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## **The ‘Burden’ of Key Customer Relationships.**

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### **Introduction**

Today’s business has come to focus on customer orientation, M&As, large scale sourcing, outsourcing and other efficiency programs, interfirm alliances, internationalisation, product and process innovations that is not only carried out within the focal firm. These developments often transcend the firm boundary and involve other actors, especially supplying firms. It is e.g., common for key customers to request and even demand that their suppliers adapt and maybe taking active role in these business developments.

Contemporary literature in marketing, for example the Customer Relationship Management, Key Account Management, the Interaction school and the Market-as-Network approach, all focus on some kind of relation between a buyer and seller. These schools take on different character, purpose and outcome. A general theme of the different schools is that the outcome of forming and maintaining a business relationship is positive and rewarding for the firm, weather it may drive sales, profit, growth, learning, technological transfer or other key benefits. The notion ‘win-win relationship’ is a typical example of this.

However, little is reported on the downside or backside of ongoing business relationships, as Håkansson and Snehota clearly point out: “..there is a lack of studies of the problems or difficulties with close relationships.” (1998, p16). Taking a dynamic network position for example, every customer may be active having its own change strategy and requesting different demands on their suppliers and partners in their

production and distribution systems. In such a web of relationships firms take on various roles of co-operation and competition causing tensions between individual relationships within the customer base, or the supply side of a company. Taking a perspective of business like this there ought to be various benefits from the relationships as well as negative aspects, downsides, costly outcomes, or as we call them in this paper – burdens of relationships.

It seems that in current marketing literature there is a tendency to over-emphasise the positive sides of a relationship and disregard the negative effects. Seldom the notion of re-evaluation of the ongoing customer relationships is discussed. There are many large changes within existing relationships that could be seen as an important moment of time to question the retention or continued co-operation in focus and possibly should involve a thorough re-evaluation of the relationship altogether.

In this paper we raise the question of the effects, especially the negative effects, of an on-going buyer-seller relationship. We start with presenting a review of the business relationship literature, with a special focus on the possible burdens of relationships. We continue by presenting an empirical illustration of an on-going business relationship between a manufacturer and a transport company. The case has many of the typical characteristics of relationship marketing described in theory. We then present several effects and especially negative effects of the relationship. We then present the result from the empirical study and continue by discussing the need for developments of the theory and continued research on the negative effects of on-going business relationships.

### **Theoretical framework**

Marketing as a subject is currently moving toward a focus on the importance of developing and managing customer relationships (see e.g., Sheth & Parvatiyar, 1995 and Webster, 1992). This trend is prevalent in the consumer, the service as well as the industrial fields of marketing.

The Customer Relationship Management approach, with the acronym CRM, originates from and focus especially on service marketing (see e.g. Berry, 1983; Christopher *et al.*, 1991; Grönroos, 1994 and Buttle, 1996). The shift from transaction based marketing to a

relational mode relates to the argument of supposedly lower cost of keeping a customer than winning a new customer from the market. Hence the vocabulary of retention, loyalty and defection. The customers are to be analysed according to their economic importance of the company, giving an economic argumentation such as, customer profitability and life-time value of customers (see e.g. Reichheld 1996 and Blattberg *et al.*, 2001). Another motive is the drive toward smaller and smaller segments of markets via an individualisation of the offer. These procedures are supported and at times driven by the developments in information technology e.g. the evolution of the Internet and computerised software supporting the analysis and management of customers as well as the possibility to individualise the relationships (see e.g. Peppers & Rogers 1993, 2001 and Seybold 1998). Within the literature on CRM, whether it is theoretical or empirical, the relationships often tend to be one-sided. That is the concept is fairly much a sales tool for the company (c.f. Fournier *et al.*, 1998; Mattsson, 1997). Even though CRM to a large extent focus on final consumer rather than industrial firms we strongly believe that the approach has influenced and been applied to management of industrial customers as well. The ongoing trend within marketing set in focus by e.g. Sheth & Parvatiyar (1995) and Webster (1992) is about marketing and not especially consumer marketing.

The vast majority of this CRM literature presents the concept with a strongest promise for company rewards such as increasing sales, improving customer satisfaction or other positive effects for the company. The reported negative effects of CRM are less often discussed. One area of critique though, is about the (over) extensive use of loyalty program and the possible bad-will customers may get out of lost integrity and loyalty program fatigue (see e.g. Fournier *et al.*, 1998 and Dowling & Uncles, 1997). There are also reported problems with the technologically driven side of CRM (see e.g. Rigby *et al.*, 2002) in that the costs of and the time required to the implementation of the systems often turn out to be much higher and longer than the *ex ante* plans. Some recent research has even begun to questioning the supposed positive economics of customers retention (see e.g. Conrad *et al.*, 1997 and Reinhartz & Kumar, 2000).

Another field of research with a specific interest of customer relationships is “key account management” (KAM) focusing on the selection of important customers, the making of the sale, its management and the organisation of meeting these customers’ specific needs (see e.g. Steward, 1996 and McDonald & Rogers, 1998). The company treat the customer as an individual account and adapt its offer and the interaction organisation according to the customer’s specifications due to geographical dispersion,

the economic importance or the belief of that customer's importance to the company. Thus, it is clear that key accounts sets a pressure on the company's resources, i.e. driving costs which may be related to increased sales volume. The negative effects are normally addressed in terms of the risks of getting too dependent on a single large customer and the lock in effect limiting the possibility to supply to competitors of a specific account customer (see e.g. Ojasalo, 2001 and Pardo *et al.*, 1995).

There is a large body of research on industrial marketing taking an interactive approach of buyer-seller relationships (see e.g., Håkansson, 1982 and Ford, 1990b). This research, with a strong empirical foundation, puts the individual relationship of buyers and sellers in focus. The exchange is found to be more rich, giving a multidimensional view of the relationship involving economic, social, knowledge, technology and time dimensions, than in the traditional transactional based consumer marketing literature. The interaction include more dimensions and result in development of either party, e.g. on the technological level of the firm or the administration of business. To be a true relation within this field there has to be adaptations in e.g. the resources, the individuals or the activities in the relation of the interacting parties (see e.g. Håkansson & Snehota, 1995 and Ford *et al.*, 1998). A key dimension studied within this field is business change and development of the company through the partner in the relationship. For example, learning, efficiency programs, product or process innovations is often found to have it root in the interaction or the interacting party. Long term relationships is well studied and has reported to generate an increasing degree of commitment over time (see e.g. Dwyer *et al.*, 1987 and Ford 1990a). The evolving paradigm has taken on many subjects and also taking in more and more actors into the study and analysis becoming a field of relationships in networks (see e.g. Håkansson, 1987) forming the so-called Markets-as-Networks approach (c.f., Johansson & Mattsson, 1993).

The majority of these studies point to the fact that (positive) change is driven by the interactive parties or the interaction itself, hence there is an axiomatic undertone of the positive effects of business relationships. There are though an emerging interest of studying the termination aspects of relationships, meaning that a relationship may due to circumstances end (see e.g. Tähtinen, 2000 and Andersson *et al.*, 2000). The termination aspect of relationships is also often presented in the textbooks as a part of the definition of relationships. There are also discussions about the effects on the network level which may be positive or negative (see e.g. Håkansson & Snehota, 1995; Ford, *et al.*, 1998). A more thorough structural analysis is done by Ritter (199x) who

elaborate on different negative and positive outcomes in a network of business actors on a theoretical level. Hertz (1998) presents several interdependencies of business relationships within industrial networks and illustrates how the formation and dissolution of relationships interplay. A rare attempt to discuss the downsides of business relationships in general is presented by Håkansson and Snehota (1998). They separate exogenous from endogenous reasons and elaborate on different situations in an interaction that may be negative. They also suggest five more general ways in which a business relationship may become a burden to the involved parties. These are: Unruliness, the loss of control due to giving up its individuality, i.e. adaptations within relationships; Undeterminedness, the interpretations of the past, present and future of the relationship; Energy, investments in time, efforts and resources in the development of relationships; Exclusiveness, giving priority and preclude preferences and; Stickiness, lock-ins and unexpected expectations and demands from parties within the network. In some of these instances they generalise the risks and problems that also could be seen in KAM, interaction and network literature. The unruliness involves the lack of control that develops.

We conclude the literature review by pointing to that there seems to be a lack of thorough theoretical writing on the negative effects of close co-operation between sellers-buyers in on-going relationships. There also seems to be only a few empirical studies on the issue. When it comes to on-going individual customer relationships not much of the negative effects are discussed irrespective of the three theoretical fields reviewed.

### **Empirical illustration: The case of Volvo - ASG sourcing contract 1993**

This case is an empirical illustration of how *Volvo Car Corporation* (the key customer) and Volvo Transport sourced a large transport and logistics contract to *ASG* (the supplier). The content and process of the buyer-seller relationship and the effects, specially the negative effects, of the deal is put in focus. For an extensive description of the case, with a special focus on the organisational and distribution issues, see Hertz *et al.* (2001). The case builds on more than 40 in depth interviews with representatives from various companies in the setting as well as a large amount of secondary archival material.

The Swedish carmaker Volvo Car Corporation (VC) faced several major problems in the early 1990s. Unit sales in Europe fell year after year. Competition measured up and VC encountered a substantial economic downturn (see table 1). A planned merger with the French carmaker Renault was well in progress in order to get a larger scale of operation and thereby improve the economics. In 1993 the merger was abruptly abandoned, leaving VC as a relatively small independent car manufacturer in a niche market.

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Op. Margin (%)	15,5	11.2	7.0	2.8	-2.4	-4.3	-3.8	1.1	3.8	1.3

Table 1: Operating Margin, Volvo Car Corporation.

Market research had found that short delivery time and high precision in delivery to customers was perceived as key drivers of customer value. Together with the ongoing project of building cars directly to customer orders, offering custom designed vehicles, VC believed they were to take an edge over competition. A logistic and distribution program was launched in order to deal with the cost situation as well as to support the customer focus. The initiated efficiency program set the objective to reduce the lead-time from customer order to customer delivery by a mere 50%, at the time that was from four to two weeks. A major component of this efficiency program was to shorten the delivery times of components from the almost 1.000 suppliers and sub-suppliers to VC. Within Sweden the target for inbound logistics, the call off to delivery to the assembly facility, was set to a reduction from a week to two days. The transportation within Europe was not to exceed four days.

The assembly plants of VC were responsible for call of and the requests of logistic services while VC headquarters negotiated contracts with suppliers. Volvo Transport (VT), a fully owned subsidiary of the Volvo Group, had the responsibility for all of Volvos transport and logistics operations. In order to fulfil this lead-time program VT requested to get tight control over its operation. As a consequence the suppliers were to hand over the acquisition of transport and logistics services. The costs however were still to be paid by the suppliers. VT sub-contracted the major part of the inbound logistics in Sweden (for 12 out of 20 regions in Sweden) to a leading Swedish transport and logistics company ASG.

ASG's business relationship with VT had a long history but the preferred supplier had since long been the competitor. This contract was a large one for ASG, even though not representing more than some percent of the company's turnover but it was with a leading industrial company in Sweden. The contract would also deepen the relationship in several dimensions.

VT's tender specified a non-negotiable demand that ASG created dedicated 'milk-runs' for the suppliers to VC. The transport solution was specified for each region and included a great deal of co-ordination of the large number of VC suppliers and sub-suppliers. The transport deal included many dimensions of distribution and logistics aspects, e.g., fixed departure and arrival time, specific packaging schemes, high precision on the reliability of flows, meeting high tolerance levels of the material condition upon arrival, etc. Depending on the type of suppliers the deliveries were to be made within the same day, every second day or once a week according to a specific schedule. In the process VC together with VT, decided on using landed costs as the basis for calculation of the cost of material purchased by the supplier. Landed costs include the price and the costs for transportation, handling, quality control, packaging, capital, store layout and administration. This set a specific focus on the transportation and logistics issues that the suppliers had to take into account. Thereby the suppliers had to learn and take into consideration the production conditions of the factory at VC and also about the factors influencing the logistics costs within and around the production and assembly units.

At the time of implementation a task force team was put together with representatives from VC, VT and ASG. This team went on an 18 weeks long 'road show' to the regions visiting suppliers, sub-suppliers, local ASG offices and trucking companies that were subcontracted by ASG. Their job was declared to negotiate with the suppliers about the conditions but the actual task was to design and implement the operation of these 'milk runs'. There was a need for numerous and extensive adaptations to fulfil the transport solution. The willingness to adapt varied among the suppliers and some large ones even protested strongly against the new demands.

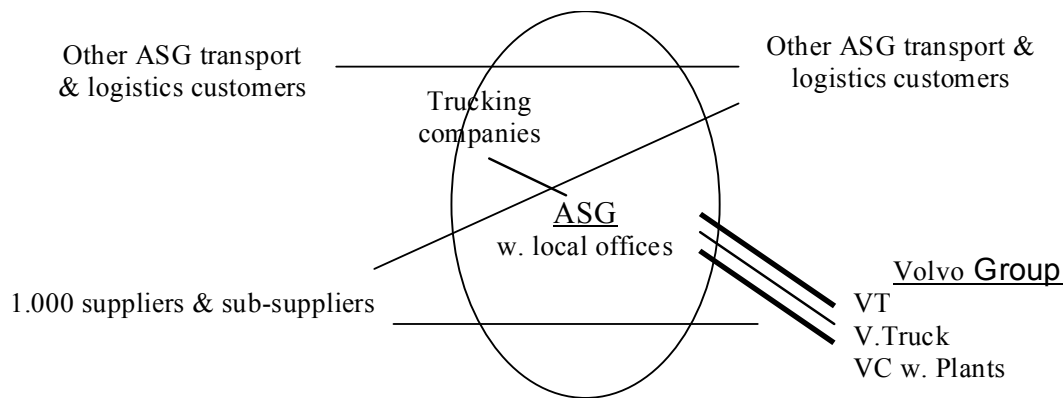


Figure 1: Graphical illustration of the deal (VC/VT-ASG) and its core actors.

In order to reach the requested tough time targets the sub-contracted trucking companies to ASG had little or no time for repairs and maintenance service. Therefore only the most modern trucks could be used. As a result some trucking companies were not contracted by ASG. A main problem arose at ASG's operation, as the volumes in the dedicated 'milk runs' were not necessary enough to get satisfying profitability. The volume in the traffic not carrying the dedicated supplies for VC was subsequently reduced and thereby also affecting margins. Before the project and the deal ASG had combined as much deliveries from various suppliers to VC and Volvo Truck. With the dedicated transport the operation efficiency and the service level went down as the margins. Volvo Truck initially reported this dis-satisfaction and then later demanded its own dedicated 'milk runs'. Similar outcomes were present for suppliers of components to VC, and other Volvo Group companies. The previous jointly distributed goods now had to be administrated and transported in an ever increasingly more complex model. Another complication for ASG was that several of the suppliers to VC were since long loyal and at times large and important customers of which many were using other logistics services. Some of these complained due to the fact that ASG was taking the VC and VT side in the transport and logistic solutions while the suppliers wanted ASG to for example inform them about the costs, conditions and margins at VC.

To sum up, the initiation of the shorter lead-times VC and the project's implementation required extensive co-operation between the different units of Volvo (VC HQ, VC plants and VT) the transport and logistic provider - ASG and the large number of suppliers. There was a high level of co-ordination in order to achieve the tough goal set by VC. A direct effect was that VC improved its bad economic situation but there were several indirect and secondary effects, some positive some negative.

## **Analysis and results**

The case demonstrates a large number of direct and indirect effects as a result of the lead-time re-engineering project at the customer's side. Below we present the effects at the Volvo-group as well as at the transport group and the suppliers.

The direct and positive effects of the contract and its implementation in the buyer-seller relationship were important and apparent. The customer received a high quality service delivery resulting in a high level of customer satisfaction and a strong support for its core business. The customer was loyal and even increased its purchasing from the service provider. The seller landed a large account with an industrial leading company. Sales volume was up and possible good will and positive word-of-mouth was present. A high level of trust was developed at either side of the relationship while a large number of persons were involved in the negotiations, socialisation and communication, especially in the implementation phase. The degree of integration between the buyer-seller increased through numerous adaptations, especially the increased time integration in operations. The intense interaction and the openness for learning about the firms business and their administrative conditions resulted in a depend knowledge of either party or its operation.

### *Developments within the existing buyer-seller relationship*

These direct and positive effects are well in line with the schools on customer relationships reported in the literature. The outcome of the intensified relationship thus was very closely related to what might be the planned outcomes according to typical relationship management. However, looking into the matters more in detail and especially searching for negative effects, the presentation becomes slightly different. There were several negative effects and these were large enough to be of major importance when evaluating the deals outcome in total.

We present a summary of the negative effects in table 2, below. The direct effects listed are the results of s a direct response to the deal between VC/VT and ASG, while the indirect effects are the results that was secondary to the deal. The chosen distinction, direct-indirect is believed to be a better analytical tool than the endogeneous-exogeneous dichotomy of Håkansson and Snehota (1998), since the buyer-seller relationship in focus is between a manufacturer and a service provider, hence including a network of companies directly affected by the change (see figure 1, above).

	<b>Direct Negative Effect</b>	<b>Indirect Negative Effect</b>
<i>ASG – VC/VT (the focal relationship)</i>	The deal required new customer-specific investments w. economic uncertainty.	Occasional low volume, hence low profitability in the dedicated traffic.
<i>ASG – VC Suppliers</i>	New routines, logistic arrangements and transport conditions. Negative perception of ASG acting as part of the VC buying team.	Some important customers asked for loyalty from ASG in giving, e.g. cost information about VC. Reduced volumes, hence reduced scale econ. in transport to other customers.
<i>ASG - ASG, local offices</i>	Local offices were taking much of the risks.	Need for new capabilities when serving local customers that had to adapt to new routines.
<i>ASG – Trucking companies</i>	Intensified operation w. less time for maintenance & repair. Intensified work (24h) schedule, hence higher costs to ASG.	Some w. trucking companies were not able to keep up w. the intensified operation and the relationships were terminated.
<i>ASG – other customers</i>		No combined distribution, hence higher cost in operation.
<i>VC/VT – V.Truck</i>	V.Truck becomes dis-satisfied w. the service level.	V.Truck dissatisfied w. VT's action. V.Truck demands it own dedicated service solution following VC's example.
<i>VC/VT - Suppliers</i>	VC/VT push logistics & transport costs over to suppliers.	Other customers had take a larger part of the distribution cost in the consolidated traffic, while receiving less time/attention.

Table 2: A summary of the negative effects of the deal.

The economic effect of the supplier-customer relationship in its totality is dubious. The *a priori* analysis of the economic outcome was attractive enough, real or perceived, for the company to take on the deal and accept the requested adjustments. It was one of the leading and largest customer but ASG was led to adapt to the key customer's specific demands and thereby reorganising its complex production process. The result was possibly a prosperous outcome for the manufacturer but at the cost of quality deterioration and various cost effects for the service provider, other units of the manufacturer, the component suppliers and other ASG customers. This becomes clear when taking the productions system and the complexity of the network of business relationships into consideration.

#### *The conflicts of interest in the relationships and exclusiveness*

As we can see from the negative effects (see figure 2) several developments and demands put forward by the customer caused some conflicts of interest. Conflicts of interest appeared for ASG between being a supplier of transport services and at the same time being part of a buying team for another customer towards these customers. Another revolved around the VC and Volvo Trucks having different interests in the

design of their logistic flows. For ASG these conflicts were both internal and external. As Volvo demanded more service and higher efficiency many of the other customers of the transport company got less attention and costs rose in the established transport systems of ASG. These costs would certainly be pushed over to other customers. This touches upon the “exclusiveness” dimension formulated by Håkansson and Snehota, 1998. However, these dedicated transport systems did not preclude other customers from being customers to ASG but rather not to use the same transport system.

These conflicts are connected to the more general problem of undeterminedness of relationships discussed by Håkansson & Snehota 1998. When adding up all the positive and negative effects it becomes hard to have a clear and simple view of the relationship. What we found is that the conflicts of interest did not only apply to the key relationship nor only one of the key actors ASG or VC/VT relation to other actors but also between other not directly involved actors. Examples are suppliers’ customers in other geographical areas had to take on higher logistics costs and sometimes new routines for handling and packaging.

#### *Network effects*

The network effects on suppliers’ other customers, that were influenced negatively due to the change of priority and the separation of the key customers. That meant reduced gains of scale and its economies that could be reached with larger volumes. At the same time the suppliers of the key supplier in the relationship also had economic problems since they needed to put in more resources and invest in more modernised equipment. In this case some relationships actually broke as a result of the development of this key customer relationship. Effects further out in the supply chains of both the service firms and the producing firm can be expected but are not illustrated. There are several visible network effects due to the customer led change illustrated by effects on the customers’ customer, suppliers’ supplier and other service providers.

### **Conclusion and discussion**

These effects of the adaptation to the key account customer’s requests might contradict and even reverse the direct effects.

When adapting to a customer in order to meet their requested demand the direct effects are present in theory. But when taking into account the indirect effects, neither CRM nor KAM is specifically detailed on the matter. We hope to widen this narrow view looking at customers and customer relationships in isolation from other relationships taken by the management literature as well as the revised research focused on buyer-seller relationships.

Furthermore, we neither say a win-win situation for the focal relationship nor for the other actors involved. It was rather a win situation for one party with a strong market power. While there were a few positive and many negative effects on other parties.

Another conclusion would be that the effects were complex and involved several different actors over time. The two key actors in the relationship were actually large groups consisting of several organisational units with different responsibilities. Thus the implications of the change had different effects on their profitability, quality and delivery time. This was also indicated by the strong reaction from some of these units. Some even demanded their own transport solution causing new conflicts of interest. The complexity due to the amount of actors involved and the dynamics of the effects and reactions to these effects make the final outcome difficult to foresee.

Another conclusion is that each firm play different roles and meet in different roles, which seems to drive some of the negative effects leading to conflicts of interest. The same firm could be both supplier and customer. Outsourcing might be a factor of importance here since then the network grows larger and is increasingly difficult to control.

In this situation we have discussed a supplier-buyer relationship where it concerns a supplier of services and intermediary and not a traditional product. This might have caused an extra complication in the sense that more actors might have been involved. However this is today a very common situation.

In the marketing literature, including key account management, network and CRM approach, we seem to have taken for granted that ongoing and existing relationships are positive and often profitable at least in the long run. In CRM approach it is even explicitly said that keeping customers is seen as more profitable business than acquiring new ones. However, when large changes of customers occur as much resources as for acquiring a new relationship might be needed. perhaps even more resources might be

needed since it is a question of changing the existing situation and creating the new. This means that a large customer change would actually call for a total re-evaluation of the customer.

Finally, what could be our main reason for over-emphasising the positive effects and in often downgrade the negative effects? We found that a logical reason could be that the advantages of continuation and retention of ongoing relationship is actually contrasted to the transactional situation to customers in the traditional marketing literature. From this perspective we have seen a need to emphasise the importance of relationships and their development over time. Maybe today when so many are convinced that we should take a more critical point of view.

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