

Gupta, S & Lehmann D R. 2005, Managing customers as investments, the strategic value of customers in the long run. USA: Pearson Education Inc

Kotler P & Armstrong G. 2004, Principles of marketing, 10th ed. USA: New Jersey, Pearson Education.

Kotler P. 2003, Marketing insights from A to Z, 80 concepts every manager needs to know. USA: John Wiley & Sons, Inc, Hoboken, New Jersey

Kotler P. 1999. Kotler on marketing, how to create win and dominate markets. England: Butler & Tanner Ltd, London

Lahtinen, J & Isoviita, A. 2001, Asiakaspalvelun ja markkinoinnin perusteet. Finland: Jyväskylä, Gummerus OY

Lindberg, J. 2000. Menestyksen avain ovat kokonaisvaltaiset asiakassuhteet. DB News No 1, 4-5.

Malhotra, N K. 1999, Marketing Research, An applied orientation. USA: Pearson Education Limited

McDonald M & Rogers B. 1998, Key account management: learning from supplier and customer perspectives. USA: Butterworth-Heinemann

McDonald, M & Leppard J. 1993, the marketing audit, translating marketing theory into practice

Nykamp, M. 2001, Customer Differential, the complete guide to implementing customer relationship management. USA: Amacom.

Oliver, O L. 1997, Satisfaction, a Behavioural Perspective on the Consumer. USA: McGraw-Hill

Payne, A. 1997, Advances in relationship marketing. England: Kogan Page Limited

Payne, A. 1995, Advances in relationship marketing. England: Kogan Page Limited

Storbacka, K & Lehtinen, J R. 1998. Asiakkuuden ehdoilla vai asiakkuuden armoilla – Third edition. Finland: WSOY.

Storbacka, K Lehtinen J R. 2001, Customer Relationship Management. Singapore: McGraw-Hill Book Co.

Storbacka, K & Sivula, P & Kaario K. 1999, Create value with strategic accounts. Finland: Kauppakaari Oyj

Siukosaari, A. 1997, Markkinointiviestinnänän johtaminen. Porvoo, Finland: WSOY

Vitale, R P & Giglierano J J. 2002, Business to business marketing: analysis and practise in a dynamic environment. USA: South-Western

Woodruff, R B. 1997, Customer Value: The Next Source for Competitive Advantage. Journal of the Academy of Marketing Science. VOL 25. No 2.

Xu, Y & Yen, D C & Binshan, L & Chou, D C. 2002, Adopting customer relationship management technology. Industrial management & data systems. USA: MCB University Press Limited

Internet

Information of Subtv Oy. 2008. Subtv Oy. Printed in March 2008. http://www.sub.fi/info

History and information of MTV Media. 2008. MTV Media Oy. Printed in M*arch 2008. http://www.mtvmedia.fi

Information of case Subtv Oy and its customers. 2008. Subtv Oy. http://www.spotti.subtv.fi

MTV Medias Intranet, 2008. MTV Media Oy.

Interview Sources

Laakso, M. 2008. Interview of sales president March 2008. Subtv Oy. Helsinki

Murole, J. 2008. Interview of sales group manager March 2008. Subtv Oy. Helsinki

Mäkinen, S. 2008. Interview of sales group manager, Subtv Oy. Helsinki

Tukiainen M. 2008. Interview of director of programming. Subtv Oy. Helsinki

Wagello, Y. 2008. Interview of business-to-business marketing manager. Subtv Oy. Helsinki

Appendix 1

Research questionnaire for personnel in case company

February 2008
Interviewee’s:

Mikko Laakso, Subtv Oy’s sales president
Jaana Murole, Subtv Oy’s group manager
Timo Mäkinen, Subtv Oy’s sales group manager
Maaretta Tukiainen, Subtv Oy’s director of programming
Yvonne Wagello, Subtv Oy’s B2B marketing manager in

Following questions were asked from interviewee':
How would you describe media environment in Finland?
How do you see business to business relationship?
How are business-to-relationships managed in case company?
What kind of companies are customers of Subtv Oy?
How is the customer relationship formed?
What is a customer relationship life-cycle like?
How are customer relationship managed in Subtv Oy?
What kind of data is collected from customer relationships and how is it analyzed?