

# **Orchestration of customer portfolios**

## **ABSTRACT**

Customer portfolios are widely used, however, most articles focus on how to identify portfolio models and how to allocate resources in order to develop a balanced customer structure. Few authors have considered the critical aspect of how firms orchestrate and implement the aims deduced from a portfolio model and what prevented firms from acting based on their customer portfolios. Most portfolio models are one-sided, they take the perspective of the other partner into account only to a limited extent, if at all, and they often assume that companies can act independently of their relationships. However, interdependencies between buyers and sellers often exist, and this interdependency can prevent a firm from freely choosing which new customer relationships it wants to develop and which existing customer relationships it wants to moderate or even discard. 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. To address this subject, orchestration within and between firms is discussed and the issue of communication and legitimising is addressed. In the paper a framework is introduced that helps to point out weaknesses of existing models and that improve the understanding of how customer portfolio models can actually be applied, seen from a relational perspective.

## INTRODUCTION

Handling customers and their different needs is a central issue in marketing. In the literature portfolio models (Anderson and Narus 2001; Terho and Halinen 2012; Turnbull, 1990) are tool often a recommended for handling customers and do it in accordance with a focal firms strategic aims and prioritisations. As claimed by Piercy (2010, p. 350) managing the interface between a firm and its customers is a central strategic task that requires close attention from firm management. Customers are also assets that demand careful attention from the whole organisation, in which salespeople play an entrusted role in nursing and developing the customers (Ingram et al. 2002). Dealing strategically with customers holds not only internal but also external aspects for the sales organisation (Johnson and Selnes 2004; Piercy and Lane 2009). Internally aspects relate to aligning the sales organisation to the market potential. Externally aspects are related to understanding and monitoring the development in the market as markets are continually shaped and re-shaped through the activities of the firm, its competitors and other actors that open new market possibilities. When handling customers as assets in a continually changing environment it is important to continuously prioritisation which customers to invest in or not and resource allocation between these based on the firm's strategic aims (Johnson and Selnes 2004; Dudley and Narayandas 2006; Piercy 2010).

Customer portfolios denote one of the key levels at which business markets are managed (Möller and Halinen 2000; Wilke and Ritter 2006; Terho and Halinen 2012). A firm's customer portfolio can provide an overview of the various customer relationships of the firm and provide the base for comparisons, prioritising and allocating of resources (Turnbull 1990; Freytag and Mols 2001). In other words, customer portfolios present a possibility to balance the implementation of strategic aims of the firm as it address the composition of its customer base. Although knowledge of the value of portfolios and a number of portfolio models have been developed over time (e.g. Campbell and Cunningham 1983 and Zolkiewski and Turnbull 2002), little seems to be known on how portfolios can be useful for aligning and management of the sales organisation based on prioritisations and allocations made (Leek et al, 2002, Terho and Halinen 2007). So far the orchestration and implementation of the customer portfolios models have rarely been dealt with in academic literature (Terho and Halinen 2007). As a first step to provide insight into the way in which customer portfolios can be used and what may prevent firms from implementing customer portfolio models, we will present a conceptual framework revealing the major issues at stake in the implementation process of customer portfolios.

The characteristic of a firm's portfolio commonly reflects the context in which the firm operates and the nature of its customer relationships (Terho and Halinen 2012). The relationships of firms with their customers differ in disposition, as relationships may be more or less close (Anderson and Narus 2001; Brodie et al. 1997; Campbell 1985; Day 2000; Grönroos 1993; Håkansson et al. 2009; Clarke and Freytag 2012). In a qualitative study Terho and Halinen (2012) found that firm's customer portfolios vary in terms of structural and relational complexity. They identified that firms' portfolios focused either on partnerships, dynamic network or broad market-like portfolios, emphasising that this raises considerably different drivers and challenges for customer relationship

management. The assumption is that the exchange conditions of different types of customer portfolios tend to raise very diverse challenges for management which is also proposed by other authors e.g. Johnson and Selnes (2004), Möller and Halinen (1999).

Alignment in accordance with prioritisation and allocation of resources should reflect the nature of the customer relationships that are embodied in the customer portfolio. It should be reflected whether the firm's portfolio is characterised by loosely coupled relationships or more tight relationships. In case of more tight relationships with customers a firm will be able to act less independently and will have to capture and understand more carefully how customers will react to changes. Alignments in accordance with the portfolio planning will therefore not only be a one-sided affair in which the firm's own sales organisation has to be aligned, on the contrary, the strategic aims and prioritisations of the customers in the portfolio also need to be taken into account. Based on this our research questions are:

1. What are the important issues in orchestrating and implementing customer portfolios in close relationships?
2. How can the focal firm address these issues?

The paper is organised as follows: First of all, we briefly review relationship and network in relation to portfolios, and factors affecting the orchestration and implementation of a portfolio are discussed. After this we introduce a model of the dyadic actions that can be taken based on buyer seller relationships, and the strategic consideration of the different situations are discussed and finally, we present a conclusion.

## **RELATIONSHIP BASED PORTFOLIOS**

When a firm holds close relationships to customers it can influence the portfolio of these customers, but it cannot unilaterally orchestrate or manage relationships and make prioritisations as interdependency between the actors exists (Håkansson and Ford 2002). The outcome of a relationship relies on prioritisations and allocations by both actors and looking at the potential of a relationship as something that a firm can control may be a too restricted perspective in the business arena (Campbell 1985; Ritter 2007). The core idea of a portfolio is to guide the process of building, developing, maintaining, changing, and terminating relationships (Turnbull 1990). 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 and Zolkiewski 1997). Therefore, it is crucial for a firm to understand how and when to influence the relationship.

Firms are said to enter into close or cooperative relationships due to expected higher payoffs. These payoffs may occur as a result of adaption of resources, activities and/or actor behaviour. Close relationships are based on the premises that the involved partners trust in each other's commitment to the relationship, and a potentially higher pay-off can be realized. As the shaping process of the market conditions continuously changes the expected higher payoff, the involvement in a close relationship can be changed or vanish. As a consequence one or both firms may want to allocate resources differently in favour of other customers or suppliers. However, the firm may be prevented from doing this as being in close relationships holds a number of burdens, which may influence at a later point of time the advantages of a relationship. Håkansson and Snehota (1998) described the "dark side" of relationships in 5 dimensions: *Unruliness – the loss of control*, some of the control is given to others and the firm will become dependent on the decisions of the partner.

*Undeterminedness – the uncertain bet*, the focal firm does not know the future potential of the relationship and the expectations by different actors may vary greatly. *Energy – resource demanding*, relationships binds resources that can only be invested once. *Exclusiveness – the preclusion of others*, the choice of one partner usually excludes the possible choice of other partners, as the first partner may feel insecure about the intentions of other partners. *Stickiness – you never know when and from whom there will be requests*, and cooperating in a close relationship you will seek to get the highest possible payoff.

These five dimensions of close relationships may hamper the possibility to act in accordance with a focal firm's sales portfolio. On the other hand, a firm must continually attract and build relationships with more or less valuable customers, expecting that new customers may grow in the long run (Johnson and Selnes 2004). In other words, new customers provide a potential, but at the same time represent an insecure bet. On the other side, a focal firm might be stuck with customers from whom it is difficult to disengage, resulting in an expected low payoff in the future. A strategic question is therefore to what degree a focal firm is embedded in a certain net of relationships and to what degree is it possible to change the net and at what speed? When a firm has engaged with a certain customer and this customer is important for the development of the focal firm, it can be difficult to take in new customers. These new customers may be considered competitors by the present customer and as a treat directly (less potential sales) or indirectly (spread of knowledge). It may also be the expectation of the current customer that the two firms align strategies in order to position the firms stronger in the market, and allowing a new customer may weaken this positioning. In addition, taking in new customers may be seen a move away from the relationship as fewer investments may be made. This will cause the relationship with the customer to become less attractive in the future. Handling new customers with similar needs may be seen as a treat by the present customer and lead to less attention towards the relationship and finally cause solutions to be less individualized. One-of-kind then becomes One-among-many. Customer reactions may be harsh and even cause the customer (to threaten) to leave the relationship.

Such potential customer reactions may not be openly revealed in a relationship but need to be imagined or calculated in a scenario. Relationships between firms are based on relationships among a number of actors at different levels of the firms. It is therefore a special challenge to obtain all

necessary information in order to make a valid portfolio analysis. Various actors and not only those directly involved in sales will be in contact and be in possession of valid information concerning the nature, content, burdens and developments of a relationship. Managing relationships from a relationship perspective demands a solid market information system (Clarke and Freytag 2012). At the same time it requires an understanding of the internal processes of the firm and how various actors are in contact with customer, how data for the market information system are provided and how the firm should act in accordance strategic aims, prioritisations and resource allocations.

In other words, sales portfolios need valid information, but at the same build on the premises that it is possible to align internally and externally. External alignment concerns the understanding of market possibilities and the burdens in which relationships embed firms. Internal alignment concerns the understanding of the various aspects of operations in-side the focal firm and in particular what is at stake for various people in the relationships. In the following we will concentrate on the challenges in achieving internal alignment.

#### **FACTORS INFLUENCING THE ORCHESTRATION AND IMPLEMENTATION OF A PORTFOLIO**

Resources should be allocated according to the strategic aims of the focal firm. However, in order to meet the strategic aims firms need to prioritise and allocate work on a day to day basis (Corcoran et al. 1995). The management of the customer portfolio is a dynamic and on-going process to be conducted on a daily basis by actors interacting within the individual relationships, not an event taking place at one point in time. In other words, relationship portfolios are not selected as such but developed over time in the interaction with customers (Theo 2008, 63). The sales organisation is important in the process of implementing the portfolio and contributes to the process by creating and delivering customer value. Attention must be paid to aligning the structures and processes around customer strategy (Piercy 2010). A relationship between a firm and a customer may have multiple interfaces, as the customer may have access to several actors or departments within the firm; thereby the contact is not limited to the sales people of the firm (Wotruba 1996; Cunningham and Homse 1986). In this sense many individual actors of the firm are involved in the customer interaction and it may therefore be difficult to control the allocation of resources. It is likely that handling of relationships will vary from customer to customer. In this paper we look at the perception of the sales organisation as playing a critical strategic role in the interface between the customer and the firm and thus critical in the implementation and strategic orchestration of a firm's customer portfolio (Lane and Piercy 2004; Piercy 2010) although, in such situations the sales organisation will seek to integrate the efforts of the complete firm towards the customer (Wotruba 1996).

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. Firms may try force decisions through, however this may cause actions that will inflict the relationship negatively and at the end lead to a lower payoff from the relationship with a

particular customer. Therefore sales management must understand the rules of legitimate behaviour in the relationship and how it may be able to influence the partner firm in a certain direction (Ritter and Ford 2004).

How to orchestrate is a matter of influencing the actors of the firm, the single relationship, the total portfolio of relationships, and the network in which the firm is embedded. The way in which behaviours can be influenced 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 affect future perceptions and interpretations.

Furthermore, the sales organisation is affected by relationships established with the customers. Depending on the stage of the relationship, the customer will have expectations to the actions of the actor, as bonds between two counterparts are created over time (Johansen 1989, 73). Sales persons may have to form, reinforce or modify the customer relationship through exchange with actors in a customer relationship according to the prioritisation in the firm's portfolio. However, the exchange is not one-sided as the customer made prioritisations and allocated resources in accordance with his strategy and will want to influence the exchange in a certain direction. The way in which the negotiation/exchange takes place will depend on the prioritisations by both parties.

The sales organisation and sales people act according to the strategies and guidelines conveyed to them by management regarding the relationship in question. This may potentially cause some dilemmas or problems as the sales organisation and sales people cannot focus entirely on one customer at a time, but need to take other factors into account. When firms have more than one customer, the entire portfolio of customers must be considered. Acting towards one customer may have an effect on other customers (see figure 1). In addition the general position the firm has in the network will have to be taken into account, when prioritisation is made within and across relationships. In other words a number of trade-offs between network position, portfolio planning, relationship management and the strategic aims and prioritisations exists. The trade-off gains further momentum because no single actor can be said to be in charge. A number of actors at various levels in the selling firm are involved in the decision making process. Because of the two-sided nature of the process a similar process can be said to take place in the buying firm.

Figure 1: Factors influencing the actors' action



A firm's effort to change a relation, for instance to further develop or lower its activity and resource commitment to the relationship, may cause a situation in which the parties no longer share mutual interests and change the way in which they interact, finally causing a conflict which puts a burden on the relationship. The change in priority may put pressure on the actor, who has to communicate and implement the changes. As a sales person in a relationship can become part of a quasi-organisation, into which he is socialized. The sales person can be put in a dilemma between the consequences of a prioritisation made by his firm and the consequences of decisions conveyed to the customer; thus the sales person can be placed in a loyalty dilemma or loyalty conflict. In order to avoid conflicts the firm must work with its understanding of the relationship. Two important factors are communication and legitimisation. Legitimacy constitutes rules that establish which influencing behaviours are seen as fair and right, and which are not (Kumar and Das 2007; Provan, Kenis, and Human 2008). Legitimacy is central to the development of systems such as organisations and social networks (Human and Provan 2000). Communication is the vehicle by which behaviours are made known within the institution, especially with the purpose of solving disputes and aligning perceptions and expectations communication pivotal (Moorman et al. 1993).

Legitimacy and communication may therefore be seen as important aspects of the relationship, internally as well as externally (Mohr et al. 1996). The aims of the cooperation, the available capabilities, the understanding of the potential for the relationship and the degree and urgency of changes need to be communicated both internally and externally.

When the portfolio planning is to be implemented 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, p. 3) and are equally important in relationships. Communication is essential in setting priorities and coordinating activities to accomplish the objectives of each party (Mohr, Fisher and Nevin 1996).

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

Over time certain rules (legitimacy) for interaction will develop. The communication pattern and legitimacy within the relationship will be affected by other relationships in the network and the network will be affected by individual relationships (Kumar and Das 2007; Provan et al. 2008).

When changes need to be made, the partners have to renegotiate their mutual interests and needs and communication becomes an important part of the negotiation process. Effective and efficient communication can help create or retain trust and commitment and reduce uncertainty between the parties. As an example the communication frequency could increase for a period of time (Håkansson et al. 2009). However, communication can also be the cause of conflicts.

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

Relationships hold the obligation and the necessity to aim at fulfilling own objectives and allowing other actors to do the same. Therefore common grounds will have to 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 and 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 relationship and the offer is not seen as fair, it creates tension in the relationship. In other words, the organising form and the give and gets must be seen as legitimate.

Cornelissen (2004) 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" (p. 59). 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 get the relationship to run as smoothly as possible, they run the risk of at least partly neglecting some of the expectations to the outcome of the relationship by their own organisation. Optimizing 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. Still these may be troublesome as aligning to one's own organisation may be regarded as illegitimate behaviour in the relationship. Partner based relationships will therefore often hold pressure from the organisation and from the relationship, and meeting the wants of both parties 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 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 relationships but have to cooperate due to high interdependency (Håkansson and Snehota 1998).

Manoeuvring in relationships independencies exists requires and understanding of the nature or tune of the relationship and its orchestration. If orchestration is seen more like a jazz session and not like conducting classical music, making portfolio planning on a day-to-day basis work is very much about understanding the effects, possibilities and limits of empowerment (Bowen and Lawler 1992). On one hand, empowering employees may lead to more engagement and more well addressed offering. On the other hand, training costs may be higher and customized offerings may have a number of costs. In other words if the tasks of prioritisation and resource allocation should be carried out, there is a need for understanding how communication and legitimisation and socialisation processes within and between partners may take place and what space for manoeuvring is available.

## **HOW TO ORCHESTRATE AND IMPLEMENT THE CUSTOMER PORTFOLIO**

As pointed out at the beginning of this paper, the aim is not to discuss and compare portfolio models. Our aim is to gain a better understanding as to how portfolio models actually come into play and what constitutes the challenges of using a portfolio model under particular circumstances, e.g. when firms have close relationships with customers. We have made the point that it concerns not only what Piercy (2010, p.256) called "shifting sales management from "command and control"

to coaching and facilitation” with respect to the salespeople in the selling firm, it concerns doing the same towards the customer with whom the firm holds a close relationship.

Terho and Halinen (2007, p. 729) pointed out that successful implementation of portfolios is the “managers’ commitment to customer relationship management“. This indicates that making use of portfolio models is not a one-sided affair, if business performance should be improved.

Understanding what relationship management in portfolio planning means understanding the generic choices that can be made based on portfolio planning: develop, stabilize, downgrade or exit. In other words, a firm’s strategic choice based on portfolio planning can be to downgrade relationships with customers that are no longer profitable or have become too expensive or even exit these relationships. And to grow relationships in which the customer has become strategically important or profitable. Alternatively, the firm can choose to stabilize a relationship that serves well as it is. As described above a firm cannot make the decision on its own. Customers make similar considerations and prioritisations as selling firms. Therefore, considerations and prioritisations will at least to some extent be aligned. If some kind of alignment is not achieved, conflicts will potentially occur. A first step to understand the two sides of a relationship is to admit that at a generic level the customer can potentially aim at developing, stabilising, downgrading or leaving a relationship (see figure 2).

Figure 2: Strategies based on portfolio

	Grow relationship	Stabilise relationship	Downgrade relationship	Exit relationship
Grow relationship	Corresponding aims	Minor gap	Substantial gap	Threatening gap
Stabilise relationship	Minor gap	Corresponding aims	Minor gap	Threatening gap
Downgrade relationship	Substantial gap	Minor gap	Corresponding aims	Substantial gap
Exit relationship	Threatening gap	Threatening gap	Substantial gap	Corresponding aims

Seller and buyer may have corresponding aims for the relationship or minor or major gaps in the aims may exist. How severe the gaps are depends on the importance of the customer, how closely related the partners are and what rights the customer can exercise over the firm and even prevent it from fulfilling its goals, causing the relationship to become a burden.

When seller and buyer have similar aims for a relationship, the challenges of alignment should not be complicated. Although the aim is the same, the process may be important, in particular when changes are involved the timing can become critical. Additionally, the fact that a number of different levels and departments in both organisations are involved emphasizes the importance of orchestrating the process internally in the two organisations and across the organisations.

Understanding the communication and legitimisation issues in the process of change is central.

Violation of communication or behaviour patterns may create unnecessary tension in a process in which the aim of both parties is the same.

When the parties do not have similar aims for the relationship, this can be seen as a game changing strategy process that we will look into in the following section.

### **GAME CHANGING STRATEGY**

When firms do not have similar aims and want to prioritise differently, a potential conflict is apparent. A first step is to analyse to what degree differences in aims exists (see figure 2). Such difference in aims may not be obvious to the counterpart, as seller and buyer do not always communicate their aims to each other directly and openly. Monitoring the relationship is therefore of significant importance (Clarke and Freytag 2012). Still partners in close relationships may want to disguise their intentions, making the monitoring process intricate, and hiding the real aims can become a treat to a relationship. When aims are revealed, the process to a great extent becomes the one of negotiation, determined by a number of factors. First of all, relationships vary in importance. In important relationships firms may respond more openly to make sure that the relationship will continue, whereas in less important relationships firms may be less willing to give in (Fisher et al. 2011). Secondly, the handling of a particular relationship will be considered in connection to other relationships (Alajoutsijärvi et al., 2000). When other relationships are potentially affected by the handling of one relationship, this will tend to be taken into account. For example leaving a relationship may damage the reputation of the firm and make the firm try to stay in a relation, although exit appears to be the obvious choice. Thirdly, the speed in which changes may be made or an exit made from a relationship is another dimension in the process of handling different aims in a particular relationship. Leaving very fast can hurt a partner significantly and should therefore be taken into account. A slow withdrawal from a relationship may therefore be a better option, as it will give the partner time to adjust (Alajoutsijärvi et al., 2000). Fourthly, handling relationships holds a question of being more self-oriented than oriented towards others. Being very self-oriented may harm possible future business options, but being very oriented towards others can also be damaging.

In other words, handling portfolios from a two-sided perspective builds on four major factors:

- the importance of the relationship
- the connectivity of relationships
- the timing in the changing process
- the degree of orientation towards oneself or others

As handling relationships can involve a number of actors internally in the selling organisation, it is important to understand the orchestration process. A tool for handling relationships is the composition of the sales force (Wotruba, 1996). A firm may compose its sales force to represent its

prioritisation of customers. To customers that value long-term relationships and are given high priority by the focal firm, it should allocate salespersons that have concerns for the customers and focus on building long-term relationships rather than salespeople that are mainly concerned with achieving sales (Usunier 1996). As opposed to this the company may want to downgrade a relationship and will change the salesperson to one who is good at hard selling and focuses on the interest of the selling firm rather than the interest of the customers (Lewicki et al. 2010, p. 422). This is, however, not without complications, as the relationships are often closely connected to the salesperson and the relationship can be damaged by changing the salesperson (Piercy 2010). In some cases a firm needs to hire, train, and continually motivate employees to build relationships.

Another critical aspect of handling customers in accordance with the aims of the selling firm only is that the customer also has various ways of acting. A customer with multiple interfaces to a firm has access to several actors or departments of the selling company and is not limited to the use of one sales person. Therefore it becomes difficult for the firm to control the allocation of resources and the customers that are expected to be downgraded. The above discussion highlights the importance of understanding what the customer sees as legitimate behaviour and what kind of rights the customer can exercise over the firm. This will influence what kind of burden the relationship may become for the firm in the short and long run.

## CONCLUSION

Handling customer portfolios implies a number of issues. First of all, it is important to understand the nature of a relationship and how it may inflict on a firm's possibilities to act. A relationship means that two parties have aims, make prioritisations and want to allocate resource and operate. This will potentially lead to a conflict when the aims and prioritisations of the other part are not taken into consideration. It is vital to understand what is seen as legitimate actions by the other firm and at the same time to understand what kind of pressure conflicting aims and prioritisations will have on the organisation. Communicating internally as well as externally to obtain understanding of the situation and to indicate own aims is essential in the implementation of the portfolio. In the process of working towards the aims and prioritisations in the portfolio the sales organisation and sales force is of focal interest. In the process of handling customers the sales organisation and the sales force has to balance the aims of own organisation and the aims of the customer. The balancing process holds a number of issues: to understand the importance of the customer and to act in accordance with this; to understand the connectivity of relationships; to understand the importance of timing; to understand which self-interest the firm has. On the whole, orchestration of customer portfolios deals with the alignment of the strategic aims and prioritisations revealed in the portfolio, the organisation of the sales force and the customer's aims and prioritisations.

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