Key Account Management in an International Context

-KAM as a tool for improving and sustaining competitive position – the case of Volvo CE -

Dragan Krznaric & Goran Popovski
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Dragan Krznaric
dragankrznaric@hotmail.com

Goran Popovski
gpopovski@hotmail.com
Abstract

Globalization of the world economy has caused new forms of competition. Companies are faced with a new and fast-changing environment, so that international companies need to find new ways for succeeding in the battle for customers. Like suppliers, customers are also affected by sharper competition. They are forced to introduce new products and services, acquire latest technological developments and at the same time cut costs. One of the trends noticed amongst large international customers has been the narrowing of the supplier base, and search for the development of new types of relationships with the selected ones.

As a result of these trends, suppliers are under additional pressures, operating under squeezed profit margins and higher customer demands. Traditional industrial products due to the technological development are becoming increasingly commoditized, and a shift in the measurement of value has occurred. Standardized features like quality, design, durability and ability to deliver all this at a reasonable price, while still being regarded as important, have remained only as the base for the creation and delivery of total service solutions, the so called “total package”.

This marks a significant move towards the so called “soft” part of the offer, including services complementing the product offer in terms of creating and delivering “added value” to customers. Service, maintenance, renting and leasing of equipment, new sorts of financial solutions, information and consulting services are completely or partly being included in the offer.

The Key Account Management concept has become a mode and tool for serving large customers on a global basis aiming towards achievement of long-term business success, developing and sustaining suppliers competitive advantage. It is defined as an organizational form and process in multinational companies by which the worldwide activities for serving multinational customers are co-coordinated centrally by one person or team within the supplying company.
In the light of this, our case company, Volvo Construction Equipment has proposed a Master’s Thesis project with the purpose of identifying and accessing the key elements for development and implementation of the KAM concept as a tool for the creation and increase of sustainable competitive advantage.

This research has been conducted from several different perspectives: academics, consultants and the case company. Theories upon which the thesis is based are: network strategy as a part of interaction approach to industrial marketing, relationship marketing and organizational buying behavior theory. The empirical part of the thesis, and conclusions drawn from its analysis, are based on numerous interviews, seventeen in all, with both high-level and operational managers in selling and purchasing organizations.

The empirical results, and the conclusions based on their analysis, have two dimensions. One is concerned with the general findings about the KAM development and implementation based on the information obtained through many interviews with the case and other companies. Analysis of the customers’ purchasing processes and their views on KAM are also included and presented in this part. The second dimension presents the specific findings connected with Volvo CE but in a manner that can be of use to a broad array of business entities interested in developing KAM. It is divided in two large areas: the stepwise approach to the development and implementation of KAM practices and the necessary organizational structures and processes.

Finally, we present the theoretical implications as well as a few ideas about further studies in this area.

Key words: key account management, key accounts, purchasing organization, supplier-buyer relationships, Volvo CE.
About the authors

**Dragan Krznaric** was born in September 1974 in Sombor, Federal Republic of Yugoslavia. He grew up in Novi Sad, Vojvodina Province in the northern part of FR Yugoslavia. He graduated from the University of Novi Sad in June 1999 with a Bachelor of Science in Economics (Major – Marketing). During his studies he attended various complementary educational institutions and events, such as the Belgrade Open School, 1998-99.

This thesis concludes his studies for a Master of Science in International Business within the Graduate Business School at the School of Economics and Commercial Law, Göteborg University in Gothenburg, Sweden.

**Goran Popovski** was born in February 1974 and grew up in Bitola, Republic of Macedonia. In April 1998, he graduated with a Bachelor of Business (Majors - International business and marketing) degree from St. Cyril and Methodius University in Skopje, Macedonia. While doing his Bachelor degree he was active in many student organizations and associations, so he participated on many business seminars and conferences in: USA, Russia, Hungary, Macedonia, Greece, Yugoslavia, Bulgaria, Romania, Croatia, Slovakia and others. After graduation, in order to gain some more international practical experience, he spent one year and a half in Sydney, Australia working at the University of Technology in Sydney.

This thesis concludes his studies for a Master of Science in International Business within the Graduate Business School at the School of Economics and Commercial Law, Göteborg University in Gothenburg, Sweden.
# Table of contents

## CHAPTER 1. INTRODUCTION

1.1 **Background** ................................................................. 1
1.2 **Research Problem** .......................................................... 3  
  1.2.1 **Problem Definition** .................................................. 3
1.3 **Purpose** ............................................................................ 4
1.4 **Delimitations** ............................................................... 5
1.5 **The Case Company** .......................................................... 6  
  1.5.1 **Volvo CE strategies** ................................................... 6
  1.5.2 **Volvo Construction Equipment International AB** .............. 7
1.6 **Analysis of the Construction Equipment Industry** ..................... 8  
  1.6.1 **Introduction** .............................................................. 8
  1.6.2 **Main industry players** ................................................ 9
  1.6.3 **M&As in the industry** ................................................... 9
  1.6.4 **Substitutes** ............................................................... 10
  1.6.5 **Suppliers** ................................................................. 10
  1.6.6 **Price** ........................................................................ 11
  1.6.7 **Spare parts availability** ............................................... 11
  1.6.8 **Compact equipment** .................................................. 11
  1.6.9 **Buyers** ..................................................................... 12
  1.6.10 **Trends** .................................................................... 12
1.7 **Outline of the Thesis** ...................................................... 14

## CHAPTER 2. METHODOLOGY

2.1 **Research Strategy** ............................................................ 15
2.2 **The Research Design** ....................................................... 16
2.3 **Case Study Design** ........................................................ 17
2.4 **Scientific Approach** ......................................................... 18
2.5 **Data Collection** ............................................................. 20  
  2.5.1 **Primary data** ............................................................ 20
  2.5.2 **Secondary data** .......................................................... 21
2.6 **Data Analysis** ............................................................... 21
2.7 **Quality of the Research** .................................................. 22  
  2.7.1 **Validity** .................................................................... 22
2.7.2 Reliability .................................................................23
2.7.3 Sources of error ..........................................................24
2.8. ETHICS IN RESEARCH .................................................25

CHAPTER 3. THEORETICAL FRAMEWORK .........................27

3.1 INDUSTRIAL MARKETING .............................................27
  3.1.1 The Inter-organizational approach ..............................27
  3.1.2 The Interaction model .................................................28
  3.1.3 Network strategies in product/service markets ..........30
  3.1.4 Network capability profiles ........................................31
  3.1.5 Development of supplier-customer relationships ........33
3.2 ORGANIZATIONAL BUYING BEHAVIOR ......................33
  3.2.1 Business buying process ..........................................38
3.3 RELATIONSHIP MARKETING .........................................39
  3.3.1 Focus on customer .....................................................41
3.4 KEY ACCOUNT MANAGEMENT .......................................42
  3.4.1 Relationship development model ...............................44
  3.4.2 KAM planning as a part of strategic marketing planning 47
  3.4.3 Identification and selection of KAs .............................48
  3.4.4 Organizational issues ................................................53
  3.4.5 Organizational positioning of KAM ............................56
  3.4.6 Global/local issues ....................................................59
3.2.7 Research model .........................................................63

CHAPTER 4. EMPIRICAL STUDY .........................................65

4.1 INTRODUCTION ...........................................................65
4.2 IDENTIFICATION AND SELECTION OF THE KAS ........66
  4.2.1 Importance of the customer’s strategy .........................66
  4.2.2 The nature of buyer’s decision-making process ..........66
  4.2.3 Benefits and importance of the deepened buyer-seller relationship 67
  4.2.4 Range of products and services offered to the buyers ....69
  4.2.5 KA selection strategy .................................................70
4.3 KA TEAMS .................................................................71
  4.3.1 Selection and appointment of KA managers, team members and extended KA teams 71
  4.3.2 Managing (coordinating/delegating) the activities ........72
### Table of contents

4.3.3 Position of the KAM activities within the organization ................. 73

4.4. ACCOUNT SITUATION ANALYSIS ................................................................. 73

  4.4.1 Account intelligence ........................................................................... 74

  4.4.2 Goals and objectives for each KA ...................................................... 74

  4.4.3. Growth strategy for each account .................................................... 75

  4.4.4 Service delivery strategy development ............................................. 76

  4.4.5 Synergy effects .................................................................................. 77

### CHAPTER 5. ANALYSIS OF THE EMPIRICAL RESULTS ............... 79

  5.1 Analysis: KAM from the network perspective ....................................... 79

    5.1.1 Web strategy .................................................................................... 79

    5.1.2 Competitive strategy ....................................................................... 80

    5.1.3 Linkage strategy ............................................................................. 81

  5.2 Analysis: Identification and selection of the KAs .................................. 83

    5.2.1 Importance of the customer’s strategy for the supplier ..................... 83

    5.2.2 The nature of buyer’s decision-making process ............................... 85

    5.2.3 Benefits and importance of deepened supplier-buyer relationships . 87

    5.2.4 Range of products and services of interest for the buyer .................. 90

    5.2.5 KA selection strategy ....................................................................... 94

  5.3 Analysis: KA Teams ............................................................................... 97

    5.3.1 Selection and appointment of KA managers, team members and
         extended KA teams ............................................................................... 97

    5.3.2 Managing (coordinating/delegating) the activities .......................... 101

    5.3.3 Positioning of KAM activities within the organization .................... 104

  5.3. Analysis: Account Situation Analysis .................................................... 105

    5.3.1 Account intelligence ....................................................................... 105

    5.3.2 Goals and objectives for each KA .................................................... 107

    5.3.3 Growth strategy for each KA ........................................................... 108

    5.3.4 Service delivery strategy development ............................................ 109

    5.3.5 Synergy effects ............................................................................... 110

### CHAPTER 6. CONCLUSIONS ................................................................. 113

  6.1 General conclusions ............................................................................. 113

  6.2 Company-specific conclusions .............................................................. 116

    6.2.1 KAM development and implementation in Volvo CE .................... 116

    6.2.2 KAM organization and positioning in Volvo CE ............................ 117
# Table of contents

**CHAPTER 7. IMPLICATIONS** ...............................................................119

7.1 **MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS** ..........119

7.1.1. **KAM development and implementation** ..............................119

7.1.2 **KAM organization and positioning** .....................................123

7.2 **THEORETICAL CONCLUSIONS AND CONTRIBUTIONS** ..............128

**CHAPTER 8. SUGGESTIONS FOR FUTURE STUDIES** ....................133

**REFERENCE LIST:** ...........................................................................135

1. **ARTICLES:** ......................................................................................135
2. **BOOKS:** ..........................................................................................136
3. **COURSE MATERIAL** .................................................................138
4. **COMPANY MATERIAL** .................................................................138
5. **INTERNET SOURCES:** .................................................................138
6. **INTERVIEWS:** ................................................................................139
7. **OTHER DOCUMENTS:** .................................................................140

**APPENDIX** ......................................................................................141

**APPENDIX 1: TABLES** ...................................................................141
**APPENDIX 2: FIGURES** ..................................................................144
**APPENDIX 3: GUIDELINES FOR INTERVIEWS** ..............................148

1. **Guidelines for interviews with suppliers** ...................................148
2 **Guidelines for interviews with buyers** .......................................150
# Table of figures

**FIGURE 2.1:** CASE STUDY DESIGN .................................................................................................17
**FIGURE 3.1:** RELATIONSHIPS AND INTERACTIONS IN INDUSTRIAL MARKETS ...........................28
**FIGURE 3.2:** THE NETWORK STRATEGY MODEL .............................................................................30
**FIGURE 3.3:** NETWORK CAPABILITY PROFILES .............................................................................32
**FIGURE 3.4:** MAJOR INFLUENCES ON BUSINESS BUYING BEHAVIOR ............................................36
**FIGURE 3.5:** ORGANIZATIONAL BUYING PHASES ..........................................................................38
**FIGURE 3.6:** PARADIGM SHIFT IN MARKETING ORIENTATION .....................................................40
**FIGURE 3.7:** TRANSACTION ORIENTATION VS. RELATIONSHIP ORIENTATION ..........................40
**FIGURE 3.8:** CUSTOMER SEGMENTATION PORTFOLIO .................................................................42
**FIGURE 3.9:** RELATIONAL DEVELOPMENT MODEL .........................................................................44
**FIGURE 3.10:** THE KAM PYRAMID .................................................................................................46
**FIGURE 3.11:** THE PLANNING HIERARCHY .....................................................................................47
**FIGURE 3.12:** STRATEGIC ACCOUNT MATRIX ...............................................................................51
**FIGURE 3.13:** IDENTIFYING WHICH CUSTOMER REQUIRE GLOBAL ACCOUNT MANAGEMENT ..........52
**FIGURE 3.14:** A TRADITIONAL REGIONAL HIERARCHY .................................................................57
**FIGURE 3.15:** FROM THEORY TO THE RESEARCH MODEL ...............................................................61
**FIGURE 4.1:** COORDINATION OF KAM ACTIVITIES IN VOLVO CE ..................................................73
**FIGURE 5.1:** INFLUENCING CENTRALIZED CUSTOMERS .................................................................98
**FIGURE 5.2:** INFLUENCING DECENTRALIZED CUSTOMERS ..............................................................98
**FIGURE 5.3:** KA TEAM STRUCTURE ...............................................................................................100
**FIGURE 7.1:** THE THREE PILLARS OF THE KAM .........................................................................129
**FIGURE 7.2:** STEP-BY-STEP MODEL ...............................................................................................130
**FIGURE 1:** THE PRE-KAM STAGE .................................................................................................144
**FIGURE 2:** THE EARLY-KAM STAGE ...............................................................................................144
**FIGURE 3:** MID – KAM STAGE .......................................................................................................144
**FIGURE 4:** PARTNERSHIP-KAM .....................................................................................................145
**FIGURE 5:** SYNERGISTIC-KAM ......................................................................................................145
**FIGURE 6:** GENERAL ELECTRIC’S STRATEGIC BUSINESS-PLANNING GRID ..............................145
**FIGURE 7:** TYPES OF THE MULTINATIONAL CORPORATIONS .........................................................146
**FIGURE 8:** INTERNATIONAL DIVISION .........................................................................................146
**FIGURE 9:** AREA DIVISION ..........................................................................................................146
**FIGURE 10:** GLOBAL PRODUCT DIVISION ....................................................................................147
**FIGURE 11:** GLOBAL MATRIX .....................................................................................................147
**FIGURE 12:** CUSTOMER SPECIALISTS AND PRODUCT SPECIALISTS .........................................147
List of abbreviations

CE – Construction Equipment

HQ – Head Quarters

GKA – Global Key Account Manager

IKA – International Key Account Manager

IS – Information System

KA – Key Account

KAM – Key Account Management

KA Manager - Key Account Manager

LKA – Local Key Account Manager

M&As – Mergers and Acquisitions

MNC- Multinational Corporation

SKA – Segment Key Account Manager

OEM – Original Equipment Manufacturer

RM - Relationship Marketing

R&D - Research and Development

Volvo CE – Volvo Construction Equipment
Chapter 1. Introduction

In this chapter we present the background of the thesis, and give an overview of the research problem and purpose of this thesis. After that we discuss the scope and limitations. We also give introduction to our case company followed by discussion of the main driving factors characterizing the construction equipment industry. Finally, an outline for the thesis is presented.

1.1 Background

In a world that is becoming smaller and smaller, due to the internationalization and globalization trends and forces connected to them, international companies compete at an increasingly competitive level. The changes in the business environment are happening at an extremely fast pace, so the multinational companies (MNCs) have to constantly upgrade their core competencies, resources and capabilities in order to develop and sustain their competitive advantage.

The main drivers behind the globalization process are the increased deregulation of world trade, rapid development of new technologies and large privatization processes worldwide. Consequently, this has boosted the rise of large international companies with global presence.

The globalization of the business environment has faced companies with several enormous challenges, the most important of which being internationalization, market maturity and increased customer power.

The internationalization of business drives the country economies and many of their industries into larger inter-dependence. It has also led to a greater need by international customers for suppliers that are capable of meeting their complex needs.

Markets in the developed world, which still represent the most important ones for most of the large MNCs, are becoming increasingly mature and saturated. More often, the markets are characterized by over capacity, low margins and

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1 Boyd, Walker, Larreche, 1998
lack of growth, as well as shorter product life cycles. This means that the competition is becoming more intense, and that suppliers can grow primarily at the expense of the competitors.

Finally, one of the most influential trends is the strengthened power of customers in exercising their choice. This is in itself a consequence of a mature market. Customers know that they can demand more from the suppliers, because suppliers know that they have to fight hard to retain customers, not only in order to maintain profitability, but also to stay in business. The considerable concentration in industry that took place over the last couple of decades, and more recently on a transnational scale, has led to big customers getting bigger and more powerful. This has posed both opportunity, but also a threat for the suppliers - those who cannot meet the demands for geographical scope and quality levels of the service provided are being completely abandoned. Customers want not only products, but the whole solutions that would help them to retain their profitability and competitive position.

For the international construction equipment industry, the factors mentioned above are also very present and important. Through time, the development of new marketing theories have shown that in order to preserve the competitive advantage, traditional marketing tools are not sufficient anymore. That is particularly the case in the industrial marketing field, where besides having a high-quality product, value-adding elements are increasingly becoming the differentiation factor between failure and success in business.

The customers are becoming more demanding, and more knowledgeable, thus posing higher expectations to the suppliers and exercising more sophisticated buyer behavior. These factors are driving the firms into developing new approaches to get closer to their customers, and create capabilities to manage the complexities of multiple market challenges. “On the buyers side, we see increasing professionalisation of the purchasing and decision-making units in buying companies looking at the long-term value being offered by the suppliers - product quality, process quality and people quality - rather than at a simple price deal” - Mc Donald and Rogers, 1998.

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2 Kotler & Armstrong, 1999
In order to meet these emerging requirements from their customers, the suppliers are developing new concepts that will enable the creation of new, sophisticated solutions to match the growing and more demanding needs of the customers. The Key Account Management (KAM) concept is about developing and building long-term relationships with each of their major customers, resulting in a win-win situation for both parties. The KAM is about helping the major customers to solve operational and strategic issues by providing total solutions package to them. As a part of a deal the major customer commits themself to loyalty, commitment and large volume purchases of products and services over a long period of time.

1.2 Research Problem

1.2.1 Problem Definition

In this section, we present how the main research problem and research sub-problems have been defined. Having in mind the previously mentioned, as well as considering the aim of this thesis, this is how we state the main research problem:

**Main research problem**

How can an MNC implement and develop KAM in order to improve and sustain its competitive position?

In order to provide answers and conclusions to the main research problem, we identify and investigate three main research areas:

**Research problem 1**

How to identify and select the Key Accounts in specified market segments?

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3 The CPA Journal, 1999
The first research problem considers issues regarding the methods the supplier uses for identification of the potential KAs out of the existing customer base. It also considers defining the criteria used for selecting the KAs out of the identified pool of the potential ones.

**Research problem 2**

How can an MNC assess the different demands of its Key Accounts?

The second research problem aims to define the means for assessing the demands of the selected KAs. Different KAs have different needs and customization of the offer is needed, when a long-term relationship between supplier and buyer is what the company aims to achieve.

**Research problem 3**

How could an MNC adjust its structure, resources and capabilities in order to successfully implement KAM?

The aim with the third research problem is to identify and analyze the ways in which the existing organizational structure and company practices should be changed in order to adjust the organization for successful implementation and development of KAM.

1.3 Purpose

The focus of this research is the development and implementation of the KAM concept.

The purposes of the thesis is to examine the current KAM practices in Volvo CE, compare them with KAM practices in other Swedish-based MNCs, and based on that, to identify the problem areas and the ways in which they could be improved.
We also aim to develop a research model that could be used as a tool for practitioners when implementing and developing KAM. This is done by combining elements from several theories, i.e., industrial marketing, relationship marketing and organizational buying behavior theories.

The thesis provides our case company with a number of practical suggestions, answers and solutions that could improve the relationships with its key customers and its competitive position.

1.4 Delimitations

✔ The perspective presented and analyzed in this thesis is that of the suppliers.

✔ The focus is on the construction equipment industry. However, we believe that findings presented in this thesis could also be of practical use in other industries.

✔ The problem we have investigated concerns the relations and offers to international customers. However, as a study concerning all major customer segments is not feasible, we have selected international customers operating in the cement industry, because companies belonging to this segment are regarded by many as ones that are/could be very much interested in developing closer relationships with their key suppliers.

✔ Most of the primary information, regarding the development and implementation of KAM concept in international context has been obtained from the HQs of the Swedish-based MNCs.

✔ Most of the primary information regarding the local implementation of the KAM practices originates from the Polish market.
1.5 The case company

Volvo Construction Equipment (Volvo CE) has been associated with the Volvo Group since 1985, and became a fully own subsidiary in 1995. Today, it is recognized as one of the leading companies in the construction equipment industry. Volvo CE can trace its history to 1832\(^4\), when the Eskilstuna Mekaniska Verkstad in Eskilstuna, Sweden was founded.

In its 170 year history the company was known under more than 40 different names. However, since its foundation the company stands for tradition of quality, safety, innovation and technical focus.

In year 2000, Volvo CE had gross sales of MUSD 2183 and approximately 8800 employees.\(^5\)

In order to meet the specific requirements of the customers, Volvo CE established a global presence. The company operates with a decentralized organization in order to meet the specific requirements of a diverse and international customer base. The company owns manufacturing facilities on four continents: Sweden, Germany, France – Europe; U.S.A and Canada – North America; Brazil – South America; and Korea – Asia. An extensive independent distribution network provides customers in more than 100 countries with product service and support.

The Volvo CE product range consists of around 130 models of excavators, wheel loaders, motor graders, and articulated haulers as well as an extensive range of compact equipment products. The Volvo’s articulated haulers are known as the best product in that particular market segment.

1.5.1 Volvo CE strategies

In order to grow globally, Volvo CE is trying to reach the goal of being able to offer a complete range of construction equipment products worldwide. Major strategic acquisitions in Asia (Samsung excavators, 1998) and elsewhere have been done in order to increase the global market coverage. During the next few years, Volvo CE is expected to focus further on product development and

\(^4\) www.volvo.com
\(^5\) Volvo CE – Company presentation, 2001
distribution, while also striving to strengthen its positions in such services as financing and leasing of equipment.\textsuperscript{6}

An objective of Volvo CE is to improve its market position, sustain financial performance above the industry average, and to create superior brand image in order to be recognized as brand leader.\textsuperscript{7} Currently, Volvo CE has a geographical organizational structure, and is also developing a product line management structure. Branding of all machines under the Volvo name has been introduced, aiming at establishing the “one company vision” throughout its global operation. A number of new initiatives have been introduced, including greater dealer-relation focus, improved customer support, development of customer/market segmentation and a dynamic approach to brand and marketing communication.

Volvo CE is firmly determined to create an offer driven not by the product, but by the customer needs. Therefore, Volvo CE aims on targeting customer key activities and development of soft product offer, transforming the company into “total solutions provider”, so that the focus will be on customer satisfaction, price management, quality and development of new services.

1.5.2 Volvo Construction Equipment International AB
Volvo Construction Equipment International AB based in Eskilstuna, Sweden has a total number of 135 employees\textsuperscript{8}, and apart from the CEE (Central and Eastern Europe) region, is responsible for the business operations in the CIS (Commonwealth of Independent States), Africa, Middle East and New Zealand. From January 2002, Australia will also be included under the management of Volvo Construction Equipment International AB.

\textsuperscript{6} Hans Josefsson, 2001 Volvo CE – Company presentation
\textsuperscript{7} Ibid
\textsuperscript{8} www.volvo.com
1.6 Analysis of the Construction Equipment Industry

In this section we present the construction equipment industry in order to introduce the reader to the business environment in which Volvo CE operates.

1.6.1 Introduction

The construction equipment industry consists of the following major product categories: off-highway trucks and tractors, excavators, loaders, graders and rollers, cranes and draglines, mixers and payers, attachments and parts. It is used for a broad range of applications, from major infrastructure projects to office buildings, from housing to factories, power plants to mining and forestry. Contractors, farmers, builders and rental fleet owners are the primary purchasers of light to medium sized construction equipment, while major customers of heavy equipment include construction companies, mines, cement factories, municipalities, local governments, rental fleet owners and others.

The principal factor influencing sales of light construction equipment is the level of residential and commercial construction, remodeling and renovation, each of which is primarily impacted by prevailing interest rates.

Demand for heavy construction equipment is highly cyclical, as the projects that use it require substantial amounts of capital. Potential investors are more receptive when borrowing costs (interest rates) are low, and when a reasonable rate of return seems assured. This scenario applies especially to privately funded projects. Public work programs are often embarked upon during a recession as part of a broader fiscal stimulus. Altogether, it can be said that the demand for this type of equipment heavily depends on two major factors: (1) demographics, including overall population growth and urbanization and (2) macroeconomic forces such as GDP, gross fixed investment, industrial output.

The construction equipment industry is truly a global industry. Construction equipment products are utilized similarly worldwide. In developed markets, customers tend to favor more sophisticated machines equipped with the latest technology and comfort features. In less developed markets, customers tend to favor more basic equipment with greater perceived durability. With respect to power capacity, customer demand and the range of products offered, these do not vary significantly from one market to another.
1.6.2 Main industry players
The global heavy construction equipment industry is composed of about 1000 companies with a large concentration of the biggest companies. The eight biggest players stand for about 70 percent of the market. (See table 1 in the Appendix 1)

Caterpillar and Komatsu, the two biggest players, dominate the industry, even though their market shares have declined slightly during the last years. Beside these global competitors, the industry consists of some product specialists who are also competing worldwide, as are Volvo Construction Equipment, Case New Holland (CNH), Deere, Kobelco Construction Equipment, Hitachi, as well as several regional and numerous local manufacturers.\(^9\)

With global demand widespread, and large-scale production limited to a small number of countries, global trade in construction equipment has been very active. About 25 percent of total output is traded worldwide every year, with major flows of traded goods among developed countries and extensive importing by developing countries. Reduction in tariffs and non-tariff barriers in the mid-1990s by GATT (today’s WTO) greatly enhanced these trends.

The largest producers of heavy construction equipment are located in the U.S.A, Japan, Germany, the U.K. and France. Production is also taking place in Italy, South Korea, Canada, Sweden and Belgium. Even China, Russia and Latin America have some production, but the suppliers in those areas are considered less competitive considering world-class standards, and less important in international trade. The construction equipment is the dominating area within Caterpillar and Komatsu, but this is not the case in the follower companies that are involved in other areas such as production of cars, trucks, agricultural equipment and capital goods. (See table 2 in the Appendix 1)

1.6.3 M&As in the industry
All companies in the industry are going through some kind of rationalization. The trend in the industry is to merge or make alliances with other companies in order to grow bigger and gain higher market shares. The smaller companies

\(^9\) Can Competition Survive - Kirk Landers, Construction Equipment, 2000
have to decide to stay in, expand and grow strong, or to withdraw and sell out the company. The largest companies are growing bigger all the time. The most notable merger was the recent fusion of Case Corporation (U.S.) with Fiat/New Holland (Italy/Netherlands) to form CNH Global in November 1999. Before that, Volvo CE purchased the construction equipment unit of Samsung Heavy Industries (S. Korea). Caterpillar and Terex (U.S.) are still aggressively seeking smaller producers in different countries to diversify the geographic scope of their operation. The main reasons are emphasis on cost-cutting, competitiveness and capacity reduction. (See table 3 and table 4 in Appendix 1)

One of the important reasons for the mergers is that companies want to gain presence in all the world’s major markets and segments. By acquiring smaller local companies they acquire access to new markets and customers.

1.6.4 Substitutes
The needs that are satisfied with this type of products cannot be satisfied with any other type of equipment, so there is no threat of substitutes whatsoever. Therefore, the industry itself is safe and stable concerning this issue. However, the threat to individual firms in the industry and the possibility of being substituted by another company’s products is considerable, having in mind keen competition in the industry and relatively high number of big and middle-sized competitors. In that respect, the buyers’ propensity to change between different suppliers is triggered not solely by the price of individual products, but rather by the cost/attractiveness of “total package”, including products and various services connected to them (financial and other).

1.6.5 Suppliers
The supplier power in the industry can be considered to be very limited, primarily because of two reasons:

- First, large parts of production chain are backward integrated, i.e. manufacturers cater themselves for their needs.

- Second, for different semi-products and parts whose production has been outsourced or whose supplies are dependent on outside sources, the
broad range of different suppliers stands at disposal for OEM’s (Original Equipment Manufacturers).

The quality and conditions under which purchases are made are very similar amongst potential partners, reflecting sharp competition between them. This is giving considerable bargaining power to the demand-side (OEM’s). Furthermore, some of the parts and components that are made by OEM’s themselves for their needs are also offered on the market as separate individual products (engines for example).

1.6.6 Price
Cost of the products offered is of course extremely important, since the purchasing of them requires considerable investments and capital involved. Thus, the price of the product plays an important role when the choice is made between different brands. The prices of the products are influenced by a variety of factors, such as the makers’ costs and suppliers’ charges, national availability of supplies and country inflation rate. But, because construction equipment is widely produced and traded, prices tend to be around similar levels for a given product type and level of quality. However, as mentioned earlier, the buyers are increasingly loosing interest in just the price of individual products and/or terms under which whole deals are executed, but are more and more taking into consideration the price of “total package”, thus making companies offer “total solutions” to their customers, which beside products include financing, maintenance, insurance and other customer-support services.\textsuperscript{10}

1.6.7 Spare parts availability
As has also been mentioned that in this sector, after-sales service parts supply are of vital importance, since downtime in construction is very costly, making distribution network and its proximity to buyers one of the main battle tools.

1.6.8 Compact equipment
Lately, especially in the mature markets of developed countries where a large part, if not even the largest, of construction work is related to maintaining and repairing of the facilities already built, the demand for so called “compact”

\textsuperscript{10} Rune Lundberg, 2000
equipment has risen sharply. This type of equipment is especially suitable for use in the densely populated urban areas. Global sales of this category of equipment accounts for 28 percent of total sales. In other markets, as well as for the rest of mature ones, normal-sized equipment plays a major role.

1.6.9 Buyers
In this industry, buyers can be divided into two major groups:

- End-users, and
- Rental and other companies.

Construction projects require vast amounts of capital, moderate interest rates and fair rates of return. Therefore, buyers of this equipment are constantly searching for more efficiency – new, more productive machines, new ways of financing their buys, renting and leasing as more convenient ways of acquiring equipment, instead of buying it. For the rental companies, the availability of all types of equipment demanded from their customers at any given time is becoming increasingly important, driven by fierce competition in this segment of the industry, with new players entering quickly.

Considering size and the concentration of buyers relative to suppliers, two, at first glance opposite, trends are present. The construction industry is extremely fragmented, therefore making numbers of potential end-users of the construction equipment very large indeed. On the other hand, large construction companies, though having a relatively small share of the overall market, are very important customers in terms of total volumes bought.

1.6.10 Trends
Lately, the focus in the industry is shifting towards rental business, creating the new level of competition\(^{11}\). Distribution has been, and will continue, to be one of the main competitive issues, with distribution being a broad term, including the rental industry. Today’s customer want choices, and wish to be able to buy for long-term contacts and rent for peak demand periods. In the long run the end-users will value the additional service and support in the form of the “total solution” packages. Proximity to dealers and customers is important both for

\(^{11}\) Construction equipment trends, Merrill Lynch, 2000
sale of new units and follow-up components. Parts account for about 25 percent of industry revenues.

There is little difference between products today, and one of the major reasons is that the same component manufacturers supply the insides of the products. The question is not who has the best product but who has the best “total product” and support for it.\textsuperscript{12} Many industry watchers think the next great competitive issue in the construction equipment field will be Internet sales and marketing. The next technological focus will be on the application of the latest technologies both in production techniques and operational conditions of the products offered\textsuperscript{13}.

Virtually everyone in the industry expects consolidation among manufacturers to continue, even as it slows among rental dealers and distributors. The pace of change in the industry will keep the pressure on everyone for years to come\textsuperscript{14}.

Buyers tend to favor brands based on previous experience with the product and the dealer, with customers’ perceptions of value in terms of product productivity, reliability, and resale value and dealer support being formed over many years.

The latest trends in the market show that this favorable situation is not the case any more, mainly due to the economic decline in major markets, notably US and Europe. The total combined market for heavy construction equipment, and compact equipment, declined by 13 percent during the third quarter, compared with the corresponding period in the preceding year. In North America the downturn was 6 percent, in Europe 10 percent and in other markets 18 percent. Year-to-date the total combined world market is down by 9 percent\textsuperscript{15}.

\textsuperscript{12} Construction equipment trends, Merrill Lynch, 2000
\textsuperscript{13} Ibid.
\textsuperscript{14} Ibid.
\textsuperscript{15} www.volvo.com
1.7 Outline of the thesis

Chapter 1: Introduction
Chapter 2: Methodology
Chapter 3: Theoretical framework
Chapter 4: Empirical study
Chapter 5: Analysis of empirical results
Chapter 6: Conclusions
Chapter 7: Implications and contributions
Chapter 8: Suggestions for future research
Chapter 2. Methodology

The purpose of the methodology section is to give an explanation and justification of the methods and processes used in this research. We present and describe the course of action that we have used while conducting this research. Each section begins with the theoretical definition, followed by explanation of our methodology. We start by describing the research strategy, the research design and finally, the method. After that a description of the data collection and analysis follows. Finally, the issue of the research quality is discussed.

2.1 Research strategy

The choice of the research strategy depends on what the problem looks like, what questions the problem leads to and what end result is desirable (Merriam, 1994). According to Yin (1994), there are five different types of research strategies: experiment, survey, archival analysis, history and case study. The choice of strategy depends on several factors, for example, the form of the research questions, the need for control over behavioral events and the degree of focus on contemporary versus historical events. In our research we choose to take case study as a research strategy.

"A case study is empirical enquiry that investigates a contemporary phenomenon with in its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”, Yin (1994). It is also appropriate to use this method when ”how” (as in our case) and ”why” questions are present and when there is a little control over the events. In addition, when choosing the case study it is important to have a boundary that limits the study (Merriam, 1994).

There are many advantages of using the case study method. It allows the researcher to retain holistic view (Merriam, 1994). The case study uses the same techniques as a historical research strategy, but it also uses direct observations and interviews. In our case, the case study strategy gave us many advantages, such as a holistic view over KAM, deeper penetration into complex issues related to KAM development and implementation. In addition, case
study strategy is proved to be suitable for practical problems, as our research problem is. Those were few of the arguments why case study method was used when conducting this thesis.

However, the case study strategy is sometimes criticized from the following aspects:

- First, the case study has been criticized for being easily manipulated by the researcher in order to better meet the goals and purposes of the study. The critics are implying that researchers biased views can influence the findings and conclusions, for example by selecting certain data.

- The second complaint is that case studies do not provide a good base for generalizations. However, if the researchers goal is to generalize the theories, not the findings themselves, when the case studies are performed in the correct way, the generalization is possible.

- Finally, the third most common complaint is that case studies take too much time, but there are new ways for producing shorter and more easily read reports (Yin, 1994).

While conducting this research we were completely aware of the possible disadvantages that can occur when using case study as a research strategy, so we therefore took many precautions (as discussed below) to minimize and avoid them.

2.2 The research design

Research design serves as a work plan for the research. It deals with logical problems and serves as a tool that addresses the initial research question. It is the logical sequence that connects the empirical evidence with initial research question, and finally the conclusions (Yin, 1994). According to the same source (Yin, 1994), there are five components of research design particularly important for case studies:

- The study’s question
- The propositions
• The unit(s) of analysis
• The logic linking the data to the propositions
• The criteria for interpreting the findings

In our research, there are no propositions. However, in order to formulate the suitable model matching the research problem, we have summarized the already existing theories related to KAM. Also, there is no need to discuss any logic linking the data to the propositions. The third component, the unit of analysis, is linked to the fundamental problem of defining what the case study is. It can be anything from individual units of analysis to whole systems. The fifth component refers to the analysis. In this research we perform a qualitative study, so the factors are not formulated in such a structured way, as they would have if it had been a quantitative study.

2.3 Case study design
Yin (1994) distinguishes between single-case and multiple-case designs and between single (holistic) and multiple (embedded) units of analysis. The first distinction concerns how many cases are analyzed, while the second relates to the number of units that are analyzed within the case studies.

**Figure 2.1: Case study design**

The single case study includes only one case study, as in our case. It is a useful approach when the case serves for a revelatory purpose. In our case, a case study is an appropriate approach because it matches with our aims, to apply the
existing related theories and try to improve them in order to create a model/pattern that could be used by business practitioners when facing the challenge of implementing and developing KAM concept. Also, we believe that our case is revelatory as Volvo CE views KAM concept as a possibility and chance to increase its competitive advantage in international markets.

A case study may involve one or several units of analysis. Volvo CE can be regarded as a single entity, since it is a separate division within Volvo Group. Therefore, in our research, we conduct single embedded case study, since we investigate different sub-levels in the organization.

2.4 Scientific approach

The aim of the case study is to explore, describe or explain the researched phenomenon.

At the beginning of the research process, exploratory research helps the researcher to identify, define and structure the problem. In order to get the closer insight into KAM concept and Volvo CE KAM practices, we initiated exploratory approach. Therefore, we conducted interviews with Volvo CE, Atlas Copco, ABB and Volvo Trucks senior management representatives (the ones that are involved in managing KAM implementation and development in their companies). The knowledge gained through these interviews was used to improve the quality of this research.

A descriptive approach is also used to describe an observed event. We have used this approach when describing the empirical findings from our field studies in Sweden and abroad.

When there are is existing knowledge, theory and when the study aims to explain the cause-end effect relationship between different factors, an explanatory method is used. This is used in the final part of the thesis when results are analyzed and conclusions presented.

While doing research, the researcher can use inductive, deductive or abductive reasoning procedure. In an inductive approach, the researcher collects empirical
data and tries to form the theory after the collection has been made. There are no theories upon which the researcher relies, but he is trying to create a theory that could explain the information collected. A deductive approach is the one that tests an already known theory.

In our research, we choose to use an abductive approach. This is a combination between inductive and deductive reasoning. An abductive approach is chosen because it fits best with all factors influencing the research we did as we alternated between the theories and empirical work. In the abductive approach the starting point are the empirical findings, which together with existing theories form the basis for discovering certain hypothetical patterns. Throughout the research these patterns are refined and altered both empirically and theoretically.

In this thesis, we have started by looking into various theories covering the researched areas. We used deductive reasoning to come up with the problem that could be applied to the case study company. As the problem further developed, our reasoning becomes inductive. By using the deductive approach, we defined the research questions. After the empirical research was conducted and the answers categorized, we started using the inductive reasoning to connect the empirical findings with the theories in the analysis. Finally, we draw the conclusions and then theoretical implementations and practical recommendations are developed. We can say that, during the period of writing the thesis, the constant fluctuation between inductive and deductive reasoning is present.

The research study can be quantitative, qualitative or a combination of the two methods. A quantitative approach requires that the researcher use standardized measures, so the responses can fit into predetermined categories. A qualitative method provides the collection of information that cannot be quantified. We use a qualitative approach in order to understand how various phenomenon are linked together. Also, the data collected from the personal interviews could not be quantified into statistical categories.
2.5 Data collection

Collecting data in case study research often involves several different strategies, such as interviewing and analyzing documents (Merriam, 1998). Using multiple sources of information is useful if the researcher doubts that a single source of information will provide a complete and comprehensive understanding of the research problem, so in our research we use multiple sources of information.

Basically, there are two forms of data: primary and secondary data. While writing the thesis, we use several different sources when collecting data in order to increase the validity of the collected data.

2.5.1 Primary data
Primary data is collected for the specific research when the data available is not sufficient for the analysis. In our case, the sources of primary data were interviews with employees in Volvo CE (HQ and local subsidiaries), Volvo CE customers (both at global and local level) and other Swedish-based companies developing and implementing KAM. The chosen companies were the ones that have achieved more advanced levels of KAM implementation.

When collecting the primary data, we have used personal interviews as a data collection technique. Personal interviews as a data collection technique have a few advantages and disadvantages. The main advantages are that personal interviewing suits well for a small sample size and single case study design. Its relatively long duration allows more extensive data collection. It also allows supplementary observations that could enhance information obtained through interviews. Some obvious disadvantages of using personal interviews as a data collection technique include time consumption, possible interviewer bias and high expenses.

However, in total, while conducting this research, we have interviewed many interviewees, mainly senior management representatives in a number of international Swedish based companies as well as abroad.
2.5.2 Secondary data

Secondary data is the data that has been previously collected and published. The secondary data used in the beginning of our research, originated from various sources. In the preparatory period, we have started by studying literature related to industrial marketing, relationship marketing, organizational buying behavior and marketing concepts and strategies related to KAM, in order to get deeper insight into and understanding of the researched area.

The other sources used for collection of our secondary data were: newspaper and magazine articles, course materials, on-line sources (Internet and the School databases) and companies’ materials (internal and external).

2.6 Data analysis

According to Merriam (1998), there are several steps involved in the analysis of the data in the case study. The first step is to organize data in topical or chronological order, so it can be presented in a descriptive manner. The next step is to classify the data into categories, themes or types. The final step is to make inferences, develop models or generate a theory.

After conducting the interviews we have organized the data in topical order, and than we have categorized them. First we classified the data according to company that gave us the information. For the analysis, we started by analyzing the information according to theories used for the research and continued by comparing the received data from different companies. The empirical findings were classified according to following topics: (1) KAM implementation and development and (2) KAM procedures and organizational aspects of KAM. We tried to highlight general patterns, but also company specific features. Through the whole process of data analysis, we were trying to link the experiences from other companies to our case study company, Volvo CE. Due to the fact that we could not find an existing model that covers all research issues for our thesis, we decided to sum up few existing theoretical concepts into one (see the Research model in Chapter 3) that fits better with the objectives and aim of our research.
Based on the analysis, we draw the conclusions. We begin by giving comments and conclusions on the analysis. Then we proceed with managerial implications and practical suggestions followed by theoretical implications. The recommendations are more company specific, but can be applied to other companies, as well. In the theoretical part, we try to expand the existing theories with some new ideas and perspectives.

2.7 Quality of the research

There are four aspects of the quality of the research in the case study:

- Construct validity
- Internal validity
- External validity
- Reliability

Different tactics are available to the researcher in order to make the case study as valid and reliable as possible (Yin, 1994). The two most important variables in making the research reliable and valid when conducting the qualitative study are internal validity and reliability.

2.7.1 Validity

Internal validity concerns the issue of whether or not findings can be shown to be valid for the problem that is being investigated. Internal validity is an issue both in the empirical and theoretical parts of the research. It is also a measure of whether the researcher has investigated what was supposed to be measured. The issue of research bias is central when discussing the internal validity. According to Merriam (1998), the internal validity can be improved by using the multiple sources.

In order to increase the internal validity of this research, we were: (1) using multiple sources of information, (2) asking the respondents/interviewees to confirm data and interpretations, (3) asking colleagues at the school to comment on the findings and clarify the assumptions etc. Also, it should be kept in mind while reading this thesis, that this research was done by two researchers with different cultural and educational backgrounds, which
decreases the possibility for subjectivity of the interpretations. In addition, we have worked in close contact with both the case company and our professors at the university for the period when writing this thesis. Thus we argue that our thesis has high internal validity.

Construct validity depends on whether the researcher uses the correct operational measures and objective judgment when collecting data. In our case, the already existing and proved theoretical concepts about KAM were used as a framework upon which the data collection was done, as well as to assure the objective judgments.

External validity refers to whether or not a study’s findings can be generalized beyond the immediate case study. Case studies can be used as a source for analytical generalizations (Yin, 1994). We have tried to generalize our findings, by taking into consideration theory, empirical data and the analysis, and present them as a general pattern for KAM implementation and development that could be used in other cases and industries.

The findings and conclusions in a case study are more likely to be accurate and convincing if several sources of information are used. Triangulation is the process of combining findings from different sources to reach the conclusion. According to Yin (1994), there are four types of triangulation:

- Data triangulation
- Investigator triangulation
- Theory triangulation
- Methodological triangulation

In order to increase the quality of our thesis, the data triangulation was used to ensure accuracy by interviewing many interviewees in different MNCs in Sweden and abroad. Also, several theoretical concepts were used as the foundation for defining theory that fits best with the researched problems.

2.7.2 Reliability
Reliability concerns the extent to which the findings and conclusions can be replicated. The question is whether or not another researcher following the
same procedures will come up with the same results (Yin, 1994). The goal of the reliability is to minimize the errors and biases in the study. The reliability of our research has been enhanced by taking numerous precautions in order to verify the information. For example, careful documentation of the data has been ensured by using a dictaphone recording of the personal interviews. Also, all interviews were conducted jointly by the both researchers and when necessary the received data was double checked with the respondents, so in that respect the potential misunderstanding of received data was minimized and the reliability of the findings increased.

2.7.3 Sources of error
Basically, there are two different kinds of errors that can occur. The first is the systematic error (it concerns the validity of the thesis), which is serious because it means that the researcher has used the wrong method when conducting the research. The other type of error is the one of interpretation (it concerns the validity and reliability). The cause of this type of error could be when the respondents are not answering accurately or the researcher is interpreting the answers in a wrong way. As we used the tape recorder during the interviews the possibility for the interpretation error was minimized. In addition, both of us participated in every interview and took notes that were compared afterwards. However, there is a risk that our questions were misunderstood and that we misinterpreted the discussions and answers. All the interviews were conducted in English, which is not the first language of either the researchers, nor many of the respondents. However, we believe the both of us (the researchers) as well as the interviewees have a sufficiently good command of English language, enabling the interviews to be conducted in successful manner. Also, the questionnaires we developed may have been a source of misunderstanding. To avoid this type of error, we carefully explained the questions to the interviews.

Another possible type of error could arise from the biased view of the researchers. This may affect the interpretations of the answers. However, since there were two of us workings on this thesis, we argue that we gave an accurate interpretation of the data.
The other issue is concerned with the reliability of the secondary sources. In order to avoid this type of error, we have used multiple sources of information that increased the reliability of our research.

2.8. Ethics in research
While conducting the research, researchers have a responsibility to act according to certain ethical standards. Usually, there are three parties involved in the research:

- Researcher/s
- Respondents
- Client that sponsors the research

In our case the clients are: Volvo CE and the Graduate Business School at the Gothenburg University. Also, in our case the great attention was paid to the right of the respondents. We have put the protection of these rights high on our agenda, in terms of the generalization of the confidential data. Thus, we argue that our research is conducted according to high ethical standards.
Chapter 3. Theoretical framework

In this chapter we present the theoretical concepts that we have used throughout our study. The theories and models applied structured our thinking process and were of great use when the results were analyzed. We tried to follow the development of marketing theory from the basic concepts of industrial marketing, organizational buying behavior and relationship marketing theory to the KAM theory. This approach was chosen in order to give better and logical structure of the theories from which the KAM concept emerged, and developed, into one of the business approaches that could create competitive advantages for the companies active on the global markets.

3.1. Industrial marketing

The industrial marketing theory is based upon recognition of differences between the market of industrial and consumer products. First, there is a major difference in market structure, with market concentration being far greater for industrial products. The number of buyers is much smaller, and the 80/20 rule may be used for the illustration of the relations in the market, with 20 percent of customers being responsible for 80 percent of the seller’s turnover. The geographical concentration tends to be greater, and the smaller number of customers is characterized by being much bigger in size. Furthermore, the interrelations within the system are closer, with interconnected partners forging long-term, stable relationships. The distribution channels are also more direct in industrial markets than in consumer ones. The demand in this market is to a great extent derived, and is often volatile and fluctuating in line with general economic conditions and specific industry conditions. The competition in the industrial markets is more oligopolistic and, as the industrial needs are generally more complex and sophisticated, the organization of those markets differs a lot from the consumer ones, being organized in a more professional manner. Over the years, different theoretical approaches have been created in the industrial marketing field. A brief overview of them follows.

3.1.1 The Inter-organizational approach

The main focus in this approach to the industrial marketing is also on buyer-seller relationships and business transactions taking place between the
manufacturer and the user (Jansson, 1994). The main issue discussed is how linkages between industrial firms are organized. This approach is strongly sociological in its orientation, with relationships and linkages seen as developing through interactions within industrial networks. The central goal is to establish linkages or bonds, which create dependencies between the parties involved, which finally results in a preparedness to interact in a dyad (Johansson and Mattsson, 1987).

**FIGURE 3.1: RELATIONSHIPS AND INTERACTIONS IN INDUSTRIAL MARKETS**

![Relationships and Interaction Diagram](image)

*Source: Johansson and Mattson, 1987*

Recently, the frame of reference has been extended from those dyadic relationships to include networks of relationships, with term network serving mainly to refer to the environment in which the relationships take place (Jansson, 1994).

### 3.1.2 The Interaction model

As already mentioned, the marketing and purchasing of industrial goods is seen as an interaction process between two parties within certain environments. According Hakansson, (1982), the interaction approach is based on three fundamental assumptions: (1) that both buyer and seller are active participants in the market; (2) that relationship between buyer and seller is long-term, involving a complex pattern of interactions and (3) that links between the participating parties often become institutionalized.
Interaction approach is constituted by four major elements, which are further subdivided. These are:

- The interaction process including several episodes, which occur between two parties—product or service exchange, information exchange, financial exchange and social exchange. Relationships, which are established and developed between two parties, are an important part of this episode.

- The interacting parties, who create the relationship, have their specific characteristics, including both organizations and individuals representing them. Major factors influencing them are technology, organizational size, structure and strategy, organizational experience and finally, individuals involved in a relationship.

- The interaction environment has several aspects: market structure, dynamism, internationalization, and position of the manufacturing channel and characteristics of social system, as the environment in which all the relationships take place.

- Finally, the overall atmosphere of the relationship is viewed as something that can be affected by conscious planning of the parties involved. Two important dimensions of the atmosphere are taken up: (1) the economic dimension covering the cost-benefit analysis of the relationship and (2) the control dimension, dealing with actual or perceived powers of the parties involved in the relationship. According to Pardo et al. (1995), in the case of KAM, atmosphere plays a particularly significant role, having in mind the multiplicity and complexity of relationships.
3.1.3 Network strategies in product/service markets

The network strategy consists of three basic sub-strategies: the web strategy, the linkage strategy and the competitive strategy.

**FIGURE 3.2: THE NETWORK STRATEGY MODEL**

- **The Web Strategy**
  The web strategy is about how the company should relate itself to the whole market network inclusive of buyers, distributors and competitors. Jansson (2001) discusses the three dimensions of the web strategy: horizontal, vertical and diagonal. He stresses that the web strategy relates to how the company should make use of the mapped network in its marketing efforts, for instance which bodies to induce in the product/service network. An important aspect depends upon how many groups to concentrate on in the web, whether the company should have an extensive or narrow strategic approach.

- **The Linkage Strategy**
  The linkage strategy pertains to vertical competition and concerns how to establish and run relationships with customers (Jansson, 1994). It concerns how the seller creates and maintains direct relationship with customers and
distributors. Using the linkage strategy, the seller could cooperate more successfully with the customers and creates trust-based relationships with them. The objective of the linkage strategy is to build long-term, consistent and mutually beneficial relationships between the supplier and customers, dealers and distributors in order to create and add value to the final product through the whole vertical product chain. The linkage strategy could be described using the five major types of linkages: product, social, financial, informational (know-what) and the knowledge (know-how) linkage.

- **The Competitive Strategy**
The competitive strategy is more closely related to horizontal competition. It means that the seller offers the technical solution to buyer’s problem, thus creating its position in the competitor’s network. The solution is usually contained in the package consisting of various offers. The major elements of the competitive strategy are: price, quality, service, delivery time and finance.

- **The Competitive Advantage**
The competitive advantage is the crucial part of the network strategy. It is not only the question of making the moves at the right time (timing), but also about executing the right moves in order to find the mix and sequence of web linkages over time. The first mover advantage is the most desired choice of every international enterprise planning to establish itself in emerging markets. The first mover advantage is even more important for the companies in the emerging markets due to the fact that those markets could be very big and profitable in the future. That is why it could, in the long run, be very beneficial and profitable for the companies if they succeeded to achieve the first mover or at least second mover advantage in these markets. This is even more important because achievement of the third mover, forth mover advantages etc. do not exist in these markets because of the current limited size and quite limited potential in the future.

3.1.4 Network capability profiles
The company aiming to develop the capability of offering the total solution to its customers must distinguish between two types of solutions that could be offered:
1. Those that satisfy specific customer needs - in which they are adapted to the individual needs of each customer, and

2. Those that satisfy general customer needs, in which case the customization is not present.

Jansson (2001) states that in order to be able to offer any type of solutions, certain problem-solving capabilities are necessary to be developed. They can be generally divided into low-order capabilities, such as certain employee skills and technical systems and high-order capabilities, like management systems, problem-solving routines, etc. Customer specialist profile has capabilities for resolving problems and tailoring solutions for each individual customer, while a product specialist profile has more general capabilities.

The second distinction made is on the basis of whether the linkages with customers are made through direct channels or indirectly, through intermediaries. The profiles of product and customer specialist are both oriented towards direct linkages, as well as the profile of distribution specialist, who is developing capabilities of being an intermediary with their own distribution network. On the other hand, a strategic profile of distributor specialist is focused on developing relationships with independent distributors, thus keeping indirect linkages with its customers through third party. Finally, a distinction can be made between marketing and manufacturing capabilities, with a company possessing former ones being a purchasing specialist, and the latter ones manufacturing specialist.

**FIGURE 3.3: NETWORK CAPABILITY PROFILES**

Source: Jansson, 2001
However, it is not possible for a company to have only one profile and to develop capabilities only in one of the previously mentioned areas. On the contrary, different profiles, and to them related capabilities, are overlapping and supplementing each other at different levels in the company, in different business segments, geographical areas and so on.

3.1.5 Development of supplier-customer relationships
In the model developed by Ford 1980 (See table 5 in Appendix 1), the establishment and development of relationships between firms and their customers is separated into five consecutive stages. The first stage deals with the activities before the relationship is established, and brings-up several factors that can spark a switch of a supplier by the customer. The next three stages show the beginning and the deepening of a buyer-seller relationship, which is evaluated on the variables of experience, uncertainty, distance, commitment and adaptations. The variable experience indicates the amount of experience the respective parties have of each other. Uncertainty deals with the fact that at the initial stages, it is difficult to assess the potential rewards and costs of the relationship. The variable distance is multifaceted and can be split into the following types of distance: social, cultural, technological, time and geographical distance. Both parties will judge their partners’ commitment to the relationship. That commitment is to a large extent shown by the willingness to make adaptations.

3.2 Organizational buying behavior

Academics and researchers studying the marketing theory, industrial marketing and business-to-business marketing have often stressed the importance of having a broad and deep understanding of organizational (institutional and business) buying behavior, upon which to predict and forecast organizational buying decisions and develop suitable marketing strategies (Webster and Wind, 1972; Laczniak, 1979; Mattson and Sangari, 1993; Tanner Jr., 1999). These models on organizational buying behavior are used as a general framework for the implementation of empirical organizational buying research (Laczniak, 1979).
The business buying behavior theory is directed towards answering the issues such as: (1) What buying decisions do business buyers make; (2) Who participates in the buying process; (3) What are the major influences influencing the buyers; and (4) How the business buyers make their buying decisions (Kotler and Armstrong, 1999).

In order to understand better the business buying behavior academics tried to identify who are the actors that participate in the business buying process.

At the buyer side, the buying center is usually the unit where the most of the decision-making processes are done and it involves all the individuals and units that participate in the business decision-making process. According to Webster and Wind (1972), Hutt and Speh (1992), all members of the organization that have any influence in the buying process can be grouped in five groups according to the roles they are playing in the purchase decision process:

- **Users** - Members of the organization who use products or services. Usually they are the ones initiating the buying proposal and help defining product specifications.

- **Influencers** - People in an organization’s buying center who affect the buying decisions. Technical personnel are usually important influencer, and often help define specifications and also provide information for evaluating alternatives.

- **Buyers** - Person/company that makes an actual purchase. Buyers have formal authority to select the supplier and negotiate terms of purchase. They may also shape the product specifications. However, their major role in this process is in selecting vendors and negotiating. It depends from case to case, but generally in more complex purchases buyers might include top-level officers participating in the negotiation process.

- **Deciders** - Usually deciders are people within the organization’s buying center who have formal or informal authority or power to select or approve the final suppliers. When talking about long-term buyer-supplier
relationship and routine purchases, the buyers are often the deciders, or at least acting as approvers.

- **Gatekeepers** - People in the organization’s buying center who control the flow of information to other participants in the buying center and within the organization. Usually purchasing agents are acting as gatekeeper and often have authority to prevent sales persons from seeing users and deciders. Other gatekeepers might be seen in technical personnel and even personal secretaries.

It might often happen that the buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people on a different organizational level for different purchases. The size and form of the buying center usually varies for different products and different buying situations. For example, when talking about routine purchases one person (purchasing agent or else) may assume all the buying center roles and serve as the only person involved in the buying decision. For the complex purchases, the buying center may involve 20 to 30 people from different levels and departments in the organization. However, the most common number for people participating in the buying center is between three and five (Vankatesh, Kohli and Zaltman, 1995). However, the buying center usually includes some obvious participants who are involved formally in the buying decision. For example, the decision to buy capital equipment involves the company’s top management, such as CEO (Chief Executive Officer), CFO (Chief Financial Officer), Purchasing Manager etc.

The number of people participating in the buying center usually varies from country to country, and depends on management styles. For example, Swedish companies have the highest team buying effort and the United States’ companies have the lowest. When making purchasing decisions Swedish firms highly depend on technical staff, both their own and suppliers’, much more then the firms in other countries (Matson and Salshi-Sangari, 1993).

According to Webster and Wind (1972), business buyers are usually under many influences when making buying decisions. The factors influencing the
buying decision process can be grouped in four major groups: environmental, organizational, interpersonal and individual factors.

**Figure 3.4: Major influences on business buying behavior**

- **Environmental Factors**
  The environmental factors included factors such as economic, technological, political/regulatory, competitive and cultural factors. As the environmental factors influencing the buying decision process, a number of institutions could be considered to be of significance, such as professional groups, government, suppliers, customers, etc. The deep knowledge about the country’s specifics and environment is essential due to the fact that those factors could significantly vary among different countries, especially affecting the companies active on the global markets.

- **Organizational Factors**
  Understanding the organizational structure and organizational factors influencing the buying decisions is important because it might often decisively determine the approach to be used when negotiating the deal. This proves to be very important for the companies being active on the global markets, because they have to develop and implement strategies towards different organizations with different organizational patterns, management styles and cultural backgrounds. It is even more important for the multinational companies that have subsidiaries in many countries, where the differences are reflected both internally, inside the organization, as well as externally, outside. The most important organizational factors influencing the buying decisions could be
recognized in organizational structure, organizational goals and tasks, company’s objectives and policies and internal procedures and systems.

When choosing the right strategies in a business-to-business market, marketers should be aware of several organizational trends in the purchasing area:

The first most common trend is the so-called "upgraded purchasing"\(^{16}\). The globalization and international competition has pushed the companies to initiate transformation of their old fashioned "purchasing departments" with an emphasis on buying at lower costs, to "procurement departments", aiming to reach the best value from fewer and better suppliers. This caused the need of establishing strategic partnerships with fewer strategic suppliers.

Distinction has to be made between companies having centralized and decentralized purchasing. This will determine the suppliers approach and strategy towards each customer.

As a consequence of those new trends, the business approaches as JIT (just-in-time) production and long-term cooperation between supplier and buyer has emerged.

- Interpersonal Factors
  Due to the fact that the buying center is informally organized, and often it is not clearly stated who is the key decision maker, interpersonal relationships might be of decisive importance. That is why the business strategists must take in consideration the personal factors when developing appropriate approach towards the customer. The most common interpersonal factors influencing the buying decisions are authority and status within the organization, empathy and persuasiveness.

- Individual factors
  Individual factors differ for every individual active in the buying decision process. Those influences are determined by participant’s age, education, position within the company, personality, risk attitudes, etc.

\(^{16}\) Kotler & Armstrong, 1999
3.2.1 Business buying process
It is widely accepted among the academics that eight stages are present during business buying process.17

**Figure 3.5: Organizational buying phases**

- **Problem identification** - This is the first stage in the buying process. It starts when the buyer identifies the need that can be satisfied by acquiring some goods or services.

- **Problem definition** - In this stage of business buying process the company initiates describing the general characteristics and the quantity of a needed item.

- **Solution specification** - In order to create solution specification, the product specification and value analysis should be done first. Product specification involves the decision about specifics of the best and most appropriate technical product characteristics for a needed item. Value analysis is about cost reduction in which components are studied in order to determine if they can be redesigned, standardized or acquired by less costly methods.

- **Search** - Supplier search is one of the most important stages in the buying process. Selecting the right supplier is essential due to the fact that it could either create huge benefits and long-term competitive advantage for the

17 Kotler and Armstrong, 1999
company, or, if the wrong decision is made, it could also be the cause of long-
term instability, frustrations and financial failure.

- **Assessment** - Proposals from interested suppliers are assessed and evaluated.

- **Selection** - A supplier is selected and final details are negotiated prior to the
  next step.

- **Agreement** - At this stage of the business buying process the buyer writes the
  final order with the chosen supplier(s), listing the technical specifications,
  quantity needed, expected time of delivery, return policies and warranties.

- **Monitoring and review** - Includes the measures of satisfaction with chosen
  suppliers, making decisions about whether to continue, modify the agreement
  or to drop the chosen supplier(s).

### 3.3 Relationship marketing

Traditional marketing dealt with market segments, attempting to generate as
many sales transactions as possible, across all groups of customers.
Relationship marketing, drawing origins from and expanding the industrial
marketing theory, was theoretically introduced in the beginning of the 1980s,
and is defined by one of its pioneers as “marketing based on relationships,
networks and interaction” (Gummesson, 1998). It is based on the idea that
success is achieved by fostering mutual buyer-seller relationships (Huat Low,
1996, as quoted in Rosinski and Johansson, 1999). Relationship marketing is
the ongoing process of identifying and creating new value with individual
customers and than sharing the benefits from this over a lifetime of association.
It involves the understanding, focusing and management of ongoing
collaboration between suppliers and selected customers for mutual value
creation and sharing through interdependence and organizational alignment
(Gordon, 1998). According to Sheth and Parvatiyar (1995), the transition from
the industrial era characterized by mass production to the post-industrial era in
which the technology leaps, the growth of services and hyper-competition have
caused a major paradigm shift in marketing. Technology has today given rise
to many opportunities for enterprises to create new business values. This
implies that organizations should make the previously mentioned major move from a transaction-based towards a relationship-based orientation.

**FIGURE 3.6: PARADIGM SHIFT IN MARKETING ORIENTATION**

Company implementing the relationship marketing has to identify key customers, define the value each wants and expects over its lifetime and, in order to deliver that, has to design and align its strategy, structure, business processes, technology and people with this goal. It also has to develop a chain of relationships within and out of the organization (including suppliers, distribution channel intermediaries and stakeholders).

The creation of the total offer to the customers may include both products and services of the organization itself, as well as from other sources which might be complementary, but also competitors to the company.

Although enterprises often claim a customer orientation, there is a fundamental difference between product and customer focus (presented in Figure 3.6) and both cannot be used simultaneously.

**FIGURE 3.7: TRANSACTION ORIENTATION VS. RELATIONSHIP ORIENTATION**

Source: Hultén and Ossiansson, 2001
By adopting the relationship marketing approach firms leave the seller-buyer dimension and become partners exchanging resources. All activities of the firm are directed towards establishing, developing and maintaining successful relational exchanges in order to achieve higher customer satisfaction and accelerate value creation.

3.3.1 Focus on customer
As already mentioned, the customer focus is the primary goal of the relationship marketing concept, as in industrial marketing theory. It is not just a matter of decision, but needs thorough planning and complete change in the way of thinking an doing in the company, shaped by its culture and values, strategies, structures, processes and employee expertise.

- The first step is to evaluate all existing customers and decide the customer mix. According to that, the appropriate level of resources will be committed to each individual customer.

- Secondly, specific strategies and objectives will be developed for each individual customer,

- Finally, strategic capabilities of the company must be assessed and developed in order to achieve previously chosen objectives.

The full internal transparency of cost to serve on account basis is absolutely crucial for the successful launch and implementation of RM. Companies must know the so called “cost-to-serve” amount for each customer and create an integrated way of measuring customer profitability, including not only costs of products and services delivered, but also costs required to attract, sell, serve and retain customer. One important element in this customer assessment is to determine which of them are profitable not only today, but also will stay profitable in the future.
As shown in Figure 3.8, four strategic decisions could be taken in that respect. The customers, who are profitable today, and will be profitable in the future, need to be rewarded by investments and commitments made to serve them better. They should be looked upon (and accordingly served) as priority accounts. Those that are currently profitable, but in the future that might not be the case, should be managed and helped by the company in order to enhance the business prospects for both the supplier and the customer. It is very common for companies to have a large group of customers that are not currently profitable, but can be made profitable by either reducing the costs of their servicing (by using more profitable processes to do that), or by charging a customer a fee for not following the company’s directions in certain aspects of mutual relations. Finally, some customers are simply not profitable now, nor will be profitable in the future, and for these the best thing that the firm can do is to cease the relationship. This has to be done very carefully though, so that any possibility of negative repercussions for the company because of such action should be avoided. The best way is to explain to the customer that a company simply wishes to continue the development of future business relations only with those customers with whom they have a relation that is based on the mutual value creation and strategic alignment of resources and strategies.

3.4 Key Account Management

The internationalization and globalization trends, as well as more demanding needs of the customers all around the world have pushed the business and academia to focus deeper on the strategies and practices that could assure the
long-term perspective of the business by creating conditions and tools for closer relationships between suppliers and buyers. The existing literature takes into account several obvious factors explaining the emergence and evolution of the KAM concept: (1) the characteristics of the customers’ buying volume, (2) the more or less high degree of geographically dispersed sites of the accounts, (3) the details of the supplier organization and (4) the complexity of the supplier offer. That caused the ”transactional exchanges” and regular patterns of relationship behavior between buying and selling companies to evolve over time.

When discussing the issue of the KAM concept, it is important to notice that sometimes the difference in terminology exists between European and American researchers. While European researchers use the Key Account Management terminology when discussing this concept, American authors relatively often use National Account Management/Marketing, or even Home Account Management. The main reason for the difference in terminology is differences in the size of the domestic market.

Up till now, many research and managerial works have been published on KAM: Stevensson and Page (1979), Barrett (1986) and lately new researches have been done by Millman and Willson (1994), McDonald, Millman and Rogers (1996) and McDonald and Rogers (1998).

According to Stevensson and Page (1979), major sellers in concentrated industries tend to use national account marketing to sell to major buyers in concentrated markets. Furthermore, users of national account marketing tend to be large in terms of relative sales force size and tend to require their buyers to be relatively large. National account approach tends to be especially favored by sellers who are heavily dependent upon sales to major customers in markets dominated by a few very large users.

Barrett (1986), points out that KAM or National Account Marketing consists of targeting the major customers of the company, by providing them with special treatment in the field of marketing, sales, administration and service.
In the recent work of McDonald, Millman and Rogers (1996), the KAM characteristics have been explored both from the supplier and customer’s point of view. The authors are not focusing on key account perceptions, they are just trying to point out what might be, for a buying company, the reasons for accepting a key account treatment seen as a partnership.

Although, the researchers were taking into consideration both the supplier’s and buyer’s point of view throughout the research done about KAM, until now the customer perspective hasn’t been a central research issue.

3.4.1 Relationship development model
Millman and Wilson (1994), proposed a relationship development model that was build on earlier constructs (as seen earlier in Ford, 1980). The model proposes stages of the KAM process that match transitions from transactional to collaborative relationship. By using the model it is possible to assess the position of selling companies at various stages of KA development.

![Figure 3.9: Relational development model](image)

This model demonstrates the progression of the relationship, showing five of the six stages identified by Millman and Wilson: (1) Pre-KAM, (2) Early-KAM, (3) Mid-KAM, (4) Partnership-KAM and (5) Synergistic-KAM. A sixth stage, the Uncoupling-KAM could happen at any stage in the development of a relationship, meaning that for some reason the relationship cannot develop further and will result in a break-up of the partnership.
• Pre-KAM stage\textsuperscript{18}
At this stage no transactions exist but the selling company is trying to establish interaction. This stage is characterized by a selection of the potential buyer by the selling company, and trying to win some business. If the buying companies have already established relationships with other suppliers, then the seller is making an effort to take over some of the customer’s orders from the competitors. This can be done either by offering significantly better terms to the customer, or by using the competitor’s mistake in handling the customer and its subsequent discontent. The interactions at this stage will be mainly ”one point” contacts, between the key account manager and purchasing manager.

• Early-KAM stage\textsuperscript{19}
At this stage the transactions between supplier and customer are established. However, the supplier has still just a small proportion of customer’s purchases. The selling company must concentrate its efforts into fulfilling the customer’s demands in order to convince the buyer that products and services it provides will appropriately match the needs of the buyer, and in perspective, this could drive the relationship towards deeper commitment. The interactions are still on the ”single point” level, but the organization behind the KA manager and purchasing manager is more directed towards closer relationship.

• Mid-KAM stage\textsuperscript{20}
At the Mid-KAM stage, the selling company is classified as preferred supplier winning more than 50 percent of customer’s orders. The level of trust and commitment between the partners has become considerable, but still the customer has kept alternative sources of supply. Interactions have been upgraded as well, so they have evolved from ”single point” level to reach closer interaction between KA manager and purchasing manager, supported by KA team members from both buying and selling organizations.

• Partnership-KAM stage\textsuperscript{21}
When the level of Partnership-KAM is reached, the supplier becomes a strategic source for the buying company. Sharing of the sensitive company

\textsuperscript{18} See Figure 1 in Appendix 2  
\textsuperscript{19} See Figure 2 in Appendix 2  
\textsuperscript{20} See Figure 3 in Appendix 2  
\textsuperscript{21} See Figure 4 in Appendix 2
information occurs, and partners are engaged in joint strategic and operational collaboration. It results in closer mutual interaction formalized in a long-term partnership agreement. Interactions between the partners have been established on all organizational levels, with KA manager and purchasing manager acting as coordinators. Pricing at this level is usually stable and with a long-term perspective, sometimes even fixed.

- **Synergistic-KAM stage**\(^22\)

Synergistic-KAM is regarded to be the ultimate stage in the relational development model (McDonald and Rogers, 1998). Although the selling company has no exclusivity right to be the only supplier, a sort of quasi-integration is developed, where selling and buying company plan and act together in the process of value creation. The interactions are present on every level and between all functions in the organizations, with joint teams established, involving members from the both organizations with responsibility to manage all aspects of the partnership. Information is shared between the partners and rather strong exit barriers have been built up.

As shown in Figure 3.10, the apex of the KAM pyramid representing the whole KAM development process is “Mutual Profitability” for both supplier and customer. The preposition is that a relationship that enhances profitability for both sides will be more sustainable in the long run, luring commitment from both parties involved.

**FIGURE 3.10: THE KAM PYRAMID**

\[\text{Source: Bradford, 1999}\]

\(^{22}\) See Figure 5 in Appendix 2
3.4.2 KAM planning as a part of strategic marketing planning

As previously mentioned the KAM concept offers the firms with efficient and effective tool enabling them to improve their international competitiveness. That is why more and more international firms undertake a KAM approach as one that will assure the success of their business worldwide. In order to successfully implement the KAM concept, the KAM planning process should be developed first to provide the firm with conceptualized and clear directions. The KAM planning is an important part of the firm’s overall marketing strategies and is incorporated into its strategic marketing plans. According to Kotler and Armstrong (1999), strategic planning is the process of developing and maintaining a strategic fit between the organization’s goals and capabilities and its changing marketing opportunities. It involves defining a clear company mission, setting supporting objectives, designing a sound business portfolio, and coordinating functional strategies.

KAM is a part of the firm’s corporate plan, reflecting the importance of KAM for the overall firm strategies.

However, it is important to note that strategic marketing plans should be based not solely on sales/profit targets, but on firm’s competencies arising from its resources and capabilities. The important point to remember about marketing objectives is that they are about products and markets only, i.e. what you sell and to whom (McDonalds and Rogers, 1998).

**Figure 3.11: The Planning Hierarchy**

<table>
<thead>
<tr>
<th>Corporate plan</th>
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</thead>
<tbody>
<tr>
<td>Marketing plan</td>
</tr>
<tr>
<td>Segment plan 1</td>
</tr>
</tbody>
</table>

*Source: McDonald and Rogers, 1998*

The clear and effective marketing strategy is the foundation for KAM. If the markets are segmented geographically, e.g., country or continent segments, but the KAs are international or global, the conflict between the KA goals and the
segment goals may arise. Therefore, the marketing strategy must provide the KAM with a solid foundation for development, including KA selection, key account goal setting, account strategy development and implementation.

The second foundation layer for KAM is the developed delivery strategy. Under this, the clear and effective ownership of the relationship with the customer should be stated, meaning that everybody within the organization know which customers are served by whom.

3.4.3 Identification and selection of KAs
The identification of KAs has to be done taking into consideration numerous criteria. The starting point in this process can be detailed analysis of the segmentation matrix (See figure 6 in Appendix 2), and strategies for KAs selected according to the potential of each customer in different segments for growth in profit over specific period of time, but also according to the organization’s ability to meet customer’s needs.

Different theoretical approaches exist for the problem of customer selection and which customers “deserve” to be treated as KAs. Most of the methods for customer portfolio management, developed with a goal of differentiating firms’ management of customer relationships according to the nature of specific customer, have been based on Boston Consulting Group (BCG) and General Electric (GE) matrices (See Figure 6 in Appendix 2).

When identifying and selecting KAs, Fiocca (1982) suggests a two-level analysis to be performed.

First step is to be taken on a more general level, with the consideration of the complete customer portfolio of the selling company. It starts with the identification of key customers, based on a specified set of criteria, followed by their grouping in the two-dimensional matrix showing the strategic importance of the account, and the difficulty in managing it.

The second step focuses on each KA, again analyzed in the two-dimensional matrix, with customer’s business attractiveness (size, growth, competition and
barriers to entry/exit) and the relative stage of the current buyer-seller relationships, as the main parameters.

McDonalds and Rogers (1998) take the similar approach. After the segmentation of markets has been done, the screening of the major customers in each segment should follow. Their suggestions are based on the Cranfield Business School’s research and shows several frequently used criteria upon which the customers should be analyzed: (1) the available size of spend, (2) the margins available, (3) the growth rate, (4) the location, (5) purchasing criteria and process and (6) current suppliers

Market segmentation
As previously mentioned, KA strategy has a long-term objective, and not only short-term operational goals. Before categorizing the KAs, analyzing their needs and setting objectives and strategies, the knowledge about and understanding of the market has to be acquired. Market segmentation is one of the tools from which the companies can gain this kind of knowledge. The main aim of market segmentation is to enable the firm to focus its efforts on the most promising opportunities i.e. customers.

The market segmentation, as a business approach had attracted the attention of the scholars and companies in the late 60’s. One of the pioneers of the market segmentation approach is the BCG. They have developed a segmentation model based on two factors: (1) relative market share and (2) market growth. Later, the approach was upgraded by joint efforts of GE and Mc Kinsey that resulted in the multi-factor model, named strategic business-planning grid. The parameters, which the model is based on, are industry attractiveness (the vertical axis) and business strengths representing company strengths in the industry (the horizontal axis). Using different variables and developed scheme for weighting them according to their importance, products (or businesses) are classified into one of nine cells in a 3x3 matrix.

Market segments consist of customers with the same broad characteristics. These segments virtually form separate markets and can be of considerable size. There are certain universally accepted criteria concerning what constitutes a viable market segment (McDonald and Rogers, 1998):
- Segments should be of an adequate size to provide the company with the desired return for its effort.
- Members of each segment should have a high degree of similarity, yet be distinct from the rest of the market.
- Criteria for describing segments must be relevant to the purchase situation
- Segments must be reachable

As a result of the segmentation process, the firm should come up with a clear segmentation matrix that will be used as a basis for selecting and targeting KAs, grouped in different market segments.

Centralization/decentralization of the decision-making process

The purchasing systems and decision-making units in companies might be configured on centralized or decentralized basis. This is especially important for large international and global companies, where such decisions have huge impact on suppliers and partnership relations on both global and local level. (See figure 7 in Appendix) The precise manner in which the MNC is generally organized depends on a number of inter-related influences, the most important being the firm’s specific history, including the characteristics derived from its home-country embeddedness, its culture and administrative heritage and the nature and complexity of the industry environment(s) in which the firm operates. Although the organization of the MNC depends on many factors and is not unified.

Wilson (1999) has developed a matrix that differentiates between various types of customers and suppliers, depending on their geographical spread and centralization/co-ordination of decision-making. The model also presents the evolution of the account’s status.

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23 P. Dicken, 1998
Local accounts may or may not be classified as the KAs for the company. Although they might not be of great importance regarding the overall business performance of the firm, they might be interesting because of their loyalty to the supplier or good relationships established between company’s sales people and their counterparts in the purchasing organization.

National accounts are represented by the major players on the national levels or even in some geographical regions of large countries (as it is the case of the US). In both national and local accounts there is a tendency towards centralization of decision-making (Wilson, 1999).

International players are classified as major players that operate in several, or even many, different countries. Although their operations are present on an international level, their decision-making systems are very often centralized. That is very much dependant on different cultural patterns and management styles, with Japanese companies, for example, regarded as being extremely centralized.

Regional accounts may fall into the group of companies operating internationally, within different geographical regions, such as Europe, Asia or the America(s).

Global accounts represent global companies operating in different geographical and market areas, integrating their operations, information flows, distribution networks and supply systems, not only from the center, but also between
subsidiary operations. Their products are developed for the world market and they pursue integrated strategies on a worldwide basis, trying to establish a strong base in all major regions (Ford’s World Car Project, resulting in Ford Focus being developed and marketed in all major markets at the same time).

However, Birkinshaw et al (1998), argue that the fact that the customer is global in scope does not necessarily mean that it should be treated as a global account. If customer’s operations and decision-making systems are so decentralized that they simply cannot be treated from the single spot, it’s better to treat them in other ways. Having this in mind, the authors suggest that two basic questions should be asked in order to establish whether the customer requires global account management or not:

- How globally integrated is the customer? - Is there a global sourcing function, how co-coordinated are the various country operations, do decisions apply across borders, and

- How strategically important is your product to the customer? - Is the supplier selling a high-cost core product or a low-cost support component

**Figure 3.13: Identifying which customer require global account management**

<table>
<thead>
<tr>
<th>Increasing customer demands for global account management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
</tr>
<tr>
<td><strong>Strategic importance of product</strong></td>
</tr>
</tbody>
</table>

**Global integration of customers**

*Source: Birkinshaw et al., 1998*
### 3.4.4 Organizational issues

The formal organizational issues are of great importance when developing and implementing any business concept. The formal structure represents basic lines of reporting and accountability that are typically drawn on an organizational chart. However, the structure is never the whole story, it is just a way of dividing responsibilities between employees and executives, and needs to be supported by appropriate systems and a consistent culture. The KAM naturally has roots in the sales function, with which it is closely connected in a number of ways. The development of KAM concept is closely tied to the emergence of international companies. They have several advantages over their smaller local or regional counterparts. Their sheer size gives them enormous economies of scale in manufacturing, in new product development and in market coverage. What is becoming more important is their presence in many countries that gives them bargaining powers over their suppliers and partners.

#### International division

The global companies have been organized in a number of ways depending on the number of businesses they were present in, number of countries in which they operate, type of industry, locations of its major customers and their own heritage. Some companies are divided into business units or divisions, with each division responsible for the business in the home country. There is then a separate international division, which is responsible for all sales outside its home country. Many-medium sized companies with international limited sales are structured in this way. (See Figure 8 in Appendix 2)

#### Area / Geographical / Regional division

In the area division, the major line of authority lies within the country or region of the manager. Sales representatives have their geographical regions, which include large customers, as well as small ones, that order in small volumes. Each salesperson is responsible for performing all the activities necessary to sell all the products in a company’s line to all types of customers in that territory. The regional sales manager reports to the Sales Director, who reports to a Managing Director. Most of the sales initiatives are driven by new product lines, i.e. the sales people are directed to sell what is being developed in the

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24 Financial Times, 2000
R&D departments, and then manufactured in the production departments. (See Figure 9 in Appendix 2)

One of the major strengths of this approach is its relatively low cost but also, as there is usually only one sales representative per customer, there is no confusion about whom the customers should talk to if problems arise. The local responsiveness is also at high level. On the other hand, this type of sales organization has some considerable disadvantages. The co-operation across countries and regions suffers, making it difficult to achieve economies of scale, and it does not provide any of the benefits of specialization and division of labor, so every sales-person has to be jack-of-all-trades, knowing everything about a firm’s products and services, customers demands, etc.

During the 1970s, the emergence of big nation-wide customers forced suppliers to adjust their strategies in order to serve them, and the national accounts were introduced. Although the selling companies assigned senior sales representatives to serve the largest customers, the geographical division of the markets usually remained. Even today, the geographic organization of sales is the most common way of organizing the sales of the company.25

- **Global product division**

  In the 1980s, the geographic division was still very much present, but the product-oriented organizational patterns started to gain importance. (See Figure 10 in Appendix 2)

  In most of the traditional industrial companies with global operations, the global product division is emerging as the most common organizational structure. Those companies are driven mainly by the product development, focusing its resources and capabilities on new product features and production techniques. Engineers are still dominant throughout the firm’s organizational structure, driving and influencing most of the strategic and operational decisions. The major line of authority lies within product managers, who have responsibility for their product lines globally.

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The main advantage of the global product division is that it facilitates the coordination and integration of activities worldwide. In this type of the sales organization the salesperson is familiar with all the technical attributes, applications, and effective selling methods associated with a specific type of product or service. On the other hand, its main disadvantage is that its standardized approach hinders the ability to respond to country-specific differences. It often leads to duplication of sales efforts, as the sales people from different product divisions assigned to the same geographic territories might target the same customers.

- Matrix Organizational Structure
The matrix, in theory at least, is trying to combine the benefits of both area and product-line organizational structures. In the global matrix, a business manager reports to two bosses – a global business unit manager and a country manager. The country manager is responsive to local market needs. The global business unit manager ensures that activities are coordinated worldwide. The aim is to achieve global integration and local responsiveness at the same time. Percy Barnevik, former CEO of ABB Group, championed this type of organization.

The complex needs of the global organizations today must be satisfied on different levels and taking into account different aspects. It is often necessary to serve them on geographical, product line and KAM basis. This has created the need for a more complex organizational framework, and the solution was found in the matrix structure.

As it can be seen in the Figure 11 in the Appendix 2, the customers might be served on segment, product line and geographical basis, but at the same time, the need for centrally coordinated KAM structure is present. Matrix management requires a highly developed pattern of communication within the organization, as well as high degree of cooperation and understanding. The matrix can be either two or three-dimensional. In the two dimensional matrix one person can be responsible for product-line management and KAM, or regional management and KAM. In the three dimensional matrix, a manager can be responsible for product-line/ region/KA cube.
3.4.5 Organizational positioning of KAM

With the concept of market segmentation becoming increasingly used as the marketing tool, the organization of the sales by the customer became its natural consequence. By specializing in serving a specific type of customer in certain industries, a salesperson can better understand their unique needs and requirements. The disadvantage of this concept is that when the customers have different departments or divisions operating in different industries, the two or more sales people might end up calling the same customer, and the duplication of effort can lead not only to higher selling and administrative costs, but also to customer confusion. The globalization of large customers and the emerging need to serve them on a global basis, to provide the same type and level of service wherever they are present, has put additional pressures on supplier firm’s operations and organizational structure, causing the tension between product and regional divisions. It became impossible for the person that is responsible for the customers, that take the major part of the company’s turnover, that have strategic importance for the future development and indeed its very survival, not to have direct access to high-level management and broad decision-making authorities. On the other hand, the high position of the KA managers was also necessary in order to boost the authority of the account managers within the organization, and to show the customers that they have significant importance for the company, and are treated as such.

In order to resolve all these problems, particularly in relation to large customers with global presence and operations, a specific form of customer-oriented organization has emerged, where the company designates its largest and most important customers or potential customers to special high-level sales managers or sales teams. In the beginning, when the KAM concept started to emerge, the positions of KA managers were put inside the sales and marketing organizational structures, as shown in figure below.
As the KAM emerged from KA selling, the KA managers were often under the regional sales managers, just taking care of the large customers. Depending at what stage is the development of KAM concept in the organization, the organizational structure varied greatly between different companies. In the initial phases, the KAM activities might be developed only for some customers, in order to see whether the concept is appropriate for the company, and in that case, the KAM activities might be organized on a project-basis. As the development of KAM activities moves down the path, the semi-formal organizational patterns might be introduced. As the concept evolved further, it is today very uncommon to find more than one layer of management between the KAM and general management, and usually the KAM responsibility is devoted to the higher-level managers, such as the Vice-President position.

- The Key Account Teams (KA teams)

Taking into consideration the highly complex needs that suppliers have to satisfy, as well as high standards set upon them by the customers, and often very complicated products and services their companies are delivering to customers, the KA teams are the only possible solution capable of coping with such a variety of issues. In most companies, the KA managers do not have formal or informal KA teams, but are expected to have influence in getting things done for their customer. They can achieve this by having at their disposal all the resources they need, i.e., they might have authority to take
different resources of the company in order to satisfy the needs of the customer.26

Members of the team have different line managers, but meet regularly with KA manager and the KA. In the initial phases, they might have a certain part of their time devoted to KAM activities, until the full KAM structure is introduced, and full-time employees devote their time to these activities. Usually the operational staff has double responsibility, both to their line managers and to KA manager. As these teams are working with strategic customers, their position within the company should reflect the importance of the work they perform, and should lead to career development. The composition of the KA teams may very much differ, depending on the specific needs of the customer, but should however be led by the senior manager, in order to reflect the importance of the customer to the company, but also to secure authority of the KAM activities and personnel throughout the firm. The major customers’ buying center often consists of people from different functional areas with different viewpoints and concerns, that can be most effectively addressed by a team of experts from equivalent functional departments in the selling firm, or even from different divisions within the company. Usually, the teams include people from sales and marketing, finances, production, and IT experts but might, as already mentioned, vary from case to case.27 When marketplace opportunities or threats emerge, the need for co-operation and unity of action requires the team with no fragmentation and opposing views. It is of the utmost importance to avoid the situation where KA teams are just a constellation of “talents” from different fields. Their members must have a real sense for collaborative behavior and wish for co-operation including the information exchange and joint-decision making. The relationships between members of the team must have both quantity (the volume of information exchanged) and quality (richness and accuracy). The team should meet at least once a month in order to develop close co-operation between members. If members are located around the world, quarterly meetings, combined with video-conferencing, might serve the purpose.28

26 McDonald and Rogers, 1998
27 Financial Times, 2000
28 Ibid
At the synergistic level, when the development of KAM activities have reached high levels, the KAM teams might get the form of cross-boundary teams consisting of the members from both selling and buying organization, working at different levels and occupied with different issues. These teams might have considerable independence in their work, setting their own agenda, receiving only directions from the KA manager and purchasing manager, respectively. The multilevel selling organization \(^{29}\) that occurs enables the personnel from various organizational levels from the supplier organization to call on their counterparts in the buying organization. Thus, the KA manager might call on the customers’ purchasing manager, while the selling firm’s Vice President of Finance calls on the buyer’s Financial Vice-President. The borders between the buying and the selling company have become blurred, and the focus teams really do the job, with the functional levels in both organizations being put at their disposal. Apart from the knowledge and experience of the employees involved in KA teams, the crucial thing is their motivation and drive. They must be completely devoted to KAM activities and act accordingly. Only in that way could the cooperation between them create the synergies that would serve the customers.

3.4.6. Global/local issues

When many of today’s MNCs started to expand abroad in the 50s and 60s, they were merely replicating the organizational structure from the home markets, often ending up with geographical organizational structure, only on a larger scale.\(^{30}\) Thus the MNCs became a sort of a collection of national companies under one owner, or an extension of parent company, only on lager scale and in deferent countries. Combined with the product or service focus most of them have adopted, the final result was a variety of sales representatives serving one customer within a geographic territory.

Nowadays, with the rapid changes in the economy, driven by globalization and technological advances, the situation has changed drastically. The large companies are becoming even larger through M&As, and at the same time, they are centralizing more of their purchases, in order to increase their bargaining power over suppliers. The agreements are reached at the

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\(^{29}\) Boyd, Walker & Larreche, 1998

\(^{30}\) Financial Times, December 2000
international level, with suppliers chosen on the criteria based on their global capability to provide desired level of service, in all markets where the buying company has presence and operations. At the same time, the challenge remains of how to deliver and coordinate the agreed, as the situation from country to country might vary drastically. The selling company’s HQ defines its global capabilities, and the global framework for each KA is negotiated in the buying company’s “home” country. Agreements within the framework, but tailored for local conditions are managed in each geographic market (McDonald and Rogers, 1998). When this is the case, the responsibility for international KA is usually given to the national subsidiary in the country of the buying company’s HQs.

The multi-cultural management requires great attention when dealing with these issues, because as many as 100 people from different national subsidiaries might be involved in serving large international KAs worldwide. Above all, international KAM requires close attention to co-ordination, and sensitivity to trade-off between global integration and local flexibility (Millman, 1996, from McDonalds, 1998). Finally, as the selling company has to follow closely its customers, it might happen that different customers require different approaches and modes of co-operation, thus the selling company might have to organize its KA activities in more than one model at a time.

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In this chapter, we tried to give a broad overview on the issue how and why the KAM concept emerged. The marketing literature claims that KAM emerged as a result of the practical needs of the companies as well as the product of the logical development of the marketing science. Having in mind the purpose of this thesis, our research problems as well as the complexity of the existing theories, we have tried to summarize what was previously elaborated on, and as a result of that, we came up with the research model that is used as a guideline (pattern) when presenting and analyzing the empirical findings.
The KAM theory could be considered as the evolution, a further step in the development of industrial marketing, relationship marketing and organizational buying behavior theory. Since its establishment, industrial marketing has tried to scientifically explain and present the nature and scope of exchange processes between business partners, focusing on the business-to-business (B2B) field. Seen in such a broad term, industrial marketing has developed in various directions, covering ever-increasing topics related to the business transactions between different parties and relationships arising from them.
During the course of our work, we argue that KAM is not an option, but an absolute must for the companies that wish to become or remain as “global players”. As the starting point is that KAM has to be developed and implemented (this has been tested and confirmed during our research), the research model has been made to present simplified, yet comprehensive model that could be further used by our case company, but also other companies when developing and implementing the KAM concept.

It aims to cover both aspects affecting the organization developing and implementing KAM, the external one, dealing with the overall relationships between the supplier and its customers, and the internal, affecting the organizational structure and processes within it. The latter are studied in order to define how they should/could be adjusted if the company wants to develop capabilities for the successful development and implementation of KAM.

Two parallel aspects of KAM theory have been investigated in the course of our study, (1) those affecting more general aspects of the KAM theory, as a part of wider buyer-seller networks, and (2) generalizations on a company level. Therefore, the research model is built up upon the previously discussed theoretical concepts and the practical needs from the business organizations for a simple, yet effective, model for KAM implementation as an answer to changing business environment and new demands.
3.2.7. Research model

Main research problem
How can an MNC implement and develop KAM in order to improve and sustain its competitive position?

Research problem 1
How to identify and select the Key Accounts in specified market segments?

Research problem 2
How can an MNC assess the different demands of its Key Accounts?

Research problem 3
How could an MNC adjust its structure, resources and capabilities in order to successfully implement KAM?

STEP 1: Identification and selection of the Key Accounts
- Importance of the customer’s strategy for the supplier
- The nature of buyer’s decision-making process
- Benefits and importance of deepened supplier/buyer relationships
- Range of products and services of interest for the buyer
- KA selection strategy

STEP 2: KA Teams
- Select and appoint KA manager, team members and extended KA teams
- Managing (coordinating/delegating) the activities
- Position KAM activities within the organization

STEP 3: Account Situation Analysis
- Account intelligence
- Goals and objectives for each account
- Growth strategy for each account
- Service delivery strategy development
- Synergy effects

Conclusions and implications
Source: Own
Chapter 4. Empirical study

In this chapter, we present the empirical findings from our field studies in Sweden and abroad. The findings are presented by following the research model, in order to give the comprehensive and structured overview of the current situation in the respective areas of KAM in the case company. Both primary and secondary data are used, thus raising the quality and extensiveness of the presented findings.

4.1 Introduction

The KAM concept is relatively new in the Volvo CE organization, as its development began less than two years ago, and until now, the company has applied the “trial and error” (or “learning by doing”) method in KAM development. Therefore, many of the processes connected to its development and implementation are at the early stages, with some advancing at a faster pace than the others. Having in mind that it is widely believed that it takes from 5 to 10 years to fully develop and implement business concept of this kind in the organization, we present the current achievements of Volvo CE in this respect, as well as activities and processes whose initiation and/or results are yet to be seen.

For KAM implementation and development, the strong commitment and support from the top-level management is necessary. The situation in Volvo CE in that respect is very favorable, as the top executives are not only supporting the idea of KAM development in the company, but are actively involved in that process themselves, and the Senior Manager at the Vice-President level is coordinating the KAM activities. His role is to monitor the development and implementation of KAM in the organization, provide executive-level support and assists in all strategic and major operational activities.
4.2 Identification and selection of the KAs

4.2.1 Importance of the customer’s strategy
The customer’s strategy is of great importance for Volvo CE when deciding on identification and selection of their possible KAs. After the creation of a relatively broad “wish list” of the current customers with which the company wants to developed KAM relationships, the detailed analysis of the potential KAs has been initiated. Volvo CE is aware that in order to develop the right approach to the specific customer, it is essential to know and understand its buying process and decision-making authority structure. In that respect, the members of the KAM team have been selected in such a way that collect people from the entire Volvo CE organization with the best insight into the situation of each individual customer. The company believes that information regarding purchases cannot be obtained from secondary sources, especially not the key factors influencing the final decision. Therefore, the knowledge gained through personal relationships of Volvo CE people with their purchasing and/or decision-making counterparts in buying organizations is of the utmost importance.

4.2.2 The nature of buyer’s decision-making process
Volvo CE pays attention to the issue of customers’ centralized/decentralized purchasing decision-making process when developing KAM activities. In that respect, the detailed survey of the customer (Customer Business Plan, as it is called by Volvo CE) is done and agreed on the meetings of the KAM team. The information is gathered from both the global level, including the contacts with top-level managers from buying companies, and local level, from the respective country managers and their staff.

In the case of Poland, where one part of the field study was conducted, the visit to local subsidiaries of large MNCs operating in cement industry (RMC and Heidelberger) revealed that important information considering the authority regarding procurement could be retrieved at the local level. The local managers proved to have good insight into their companies’ organization of purchasing activities. Volvo CE is trying to develop a certain type of framework
agreements on the global level with both types of their customers, those having centralized and those having decentralized procurement.\footnote{Bob Rhead}

4.2.3 Benefits and importance of the deepened buyer-seller relationship

Benefits and importance of the deepened buyer-seller relationship is another important point. Volvo CE is trying to assess the potential benefits of closer relationship that arises from the KAM for both parties. Out of the “wish list” of 50 potential customers, the deeper screening and analysis of some has started, while others are still in different phases of the initial screening process.

In order to assess the potential benefits for the customer, the screening of the customers’ business environment is done, in terms of industry analysis, identification of general industry trends and assessment of impact they might have on the specific customer. In that manner, the understanding of the customer’s situation, as well as the threats and opportunities are analyzed. The customer analysis ends with the analysis of volume and value of customer’s purchases from Volvo CE. It also includes (or will include when KAM is fully implemented):

- Positive objective that wants to be achieved with each individual customer
- SWOT analysis
- List of customer needs,
- Survey of what the competitors are doing
- Plan for combined efforts of Sales and Product Specialist and
- List of local activities that need to be undertaken.

The benefits for the supplier (in our case Volvo CE) are assessed from both strategic and operational point of view. Taking into consideration strategic long-term benefits, the company is trying to achieve so-called “preferred supplier” status with its KAs. However, Volvo CE is realistic and accepts the fact that it is very unlikely that it will secure a position of the only supplier to its customers, no matter what efforts company’s undertake. This is because of customer’s strong determination to keep certain autonomy and independence in
regard to their suppliers, thus controlling and limiting the supplier power.\textsuperscript{32} The “preferred supplier” category would mean that company is regarded as a strategic supplier in the long run, and that its offers, if at the similar level as those of other suppliers, will be accepted. The company does not know, on the other hand, whether in some cases the purchasing decisions can be co-coordinated from central level to the extent that the customer’s HQ can actually order the local subsidiary which producers to chose for their local supplies.

Development of its own resources and capabilities is one of the main strategic benefits that Volvo CE wants to achieve from the deeper relationships with its KAs. Notably, through close cooperation and joint development of offers that could solve some of the customer’s business problems, Volvo CE is constantly improving its pool of offerings to all potential customers, increasing its capability to meet the specific demands of each new customer. But, apart from strategic, this cooperation brings more immediate, operational results, reflected through customer satisfaction, increased sales volumes and repeated orders, as well as improved profit margins.

Concerning the range of products and services Volvo CE is offering to its customers, it is noticeable that a positive move from traditional product-oriented engineering company to more customer-oriented service provider has occurred. Volvo CE is aware that the nature of competition is changing, driven by the technological advances and by the customer’s wishes and demands. It is no longer enough to provide just a superior product, excellently engineered and produced, at acceptable prices and made at customer’s disposal through efficient delivery channel. The focus of the customer is turning more and more towards complete solutions for its specific problems. In some cases, customers want to completely separate their core business from earth moving component, for example, demanding from the suppliers of construction equipment to take care of that part of their business, providing machines, all necessary support and, in some cases, even operators.\textsuperscript{33} Volvo CE is currently trying to develop its resources and capabilities in that respect, aware of the changing industry conditions.

\textsuperscript{32} Bob Rhead
\textsuperscript{33} Hans Fischer
4.2.4 Range of products and services offered to the buyers
The current product range of Volvo CE consists of wheel loaders, excavators, articulated haulers, motor graders and compact equipment machines. In order to meet the market demands and increase sales volumes and competitiveness, the product range is constantly being expanded, and soon the completely new product for Volvo CE will be introduced – the backhoe loader. Volvo CE believes that despite considerable expansion in product range in recent years, mainly through acquisitions, it is still lagging behind the full range capability for meeting customers’ total needs. In this respect, the introduction of backhoe loader will have several positive impacts - it will establish Volvo CE in a highly sought market segment, enabling it to increase sales volumes and market presence, but will also have brand recognition and financial effects.34

Considering the other part of Volvo CE’s offer, the so called “soft products” (the service it offers to customers, in addition to the products), it can be said that it covers most of the traditional lines in the industry, both in product support and business solutions. The product support services include Customer Support organization (CSO)35, providing supply of spare parts, after sales services and training, while Business solutions (BS) are oriented towards covering sales finance, insurance arrangements (against theft, liability, fire and other types of policies), rental and leasing arrangements, service contracts and provision of used equipment and remanufactured components.

Global support is very important component of the business, as the availability of parts and service for the lifetime of Volvo CE machines provides maintenance and accessibility of products and services, ensuring high productivity of the machines. Integrated financial solutions are offered both to end-user customers and Volvo CE dealers, allowing the customers to obtain a customized solution, which permits them to focus on their core business while keeping financial flexibility. Financial products offered by Volvo CE include operating and financial lease, purchase plan/installment credit, sale & leaseback and project financing.

34 Andrzej Lomacki
35 www.volvo.com
In addition to these, in order to meet new requirements, Volvo CE is developing its capabilities to offer new types of services, more frequently demanded by the customers and reflecting the changing business environment, such as the calculation of the exact cost per tone of excavated/transported load, buy-back options, insurance and service contracts, and so on.

4.2.5. KA selection strategy
KA selection strategy in Volvo CE is still not fully developed, due to the already mentioned fact that the implementation of KAM is still at an early stage. Generally, Volvo CE divides its potential KAs into three categories:

- **Local KAs** - Represented by relatively large companies in local terms, often important players in their respective national markets.

- **International contractors** - This group is made of large, globally active international companies mainly present in the international construction business. Swedish companies Skanska and NCC are good examples of companies belonging to this group.

- **Global KAs** - Large foreign companies directly established in different countries through long-term direct investments, and thus present in the form of subsidiaries in these local markets. These customers have drawn most of our attention in the study, and are represented by large multinational cement producers such as British RMC, German Heidelberg and French Lafarge.

However, the company has still not narrowly defined what specific characteristics it expects from a customer to have, in order to be classified as the KA.

At the begging of the process, the previously mentioned “wish list” of some 50 major customers was made, based on established relationships with these customers. The detailed process of scanning through these customers was established, and a number of criteria selected, upon which the customers were to be analyzed and detailed customer maps drawn. These criteria are gathered with the help of Håkan Nirstedt.

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36 Håkan Nirstedt
in the so-called Business Plan for each individual customer, aiming to contain a comprehensive overview of both customer’s present situation and Volvo CE’s position with it.

- The Plan contains information regarding:
  - Customer’s strategic and financial issues and positions globally and by countries
  - General industry trends and
  - Situation regarding present “machine park” and purchasing volumes of construction machinery.

- Information regarding Volvo CE contains:
  - Figures on Volvo CE’s share in both previous categories
  - Members of the KA team for that customer
  - Key contacts in the customer’s organization including the list of contract key elements with that particular customer
  - Customer’s reasons for choosing Volvo CE as a supplier (in order to assess own strengths and weaknesses), and
  - Detailed list of activities to be undertaken in order to serve the specific customer

4.3 KA Teams

4.3.1 Selection and appointment of KA managers, team members and extended KA teams
When the introduction of KAM in Volvo CE began, the company undertook an evolutionary approach, which is a widespread practice in many companies developing KAM. Regional Managers, in whose area of responsibility large customers selected as KAs were located (their HQs, that is), were appointed as KA Managers for those accounts. These people are selected to act as KA managers because of the good customer information and contacts, and are delegated to identify, establish and develop high-level contacts with KAs. They are involved in a range of activities, such as global account planning, reporting and evaluation, co-ordination and development of customers-focused structure and processes and identifying key business opportunities with the account. However, the pattern was not totally unified, as great attention was paid to the
influence of historic links and established relationships. In some cases, when certain managers had developed relationships with decision-making managers (Deciders - See Chapter 3, organizational buying behavior) in customer organization, they were appointed to be lead KA managers for those accounts, even if they have not formally covered the area where the HQs of the customer were located.37

At the moment, the KAM Group, as the core KA team in Volvo CE is called, has six people, but as mentioned earlier, only the leader of the group (the Senior Vice-President of Volvo CE) is fully involved in the KAM activities. The group keeps regular contacts and shares information among each other, and meetings are held approximately once a month.38 The decisions of the KAM group are made jointly, and it co-ordinates communications and KAM strategies throughout the organization.

4.3.2 Managing (coordinating/delegating) the activities
Managing of the KA activities is performed on two levels/dimensions – global and local.

At the global level, experts from the company in different areas are involved in KAM activities, but also experts for different regions can take over the role of lead KAM after the members of core KAM team have established the contact and agreed the framework for co-operation with the customer.39

The lines of communication stretch from the local level (country/market) to the member of KA Group in whose geographical area particular country lies. This manager is then responsible for transfer of information to the person acting as the KA manager for a specific account. Thus, when these two persons are in the same KA team, the communication takes place within the team boundaries, but if they are not members of the same team, the cross-boundary communication occurs. The same process takes place in the opposite direction, when the KA manager has to communicate information regarding specific account to the local level. Thus, the direct communication between the global KA manager and local representative serving the same account almost never happens.

37 Bob Rhead
38 Ibid
39 Hans Fisher
4.3.3 Position of the KAM activities within the organization
Positioning of KAM activities within the Volvo CE organization is still an open issue. The present organization with geographical division was introduced several years ago, and currently the parallel development of product-line division is under way. The KAM activities stretch over current formal organizational parts and reporting lines, and only one person (the Senior Vice-President) is explicitly appointed as KA manager and involved in development and implementation of KAM. He is the only one with full-time involvement, while other members of KAM teams devote up to 50 percent of their management time to KAM activities.

4.4. Account situation analysis
Volvo CE is aware that deep analysis of each account situation is one of the key elements when developing and implementing KAM. The company sees this step as essential due to the fact that supplier must know very well the needs and requirements of each of the customers in order to provide them with a customized offer that would secure comprehensive satisfaction and deepen the trust and understanding between the partners. Good account analysis provides the company with the “tool” that enables it to act before the competition and thus creates the possibility for winning the “preferred supplier status”.
4.4.1 Account intelligence
The data on which the KA situation analysis is done in Volvo CE is primarily the data that KA Group members gained through their contacts with the customers as well as from the contact with other actors in the industry.\textsuperscript{40} Also, KA data are collected from other (secondary) sources such as the Internet, customer’s annual reports, business magazines, publications etc. At the moment, the most of the intelligence is the responsibility of KA Group members appointed as KA managers for certain accounts.

It has to be kept in mind that the KAM concept is relatively new for Volvo CE and that the data collection channels are not optimized, formalized and structured. The data collection methods differ on case-to-case basis and depend on the duration and history of the previous contacts with the particular customer. However, the Volvo CE management has realized the need of formal structuring of the data collection channels and methods, and some actions towards improvements are considered.

4.4.2 Goals and objectives for each KA
Volvo CE classifies as KAs those customers that have attracted higher shares of the Volvo CE sales as well as have considerable business potential for the future. Volvo CE undertakes various activities towards identifying the goals and objectives for each KA. The nature of these goals, objectives and expectations depend on the importance of the particular KA for the Volvo CE’s overall strategies, as well as on company’s ability to meet the demands of the specific customer. The goals and objectives are jointly decided in the KAM Group, and then presented in the Business plan for each KA.

For the time when interviews with Volvo CE representatives were conducted, the process of setting up goals and objectives for their KAs was in the development stage.

However, Volvo CE agrees that the goals and objectives for each KA must be based on the company’s resources and capabilities. This means that when identifying the goals and objectives, Volvo CE takes into consideration its own business situation and availability of resources and capabilities, and based on

\textsuperscript{40} Andrzej Lomacki, Håkan Nirstedt
these factors creates the strategies and approaches that will drive each KA towards closer long term cooperation with Volvo CE. As a result, benefits are expected to emerge for both parties, Volvo CE and the KAs. The goals and objectives for the account are defined in terms of raising the share in the volume of customer’s orders, generally and considering specific type of units, as well as to raise to higher level the deliverance of service products.

4.4.3. Growth strategy for each account

Volvo CE believes that its business success could be speeded up through creating offers that will assure long-term success and profitability to its customers.\(^\text{41}\) Actually, that is one of the reasons why the KAM concept was initiated in Volvo CE. The closer relationship, for the time being, is sought through more frequent contacts between Volvo CE and its KAs as well as willingness to share between each other the future business plans, growth strategies, needs and the possibilities for joint projects. This also includes the involvement of technical staff from the customer’s organization offering their expertise in order to contribute for product development and improvement of machines.

As a result of the fact that the KAM concept was introduced in Volvo CE less than two years ago, and having in mind that for the full establishment of the KAM business concept much longer period is needed (5-10 years\(^\text{42}\)), Volvo CE is currently involved in various activities that aim to convince the customers that it is the one that could speed up and sustain their business success, profitability and competitiveness, thus driving them into more closer relationships.

The main directions of the growth strategy for each KA are jointly decided in the KAM Group and, for the time being, for several KAs a list of the more or less concrete steps has been drafted in the Business plan. The KA managers appointed for respective KAs are in charge for implementation of these steps.

\(^{41}\) Håkan Nirstedt
\(^{42}\) Lars Rohwer
4.4.4 Service delivery strategy development

Service delivery strategy development deals with the issues of how the companies, in our case Volvo CE, serve their customers on an international scale. When aiming to create global competitiveness, Volvo CE is not just trying to establish good relationships with KAs, but the company develops resources, capabilities and management skills that support the high-quality standards promised to the KAs on the global level.

Great danger lies in promising something that cannot be delivered.\(^{43}\) Volvo CE thinks that this is even more important in the case of construction equipment industry because this industry is highly capital intensive, meaning that buyers make heavy investments and generally expect the suppliers to deliver high quality products and after sale service. The costs of the machines whose operating has been stopped for any reason, might be multiplied several times due to high penalties and short time limits for projects and other activities, directed at saving costs.

It is a challenge for Volvo CE’s organization to deliver high-level service to its customers as its capability to deliver a constant level of service varies significantly in different regions and countries. Sometimes it is even necessary to “follow” the customers into certain projects and establish the service and maintenance outlet, what is the case in some large construction projects in distant geographical areas.\(^{44}\)

Volvo CE’s main competitors Caterpillar and Komatsu have already made significant investments towards upgrading their distribution and service networks on the global scale, especially in the emerging markets. The investments have been done with the purpose of meeting more efficiently the requirements of their customers. So if Volvo CE wants to sustain and increase its competitive position, similar developments in this respect must follow (extension of dealership network, greater availability of spare parts and faster response to both specific customer problems and overall market trends).\(^ {45}\)

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\(^{43}\) Lars Rohwer

\(^{44}\) Hans Fischer

\(^{45}\) Field study in Poland
To illustrate, Volvo CE covers the Polish market with three service posts located in the major industrial centers in Poland as well as with several mobile service posts.\(^{46}\) This network is supported by the Volvo CE’s dealership network established in Poland. However, according to Volvo CE representatives, its service delivery network still lags behind the direct competition, seen in Komatsu and Caterpillar.

### 4.4.5 Synergy effects

The synergy effects, between Volvo CE and other Volvo’s Group members when creating offer for their KAs, are high on the Volvo CE executives’ agenda. Possibilities for synergies are mostly seen in terms of creation of joint offer to the customers of more than one Volvo Group member. For example, synergy effects between Volvo CE and Volvo Trucks have been achieved in terms of creation of joint offer and joint approach towards Skanska AB, regarded as a KA for both parts of Volvo Group.

The cooperation contains not only joint approach to the customers, but also the regular exchange of business information about their KAs. Regarding the latter, although some sort of pattern for exchange of information does exist in the form of meetings between the executives in charge of KA activities in the both parts of Volvo Group, it is still not put on a formal organizational level in terms of creating official joint body that could take care of the activities in that sense.

Volvo is a huge corporation, with established presence and activities all over the world, with developed local networks and knowledge, and large “good will” assets stocked in the brand name recognized and preferred in many countries and segments.

When establishing in some markets, Volvo CE used facilities of Volvo Trucks (as in the case of Poland). Some synergy effects are achieved between Volvo CE and Volvo Trucks in Poland as a result of sharing the same brand (Volvo), as well as some synergies in terms of cost savings emerging from the fact that these two entities share the same corporate offices in Warsaw and to some extent the dealer network.

\(^{46}\) Ibid
Chapter 5. Analysis of the empirical results

In this chapter the analysis of the empirical data is presented. Analyses are conducted by following the same methodology as when the empirical results were presented. Also, comparisons between Volvo CE’s KAM practices and other companies that are implementing KAM are presented. Comparisons are mainly done with the Volvo Trucks, Atlas Copco and ABB Group KAM practices.47

5.1 Analysis: KAM from the network perspective

The KAM could be regarded as the further development and deepening of the company’s network strategy, as the relationships with KAs have to be developed along different lines and on different levels. The network strategy model (see Figure 3.2 in Chapter 3) can be used for the explanation and analysis of the trends arising from reduced supplier base and focus on relational efforts between the customers and few strategic suppliers. This will bring the surge of sensitive information sharing and joint strategic planning, as well as joint R&D. This encourages the creation and strengthening of the multiple levels and multiple type links, which will be extremely difficult to untie. The impact of this is that customers and suppliers are economically and legally tied by common strategic decisions and processes worldwide, and intensive financial and social bonding, with large global investments causes exit barriers for both partners to be lifted.

5.1.1 Web strategy

As part of this view, the web strategy is present in all three dimensions. Vertical dimension is one that is most easy to see and analyze. When developing KAM practices with its KAs, the bonds between supplier and customers are defined as the strategic partnership, and the supplier is finally seen as the strategic resource of the buying company. Thus, as the links between two companies become closer and their relations interconnected, the vertical dimension of their relationship is strengthened. While the two parties are still separated entities, the position of other party in the company’s

47 Note: In order to protect the confidentiality character of some of the data provided to us by the interviewed companies, for the comparisons purposes generalization is undertaken and no confidential data is presented.
production chain becomes almost impossible to replace, as their operations and strategies affect each other in different ways. As much as the supplier influences the buyer’s production process with the delivery of products and services, the customer’s needs and opinions shape the supplier’s plans and future development, e.g., the customer has significant influence on the development of new products, and especially services and total solutions, which are often customized to suit its specific needs. In the case of Volvo CE, the wish to integrate more customers’ technical and other persons in the development of products and services is particularly stressed (in the Business plan for individual customers), and in the case of other interviewed companies, the practices of customer’s participation in the planning processes is already established.

The horizontal dimension is present mainly in the development of delivery strategy. In order to create the total solution offers in all different ways, the complementary products might be included in the offer in order to make it more attractive for the potential customer. Since Volvo CE is represented in many markets by the independent dealers and distributors, they sometimes broaden their offer by having supplementary products (mining equipment, for example) supporting their basic offer of Volvo CE machines.

Finally, the diagonal dimension relates to the development of relationships with for example financial institutions, i.e., banks and others, in order to provide financial services, arrange leasing agreements etc, as the part of “total solution” package.

5.1.2 Competitive strategy
Competitive strategy is seen in terms of offer by which the supplier is trying to differentiate itself from its competitors. While in the traditional industrial marketing characterized by transactional relationships the offer was mainly build of products of certain quality and price, today the term offer has been broadened to contain all necessary things needed to supply the customers with total solution. Although a lot of large buyers are still likely to act as “price-hunters”, the harmonization of prices at a certain level across the markets, operationalized through frame agreements, is becoming a major trend. After all, even if most of the customers expect “added value” from the deeper
relationship with the supplier, they expect the larger volumes and stronger commitment to certain suppliers to be “paid off” by generally lower and more stable prices. Finance, delivery strategy and solutions and especially additional service are becoming more important. These particular aspects will be further analyzed in the following sections.

5.1.3 Linkage strategy
The linkage strategy is of particular importance when developing KAM. As mentioned earlier, it particularly concerns the way of dealing with customer relationships.

The products and service linkage will have to be changed by the development of such products and services that would be directly applicable in all markets, and the quantities purchased from individual suppliers will increase, as the impact of global purchasing frame agreements. The KAM solutions are, and will be even more in the future, transferred across different geographical regions. The KAM practices often include buyers that make significant investments in complex products and services, with highly strategic importance and value, and long-term perspective. Finally, the products and services supplied should be the base for the suppliers to move up the customer’s value chain, in becoming the “strategic asset”, involved in customer’s critical processes.

Information and knowledge linkage is of crucial importance, since many of the “added value” processes depend on the broader and deeper information exchange between the partners. Indeed, without the enhanced information exchange, the KAM could not be developed at all, and would only be another phase of sales and marketing improvements. We have found out that in the process of KAM development, the nature of both inter-and intra-company information exchanges has undergone substantial changes. The number of interfaces between a customer and supplier will greatly increase, and therefore the information exchange will follow suit, with increased amount of information flowing between companies. Thus, these processes will have to be globally co-coordinated and filtered. For the successful development of KAM in the companies, a new types of information systems (IT) needs to be developed, in order to make it possible for the suppliers to obtain detailed
customer specific information. Vice-versa, the customers also expect the suppliers to provide them with both local and global market information. In order to make this possible, previously dispersed or uncollected information have to be gathered and sorted in an efficient way, and this is likely to become one of the major competitive tools in the future. Apart from the information and knowledge about specific customers, the companies also need to deepen their knowledge and understanding of the wider industry conditions of their buyers and overall business environment conditions. All suppliers that have successfully developed and implemented KAM practices have mastered the processes of obtaining and analyzing this type of information. They are used for two purposes, both to understand the customer’s situation and to predict its behavior, and to help customers by delivering consultancy services and/or useful information. Common planning and forecasting on a higher level will increase information exchange, and the content of information is likely to change, as more deeper, and thus sensitive information sharing between the firms is developed.

In addition to the linkages made by the flow of products and services and information and knowledge, exchange linkages also consist of social and financial exchange.

The emergence of global relationships has initiated new forms of spanning cultural and spatial distance. Cross-border and cross-cultural understanding and management have become major prerequisites for the developing of international KAM practices. The social interchange involves top decision-makers from both the buying and selling company, spreading down the corporate leader to include members of different teams at different organizational levels. Mutual trust needs to be developed at all levels if the cooperation and information exchange are to be upgraded.

Financial linkages have also gained in importance. Not only that but often one of the most important aspects of KAM development are the financial arrangement implemented in it, but the reduction of the supplier base of the buyers is creating a considerable increase in the size of business transactions between the customers and selected suppliers. Consequently, much larger sums of money will be exchanged. Customers will benefit from a different spectrum of financing possibilities, with generally lower prices and long-term contracts.
The financial linkages are strengthened by the involvement of both supplier and customers in joint investments and other types of common projects.

5.2 Analysis: Identification and selection of the KAs

As presented in the empirical part, one of the most important issues when developing and implementing KAM within Volvo CE has been the formulation of overall customer’s strategy, and also the specific customer’s strategy regarding the choice of suppliers and the expectations from them. Volvo CE has long tradition of cooperation and relationships with customers selected as potential KAs. As a result of that, some knowledge about customers’ business practices has been accumulated over time. Employees involved with serving these customers had also developed deepened relationships with customers’ employees, often at managerial level. In addition, the information and knowledge regarding long-term strategic decisions have been available to Volvo CE people in many cases, as frequent contacts enabled quality information exchange.

5.2.1 Importance of the customer’s strategy for the supplier

The customer analysis and its strategies might be divided into two levels:

1. The first, more general one, is concerned with the business conditions in the industry in which the specific customer is operating
2. The second is concerned with specific customer, its competitive position and strategies.

Volvo CE is trying to follow, and understand, the general industry and business environment in which its customers operate in, in order to assess the future trends in the industry. By doing that, the supplier can predict not only the possible actions and strategic decisions taken by the customer in respect to the changing industry conditions, but also the knowledge and understanding gained through these activities enables the supplier to create better offers for its KAs.

The second level of analysis should bring the understanding of the customer itself, its problems and challenges, and by jointly trying to find solutions for them, the companies enter the process of mutual value-creation, whose final
result is the so-called “strategic partnership” relationship. At the moment, as the process of KAM introduction in Volvo CE is still in the initial phases for most of the customers, and as the company is developing the general pattern that will be used for all its KAs, much of the knowledge regarding specific customers is still not being fully used, i.e. it is waiting until the development of Business Plan for that specific customer is initiated.

At the second level of the analysis, information regarding organization of the buying process and decision-making is of great importance in deciding how, and at what level, to approach specific customers when developing KAM concept. Most of the buying companies classified as the potential Volvo CE KAs have, due to the processes of globalization and sharpened competition arising from it, changed or at least started to change the organization of their purchasing systems and processes. Actually, in many cases, customers themselves were the initiators of closer relationships with their suppliers, as they started to reduce the number of the suppliers and looked for closer cooperation with the ones that were chosen. As regards most of the large customers, centralization of the buying process has occurred, or at least the purchasing policy with the basic goals and frameworks on the firm level have been established, as is the case with those with more decentralized systems. Volvo CE is aware of these issues connected to the market position of its customers, but still the process of comprehensive information gathering and strategy definition is lacking for many customers, as the Business Plan has been developed for only a limited number of them.

The experiences of other Swedish-based MNCs with whom the interviews have been made, show that the information regarding the first, general level of knowledge about industry trends and customers’ general strategies resulting from them is also taken as the vital part of the KAM development. Knowledge is gained from various sources, both primary and secondary. With the surge of modern telecommunications and development of Internet, the spread of information has become much faster and easier. However, in most of the cases, the information gathered from those sources has mainly quantitative characteristics, while the real information having quality and containing crucial decision-making data is still gathered through the personal networks

48 Bob Rhead
established with people from the buying organizations. That knowledge is not only used for the company itself, to better understand the customers and predict its needs and behavior, but also as one of the competitive tools. The market knowledge in this sense is used to inform the customers about present or future possibilities on the market, where the customer might win new businesses. It is thus used for mutual value creation and also, to help customers increase efficiency, improve profitability and competitive position in the market. At the same time the companies are in that way looking forward to win new orders from the buyers, increasing both their own and the customer’s share of business. The company using these data in such way hopes to be looked upon by the customers as the “strategic asset”.

Even more, one of the interviewed companies stressed that in order to develop deeper relationships with the customers, the supplier should have significant knowledge about customer’s industry, manufacturing and business processes.

5.2.2 The nature of buyer’s decision-making process
Two large companies considered by Volvo CE as KAs have been approached and interviewed in order to identify and understand the other side of the KAM, that of the customer’s perspective. Two large areas identified as of having particular importance for the KAM development and implementation, as well as for developing competitive advantages against the competition, have been especially investigated. Those are: the (1) buyer’s purchasing philosophy and (2) their view on future trends in this area.

- Purchasing philosophy
The purchasing philosophy of the customers has been analyzed from two aspects: (1) the extent of centralization/decentralization of the buying process in the organization and (2) what factors will affect the future organization and decision in this area.

From the interviews conducted, we have concluded that the two companies interviewed present two completely different organizational patterns considering the purchasing practices. While one of them was heavily centralized, with the involvement of central purchasing and planning divisions in almost every major purchase exceeding certain level of investments (fairly
low, by the way), the other company was decentralized to such a level that only the directives considering financial and strategic issues were commanded from the central HQs, while all operational issues were left for the local managers to deal with.

1. Centralized purchasing organization
The company with centralized purchasing organization has highly centralized procurement functions at the corporate level in the MNCs home country, despite its global presence. The centralized organization has its roots in historical development of the company, but also in country culture and management style, where the hierarchical structure and bureaucratic procedures are very present and still widely practiced. One of the interviewed companies has signed a global purchasing agreement with one of the big CE producers, and HQ is exercising its power to suggest, and give guidelines, regarding purchasing of construction equipment to the local subsidiaries that they are expected to follow. The company has identified several reasons for the centralization of its purchasing decision-making, the most important being the bigger bargaining power over suppliers and control over expenses.

Local subsidiaries have a certain amount of autonomy regarding investments, depending on the level of investment. That level is, on the other hand, fairly low and even then the control is relatively strict. All other investment, classified as being important for the company from the strategic point of view or the volume of investment (and most of the capital investments connected to the purchasing of the construction equipment fall into this category), need approval from the HQ of the company. The tenders as the first stage of the purchasing process are announced at the local level, offers are evaluated and even the potential suppliers chosen, but then the documentation is sent over to HQ, which has the authority to annul the decision and return it for another, completely new round. One very important issue on the local level is the current composition of the “machine park”, and the historical experiences in purchasing patterns and decisions. Strong preference towards the existing brand of machines was shown and, according to the local managers responsible for purchasing process, only the major problems and avoidance of agreements would lead to the change of supplier preferences.
2. Decentralized purchasing organization
In the second case, the interviews revealed the decentralized pattern of the organization of the procurement. The local subsidiaries of MNC had a very high level of autonomy in making decisions. A certain level of control was, of course, present especially regarding large investments, but mainly after the purchase has been done. The purchasing of the local subsidiaries has been semi-centralized at the country level, with all purchasing orders being done from the one center. Even when the product is perceived as strategically important and significant investments are necessary, purchasing is delegated to business units or local plants. The former mainly covers the commercial part of the process, i.e., ordering itself, while the technical part of the process is being handled in specific production facilities, where local technical personnel has best knowledge of the needs and characteristics of the equipment needed. Thus the tender process is announced in plant where the technical documentation is being prepared and negotiations conducted, and then sent to commercial department for the order to be formally submitted, and all other contractual activities agreed.

- Future trends
It has been noticed that the trend towards global purchasing agreements is becoming very common across both types of organizations. These agreements are signed with two or more strategic suppliers, who are then classified as preferred to other competitors. These agreements represent broad frame-contracts, and “soft” instruments are used to influence local subsidiaries to exercise the agreement on a local level. These instruments are comprised of broad directives, but at the same time the attention is paid to keeping a certain level of flexibility in order to fit local needs and conditions. All respondents think that this type of agreements will become even more frequent in the future.

5.2.3 Benefits and importance of deepened supplier-buyer relationships
When analyzing the question of relationships, one set of questions needs to be targeted within the organization, another set needs to be designed for the customer and its potential benefits. It means that employees (sales people, or sales managers) taking care of the KAs need to be included in the KAM process, and all other employees who have an understanding of the account
need to be identified and interviewed. The analysis needs to cover all aspects of relationship, including assessment of accounts needs, current relationship issues, the account’s decision-making process, KA-supplier interfaces, current strengths and weaknesses in the supplier’s account management and future trends and changes.

One of the crucial things is to make informative comparisons between the account’s view and the supplier’s view on the key relationship issues. It is particularly important to define how the supplier defines the relationship objectives, and the goals set by the account.

A supplier targeting a close partnership relationship is doomed to excessive effort if the account views the product bought as a commodity and wishes to multi-source. Similarly, a supplier that aims to develop a relationship at lower level that the partnership an account is looking for, risks losing long-term share of the account’s business.

Benefits from the deepened relationships are numerous, and are of both operational and strategic importance. The final aim is to foster both partners (supplier and buyer) towards improving and sustaining their competitive positions and advantages over long period of time. In the short term, the benefits might be less visible, however, as in this period the frequent contacts between the high-ranked executives in the supplier and customers organization and information exchange, might result in a rise of the level of mutual trust, which is the base of any future deepening of the relationships. In the medium- and long-run, the aim is to achieve strategic relationship stage (see Figure 3.9 in Chapter 3) between the partners, contributing to the future success for both of them.

Volvo CE is trying through its contacts in buying organizations to find answers about issues mentioned above, but for the time being, it seems that the biggest problem arises from the limited number of people included in the process, thus limiting the volume of work that can be done and the number of customers that can be screened.

One of the companies active in construction equipment business we had interviews with, few years ago recognized a trend that will result in a situation
where a number of international contractors are expected to have a very significant influence on the civil construction worldwide. The company therefore realized that it is of the utmost importance to further develop and improve its relations with the major players in the field. As a consequence a selected number of the major international contractors has been nominated as International Key Accounts49.

In regard to the centralization/decentralization issues, this interviewed company defines two categories of MNCs:

- Companies with global presence and relatively decentralized organizational structure and, consequently, decision-making systems. Development of these often regionally divided parts is relatively independent, and the best example could be the leading US automakers General Motors and Ford, whose American, European and Asian operations are almost completely separate, despite their global presence.

- The other type of KAs has been classified as the International Accounts, whose global and or/regional presence has been coordinated from one center, where most important strategic and operational decisions are made. Following the example of automobile industry, VW, Fiat and Renault might fall into this category.

Our field studies show that Swedish-based MNCs base the relationships with their KAs on several “corner stones”. The “corner stones” primarily depend on the nature of the industry as well as on the driving forces of the industry the company belongs to. According to our interviewees, the major reasons for KAM implementation in their companies are:

- Building strong brand in the eyes of the customers
- Because the customers wanted it
- To increase competitiveness
- To achieve sustainable growth

49 Internal company terminology
In their view the KAM implementation is based on:

- Trust between partners
- Development and delivery of reliable and top quality overall offer
- Commitment to meet the customers’ expectations in every aspect so the customers could feel that they have been “taken care of”

Other reasons and aims of the company are identified as an opportunity to better develop the understanding of customers and markets, lower transaction costs, large project pursuit, increased cross-selling, economies of scale and improved profits and market penetration.

5.2.4 Range of products and services of interest for the buyer

According to our interviews, the customers in the construction equipment industry have become fewer, but larger, and also increasingly international. Buyers are generally price sensitive for different products if they can purchase the same level of advanced technology, service and product performance from various producers. Hence, the challenge is to offer a portfolio of unique products for certain demands by offering the appropriate mix of the product itself, financial, leasing and insurance services, maintenance programs and supply of spare parts. Customer reliance and customer service agreements play a crucial role in a company’s market success. Of course, the fierce competition in the industry makes price one of the leading drivers for consumers’ decisions. The impact of price on buyers’ decisions is comparably low considering the importance of an overall package containing all services.

Companies must develop a fast and efficient product development cycle to adapt in order to meet the ever-changing customer demand. The latest technology is being used to reduce product development time, improve productivity, and lower operating costs.

Volvo CE is an innovative company. For example, it invented the most operator-friendly automatic transmission on the market and the patented TP linkage system for wheel loaders, load-sensing hydraulics, high-performance, low-emission engines and the market’s safest operator cabs.
One other very important issue is connected to the width of product range, since the corporate strategy of Volvo CE for delivering its products and services is the development of independent dealer network. Independent dealers are first and foremost interested in their own financial results and profit targets, and since the product range that Volvo CE is capable of offering is not wide enough to secure success in the market, and in some cases even the very survival of dealers, they have to include other products in their offer. While Volvo CE hopes that only complementary products will be included, that are in line with the current Volvo CE offer, but in many cases this is questionable. As already explained, customers are pushing for the complete problem solution offers, and dealers are themselves under pressure to deliver them. The limited and incomplete product range is making it very difficult for them to achieve, and in some cases even preventing them from creating such an offer. In this situation, it is very hard for Volvo CE to develop and sustain significant, or even major share of mind of their dealers. Where the company is operating through its own dealer network, the development of these ventures is impeded by the same problems and limitations.

- **Capability profile of Volvo CE**
In order for a company to develop and successfully implement any competitive strategy, appropriate internal resources and capabilities are needed. For a local subsidiary of the MNC, those resources and capabilities could come from two sources – they could either be present in the country (local subsidiary), or be drawn from the other subsidiaries or the group’s HQ.50

- **Corporate capability profile of Volvo CE**
First of all, due to the type of industry in which it operates and historical reasons, the Volvo CE is clearly a product specialist. (See Figure 3.3 in Chapter 3) The company is manufacturing technically advanced industrial products, with generally low adaptation to individual customer needs. This is due to the fact that customers have a common need for high functionality and consistent quality. High engineering capabilities are the trademark of the company, ensuring advanced product development capabilities and high quality of the products, with economies of scale and market share being the critical factor for success.

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50 Hans Jansson, 2001 – Course materials
Capability Profile of Volvo CE at local level

Volvo CE is at local level represented by sales offices and independent distributors. It is developing the profile of distributor network specialist, meaning that it specializes in transferring capabilities related to distribution to the external intermediaries, who are acting as middlemen. Besides sales, distributors are also able to perform additional activities, such as offering customer service. Furthermore, an already established distributor network can be used not only for reaching customers, but also for many other purposes, like exercising marketing activities and as a two-way information channel for both delivering information to customers and gathering market information about customers and competitors. Apart from that, the joint action between company and distributor must be undertaken to develop systems for satisfying the needs of the customers, which represent critical competitive factors in a certain market. Therefore, those activities range from joint development of delivery systems, service levels, financing and renting arrangements to the customized service and maintenance agreements.

At the same time, in some markets Volvo CE is developing direct linkages with the customers, acting as a distribution specialist. The general aim and policy of the company is to have its own representation in the market only until the distribution levels are developed to such an extent that the direct support from the company is no longer necessary, and when the specific dealer, and all its operations, can be sold to the independent owner that will take over.

The experiences in other companies we had interviews with, show that while product offers are still the backbone of the company’s offer to the customers, service offers are increasingly gaining in importance and have become inexposable part of the overall offer.

Interviewed Swedish-based companies look upon their products as the “platforms” on which service delivery capability is built up. From the very first beginnings of the negotiation process, the “total solutions package “ is presented to the customers, and more increasingly, the customers themselves are asking for such arrangements. One of the interviewed companies presented a concrete example of its ability to deliver complete solution for one of the market segments in which the company is particularly strong. Drills are making
the basis of the offer, but also the arrangement itself can be shaped in such a way that the buyer buys the service of certain amount of rock drilled with price settled per tone of rock excavated, or per cubic meter.

The supplier can offer to its customers a broadened offer in terms of consultancy services (advices) including business project proposals, in addition to purchases of equipment, rental of equipment, after market support, financing support, and market research.

Business project proposal gives a “second opinion”, analysis of the methods, performance and cost of the rock excavation in a project, based on computer simulation software and databases. Purchase of equipment includes purchasing arrangement with or without buy-back option.

After market support as a component in the total package includes: training, commissioning and supervision of the equipment, as well as availability of consumables. Service contracts are also offered, in addition to performance contracts covering cost of the consumables, capacity and mechanical availability. Financing support makes up an important part of the overall offer, since the capital investments needed for this type of projects require significant sums of money over a long period of time. Therefore, the company can arrange access to banking and credit institutions and their services for its customers. Its internal competences and facilities in that respect are also at their disposal.

Finally, one of the most important areas where the supplier is trying to develop a partnership relationship with its customers and win decisive competitive advantage over competitors is market research. The supplier is using its worldwide presence for gathering information on existing and future market opportunities, and by putting them at the disposal of its customers it hopes to win business for them and for themselves.

The other interviewed company is combining the products from different business units while trying to create the “complete package” to its customers, and combining it with superior product expertise and financial solutions, tries to win the orders from the buyers.
Soft product offers
Volvo CE is broadening its offer, specializing in fast, accurate and reliable product support, creating offers with the best equipment and the most cost effective solutions.

With high costs of the purchasing of construction equipment, short deadlines and high penalties for failing to meet them, or high cost of the eventual standstill of the operations in the supply chain in which this equipment is used, customers cannot afford to have machines out of service. Some of the features that customers expect from the suppliers are increased production, fewer sudden-death failures, reduced downtime, higher resale value, lower repair costs, reduced injury rates, reduced insurance costs, longer power train life, better safety features, reduced structural failure, improved employee satisfaction and longer track life.

Customers insist on fast troubleshooting and fast solutions to service problems, and they expect from the suppliers services of monitoring machine performance and helping maintain high availability.\footnote{Andrzej Lomacki}

On-site equipment management, global support, systems expertise, power generation, competitive financing and industry communications, are just some of the services with which the companies in the industry are broadening their offer to the customers, increasingly becoming customer-focused.

5.2.5 KA selection strategy
The theory suggests that at the beginning of the KAM implementation, the company should generate a comprehensive list of “major accounts” that will be pursued through account management. The methodology that is used for selection is the so-called Pareto (80:20) analysis of historic sales.

However, this list is usually interrogated and homed down to a list of those most suitable for KAM. This is done by using both quantitative and qualitative methods of assessment. The quantitative assessment seeks to identify the forecasted growth (or decline) in demand for the supplier’s services over a suitable period, in most cases from 3 to 5 years. The growth in demand is then

\footnote{Andrzej Lomacki}
compared with the forecasted sales for this account. Usually the analysis stretches back a year or two to allow better trend analyses.

The qualitative analysis should give an answer to a number of questions, such as (1) what the customer’s supplier selection strategy process is, (2) how does the company buy from its suppliers, (3) how important are they strategically to the supplier, (4) the range of products and services they buy, and so on. Using both the quantitative and qualitative methods of analysis, a model which positions all the major accounts on a relative basis is created.

At the moment, the Volvo CE uses evolutionary approach that is to some extent in accordance with the theoretical approach presented before. As explained earlier, the company made a list of fifty large customers in different regions of the world, and through individual analysis of each customer is trying to establish whether there is a possibility to classify it as the KA. Every customer is assessed individually and different criteria are used in this process. In some cases, the customer is given the KA status because of the historical links with it, in some other the future relationships are defined as potentially beneficial for the company in terms of strategic and/or competitive position. To sum up, it can be said that Volvo CE is using the “trial and error” approach while making the selection of the KAs, and therefore it has not still created unified strategy or process for their selection.

While this approach has some advantages, as “learning by doing” provides company with great amount of internal information and knowledge, some dangers are obvious when this approach is used.

Although some customers are relatively similar in terms of industry they are operating in, industry conditions, decision-making structure and so on, the one by one approach might take too much of company’s time and effort. As the development and implementation itself takes quite a lot of time (5 to 10 years) there is a danger that the competitors might develop their own systems to extent that could overshadow the eventual Volvo CE’s offer.

The experiences from the other interviewed companies, showed that they had developed a certain list of criteria with which their customers need to comply in order to be selected as KAs. In one of them, the criteria are set quite strictly,
and furthermore, the international constructors (as the example taken is of the customers operating in the construction business) must satisfy at least 8 out of 10 criteria in order to be considered as the KA. To note, a few of them are: the customer needs to have a history and experience, as well as the leading position in the future in its market segment. It has to be a market leader in its home market and internationally successful and growing. It must have profitable operations and be financially strong, with wide spectrum of activities, and is expected to be active in some specific segments of the construction business market which the supplier regards as attractive. The customer must be loyal and pro-company oriented and strive to achieve the best reference and reputation in projects where both companies are represented.

In others, field research showed that the selection process brings the classification of customers into several categories: strategic, major, macro, and new/emerging ones.52

Customers that are classified as strategic are those that possess great potential for growth and are likely partners.

Major customers are big customers whose potential has not yet been tapped, and therefore they are regarded as potential strategic customers.

Customers classified as macro have limited or undefined potential with high cost to serve located in remote, hard to serve regions, and finally, new or emerging customers are coming from the markets where customers are not easily identifiable or understood, and where business development is required.

Benefits for the customers from deepened relationships have been identified in the creation of powerful and competent teams able to solve customer needs, provision of consistent service levels across all customer locations, lower procurement and service costs and faster decision-making.

To sum up, several important general points should be noted. When selecting their KAs, the interviewed companies use both quantitative and qualitative selection criteria. Standardized accounting measurements such as level of

52 Internal company terminology
profitability and financial strength are taken into consideration, together with history of the relationships. However, great attention is paid to the qualitative characteristics of the customer. The notion that it should be a market leader, and that it should aim to achieve best reference and acknowledged reputation in the joint projects clearly shows that the aim of KAM, for these suppliers, stretches much further from raising sales levels, trying to get additional benefits from the mutual relationships, to sustain and enhance companies’ reputation and ensure strategic learning from the operations with the customer.

5.3 Analysis: KA Teams

5.3.1 Selection and appointment of KA managers, team members and extended KA teams

As said in the previous chapter, when introduction of KAM in Volvo CE begun, the company undertook practical steps towards the KAM implementation and development. The first logical step that was undertaken was the selection and appointment of the KA managers. They were selected among the regional managers, in whose area of responsibility large customers selected as KAs were located, i.e., their HQ. Keeping the KA manager physically close to the customer’s HQ is believed to create possibilities for more often and successful communication between buyer-supplier that is expected to result in closer relationship between Volvo CE and their KAs.

Analysis and experiences from the other interviewed companies showed that this strategy is one that could prove as successful if the customer’s organization is more centralized. In that case, KA manager being placed near the customer’s HQ could better influence its purchases on the global and local level through establishing close relationships with top-level executives. The influence over the purchases on the local level in centralized organization is done through the influences of the customer’s HQ over local managers in terms of giving directions for selection of informal group of preferred suppliers. From the supplier’s side this process is fostered through the effective engagement of the supplier’s local managers.
FIGURE 5.1: INFLUENCING CENTRALIZED CUSTOMERS

Source: Own

When analyzing the purchasing practices of customers with decentralized organization and purchasing practices, we have seen that purchasing manager (from the HQ) does not have decisive power over the purchasing manager on the local level. In which case, the companies we had interviews with, focus their attention more on building commitment and deeper relationships with the local managers, due to the fact that they own the major part of the decisive power. However, maintaining a good relationship with the customer’s HQ is still important because it creates a positive climate for the possible future scenarios.

FIGURE 5.2: INFLUENCING DECENTRALIZED CUSTOMERS

Source: Own

The KA managers are involved in a range of activities, such as global account planning, reporting and evaluation, co-ordination and development of
customer-focused structure and processes, identifying key business opportunities with the account. According to our interviewees, the KA manager’s duties and responsibilities vary between different KAM levels such as:

- **Segment KA Manager (SKA Manager)**
The SKA manager is mainly responsible for setting up objectives and strategies for KA segment groups. He is also in charge of providing support to the KA managers and KA teams when dealing with the KAs. His activities should result in consolidated profitability through closer relationship with the company’s KAs. As a conclusion of the previously said, the SKA Manager has two key areas of responsibility:
  
  - Consolidating Global KAs
  - Acting as process (project) owner

- **Global KA Manager (GKA Manager)**
The GKA manager is responsible for the global accounts that appear to have large share of the supplier’s sales. The GKA manager acts as a process user and in a close coordination with the SKA manager. He is in charge of the implementation of the strategies towards the KAs as well as for the global account mapping. His responsibility is to work close with other subordinates and to provide them with support in many respects.

- **International KA Manager (IKA Manager)**
The IKA manager has more or less the same responsibilities as the GKA manager. The only difference is that the IKA managers are responsible for the KAs that are smaller in terms of purchase volumes and geographical size than accounts served by GKA managers.

- **Local KA Manager (LKA Manager)**
The LKA manager is responsible for the local success of the previously set strategies and objectives for the major KAs. He is responsible for providing KAs’ subsidiaries with total solution components, such as training, application knowledge etc. on the local level. Usually, the LKA manager is part of the KA team.
However, it should be kept in mind that not all interviewed companies had all these positions and all these teams mentioned above. The existence of these positions and teams mainly depend on how far the company has developed the KAM concept within its organization. In the early stages of KAM implementation, as seen in Volvo CE case, not all these positions and teams exist. In other cases, when companies reached higher level of KAM implementation, the previously mentioned positions and teams are likely to appear and are proved to be functional.

The KA team, in coordination and cooperation with the KA manager, is the unit that is in charge of KAM implementation and development in the company. The KA team consists of selected individuals, each of them characterized with unique skills and knowledge and has in purpose to contribute to development and deliverance of “total solution” package to the customers in most appropriate way. Our interviews showed that usually the KA team consists of not more than ten team members. More team members could join the team on the temporary basis as extended team members, when the customer requires more customized offer (total package). Usually, extended team members join the KA team when some specific features are required such as: financial, legal, project management expertise, advisory services, special technical advices etc.

**FIGURE 5.3: KA TEAM STRUCTURE**

![KA Team Structure Diagram]

*Source: Own*
5.3.2 Managing (coordinating/delegating) the activities

The management of KA teams and their activities is still unstructured and not yet fully developed in Volvo CE. As previously presented, the Vice-President formally appointed as the head of KAM operations in Volvo CE is a formal leader of the KAM group. He is involved in both strategic and operational activities, both in and outside the company. Inside the company, he is involved in development and implementation of KAM processes, including the coordination of the KAM Group activities. Outside the company, he is in charge of establishing and maintaining contacts with crucial decision-makers from the potential KAs. As this manager is at the Senior Vice-President level, the needed level of authority his position requires is secured. He can both promote the ideas of the KAM development with top executives of the company’ and at the same time ensure the authority on the lower levels of corporate hierarchy.

In the KAM Group decisions are made usually by discussion on all important matters between group members. The Group functions as a team. Lines of communication are not strictly drawn, and communication between Group members depends on their engagement in different KA teams dealing with different customers.

While the communication at the corporate level can be marked as relatively satisfactory, both regarding the level and the content of information exchanged, the coordination of the activities and the flow of information between the global and local level could be improved. Presently, while the members of the KAM Group are trying to establish closer relationships with the global customers on the corporate level, the activates at the local level in serving the subsidiaries of these global customers, establishment of relationships with local decision-makers and local information gathering are not prioritized.

As the level of services agreed with KA has to be equal in all markets where the KA is being served by Volvo CE, the lack of direct contact (even on relatively infrequent basis) between the managers on local and global level prevents exchanging information and opinions. As the situation is now, the meetings between senior-level KAM managers and local managers occur only in some specific situations, when the problems that need urgent actions arise.
The capabilities of the team members at the corporate level are reasonably high. Members of these teams are experienced, well educated, have deep understanding of both the customers and knowledge regarding their needs and Volvo CE’s resources and capabilities necessary to serve them. Thus, the competencies at disposal to the team leaders at the corporate level are very good and the synergetic effects of these people serving specific KA are high. The question arising here is the one about the pressure and volume of work expected to be done by each KA manager.

In theory, the ideal situation is when one KA manager is taking care of one customer. In the Volvo CE, this is clearly not the case. The persons acting as the KA managers are having double areas of responsibility, partly managing their respective geographical areas, and partly devoting their efforts towards managing the KA activities for certain KAs. Delegation of responsibility is preventing these persons in devoting their time and energy fully to performing one type of activities, and is requiring from them set of capabilities which are similar and even complementary. While taking care of the customers on geographical basis requires (depending on the size of the specific customers and its needs) limited level of involvement with it, the KAM activities, as explained, require total involvement with and of the customer. Balancing between these two levels might be demanding, confusing and sometimes even contradictory.

At the local level, the capabilities of Volvo CE are reasonably limited in this respect. Most of the employees perform the sales function, and have to develop expertise in all areas connected to the placement of equipment (product knowledge, service and other “soft-product” parts of the offer). The lack of staff requires relatively large geographic areas of responsibility, with many existing and potential customers to serve and visit. The local sales people have to act as a “one man show”, and gain knowledge of the all relevant issues regarding both the product and the customer. The consequences of this are that it appears almost impossible to form KA teams at local level, and at the same time this is impeding the capability of the local Volvo CE personnel to create and deliver more complex offer to the customer.
An additional problem in this respect comes from the fact that in many local markets, independent distributors represent Volvo CE, and their commitment to serving specific account at the local level, might be very different from the level agreed at the global level. As already mentioned, in many cases distributor’s first and foremost concern are its own goals, which usually do not progress further than the best possible financial performance, due to relatively low market volume, limited prospects for growth in short and medium term and rare orders even from large customers.\(^{53}\) Volvo CE does not exercise control over the people employed by the local dealer, thus the capabilities and competencies, as well as their commitment to the buyer are not always in line with neither customers’, nor Volvo CE’s expectations and needs. Therefore, the communication and coordination of the activities in those cases is extremely difficult to perform, not only regarding KAM, but also in all other aspects of business. The omission of distributor’s employees engaged in delivery of Volvo CE products as a part of the extended KA teams, either at local, but in some situations even at global (regional) level, depending on the volume and complexity of offer, might have negative repercussions on building trust and coordinating mutual efforts directed towards customers.

Experiences from other interviewed companies shows that management of KAM activities at global level requires delicate and patient planning and execution. Not only that these activities are taking place across many national markets, often across continents, in different environments and under different conditions, but also spun across various organizational divisions of the company and/or its subsidiaries. Matrix organizational practices are necessary in almost any case, since overlapping of authorities is imminent. Great attention is paid to sensitive cross-cultural issues, and a lot of efforts are directed towards communication between global managers and those responsible for the account at local level. Overlapping of responsibilities is especially present there, since sometimes differences between country manager and KAM at the local level might occur regarding needed level of engagement in serving specific customers, whose operations might not be so important at the specific local level, but are globally. In cases like this, coordination of the activities is broadened from the KAM team and processes to cross the KAM activities into

\(^{53}\) Field study in Poland
other organizational parts, dealing with the relationships between local manager and area or product line manager to whom he is responsible.

5.2.3 Positioning of KAM activities within the organization
The position of KAM in Volvo CE is currently at the cross-divisional level, with KA teams spanning across different parts of the organization. The corporate level co-ordination is managed from the Senior Vice-President’s level, and the rest of the KAM activities are performed by employees working in various managerial levels without formal structure. The informal position of KAM Group is high due to executive support and high professional and hierarchical level of group members. However, it is unclear when the establishment of KAM organization will take place, as the current geographical division is not likely to be changed in the near future, and the introduction of product-line division is yet to occur.

Without the formal positioning of KAM activities in the organization, the pressure on managers performing KAM activities will maintain, influencing the quality of KA activities. On the other hand, if the company wants to promote the KAM concept with its customers, without the clear KAM organization it will be much harder to devote completely to that goal.

The KAM business concept has been introduced through the Volvo Group, and Volvo Trucks have gone relatively far with its implementation. The large international customers have been dealt with the International Fleet Sales department, which itself was put in the same formal level with other regional clusters (Nordic, Central, East). The department is taking care of sales to international accounts based in respective regions/countries, with a separate part taking care of the accounts considered as global. However, the organizational structure has not been converted to completely separate KA from other activities, because it was realized that despite the significant orders from KAs, they still represent only a fraction of the total orders made. It is thus important to decide whether the large customers, even better, selected as present or potential KAs still make a big enough segment to be given separate organization within the company.
In other interviewed Swedish companies, KA managers responsible for global/large accounts are often ranked high in the corporate structure, most commonly at Senior Vice-President’s level. Matrix organizational structure enables them to take care of specific market segments, and at the same time act as global KA managers responsible both for specific global key accounts and for the management of activities of other KA managers responsible for the accounts in that specific segment. However, although the development and implementation of KAM activities has been initiated and applied in the companies for a few years, until recently those activities were performed as more or less informal activities (even if well planned and structured) and they had only recently been included in the formal organizational structures, thus causing major shifts in the organizational settings and processes, towards formalizing KAM activities.

5.3. Analysis: Account Situation Analysis

5.3.1 Account intelligence
As previously stated the quality of the KA’s situation analysis is factor that determines the creation of “based on facts” strategy and approach that could be easily implemented. It has to be reliable, consistent and in long-term able to create long-term benefits for parties involved in the relationship. Currently, as a basis for doing account intelligence, Volvo CE primarily uses the knowledge and experience of its employees who have previously been working with that particular account. The knowledge about the accounts is shared among the KA team members on the meetings when strategies and approaches for each account are created or analyzed. The knowledge and data known by employees that are not involved in KA teams is not widely used. Also, there is no formal channel for data distribution within the company and uniform data storing practices do not exist. It is a result of the recent implementation of KAM concept at Volvo CE organization. However, recently some efforts towards the creation of efficient channels for data distribution within the organization in the form of files (power point presentations - PPP) about the major KAs, has been evidenced. This can be seen as a basis for further development of the practices and techniques for intelligence data storage and distribution. However, this process is still in development and it is to be expected that this tool will be upgraded and developed.
Comparing with other firms we had interviews with, the level of Volvo CE’s account intelligence practices differs to some extent. However, in some of the interviewed firms it is notable that company’s business intelligence unit is more involved when collecting intelligence data about the KAs. Furthermore, one of our interviewees said that even the whole organization acts as intelligence unit when collecting data about the KAs. When undertaking this approach, the KA team collects account data from all employees in the company dealing with specific KA, because it is believed that every single employee has some data that could bring “new light” regarding the KAs organization or business practices. This provides the supplier with “maximum knowledge” about its KAs that enables it to prepare better offer for its key customers.

From the information obtained by another interviewee, in order to do better KA intelligence, the involvement of the customers’ top management officers in KA teams in terms of engaging them in discussions/forums or surveys could reveal useful information about:

- How the supplier could meet better the customers’ expectations

- How the supplier’s expertise could be channeled in order to deliver higher profitability and success for the customers or

- Customers are asked to present their strategies/plans/organization so the supplier could better customize the offer according to the customer’s preferences.

Experiences show that customers like that approach because it brings them into position to be in the focus of the supplier’s overall business strategy. Even more, customers could see this approach, as a higher commitment of the supplier’s efforts towards fulfillment of their needs. As a result of this approach, the higher level of relationship between the supplier and buyer is achieved.
5.3.2 Goals and objectives for each KA
As said in previous chapter Volvo CE activities towards setting goals and objectives for each account are still under development. However, it is commonly accepted within Volvo CE that goals and objectives for KAs should be based on the company’s resources and capabilities. The major Volvo CE’s goal for its KAs is that its own success and profitability should be achieved through the success and profitability of its customers.

Volvo CE business objectives do not differ much comparing with the other companies we had interviews with, because more or less the words as “customers success”, “customer’s profitability” and “success through the customer’s success” became widely accepted key words within the business society that have in purpose to show respect, care and commitment for the customer.

One of the issues that was not hard to see, while conducting the interviews in Sweden, was that suppliers group their customers mostly according to their strategic importance for the suppliers’ overall strategies, as well as according to their size and potential to grow. Most common distinctions were done between the: global KAs, regional KAs, national/local KAs and international contractors as a special type of KAs. Settings goals and objectives for the KAs often appears to be as setting goals and objectives for each KA group (group of KAs grouped according their characteristics), more than as setting goals and objectives for each KA. According to our interviewees, that is due to the fact that goals and objectives for the accounts within the group/segment differ compared to the goals and objectives for accounts that belong to other KAs groups.

In order to assure the consistency and to prove the implementability of the selected goals and objectives, customer representatives are often involved in this process, so they could argument the customer’s point of view and the customer’s expectations. According to our interviewees, the customer’s involvement in this process assures easier implementation of the chosen goals and objectives and decreases the possibility of misjudgments. In addition greater willingness for customer’s cooperation is achieved.
5.3.3 Growth strategy for each KA

The growth strategies for each account are most commonly seen in terms of customization of the previously chosen goals and objectives for the KA groups. After the goals and objectives were selected for the KA groups, the customization process for each account follows. The customization is done in terms of following the strategies initiated by the customers and undertaking practical actions that would define supplier’s role and position it in the successful implementation of the customer’s strategies. When analyzing the growth strategies in Volvo CE\(^{54}\), it can be noticed that the major part of the growth strategy for its KAs is directed towards quantitative goals that delivers results in shorter terms, but does not assure the success in long-term perspective.

The field study showed that companies distinguish between two approaches when dealing with this issue:

- Intensive intelligence (data collection) in order to identify the customer strategy and expectations from the key suppliers, or

- Direct discussion/communication between the supplier and the customer, that has in purpose to identify customer’s expectations from its key suppliers.

This approach is beneficial for the both parties, because by this, the supplier assures the long-term perspective of its success, and on the other side the supplier assures its fastened growth. Which one of the previously mentioned approaches will be undertaken, primarily depends on the level/stage of the supplier-buyer relationship. However, in practice, both approaches have proven as successful in different relationship stages.

It has to be noted that many companies use both approaches at the same time, thus maximizing the outcomes of the growth strategy action plans.

\(^{54}\) Volvo CE Business plan
5.3.4 Service delivery strategy development

As previously mentioned, the service delivery strategy and its implementation is an important part of the overall supplier-buyer relationship. A company that could not offer efficient delivery as well as efficient after sale service cannot aim towards higher supplier-buyer relationship and global competitiveness. In the previous chapter, some of the facts about Volvo CE’s service delivery strategies were presented. Volvo CE’s management is interested in further investments in this area that have in purpose to upgrade the company’s ability for delivering its offers to customers in higher quality manner. When comparing the Volvo CE’s service delivery experiences and experiences of the other companies we had interviews with, we identified that the Volvo CE’s management stands regarding this issue are right and progressive and that, in long-term, this investment could strengthen the Volvo CE’s competitive ability as well as attract more KAs. We base this opinion on customer’s preferences for deeper cooperation with suppliers that deliver better and consistently high-quality solutions (total packages).

At present Volvo CE has mixed channel structure for the delivery of its products to the customers. While the corporate policy is that Volvo CE should be represented on the markets by the independent distributors, in some markets Volvo CE is operating its own dealer subsidiaries. The aim is to develop them to the level at which they would be fully operational, with firmly established market presence and developed operations, when they would be sold to other owners. Some of Volvo CE-owned representatives have reached very satisfying level of development (the case in Turkey), while in some others the development is at a lower level.

When the parallel between Volvo Trucks and Volvo CE is drawn in respect to the delivery strategy and market presence, we can notice two completely opposite trends. Volvo Trucks is aiming to incorporate more of its dealers into the company, by either buying independent dealers (if they are at sufficiently high level of development), or by establishing its own new dealer outlets, while gradually ceasing cooperation with old ones (as is the case in Czech Republic). The reasons for closer integration of dealers are better coordination of actions and larger control over them. It is thus questionable

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55 Hans Josefsson
56 Hans Börjesson
whether the Volvo CE’s policy of outsourcing of delivery operations to the independent dealers is the best possible solution, having in mind the problems company is facing both considering its internal issues (limited product range) and relationships with the dealers (low level of control and variable levels of commitment).

Our field study proved that KAs usually expect their supplier to provide them not only with the main offer (in Volvo CE case - construction equipment), but also the wider offer (total package) including:

- Ideas for new projects (Project proposals)
- Financial support
- World wide market knowledge in terms of advices or “second opinion” about the undertaken activities, based on Volvo CE key expertise, and
- Training, supervision over some of the operations and etc

From our interviewees in Sweden, we have concluded that such a wide offer (total package) could be only offered by companies that have developed strong capabilities in providing total solution and own strong dynamic resources enabling them to create total solutions for the customers. In order to evolve into the total solution provider, the companies either build up or acquire the needed resources and capabilities.

The intensity of the competition within the industry is one of the facts that drive the companies aiming at success towards undertaking the process of building capabilities for providing total solution. If not, companies will face decreasing of their competitiveness and could be threatened by bankruptcy or will be acquired by the competition.

5.3.5 Synergy effects
Our interviews with Volvo CE and Volvo Trucks representatives clearly showed that synergy effects are high on the Volvo’s management priority agenda. It is a common belief among the Volvo’s executives that there is a considerable potential for synergy effects among the Volvo Group members.
Volvo Group’s combined product range enables the company to cover many market segments. Also, the Volvo’s long lasting tradition in production of industrial goods, accumulated global markets knowledge and experience, strong international network and the close relationships between the Volvo Group members are seen as sources for synergies creation.

Baring in mind experiences within other industrial groups, and following the practical steps undertaken by Volvo, many interviewees believe that synergies among Volvo’s entities can strengthen the performance quality of each of the Group members. Even more, it could be seen as a differentiation factor that will attract new potential KAs. In the eyes of the customers Volvo is seen as a brand that provides reliability and delivers quality industrial goods with long lasting tradition. Our field studies showed that customers see Volvo as one entity, so enhancing each Volvo entity with the synergies created by cooperation with other Volvo’s entities could only improve Volvo’s share of mind with the customers.

However, for the time while conducting this thesis, besides the synergies between Volvo CE and Volvo Trucks, no practical efforts towards creation of synergies between Volvo CE and other Volvo entities were noticed. According to the Volvo CE management, this is because of two reasons:

- Synergies between Volvo CE and Volvo Trucks are possible because of the shared similarities in the transportation and construction equipment industries.

- The synergies between Volvo CE and Volvo Trucks are seen as a pilot project and if proved to be successful, the investigation about new ones will be initiated.
Chapter 6. Conclusions

This chapter outlines our general conclusions that we came up while conducting this research. The conclusions are primarily based on the analysis of the empirical results, as well as on the overall learning experiences we had while selecting the appropriate theoretical framework for this study, and the field studies, and interviews conducted in Sweden, Poland and other countries. The conclusions will be separated into two main areas, those of general nature arising from the KAM theory and affecting all actors developing and implementing KAM concept, while the second part will cover those more closely related to Volvo CE and its current KAM situation and practices.

6.1 General conclusions

As discussed in the previous chapters, the KAM concept provides the firms with effective business approach that is based on philosophy of creation and sharing value through deepened relationship between suppliers and buyers. Although initially it might be regarded as the new way of improving marketing and selling practices for large customers, it would be a mistake to develop and implement KAM as the extension of current sales organization, but a gradual transformation of a part or even the entire corporation is necessary. It should represent the new, entirely customer-focused unit, aiming to create and deliver complete solutions to customers across geographic and business boundaries, by collaborating with and using resources of the existing business and geographical units.

All interviewed companies regard KAM practices as highly important for the maintenance of their competitive positions. The pressure to develop and implement KAM has been identified to originate from two sides – customers’ and competitors’.

All respondents recognize that the existence of formal methods for categorization and selection of accounts is necessary for the successful development of KAM practices. Regarding the account identification and selection, different companies use different criteria, and even when defined, the criteria were applied in flexible way, used more as guiding tools. A mix of
qualitative and quantitative selection criteria is used, and the companies describe their selection process as “formal, but not bureaucratic”. The most common criteria used by the companies for identification and selection of KAs were the (1) size and scope of customer’s operation (that it should be global/international or with potential to become one), (2) present or potential revenues from it, (3) that customer wants KAM relationships, (4) the strategic fit from the prospective relationship is satisfactory, (5) that customer is prepared to assign a preferred status to supplier and (6) that substantial revenue, market share and competitive advantage could be obtained through use of KAM. The identification and selection procedure generally included both executive management appointed as KA managers and country (regional) managers.

Globally uniform prices were in all cases seen as an important issue in establishing KAM relationships. Despite the fact that the main reason for KAM relationships and contracts arising from them are value added services provided to the customers, all respondents in our interviews stated that they expect reduced units costs from the frame agreements, and generally lower global prices.

In most cases matrix organizational structure is present in companies implementing KAM, comprising of lines of business and geographic market units, with country units still having most of the power and controlling the resources. In one of the cases business units have most of the power concentrated in their area. KAM structure usually adds the third dimension to the matrix spanning between these two. It uses these resources on a case-to-case basis but KA managers have authority to use them when needed. On a local level, managers appointed to serve KAs in respective country have double reporting structure, to global KA manager and country manager.

Across all interviewed companies, KA managers have similar responsibilities, acting as a single point of contact with KA, formulating and implementing global strategy towards KAs, communicating information and coordinating activities throughout the organization and across markets and increasing sales and long-term bonding through account investments. In all organizations senior executives were directly included in the KAM activities and acted as sponsors for those processes. Apart from operational issues, their task is also to perform
high level bonding with their counterparts in the buying organizations. Some of the most often mentioned skills and abilities that KA manager should possess are planning skills, solution selling skills, leadership and advisory skills, people management and industry knowledge.

In all companies, members of KA teams, apart from KA manager, are selected on case-to-case basis, and the size and structure of those teams depend on several criteria, like size of the KA, the complexity of offer, geographic scope and organization of KA.

For the whole period of conducting this thesis, we were involved in a lot of discussions about the issue whether the KAM approach is an offensive or defensive strategy. Discussions regarding that question were held with our colleagues at the University as well as with our interviewees. The fact is that KAM can be the offensive as much as it is the defensive strategy.

KAM is an offensive strategy in terms of supplier’s strengthened efforts for creation and delivery of more competitive offer for its customers that has in purpose to acquire higher customer’s share of mind. Analyzed from that aspect, KAM could be characterized as a purely offensive business approach.

KAM implementation has in purpose to provide the supplier with effective tool for establishment and maintenance of deeper supplier-buyer relationships with its customers. The established relationship that creates benefits for both partners decreases the possibility for new competitors’ penetrating and acquiring their customer’s share of mind. Analyzed from this aspect the KAM approach is clearly defensive and protective strategy.
6.2 Company - specific conclusions

6.2.1 KAM development and implementation in Volvo CE

*Having the analytical approach through the whole process of conducting this research we have come up with many conclusions that are used as a basis for presenting the practical recommendations (managerial implications) that have the purpose to improve the quality of Volvo CE KAM activities.*

Regarding Volvo CE’s KAM development and implementation practices, we have come up to the following conclusions:

- By analyzing the Volvo CE’s overall KAM activities we conclude that they could be classified as being in the Early-KAM stage (See Figure 3.9 in Chapter 3 and Figure 2 in Appendix 2). As previously discussed, Early-KAM stage is characterized with the single point of contact between the supplier and buyer, not complex level of involvement with the customers and the transactional nature of the relations with the customers. While doing the field studies, we noticed few characteristics typical for the Mid-KAM stage (closer cooperation between some of the Volvo’s KA managers and the customer’s purchasing managers), especially in terms of deeper relationships with some of the customers, but it is more on case-to-case basis than a common practice.

- Volvo CE’s KAM practices (development and implementation) leg behind the competition. Competitors seen in Caterpillar and Komatsu reached higher KAM levels and successfully maintain the relationships with their KAs, and in that manner protect their share of mind in the customers’ eyes.

- Currently, Volvo CE undertakes a lot of activities that have the purpose of KAM development and implementation. However, the most of KAM activities are developed by using the “learning by doing” approach. This is mainly a result of the absence of formalized practices on the corporate level. The lack of formalized practices is mainly seen in:
• KA selection and identification practices
• Data intelligence practices
• Data storage and IT support
• Setting goals and objectives for the KA
• Creation of growth strategies for the KA

✓ Volvo CE sees the KAM approach as a chance for enhancing its global competitiveness and long-term profitability. However, due to the lack of widely accepted comprehensive KAM model and patterns on the corporate level, the KAM is more understood in marketing terms (increasing the sales volumes) than as the overall strategic approach (creation and sharing the long-term value between supplier-buyer).

6.2.2 KAM organization and positioning in Volvo CE

✓ The organization of KAM in Volvo CE can be described as being the “virtual” unit placed on top of the organization, in the process of development of its own strategies, tools and authorities. The expression “learning by doing” is often used to describe the company’s efforts to develop an optimal model. The respective members of the KAM group are all employed by their respective country or divisional units, and not by a KAM group. The unit does not have its own resources, but is using the resources from the entire organization without actually owning them.

✓ Volvo CE has been developing KAM for about two years, but the formalized KAM organizational structure has not been developed. While in the beginning of the process it was easy to accept that fact, at the current stage the absence of the formalized structure might become an obstacle for further development and sign of lack of firm’s determinacy to fully develop and implement KAM in the company.

✓ There is no direct communication between KA managers responsible for specific accounts at global level and company representatives in local markets. As the information flow and synchronized actions are necessary if the consistency in serving global customers is to be reached, lack of this is impeding further advances.
The development of the sales and dealership organizations owned by Volvo CE in the markets where it is directly present is not always at satisfactory level needed to develop the market presence to the full potential. While limited investment and objective of keeping the costs as low as possible was good strategy in the beginning of the market establishment, the clear strategy regarding goals and will to be engaged in necessary investments has not been always stated.

Synergy effects have not been fully used between different parts of Volvo Group, not only considering joint offers to the customers and market intelligence, but also other fields, like the use of facilities owned by either of the divisions. The cooperation exists on the global level, but locally, it has more of a technical characteristic, where these two divisions of Volvo Group are working beside each other, not jointly.

Independent dealers and their employees representing Volvo CE have not been involved in the KAM strategies and development. As they represent Volvo CE in many markets, and the overall corporate strategy is to leave the distribution of its products and the service provision completely to the independent representatives, their absence in the development of KA activities might lead to misunderstanding and/or underrating the overall performance of serving a specific customer on the globally agreed level. They might feel that since the local importance of that specific customer is not big enough from the strategic or sales volume point of view, it is not worth paying special attention to its treatment.
Chapter 7. Implications

In this chapter we present implications of the research, divided into managerial implications and recommendations, and theoretical conclusions (theoretical contribution). The former are structured according to the criteria that were used in the previous chapter – Conclusions. The recommendations are divided in two groups. The first one is focused on KAM implementation and development and the second is about the organization of the KAM activities within the company. As a part of the recommendations given to Volvo CE, we also attach practical suggestions and tips that could contribute for easier implementation of the recommendations.

7.1 Managerial implications and recommendations

7.1.1. KAM development and implementation

As a result of our analytical approach towards the main and sub-research problems, as well as outcome of our intentions to provide our case company with useful feedback, we have developed recommendations that have in purpose to improve the quality of the Volvo CE’s KAM operations.

1. Speed up the KAM implementation

In the previous chapter the Volvo CE’s KAM operations were classified as Early-KAM (See Figure 3.9 in Chapter 3 and Figure 2 in Appendix 2). Speeding up the implementation means that Volvo CE should undertake many practical actions that will result in better supplier-buyer relationships with its customers. Those actions are complex and require lots of efforts, commitment and hard work, but there is no alternative for them. If undertaken, those activities will assure the Volvo CE’s long-term profitability and overall business success and if not, it will be harder to sustain its competitive position within the construction equipment industry. The practical steps that have in purpose to speed up the KAM implementation and better supplier-buyer relationships with its customers are:
2. KAM identification and selection
As it represents the base for the entire KAM development process, great attention should be devoted to the definition of criteria used for this step. While some general criteria presented in this report might be used, the customization and flexibility are necessary. As a result of previously presented, we recommend and suggest the following practical steps:

**Suggestions for implementation:**

- Initiate deeper and wider understanding of KAM concept, its milestones and main benefits from the implementation, among Volvo CE employees
- Facilitate/foster the KA managers/KA team development in terms of accepting the KAM approach as a strategic discipline, not just in marketing/selling terms
- Set up practical steps, formalized routines and deadlines that will act the guidelines in the process of KAM development and implementation, from Early-KAM stage (the current one) to the Synergistic-KAM (the one aimed at).

3. Formalization of KAM practices
In the previous chapter we mentioned that the most of the practices that are related to KAM implementation and development in Volvo CE are not formalized. The absence of formalized conceptualized approach and formalized
practices increases the costs related to KAM implementation, decreases the
efficiency and also confuses the people involved in KA teams. However,
recently, as previously noted, some efforts towards formalizing KAM practices
in Volvo CE are evidenced. The formalization of the KAM practices will
provide Volvo CE’s management with a tool that will focus the company’s
resources towards increased effectiveness and efficiency.

**Suggestions for implementation:**

- **Formalize the KA identification/selection practices.** The
  formalization should be done in terms of setting up “driving
criteria” that should be followed when investigating the
possibilities for some particular customer to be regarded as KA.
- **Formalize the Customer Intelligence (customer data collection)
  practices.** Even more, involve the corporate Business intelligence
  unit (if exists) for the purposes mentioned above.
- **Set up clear and objective long-term goals and objectives for each
  account regarded as KA.**
- **Set up detailed growth strategy for each account.**
- **Support KAM practices by using the IT (data storage, on-line
  services, solutions databases etc.)**
- **The KA plans should be thoroughly revised on a yearly basis**

4. **Global co-ordination of company’s resources for serving KAs**
Volvo CE should make sure that the customers assigned KA status are
served in an integrated way in all markets. Their business must receive the
same attention and service in markets where they have rather small
subsidiaries and operations as in the large markets.

**Suggestions for implementation:**

- **Make sure that KA managers are well informed about the different
  solutions that have been used in the global account’s units world-
  wide**
- **Once defined, KAM objectives and practices should be
  communicated throughout the entire organization**
- **Arrange annual meetings for all managers included in KAM
  activities and provide guidelines for constant KAM training**
5. **KAM Information System**
A well conceived and developed IS represents important tool for coordination and efficient allocation of resources within the company. Therefore, in order to improve gathering, analysis and communication of information, several steps could be taken.

**Suggestions for implementation:**

- **KAM Group should have its own Intranet web-page, and different teams should have their separate sections.** They should contain customer-specific information including sales figures, current team members, decision-makers, and description of ongoing projects, presentations and KA plans.
- **This system could be used for the creation of virtual forum where all members of KA teams could meet and discuss current issues**
- **Sales personnel could submit their forecasts on a regular basis, thus enhancing forecasting capabilities of the company**
- **Each KA could have separated home-page, including information about its history with Volvo CE, key decision-makers, best practices implemented in different countries/regions where the account is being served, current and future projects regarding its service.**

6. **Customer participation in KA activities**
As the base for KAM development and implementation is the creation of trust and deeper relationships with customers, customers should be included in KAM activities in various ways.
7.1.2 KAM organization and positioning

7. Appointment of KA managers in the organization

It is necessary to appoint formal KA managers that will act as the “owners” of certain KAs. Although theoretically the ideal situation would be to have one KA manager for each KA, it is not possible at this stage, but further division of responsibilities and activities should be introduced. Full-time engagement on the development of relationships for implementation of KAM is needed. In markets where KAs have major operations local managers should be appointed to overlook that KAs are served in consistent manner.

Suggestions for implementation:

- Customers could be invited to participate during the KAM planning sessions. Although it is not possible for them to participate in the decision-making, discussions about future strategies, overall business strategies and mutual relationships should include customer’s representatives.
- The completed account plan should be scrutinized by the customer’s representatives before implementation.
- As it is rather difficult to measure customers satisfaction, that could be done by an independent consultancy, thus securing maximum objectivity.

Suggestions for implementation:

- Appoint full-time KA managers that could dedicate 100% of their working hours for KAM purposes
- Appoint local KA managers where needed
8. **Authorities and responsibilities of KA managers**

At the moment the employees performing the roles of KA managers have a wide and not closely defined scope of activities to perform regarding KAM development. It is necessary to more closely define the authorities and responsibilities of the future KA managers in establishing and developing KAM with their accounts. KA managers should be the single coordinating point of contact in Volvo CE, acting as an interface between his/her organization and the customers in an international context. He/she should be responsible for development of strategic relationships with the KA, including all activities directed towards the KA, account investments, customer satisfaction etc. No major activity towards the account should be done without the consent of KA manager. He should be located in the KA’s country of origin and focused on selling through developing strategic partnership links with KAs. Although the KA manager should exercise several roles at the same time. He should act as a relationship manager, developing and maintaining relationships with the customer. He should be also a global coordinator of the activities and people performing them, both of those belonging to Volvo CE and external organizations (when the independent dealers are involved). Finally, he/she himself should be a problem-solver, dealing with the customer’s expectations and eventual complaints, and leveraging the supplier’s ability to repeat successful solutions world-wide.

**Suggestions for implementation:**

- Define detailed authorities and responsibilities of the KA managers

9. **Foster KA Team identity**

The KA Group (current Volvo CE’s terminology) should be named the KA Team, as the term team is more related to a group of people that share the same values and vision, working together and supporting each other, using individual strengths of each member in order to create synergy effects when reaching mutual goals. Core members of the KAM team should be fully committed to the KAM activities, though on a project bases with flexibility to participate in
different KA teams. Team identity, spirit and high motivation should be developed, and team-building activities for both core and extended team members can be organized to foster mutual relationships and cooperation.

**Suggestions for implementation:**

- Appoint core and extended team members with defined roles, responsibilities and expectations from them.
- Foster KA team identity, team spirit, commitment and higher motivation through team building activities (organize official and unofficial events for KA team members and their counterparts from the KAs)

**10. System of evaluation and incentives**

An existing system of evaluation and incentives is shaped for regionally organized activities of managers and sales persons. Country/area manager’s reward must be partially based on a global performance of both non-domestic and domestically based accounts. Also, local people should receive part of credits for providing service to local subsidiary of the global account arising from the central framework agreement reached with it. The system of incentives should be based on both quantitative, e.g., market share and sales volume, and qualitative variables, such as customer satisfaction, strategic breakthrough, identification and mapping of new decision-makers, meetings with them.

**Suggestions for implementation:**

- Create integrated system for evaluation of the results, resolving global-local issues.
- Incentives should motivate cross-boundary activities needed to meet the KAs specific needs
11. Relationships with distributors
Since the strategy of Volvo CE is to be represented by the independent distributors in the local markets, the distributors i.e., their staff should be included in the KAM activities and extended KA teams. The level and extent of the involvement might vary from case to case, stretching from managers responsible for taking care of specific customers in the local market to salespersons and technical staff.

**Suggestions for implementation:**
- Include distributors and their staff in KA teams as members of the extended KA teams

12. Organizational structure
The development of KAM in Volvo CE has reached the stage when the formal organizational structure of KAM should be introduced, and its position in the corporate organization should be defined, in relation to other organizational functions. The scope of activities and hierarchical position of the KA manager in the organization must be such that he/she should report to the higher manager dealing with global scopes.

**Suggestions for implementation:**
- Define and present formalized organizational structure of KAM
- Define position of the KA manager in corporate organizational structure

13. Coordination of KAM activities across countries
Coordination of KAM activities across countries needs special attention. Presently, it is being performed in the indirect way, and the consistent activities in serving global customers in different markets require constant and swift information flow between them. In order to make this possible, the full-time KA manager for each specific account should be appointed (as previously
suggested), and lines of communication should be direct and shortened between him and specific country managers serving particular account. The closer coordination between countries should also have horizontal level, between different country KA managers, in order to facilitate best-practice sharing and information exchange.

**Suggestions for implementation:**

- Establish horizontal lines of communication between global KA manager and local manager responsible for serving the account on the local level

14. Market development
Volvo CE’s commitment to the specific markets and customers should be strengthened by development of clear strategy for growth and development in respective markets. This strategy should comprise, among other things, set of goals regarding investments in the market, budgets and operational investment plans for their achievement.

**Suggestions for implementation:**

- Investigate the opportunities and invest in the market – create new service outlets, increase the density of dealership posts, hire and train new sales people and technical staff.

15. Synergy effects
Although the cooperation between Volvo Trucks and Volvo CE is being developed when approaching and treating customers that appears as KAs for both companies, the cooperation on local level is not sufficiently developed. Local facilities and outlets of Volvo Trucks in many countries are well developed, with good market coverage and facilities that can be used by Volvo CE not only to start the establishment in specific markets by “piggy backing”. In the future the joint use of facilities and general and back office staff and joint investments could be done as the mean for reaching greater efficiency. Joint
market appearance would also go well in line with general strategy and goals of Volvo Group, concerning the development of “One Company Vision” brand identity. In all markets, Volvo is viewed by the customers as one entity (even more, the Volvo Cars is still viewed as the member of Volvo Group), and this recognition and good reputation should be used when addressing new customers and forging relationships with the old ones.

Suggestions for implementation:

- Follow the example from the corporate level and in that respect foster closer cooperation between Volvo CE and Volvo Trucks local managers to initiate creation of synergies on local level. Propose one manager to be appointed in Volvo Trucks in local markets as a Volvo CE contact that will coordinate joint activities
- Develop groups for regular information exchange and joint planning between separate divisions at local level

7.2 Theoretical conclusions and contributions

In this section we argue the theoretical value of this thesis.

The theoretical contribution of this thesis can be seen in two dimensions:

1. The first is seen in the confirmation and operationalization of traditional theories (industrial marketing, relationship marketing and organizational buying behavior) upon which we based our research.

2. The second is the development of new perspectives on KAM concept.

The first theoretical contribution of our thesis can be seen in summarizing and relating few of the existing theories about industrial marketing, organizational buying behavior and relationship marketing from one side, with the theories about KAM concept on the other.
Those theories were chosen due to the fact that we look upon them as fundamental pillars and a base on which the KAM emerged as a consequence and development of the marketing science. Even more, the choice was done by having in mind that theories mentioned above are discussing the same key words, like: long-term value creation, relationships with the customers, interactions, etc. In addition, our idea was to present the relevant theories concerning business-to-business interactions, link with each other and summarize them in one that will fit better with the needs of business practitioners and will guide them when implementing and developing KAM in their companies. In consequence, the theoretical framework and the research model arising from it were constructed on the basis of the above mentioned theories. (See Figures 7.1 and 7.2)

To sum up, we conclude that the results of our study are in line with the overall principals of the network strategy theory. In this study we have further developed the operationalization of the interaction concepts of industrial marketing, connecting them to the relationship marketing theory and the KAM concept. On the more practical side we have presented a number of structures and processes that can be used as a means to operationalize industrial
marketing and the relationship marketing theories. Finally, we have tried to contribute further to understanding of interactions that shape the contemporary industrial marketing field.

The second contribution can be seen in terms of development of new KAM perspectives. This has been done by selecting different approaches to KAM and integrating them into one, the so-called, Step-by-step model.

**FIGURE 7.2: STEP-BY-STEP MODEL**

**STEP 1: Identification and selection of the Key Accounts**
- Importance of the customer’s strategy for the supplier
- The nature of buyer’s decision-making process
- Benefits and importance of deepened supplier/buyer relationships
- Range of products and services of interest for the buyer
- KA selection strategy

**STEP 2: KA Teams**
- Select and appoint KA manager, team members and extended KA teams
- Managing (coordinating/delegating) the activities
- Position KAM activities within the organization

**STEP 3: Account Situation Analysis**
- Account intelligence
- Goals and objectives for each account
- Growth strategy for each account
- Service delivery strategy development
- Synergy effects

The Step-by-step model is an approach that could be used by the business practitioners when developing and implementing KAM in their organizations. In addition, deepened analysis of the organizational aspects of KAM has been also done in this thesis, especially in the light of the new organizational patterns developed by the MNCs in order to enable them to cope with rising demands coming from the changing trends in the customer demands and
overall business environment. Furthermore, the attention was focused on the issues related to communication inside the KA teams, tapping the issue of intercultural interaction in the global MNCs, thus connecting the cross-cultural management concepts to the contemporary industrial marketing trends.

The theoretical conclusions to which we came during our research may be summarized in direct connection of the concepts previously developed in the industrial marketing theories with theoretical constructs used in the relationship marketing and KAM. We have shown that the interactions between different exchange parties, that have been previously studied and analyzed in the industrial marketing, have kept their importance in the modern economic and business environment shaped in the last twenty or so years. Globalization and trends and changes caused by and connected to it have created new type of business environment, generating new demands and challenges for the parties involved in the exchange processes. However, the bonds and linkages have remained essentially the same, except that they have been broadened and raised to the higher level, the so-called “international” or “global”.

The emergence of KAM can be understood and explained in that context, and we have shown in the analysis that the strategies developed in the network strategy model have full validity in the KAM concept. As already stated, web strategy (with its three dimensions – vertical, horizontal and diagonal) is totally compatible with the directions of KAM development in an international context. The competitive strategy, with its features of price, quality, service, delivery and finance covers all aspects of the “total solutions offer” on which KAM is based. Finally, we have shown that the essence of both the relationship marketing and KAM, the linkages between supplier and customers in various aspects and at different levels, have the same purpose as in the industrial marketing – the creation of competitive advantage and improvement of competitive position. Indeed, as shown in the Figure 3.9 in Chapter 3, the development of KAM relationships between different parties can be seen as the gradual evolution of different linkages (product, information, knowledge, social and financial) towards reaching the Synergistic-KAM stage and partnership relationships between market actors.
Chapter 8. Suggestions for future studies

In the final chapter, we present few suggestions and ideas about the areas we consider relevant for future research and studies. During our research we came across several areas and new problems that could be challenging issues for future investigations.

In this research we tried to approach KAM as a business concept whose appearance was caused by the practical needs of the business worldwide as well as a logical consequence of the development of business theory.

Since the KAM concept is one of the business areas that have not been investigated to any great extent and having in mind the fact that more and more people (scholars and business practitioners), believe that KAM concept has a high potential to offers solutions for the complex and dynamic problems of the business worldwide, we would like to point out few areas that could be a challenge for further investigations in this area.

- When companies are implementing and developing KAM, there are many issues, factors, people, etc. that should be organized, managed, and taken into consideration. That requires comprehensive use of company’s resources and capabilities. People working with KAM should possess high capabilities and knowledge how to manage these complex KAM operations. A study about the human aspect of the KAM, focusing on KA manager, KA teams (their characteristics and interactions) might be interesting and will cast the light on KAM from the HR perspective.

- The synergy effects were one of the issues researched in this thesis. We believe that further studies about the possibilities for synergy effects within big industrial groups could be interesting and challenging issue to be researched. It is an area of great importance for the companies, so the researcher studying this phenomenon will enjoy huge support from the industry.
• Up till now, most of the studies about KAM were done by focusing on KAM from the supplier perspective. Few of the studies also include to some degree the buyer’s perspective. However there has not been done neither one single study about KAM concept focusing solely on buyer’s perspective. Therefore, the study about KAM practices and activities from the buyer’s perspective when identifying and selecting “preferred suppliers” and defining strategies towards them could be a unique approach, and will throw some light over the KAM practices from the buyer’s perspective.

• As presented previously, the current matrix organizational structure present in most of the companies that are implementing KAM often causes internal disputes and struggle between different organizational units (area vs., product line managers), and different levels (local country manager – KA manager). As the KAM organization spreads across all markets and business units in the MNC, further investigation in the managerial coordination and control field are possible.

• As the KAM includes many members from different nationalities and cultural backgrounds, the further studies about cross-cultural management are needed, including how could the people participating in KA teams be motivated and directed to act together in order to deliver service to the customers.
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Thomas Sköld, Vice President Corporate Purchasing, Scancem AB, Telephone interview, November 2001

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7. Other documents:
- Volvo CE Internal documents
- ABB and Atlas Copco materials
Appendix

Appendix 1: Tables

**Table 1**: Market share of the leading producers of heavy construction equipment, year 1994 and 1998 (in percent)\(^{57}\)

<table>
<thead>
<tr>
<th>Company</th>
<th>1994</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caterpillar</td>
<td>25.0</td>
<td>19.2</td>
</tr>
<tr>
<td>Komatsu</td>
<td>17.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Next six firms [*]</td>
<td>16.0</td>
<td>18.6</td>
</tr>
<tr>
<td>All others</td>
<td>42.0</td>
<td>53.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Hester, World Heavy Construction Equipment, The Freedonia group, 1999*

**Table 2**: Revenue of leading producers of heavy construction equipment, 1998 ($ Millions)

<table>
<thead>
<tr>
<th>Company</th>
<th>Total Company Revenue</th>
<th>Worldwide Constr. Eqmt. Revenues (estimate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case</td>
<td>6,149</td>
<td>2,200</td>
</tr>
<tr>
<td>Caterpillar</td>
<td>20,977</td>
<td>13,500</td>
</tr>
<tr>
<td>Deere</td>
<td>13,822</td>
<td>2,600</td>
</tr>
<tr>
<td>Fiat/New Holland</td>
<td>51,049</td>
<td>2,000</td>
</tr>
<tr>
<td>Hitachi</td>
<td>65,929 [*]</td>
<td>2,000</td>
</tr>
<tr>
<td>JCB</td>
<td>1,300</td>
<td>1,000</td>
</tr>
<tr>
<td>Kobe Steel</td>
<td>10,829 [*]</td>
<td>1,000</td>
</tr>
<tr>
<td>Komatsu</td>
<td>8,997 [*]</td>
<td>6,000</td>
</tr>
<tr>
<td>Krupp</td>
<td>15,700</td>
<td>1,000</td>
</tr>
<tr>
<td>Liebherr</td>
<td>3,443</td>
<td>2,000</td>
</tr>
<tr>
<td>Terex</td>
<td>1,223</td>
<td>1,100</td>
</tr>
<tr>
<td>Volvo</td>
<td>26,784</td>
<td>2,400</td>
</tr>
</tbody>
</table>

*Source: E.D. Hester, World Heavy Construction Equipment, The Freedonia group, 1999*

Note: [*] fiscal 1999 data

\(^{57}\) Note: In 1998, these six firms and their market share were: Deere 3.7 percent, Volvo 3.4 percent, Case 3.1 percent, Fiat/New Holland 2.8 percent, Liebherr 2.8 percent, Hitachi 2.8 percent
Table 3: Selected recent partnerships in the global heavy construction equipment industry

<table>
<thead>
<tr>
<th>Company A (Country)</th>
<th>Company B (Country)</th>
<th>Focus and/or Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bharat Earth Movers (India)</td>
<td>IGM (Austria)</td>
<td>Development</td>
</tr>
<tr>
<td>Case (U.S.)</td>
<td>Sumitimo Heavy Ind. (Japan)</td>
<td>Strategic alliance</td>
</tr>
<tr>
<td>Case (U.S.)</td>
<td>Cummins engine (U.S.)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Caterpillar (U.S.)</td>
<td>Tamrock (Finland)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Caterpillar (U.S.)</td>
<td>Itochu and SNT (Japan)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Caterpillar (U.S.)</td>
<td>ASI and CITIC Mach (China)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Deere (U.S.)</td>
<td>Tata Engrg. &amp; Locom (India)</td>
<td>Development and manufacturing</td>
</tr>
<tr>
<td>Deere (U.S.)</td>
<td>Hitachi (Japan)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Fiat (Italy)</td>
<td>Hitachi (Japan)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Hitachi (Japan)</td>
<td>Tata Engrg. &amp; Locom (India)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>JCB (U.K.)</td>
<td>Hy – Tec (Norway)</td>
<td>Distribution</td>
</tr>
<tr>
<td>Komatsu (Japan)</td>
<td>Kranekc Mach (Russia)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Komatsu (Japan)</td>
<td>PT United Trac (Indonesia)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Komatsu (Japan)</td>
<td>Bangkok Motor Wks. (Thailand)</td>
<td>Joint venture</td>
</tr>
<tr>
<td>Liebherr (Switzerland)</td>
<td>Initial GWS (U.K.)</td>
<td>Supply</td>
</tr>
<tr>
<td>Liebherr (Switzerland)</td>
<td>Mediacco (France)</td>
<td>Supply</td>
</tr>
<tr>
<td>Manitowoc (U.S.)</td>
<td>TIL (India)</td>
<td>Distribution</td>
</tr>
<tr>
<td>Terex (U.S.)</td>
<td>Rio Tinto (Brasil)</td>
<td>Supply</td>
</tr>
<tr>
<td>Terex (U.S.)</td>
<td>Kranen Mach (Belgium)</td>
<td>Supply</td>
</tr>
<tr>
<td>Thyssen Krupp (Germany)</td>
<td>Vitkovice (Czech Rep)</td>
<td>Strategic alliance</td>
</tr>
</tbody>
</table>


Table 4: Recent M&As in the global heavy construction equipment industry

<table>
<thead>
<tr>
<th>Acquiring Company (Country)</th>
<th>Acquired Company (Country)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caterpillar (U.S.)</td>
<td>Perkins Engine (U.K.) from Lucas Varity</td>
</tr>
<tr>
<td>Caterpillar (U.S.)</td>
<td>F G Wilson (U.S) from Emerson Electric</td>
</tr>
<tr>
<td>Clark Material (U.S.)</td>
<td>Samsung Group’s forklift business (S. Korea)</td>
</tr>
<tr>
<td>Fiat/New Holland (Netherlands)</td>
<td>Case (U.S.)</td>
</tr>
<tr>
<td>Hitachi (Japan)</td>
<td>Premier Equipment (S.Africa)</td>
</tr>
<tr>
<td>Komatsu (Japan)</td>
<td>Demag – Komatsu from Manessman (Germany)</td>
</tr>
<tr>
<td>Svedola (Sweden)</td>
<td>CyEl (Spain); L &amp; P (Italy); Jost (Switzerland); etc.</td>
</tr>
<tr>
<td>Terex (U.S)</td>
<td>OK Mining (Germany); American Crane (U.S.); etc.</td>
</tr>
</tbody>
</table>

Table 5: Institutionalization of network linkages in industrial markets

<table>
<thead>
<tr>
<th>Pre-relationship stage</th>
<th>Early stage</th>
<th>Development stage</th>
<th>Long term stage</th>
<th>Final stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of new potential customer</td>
<td>Negotiation of sample delivery</td>
<td>Contract signed or delivery build-up</td>
<td>After several major purchases or large scale deliveries</td>
<td>In long-term stable markets</td>
</tr>
<tr>
<td>Evaluation initiated by:</td>
<td>Experience: Low</td>
<td>Experience: Increased</td>
<td>Experience: High</td>
<td>Extensive institutionalization</td>
</tr>
<tr>
<td>- Particular episode in existing relationship</td>
<td>Uncertainty: High</td>
<td>Uncertainty: Reduced</td>
<td>Uncertainty: Minimum development of institutionalization</td>
<td></td>
</tr>
<tr>
<td>- General evaluation of existing supplier performance</td>
<td>Distance: High</td>
<td>Distance: Reduced</td>
<td>Distance: Minimum</td>
<td>Business based on</td>
</tr>
<tr>
<td>- Efforts of non-supplier</td>
<td>Commitment: Actual: Low</td>
<td>Commitment: Actual: Increased</td>
<td>Commitment: Actual: Maximum</td>
<td>Industry Codes of</td>
</tr>
<tr>
<td>- Other information sources</td>
<td>Perceived: Low</td>
<td>Perceived: Demonstrated by informal adoptions</td>
<td>Perceived: Reduced</td>
<td>Practice</td>
</tr>
<tr>
<td>- Overall policy decision</td>
<td>Adaptation: High investment of management time Few cost savings</td>
<td>Adaptation: Increasingly formal and informal adaptations. Cost saving increase</td>
<td>Adaptation: Extensive adaptations. Cost savings reduced by institutionalization</td>
<td></td>
</tr>
<tr>
<td>Evaluation conditioned by:</td>
<td>Experience with previous supplier</td>
<td>Uncertainty about potential relationship</td>
<td>&quot;Distance&quot; from potential supplier</td>
<td></td>
</tr>
<tr>
<td>Commitment:</td>
<td>Zero</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2: Figures

**FIGURE 1: THE PRE-KAM STAGE**

![Diagram showing the pre-KAM stage with Key Account Manager and Purchasing Manager roles. Source: McDonald and Rogers, 1998]

**FIGURE 2: THE EARLY-KAM STAGE**

![Diagram showing the early-KAM stage with Marketing, Logistics, Operations, and Finance roles for both selling and buying companies. Source: McDonald and Rogers, 1998]

**FIGURE 3: MID – KAM STAGE**

![Diagram showing the mid-KAM stage with Key Account Manager and Purchasing Manager roles, connecting various departments like Directors, Managers, Specialists, Clerks, and Operators. Source: McDonald and Rogers, 1998]
**FIGURE 4: PARTNERSHIP-KAM**

![Diagram of Partnership-KAM](image)

*Source: McDonald and Rogers, 1998*

**FIGURE 5: SYNERGISTIC-KAM**

![Diagram of Synergistic-KAM](image)

*Source: McDonald and Rogers, 1998*

**FIGURE 6: GENERAL ELECTRIC’S STRATEGIC BUSINESS-PLANNING GRID**

![Diagram of General Electric’s Planning Grid](image)

*Source: Kotler and Armstrong, 1999*
**FIGURE 7: TYPES OF THE MULTINATIONAL CORPORATIONS**

The Europeans: Decentralized Federation
The Japanese: Coordinated Federation
The Americans: Centralized Hubs

Note: Density of shading indicates concentration of decision making

*Source: Bartlett and Ghoshal, 1989*

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**FIGURE 8: INTERNATIONAL DIVISION**

CEO

- Product unit 1
- Product unit 2
- Product unit 3
- Internat. division

- Americas
- Europe
- Asia

*Source: Financial Times, 2000*

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**FIGURE 9: AREA DIVISION**

CEO

- Americas
- Europe
- Asia

- Product 1
- Product 2
- Product 3

*Source: Financial Times, 2000*
**FIGURE 10: GLOBAL PRODUCT DIVISION**

![Global Product Division Diagram](image)  
*Source: Financial Times, 2000*

**FIGURE 11: GLOBAL MATRIX**

![Global Matrix Diagram](image)  
*Source: Financial Times, 2000*

**FIGURE 12: CUSTOMER SPECIALISTS AND PRODUCT SPECIALISTS**

<table>
<thead>
<tr>
<th>Number of Customers</th>
<th>Degree of Customer Adaptation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Few Customers</td>
<td>Narrow Customer Specialist</td>
</tr>
<tr>
<td>Many Customers</td>
<td>Broad Customer Specialist</td>
</tr>
</tbody>
</table>

*Source, Jansson, 2001*
Appendix 3: Guidelines for interviews

1. Guidelines for interviews with suppliers

The purpose of this interview is to obtain information regarding the suppliers’ view on the KAM practices. Also, we aim to obtain the suppliers’ opinions about theirs experiences when developing and implementing KAM concept.

In the introductory part of the interview, we let the interviewee talk briefly about his/her background and position within the company as well as about the scope of activities performed.

After that, the focus is on obtaining insight into and extensive understanding of identification and selection process of KAs on the global basis. Also, we discuss the strategy formulation and development of KAM plans.

Then we continue by focusing on the organization of KAM within the company.

Finally, we discuss different aspects of interaction between the supplier and buyer and try to define the sources of main problems when implementing and developing KAM.

1. Initiation of the KAM within the company

2. Criteria for identification and selection of KAs

- Importance of the customer’s strategy for the supplier
- The nature of the buyer’s decision-making process: centralized/decentralized
- Benefits and importance of deepened relationships for the supplier
3. Types of KAs

4. KAM strategy formulation

   - *Data intelligence practices*
   - *Goals and objectives for each account*
   - *Growth strategy for each account*
   - *Service delivery strategy development*
   - *Product and service range*
   - *Synergy effects with other divisions/companies when creating “total package” for the customers*

5. Customer’ participation in KAM strategy formulation

6. KAM Organization

   - *Selection of the KA Manager, team members and extended KA teams*
   - *Management (coordination/delegation) of activities*
   - *Positioning of KAM activities within the organization*

7. KAM Implementation

   - *Internal problems*
   - *External problems*
2 Guidelines for interviews with buyers

The purpose of this interview is to obtain information regarding the buyers’ view on the KAM practices. Also, we aim to obtain the customers’ opinions about the development of their purchasing organization and practices and what will be the future trends in this area.

In the introductory part of the interview, we let the interviewee briefly talk about his/her background and position within the company as well as about the scope of activities performed.

After that, the focus is on obtaining insight into and extensive understanding of customer’s view on procurement in an international context, regarding present situation and future trends.

In addition we also try to gain information on customers’ view on issues about the relationship with the suppliers in international context, their needs and requirements and different ways for meeting their expectations.

1. The globalization of industry and its impacts on customers purchasing philosophies

2. Relevant aspects of purchasing in the international perspective:
   - Centralization/decentralization of the decision-making process
   - Coordination of the global purchasing decisions and activities

3. Changes and future trends in the purchasing philosophies

4. Most important criteria for selecting a preferred supplier in a global context and reduction of the supplier base

5. Drawbacks of close global relationships with fewer suppliers
6. Buyers’ view on present suppliers’ KAM operations

- *Offer (total package)*
- *Organization and processes*
- *Coordination of activities*
- *Product range and its characteristics*
- *Globally uniform prices*
- *Global uniformity in all terms of trade (volume discounts, special charges, etc.)*
- *Consistency in service quality and performance*
- *Service in markets in which selling company has no market presence*

7. Preferences for the suppliers able to serve customers globally in an integrated way or priority to the local strengths over global capability

8. Major expectations from deepened relationship with the suppliers