

# **Portfolio's & orchestration**

Competitive paper

Per V. Freytag (Corresponding)  
pvf@sam.sdu.dk

Ann H. Clarke  
ahc@sam.sdu.dk

Department of Entrepreneurship and Relationship Management  
University of Southern Denmark  
Engstien 1  
6000 Kolding  
Denmark

## **Abstract**

The paper suggests a framework for analyzing a customer relationship portfolio. Many portfolio models exist already, but they have major weaknesses. Firstly, most portfolio models are one-sided, they only take the perspective of the other actor into account to a limited extent if at all. Secondly, interdependencies between buyers and sellers often exist, but are seldom addressed in the existing portfolio models. Thirdly, the level of analysis is mostly limited to one level, in many portfolio models. Fourthly, the question of how a portfolio model can be used as a part of orchestrating within a firm and between firms is left out of most portfolio models. The proposed customer portfolio framework explicitly addresses these limitations of most portfolio model and indicates how these limitations may be overcome.

The customer portfolio framework works at three levels of analysis, the firm, the dyad and the portfolio. As a part of the analysis the actors' perception of a particular relationship is taken into account, in the same way as the analysis of the net effect also includes a two way perception.

Transformation of the aims which are deducted from a portfolio model may be difficult to get into action in firms. To address this orchestration within and between firms is discussed and communication, legitimising and socialisation processes are in-cooperated in connection to the framework. The paper contributes with a framework which helps to overcome some of the weaknesses in the existing models and improve the understanding of how customer portfolio actually can be used seen from a relational perspective.

## INTRODUCTION

Danish Steel and Plastics (DSP) is a small Danish firm that produces plastic and metal parts according to customer specifications. One part of their business is supplying parts for pipes and valves. Three major customers, who have been with the company for ten years, represent more than 50 % of DSP's sales. The remaining part of the sales is distributed between 30-40 customers within different industries, and each year DSP adds 7-8 new customers. Until now, customers have had high attention. DSP finds that good customer relationships are important. However, DSP does not have an overall prioritisation among the customers in place, nor has it allocated the resources to the three major accounts to match the importance of these accounts for DSP. The internal guidelines for customer treatment within DSP have been rather broad. In some situations it has been difficult to meet customer expectations because of a weak internal coordination. Two of the three major accounts see themselves as closely connected with DSP and rely heavily on DSP's ability to adjust and develop parts for them. Efforts to get DSP to allocate more resources to the relationships have not been successful. As a result, the two major customers are becoming less and less satisfied with DSP.

Many firms face similar problems as those related to DSP. This chapter therefore explores a firm's possibility to prioritise customers. Two issues will be addressed in particular. The first issue centres on the limits of prioritisation of the individual firm. The second issue looks at what role socialisation, legitimisation and communication may have for the possibility to prioritise.

Most firms have relationships with a number of customers and find it difficult to prioritise customers. Firms often have problems recognising the differences between the customers and managing the collection of relations in a way that they create value. If prioritisations are made, resources and attention towards the customer do not necessarily follow. In many situations solutions and offerings are specific and relationships are customised. Customisation allows the customer to acquire and use resources, actors, and activities. However, because resources are scarce and the actor's time is limited, it is important for a firm to prioritise and to maintain effective relationships (Turnbull 1990; Håkansson et al. 2004).

If the individual firm could decide on its own, the problem of prioritising would be less complicated; it would only be a matter of comparing the potential value that the different relationships could provide on a short- and long-term basis. However, relationships are not one-sided entities, but are two-sided interdependent entities (see chapter 2). The outcome of a relationship relies on prioritisations and allocations made by other actors. Looking at the potential of a relationship as something that a firm can control, may be too restricted a perspective in the business arena (Ritter 2007; Campbell 1985). Even in game theory, where the assumption is that choices can be made independently, the possible actions of multiple actors are still the core of the research interests. When interdependencies exist, actions are taken by the other part in the dyad matter, as some possible actions depend directly on the prior actions of the counterpart, while other actions are taken in co-operation.

A portfolio is a central tool used to understand processes influencing a customer. The core idea of a portfolio is to guide the process of building, developing, maintaining, changing, and terminating relationships. A portfolio should help guide, manage, effectively prioritise, and allocate a firm's limited resources, to ensure the best collection of customer relationships (Turnbull 1990). A firm must manage a portfolio of relationships as a totality, according to the customers' respective contributions to the firm's short- and long-term success (Ford et al. 2002:99). The actual expected value and cost of each relationship may differ over time (Turnbull 1990; Turnbull & Zolkiewski 1997). It is crucial for a firm to understand how and when to influence the relationship.

Firms need to prioritise their customers. Alternatively, it is difficult to distinguish between the needs of the various customers and thus allocate resources appropriately. The resources must be allocated according to the strategic aims of the focal firm. But if strategic aims shall be reached, firms need to prioritise and allocate work on a-day-to-day basis. Daily operations have to be orchestrated. We use the term orchestration instead of managing as we see the task of management as envisioning and offering guidance instead of controlling means of execution. In our attempt to understand prioritisation, allocation, and orchestration, this chapter focuses on the following question:

*What role does interdependence in individual relationships and portfolios of relationships play in an individual firm's capability to prioritise, allocate, and orchestrate within and between relationships?*

To get an understanding of the limitations and possibilities of portfolio planning within an IMP approach, we need to understand the dynamics of interaction over time between firms.

The establishment of a relationship is not done once and for all. Relationships are an on-going process (Welch & Wilkinson 2002), established over time. The setting of relationships in a certain point in time is the result of previous interactions in the relationships. Understanding the dynamics of relationships over time is central to understanding the differences among relationships.

In this context, relationships are important to the individual firm, but also change over time. Håkansson et al. (2009:62) formulate it this way: An increasing reliance on external partners for issues of both efficiency and innovation means that the majority of company's current activities and its future development is to a large extent dependent on others.

Understanding this interplay between firms' relationships may be described as a kind of quasi-organisation, as high dependencies exist, and co-evolution takes place within a relationship (Håkansson et al. 2004). At the same time, the individual relationships take place within a wider context of other relationships. The network may influence the individual relationships, meaning that it is necessary to include these network effects in the understanding of an individual relationship. Examples of such network effects are demands made by the customer's customer or the supplier's supplier.

Within both the relationship and the portfolio of relationships, the individual firm takes actions of other actors into account. Actions in relationships and the portfolio of relationships are not a one-sided affair. The past gives the firm an embedded platform for cooperation in the future. Due to mutual experiences within a relationship, the portfolio of relationship expectations are formed and room for strategizing is developed. For example, a focal firm's ability to act on its prioritisation of relationships with customers and suppliers can be hampered by other relationships. Formal ties, such as contracts, and informal ties, such as reputation, limit the individual firm's capability to manoeuvre in and between relationships. Still, a firm has a need to analyse and act in the portfolio of relationships and in relation to the relationship at hand.

In order to understand and continuously work with a customer portfolio, a firm needs to consider its position, the relationships it holds, and the network it is embedded in. Only then can it understand and orchestrate its portfolio of customers. However, relationships are dynamic, and thus the process of planning, prioritisation, and resource allocation needs to be ongoing.

## Portfolio and orchestration

For the portfolio planning to be meaningful, it must be implemented in the firm and form the basis for the firm's decisions on a day-to-day basis. As part of implementing or orchestrating the portfolio, the firm needs to influence the action of the internal actors, the single relationship, the portfolio of relationships, and the network. We use the word "orchestrate" instead of "manage". "Manage" indicates that someone is in control. However, control is often impossible to achieve and may even be harmful to a relationship. "Orchestrate" is defined as envisioning possibilities, giving overall guidelines, and empowering actors to handle different kind of situations.

How to orchestrate is a matter of influencing the actors in the firm, the single relationship, the total portfolio of relationships, and the network in which the firm is embedded. Influencing behaviours is formed on the basis of perceptions and interpretations of the past and the present situation (Håkansson et al. 2009). At the same time, influencing behaviours will influence future perceptions and interpretations. Understanding organisation and how influencing behaviours takes place is a matter of the institutional frame, legitimacy, and communication (Lewin 1951). The institutional frame is a state that has developed over time and can be defined as the socialisation that takes place within an individual firm and between firms in a relationship. Legitimacy constitutes rules that establish which influencing behaviours are seen as fair and right, and which are not. Communication is the vehicle by which behaviours are made known within the institution.

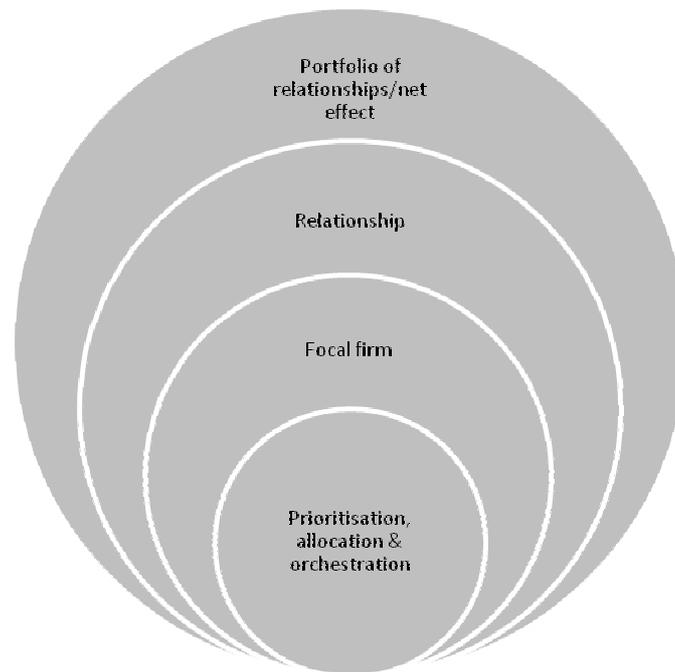
To make actions and intentions known and to avoid misinterpreted communication in relationships constitutes a central device. Communication is necessary to make the relationship work and to further develop it. Yet communication may also lead to misunderstandings and misinterpretations by itself. Communication not only helps to solve particular problems at hand, but also influences the form that the cooperation takes in the future, as well as the future expectations about the partner's behaviour. At the same time, behaviour and expectations influence the communication. Such expectations are a part of a socialisation and legitimizing process within the individual organisation and in the relationship (Bucklin & Sengupta 1993). The actor is socialised as a part of an organisation and learns about acceptable or legitimate patterns of behaviour. In orchestrating relationship communication, socialisation and legitimating processes need to be included.

To understand the limitations and possibilities for portfolio planning within an IMP approach, we need to understand the dynamics of orchestrating the portfolio over time, within and between firms. Therefore, in this chapter we want to address this important question:

*What role do socialisation, legitimization, and communication processes within a relationship and the portfolio of relationships play for the possibility to make priorities, allocate resources, and orchestrate actors?*

In order to address the two questions introduced above, we view portfolio orchestration as consisting of three main elements: individual customer relationship, the portfolio of relationships and net effects (i.e. customers' customer effects), and the internal situation of the firm, including the prioritisation, allocation, and orchestration of the firm, as illustrated in Figure 1. In relation to the examined relationship, the individual customer relationship and internal organisation indicate how to control and direct internally. The portfolio level is viewed as the entire portfolio of customers of a company. The firm, single relationships, and the portfolio are influenced by the net in which a firm is embedded. However, the net is difficult to orchestrate. In this chapter we mainly consider the net influence and, to a limited degree, how to orchestrate it. Focus will be on how the firm can orchestrate the interaction in

the individual relationships and in the portfolio of relationships, and should adapt management practices.



**Figure 1: Portfolio: levels of analysis**

The aim of the following discussion is to map this play of influencing behaviour in order to understand the way in which firms are influenced by a relationship, the portfolio of relationships, and the role the net (Ritter 2007, Ritter & Ford 2004, Wilke & Ritter 2006). A central challenge is to understand how two organisations deal with the effects of the interaction that takes place in the quasi-organisation-named relationship.

The remaining part of the chapter is structured as follows: First, the limitations and problems within portfolio planning will be examined. Secondly, we discuss how to build a portfolio-planning framework from a relationship's perspective. Thirdly, a relationship portfolio-planning framework is outlined. Fourthly, the possibilities to allocate and orchestrate in accordance with the prioritisations are highlighted. Finally, in the conclusion, the main points of the chapter are delineated and discussed.

#### UNDERSTANDING PORTFOLIOS AND THEIR LIMITS

Since first coined by Markowitz (1952), the focal point of the portfolio has centred on the problems of resource allocation. As firms limit resources, management must shape the business portfolio. The central question is how a firm can effectively allocate its limited resources to ensure the optimal combination of business operation, that will maximize the long-term returns at a given risk level (Turnbull 1990). The portfolio has its offspring in finance, where it has been comprehensively used, but in the 1970s it moved into the marketing domain. However, the challenges within marketing are different from the challenges within financial portfolio planning in a number of areas. First of all, the information available differs, as the information available to marketing is more limited than that of equity investment (Turnbull 1990). Secondly, marketing portfolios are more widely applied than finance (divisions, markets, product lines, products, brands) (Ansoff &

Leontiades 1976, Wind & Saaty 1980). Thirdly, the resources at stake are different, as financial assets have fewer dimensions attached as resources, which are integrated into the firm (Thero 2008). Fourthly, methods of analysis differ. Most financial models are mathematical or stochastic, whereas the majority of marketing models follow an analytical process with a multiple number of criteria. Fifthly, financial portfolio models are commonly based on objective data, whereas marketing portfolio models include more subjective data (i.e., GE). Sixthly, in marketing practices relationships are said to develop over time and are directly affected by the interaction process (Zolkiewski & Turnbull 2002). In finance portfolio, models are sensitive to definitions and measurement (Thero 2008).

Still, the fundamental problems found within financial models seem to remain within marketing models. Many marketing portfolio models look at the present profit gain from a customer or focus on the level of satisfaction of the individual customer's perspective. The models do not usually include the gain or the satisfaction of customers, combined or in the long run (Bowman & Narayandas 2004). Yet, empirical research seems to demonstrate that relationships may have different roles or functions in the long run (Zolkiewski & Turnbull 2002, Ritter & Gemünden 2003). When the marketing portfolio models follow a logical analytical process, many of the problems still appear due to the simplified nature of relationship portfolio models. Because the models deal with complex real-life situations, the simplified cooperation of the few dimensions makes the recommendations worthless, at best, and at worst, dangerous (Dubois & Pedersen 2001). Several authors have also noted that marketing portfolio models do not address the interconnectedness of relationships (Dickson 1983; Ritter 2000; Zolkiewski & Turnbull 2002). Marketing portfolio models must address the nature of relationship development as an interaction process, in which both parties are active over time.

Another challenge arises from the prioritisation of resources. In recent years several researchers have found that customers vary - they are not a heterogeneous mass. Researchers argue that it is not always appropriate to form close relationship with all customers. Instead, it is proposed that companies must adjust their relationship management activities according to the customer's value, and impact the direction of the entire variety of its customer relationships. Some firms have many customers that they hold at arm's length, and they have close relationships with only a few (Thero 2008). A proposed dimension ranging from transactions to strategic partnerships is often made (Johnson & Selnes 2005; Thero 2008). Zolkiewski (2004) suggests that a contingent approach is needed in portfolio management rather than one-size-fits-all marketing.

Overall, the challenges of portfolio planning within marketing are highly complex, which may be one of the reasons for the many definitions and models for customer portfolios proposed over the years (Wind & Mahajan 1981; Freytag & Mols 2001; Zolkiewski & Turnbull 2002; Tikkanen et al. 2007).

To create a balanced, future-oriented portfolio, firms should take the entire portfolio of customers into consideration and evaluate them in context. In other words, firms should not just focus on customer relationships independently, but consider whether the relationship holds an appropriate composition of customers in the firm's portfolio, to ensure long-term performance (Turnbull 1990). As Eng (2008) has noted, there is a need for further development: "... previous studies... ... left a theoretical and empirical gap between integration of internal resources and external relationships for examining network effects on a focal firm's business relationships" (Eng 2008:568).

Based on the above, three challenges arise for the development of a contingent portfolio model:

1. How is it possible within portfolio planning to guide the prioritising among relationships?
2. How can portfolio planning take the strategic aims of the focal firm into consideration, while taking into account the strategic aims of the firm's partner as well?
3. How can the best possible nexus between internal and external resources and activities be obtained?

#### OUTLINE OF A FRAMEWORK FOR UNDERSTANDING THE COMPLEXITIES OF PORTFOLIO PLANNING

In the following section we discuss how to build a portfolio-planning framework from a relationship perspective. The discussion addresses the above-mentioned three challenges: strategic aims (question 1 above), relationship interdependencies (question 2 above), and portfolio dimensions (question 3 above). The overall viewpoint for the discussion is that relationships are driven by purpose (strategic aims) (Ford & Håkansson 2005).

#### Portfolio dimensions

In the literature on portfolios, it is proposed that there are different dimensions on which the portfolio can be based (profit, sales, value of the relationships, shared vision, etc.). From the above discussion it is evident that the dimensions to be used to form the base of a portfolio model may be difficult to detect and may change over time. Thus, the context for the portfolio model is necessary. The dimensions that form a portfolio are contextual, and therefore it is difficult to unambiguously define what a firm's portfolio should look like, including definition of dimensions and model. Instead, each firm must identify the essential dimensions and what the customer portfolio should contain (Håkansson et al. 2009). For a portfolio model to be successful in respect to prioritisation, allocation, and orchestration in consideration of firm internal factors, relationships, and the network, the portfolio must address changes over time. Therefore, customer portfolio management is about continuous analysis and the process of responses rather than a single act in time. However, there are generic questions that a company should consider in order to better understand its relationships and the effect the net can have. These questions are described further down. Before presenting them, the challenge of relationship interdependencies and strategic aims is considered.

#### Strategic aims

When planning, a company must know what it is aiming at. In marketing strategy the overall aim may be defined as "the systematic effort through which the firm aims at optimal value creation for its customers, shareholders, and of the network partners in accordance with the set strategic and operational objectives" (Tikkanen et al. 2007:197). In order to form and implement a portfolio plan, it is important that the firm is aware of its aims and the aims of its partners. Aims that are aligned with partners can help foster a relationship, whereas aims in discrepancy may cause conflicts. Overall, the task of identifying a firm's own aims as well as the aims of its partners may seem clear. But transforming this overall statement – or similar

ones – is difficult and leaves room for various interpretations. Even if the firm gives much attention to understanding the customer's aims, these may be blurred. Customers are not always aware of what they need and want, and so the needs may first have to be established in cooperation with the seller. Market intelligence is helpful, but does not solve the problem. Because exchange processes on the business-to-business market are often complex and include coordination and adaptations, it can be difficult to specify the underlying purpose guiding the construction of a portfolio-planning model.

Relationships hold both the obligation and the necessity to fulfil their own objectives, and at the same time to allow other actors to do the same. For that reason common grounds must be developed and shared. In order to make the portfolio two-sided, the firm should identify its own aim and what it wants from its partners. Furthermore, when making the portfolio and planning actions, it is important to consider the interdependencies between the firm and its customers. Often, the capability to select and change a relationship is not only the choice of the focal firm, but depends on both parties.

Firms therefore have to learn not only about the needs and wants of customers, but also the limitations of their own (as well as their customers') resources and capabilities (Håkansson et al. 2009). Therefore, the real challenge, in cooperation with the firm and among the firms, is to learn about the strategic aims, resources, and capabilities, and to transform these key points into objectives, that can be used to help guide portfolio planning.

### Relationship interdependencies

The connectivity of relationships deals with the effects of having different types of relationships. Homburg et al. (2008:111) note that "managers need to know which critical leverages make a prioritisation strategy work".

Each relationship needs attention, resources, and direction to work. Still, the challenge of understanding the dynamics in an on-going relationship exists. The question is how do firms allocate and prioritise resources and activities from one organisation to another on an on-going basis?

To answer this question, we need to put another question first: why does a need for allocation and prioritisation occur? If only one offering was made, the complexity of the question would be lower. The variety of product and service dimensions would be lower as well, and it would be easier to prioritise. As soon as options or even customized solutions are offered, the complexity increases, impacting interdependencies on the supply and customer side. To be competitive, firms attempt to modify activities and recombine resources. Interaction processes help overcome the complexities arising from modification and recombination. Reorganisation due to interaction comes at a price, as modification and recombination both have an impact on economics of scale, and often on interdependencies as well (Håkansson et al. 2009).

Offering specialised solutions also influences the actors' expectations and binds resources and activity patterns. From a portfolio model perspective, high diversity makes it difficult to handle all the complexity within the same model. Specialised solutions indicate individualized dimensions that can be difficult to compare afterwards, in order to make prioritisation and allocation possible. Yet, although interaction helps the process of cooperation work, it also has an impact on the design of a portfolio model. Over time, modification of activities and recombination of resources call for a dynamic framework to handle the prioritisation of customers and the allocation of resources.

## The nature of relationship - building blocks in a portfolio model

In an attempt to give a new understanding of a portfolio model from a relationship perspective, we will give some building blocks for a framework. The basis for these blocks is that the dimensions that make up a portfolio are contextual. Therefore, it is difficult to unequivocally define what a firm's portfolio should contain (Eng 2008). Instead, the individual firm must identify which essential dimensions its customer portfolio should contain. When a company has close relationships with customers, it needs to understand the nature of each relationship and how the company can prioritise among them. From an IMP perspective, it is challenging to make relationships comparable, and by doing so, make prioritisation possible. This is a complicated affair, as both relationships and network states may differ. Thus, an entering point for the analysis is necessary. In the following section, we will look closely at examples of categorisation that can help in understanding the nature and stage of the relationships.

A plain manner in which to start analysing relationships is to identify the reasoning behind having a particular relationship. One way to distinguish between establishments of relationship is to look at the value creation and the degrees of commonality in interests (Krapfel et al. 1991). Buyers that seek only low value offerings and share few, if any, visions for the future with the selling firm can be seen as acquaintances and are of low interest (Krapfel et al. 1991). Rival buyers look for high value, but share low common interest. It seems advisable for the selling firm to safeguard investments and not go into more extensive business. Other buyers have a clear interest in the relationship, due to commonality in visions for the relationship, but bring only low value to the relationship. "Friends" like that hold the danger of taking up too much time and becoming "over-invested". Finally, partner buyers are firms who share vision and bring high value. Careful communication and nursing of the relationship seems advisable. Krapfel et al. (1991) take relationships into account. This perspective on relationships, however, is still very much one-sided. The question remains as to how to make the portfolio two-sided in order to address interdependency.

In order to place customer relationships into the portfolio, it is necessary to understand how relationships differ and change over time. An effective way to understand relationships and to make comparison between relationships more easily is to look at each relationship as a life cycle, in which a relationship develops through different phases. Several elements constitute the core of a relationship. In the short term, the elements are product/service delivered, information, financial, and social. The long-term elements are institutionalization and adaptation (Håkansson 1982; Håkansson et al. 2009). Individual episodes form the basis of the day-to-day operations between companies, whereas linking the episodes together allows the understanding of some of the factors that are important in the development of the relationship over time (Håkansson et al. 2009).

A number of contributions have been made for understanding the relationship development (Monthoux 1975; Ford 1980; Ford & Rosson 1982; Dwyer et al. 1987). A number of factors have been found to be of particular interest for understanding relationship development:

- to what extent the involved companies are acquainted
- the experiences made within the relationship
- to what extent potential threats are known
- to what extent the companies are dedicated

- to what extent the resources, actors, and/or activities have been adjusted

Different relationship development models have been proposed. The models differ in a number of ways. For example, the number and type of stages in a relationship varies. The Ford (1980) model is one of the most well-known. It contains five stages, but does not include a dissolution stage. In a 1982 article, Ford and Rosson argue that not all relationships follow a set pattern in the development of a relationship. Trouble might appear in the relationship development, which could hinder the further development of the relationship. In the middle relationship period, any sequence of states may be experienced. For example, the 'growing' state might be followed by 'trouble' to be followed by a 'growing' state again. In this way, the model accommodates fluctuation in relationships (Ford & Rosson 1982:221).

New relationship states occur when a new relationship is established, in which the partners do not necessarily know each other. The growing state appears when a relationship is prospering. The trouble state is reached when the risk is high and the partners are not willing or able to deal with the situation. A static state occurs when the relationship may be working, but is more a matter of habit than a matter of special commitment. The inert state emerges when the relationship is problematic and should be reconsidered or terminated. Due to this, actors can be said to play a certain role in the understanding of relationships, since it is the actors who carry the past history of a relationship with them. In any relationship, actors learn each other's patterns of behaviour. Actors become socialized within relationships, not just within their own organisation (Suhr 2007). The development models give information that can help orchestrate the relationship over time. It provides information on historical development, the current stage, and guidance on relevant actions and potential responses from the partner (for example, the amount of communication and adaptation taking place in the relationship). There are also limitations related to the development models. The firm can never be sure what development stage the relationship is in, or if the relationship was ever destined to be a close relationship. Some relationships may look like they will endure, but falter because the wider marketing environment has changed (Brennan et al. 2008:255).

Still, the challenge of how to make prioritisations possible remains. When relationships are seen as unique, it is difficult to make prioritisations based on comparisons between relationships that are very different. Due to the ARA model (Håkansson & Snehota 1989), different types of interdependencies exist, in part because of the adaptations of resources, activities undertaken, and engaged actors. Relationships are seen as constituted by links systematically combining activities, ties connecting resources, and actor bonds attaching the social dimension of business. The ARA model helps distinguish between the different kinds of interconnection. The ARA model can provide an understanding of a firm's relationships, the portfolio of relational, and the network in which they are embedded. Highlighting the diversity of connections between companies enables a firm to determine how they link together and what are the critical terms, such as whether the company has a strong presence and is crucial in the direction things are developing, or whether it is weakly consistent, in relation to the development of relationships and the network.

Yet the ARA model cannot stand alone; it has to be linked to the strategic aims of the firm. Geersbo & Hedaa (2007) have developed a strategic situation analysis framework for understanding the state of the organisation. The strategic analysis model is named C-MOST (capabilities, motives, opportunities, and timing). It is argued that a firm can analyse its strategic situation by determining the:

- strategic aims of the firm

- capabilities of the firm
- possibilities at hand
- the impact of time

The ARA model also addresses the firm’s activities, which have to be explicitly included in the portfolio-planning framework. Throughout the chapter the viewpoint is that a portfolio model should not only address the individual relationship, but also include the entire portfolio of customers, together with the state of the internal organisation.

### Continuous portfolio planning

In the following discussion, the C-MOST framework has been extended to the relationship and portfolio level. By extending the framework, the firm gets the opportunity to evaluate its own strategic aims, and does so using the aims in the relationship and the portfolio, in order to understand its impact. The net and network level should also have been included in the below table 1, but it was left out as it complicates portfolio planning very much. Net and network effects should not be left out of the portfolio analysis as indicated in table 1 (portfolio, net and network effects).

**Table 1: Portfolio planning as a matter of levels of analysis**

<b>Firm</b>	<b>Relationship</b>	<b>Portfolio (including net and network effects)</b>
<i>In what state is our firm and what impact does it have on ...</i>	<i>In what state is the relationship and what impact does it have on ...</i>	<i>What are the states of other relationships and what impact do they have on ...</i>
Our strategic aims?	Our possibility to achieve our strategic aims in the relationship? The congruency of the partners’ strategic aims in the relationship, as well as our own aims?	The possibility to achieve strategic aims within focal company, relationship and other relationships?
Our capabilities?	The available resources and capabilities that can be combined or changed with what effects?	The available resources and capabilities that can be combined within focal company, relationship and other relationships?
Our activities?	The activities in the relationship and how they can be combined or changed with what effects?	The activities in the relationship and how they can be combined or change within focal company, relationship, and other relationships?

Our opportunities?	The opportunities in the relationship?	The focal relationships impact on realizing opportunities in other relationships and vice versa?
The influence of timing on the above questions?	The influence of timing on the above questions?	The influence of timing on the above questions?

The above framework is based on the idea that relationships can be analysed and understood by looking at the firm level, i.e. the relationship itself as well as other relationships. Some of the same dimensions are important (aims, capabilities, activities, opportunities, time). Understanding the stage of the firm, relationship, and portfolio gives valuable information that can help the firm orchestrate over time. The various levels are linked. Portfolio of relationships and the influence nets can contribute to the development, but also limit the pursuit and development of the relationships and the portfolio the firm wishes to develop in the long term. The questions asked in the framework may seem tame. Mapping aims, capabilities, activities, opportunities and time issues at three different levels in practice becomes very difficult and complicated (i.e. wicked). A manner in which to avoid the wickedness of the problem is to use the framework to analyse very specific questions. An example of this is when a firm wants to develop a relationship in a specific direction for innovation purposes. Such a change in one relationship will first of all have internal effects in the focal firm. Some employees may play a more important role than before and other employees may feel that they lose influence. In the relationship at stake the aims of the two firms may not be totally the same and this will have to be addressed. At the portfolio level the change will affect other relationships as resources and employees may be moved. This may lead to not only reactions from customers, but also from the customers of the customers.

Summing up, firstly, the states of the firm, the relationship, and the other relationships (portfolio) form the frame in which interaction takes place and in which prioritisations, allocations, and orchestration take place. Secondly, strategic aims, capabilities, activities, opportunities, and timing at three different levels have to be taken into account in the process of prioritisation, allocation, and orchestration.

It also appears that the contingency needs to be explicit before the framework can be more precisely applied. However, more can be said about orchestration in and between organisations in relation to outcomes of prioritisations made and allocations outlined. One major challenge in a wicked reality where relationships are highly interdependent is how to allow implementation to take place at all. In portfolio planning, implementation issues are scarcely dealt with, even though these issues are crucial to the success of the portfolio model. The issue of implementing a portfolio will be addressed in the following.

#### ORCHESTRATION AND MANAGEMENT OF CUSTOMER PORTFOLIO

For the customer portfolio to successfully play a role in managing customer relations, the portfolio must be implemented in the organisation. Thus, customer management needs to move from abstract strategies to concrete day-by-day actions. The management of the customer portfolio is a dynamic, ongoing process that takes place in the form of daily actions made by actors interacting within the individual relationship. However, this process is not an event that takes place at only one point in time. Relationship portfolios are developed over

time in the interaction with the customers and are not selected as such, but developed (Thero 2008).

To decide which new relationships to build, which to develop, which to maintain and which to terminate (Zolkiewski & Turbull 2002), firms need to manage the customer portfolio at the three levels described above, i.e. the firm level, the different single relationships, and the portfolio of relationships, including net influence, as seen in Figure 1. The managers of the firm must orchestrate the customer portfolio plan internally in relation to employees who act in relation to the relationships and in the context of the remaining portfolios and network. How firms choose to implement and manage the customer portfolios depends on their management style. However, the current relationships and position in the network also affects how the firm can manage, as they can strengthen but also limit the effort to achieve a firm's aim. Continuous planning, adoption, and adjustment of actions are often required.

To reach its targets, a firm must aim. Not all goals aimed at by the firm are reached, but most strategic thinking is about how to achieve the goals (Mintzberg 2003). Targeting of efforts is about the coordination of resources, activities, and actors. To what extent it is possible to coordinate and plan has been discussed within the IMP perspective. Coordination is usually discussed in connection with control and management.

The question is to what degree can firms affect, manage, or even control the relationships, the portfolio of relationships, and the network? Håkansson & Ford (2002) and Håkansson et al. (2009) see networks as adaptive systems that cannot be centrally managed. On one hand firms are said to be interdependent, but on the other hand they are not totally dominated by one actor. A firm's management is usually associated with structures, the allocation of resources, setting up schedules and goals, etc. As an alternative point of departure, authors have discussed the orchestration of firms in forms of hub firms (Möller & Rajala 2007; Dhanaraj & Parkhe 2006). Möller & Rajala, (2007) have characterised business network orchestration as networks with well-defined roles, competences, processes, and value activities, where conducting is done by a strong hub organisation. In some situations painting such a picture might be a valid description. In other situations such a strong conductor does not exist.

Because networks differ, orchestration is not done in one particular way, but in many ways. Ryan & Nätti et al. (2009) have tried to clarify the meaning of orchestration. With reference to Young (1982), classical music can be described as very hierarchical, with specialised roles and explicit knowledge about what is to be performed. An orchestra consists of diverse members performing specialised tasks (instruments), using standardized organisational procedures (musical scores) within an implicit hierarchy (such as first and second violins) under executive leadership (conductor) producing a coherent output (music) (Ryan & Nätti 2009:4).

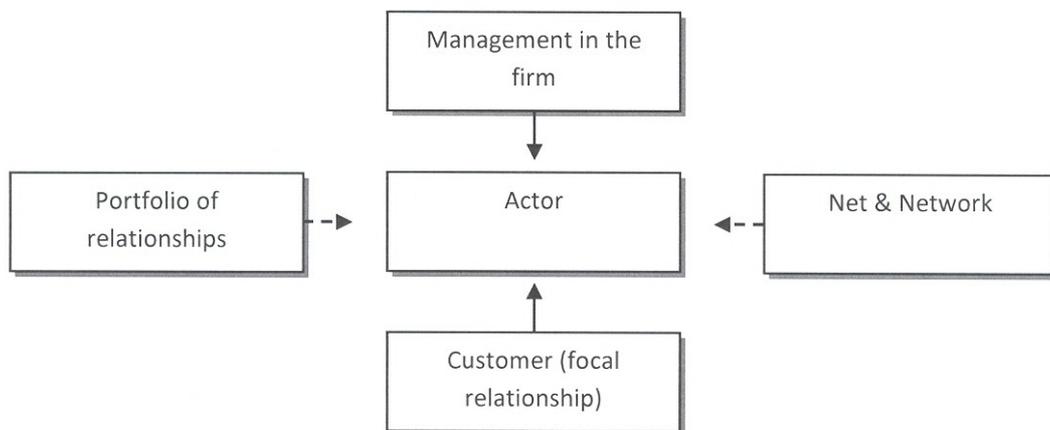
In other genres, such as jazz, rock, improvisation, and African drums, such a definition of orchestration is not valid. For example, no conductor executes leadership; the leader is the "soloist" who is most appropriate in the given situation. Still, the definition gives a frame for understanding what goes on in different types of music:

1. What are the tasks?
2. What are the procedures?
3. How does the hierarchy work?
4. How is leadership executed?

## 5. What is the output?

When business networks do not have a hub organisation to execute leadership, the five questions above can be a way of understanding what is going on and explaining the interaction. For firms operating within networks without hub organisations (self-conducting), a major issue is, on one hand, how to position themselves, and, on the other hand, how to live up to "the obligations" within the network. An understanding of the nature of the network and the position that the firm holds within it is valuable in understanding the opportunities that the firm has to affect the network, and where it may meet resistance.

Firms engage in day-to-day operations by using activity links, resource ties, and actor bonds. Because we view the perception of the actors as central to understanding what goes on in relationships, we will concentrate on actors in the following. For the priorities made and the resources allocated based on the portfolio to be effectuated, it is necessary for management to orchestrate the actors, as the actors implement the aims of the firm into their daily work. An actor in relation to customer relationship can be understood as an individual employee from sales or marketing.



**Figure 2: Factors affecting the actions of the actors**

The actors act based on the guidelines conveyed by management in relation to the relationship in question. However, the actor is also affected by relationships established with the customers. Depending on the stage of the relationship, the customer has expectations regarding the actions of the actor, as bonds between two counterparts are created over time. Expectations and bonds that the actor, e.g. a sales person, might have to shape, reinforce or modify through the exchange with actors in a relationship, according to the prioritisation made in the portfolio. In this context, socialisation, legitimacy, and communication become important aspects. The aims of the cooperation, the capabilities available, the understanding of the potential for the relationship, and the degree and urgency for change need to be communicated by the managers. Over time, certain rules (legitimacy) for interaction will develop and socialisation processes will occur. The characteristics, rules, and communication patterns will be seen as more or less attractive. In the short term, the moves will to a high degree be path dependent, and only in the long term may changes be possible. Communication pattern, legitimacy, and socialisation within the relationship will be affected by the other relationships in the network, and the network will be affected by the individual relationship.

## Socialisation

When the firm wants to form, run, and further develop relationships, inter-organisational socialisation must be considered. *Organisational socialisation is the process by which an individual comes to appreciate the values, abilities, expected behaviours, and social knowledge essential for assuming an organisational role and for participating as an organisational member.* (Louis, 1980:229-230)

Socialisation becomes the formal and informal mechanism in the coordination of relationships. Socialisation efforts can become the basis for sustainable, long-term relationships and are a precursor to future exchange (Stephen & Coote 2007). Socialisation should also be in focus when the desire is to create "disequilibrium" and change (Schein 1988).

Ford's (1980) model describes the process of socialisation through the process of getting experiences in the relationship, reducing distances, making commitments to the relationship, and becoming less insecure about the other organisation. To some extent socialisation is needed for actors to enter into relationships. A successful socialisation process makes cooperation easier and more foreseeable. Socialisation is an important part in stabilising relationships, as both parties know what to expect from each other.

A firm's effort to change the relation, i.e. further develop or lower its activity and resource commitment to the relationship, may result in the parties no longer sharing mutual interests. This may change the way in which the actors interact and can result in conflict, placing an extra burden on the relationship. The change in priority can also put pressure on the actor who has to communicate and implement the changes. As the actor in the relationship becomes a part of a quasi-organisation into which he is socialised, the actor e.g. salesperson can be placed in a dilemma between the consequences of a prioritisation made by the firm, the consequences which the decisions have on the customer, and the changes that the actors have to enforce in the relationship.

## Legitimacy

Relationships hold both the obligation and the necessity to fulfil their own objectives and allow other actors to do the same. For this reason common grounds must be developed and shared. It is not easy to handle legitimate claims, if, for example, a firm wants to change the importance of the relationship or reduce its activities and resources. Offerings and relationships come at a cost for both parties involved. The relationship and the offering must be seen as legitimate by both firms in the relationship. If the relationships and the offerings are not seen as fair, tension is created in the relationship. In other words, the organising form and the give and gets must be seen as legitimate. Cornelissen (2004:59) has framed the problem of legitimacy in the following manner: *... persons and groups with legitimate interests in the organisation are recognized and accounted for, and these individuals and groups all need to be considered, addressed and/or accommodated by the organisation to bolster its financial performance and secure continued acceptance of its operations.*

Working in a relationship as a salesperson or a buyer brings the problems of legitimacy to the point. Actors as salesmen and buyers are employed by one organisation. At the same time, they work within a quasi-organisation, i.e. the relationship. When these actors try to make the relationship run as smoothly as possible, they run the risk of neglecting their own organisation's expectations of the outcome of the relationship. Optimising the content of one organisation may be at the cost of the other, which may create pressure on the salesman or the buyer to align the objectives to the organisation. This too may be troublesome, as aligning to

one's own organisation may be regarded as illegitimate behaviour in the relationship. As a result, partner-based relationships often have pressure from the organisation and from the relationship. Living up to both parties' wants at the same time can be difficult, if not impossible.

Changes in the relationships, e.g. if a firm wants to reduce its activities and resource engagement or even to terminate the relationship, can produce legitimate claims and the potential exercise of a power sanction from the customers, as the wish to terminate the relationship is not shared with the partner. In other situations both parties might want to exit the relationship, but have to cooperate due to high interdependency (Håkansson & Snehota 1989).

## Communication

When the portfolio planning has to be carried out in daily life, communication becomes important in order to avoid misunderstandings. The acts of communication have been described as the thread that holds any social organisation together, if not the skeleton that determines its structure (Pool 1973:3), and are equally important in relationships. Communication is essential in setting priorities and coordinating activities to accomplish each party's objectives (Mohr et al. 1996).

Internally, communication is important for the employees to understand the organisation's prioritisations and how the employees should pursue them. Joshia & Randal (2001) found that effective communication has a significant impact on a salesperson's performance and customer orientation. However, firms will have to communicate with many different actors at different levels, and not only communicate internally.

Communication includes a wide range of aspects, which are of interest for the understanding of interaction in relationships. On a formal level, communication is about technical, economical, legal, time, and knowledge issues. On an informal level, communication also includes social issues, such as the way in which the actors deal with each other. Communication includes not only oral and written information, but also actions taken by the actors in a relationship. Actions may sometimes even speak louder than words.

When changes have to be made, the partners must renegotiate their mutual interest and needs. Communication becomes an important part of the negotiation process. An effective and efficient communication can help create or retain trust, commitment, and reduce uncertainty among the parties. This may cause communication frequency to increase for a period of time (Håkansson et al. 2009). But be warned, communication can also be the cause of conflict.

If the tasks of prioritisation and resource allocation are to be carried out, there is a need for understanding the orchestration of how communication, legitimization, and socialisation processes within and between partners may take place. If orchestration is seen more like a jazz session and less like conducting classical music, making portfolio planning a day-to-day task is very much about understanding the effects, possibilities, and limits of empowerment (Bowen & Lawler 1992).

On one hand, empowering employees may lead to more engagement and well-addressed offering. But on the other hand, training costs may be higher and customised offerings may have a number of costs.

## CONCLUSION

Firms have to prioritise among customers and allocate resources as a consequence of decisions made. Management and employees have to orchestrate the offerings for the customers. Portfolio planning is a central tool for making these tasks successful. Customer portfolio planning models have a number of short-comings, which have been discussed and possible solutions have been sketched out. Two major issues have been addressed for making portfolio planning more efficient and effective. Firstly, portfolio planning is about making prioritisations among customers. In order to do so, three levels of effects on the relationship should be included: the firm, the relationship itself, and the network. Secondly, portfolio planning should also include the allocation of resources and the orchestration of actors. It is essential to understand the dynamics of communication, socialisation and legitimising within and between firms. Because the issue of orchestration is only shortly introduced, more information is needed on this subject.

A portfolio of customers is continuously developed over time. The changes are implemented or orchestrated in the form of communication, socialisation and legitimisation. However, the work should be flexible, as the company needs to follow the prioritisations in some periods, and in other periods follow the opportunities that might occur. A firm must be able to access the window of opportunities.

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