



Customer portfolios

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Customer portfolios - Challenges of internal and external alignment

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Manuscript Type:	Conceptual Paper
Keywords:	customer portfolios, alignment, interaction space, communication, legitimacy

Customer portfolios

- Challenges of internal and external alignment

- Purpose (mandatory)

This article extends the discussion about customer portfolios beyond simple identification of models and how they can be used for balanced resource allocation to a discussion about how portfolios should take into account views from relationship partners and how they should be aligned in internal as well as a relational context.

- Design/methodology/approach (mandatory)

The portfolio literature is reviewed (most recent, seminal, IMP-related) and considered in the context of both the sales organization and the customers involved in the portfolio. A conceptual framework is introduced that helps improve the understanding of how customer portfolio models can actually be applied from a relational perspective

- Findings (mandatory)

The key aspects of the conceptual framework relate to how alignment of the relationships in the portfolio is achieved. Critical to this are the interaction spaces that facilitate communication relating to alignment and provide the context for the legitimacy of these actions to be discussed.

- Research limitations/implications (if applicable)

This framework needs to be empirically explored.

- Practical implications (if applicable)

Understanding of alignment and misalignment processes in customer portfolios gives managers a tool to help to cope with the dynamic aspects of the customer portfolio. Recognition of the importance of communication to the process, the development of trust and the role of legitimacy also provides areas that managers can focus upon in their relationship management processes.

- Social implications (if applicable)

n/a

- Originality/value

This conceptualization moves the consideration of relationship/customer portfolios beyond that simply of a resource allocation tool into a process that facilitates the use of the portfolio in relational processes and thus aids their understanding of how portfolios can be usefully applied.

Introduction

Handling customers and their various needs is a central issue in marketing strategy. Customer portfolio models have been recommended as a tool to help to determine how to handle customers differently in accordance with a focal firm's strategic aims and prioritisations (Fiocca 1982,

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4 Turnbull, 1990; Anderson & Narus, 2001; Terho & Halinen, 2012). Customer portfolios can also be
5 seen as one of the key levels at which business markets are managed (Möller & Halinen, 2000;
6 Wilke & Ritter, 2006; Terho & Halinen, 2012). A firm's customer portfolio should provide an
7 overview of its various customer relationships and help guide, handle, prioritise, and allocate a
8 firm's limited resources to ensure the best collection of customer relationships (Turnbull, 1990). At
9 the same time, consideration needs to be given to scarcity of resources and understanding that
10 relationships bind resources that can only be invested once (Håkansson and Snehota, 1989). In this
11 sense, a customer portfolio can be defined as: the customers that provide an organization with the
12 opportunity to achieve a balance of its resource utilization and capability deployment whilst
13 ensuring that it achieves profit maximization both now and in the future. In this way, customer
14 portfolios can be used to balance the implementation of strategic aims of the firm as it addresses the
15 composition of its customer base.
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21 A firm must handle a portfolio of relationships as a totality, according to customers' respective
22 contributions to the firm's short- and long-term success (Ford *et al.*, 2002). The actual expected
23 value and cost of each relationship may differ over time (Turnbull, 1990; Turnbull & Zolkiewski,
24 1997). Therefore, it is crucial for a firm to understand how and when to act with respect to a
25 customer relationship. Managing the interface between a firm and its customers is a central strategic
26 task that requires close attention from the firm's management (Piercy, 2010) and demands attention
27 from the whole organization, in which salespeople play an entrusted role in nursing and developing
28 the relationship with customers (Weitz & Bradford, 1999; Ingram *et al.*, 2002). A critical aspect of
29 managing the interface is how a firm achieves this (Furlan *et al.*, 2009). However, this must not
30 been seen as a directive that is solely under the command of the supplier, it is not simply an action
31 that can be 'done' to a relationship.
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36 Although a number of portfolio models have been developed (e.g. Fiocca, 1982; Campbell &
37 Cunningham, 1983; Homburg *et al.*, 2009; Zolkiewski & Turnbull, 2002), there is little information
38 about how portfolios can be useful for aligning needs and managing resources based on the
39 prioritisations and allocations made (Leek, Turnbull & Naudé, 2003; Terho & Halinen, 2007). The
40 change and alignment of customer portfolio models has rarely been dealt with in academic literature
41 (Terho & Halinen, 2007). This problem is reinforced by the vague conceptualization of relationship
42 portfolios, with only limited relevance for managerial practice (Corsaro, Fiocca, Henneberg &
43 Tunisini, 2013). Key Account management (KAM) is the process most often related to
44 implementation of customer portfolios (Salle, Cova & Pardo, 2000; Zolkiewski & Turnbull, 2001)
45 and within which alignment has been identified as being a key issue (Pardo, Ivens & Wilson, 2014).
46 In order to develop the conceptualization surrounding relationship portfolios, it can be suggested
47 that understanding the internal and external alignment processes that are needed to deal with the
48 complex and interactive nature of relationship portfolios is of critical importance. The alignments
49 that are motivated by portfolio planning cannot be considered to be one-sided affairs in which only
50 the firm's own sales organization has to be aligned (Pardo *et al.*, 2014), but also one in which the
51 strategic aims and prioritisations of the customers in the portfolio also need to be aligned with the
52 selling firm's priorities (see Corsaro & Snehota, 2011). This makes the use of portfolios into a
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4 challenging process where both internal and external alignment takes place in an interactive space
5 that incorporates a variety of customer relationships which develop over time. As pointed out by
6 Zolkiewski & Turnbull (2002) a number of issues remain open within the portfolio area;
7 dimensions to measure/use, how to achieve validity and consistency of data, how to include
8 changes in relationships and deal with the subjectivity of evaluation. We will argue that the two-
9 sided nature of relationships needs to be included more explicitly in portfolio models and the
10 changes that occur in these relationships and how firms try to cope with these two issues provide a
11 valid starting point for understanding the nature of portfolios. Hence, the questions driving our
12 research are:
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- 16 1. What are the important issues related to changing and aligning customer portfolios?
- 17 2. How can the focal firm address these issues internally and in the customer's company?

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21 Our theoretical contribution lies in the development of a conceptual framework that identifies the
22 major issues related to aligning customer relationships within an interactive portfolio context and
23 the associated barriers to this process. In addition, the interaction space needed to facilitate and
24 support the process is discussed.
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27 The paper is organized as follows: we provide an overview of literature on relationships and
28 networks in relation to portfolios and factors affecting the alignment of relationships within a
29 portfolio are outlined. This is followed by a discussion of how the sales literature relates to
30 portfolios and the factors affecting alignment. A conceptual framework is presented containing the
31 external and internal alignment needed in relation to customer portfolios. Subsequently, the
32 interaction space needed to facilitate alignment is introduced along with a more detailed
33 consideration of the actions required for aligning and implementing portfolios.
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38 Literature Review

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41 In the sections below we review the relationship portfolio planning literature and the sales literature,
42 with a view to understanding how alignment of portfolios can be enacted and the challenges this
43 enactment brings. The overall aim of the literature review has been to discover important variables
44 relevant to the topic and then using this to synthesize and develop a new perspective (Hart 1998). In
45 the literature review we searched well-established databases¹ and the IMP archive² to identify
46 contributions that have a relational view on portfolio and sales management. The literature search
47 focussed upon business-to-business marketing and sales literature. The first and main search used
48 customer portfolios and sales management as the criteria. These abstracts were reviewed to identify
49 articles containing a relational view of customer portfolios and sales. Further searches have been
50 carried out on specific areas such as alignment and legitimacy to support our conceptual
51 elaboration. Finally, to identify additional relevant articles and books a snowballing technique was
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56 ¹ Such as Business Source Premier, Emerald, Proquest, Sage Management & Organization Studies and Science Direct

57 ² See www.impgroup.org and <https://research.mbs.ac.uk/mimp/IMPArchive.aspx>

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7 The relationship portfolio literature focuses on the relationship between a firm and its customers.
8 However, it tends to be considered more as a strategic level of analysis rather than being used as a
9 tool to explicitly manage the customers or relationships concerned, while key account and sales
10 management tends to focus upon the explicit handling of customers or accounts (Zolkiewski &
11 Turnbull, 2001). The systematic management of accounts is a focal point in sales literature, with a
12 focus not simply on the individual salesperson but on the whole organization handling customer
13 relationships (Borg & Freytag, 2012; Moncrief & Marshall, 2005; Wotruba, 1996). Therefore, it is
14 valuable to review and then synthesize these streams of literature into a unified framework.
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17 18 19 **Customer Portfolios**

20 Since the term was first coined by Markowitz (1952), the focal point of the portfolio has been using
21 it to solve the problem of resource allocation because limited resources mean that management
22 must shape and continually monitor the business portfolio. The central question is how a firm can
23 effectively allocate its limited resources to ensure the optimal combination of business operations to
24 maximize the long-term returns at a given level of risk (Freytag & Mols, 2001; Turnbull 1990).
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28 In the business-to-business marketing literature, customer portfolios are considered to be a strategic
29 tool that can be used to help understand the customer base where relationships between firms and
30 customers vary greatly (Anderson & Narus, 2001; Campbell, 1985; Day & Schoemaker, 2000;
31 Håkansson *et al.*, 2009). More recently it has been stressed that customer portfolio management is a
32 dynamic and ongoing process conducted on a daily basis by those acting within the individual
33 relationships, not an event taking place at a certain point in time. In other words, relationship
34 portfolios are not selected, but developed over time through interaction with customers (Terho,
35 2008, pg. 63) and are a routine part of management strategizing.
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39 It is recognized that the exchange conditions of different types of customer portfolios tend to raise
40 diverse challenges for management (Johnson & Selnes, 2004; Möller & Halinen, 1999). Hence,
41 when handling customers as assets in a continually changing environment, it is important to refer to
42 the firm's strategic aims when deciding which customers to invest in (Johnson & Selnes, 2004;
43 Piercy, 2010) and to take into account customers' requirements with respect to their relationships,
44 including the customers who do not wish for close relationships but who are increasingly focused
45 on value creation (Bettencourt, Blocker, Houston & Flint, 2015).
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49 Resources should be allocated according to the strategic aims of the focal firm. However, in order
50 to meet the strategic aims, firms need to prioritise and allocate work on a daily basis (Corcoran,
51 Petersen, Baitech & Barret, 1995). The resources allocated can be tangible or intangible; examples of
52 tangible resources are specific designs for products, while intangible resources relate to technical
53 consultancy or simply time spent learning about the counterpart. As the shaping process resulting
54 from external factors continuously changes the expected gains and losses, the involvement in a
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4 close relationship can change. As a consequence, one or both firms may want to allocate resources
5 in favour of other customers or suppliers. However, the firm may be prevented from doing this;
6 being in close relationships can result in a number of burdens (loss of control, undeterminedness,
7 resource demanding, exclusiveness and stickiness) that may influence other relationships
8 (Håkansson & Snehota, 1998).
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11 These five quandaries of close relationships (Håkansson & Snehota, 1998) may hamper the ability
12 of a focal firm to interact in the most optimal manner with its customer portfolio. However, a firm
13 must, on the one hand, continually attract and build relationships with more or less valuable
14 customers, expecting that new customers will grow in the long term and provide gains (Johnson &
15 Selnes, 2004). On the other hand, the focal firm might be stuck with customers from whom it is
16 difficult to disengage, resulting in a low payoff in the future. When a firm has engaged with a
17 customer that is important to its own development, it can then be difficult to take on new customers
18 (Håkansson & Snehota, 1998). These new customers may be considered by the existing customer as
19 direct competitors (with respect to access to the resources provided by the supplier) or indirect
20 threats (through spread of knowledge). It may also be the expectation of the existing customer that
21 the two firms align strategies in order to position the customer's firm more strongly in the market;
22 allowing a new customer to be added to the portfolio may weaken this positioning. This poses
23 additional challenges in the alignment of customer relationships as one relationship can affect
24 others both positively and negatively (Ritter, 1999). A strategic imperative here is to what extent a
25 focal firm is embedded in a network of relationships and to what degree it is possible to change the
26 position in the network. A further tension relates to the recognition of this interactive process in that
27 customers will also be attempting to align their own supplier portfolios (Gelderman & van Weele,
28 2002). These factors point to the need for alignment, which is discussed in the section below.
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37 **The Need for Alignment**

38 In order to prioritise and allocate resources to reflect the nature of the customer relationships as
39 embodied in the customer portfolio the organization needs to be aware of how to align its resources
40 with its counterparts in the portfolio (Corsaro & Snehota, 2011) and internally to achieve effective
41 coordination with respect to the relationship (Pardo *et al.*, 2014). Alignment should reflect whether
42 the firm's portfolio is characterised by loosely coupled relationships or tight relationships. In closer
43 relationships, a firm acts less independently and has to understand how customers will react to
44 changes.
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48 Customer portfolio planning necessitates understanding of the generic choices that can be made:
49 developing, stabilizing, downgrading or exiting. For example, a firm's strategic choice based on
50 portfolio planning can be to downgrade relationships with customers that are no longer profitable or
51 have become too expensive. They can also exit from these relationships. Relationships can be
52 developed where the customer has become strategically important or profitable. Alternatively, the
53 firm can choose to stabilize a relationship that serves well as it is (Zolkiewski & Turnbull, 2002).
54 However, a firm cannot make these decisions alone. Customers make similar considerations and
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4 prioritisations of their suppliers (Kraljic, 1983; Caniels & Gelderman, 2007). Therefore, in order to
5 be successful, considerations and prioritisations have to be aligned in some way. Conflicts may
6 occur when alignment is not achieved. The first step in understanding the importance of alignment
7 is to admit that, at a generic level, the customer can also aim to develop, stabilize, downgrade or
8 leave a relationship. And to recognize that what the customer wants in a particular relationship may
9 not be what the seller wants. The question then is: to what degree a customer portfolio can be
10 purposely handled by the selling firm alone.
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14 The process of customer portfolio alignment builds on the understanding that it is both possible and
15 necessary to align internally within the firm and externally between firms with the aim of enabling
16 collaboration. External alignment involves understanding the advantages and burdens incumbent
17 within a firm's relationships (Håkansson & Snehota, 1998; Vilgon & Hertz, 2003) and recognizing
18 the challenge inherent in optimizing and balancing market possibilities and burdens. To do this,
19 firms may need to act differently with different customers. Internal alignment concerns
20 understanding the various aspects of operations inside the focal firm and what is at stake for all the
21 actors in the relationships (Pardo *et al.*, 2014). Alignment is not easy to achieve because some
22 ambiguity exists with regard to the "what" and "how" of alignment (Cox, 2004; Corsaro & Snehota,
23 2011).
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28 Daily operations within and between firms need to be coped with, however, our starting point is that
29 an individual actor is not in sole charge of the organizing process in the network. Still, firms will try
30 to act purposely or even opportunistically to reach their aims (Håkansson & Ford, 2002). How to
31 achieve the alignment needed to operate optimally is a matter of understanding interaction,
32 complementarities and dependencies relating to resources and activities and thus facilitating
33 productive exchanges between actors in the firm, the individual relationship, the total portfolio of
34 relationships, and the network in which the firm is embedded. The way behaviours can be
35 influenced is based on perceptions and interpretations of the past and the present situation
36 (Håkansson *et al.*, 2009). At the same time, influencing behaviours affect future perceptions and
37 interpretations. To achieve goals, firms act purposely and try to ensure alignment within and
38 between firms. Achieving alignment requires influence, persuasion, and compromise within the
39 firm and across firms (Ritter & Ford 2004). Although tensions in this process because of blurred
40 lines of internal and external management can provide challenges to the process (Pardo *et al.*,
41 2014).
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47 In the section below we consider alignment with external partners (i.e. the level of the individual
48 relationship, portfolio of relationships, and the network) and argue that this is achieved through
49 interaction and adaptation.
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52 53 **External Portfolio Alignment**

54 Relationships are built on mutual oriented interaction between two reciprocally committed parties
55 (Håkansson & Snehota, 1995) which are not easily ended and are on-going processes (Tähtinen &
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4 Halinen, 2002; Welch & Wilkinson, 2002), initiated, established and developed over time. The
5 setting of relationships at a certain point in time is the result of previous interactions in the
6 relationships (Håkansson *et al.*, 2009).
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9 Individual relationships exist within a wider context in the network (Håkansson & Ford, 2002). The
10 network may influence individual relationships, meaning that it is necessary to include these effects
11 in the understanding of individual relationships (Möller & Halinen, 1999). Examples of such
12 network effects are demands made by the customer's customer or the supplier's supplier. Within
13 both the relationship and the network, the individual firm is influenced by and takes the actions of
14 other actors into account (Ritter & Ford, 2004). The past gives the firm an embedded platform for
15 cooperation in the future. Due to mutual experiences within a relationship, network expectations are
16 formed (Möller & Halinen, 1999). When firms are embedded in networks, possible choices are
17 related to the position a focal firm holds and the position it attempts to hold in the network
18 (Johansen & Mattson, 1992). Being embedded in a network creates possibilities and limitations for
19 the focal firm to achieve the desired network position. A firm needs to analyse and act in the
20 network and in relation to the relationships at hand (Håkansson & Ford, 2002). This has to be
21 considered in the context of relationship and portfolio alignment.
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27 External alignment is based on interaction and adaptation, which are underpinning relational
28 processes. Interaction takes place in episodes of exchange where experiential knowledge relating to
29 understanding the requirements of the other parties involved is gained (Håkansson, 1982). This
30 illustrates a key aspect of the external alignment process. Adaptation can be seen as the glue that
31 joins two organizations in a relationship and could be suggested to be a key mechanism for
32 achieving alignment. Brennan, Turnbull and Wilson (2003) define adaptation as "behavioural or
33 organizational modifications at the individual, group or corporate level, carried out by one
34 organization, which are designed to meet the specific needs of one other organization" pg. 1639)
35 and, from a relational perspective, it often involves mutuality (Håkansson, 1982) demonstrating
36 why it can be identified as a key alignment process. Adaptions that contribute to the alignment
37 process could be tangible such as specially tailored products or intangible such as changes in
38 financial terms and conditions. The existence of such adaptions has been empirically demonstrated
39 in a range of work, e.g. Brennan *et al.*, (2003), Håkansson (1982), Hallén, Johnson and Seyed-
40 Mohamed (1991).
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46 In order to align a portfolio, the link between the portfolio and the organization must be understood.
47 The next section explores internal alignment and the connection between internal and external
48 alignment of the portfolio.
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50 51 **Internal Portfolio Alignment**

52 In order to understand how internal alignment can be manifested, the sales literature (Futrell, 2002;
53 Moncrief & Marshall, 2005; Marcos-Cuevas, Nätti, Palo, & Ryals, 2014) is a useful starting point
54 because salespeople are considered the primary link between the buying and selling firm, with
55 considerable influence on the buyer's perceptions of the seller's value (Weitz & Bradford 1999;
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4 Ingram *et al.*, 2002). The salesforce has a critical and central role in an organization (Ingram *et al.*,
5 2002, LaForge, Ingram & Cravens, 2009) but is also beset by paradox (Oakes, 1990). The
6 paradoxes lie in the need for the salesforce to be trusted or demonstrate its trustworthiness both
7 internally and externally. The sales literature has increasingly considered long lasting relationships,
8 relational selling and Key Account Management (KAM) (Geiger & Guenzi, 2009; Davies & Ryals,
9 2014; Pardo *et al.*, 2014). In close relationships, salespeople develop and maintain relations through
10 interaction (Wilson, 2000).
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14 Dealing strategically with customers requires both internal and external considerations for the sales
15 organization (Johnson & Selnes, 2004; Piercy & Lane, 2009). In order to achieve internal strategic
16 alignment, the firm's strategy should be aligned with the sales strategy and sales management
17 practice (LaForge *et al.*, 2009; Storbacka, 2012) and is contingent on the type of relationship that is
18 involved, e.g. transactional, facilitative & integrative (Wilson, 2000). Indeed, sales success has been
19 equated to the ability to navigate internally within the selling organization as well as externally
20 (Plouffe & Barclay, 2007). Internally, consideration involves aligning the sales organization to the
21 market potential, involvement in strategic decision making, and serving as the customer's advocate
22 inside the organization (LaForge *et al.*, 2009) and "creating a collaborative culture of customer
23 focus, flexibility and commitment" (Storbacka, 2012, pg. 265). Externally, considerations involve
24 understanding and monitoring the development in the market as markets are shaped and re-shaped
25 by the activities of the firm, its competitors, and other market possibilities (LaForge *et al.*, 2009,
26 Clarke & Freytag, 2012).
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32 When aligning internally, it is important to focus on the sales organization (Sheth & Sharma, 2008;
33 Storbacka, 2012), the sales management practice (LaForge *et al.*, 2009), the salespersons
34 (Churchill, Ford, Hartley & Walker, 1985) and support capabilities such as IT systems etc.,
35 (Storbacka, 2012). Depending on the extent of change in the customer portfolio, it may be
36 necessary to change the sales strategy, structure, processes, and plans. A change in the structure
37 could reduce organization levels and development of new process structures (Cravens & Piercy
38 2009).
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42 Both the sales organization itself and salespeople are affected by relationships established with
43 customers (Jap, 2001). Customers have expectations as bonds between the two are created over
44 time (Johansen & Mattson, 1992). Salespeople may have to form, reinforce, modify, or even end
45 the customer relationships according to the prioritisation of the firm's portfolio (Geersbro & Ritter,
46 2013). However, the customer also makes prioritisations and allocates resources in accordance with
47 their own strategy. The way the exchange takes place will depend on the prioritisations of both
48 parties and is indicative of the tensions noted above and recognizes that the interactive nature of the
49 process always presents a challenge.
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54 The sales organization and salespeople act according to the strategies and guidelines conveyed to
55 them by management regarding the relationship in question, often determined KAM or other sales
56 strategies (e.g. Piercy, Cravens & Lane, 2009). This can potentially cause dilemmas because the
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4 sales organization and salespeople cannot focus on one customer at a time, but need to take other
5 factors into account. For example, the micro and macro positions the firm has in the network will
6 need to be taken into account when prioritisation is made within and across relationships (Johanson
7 & Mattsson, 1992). A number of trade-offs have to be made between network position, portfolio
8 planning, relationship management, and the strategic aims and prioritisations (Turnbull, Ford &
9 Cunningham, 1996). The trade-off gains further momentum because no single actor can be said to
10 be in control. A number of actors at various levels in the selling and buying firms are involved in
11 the decision making process (Borg & Freytag, 2012).
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15 A relationship between a firm and a customer has multiple points of contact as the customer may
16 have access to several actors or departments within the firm and vice versa (Håkansson, 1982);
17 contact is not limited to the salespeople of the firm (Wotruba, 1996; Cunningham & Homse, 1986).
18 Representatives from several functional areas on the buying and selling sides often participate
19 directly in the industrial exchange process (Hutt, Johnston & Ronchetto, Jr., 1985). In this sense
20 many individual actors of the firm are involved in the customer interaction, making it difficult to
21 control the allocation of resources. It is likely that the handling of relationships will vary from
22 customer to customer (Turnbull *et al.*, 1996).
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30 Portfolio Alignment: A Conceptual Framework

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32 The above discussion goes some way to identifying the important issues related to customer
33 portfolio alignment and partially answers our first research question: Alignment requires taking
34 both internal and external factors into account. We see such consideration as generic for all actors in
35 networks both on the selling and purchasing side of firms. Figure 1 and the discussion below
36 describes this process in more detail and provides our answer to the second question that drives our
37 research: how can these issues be internally and externally addressed by a focal firm.
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41 *Interaction on 3 levels- internally, in the relationship and in the network.*

42 Figure 1 shows that alignment of a customer portfolio is a matter of interacting with and relating to
43 the actors in the firm, the single relationship, the total portfolio of relationships, and the network in
44 which the firm is embedded. Every relationship will differ and what is seen as fair and right will
45 usually also differ. Internally, it is important for the actors involved to understand the priorities set
46 and the actions taken. Relationships have to be understood in connection to other relationships and
47 networks; they are dynamic and develop over time (Wilkinson, Wiley & Lin, 2010) and this needs
48 to be taken into consideration. Priorities made and actions taken will eventually have an impact in
49 all relationships. Understanding the nature of portfolio alignment is like playing chess games in
50 teams with many other team players involved and where the moves in one game will not only
51 matter in the particular game but will also be taken into account in the other games. Reaction to
52 priorities set and resource allocation made will, therefore, be difficult to anticipate and at the same
53 time the team playing will sometimes find it hard to agree on what action should be taken.
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5 Figure 1 also shows the implications of alignment based on prioritisations and resource allocations
6 made with respect to a focal firm's customer portfolio. Alignment within customer portfolios is not
7 only about taking the other firms' prioritisations and resources allocation into account; the selling
8 firm also needs to understand the nature of the relationship. The discussion around external and
9 internal portfolio alignment has described important issues also addressed in the Figure.
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12 *Interaction space*

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14 Figure 1 contains several arrows designated as interaction spaces. The interaction space illustrated
15 in Figure 1 is the space where the various actors interact both internally in the organization and with
16 the customer. This space is akin to the relational and mental network spaces identified by Törnroos,
17 Halinen & Medlin (2012). The interaction space is where intentions are made known and negotiated
18 and where perceptions are developed. From the selling firm's perspective the important interaction
19 spaces are the internal interaction space (from management to the sales department and sales
20 employees) and the interaction space between sales and purchasing in the customers firm.
21 Interaction space will also exist between the firms' management and the different functional levels.
22 When firms interact they interact in these spaces.
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28 Alignment involves influence, communication and persuasion. This is conditioned by perceptions
29 and interpretations of the past and present situation (Håkansson *et al.*, 2009). In this sense
30 alignment will have an effect on future perceptions and interpretations related to the relationship.
31 However, when attempting to align, understanding an organization and how attempts to influence
32 its behaviour, requirements or expectations requires understanding of the context and consideration
33 of legitimacy (Lewin 1951), i.e. the social, legal and economic norms that are accepted by both
34 parties to the relationship (Dowling & Pfeffer, 1975).
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Figure 1 : Portfolio alignment; A Conceptual Framework

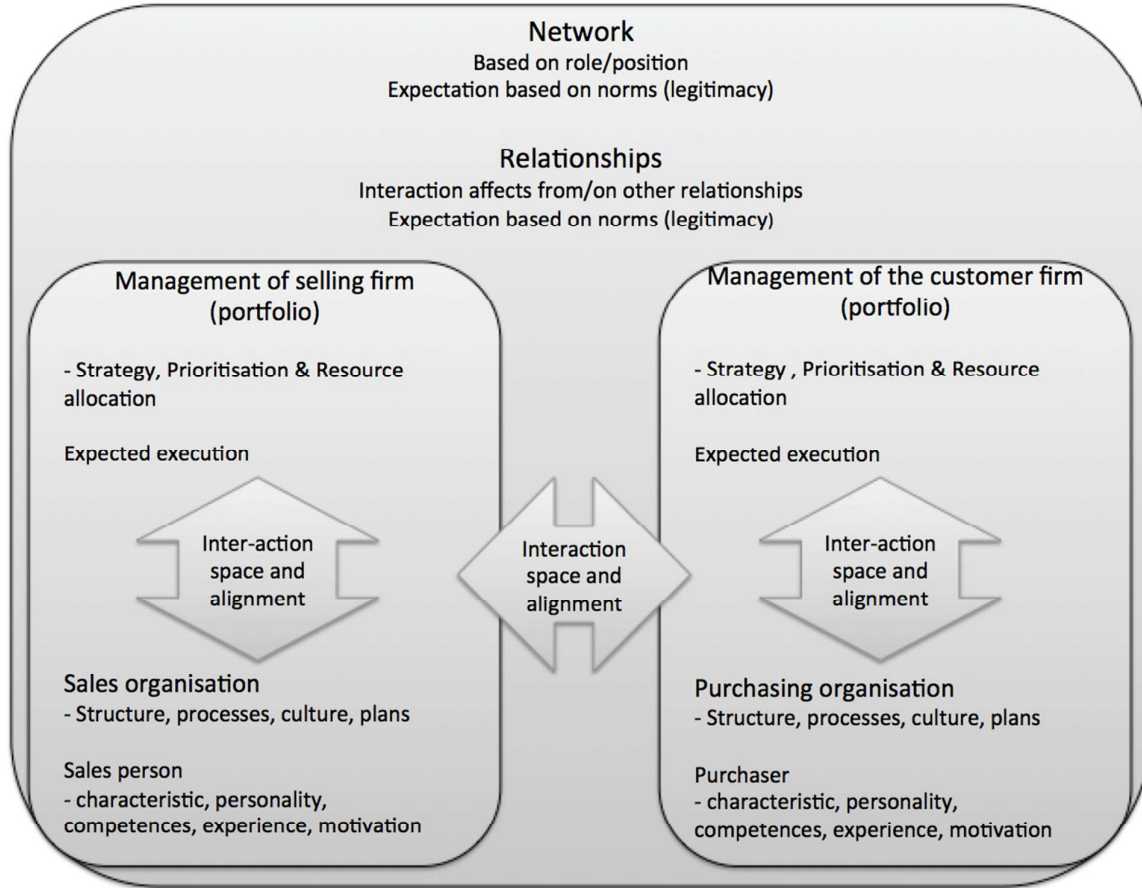


Figure 1 illustrates spaces where management in the selling firm can handle the portfolio by interacting with the sales organization. Employees in the selling company (both inside and outside of the sales function) are influenced by the guidelines conveyed by management relating to the relationship in question. They are also affected by relationships established with the customers.

Depending on the stage of the relationship, the customer may have expectations that have developed as a result of the bonds between the two counterparts that have been created over time (Johansen, 1989, p. 73). Expectations and bonds are formed, reinforced, or modified through the exchange with actors in a relationship according to the prioritisation made in the portfolio.

In this context, the interaction space for communication and legitimacy become important. Aims behind the cooperation, the resources available, the understanding of the potential for the relationship, and the degree and urgency for change have to be communicated. This requires a number of activities such as: adapting, persuading, influencing, negotiating, problem solving, conflict resolution, change management, relationship management, communication and legitimization. The communication pattern and legitimacy of the relationship will be affected by

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4 other relationships in the network and the network will be affected by individual relationships
5 (Kumar & Das 2007; Provan, Kenis & Human , 2008).
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8 This means that the sales and purchasing organizations will need to align the relationship. The seller
9 and buyer will attempt to achieve their goals due to prioritisations made. Whilst the main focus of
10 this discussion is on the sales perspective it is recognized that common ground must be developed
11 and shared. In order to align the portfolio and in recognition of its interactive nature, the firm should
12 not only identify its own aims but also those of its customer(s). Furthermore, when considering the
13 portfolio and planning actions, it is important to consider the interdependencies between the firm
14 and its customers (Zolkiewski & Turnbull, 2002). Usually, the ability to develop and change a
15 relationship depends on both parties and if both parties do not have the same aims, motivations,
16 objectives and priorities the relationships may not be in total alignment; this can be considered to
17 be misalignment of the relationship and/or portfolio.
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22 Interaction Space - Communication and Legitimacy 23

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25 Two factors are important in order to understand the interaction space: these are communication
26 and legitimisation. Communication is the vehicle through which behaviours are made known and
27 given meaning. Legitimacy constitutes rules that establish which influencing behaviours are seen as
28 fair and right, and which are not.
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31 Alignment happens through communication (Corsaro & Snehota ,2011). Communicating aims and
32 intentions can create problems when possible actions may not seem legitimate due to prior
33 experiences and intentions (Anderson, Håkansson & Johanson, 1994). Legitimacy and
34 communication (developed through interaction in the interaction space) are important aspects
35 internally in the focal firm as well as in the relationship (Mohr, Fisher & Nevin, 1996) and are the
36 basis for adaptation which is a key aspect of many close relationships (Håkansson, 1982).
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40 Actors have a wider communication space than legitimacy space as not all actions announced
41 through communication will be seen as fair or right. Communication is central in relationships in
42 order to signal intention and to make relationships work (Ritter, 1999). The aims of the firm, the
43 available capabilities, understanding the potential for the relationship, and the degree and urgency
44 of changes need to be communicated internally and externally. Communication is also the
45 mechanism through which behaviours are made known within an institution, especially with the
46 purpose of solving disputes and aligning perceptions and expectations (Moorman, Deshpande &
47 Zaltman, 1993). In the organization, communication is essential in order for employees to
48 understand priorities and how to pursue them. Joshi & Randal (2001) found that effective
49 communication has a significant impact on a salesperson's performance and customer orientation.
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54 Expectations of behaviours emerge over time and this affects what is seen as fair or legitimate
55 behaviour (Persson, Lundberg & Andresen, 2011). Cornelissen (2004) has framed the problem of
56 legitimacy in the following manner: "... persons and groups with legitimate interests in the
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4 organization are recognized and accounted for, and these individuals and groups all need to be
5 considered, addressed and/or accommodated by the organization to bolster its financial performance
6 and secure continued acceptance of its operations” (p. 59). Legitimacy constitutes rules that
7 establish which influencing behaviours are seen as fair and right, and which are not (Kumar & Das,
8 2007; Provan *et al.*, 2008). Legitimacy is central to the development of systems such as
9 organizations and social networks (Human & Provan, 2000). Over time certain rules (legitimacy)
10 for interaction develop. From this it can be seen that the legitimacy space will evolve and the
11 communication space may shift or become smaller over time.
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15 It is not easy to handle legitimate claims if a firm wants to change the importance of the relationship
16 and reduce its activities and resources. Offerings and relationships come at a cost for both parties
17 involved (Håkansson & Snehota, 1998). The relationship and the offering must be seen as
18 legitimate by both parties. If the relationship and the offer are not seen as fair, it creates tension.
19 Changes in the relationship can produce legitimate claims and the potential exercise of a power
20 sanction from the customers.
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24 25 Alignment of the customer portfolio

26 Based on the above discussion, it can be inferred that what is seen as legitimate behaviour differs
27 from actor to actor and from relationship to relationship. This means that when an interactive
28 approach to aligning portfolios is taken it necessitates the recognition that there are a number of
29 interaction spaces. Here it is central to understand how alignment takes places within the different
30 interaction spaces and what role communication and legitimisation play. From the selling firm’s
31 perspective the different interaction spaces have to be aligned; the internal interaction space, the
32 interaction space between sales and purchasing and the overall interaction space between the firms’
33 management and the different functional levels.
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38 Understanding how the different aspects of interaction spaces work and what may be different with
39 respect to this is the first step into being able to understand and to cope with alignment processes.
40 For example, if actors violate the norms of communication or behaviour patterns it may create
41 unnecessary tension in the relationship. Uncertainty or tension can emerge as one party becomes
42 insecure about the intentions of the other in the ongoing process. The timing of actions taken may
43 be just as important for creating tension or unease in a relationship (Alajoutsijärvi *et al.*, 2000). For
44 example, bad timing can create a lower pay-off and be seen as carelessness in the relationship. A
45 reason for this can be different aims for the relationship. When the parties do not have similar aims
46 for the relationship, this can be a game changing strategic process.
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51 As handling relationships can involve a number of internal actors, alignment in the internal
52 interaction spaces needs to be given due consideration. It can be argued that handling internal
53 alignment is about negotiating, conflict resolutions, communicating, and relationship management
54 (LaForge *et al.*, 2009). A tool for handling relationships is the composition and management of the
55 sales force (Wotruba, 1996), key account management (Pardo *et al.*, 2014) or other internal actors
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4 who regularly interact with the customer. A firm may compose its sales force to represent its
5 prioritisation of customers. As an example if the company may also want to downgrade a
6 relationship it could change the salesperson to someone who is good at hard selling and focuses on
7 the interest of the selling firm rather than customer interest (Lewicki, Barry & Saunders, 2010 pg.
8 422). This is, however, not without complications, as relationships are often closely connected to
9 the salesperson and can be damaged by changes (Piercy, 2010).
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13 Alignment is not easy to achieve because some ambiguity exists with regard to the “what” and
14 “how” of alignment; therefore, training is required. In some cases, a firm needs to hire and
15 continually motivate employees to build relationships. Overall it is important to be aware that
16 handling internal and external alignment also includes a number of softer factors related to
17 motivation and aims of the individual actor (Wotruba, 1996, Piercy, 2010).
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21 Another critical aspect of handling customers with respect to the aims of the selling firm is that the
22 customer also has various opportunities to act. A customer with multiple points of interaction with a
23 firm has access to several actors or departments of the selling company and is not limited to one
24 sales person. Therefore, it can become difficult for the firm to control the allocation of resources
25 and the customers which they expect to be downgraded. The above discussion highlights the
26 importance of understanding what the customer sees as legitimate behaviour and what rights the
27 customer can exercise over the firm. This will influence what kind of burden the relationship may
28 become for the firm in the short and long term. At the same time, it is important to notice the
29 different benefits that salespeople and other internal actors may receive from a particular
30 relationship and how it may influence the behaviours of the actor.
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35 A firm’s desire to change a relationship, by further developing or reducing its activity and resource
36 commitment to the relationship, may cause a situation in which the parties no longer share mutual
37 interests and therefore change the way they interact. The change in priority may put pressure on the
38 actor, who has to communicate and implement the changes. This is because a salesperson or other
39 boundary spanning actors such as key account managers or dedicated support personnel in a
40 relationship can become part of a quasi-organization into which they are socialized. As a result, a
41 salesperson can have a dilemma resulting from the consequences of prioritisations made by the
42 firm, decisions conveyed to the customer and their loyalty to the customer. This brings the problem
43 of legitimacy into focus for a salesperson or a buyer. Sales personnel and buyers are not employed
44 by one organization. They work within a quasi-organization: that is constituted by the relationship.
45 When these actors try to manage the relationship smoothly, they run the risk of at least partly
46 neglecting others’ expectations about the outcome of the relationship. Choosing the best possible
47 solution for one organization may be at the cost of the other, which may create pressure on the sales
48 person or the buyer to align the objectives to their organization. This may be troublesome because
49 aligning to one’s own organization may be regarded as illegitimate behaviour in the relationship.
50 Partner-based relationships often have pressure from the organization and from the relationship, and
51 meeting the wants of both parties at the same time can be difficult.
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4 Relationships between firms are based on relationships among a number of actors' at different
5 levels. It is a special challenge to obtain all necessary information to make a valid portfolio
6 analysis. Various actors can include those not directly involved in sales and who might be in
7 possession of valid information concerning the nature, content, burdens, and development of a
8 relationship. Managing relationships demands a solid market information system (Clarke &
9 Freytag, 2012). It also requires an understanding of the internal processes of the firm, how various
10 actors are in contact with customers, how data for the market information system is provided, and
11 how the firm should act in accordance with strategic aims, prioritisations, and resource allocations.
12 However, since the information relevant for alignment is largely future oriented, the information at
13 hand can never be complete.
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18 Potential customer reactions may not be openly revealed in a relationship, but need to be imagined
19 or calculated in a scenario. However, this can be a tricky process, as, as Yorke (1984) revealed
20 suppliers' interpretations of customers' strategic needs and priorities can include misunderstanding
21 and misconception of these –thus reinforcing the importance of communication within the
22 interaction spaces.
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26 CONCLUSION

27 In answer to our first research question, alignment of customer portfolios highlights a number of
28 issues. First of all, it is important to understand the nature of a relationship and how it may affect a
29 firm's possible actions. In a relationship both parties have aims, make prioritisations, and want to
30 allocate resources. This can potentially result in a misalignment of strategic aims when the aims and
31 prioritisations of the other party are not taken into consideration and/or both parties do not share
32 similar aims or priorities. It is vital to understand what is interpreted as legitimate actions by the
33 other firm and what kind of pressure conflicting aims and prioritisations will have on the
34 organization. In answer to our second research question: How can the focal firm address these
35 issues internally and in the customer's company? It is the interaction spaces that facilitate internal
36 and external communication that develops understanding of the situation and is essential to the
37 implementation of the portfolio.
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42 In working toward the aims and prioritisations in the portfolio, the sales organization and sales
43 force, i.e. boundary spanners are of focal interest. The sales organization and the sales force have to
44 balance the aims of their organization and the aims of the customer. The alignment process involves
45 a number of issues: to understand the importance of the customer and to act in accordance with this;
46 to understand the connectivity of relationships; to understand the importance of timing; to
47 understand the firm's self-interest. On the whole, making prioritisations in customer portfolios
48 relates to the alignment of strategic aims and prioritisations revealed in the portfolio, the
49 organization of the sales force and other boundary spanners, and the customer's aims and
50 prioritisations. And yet, it is essential to keep in mind that it may not always be easy to get
51 information about customer's prioritisations, but it is necessary to develop some kind of
52 understanding of what moves the customers may be contemplating.
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4 More needs to be understood about alignment between organizations in respect to how these
5 concepts connect to customer portfolio planning. Knowledge of how customer portfolios can be
6 implemented is limited. We have focused on how firms purposely can make use of customer
7 portfolios by acting in the interaction space and not emphasized how portfolio models are
8 implemented. We think that the above framework can be a starting point for understanding issues at
9 stake in implementation processes. Making prioritisations is about the issues at stake when a
10 portfolio model is used and implementation is about how the same issues are addressed when it is
11 brought into use. We see action research as a fruitful way to investigate the applicability of these
12 ideas in an empirical context.
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16 17 Managerial Implications

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19 The notions of alignment and misalignment relate to the dynamic nature of customer portfolios.
20 Our framework, see Figure 1, illustrates the importance of understanding the actions and activities
21 that should take place within the interaction space and how potential differences in the strategic
22 aims of the two parties involved need to be taken into consideration during this alignment process.
23 For example, a potential conflict can arise when the two firms see the future of the relationship very
24 differently and one party tries to develop the relationship further while the other party tries to
25 downgrade the relationship. Such a misalignment will need to be rectified within the interaction
26 spaces and the ability to do this will depend on the communication skills of both actors and how
27 they interact in the interaction space combined with perceptions of legitimacy around the actions
28 and communication involved. This is a key managerial challenge of alignment. When firms try to
29 align individual relationships it is important to keep in mind how important the individual
30 relationship is compared to other relationships, how a change at one point in time may influence
31 other relationships and how the decisions made overall might be perceived by other actors.
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38 When similar aims exist, agreeing on what to do seems fairly easy to achieve. However, aims are
39 not always openly revealed and misunderstanding may emerge. It becomes more complicated when
40 the aims are not the same. Wanting to downgrade or build the relationship when the other party
41 does not want to change it can lead to a bad or unstable atmosphere. This can be a threat for the
42 relationship and even impact on other connected relationships and needs to be resolved so that the
43 parties can move on. In situations where very diverse aims exist it can be hard to find solutions
44 other than ending the relationship. As pointed out by Alajoutsijärvi *et al.*, (2000) considering the
45 effect for the other party if the relationship is left and how the effects can be minimised is important
46 and if not “..poorly-handled dissolution can tarnish the reputation” (Alajoutsijärvi *et al.*, 2000, pg.
47 1285) of a firm. Trying to understand the nature of relationships and the alignment of them through
48 two-sided portfolio thinking as such does not solve the problems of creating alignment, but it
49 provides at basis for doing so. A producer of industry cooling systems learned this the hard way.
50 When the financial crisis in 2008 began a major supplier of stainless steel components was urged to
51 lower prices considerably and to modify the components at the same time. Price reductions and the
52 need for modifications of components was not announced as a request but as a demand – “either
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4 you do as we want or we will find another solution". When the producer of the industry cooling
5 system came back a few years later with an innovation project the answer from the component
6 supplier was that the interest for the project was limited. Action taken earlier had been seen as not
7 legitimate and the interest for the relationship had cooled down considerably. A more open process
8 where the producer of cooling systems had involved the component supplier in the first instance
9 would have increased the component supplier's interest to engage in collaboration later on. The
10 example reveals the core elements of our conceptual framework; no actor exists or can operate
11 independently and communication and action taken must build on an understanding of alignment as
12 a two-sided affair (Ritter & Ford 2004). Additionally, as centralizing the gathering of all the
13 elements and information need for effective portfolio alignment is often problematic, some degree
14 of devolution in the alignment process is often unavoidable,
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19 Although what is seen as legitimate behaviour will differ from relationship to relationship and
20 therefore communication and negotiating strategies for identifying gaps will differ. In some
21 situations being very direct and outspoken will be in accordance with what is expected and in other
22 relationships it will not be the case. Understanding what is legitimate behaviour and which
23 communication will work is a first step to realizing whether or not the two parties are aligned or not
24 and, if not, what degree of misalignment exists. In a situation where one party wants to grow or
25 stabilise the relationship and the other wants to downgrade or to exit it will be important to reveal to
26 what extent it is possible and expedient to influence the other party through different tactics.
27 Influencing other parties may come at a cost in connection to other relationships now or in the
28 future. Making a relationship proceed in a certain direction by exercising power may not always be
29 expedient even though it is possible as it was revealed in the included case.
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36 us improve and develop the paper presented here.
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