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CUSTOMER PERSPECTIVE ON SALES MODEL DESIGN

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TABLE OF CONTENTS

1 INTRODUCTION

Nature of selling has changed a lot during past years. It is more complicated than it used to be. Supply offering is much wider nowadays and competition is much harder. IT technology is setting its own requirements, but at the same time it is offering more possibilities for sales persons to utilize their precious time correctly and efficiently. We can say that way of selling is changing and needing more attention than generally is thought.

In today's world companies are not able to compete only with quality. Quality of the products starts to be equal with only minor differences. Therefore, companies need to put more effort on how they are treating their customers and what is more important how their customers want to be treated. Service offering and way of selling are key words toward better customer relationship and profitability. In addition to this also purchasing habits are changing. This means that new balance between selling and purchasing needs to be found.

Earlier customers were segmented only by size. This suited well to the past world, but not any more. Size of the customer and profitability went hand in hand at that time and bigger customers were more profitable than smaller ones (Rackham & DeVincentis, 1999, 3). As customers have more choices to choose today they are demanding services which suit the best to their needs. Therefore, companies need to know customer needs better than earlier. Product itself is not the only criteria any more. Today segmentation should be done according to value. Rackham and DeVincentis (1999) have defined value as follows – VALUE = BENEFITS minus COSTS. According to this statement companies are able to either increase the benefits or reduce the costs. How to proceed depends, of course, on the nature of the business and its customers.

1.1 Research topic and problems

Topic of the research is Customer Perspective on Sales Model Design. This research is done to UPM and is based on their new Way of Selling concept. UPM Way of selling is an existing concept which will be implemented during next year. The aim of the concept is to offer a new tool to UPM sales force which will help them to direct their efforts better and more correctly towards customers and this way to improve customer relationship. At the same time new Way of selling offers uniform approach towards customers. Purpose of the work is to find out how customers are experiencing the elements of the sales models. Research tries to find out, if elements of the concept are correct from customer perspective.

Main problem of the research is:

- How are the elements of sales model design evaluated from customer perspective?

Other problems are:

- Do sales model design elements fulfil customers' expectations?
- What are the most important elements in customer relationship?
- Why sales models are needed within UPM?

1.2 Theoretical research frame

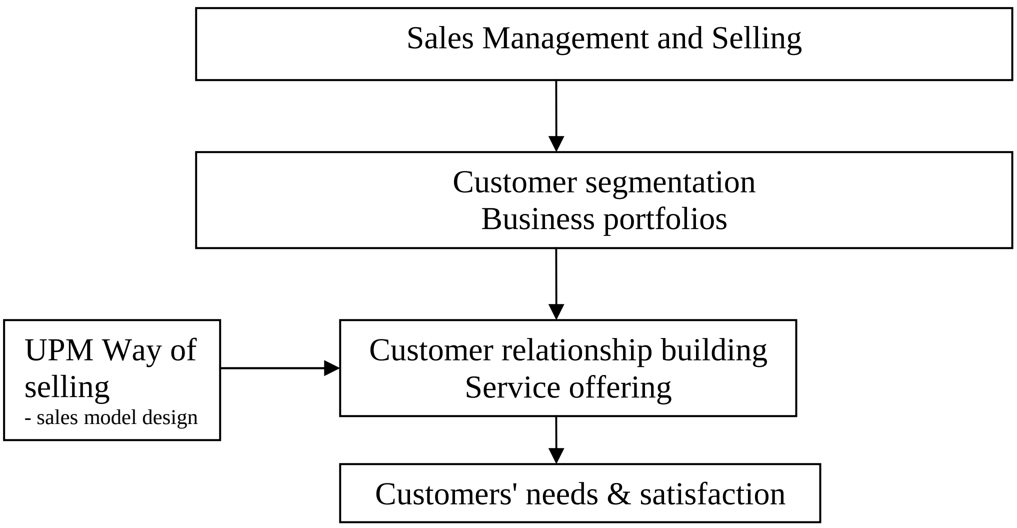

Figure1. Theoretical research frame

Basics of the theory part which support empirical part are on sales management and selling side. Selling has changed a lot during the past 20-30 years and due to this change companies are facing new requirements. Companies try to answer these challenges by segmenting their businesses and also customers. Tools for this can be found from customer segmentation and portfolio management. When looking deeper how companies can survive in today's business environment they are facing important factors like problems of building proper customer relationships and correct service offerings to their customers. These are the basis of the key account management theory. By finding answers to these areas it is possible to satisfy customer needs and keep the customers. UPM Way of selling concept also aims to serve better its customers by fulfilling those needs customers are requesting and this way keep them satisfied.

1.3 Research methods and limitations

This research is qualitative and descriptive in nature. Empirical part has been done by interviewing customers A, B and C. Customers were selected by domestic Sales Manager and was a given factor to the interviewer. One session took about one hour. The questionnaire has been enclosed to this paper. Interviews were informal, but all the questions were gone through during the time of the visits.

This research concentrates on the customers in Finland and therefore leaves out the rest of the world. It concentrates totally on Fine paper division customers' and customers from other paper divisions like speciality papers, magazine and newsprint divisions are not included. Research concentrates on the most common Fine paper customer segments bounding out magazine publisher, newspaper publisher and printer segments.

1.4 Structure of the research

First chapter introduces the research topic and why this research is done. Theoretical framework is presented as well as research problems. Introduction is covering also research limitations and literature review.

Second chapter is concentrating on the theory based on research topic Customer Perspective on sales model design. Basis of the work lies on the customer needs and this way can be found from sales management and selling literature as well as customer relationship management and key account management.

Third chapter is an empirical part of the work and introduces UPM as a company and the history of the UPM Way of selling concept. Sales models are also handled in a more detailed way. As research is based on interviews results are shown in this chapter.

In the fourth chapter conclusions based on customer interviews are discussed, and how well they reply to the UPM sales model design. Answers to the research problems are gone through in this part of the work.

1.5 Central concepts of the research

Central concepts of the research are customer categorization, key customer relationships, customer relationship building, UPM Way of selling and sales model design.

Customer categorization is part of the customer segmentation and can be found from sales management literature. It means that customers are classified to the different classes according to their needs and importance to the selling company.

Key customer relationships are part of the key account management. Key account relationship means how customer relationship develops with the seller by following the different stages or steps. Deepness of the relationship and treatment of the customers vary depending on the level of the stage.

Customer relationship building is basis of the business life. It is indicating the quality of the relationship which selling company is building. Customer relationship building is a two way street and requirements of the seller and purchaser need to be taken into account. It includes also the service offering elements and is one part of the key customer relationship stages.

UPM Way of selling is a concept which is offering tools to a sales force how to treat customers in different customer categories. The tools are sales models and their elements. Sales models consist of customer service offerings. UPM Way of selling and sales models correspond with customer categorization as basis of the concept is different customer classes, key customer relationships as customer classes are based on different kind of customer needs/requirements and customer relationship building as sales models offer a different level of service packages according to a customer class.

1.6 Literature review

Sales management and selling has changed a lot during past 20-30 years. A lot has been written about the subject by P. Kotler who is one of the focal writers of the sales management and marketing. Also Allen & Wootten have written about changes in selling already 1988. Sales management and selling theory can also be found in business marketing side. Business marketing and customer needs/relationships have been written by Hutt & Speh (2004).

Key account management (KAM) has been researched a lot – its development from national account management (NAM) all the way to global account management (GAM). It means how companies can handle and develop their relationship with large or important customers in a correct way by recognising their needs. There is a lot of key account management literature written by Jobber & Lancaster (2003), McDonald et al (2006) and Rackham & DeVincentis (1999). Wilson et al (2002) have also written about global account management which is a continuum to KAM literature. GAM is concentrating on the customers acting globally. It seems that Wilson and McDonald are the most important writers about key account subject.

Many articles have been written about key account management. Ojasalo (2001) has written about key account management at company and individual levels in business-to-business relationships. Ivens & Pardo (2003) have written about difference of key account relationships. Millmann & Wilson (1995) have written about changes from key account selling to key account management. In addition to this they have written in 2002 about the global account manager's role as a political entrepreneur. Sharma (1997) has written about key account management programs from buying firm and buying behaviour angle. Shipp et al (1998) have presented a new selling mix. Wengler et al (2005) have written about who, why, and how key account management is implemented. Ulaga & Eggert (2006) have concentrated on value-based differentiation in business relationship.

2 SALES MANAGEMENT AND SELLING

The world of selling is changing as well as the world of purchasing. These two are going hand in hand and both are affecting the way companies need to rethink their actions. Change is directed by globalization, financial restructuring and explosion of information availability. Globalization is building competition and offers better possibilities to customers. This is creating price pressure plus service requirements. Customers are more aware about costs. This had led to the situation that customers are decreasing number of business partners. This requires more effort from supplier's side to be able to stay in competition. Also customer decision making has changed. Earlier a sales person had only one contact person with whom he/she was in contact. Today sales are handled by a group of different persons and require more efforts and time from selling side. Sales people can be confused about this situation as customer needs are not so clear any more. Customers are searching value, but what does it really mean. (Rackham & DeVincentis, 1999) Success of selling is generated by ability to see beyond the immediate behaviour of the buyer or the placer of the orders. If a sales person can identify real buyer behind the selling action, she/he can have a successful selling session. (Allen & Wootten, 1988, 24-26)

One fact affecting a change of business buying is the lifetime cost of ownership, supplier reduction and supplier segmentation. Lifetime cost of ownership means how long the product will last. Customers have started to think not only the cost of the product but total costs. This can be either a blessing or a curse to the seller. Blessing means increased ways to differentiate offering to customers and curse means that supplier is not used to sell from total cost perspective. (Rackham & DeVincentis, 1999, 49-50)

Customers are reducing number of suppliers and they don't want to put all eggs into the same basket (Rackham & DeVincentis, 1999, p.54). They want to deal with few well selected suppliers and decrease bidding costs. The aim is to create long lasting relationships. The closer the customer relationship is, the less costly purchasing and selling can be achieved. In close customer relationship commitment is high and willingness to improve actions is continuous. All these changes don't eliminate the most important success factors in selling which are personal chemistry and a good relationship. (Rackham & DeVincentis, 1999, 49). Allen and Wootten (1988) have said that better communication between seller and purchaser is needed to be able to maintain a competitive edge over rivals and to hold increased market share, cut down inventory costs, and reduce goods in work and to improve on market side elements affected to segmentation, service, competition and prices.

Customer relationship building is one of the most important factors for the company because loyal customers are normally more profitable to keep than customers who are interested in, for example, only the price. Therefore, it is important to understand deeply customer's business, key competitors, goals and strategies. Connection between the customer and the seller need to exist on every level of management. As Hutt and Speh (2004) have said, implementation of customer relationship management helps companies to direct their efforts correctly to customers and that it is a cross functional process which helps to achieve a continuing dialog with customers, personalized treatment of the most valuable customers and insure customer retention and the effectiveness of marketing initiatives.

There is a need for professional selling as it is not any more enough just to sell only the product. Customers are interested in the quality, the level of profitability and the return on investment in stocks. Selling today needs better skills than earlier. This has changed due to three main reasons: need for greater technical proficiency, greater personal skills and an ability to identify product opportunities. Sales force is a key factor in the increasingly competitive world. (Allen & Wootten, 1988, 41)
To meet this changing world and staying alive in a hard competition selling companies need to rethink their way of working. They need to know their customers well to be able to meet their requirements. Companies need first to go through their customer categorization. When this has been done, a tool to meet customer requirements and to get best possible benefits is sales model design. Before implementing sales models it is important to get to know if sales model elements are the correct ones and which of them customers value.

2.1 Customer segmentation

Segmentation of the customers needs to be done if companies want to succeed in business. Segmentation is based on information how well companies know their customers or their own businesses. Segmentation can be done in different ways, but still the core of each and every system is the same – only the names of the classification vary. Main idea is to differentiate customers by their own behaviour. This means that some of them value full service and some of them are keen only on the price. When talking about businesses itself business portfolio models can be used to categorize also customers not only for defining businesses of the company. These are not directly linked to the customers but they are a good tool which might help decision makers.

Benefits of segmentation are deeper and more unique knowledge of the customers in divisions. In addition to this companies can and are able to focus on product development efforts, develop profitable pricing strategies and select appropriate channels of distribution. (Hutt & Speh, 2004, 177-178)

Companies need to identify customers' needs and interests. Customer relationship classification influences several factors within the company like product decision, price decision, distribution decision and sales organization structure. All in all, this is the way how company is serving its customers. Cardozo (1997) has said in the article 'Implementing a new selling mix' that customers tend to buy full service package instead of separate parts and that customers also have new demands like more complex sales tasks, changing distribution, increasing competition and attention from management. She continues that these can be met only by providing desired customer service level as efficiently as possible.

According to Hutt and Speh (2004) business concept or model consists of four components which are customer interface, core strategy, strategic resources and value network. Customer benefits link core strategy directly to the needs of the customer, which is the basis of sales model design. Customer interface consists of fulfilment and support, information and insight, relationship dynamics and pricing structure. All these can be linked to the elements, value creation and benefits of sales models. Fulfilment and support means the channels company is using to reach customers and the level of service support it is able to offer. Information and insights means the knowledge company have about their customers and how it is used to provide value to the customers. Relationship dynamics means the nature of the interaction between the company and its customers. (Hutt & Speh, 2004, 228-229)

As already Allen and Wootten have stated (1988) one task of the sales force is to discover customers' needs and interpret them into the company and at the same time ensure that delivered goods/services provide continuing satisfaction among customers. In short this means that sales force makes sure that customers understand what they are buying or what kind of service they are expecting to get. (Allen & Wootten, 1988, 73).

2.1.1 Different classification methods

Classifications are basic tools for sales force to help them work more efficiently and direct their workload correctly between different customers. In other words this means that customer needs can be discovered and fulfilled by using customer purchasing behaviour as a helping tool when dividing customers and their needs correctly. Needs of the customers normally follow their categorization meaning that key customers are requesting more services than core customers and so on. As the world is not black and white there can be exceptions like key customer concentrating only to price not to service. In these cases it is good to check if customer categorization is correct.

Customer classification helps company to offer correct service to correct customers and this way make it possible to fulfil just those needs customers are expecting from the seller. Everything is based on customers' needs and requirements. Different researchers describe basis of customers' needs by using different words, but all in all the core of the message is more or less same.

According to Allen and Wootten (1988) there are different approaches which suit to different customer types. They divide customers to three different types; personal benefits, economic benefits and commercial benefits. Customers classified under personal benefits seek status, ease of use, guarantee, simplicity and reasonable price. Customers belonging to economic benefits class think that important matters are reduce of work load, reliability, durability, cost efficiency and service. Customers seeking commercial benefits are seeking profit making, rapid stock turnover, reliability and attractive appearance. (Allen & Wootten, 1988, 80)

Hutt and Speh (2004) divide customer relationships into three different parts which are transactional, value-added and collaborative exchanges. According to them transactional exchange with customers means timely exchange of standard products at competitive prices. Value-adding exchanges mean that company is focusing from attracting customers to keeping customers. In this case companies' objectives are to develop a comprehensive understanding of customers' needs and changing requirements and tailoring its offerings to meet those needs. And the other end of continuum collaborative exchange means close information, social and operational linkages together with mutual commitments and long-run benefits. (Hutt & Speh, 2004, 93)

	Transactional exchange ⟷	**Collaborative exchange**
Availability of alternatives	many alternatives	few alternatives
Supply market dynamism	stable	volatile
Importance of purchase	low	high
Complexity of purchase	low	high
Information exchange	low	high
Operational linkages	limited	extensive

Figure2. The spectrum of buyer-seller relationship. (Hutt & Speh, 2004, 99)

According to Hutt and Speh (2004) business marketers need to evaluate what kind of relationship each customer requires – loose or tight. Strong and long lasting commitment strategy is used with collaborative customers. Seller invests more on these customers and relationship means contacts on several management levels plus participating to customer planning and their strategy work. Relationship with transactional customers is different and companies invest less to them. Transactional customers are less loyal and not committed to a certain company. They can easily move part or all their business to other company in case they get better offer. It is risky to invest too much to transactional customers. (Hutt & Speh, 2004, 100).

Hutt and Speh further divide customers according to their buying habits into four groups:

- Programmed buyers, who are routinized purchasers and are not price or service sensitive.
- Relationship buyers, who values partnership and don't push for price or service concessions.

- Transaction buyers actively consider prices versus service trade-offs, but often place price over service.
- Bargain hunters are very sensitive to any changes in price or service.

(Hutt & Speh, 2004, 183-184)

Racham and DeVincentis (1999) are dividing customers according to benefits increasement and cost reduction. They have three different classes, extrinsic value customers, intrinsic value customers and strategic value customers. Intrinsic value customers are buying only according on product value alone. They are not keen on selling effort itself and don't have special requirements. They see product or service as a commodity and therefore, sales force can not add anything to a buying transaction. Intrinsic customers belong to a category under cost reduction. Extrinsic customers are buying beyond product value. They are looking for sales effort going beyond the product or service. They are willing to pay some additional costs. They are interested in solutions and applications and therefore, sales force is able to create a new value for them. They are willing to invest time, effort and costs in working with sales people to create customized solutions. They are building relationships which are going beyond the immediate transaction with their suppliers. Extrinsic value customers belong to a class increasing benefits. Strategic value customers value leveraging supplier's enterprise competencies and are belonging to an increase benefits field. These relationships are highly selective and invariably confined to a few very large customers. In a way we could link this to global account management. They are also ready to make radical changes to their organization and its strategies to get best out of the relationship between them and chosen supplier. (Racham & De Vincentis, 1999, 16-19)

One way to do classification in business life is to divide customers into four groups; core transactional, core maintain, key maintain and key growth. Core transactional customer are the ones not expecting full service and are keen on basically only about price and availability. Core maintain customers are basis of the company and are bringing cash flow into company. Something companies need and can not live without. Key maintain are the important customers expecting more service and which already have stabilized relationship with the company. Key growth customers are the ones getting full service, but which still need a lot of investment from supplier's side. (Ylönen & Sarin, 2005)

This leads us to a conclusion that companies need to classify their customers according to some category to be able to offer correct service requested or wanted by the customers. Some customers value only the price and some services or both. According to Hutt and Speh (2004) customers can be divided into different groups which are then building basis for sales model design.

Three different classification methods are presented in this chapter. Basis of all of them is more or less same, but from a bit different angle. Allen & Wootten's (1988) personal, economic and commercial benefits are approaching customer relationship via benefits which are possible to reach each and every class of the model. Hutt & Speh's (2004) transactional, value-added and collaborative exchanges are based on the way companies are treating their customers in business and what kind of relationships can be reached. Hutt and Speh (2004) are approaching customer relationship by describing the way parties are functioning in the different relationship levels and how they value it. Racham and DeVincentis's (1999) intrinsic, extrinsic and strategic value customers are concentrating to the fact that product or service itself is a commodity and sales force is the one which can make a difference and add value to the customer relationship.

2.1.2 Business portfolio models in customer relationships

Mission of the companies, direction where they are going and purpose of the existing are often discussed with the customers. Characteristics of the mission are focus to a limited number of the goals, ways to stress the major policies and values, and defining major competitive scopes within which the company will operate. Business should be defined according to the needs of the customer not only according to the products. This means that business can be defined according to customer groups, customer needs and technology. There are two general portfolio models; The Boston Consulting group approach and General Electric model. (Kotler, 2003, 91-93)

The Boston Consulting Group model divides businesses or customers into four categories and is judging them in relation between market growth rate and relative market share. BCG is using four different quadrants when defining business or customers. These are question marks, stars, cash cows and dogs. Customers belonging to question mark segment are the ones who have a high growth rate, but low relative market share. This means that companies need to invest a lot to these customers. This also indicates that companies need to take possible risks when investing to this relationship. Stars are market leaders in a high growth market. Customers falling into this quadrant might require a lot of money and time to keep them. Cash cow customers are something companies can not leave without. They have largest relative market share and are still bringing a lot of cash to the company. Companies can pay their bills and support other businesses by help of cash cows. They are important to the companies and all companies should have enough this kind of customers or businesses. Fourth quadrant of the BCG model is dogs. These customers have already a weak market share in low growing markets. These kinds of customers or businesses are at the end of their life cycle and companies shouldn't keep them too long. Model is suggesting how to treat customers. Question marks are the ones where companies should build relationship. Cash cows belong under hold meaning that companies should keep them. Harvesting can be used for weak cash cows and is meaning cost reduction. Harvesting can also be exploited for question marks and dogs. Divesting means that companies are selling or liquidating the business because they are able to use the resources better elsewhere. This is especially good for dogs and question marks which are dragging the company's profit. Even if this model is created to serve business side it suits well also to different kind of customers. (Kotler, 2003, 94-95)

Another business or customer portfolio is General Electric model. In this model everything is divided into nine quadrants. Factors of the model are followed between market attractiveness and business strengths. It is concentrating on invest/growth, selectivity/earnings and harvest/divest. Invest/growth includes businesses/customers where business strength is either strong or medium and market attractiveness high or medium. To these customers companies should adapt build selectively, protect position or invest to build strategies. Selectivity/earnings include customers where business strength is strong, medium or weak and market attractiveness high, medium or low. Companies should concentrate on protection and refocusing, selectivity and managing for earnings and finally building selectively. Harvest and divest section means medium and weak business strength and medium and low market attractiveness field. In these cases companies should adapt manage for earnings, divest or limited expansion/harvest tactics. Market attractiveness and business strength are evaluated by several different factors which are depending on a business or customers in question. (Kotler, 2003, 96 and 98)

Portfolio models can help companies to aim their action towards customers more strategically, understand economics of their business via their customers better, improve the quality of their plans towards their customers, improve communication between business, customers and corporate management, pinpoint information gaps and important issues, eliminating weaker businesses and strengthen their investment in more promising businesses/customers. Models need to be used carefully and only as a helping tool to avoid wrong conclusions or decisions. (Kotler, 2003, 98)

2.2 Key account management and customer relationship building

Customers have different needs which they are expecting from the supplier's side. Some customers are satisfied with a product and low price, some of them are expecting a bit more service like flexibility in delivery times or quantities and some of them are ready to build strategic relationship with a supplier. Supplier's task is to recognize customers which have a strategic importance to them now and especially in the future. Customer power is one of the most dramatic impacts on the development of key account management (KAM). Customers know that they can demand more as suppliers need to retain customers to be able to maintain profitability and stay in business. Anyhow according to Sharma (1997) accounts should be sorted according to profitability and only accounts whose profits are higher than the costs of serving key accounts should be selected. They also know more about supply chain today than ever before, and are therefore more demanding towards supplier. This is directing suppliers to adopt key account management programs. Sharma (1997) has said that valuable key customers require and get better service than transactional customers and less time and effort is used for serving transactional customers than key customers. Sharma is continuing that key customers are expecting more from supplier and this has led them to develop key account programs. (McDonald, Rogers and Woodburn, 2006, 11) According to Cardozo (1988) companies who are adapting new selling mixes NAM, KAM or GAM can improve their services to all customers by reducing overall selling costs.

The basis of key account management, KAM, comes from the principle of the customer focus and relationship marketing in business-to-business markets. KAM is a management approach where selling companies are aiming to build a portfolio of loyal key customers by offering to the customers on a continuous basis of product/service package tailored just to customers' individual needs. The success of the KAM is determined by the key accounts. They are customers in the business-to-business market which are strategically important to the selling company. Also Jobber and Lancaster (2003) are stating that key account management is a strategy used by suppliers to target and serve high potential customers with complex needs. They continue that key account status has been received when a customer has high sales potential, complex buying behaviour and willingness to enter into a long-term alliance or partnership. According to Jobber and Lancaster (2003) key account relationship offers supply security, lower risks, easier problem solving, better communication and high level of service to the buyer. Key account management is based on relationship marketing which means repeating business from customers in a long-term relationship. This is based on understanding of the customer needs and delivery of promises concerning value elements of the solutions required. KAM and partnership in buying companies are well-established approaches to the management of value in the supply chain. (McDonald, Rogers and Woodburn, 2006, 25, 29, 35). Ivens and Pardo (2003) are saying that sales volume is not the only factor affecting when choosing key accounts, but also leads to user functionality, benchmarking, reputation and internationalization. They have also found out in their research that customer perceived quality was not higher among key accounts than among non key accounts despite of the fact that more inputs was given to key account relationships. This can mean that key account status increases customer expectations from suppliers. Ivens and Pardo (2003) have said that customer expectations from KAM process are high and they are expecting increased efficiency, reduced business risk, transfer of know-how, new ideas, creativity or specific logistic services.

Business drivers behind KAM are rapid change, process refining, market place redefining, pleasing the customer and coping with globalization. Rapid change means lean supply which is a process for removing all unnecessary costs at each stage in the supply chain. This means, for example, joint research and development, joint merchandising, integrated logistics, EDI connections etc. All this makes things happen better, cheaper and faster. By process refinement McDonald, Rogers and Woodburn (2006) mean that company activities have shifted away from producing defined products or services towards having the capability to produce creative solutions for customer requirements. Information exchange is extremely important when refining processes. The output of process redesign should be enhanced customer value. In addition to process refinement also changing nature of the market place is important. As market is mature and there is a threat that products and services are becoming commodity, companies need to take care of that price and availability are not the only ingredients of success. Business can only be won being better than competitors and taking market share from them. (McDonald, Rogers and Woodburn, 2006, 4-11)

All this leads us to globalization and needs of greater interdependency between global customers and suppliers who need to meet their increasing complex needs. This means that KAM is leaping away from the transactional construct of a single relationship between salesperson and buyer towards the concept of strategic customers where key customers are vital element of business life. Understanding the nature and potential of the customer relationship leads company towards opportunities and managing business development. Understanding key relationship is important because the risks are ambiguous and the stakes are high, supplier-buyer interactions are already complex and lie at the heart of major change and key relationships require different behaviour at different levels. Risks of relationship development need to be taken into consideration in case a company wants to reduce the risk. On the other hand if companies spend more time, effort and money into developing closer relationship they can be more profitable, but this doesn't happen automatically. Profitability is not always guaranteed because close relationship with

key accounts have substantial cost implications. The management of few large accounts can be potentially loss making and customer relationship should be carefully selected and prioritized. (McDonald, Rogers and Woodburn, 2006, 14-17)
There are some advantages, but also dangers to the supplier when carrying out key account management approach. Advantages are close working relationshipment with the customer, improved communication and co-ordination with the customer, better follow-up on sales and service (more effort/time to the customer relationship), in-depth penetration of the customer's decision making unit, higher sales, promotional opportunities to the sales force, co-operation on research and development in case of new products and joint promotions and last but not least lower costs through joint argument of optimum product and delivery schedules and demand forecasting. But as stated there are also some dangers like increased dependency on and vulnerability to relative few customers, risk towards profit margins if customer is neglecting its key account status, increasing service and attention requirements from the customer's side when they know they have preferred customer status. Focusing to key customers might also lead to a situation where supplier is neglecting smaller accounts and is in threat to loose them or to organizational difficulties as not all sales people prefer team approach status which is core of the key account management. (Jobber and Lancaster, 2003, 147-148)

As Jobber and Lancaster (2003) have said there are five ways of building strong customer relationship. They are personal trust, technical support, service level (meaning reliable delivery, fast just-in-time delivery, installing computerized reorder systems, giving fast accurate quotas, defect reduction) and risk reduction. This can be described by different key account management models. Key account management development proceeds by following different stages. In this work two of them are presented. First one is Key account management relational development model by Jobber and Lancaster (2002). Second one is Key relationship stages by McDonald, Rogers and Woodburn (2006). Both models describe how relationship between seller and buyer develops within time and what elements belong to each and every stage or steps.

2.2.1 Key account management relational development model

Development of key account management processes follows different stages. There are several relationship models which are mentioned in Millman's and Wilson's article of "From key account selling to key account management" (1995), but their own model follows almost fully Jobber's and Lancaster's Key account management relational development model which is presented next. Jobber and Lancaster (2003) have identified in their theory Key account management relational development model five different steps; Pre-KAM, Early-KAM, Mid-KAM, Partnership-KAM and Synergistic-KAM.

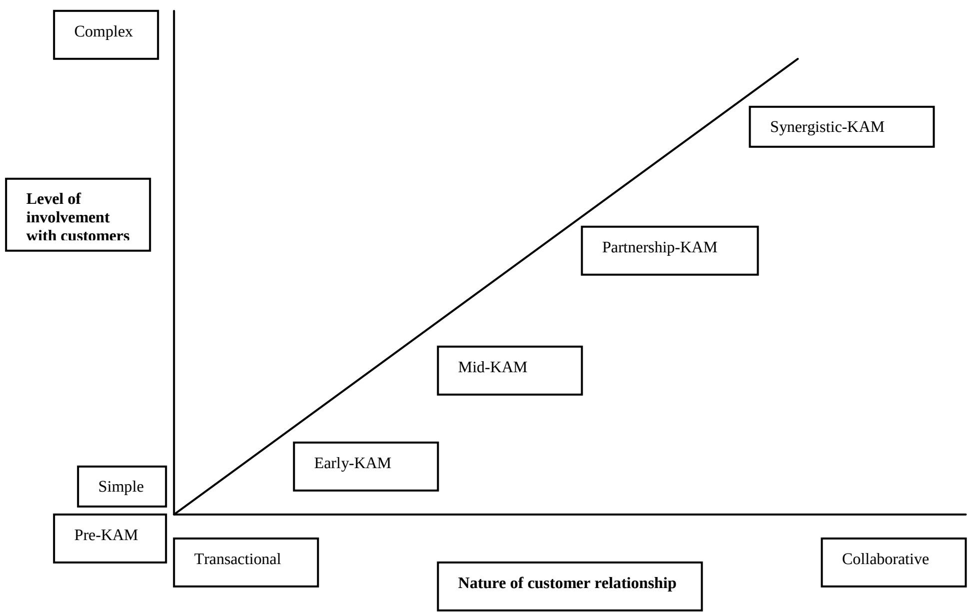

Figure3. Key account Management relational development Model. (Jobber & Lancaster, 2003, 151)

Pre-KAM phase describes preparation for KAM program. Its task is to identify possible key account customers. According to Millmann and Wilson (1995) pre-KAM selling strategies are concerned with making basic product or service offerings available. Early-KAM involves the exploration of opportunities for closer collaboration by identifying motives, culture and concerns of the customer. Supplier is convincing the customer about the benefits of being preferred customer. Attempt is to try to find out and understand customers' needs. Relationship and involvement with the customer is still very simple and on a transactional base. Mid-KAM is a phase where trust is established. Supplier might still be only one of a small number of preferred sources of the product or service. Number of contacts increases and relationship becomes deeper. At this stage competitors' actions require constant monitoring. When reaching partnership-KAM stage the purchasing organization regards the supplier as an important strategic resource. Millmann and Wilson state that it represents a mature stage of key account development. All kind of information, also sensitive, is shared between both parties and level of trust is high. The focus of co-operation concentrates on joint problem-solving, collaborative product development and mutual training. Level of the involvement and relationship is already near complex and collaborative. Duration of the arrangement is normally at least three years in a partnership agreement. Last stage is synergistic-KAM which means ultimate phase of the relational development model. Buyer and seller don't see themselves any more as separate organizations. Joint business planning, research and development function and market research are taking place. Costing systems become transparent, unnecessary costs are removed and process improvements are done together. Level of involvement is very complex and customer relationship on collaborative level. (Jobber & Lancaster, 2003, 150-152)

2.2.2 Key relationship stages

The other model of key account management process steps is key relationship model. According to it relationships need some kind of joint activities like the sharing of time and interest. Business-to-business relationships have been divided into three layers – co-operation, adaptation and interaction. Co-operation layer is most often pursued through activity links. This means, for example, planning and implementing new process and efficient co-operation. Adaptation layer means e.g. the achievement of customizations. This means a commitment of resources from both parties and benefits are effectiveness and innovation. Last but not least layer is interaction. This means that people are important in relationship as they make bonds between two organizations. This leads to an opportunity identification benefit. (McDonald, Rogers and Woodburn, 2006, 48-49)

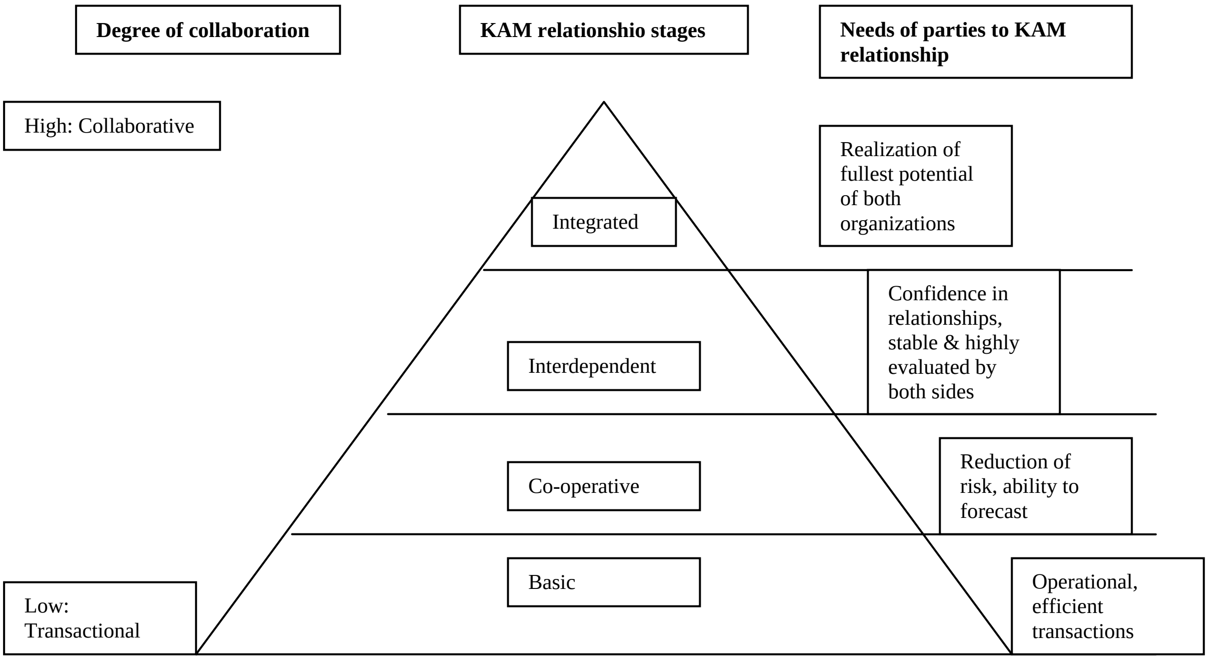

Figure4: Hierarchy of key relationships. (McDonald, Rogers & Woodburn, 2006, 52)

The earliest stage, which is not in the picture, of the relationship is the exploratory stage and can be described as scanning and attraction stage. This is the stage where both buyers and sellers are searching possible key customers or key relationships. Commercial issues like product quality and organizational capability are important. Confidential information won't be exchanged at this stage. Cost reductions are searched by meaning of higher sales volumes from seller's side and by better availability, quantity, quality and stability of supply from buyer's side. At this stage reputation is important and seller needs to be patient and ready to invest to a customer relationship. (McDonald, Rogers and Woodburn, 2006, 53-56)

Next step, the basic KAM stage, means a relationship with a pronounced transactional emphasis. At the same time when trialling supplier buyer might use other suppliers of the same product/service in order to test market on price and value for money. Two types of basic KAM exist: deeper relationship development with the customer or continuation at the transactional level of the relationship. To be able to decide deeper understanding of the customer and market is needed. Quite often basic type of relationship is indicated for large customers being aggressive price fighters without any interests in added value. Information sharing is limited at this stage. At the basic KAM stage relationship is stable or trial stage and in case of stable stage relationship often has low common interest. At this stage buyer is still multi-sourcing and it is easy to exit for both parties. Basic KAM relationship is driven by price and success is measured by price. There is only a single point of contact between companies, operations are reactive in nature. (McDonald, Rogers and Woodburn, 2006, 57-60)

Basic relationship is followed by co-operative relationship stage. This stage is positive on both sides, less defensive and more open than basic relationship, but still real trust is not yet achieved. Supplier is one of the preferred companies on a buyer's list. Contacts between companies involve wider range of people. The business might be vulnerable to competitor's actions. The relationship doesn't necessarily develop via basic relationship. It is based on the assumption or experience of performance. Relationship is still mainly with buyer, but multifunction contacts are increased. There are no organizational changes and only the selling side adds value to the relationship. Exit can happen and it is not yet too difficult. Seller is not yet wholly trusted by the customer. Information sharing is still limited and co-operation is based on forecasting rather than strategic planning. (McDonald, Rogers and Woodburn, 2006, 60-64)

At interdependent stage both parties acknowledge the importance of each others. Selling company is now a sole supplier or at least a first-option supplier. In addition to this buying company regards seller as a strategic external resource. Sensitive information is shared and joint problem solving is taking place. Both companies are concentrating together on product improvement, quality control procedures or administrative systems affecting commercial transactions. At this stage EDI streamlines the process. Companies have become closely aligned with direct function-to-function communications on all levels. Companies can focus on the medium and long-term future. Exit is more difficult at this stage. Both parties need to be prepared to invest on relationship. There is high volume of dialogue between parties. Better understanding between seller and buyer will be achieved at the same time when social relationships are developing. Trust between companies increase and there is real possibility to mutual cost savings. Operations are proactive rather than reactive and joint strategic planning & focus on the future will take a place. There is an opportunity to grow in business. (McDonald, Rogers and Woodburn, 2006, 64-67)

Last stage of relational model is integrated relationships where two parties come together to operate as a single entity, while still maintaining their separate identities. Aim is to create value over and above what either one could not achieve alone. Integrated relationship is partnership relation which is complementary and mutually dependent. Relationship consists of dedicated, cross-boundary, functional/project teams. There are high exit barriers and exit can be traumatic. Integrated customer relationships are few in numbers. Information exchange is very open and concerns also sensitive matters. Seller has a sole supplier status and transparent costing systems exist. Trust has been reached on each and every level. There is a joint long-term planning and better profits for both parties. (McDonald, Rogers and Woodburn, 2006, 69-70)

Both KAM models Jobber & Lancaster's (2003) key account relational development model and McDonald et al's (2006) key relationship stages are approaching key account development same way. Both models start from the stage where customer relationship is evaluated and forward to the next levels by deepening customer relationship when at the same time co-operation with buyer and supplier is increasing. It is also stated in both models that not all customer relationships develop ahead – some of them stays on earlier steps according to the customer needs.

2.2.3 Service offering elements based on customer needs and KAM

Profitability is an important issue in key account management and it should be followed regularly and constantly. Jobber and Lancaster (2003) broke down account costs which are more or less based on elements on different stages of KAM. Account costs are support staff costs, sales staff costs and marketing costs including specific promotion, special packaging etc.

Millman and Wilson (1995) state in their article of "From selling to key account management" that different stages include different elements. On the early steps of KAM total offering is focusing on product/service attributes. Later steps of KAM are concentrating on more complex service offering as buyers become more demanding and are seeking wider problem solution. (Millmann & Wilson, 1995)

Customer needs or problem resolution tasks can be divided into three parts – product need, process need and facilitation need. Product need is the strongest on the early steps of KAM. It concentrates very strongly on the product and how it is functioning at customer's end. Process need includes not only the product, but also associated services. This means for example JIT delivery, palletization, packaging, higher quality/reliability, easiness of use and lower costs. Facilitation need means that managing the process of transformation requires adaptation on the part of buyer and seller in order to facilitate the process. This means whole activity of the supplier i.e. the way they are doing business with their customers. By using these elements both parties are operating inside each others companies. This is part of the later stages of the KAM. At the later stages of KAM it is important to set up dedicated teams to co-ordinate long term relationships on a day-to-day basis. (Millman & Wilson, 1995)

Elements can be looked also from Wilson's, Speare's and Reese's (2002) positioning point of view. They are talking about different marketing positioning – commodity positioning, differentiated positioning and bespoke positioning. Commodity positioning reflects manufacturing and process capabilities that result in a standardized product offering made within a transactional culture. Core competencies are low cost production and price competition. These elements are important in early stages of the KAM. Differentiated positioning describes elements of the mid KAM programs. It means that differentiation involves the use of product design or process capability to differentiate either the product or the way in which it is received by customers. This reflects on increasing focus upon the development of longer-term relationships and customer retention. Bespoke positioning involves development of low-cost offerings or bespoke products to meet specific customer needs within context of long-term relationships or applying entrepreneurial skills to identify opportunities for on-off deals. This is part of later stage of KAM where customer special needs are taken into account. (Wilson, Speare and Reese, 2002, 44-45)

Different elements described here can be linked to different KAM program stages, e.g., product need and commodity positioning include typical elements of Jobber's & Lancaster's (2003) early- or mid-KAM or McDonald's et al. (2006) basic or co-operative stages. Elements of differentiated positioning and process needs can be linked to mid- or partnership-KAM or co-operative/interdependent stage. Facilitation needs and bespoke positioning are clearly describing elements of the latter stage of KAM processes like partnership- or synergistic-KAM or interdependent/integrated KAM.

3 FINE PAPER DIVISION SALES MODEL DESIGN; CASE UPM

UPM as a company was founded 1996 when Kymmene and Repola were merged. Both Kymmene and Repola had long traditions in paper making – over 100 years. After this merger UPM bought Haindl Paper in Europe, Blandin in the USA and Miramichi in Canada. And like all other big paper producers UPM has built two paper machines in China. UPM is offering whole paper range starting from standard news all the way to high quality wood free coated grades. Annual paper capacity is over 12 million tons which is made on 48 paper machines in eight countries. Today UPM is a globally operating stock exchange company employing over 30 000 persons. (UPM intranet pages, 2006)

UPM sells its paper products mainly via own sales network which covers all continents. Sales agents are used in selling to more exotic areas or countries like Middle-East, Africa or Latin America. Sales representation is in 55 countries and products are sold to 120 countries throughout the world. UPM has also own logistic companies mainly in Europe, but also in Far East. This guarantees that UPM is able to serve its customers as well as possible. (UPM intranet pages, 2006)

About 68% of UPM annual sales are coming from paper divisions. There are three divisions: Magazine paper division, Newspaper division and Fine and Speciality paper division. This research is done to Fine & Speciality paper division. Four mills belong to this division; Kymi in Finland, Nordland in Germany, Docelles in France and Changsu in China. All mills are producing wood free papers both coated and uncoated. (UPM intranet pages, 2006)

Customers are divided into five different customer segments which are magazine publishers, newspaper publishers, merchants, printers & retailers and office. Responsibility of the customer segments and sales belong to paper divisions. For example magazine publishers are mainly taken care by Magazine division. This doesn't mean that it is the only channel used, also cross-divisional sales is possible. Fine and speciality paper division and customers from merchant, office and distributors & converters are handled in this research.

3.1 Background of new sales model design

UPM as a global player needed to rethink its way of selling when the company grew bigger and bigger. Even though old flexible systems and ways of working were good in practise, they didn't work in a new concept any more – the company was too big. It was not wise or profitable to send sales persons from different mills or sales offices to visit the one and same customer. Therefore, unique UPM way to operate was needed. (Ylönen & Sarin, 2005)

First roll-out of customer categorization took place in late 90's in UPM. At that time customers were ranked according to their attractiveness meaning for example their growth potential, profitability, UPM's relative position in the eyes of the customer and volume. Then customers were categorized into four groups: partner, key, core and transactional. Partner and key customers were treated as preferred customers with supply security, long term pricing, joint product development and flexibility. It was also understood that different customer should be treated differently. This all led to the situation where customer perception scorecards were taken into use. (Ylönen & Sarin, 2005)

The next step was the introduction of win-win sales and marketing strategy. Basis of this strategy was that if UPM is treating their customers well also customers are treating UPM well back. It was also based on an assumption that UPM is attractive to all of its partner & key customers and that supply security was one of the most important elements to customers. This is true if demand excesses supply, but already then it was clear that paper industry was struggling with overcapacity situation. One more obstacle at that time was that segments and cross divisional cooperation over the product groups did not work as well as it was planned. UPM as a global company was quite young and there was still some internal competition between mills. Customer plans were also very heavy and nobody really read them and updating them required a lot of sales force and management time. Anyhow, direction was correct, but needed more development. (Ylönen & Sarin, 2005)

As life is learning also in business, the next step was to lighten market approach. All needed customer information was keyed in to a web site, sales and marketing organization was streamlined and what was more important customer categorization was rearranged. New customer categories are core transactional, core maintain, key maintain and key growth. This was a basis and a starting point to new sales model design. In addition to these changes customer satisfaction survey is carried out once a year. Surveys are gone through very thoroughly in each division and by that way UPM corrects and improves its actions towards customers. (Ylönen & Sarin, 2005)

Different kind of sales models are needed to be able to capture value. In other words this means possibility to differentiate UPM's offering. So, the next step is on the way – UPM Way of selling and new sales models.

3.2 UPM Way of selling as a categorization model

The basis of the sales model design is an approach how to determine the customer specific offering. Before determining customer specific offering, customer categorization needs to be done. Within UPM customer categorization has been carried out by using categories core transactional, core maintain, key maintain and key growth. Key maintain and key growth can be classified into the same category when talking about treatment and service offering towards UPM's customers. Core transactional customers are mostly interested only in cost decreasing which leads us to price issues. Core maintain customers are like cash-cow customers mentioned in BCG portfolio model, they bring in a good cash flow and are needed to be able to do the business. They are customers focusing on benefits increasing. The main part of the customers belong to the core maintain category. Key maintain and key growth customers are the most demanding ones and are focusing on total value. Hutt's & Speh's (2004) buyer-seller relationship spectrum is quite near to this classification. Their transactional exchange relationship equals to core transactional customers, value-added exchange equals to core maintain customers and collaborative exchange relationship to key maintain and key growth. Hutt & Speh (2004) have also divided customers according to their buying habits – programmed buyers, relationship buyers and transactional buyers. This supports further categorization of the customers. Like vice Hutt & Speh's (2004) model also Allen & Wootten (1988) customer type model shows similarities compared to UPM way of categorizing customers. Their personal benefit type customer equals to key transactional customer and is mostly concentrating on price, economic benefit customer equals core maintain customer and is waiting reliability, durability and cost efficiency from the relationship and third one commercial benefit type equals to key maintain and key growth customers who appreciate total value and profit making. Maybe the closest model to UPM's categorization is Racham & DeVincentis's (1999) model. Their intrinsic value customers can be related to core transactional customer as basic idea is concentration on product value and cost reduction. Extrinsic value customers equal to UPM's core maintain customers where thinking goes beyond product value and customers are willing to pay something extra and customers would like to increase their benefits. Strategic value customers are key maintain or key growth customers where value comes from supplier's enterprise competencies and an increased benefits available. (Hirvonen, 2006)

In addition to above UPM's customer categorization have common features with key account models. In key account relational development model pre-KAM and early-KAM can be related to core transactional customers at this stage or this group price and product is important and customer relationship is not too deep yet or won't come any deeper. Mid-KAM is like core maintain customers when relationship is deeper and value-added benefits are searched. Customer relationship is also closer at this stage. Partnership-KAM remains key maintain customer category where relationship between companies is open and deep. Synergistic-KAM is the same kind of stage like key growth customers where companies are operating very openly and in some parts inside of each others processes. Same kind of comparison can be done between key relationship stages and UPM categories. Exploratory and basic stage equals with core transactional customers, co-operative stage with core maintain customers, interdependent stage with key maintain and integrated with key growth customers. (Hirvonen, 2006)

The next step in UPM Way of selling is sales model selection. UPM has chosen three different models which are lean, basic and integrated sales models. Main elements of the lean model are product and price, main elements of the basic model are availability, flexibility and total value and main elements of the integrated model are partnership, long-term commitment and no surprises in a relationship. Lean sales model should answer to core transactional needs and it is optional to core maintain, key maintain and key growth customers. Basic sales model is primarily meant for core maintain customers and it is optional for core transactional, key maintain and key growth customers. Integrated model is primarily meant for key maintain and key growth customers, but can be an optional choice for core maintain although never an option for core transactional customers. After sales model design UPM Way of selling is concentrating on matching UPM's offering with the customers' real needs and finding the way of planned, approved way of serving the customers. (Hirvonen, 2006)

Categorization determines the relationship between UPM and its customers. Sales models describe how customers are served or should be served within UPM. The main philosophy behind the sales models is a practical template, consisting of the permitted/desired customer service levels. Template should cover all activities in customer interface and can be considered as a frame for actions. Sales models are containing international variation which is fine tuned according to customer needs. Customers of course are entitled to a lower sales model than what is UPM's starting point, but not vice versa. UPM wants to serve its customers according to their real needs. Well described and managed sales models can benefit UPM in many ways. They can help ensuring right-size resourcing for right customers, ease of cost calculations of the customer care, bring clarity to sales and marketing activities, increase the cost consciousness in sales related processes, ease the training of new sales people, enable targeted competence development in sales, direct the competence allocation in sales and guarantee uniform, UPM approach towards customers. Sales models are also expected to decrease the total costs in sales and marketing. (Hirvonen, 2006)

Value creation philosophy can be looked from customer's or UPM's point of view. From customer point of view lean sales model means savings through lean buying and attractive prices, basic sales model means supply security and limited flexibility and integrated sales model means supply security in all circumstances, full flexibility and savings through co-operation and integration. When looking sales models from UPM point of view lean sales model means savings through efficient capacity management and lower transaction costs, basic model means savings through efficient capacity management based on predictability and regularity and integrated sales model means savings through high customer retention, capacity based load and integration and process optimisation. (Hirvonen, 2006)

Sales models have elements which are common for all models. These are target group, driving force for sales model, offering, transaction processing, sales force involvement, account management and pricing and commercial framework. In addition to this sales models are consisting common elements for all paper divisions, but also division specific issues. In this work we are concentrating on Fine division specific issues. Following chapters go through sales models in details. (Hirvonen, 2006)

3.2.1 Lean sales model

Lean sales model can be offered to all categories, but its prime category is core transactional customers. Driving forces for lean sales model are competitive price for the customer and cost reductions and capacity management for UPM. There is limited offering in lean sales model. This means product availability and source according to UPM needs and minimized services. Delivery terms are defined by UPM. Transaction processes are efficient and high degree of computerization and customer self-service by using web solutions are expected. Sales force involvement is limited to business initiation and problem solving. There is no account management unless in case of complimentary business. Pricing and commercial frameworks include flexibility according to total offering. These are common elements to all paper divisions. (Hirvonen, 2006)

Fine paper division has some specific factors concerning lean sales model. Target group for Fine Europe is complimentary business for normal sales channels. Driving force for the sales model in Fine division are competitive price for the customer and cost reductions and capacity management for UPM. There is limited offering and this means that product availability and source is defined by UPM. As UPM is defining availability and source of the goods services are quite restricted and inflexible. Not only availability but also delivery terms are defined by UPM. Customer specific matters like branding/wrappers can be discussed case by case. Account management is as with the normal sales channels or none at all. Pricing and commercial framework include spot prices. There is no sales support and business deals are separated from normal business. (Hirvonen, 2006)

Lean sales model elements include customer segmentation and categorization. Customer target setting is based on selectivity and is premised on categorization. Sales plan can exist, but customers can be served also without sales plan on spot basis. Customer teams can be established only very rarely. Key factors in Fine division are profitability, cost and volume. There is no forecasting and customers are served from pool allocation. Allocation management occurs order by order. Contact management is on order specific basis. Delivery time has been matched to production orders and combination needs of UPM. Profitability check is on transactional basis and credit control is according to standard practise. One order amendment is allowed within deadline via web solution. In case of order cancellation there is a surcharge for the customer. Only free orders are allowed and deliveries proceed according to the delivery schedule. Lean sales model allows only full truckloads per delivery destination. In case of partial truckloads extra costs will be charged. Concerning deliveries only one destination without surcharge is accepted. In addition to this the most economical delivery area need to be used. Deliveries are direct deliveries from the mill or from common stock (if existing). Lean sales model allows only standard regular offering specifications. Payment terms are individual within standard terms, but only limited number of terms is accepted. Price is valid per transaction and invoicing is done only via web solutions. There are no rebate agreements and therefore net pricing is only possibility. UPM is not arranging mill visits or customer events for customers served by lean sales model. UPM paper services are not available for leans sales model customers and visit reports are written only if appropriate. Sample service is available by mail. Free of charge trial orders are not offered under this sales model and complaint handling only via web solution. Complaint handling is limited to legal liability. Customer communication should be mainly based on web. Product marketing is handled through UPM product catalogue on web. Lean sales model customers don't have specific customer profiles or it can depend on categorization. Best practise sharing is taken place only if it is relevant for learning. Customer satisfaction surveys are not carried out in lean sales model or it is depending on categorization. (Hirvonen, 2006)

Lean sales model can be compared to Millmann & Wilson's (1995) product need definition where product and its functionality is the basis at customer decision making. Wilson, Speare and Reese (2002) describe lean sales model as commodity positioning. This means concentration on manufacturing and process capabilities, standardized product offering, low costs and price competition.

3.2.2 Basic sales model

Basic sales model is primarily meant for core maintain customers, but it can be optional in other categories. Driving force for basic sales model are competitive total value and supply security for the customers, regularity and predictability for UPM and mid-term commitment for customer and UPM. Basic sales model includes standard offering which is based on product availability and source based on common agreement or local mill concept. Maximum utilization of e-solutions is offered for operative routines. Sales force is contacting customer on a regular basis. Account management is selectively applied. In basic sales model pricing and commercial frameworks include customized pricing or list prices. (Hirvonen, 2006)

Fine paper division have some specific issues concerning basic sales model. Target group for fine division is local distributors. Standard offering includes also services matching product positioning and ROI requirements. Delivery terms are agreed together with the customer. Common agreement will take a place in case of customer specific matters like customer branding/wrapping requirements. Fine division basic sales model pricing is customized pricing with standard supplements. (Hirvonen, 2006)

Basic sales model elements include also customer categorization and segmentation. Customer target setting is based on categorization or sales plan. Customer teams are built on selectively based on categorization. Profitability, costs, volume and customer share are followed closely. Customer quantity forecasting is based on pool allocations or customer allocations. Allocation management is handled by order or contract. Contract management is according to business rules. Basic model inquiry handling is carried out by sales company contacts. Delivery times are matched with production cycles and combination needs. Faster deliveries are surcharged. Profitability check is done on contract basis and additional services are possible. Credit control is according to standard practise like in lean sales model. Order amendments are possible through sales company contact within deadline, and amendments and cancellations after deadline are surcharged. Free order is needed within deadline or capacity forecast for contractive business. Customer call-offs need to be done 48 hours before loading or according to delivery plan, in other cases surcharged. Rebate agreements exist and they are accepted according to business rules. UPM is arranging group events, local events and mill visits for basic sales model customers. UPM paper services are available free of charge or available at costs. Visit reports are important tool and information foundation for the sales. Full sample service is available, but dummies are payable for customers. Trial orders are accepted at 50% of full price. Complaints are handled by sales company technical service or according to commercial agreement. Sales force is taken care of customer communication or it is handled via UPM product catalogue on web. There are no specific customer profiles or local customer profiles. Best practises are shared only in case of relevant learning process. Customer satisfaction survey includes customer perception scorecards, customer satisfaction survey by Opticom, but once again this is depending on customer categorization. (Hirvonen, 2006)

Basic sales model elements can be linked to Millmann & Wilson's (1995) process needs where product and additional services like JIT delivery, packaging, high quality/reliability, easiness of use and lower costs are important. Also Wilson, Speare and Reese describe this model in differentiated positioning by differentiation in product design/process capability and development of longer-term customer relationship.

3.2.3 Integrated sales model

Integrated sales model is directed primarily to key maintain and key growth customers. Driving forces for the integrated sales model are mutual long-term commitment, synergies and cost savings through co-operation. Customized offering means full flexibility in services and jointly optimized supply chain process. Transaction processing is based on system and process integration and automatization. Sales force involvement is regular with multi-level contacts and supported by functions if needed. Account management involves key account manager and possible customer teams. Customized commercial conditions are offered to integrated model customers. (Hirvonen, 2006)

Fine paper division's specific elements exist also in this sales model. Target groups are regional and global distributors. Value creation is one of the additional drivers for Fine paper division. Customized offering includes optimized product mix/joint agreement, possibility to customised products, tailor made services, jointly optimised supply chain process and customization possible for branding and wrappers. Regular contacts by sales, marketing and top management are part of this model. Pricing and commercial framework includes also marketing support. (Hirvonen, 2006)

Integrated sales model elements like the others are based on customer segmentation and categorization. Customer target setting is based on customer plan and customer teams exist. Important matters to follow are profitability, costs, volume and customer share. Forecasting is based on customer allocations despite of Fine division where almost everything is based on pool allocation. Allocation management is done per order and contract, but tailoring is allowed. Contract management is done according to business rules. Inquiry handling is processed by sales company contacts and expedited deliveries are possible. Profitability check is contract based and additional services are considered. Credit control is standard practise. There are flexibility in order amendments and no surcharge for order cancellation. In addition to this there is variation in order release and capacity reservations are allowed. Delivery plan and time of call-offs are flexible, too. Partial truckloads are allowed and delivery destinations can be customized. Prime routes for delivery should be used, but exceptions are possible. Inventory management is more flexible based on direct deliveries, common stock, MTS (=make to stock) or paper management. Customized specifications are available concerning product offering. Price negotiations include customized commercial discussions. Payment terms are individual terms within standard terms. Validity of the price is 6-12 months or multi-year agreement. Invoicing is carried out by EDI or in a traditional way. Rebates are accepted according to business rules. Customer relationships have tailored support based on customer plans. UPM paper services are available and visit reports are written. Full sample service is available including dummy service. Trials are handled case by case. Complaints are handled by sales companies' technical service and based on commercial agreements. Customer communication is targeted to specific customers and is carried out by sales force. Customer communication matters can also be offered to the customers via product catalogue on web. Global customer profiles take place and best practices are collected and shared. Customer satisfaction surveys via Opticom are carried out once a year and in addition to these tailored measuring programs between partners are possible. (Hirvonen, 2006)

Integrated sales model elements can be found from Millmann & Wilson's (1995) facilitation needs where processes are handled together with both parties. Wilson, Speare and Reese (2002) describe this status with bespoke positioning which means low cost offerings to customer, specialized product offering and long-term relationships.

3.3 Customer opinions of sales model elements based on interviews

The aim of the research is to find out how sales model elements are evaluated from customer perspective. Three customers from different customer segments and belonging to two different categories were interviewed. Customers were selected by Sales Manager who is responsible of the domestic Fine Paper sales. Customers were only from two categories due to the reason that there are no domestic core transactional customers. Customers will stay anonymous and are named as follows: Customer A, B and C. Interviews were carried out 16.-17.11.2006.

The interviews are based on questionnaire which is enclosed to this work as appendix 1. The questionnaire concentrates on the elements and their details of the different sales models. By going to detailed elements of the sales models the research is trying to find out also if the elements fulfil customers' expectations and what are the most important ones. In the first part of the interview customer's opinion about basic elements of the business deal like product, price, delivery security, availability, flexibility, total value, long customer relationship and easiness of the relationship are asked. After that the emphasis are on the costs and benefits of the relationship and further more operational functions, sales force skills and deep customer relationship. Customers were also asked how willing they are to commit the relationship with UPM/other supplier. Then customers were asked to give their opinion concerning different matters from the planning issues, operational sales and marketing issues and support from the supplier's side by using scale 1=not important and 5=very important. Opinions of the customers are presented in the appendix 2. In the last part of the questionnaire it was asked if supplier makes a difference and also how UPM can improve or strengthen customer relationship.

The following chapters will present the customers and results of the interviews.

3.3.1 Customer A

Customer A is producing office stationary and is using uncoated wood free paper from UPM, Kymi. The customer has been classified to core maintain category and is a middle-size domestic customer. Relationship between UPM is long. In this company Executive Director was interviewed.

According to Customer A four most important criteria in relationship between supplier and buyer are product, supply security, price and availability & flexibility and in this order. Customer explained that if product doesn't work other points are not valid any more. Same goes also with supply security meaning that if there are problems with delivery it doesn't matter how good product is any more. So all criteria are important and are depending on each other. Also price is important due to today's high competition situation. These matters are working well with UPM as companies have long co-operation relationship behind them. If these matters were not in condition long-term relationship wouldn't work. When everything is in order, it is also easier to handle problems which occur from time to time. When it was asked what end result of the supplier's actions is the most important and why, Customer A stated that with current product (paper) it is difficult to reach any additional value. Getting additional value for the product is possible only if new innovation will take place, e.g., electric paper. Therefore, the most important end result of the supplier's actions is cost reduction. From the given alternatives the most important for the Customer A was supplier's quickness to fulfil customer wishes like inquiries, quick deliveries etc. Customer stated that there are no problems with UPM concerning this matter. Professional sales force is important, but don't add value with current product. Deep process and function integration with supplier is important when developing something new together. It was asked how keen customer is to commit to the relationship. Customer A said that when commitment means developing something new together with the supplier, they are always ready and willing to co-operation. Committing to the price is not good for the buyer, especially long-term commitment. It gives a feeling that customer's hands are tight. Customer said that they would be willing to develop EDI/web solution functionalities with UPM. As a conclusion willingness to commit is more on a development side.

Next part of the interview concentrated on giving importance value from 1=not important to 5=very important. Opinions of customer A are presented in appendix 2. Customer A gave grade 5=very important only once. The issue was making advantage of supplier's additional services by adding value to customer's customer. He was also in the opinion that the operative routines should be handled as easy as possible. He underlined very strongly use of a web solution or EDI possibility. Matters concerning delivery issues, quantity and personal relationship with supplier's different functions, he graded as important by giving grade 3. Less important or not important factors were closer co-operation with the supplier, long-term pricing and complete answers. According to him the closer co-operation like supplier's customer team or mill visits are only binding resources. Long-term pricing would give a feeling that customer's hands are tight. But on the other hand Customer A was ready to deepen relationship in case of the new innovation.

According to Customer A it is possible to create customer relationship and save costs by deepening co-operation with the supplier. This is possible on a supply chain side by helping daily routines with for example EDI/web solutions. In addition to this also joint development concerning new products could add value.

Supplier matters in critical situation like strike. Last year's paper industry strike and lock-out were in fresh memory. Situation was handled well from UPM side. If supplier is able to handle these situations well, it gets extra points from the customer.

UPM can improve or strengthen its relationship by offering EDI/web solutions for order handling and invoicing. It would also be good if UPM can arrange seminar where market and technology situation is presented to the customer.

3.3.2 Customer B

Customer B is a merchant buying wood free coated and uncoated from UPM, Kymi and UPM, Nordland Papier. The customer belongs to a key growth category and is a middle-size customer in Finland, but a large customer globally. Purchasing Manager and Executive Director were interviewed.

According to Purchasing Manager product is the most important in customer relationship, because without good product there is no business. Next important are price, supply security, total benefit and long supplier relationship. Importance of these is changing according to economic ups and downs. Price is important because, customer is operating in merchant business.
According to Executive Director the importance of the mentioned elements are supply security, availability & flexibility, total value, product and price. Openness is very important factor in business relationship. Product is not too important, because almost all products are quality wise on the same level. It is hard to compete with the quality.
Relationship with UPM is good. UPM is able to offer wide range of products which are also of high quality. Because of the quality price level has stayed up. Concerning the new products customer perspective has been taken into consideration as well as possible. Personal relationships are very important when doing business. Price has been too dominant on both sides so far.

When thinking actions of the supplier and their importance to Customer B the most important is adding value throughout the supply chain and all the way to the customer's customer. In addition to this also costs are important and therefore, both value adding and cost reduction need to be taken into consideration. It is important to find a win-win situation with the supplier. Both parties can help reducing costs and both sides can benefit of this. Also meaningful are efficiency, correctness and target orientation.

Purchasing manager stated that it is important to have professional sales force which can add value in customer relationship. After this is coming supplier's quickness to fulfil customer's wishes and deep process and function integration with supplier. Executive Director said that deep process and function integration is the most important thing in customer relationship, because it is covering almost everything in the relationship.

Today commitment is meaning long partnership type relationships. This means that buyer and supplier are able to determine joint targets and work together to reach them. Customer B is willing to commit, if supplier is flexible and wants to develop business together with the buyer. In other words Customer B said that there is no other way than commitment. Commitment needs to be both sides – it is a two-way street.

When Customer B answered to questions where scale from 1 to 5 was used, quite many of the issues got grade 5=very important. There were some differences between Purchasing Manager's and Executive Director's answers. Their opinions are presented in appendix 2. Both persons interviewed said that all kind of co-operation and personal relationships with the supplier are very important. According to them trust and strategic co-operation can be created via personal relationships. They also stated that it is possible to add value by effective technical customer service. Also matters concerning sample service, quick answers and advantage of the supplier's additional services were graded as very important. Less important or not important issues were long-term pricing, complete answers and less resources in buyer's organization. According to the Purchasing Manager long-term pricing is not possible, because in merchant business prices need to be flexible and price sensitiveness high. Executive Director underlined that long-term pricing is possible in theory, but not in practise. Both of them were in the opinion that such a thing than complete answer doesn't exist. Executive Director's and Purchasing Manager's opinions were different only concerning delivery and quantity issues.

According to Customer B it is possible to create customer relationship where both can save costs by deepening co-operation. Savings can be found via supply chain management by knowing customer needs beforehand and taking them into consideration.

It is meaningful, who is supplier. Understanding in both sides needs to be in place and co-operation needs to work. Parties need to walk hand in hand in good and bad. In addition to this supplier's role is important when relationship doesn't work like it should.

UPM can improve or strengthen customer relationship by understanding customer and market better and joining this to a co-operation strategy. Also customer needs to understand supplier's way of working. This way it is possible to make compromises and improve common relationship. Customer B was not satisfied to the level of UPM technical customer service and was hoping improvement on this side.

3.3.3 Customer C

Customer C is an office supplier and is buying uncoated woodfree paper from UPM, Kymi. The customer is categorized as a core maintain and is a middle-size customer. Product Manager was interviewed.

Customer C said that most important matter in operations with supplier is total benefit, because target is to reach a win-win situation. After this customer see product, price and supply security as equally important. According to the customer it is important to seek partnership relationship. This has partly come true with UPM and is based on long relationship with the buyer. If price is the only criteria customer wouldn't buy anything from UPM, because there is always possibility to get a cheaper offer from the market. Customer is happy with the co-operation with UPM. UPM has given them own brand which is developed together.

Both cost reduction and value adding are important in relationship with the supplier. Management of the whole supply chain is important. When supplier and buyer work well together, it is possible to reduce costs and this way add value to everybody.

The most important matter is deep process and function integration with supplier. Customer C sees this as far as UPM working inside customer's systems and taking care of customer's needs. Other issues like supplier's quickness to fulfil customer needs come true from one way or another and is working well with UPM. The customer is willing to commit with the supplier, but willingness need to be mutual. Both parties need to work ahead of common targets.

Opinions graded 1=not important to 5=very important are presented in appendix 2. The most important matters for Customer C were to find effectiveness by integrating the supplier to their own systems. Quick/complete answers to the inquiries, less resources in buyer's organization and mill visits were very important or quite important. Less important or not important were matters concerning deliveries and quantity.

According to the customer it is possible to create customer relationship and save costs together with supplier by integrating systems (supply chain). Supplier's role is significant when it is question of critical situation and trust is needed. Critical situations need to be solved together.

UPM can improve or strengthen customer relationship by taking into consideration customer's needs and customer costs. UPM has done well with this. One way to strengthen relationship could be inventing a system how to penetrate state business which is very tightly competed. UPM could also improve the outlook of their samples. Competitors are better in this matter.

4 CONCLUSIONS AND SUMMARY

Main target was to find out how the elements of sales model design are evaluated from customer perspective. Sales model offering depends on customer categorization. Customer A and Customer C belong to core maintain category. UPM's prime offering to them would be basic sales model services. Optional sales model would be integrated one.

Basic sales model elements were appreciated more or less without exceptions by Customer A. They were also interested in some lean sales model and integrated sales model elements. They were underlining a lot of EDI/web solution functions which are key elements of the lean sales model. They also stated that personal contacts with sales staff are not too important. From integrated sales model elements they were interested in joint research and development on new innovation area. As a conclusion they were appreciating the most part of the basic sales model, but wanted easiness of lean sales model.

Customer C was more or less satisfied to a relationship with UPM. They were appreciating basic sales model elements totally, but were ready to deepen relationship in a future. They showed their willingness to integrated sales model elements. They graded personal relationships to a very high level. Their idea was to deepen relationship with UPM as far as to integrated systems. This would mean that UPM is operating inside customer's company and is taking care of customer needs. Routines can be decreased, but in a different way than Customer A was suggesting.

Category of Customer B is key growth and UPM's prime sales model offering would be integrated one. They were highly valuing integrated sales model elements, without any exceptions. Both interviewees, Purchasing Manager and Executive Director, were emphasizing total value and long term of the relationship. They were also stressing that good relationship needs commitment from both sides.

According to this research customers are valuing sales model elements more or less based on their categorization, only few exceptions were found. We can say that at least customers interviewed in this research felt that sales model design elements fulfil their expectations almost perfectly. The most important elements based on interviews are trust, openness, long-term relationship and total value in the relationship. All customers were in opinion that product, price, flexibility and availability are part of the total value which can benefit both parties. Costs can also be reduced by working together.

As a summary we could say that sales model design consists of correct elements and can be helping tool for UPM sales force. But UPM need to take into consideration customers' desires from the other sales model classes than the prime class. UPM should, for example, consider if it can offer some elements from other sales models in case needed from customer's side – especially when it is question of core maintain or upper level customers. UPM as a global company needs to fulfil their customer needs as efficiently as possible and at the same time use their own resources effectively enough. Therefore, sales model design is needed within UPM.

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Interviews

Customer A, Executive Director, Turenki 16.11.2006

Customer B, Purchasing Manager and Executive Director, Helsinki 17.11.2006

Customer C, Product Manager, Helsinki 17.11.2006

APPENDIX1

Questionnaire 1(2)
16.-17.11.2006

1. Which of the following elements are the most important in the relationship between supplier and buyer? Mention four elements according to their importance.

- product
- price
- supply security
- availability and flexibility
- total benefit
- long supplier relationship
- easiness of supplier relationship

Why? How these are carried out with UPM?

What supplier's end result is most important and why?

- cost reduction
- value adding
- both

From next list which is the most important for you?

- supplier's quickness to fulfil your requests (inquiries, fast deliveries etc.)
- professionalism of the sales staff and their ability to add value in the relationship
- deep processes and functions integration with the supplier

How would you describe your own willingness to commit supplier relationship? Why?

On a scale 1 to 5 (1=not important, 5=very important), how would you rate the value of the following issues?

- supplier's customer team
- possibility to personal relationship with supplier's sales person
- possibility to personal relationship with supplier's operative sales
- possibility to personal relationship with supplier's technical customer service
- possibility to a last moment change in delivery schedule
- possibility to a last moment change in quantity
- possibility to a last moment change in discharging address
- long term pricing (over one year)
- mill visits
- quick sample service
- quick answers to inquiries
- complete answers to inquiries
- less resources in buyer's organization
- making advantage of supplier's additional services by adding value to customer's customer

Is it possible to create customer relationship, where both can save by deepening co-operation? If yes, how?

2. When does it matter who is the supplier?

3. How UPM can improve/strengthen customer relationship? Mention the most important factors?

APPENDIX2

Table of customers' opinions:

CUSTOMERS' OPINIONS	**Customer A**	**Customer B**		**Customer C**
	Executive Director	***Executive Director***	***Purchasing Manager***	***Product Manager***
Supplier's customer team	2	5	5	5
Possibility to personal relationship with supplier's sales person	3	5	5	3
Possibility to personal relationship with supplier's operative sales	3	4	4	2
Possibility to personal relationship with supplier's technical customer service	2	5	5	3
Possibility to a last moment change in delivery schedule	3	5	3	2
Possibility to a last moment change in quantity	3	5	3	1
Possibility to a last moment change in discharging address	1	3	1	1
Long term pricing (over one year)	1	2	2	3
Mill visits	2	5	5	4
Quick sample service	1	5	5	3
Quick answers to inquiries	4	5	5	4
Complete answers to inquiries	1	1	1	5
Less resources in buyer's organization	4	2	2	5
Making advantage of supplier's additional services by adding value to customer's customer	5	5	5	3
1= not important, 2=less important, 3=important, 4=quite important, 5=very important				