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Mikael Kostian (ed.)

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GLOBAL SALES  
SCIENCE INSTITUTE



BaylorBusiness  
Center for  
Professional Selling



TURUN AMMATTIKORKEAKOULU  
TURKU UNIVERSITY OF APPLIED SCIENCES

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# PREFACE

We were very proud and fortunate to host the Global Sales Science Institute Conference 2012 at Turku University of Applied Sciences. This book offers access to some of the topics that were discussed at the conference. It serves as a glimpse to the highly successful event and provides the reader new insights on selling from the point of view of both research and practical applications.

The publication consists of articles that address some of the current topics in sales science research. We wished to offer as detailed an overview as possible of the conference and the distinguished professionals who took part – this is why some abstracts are also included among the full papers. The function of the abstracts is to increase the overall level of depth and detail regarding the topics and the participants of the conference. We hope that through this publication, the reader may form a strong understanding of the atmosphere at GSSI 2012 and learn about the sales science of today.

The avid reader may spot the emerging theme that carries through many of the articles, which is an interest in the different phenomena around buyer-seller relationships. It is truly a crucial aspect of selling, as the relationship can either significantly accelerate or significantly stall the selling process.

The publication is aimed at a wide range of sales professionals who wish to learn more about their trade and the current research involving sales science on an international level. Moreover, as stated in the introduction, selling ought to be an area of interest for a variety of non-sales professionals as well. Success lies in the art of selling.

Turku, February 2013

Mikael Kostian

Conference Organiser

Faculty of Technology, Environment and Business

Turku University of Applied Sciences

# INTRODUCTION

In June 2012, Turku University of Applied Sciences hosted the 6th annual Global Sales Science Institute (GSSI) Conference in Turku, Finland, together with Baylor University. The conference gathered experts in sales and sales management from both academia and businesses to join in an effort to advance collaboration in sales research, practice and education.

The theme of the conference in 2012 was “Selling in a Fully-Participative Society”. As technology continues to flatten the global marketplace, instantaneous access to information prompts both businesses and consumers to engage more strongly with products and the companies that produce them. Such increased involvement coupled with opportunities to co-create value during the sales exchange results in a society that is more fully participative in the sales process. Moving far beyond the exchange of goods and services, the co-creation of value during sales and communications processes has challenged traditional views of selling, and it continues to create new opportunities for sales research, practice and education.

In order for sales science to be viable and practical, co-operation between academia and businesses needs to be highlighted. The GSSI Conference 2012 invited representatives from local companies to share their views on how selling is actually conducted in their respective businesses. We were very fortunate to enjoy the presentations from Tom Degerman and Panu Katainen, two skilled sales professionals from prestigious companies STX Finland and Canon Helsinki.

We live in a time when competition has become global. There are a decreasing number of industries where companies can afford to remain passive. Companies have to keep on learning, transforming and adjusting in relation to the rapidly changing world. As physical borders have become less and less important, even a market that previously had been considered national may now be entered by competitors from all around the world, regardless of their origin. For example, national television networks will be facing fierce competition from innovative online services such as YouTube and Netflix.

An emphasis needs to be put on innovation, as it is through innovation that companies are able to hold on to their competitiveness. Companies should always aim to be one step ahead of the game. However, innovations alone cannot ensure success in the market. Even the best of products and ideas may underachieve if sales do not receive the attention they duly deserve. For an innovation to reach its full potential, the process requires skilful sales practices. Companies need expertise in recognising, at an early stage, which ideas are worth developing, which are truly valuable and what is the best way to sell innovation. Without input from sales, innovations are at risk of remaining as mere good ideas without a proper implementation. Right now in Finland, companies are already facing a lack of skilled sales personnel. We need to make sure that the importance of selling will not be forgotten.

Turku University of Applied Sciences is one of the universities offering sales education in Finland. Our aim is to educate future sales professionals capable of handling challenging situations when they are selling high quality products produced in our country. Especially in our region, Southwest Finland, where the role of technology industries has traditionally been very important, we need salespeople who possess knowledge in sales and in different fields of technology. By combining engineering education with sales education, our university can strongly contribute to the welfare and employment of the region.

This GSSI Conference was financed by the Foundation for Economic Education in Finland. We wish to address our thanks to the wise decision-makers in the foundation's board who have realised the importance of sales and sales education in our country. We also wish to thank all the authors who agreed to publish their work in this publication. Their patience, efforts and good will made it possible for us to publish this work.

The next GSSI Conference will be held in Aalen, Germany, in 2013. Let us hope that the limelight will turn to sales and that the significance of sales will be more thoroughly acknowledged in the future.

Liisa Kairisto-Mertanen  
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# INITIAL ENCOUNTERS: THE LIVED EXPERIENCES OF BUYERS

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## INTRODUCTION

The initial encounter between a buyer and a seller has received much attention among practitioners. The first time a buyer interacts with a seller is thought to be highly influential. The premise is that buyers form an opinion during this first encounter, or even the first minutes of this encounter. Furthermore these first impressions tend to stay consistent over time (Tapp, 1999). Therefore the practitioner's literature suggests that sellers should create the best first impression possible: by matching and mirroring buyer behaviour (Boe, 2011a), using nonverbal communication (Goman, 2011) and aligning it with verbal communication (Ramsey, 2003), being groomed (Dumont, 2011), timeliness (Lemons, 2011) and adjusting the handshake (Boe, 2011b).

Although academic research has also indicated that initial encounters are an important first hurdle (Dwyer et al., 1987), a holistic view on an initial encounter between a buyer and a seller in line with practice is still missing. Research shows that initial encounters contain a first impression (Bergeron et al., 2008) that impacts on trustworthiness (Geigenmüller and Greschuchna, 2011). Other constructs researched are perceived similarity (Lichtenthal and Tellefsen, 2001), expertise (Crosby et al., 1990), and organisational and personal trustworthiness (Geigenmüller and Greschuchna, 2011). Although research provided an insight into specific causal relationships, a framework indicating the relative importance of these relationships is not available. Therefore a qualitative approach is developed to provide such a holistic description, as experienced by buyers.

The methodology chosen is a phenomenological study. As research in industrial marketing in this form is rare, specific advantages of this type of research are currently underused (Wagner et al., 2010). Therefore providing a research project using this approach is a contribution on its own account. Practitioners will be able to use the outcomes as a means to reflect on their understanding of initial encounters. The outcomes can serve as a stimulus for evaluating current working methods and training.

The purpose of this phenomenological study is to describe the essence (Moustakas, 1994) of the initial encounter between a buyer and a seller as experienced by buyers. The initial encounter between a buyer and a seller is defined as the first time a representative of an organisation who is responsible for the procurement, meets a representative responsible for the selling function of another organisation face-to-face. The central question of this research is; *what is a buyer's essence of a lived experience of an initial encounter with a seller?*

First a short literature review is presented, this outlines the main issues addressed in current research regarding initial encounters in a business-to-business context. Secondly the methodology will be addressed. Next the data collected will be presented in the form of textural and structural themes. In the discussion composite textural description, composite structural descriptions and essence of the initial encounter as experienced by buyers are provided. Furthermore the limitations of the research, future research and managerial implications are discussed.

## LITERATURE REVIEW

In order for exchange to take place, trust has to be established (Morgan and Hunt, 1994). This can be accomplished by enhancing the relationship quality (Crosby et al., 1990) and this process starts during the initial encounter (Dwyer et al., 1987). The prevailing metaphor in describing the interaction between buyers and sellers is that of the relationship, though it has been argued that this depiction is at least partly false (Blocker et al., 2012) and that a connection metaphor could be more accurate. Thus, trustworthiness might be replaced by more instrumental and opportunistic constructs. Furthermore, it has been observed that the way encounters are ended has so far been given

too little research attention (Bergeron et al., 2008), as research indicates that the manner in which an encounter is ended is more strongly related to future interaction intentions than the preceding part of the encounter.

## A priori trustworthiness

During the initial encounter, trustworthiness is not yet backed up by any measurable or assessable outcomes. Therefore, some research indicates that buyers make up their minds by means of cues (Wood, 2004) that foreshadow trustworthiness and expertise. In this approach no pre-initial encounter trustworthiness is presumed. However, it has been suggested that the perceived trustworthiness during an initial encounter builds on an *a priori* impression. The forming of a first impression is seen as ill-structured problem solving, described as a categorisation process with a “fuzzy set” orientation (Evans et al., 2000) that allows a priori encounter preference to be present.

## Personal and institutional trustworthiness

The goal of the buyer during the initial encounter is to decide whether or not to pursue future interaction (Geigenmüller and Greschuchna, 2011). This decision is based on the trustworthiness of both the salesperson and the seller firm. Furthermore, there is an interactive influence between personal and institutional trustworthiness (Sirdeshmukh et al., 2002).

## Personal trustworthiness

Research on initial encounters suggests that there are three different explanations for the development of personal trust in sellers (Wood et al., 2008). The first explanation is that trust in a salesperson during an initial encounter is based on cues (physical appearance, verbal and non-verbal cues), which the buyer believes to indicate future seller behaviour. Secondly, in the absence of information regarding the trustworthiness of a newly acquainted seller, trust is based on previous experiences with similar situations and people. The third explanation is the cognitive calculative process. If the costs to the seller, of cheating by the seller, are perceived by the buyer to exceed the possible seller-benefits of cheating, the seller can be trusted.

Trust can be earned by being honest, benevolent and by having expertise (Hawes, 1994). In a study on reciprocal disclosure between sellers and buyers (Jacobs et al., 2001) it was noted that disclosure related to task specific information had an impact on trust, especially when it was mutual. This supports the claim that providing cues (Wood, 2004) related to expertise is beneficial. Social disclosure perceived by the buyer as a cue for honesty appeared to be unrelated to trust. Other research concerned with the effect of benevolence suggests that it is the lack of benevolence, displayed by the seller, that has a negative impact on trustworthiness (Sirdeshmukh et al., 2002). Sellers that were over-benevolent were not trusted more. Moreover, a problem-solving orientation was positively related to trustworthiness and this is in line with later findings (Newell et al., 2011) which revealed that task related behaviour had a more significant impact on trustworthiness than relationship behaviours. Therefore it appears that expertise is more important in establishing trustworthiness than building rapport. Other research (Crosby et al., 1990, Jacobs et al., 2001, Wood et al., 2008) also provides evidence for this conclusion.

## **Institutional trustworthiness**

The nature of the industry context and the added value delivered influences the way buyers form their perceptions (Sirdeshmukh et al., 2002). The antecedents of reputation and service communications were positively related to institutional trustworthiness (Geigenmüller and Greschuchna, 2011). Perceived similarity proved to enhance personal trustworthiness in initial encounters (Henthorne et al., 1992) although a meta-analysis (Lichtenthal and Tellefsen, 2001) indicated that research findings concerning perceived similarity were not consistent.

Although multiple studies (Wood et al., 2008, Sirdeshmukh et al., 2002, Geigenmüller and Greschuchna, 2011) reported that institutional trustworthiness is key in the decision of buyers to engage in further interactions, this construct is far less researched than the role of personal trustworthiness in initial encounters. Furthermore, the relationship between personal trustworthiness and intended future interactions was strongly mediated by institutional trustworthiness. A link between these two constructs was also found in an earlier research project (Sirdeshmukh et al., 2002).

## Conclusion

In summary, there is no generally accepted view of what occurs during an initial encounter and the role played by first impressions and trustworthiness. Building rapport, cueing expertise, and perceived similarity are indicated to influence the trustworthiness of the seller; though expertise stands out as the most influential factor. However, the assessment of the seller is not the only antecedent of future interactions resulting from the initial encounter, as there is evidence of an *a priori* impression. Institutional trustworthiness is stated to be a key influential driver in this. Research also indicates that institutional trustworthiness is of greater importance than personal trustworthiness in enhancing the likelihood of future interactions during initial encounters between sellers and buyers.

## RESEARCH METHOD

The rationale for our approach is based on the recognition that the majority of current research of early stages buyer-seller relationships is reductionist in nature (Blocker et al., 2012), as there is no generally accepted description of what happens during an initial encounter. The nature of our research question lent itself to an interpretive approach, so we chose individual interviews as our method. This phenomenological approach captures the lived experiences of respondents (Creswell, 2007) and is especially useful in a discovery-oriented project such as this (Thompson et al., 1989). The assumption of this methodology is that we gain knowledge through experiencing phenomena and that it is therefore possible to describe and interpret these experiences in order to know (Shrivastava and Kale, 2003).

The difficulty for phenomenological researchers is with being able to understand the descriptions of phenomena by others, without polluting these descriptions with the conceptualisations of the phenomena by the researchers themselves (Creswell, 2007). The solution according to the Husserlian transcendental phenomenology is to try to bracket all thinking, reflecting and conceptualising. The aim is to become able to receive all information concerning the lived experiences as they are. This state is called *epoché* (Moustakas, 1994). Existentialist phenomenological researchers try to accomplish this challenge by being aware of how languages can be used to pass on lived experiences, but at the same time can be abused by researchers

to manipulate the wording of others to arrive at the desired conclusions. Avoiding the latter is the existentialist way to deal with the difficulties of capturing the experiences of others (Macann, 1993). To avoid getting lost in phenomenology as a philosophy (LeVasseur, 2003) it was suggested that researchers should translate this concern by staying open-minded, inquisitive, and follow accepted procedures (Thompson et al., 1989, Moustakas, 1994).

Though phenomenology has been discussed more than executed (Beekman and Mulderij, 1977, Sokolowski, 2000), there is a constant, but small flow of publications utilising phenomenology in consumer marketing (Shrivastava and Kale, 2003, Carrigan et al., 2004, Chronis, 2005, Thomas and Peters, 2006, Cherrier, 2006, Dant, 2008, Thomas and Peters, 2009, Denegri-Knott and Molesworth, 2009, Stone, 2009, Ardley, 2011). In industrial marketing phenomenology is rare (Blocker et al., 2012), although there are several occasions where phenomenology is promoted as a valuable addition to currently used methodologies (Goulding, 2005, Wagner et al., 2010, Javalgi et al., 2011), specifically in industrial marketing.

The first reason given for this peripheral existence is that the methodology is closely linked to the philosophies transcendental and existential phenomenology (Goulding, 2005), which results in the unreadable ruminating of stances instead of furthering the way in which phenomenological research itself is carried out (Sokolowski, 2000). Secondly there have been many misconceptions regarding phenomenology (Goulding, 2005). However, phenomenological research offers a holistic view and is suited for discovery-oriented research projects. If the underpinning principles are understood and the accepted procedures are followed, it delivers rigorous and relevant research (Creswell, 2007).

Blocker et al. (2012) convincingly posed that researching buyer-seller relationships in a Cartesian, componential manner (Thompson et al., 1989) without combining this with a holistic, thematic understanding might halt a rigorous explanation of what happens in social reality. A methodology suited to provide us with such a holistic description is phenomenology (Creswell, 2007). Phenomenology aims at deriving at a description of the lived experience of a phenomenon (Macann, 1993), in this case the initial encounter between a buyer and a seller as experienced by the buyer.

## Sample

For a phenomenological study a criterion sample (Creswell, 2007) comprising of at least three respondents is required (Beekman and Mulderij, 1977, Woodruffe-Burton, 1998, Giorgi, 2009, Englander, 2012). The sample criterion was employment as a buyer in the Netherlands, and having experienced initial encounters with sellers. The prospective respondents were contacted by phone to explain the research project, then this was followed by an e-mail to those that stated they might be interested in cooperating. The e-mail provided a short outline of what phenomenological research entails and what would be expected of the respondents. It also explained that the interview would be recorded, how the data would be treated, and also that they could withdraw at any time to ensure an informed consent. Twenty-five buyers were initially contacted. Six of the initial respondents were sent the e-mail. As soon as the threshold level of three buyers was reached the interviews were planned and executed. One of the three remaining buyers withdrew. The last two buyers had not yet decided when the first three interviews had been transcribed. At this point, they were thanked for considering participation. No other prospect respondents were contacted, as the minimum was met.

## Procedure and data analysis

Phenomenological data management and analysis procedures are well documented by Thompson et al. (1989), Moustakas (1994), and Creswell (2007). The interview protocol was informed by the assistance provided by Thompson et al. (1989), specifically refraining from “why”. Explaining why a phenomenon is experienced is not an objective of a phenomenological research. Hands-on information was provided in order to prevent this from happening during an interview which consisted of two open general questions (Creswell, 2007, P. 61): “What have you experienced in terms of the phenomenon and what contexts or situations have typically influenced or affected your experiences of the phenomenon?”

The interviews were recorded and transcribed as a verbatim account. Subsequently Nvivo9 was used to filter out all significant statements. Each significant statement was then marked as being part of either the textural or the structural description of the experiences. Following the data analysis procedure, described by Moustakas (1994), this procedure was executed separately for each respondent. The textural descriptions depicted what

the respondents experienced, and the structural description outlined the influences of the different contexts and settings (Creswell, 2007). After that all six descriptions were themed separately. This resulted in a thematically organised textural and structural description per respondent. Subsequently the individual textural descriptions were sublimated into one composite description. A similar procedure was followed to arrive at a composite structural description. Finally these two composite descriptions were converted into one description, referred to as the essence of the phenomenon.

## RESULTS

The participants are detailed in table 1 and followed by a thematic analysis of the significant textural statements and the significant structural statements derived from the individual descriptions. The textural description captures the invariant part of the experience, those themes that define the experience. The structural description describes the context or conditions and situations that influence the experience (Creswell et al., 2007).

**TABLE 1.** *Participants.*

|         | Function                              | Organisation                              | Responsibility                                |
|---------|---------------------------------------|---|---|
| Buyer 1 | Technical Superintendent              | Non-profit institute                      | Telecoms and technical installation contracts |
| Buyer 2 | Head of Purchasing (previously sales) | World-wide consumer products manufacturer | Ensuring adequate manufacturing resources     |
| Buyer 3 | Purchaser                             | B2B Products and services                 | Purchasing products and services              |

### Textural themes: invariant experiences

**Initiating contact:** initial encounters are set by buyers if the organisation has identified a need, to stay informed, or there has been a change of liaison. Sellers initiate contact to get acquainted in order to develop future interaction or if they are new account managers. Sellers that are not approached by a buyer have to be able to convince the buyer that it might be worthwhile.



*Most of the time [when the seller initiated contact] I only make an appointment with someone when I think: this seems appealing to me somehow. B3*

**A priori encounter image:** before the initial encounter has taken place the buyer already construes an image of the seller. All cues available are used to inform this image of the seller (e.g. e-mail, phone and third-party information of the seller or the organisation represented). During this phase sellers are categorised, for instance in terms of age, provenance, or organisational culture.

*That already gave a positive impression. Yes, it makes a difference, if you have already had interactions with that organisation. B3*

*Of course we have a track record of that organisation, because the firm has proven itself already, so I already had that knowledge in my head. B2*

A third-party based a priori encounter image of the seller could for instance be based on information provided by colleagues that have already been in contact with the seller, or earlier cooperation with the represented organisation in question. The fullness of this a priori encounter image is a result of the information available. But even when a contact is completely virgin, the buyer will still build a preliminary image inside his head.

*You have either prior knowledge or you don't, but you will always have an image of a firm. There is no escaping that. Because you know [for instance that] a Japanese person is coming, then you will not expect a blond guy stepping in. B2*

**Relational assessment:** the moment the buyer sees the seller the initial assessment starts. This first assessment concentrates on the relational competences of the seller. The handshake, clothing, nonverbal communication (e.g. sweating, blinking of the eyes), whether someone is in a cheerful mood or not, are all variables at this stage. This trying to fathom the other is, at least partly, a conscious process which is accepted as a natural step during this initial encounter, but at the same time the outcome is judged to be of little importance.

*Sometimes you're right and sometimes you're completely off. I mean... just try to start the meeting as open-minded as possible. Because you can't know if you're right or not. B3*

During this stage the a priori encounter image is verified using the observations made and information given during the start of the encounter. Most times, this a priori encounter image needs substantial adjusting, as this earlier image is seldom perceived to be accurate. It is accepted by buyers that a first impression is built, but at the same time it is considered to be dangerous to overstate the importance of the outcomes of this phase. It is even considered to be unprofessional. Professional behaviour is felt to be going past these interpersonal emotions and trying to find out if there is sufficient added value in a cooperation of the two organisations (regardless of the pawns involved in making the exchange possible).

*Unconsciously you're doing it... It has nothing to do with it [the products or services the organisation of the seller] and you shouldn't hold it against them... It's not to judge them or anything, it's just... I think it is just building a relationship. B1*

*We try to deliver detached professional procurement... ... there is this first impression when shaking hands. I am already thinking: is it a wimpy handshake or a firm handshake... But this is also culturally defined, so you have to be careful to attach importance to first impressions. B2*

This first impression of the salesperson has to be deemed "normal." The buyer believes that the first impression has to be within certain boundaries. These boundaries are hard to make explicit and sellers rarely exceed them, but when they do cross these lines further cooperation is unlikely.

*I find it important that somebody is normal. ... Normal in my book is quite a broad definition... So if someone makes a too-good-to-be-true impression, I get suspicious... If someone is very quiet and only confirms what you are saying, that isn't what you want either. B1*

*... what it boils down to, I think, is that you just shouldn't feel annoyed. B2*

**Assessing expertise:** the next part of the initial encounter is used to judge whether this person is a suitable business partner based on expertise. There is no predefined list of boxes to be ticked, but possible cooperation is the main topic of discussion. Buyers do state that they experience themselves to be appraising these competencies (knowledge, skills and attitudes).

- **Knowledge:** sellers are expected to have a deep understanding of the products and services they deliver as well as the organisation and the business of the buyer. Knowledge is considered a prerequisite. Not passing the bar in this respect will diminish chances of future interaction.

*...if the seller blunders content wise, there is no need to return. B2*

*Yeah, if the seller has no clue [about the buyer's market and organisation]... I also give up quickly. If the seller doesn't know anything about our organisation, this influences my overall evaluation. B3*

- **Skills:** two skills sets are emphasised in particular: adaptability and consultative skills. Adaptability is experienced as sellers adjusting their behaviour and content according to contingencies in circumstances and buyer behaviour.

*...he should understand and sense, I should get on with it, that man is pressed for time B2*

*...and if it doesn't seem to work, the click, then you [the seller] should try it another way. B1*

Consultative behaviour is viewed as the seller trying to understand the specific situation of the buyer's organisation so added value through consultancy can be expected as an outcome and listening skills.

*Suppliers do have to probe and add to the solution. Because we don't know everything, so they have to keep asking the right questions... B1*

*... again somebody who doesn't listen... someone who is constantly talking and disabling you to do your job... but [also] not somebody that has no opinion at all, because then you feel hoaxed. B2*

*Thinking along with me... You don't have to look at the world through my glasses, but I do appreciate the seller to also look at the interests of my organisation. Don't just have your own business in mind. B3*

- **Attitude:** if sellers are conveyed to have the right attitude, this enhances their chances of future interactions. When sellers are perceived to be transparent, professional buyers indicate that this influences trustworthiness positively. Perceived attitudes are interpreted as cues for future behaviour.

*...and if somebody doesn't write down anything, doesn't do anything... then you already know. Some people take notes of everything, that is great to work with. B1*

*Openness, honesty, transparency... those are things that make me trust something directly. If it cannot be presented clearly and you dig somewhat deeper and still the seller keeps his cards close to the chest, then I will not trust what I'm told. B3*

**Deciding on future interaction:** at the end of the initial encounter, or shortly after, the buyer will decide whether it is useful and practical to further the relationship. The initial encounter is therefore a defining step to start a buyer-seller relationship. Although the seller is used as an important source of information, this is not the most important part of the equation. The decision is based on a combination of personal trustworthiness, institutional trustworthiness and the possible added value provided.

*The product comes first, then the organisation, and third the seller. B3*

*If the person is [more or less pleasant to work with]... that makes life easier or more difficult. But if the substance [the added value] is good, it's good. And if the substance is bad, it's bad. B2*

*In the end it has to have added value... What's in it for us... Let's put it this way: can we work either more efficiently or effectively... Will it unburden us, are things made easier, or will it earn us money? B3*

The initial encounter is experienced as a possible starting point for a business relationship. Furthermore, the main question is whether this salesperson representing a specific organisation and specific added value is worth trusting and investing resources in.

*So, during this initial encounter you want to make up your mind whether to trust this person to have an effect on your business. B2*

*Often it [an initial encounter] is just an anacrusis. A first step... B3*

## Structural themes: organisations and context

**A clear link between the buyer and the seller:** generally the buyer is antagonistic towards sellers that try to elicit an initial encounter, although exceptions may be made if the seller is able to establish a clear link between the people or the organisations involved.

**Power and dependency:** the buyer very consciously considers the dependency of, or any power over the supplier before the meeting starts. After a clear analysis using the Kraljic Matrix it is decided how the supplier will be approached. If a seller is representing a supplier that is deemed as a bottleneck supplier or a strategic supplier, far less is demanded of the communication skills and capabilities of the supplier.

*If a seller is very arrogant and he is in a quadrant that we can afford it [suppliers of leverage products and routine products], we'll be more blunt. B2*

**Future involvement of the seller:** When the seller plays a crucial part in the services provided, this changes the manner the buyer interprets the first encounter. If repetitive communication between buyer and seller will occur after a buy, the seller in a sense becomes part of the product and therefore becomes far more important.

*[If the seller] has a crucial role in the service provided. This is included much more [in my judgment]. B3*

**Procurement regulations:** if the buyer is forced to start multiple procedures in order to collect a number of quotes just to comply with rules or regulations,

this is certain to influence the mode of operation. Sellers are asked to provide proposals out of the blue. This situation is to be expected when an organisation has to comply with European public procurement regulations.

**Involvement and role of the buyer:** if the buyer feels responsible and in the lead, he will be more aware of his task to actively decide whether the salesperson, products or services, and organisation that are presented are the ones that will get the job done.

**Time:** a factor clearly influencing the course of events of an initial encounter is time. There is a huge difference, if the buyer has ample time or is already thinking about the next meeting. Also the time available before reaching a decision changes the dynamics of the meeting.

*How much do you have on your mind, to what extent are you really present during that initial encounter. B2*

**Mental state:** buyers acknowledge that “things happen” and that he as well as the seller are not machines. They will inform the seller if there are issues that might influence the initial encounter. Buyers expect the seller to be able to deal with those types of situations and they also expect the seller to do likewise if something like that materialised on their side.

*We're all human. We all have our off-days. Some days our resilience is higher than others. B2*

**Cross Cultural Differences:** a buyer understands that his expectations of sellers are culturally defined. When the seller you are going to meet has another cultural background, it is important to adjust your expectation in accordance with the customs and values underpinning the cultural background of the seller.

*...[when the seller is an Asian of origin] I bear this in mind and will be more modest, show less emotions, and be somewhat less direct. B2*

**Stakes involved:** the stakes (financially or implications for the organisation) of the procurement project define the way the buyer and the seller will interact during the initial encounter.

*... in that specific case the stakes weren't that high, no lives at stake or anything, so therefore I was easy-going. B3*

**Problems to be addressed:** when difficulties arise in the exchange between two organisations, there is the tendency to bring in new players (a replacement-seller or manager, or the supervisor of the buyer). This type of initial encounter has a very specific atmosphere.

*... beforehand they already knew that we wouldn't be too happy and that is something you immediately notice... nervous, flushed face, repeating things. B3*

**Personalities:** the personalities of the people involved also define the way an initial encounter develops. When for instance, buyers have the tendency to press the seller hard, this will result in different encounters to when buyers try to put people at ease.

*[A colleague] is quite another type. ...it sometimes even gets really unpleasant. B3*

## DISCUSSION

In phenomenological research the central question is addressed by presenting a composite textural description and a composite structural description, followed by the essence of the experience (Moustakas, 1994, Creswell, 2007). After depicting initial buyer-seller encounters experienced by buyers the limitations and suggestions for future research are discussed, followed by the managerial implications.

### Composite textural description: invariant experiences

An appointment is set and when an unacquainted seller initiates this, the buyer will comply if he feels this seems somehow interesting. A priori cues of the trustworthiness of the products or services, the organisation, and the seller are looked for and used. The second the buyer meets the seller he starts "sizing up" the seller. He assesses clothing, the handshake, posture, being relaxed or tense, etc. Buyers are aware that this categorising comes with the

territory. You cannot help it and therefore you have to accept it, although the outcomes are unreliable. Buyers feel it to be their responsibility to discover if an organisation can provide added value and therefore consciously try to minimise the effects of these personal impressions. So buyers simply evaluate if sellers are “normal” enough to do business with. Only the “too-good-to-be-true-sellers” and the blatantly incapable do not pass this bar.

Buyers get down to business as soon as possible. They try to find out whether the entirety of products and/or services, the seller’s organisation, and the seller will improve efficiency of effectiveness of the organisation. Buyers appreciate sellers that exhibit consultative task behaviour, are transparent, present expertise, cue reliability and adaptability. During the meeting, or shortly after, the buyer decides if he will invest more effort in the buying process or not. These initial meetings are experienced as a starting point.

## **Composite structural description: organisations and context**

All buyers indicate that the buyer as well as the seller can have a bad day due to for example time constraints and that this will definitely influence the encounter. Another important factor regarding communication is related to the personalities involved, and the way that they differ or match. Furthermore, the balance of the power and the importance of the purchase are essential. This is consciously assessed; the larger the power distance, the tougher the encounter. The presence or absence of organisational, or governmental regulations also affect initial encounters, as can cultural differences.

A possible mediating factor is the extent to which the seller is perceived to be an integral part of the product. Is the seller a part (can he be separated without consequences) of what is sold, or is he considered to be a moment (does the item sold no longer exist if you take out the seller)? If the seller is seen as a moment of the added value presented, then the seller becomes much more important in the decision making process.

## **The essence of an initial encounter**

Based on organisational needs, new contacts or a hunch that a seller might be able to offer added value, an appointment is set. The buyer construes an a priori image of the seller’s organisation, products and services, and the seller.



Also the importance of the purchase and the balance of power are assessed upfront. The a priori image is adjusted as soon as the encounter starts. Although considered unprofessional, buyers realise that they pass judgement based on first impressions. The way they do this is influenced by the moods of the participants, possible cultural differences, and who has the upper hand in the relationship. Only really deviant sellers are turned away. The essential activity of the initial encounter is to determine if the seller has enough added value to offer. A buyer is more positive if he clearly understands the presentation of added value. The products or services offered, the organisation providing them and the seller (in that order) have to be functional and trustworthy. The trustworthiness of the seller becomes more important if the seller is perceived to be an integral part of the added value offered. Certain behaviours of the seller are experienced as being useful and appealing: consultative behaviour, transparency, adaptability, and cueing relevant knowledge.

## Limitations and future research

The sample consisted only of male respondents from the Netherlands. This could be a bias in this study. The Dutch culture and language of the participants and the interviewer will have influenced the outcomes, as culture proved to influence the person perception process (Albright et al., 1997) as well as the formation of trust in initial business encounters (Shaffer and O'Hara, 1995). Furthermore the translations could be a weakness in this research. The respondents represented larger organisations, thus neglecting the possible specifics of smaller organisations. Further phenomenological research will compensate for these possible weaknesses, focusing on respondents from different cultures, speaking different languages, gender diversity, and respondents from smaller organisations. This would add to the generalisability of the outcomes as well as furthering the acceptance of this holistic, non-reductionist methodology in industrial marketing. Another useful avenue for future research is focussing on the lived experiences of sellers, thus adding to the research of Jacobs et al. (2001).

Phenomenology addresses lived experiences, providing an explanation through intentionality (Moustakas, 1994). Focusing on conscious observations of a phenomenon, it is less suited to uncover unconscious processes. Therefore we should be careful to conclude that unconscious processes are not in action

during initial encounters based on these findings. Further research focussing on the unconscious processes involved in initial encounters is called for.

This research points at the possible mediating or moderating factor of the perceived importance of the seller in realising the added value, influencing the relationship between relational behaviour and task behaviour (Newell et al., 2011), and the decision of buyers concerning future interactions.

Finally the outcomes of this research support the critique of Blocker et al. (2012) concerning the use of the relationship metaphor, as utilitarian arguments prevail over any need to build up a relationship. Again future research would add to the generalisability of this tenacious view on buyer-seller interaction.

## Managerial implications

This research indicates that during initial encounters buyers look for trustworthiness of the seller, the organisation represented, and the added value of the products and services involved. The seller is the least important factor, except when the seller is perceived to be an integral part of the added value presented. As buyers accept that they form first impressions, they purposely force themselves to not let any impressions on a personal level stand in the way of possible future interactions; with the exception of those sellers that deviate too much. As this is two-tailed deviation, sellers that are making too good an impression will also reduce their chances of harvesting future interactions. The assessment of the expertise of the seller is experienced more to be related to the added value foreshadowed. The practical implications of these findings, if proven to be generalisable by future research, is that sellers, sales managers and sales training should focus on cueing expertise, rather than enhancing relational skills. Furthermore focussing on improving the trustworthiness of the organisation presented and the added value that can be delivered is more efficient and effective. Although this research project does not provide the answers as such, practitioners should look for selling techniques that are geared towards institutional trustworthiness and enhancing the trust in the value proposition offered.

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# CULTURAL DIFFERENCES IN THE USE OF ENTERTAINING IN SALES: AN EXPLORATORY STUDY OF ENTERTAINING AND ITS IMPACT ON RELATIONSHIP BUILDING PERFORMANCE

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## ABSTRACT

Research on relationship forging tasks such as the entertainment of clients and prospects within the sales process has been limited. Our exploratory study considers the relationship between entertainment and relationship building performance. Furthermore, the conceptual model examines the potential moderating influences of two cultural variables (individualism – collectivism and the propensity to trust) on the entertainment-performance relationship. We conclude with a discussion of our research plan. We expect that these findings will provide international sales professionals with a better understanding of the relative importance of entertaining within different cultural selling environments.

# NETWORK BIAS: A PITFALL INHERENT IN THE RELATIONSHIP SELLING

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## ABSTRACT

The authors propose a concept of network bias of an industrial salesperson's cognition. Although buyer-seller relationships are important, existing relationships could cause salesperson's cognitive bias in a prospecting process and a disadvantageous position in a business network. By reviewing research in network theory and personal selling studies, this paper provides specific propositions relating to the network bias of salespersons. On the basis of these propositions, we would like to discuss directions of future research.

Keywords: industrial sales, social network, structural holes, cognitive bias

## INTRODUCTION

The importance of long-term relationships is widely accepted by marketing researchers (Crosby, Evans, and Cowles 1990; Morgan and Hunt 1994; Srinivasan and Moorman 2005). The term "relationship marketing" is



applied to a number of different marketing activities ranging from consumer frequency marketing programs to selling activities. In sales management research, salespersons are regarded as relationship managers, playing a key role in development and management of buyer–seller relationship (Beverland 2001; Bradford and Weitz 2011; Landry, Arnold, and Arndt 2005; Tellefsen and Eyuboglu 2002; Weitz and Bradford 1999).

In this paper, the authors propose a framework to explore the cognitive bias of an industrial salesperson which is inherent in relationship selling. Network theory reveals an ideal network structure which brings a lot of business opportunity to salespersons. Burt's (1992) idea of "structural holes" can be classified under the advantageous network structure. From the network theory viewpoint, the sales job is quite simple; choosing right customer to get an ideal network structure.

In previous research of these authors (Hosoi et al. 2011), however, it is not easy to find the right customer to link with. When industrial salespersons try to sell their new product, they seem to have a tendency to assume that a customer positioned in the center of a network is a good customer. But that kind of customer is not always good for them. Sometimes they are too strong to build an equal partnership and then selling firms might fall into a disadvantaged position. That is, a network sometimes hides the right person to link with. We would like to call the cognitive bias of industrial salespersons caused by the network as network bias. The purpose of the paper is to present the concept of network bias and discuss its effects on salesperson effectiveness.

## THEORETICAL BACKGROUND

The trend of personal selling studies has shifted from influencing buyer behavior to managing buyer–seller relationships. Needless to say, sales management studies have a long history. However, the research directly on the relationships has not started so long ago.

Originally, the study of personal selling started in the end of the 19th century in order to explore what kind of qualities and abilities salespersons should acquire and how they should behave. At that time, personal selling research had been focused on the salespersons themselves. There is a lot of research on the correlation between sales behaviors, behavioral predisposition of salespersons,

salespersons' capabilities, and salespersons' effectiveness. Unfortunately, the results of these studies are quite inconsistent. Even variables that can be assessed with high accuracy and reliability, such as age, education, and sales experience, are related to performance in some studies and unrelated in others (c.f. Weitz 1981).

One of the research streams stemming from the research on salesperson characteristics is the dyadic approach (e.g. Evans 1963). The characteristics of the customer as well as those of salespersons are considered to be an important factor to determine salesperson performance. Some experimental research found that the similarity of buyer–seller dyad is a significant factor in determining sales performance (Woodside and Davenport 1974; Mathews, Wilson and Monoky 1972) but some studies could not find a significant relationship (Churchill, Collins, and Strang 1975; Evans 1963). Anyway, we could say that the dyadic approach is the first approach to investigate buyer–seller relationship.

However, empirical research based on the dyadic approach has concentrated on static properties of the customer–salesperson dyad, such as similarity and relative expertise (Busch and Wilson 1976; Riordan, Oliver, and Donnelly 1977; Woodside and Davenport 1974). The dynamic nature of buyer–seller interaction could not be caught by this approach (Weitz 1986).

Reflecting from these studies, the cognitive approach or the adaptive selling approach (e.g. Weitz et al 1986) had been proposed. “Personal selling is the only communication vehicle in which the marketing message can be adapted to the specific customer’s needs and beliefs (Weitz et al. 1986, p.174).” Adaptive selling is defined as “the altering of sales behaviors during a customer interaction or across customer interactions based on perceived information about the nature of the selling situation” (Weitz et al., 1986, p. 175). Weitz et al. (1986) insisted on the importance to clarify the adaptive behavior of effective salespersons and to reveal the dynamic nature of the selling job.

An effort to measure the degree of adaptation has also been made. The ADAPTS scale was developed and its antecedents and consequences have been investigated (Spiro and Weitz, 1990; Marks, Vorhies, and Badovick 1996; Robinson, Marshall, Moncrief and Laask 2002; Chankraborty, Brown, Widing, and Taylor 2004).

The stream of study was thought to be settled on the adaptive selling approach. However, the focus of sales management is shifting from what is to be done at the business meeting to how to manage the whole relationship, which seems to coincide with the main stream of marketing, that is, relationship marketing.

In this relationship perspective, a salesperson is required to act as a relationship manager. The new trend of personal selling research is called relationship selling (Jolson 1997; Weitz and Bradford 1999). Paparoidamis and Guenzi (2009) define relationship selling strategy as a strategic approach developed by a seller willing to establish long-term and mutually profitable relationships with its customers. Adaptive selling is considered as an important factor to improve relationship quality. Customer oriented selling (Saxe and Weitz 1982; Weitz 1978), another root of the adaptive selling concept, is also considered an important factor to improve relationship quality (Schwepker 2003).

In the name of relationship selling, many studies have been done. For example, conflict management (Weitz and Bradford 1999; Bradford and Weitz 2005) is investigated as an inherent factor in relationship selling. Leader–member exchange is also investigated as an important factor to encourage relational behavior of salespersons (Paparoidamis and Guenzi 2009).

Unfortunately, however, research directly related to relationship selling behavior itself is lacking. Of course, investigating the factors positively related to relationship selling behavior is important. But, investigating the nature of relationship selling behavior itself is also important.

Adaptive selling behavior could be regarded as relationship selling behavior, because it is customer oriented. To gather information about the variety of customer needs and to change sales behavior adapting to the needs could foster good relationships.

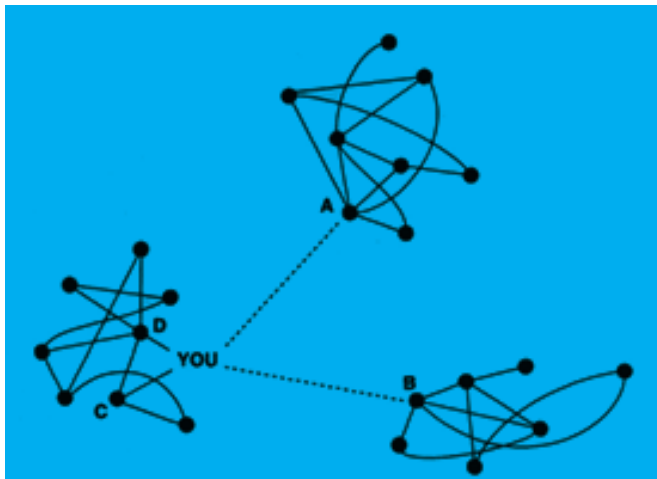
In our other research (Hosoi et al. 2011) we found that salesperson cognition might be skewed by their network. The adaptive selling approach or cognitive approach revealed effective salespersons' (HP: high performer) behavior as a cognitive representation and then intended to transfer knowledge of HP to LP (low performer: not effective salespersons). But in case an HP's cognition is skewed by their network, knowledge transfer might be harmful to an LP. An HP is well adapted to the existing network. When the network is changing, an HP's cognition must be skewed by their embedded network. Therefore, we should view buyer–seller relationships in the context of the network rather than in isolation.

# A CONCEPT OF NETWORK BIAS OF SALESPERSONS' COGNITION

As mentioned above, while the focus of personal selling studies shifts from influencing buyer behavior to managing buyer–seller relationships, little research has been done on the nature of buyer–seller relationships and what salespersons should do in the relationships.

In this paper, the authors will propose a framework for research directed towards increasing our understanding of a key aspect of the relationship selling–prospecting. Looking at the network point of view, choosing a right prospect to link with is an important first step of relationship selling.

A basic idea of social network theory is that whether actors are successful or not depends on their social network structures. According to the theory, salespersons' performance is also considered to depend on their business networks and their position in their networks. What is the network structure advantageous for salespersons to build? According to Burt (1992), salespersons should get a position in a network where they can bridge structural holes (see Figure 1). A structural hole means a gap between two parties in a network. If an actor is the only person who bridges a structural hole in a network, he or she can gain competitive advantage. In Figure 1, YOU are the only person who can bridge all parties; and A and B cannot be connected to each other without YOU. YOU therefore are in the most advantageous position.



**FIGURE 1.** *Structural holes and weak ties (Burt, 1992, p.27).*

In Figure 1, links between YOU, A, and B, indicated by dashed lines, are weak ties (Granovetter 1973). The concept of a weak tie means a weak link between two nodes. Meanwhile, the concept of a structural hole means the gap between the nodes; and it can bring potentially large benefits to an individual who bridges it.





YOU are assumed to have the strongest power to control the network in Figure 1. The position occupied by YOU is the best position; the positions of A and B are the second best in this situation. YOU bridge two structural holes by two weak ties while each A or B bridges only one structural hole.

Social network theory shows a network position that a salesperson should take. According to Burt (1992), the prime goals of the salespersons are to have a position to bridge structural holes. By doing so, a salesperson should be able to be more powerful than the others and to control information flows and resource flows in his or her network.

However, the theory does not tell us how salespersons take the position. Some studies address the issue of how salespersons should retain and manage their relationships. For example, Dhanaraj and Parkhe (2006) present the concept of network orchestration and the framework to explain how to manage network innovation. They claim that innovation appropriability in the network is caused knowledge mobility and network stability and then caused innovation output of the network. Although some researchers like Dhanaraj and Parkhe (2006) focus on managing relationships, few studies address the issue of salespersons' building their networks. It has been said for years that salespersons are boundary spanners (Donnelly and Ivancevich 1975). Salespersons' important task is to connect people and organizations in the way they ought to be connected. Research in sales should therefore focus on building networks by salespersons. Of course, successful business networks are not built automatically. Our previous work indicated that salespersons' cognition was biased by their networks when they searched their customers and partners (Hosoi et al. 2011). We found that salespersons tended to attempt to easily connect customers who were in the center of their existing networks, albeit salespersons should use their networks to bridge structural holes. The thought of relationship selling emphasizes retaining good relationships with existing customers. The more salespersons emphasize the relationships with their existing customers, the more difficult it might be for salespersons to find more advantageous network structures, as social network theory indicates.

Table 1 shows a classification of cognitive biases of salespersons due to their embedded networks when they look for the people to be linked with. Each cell of the table represents a type of a prospective customer classified by the relationship history and network position of the customer. The vertical axis represents the relationship history with the prospect, that is, whether the present prospective customer has a business connection with the seller in the past or not. The horizontal axis represents the network position of the prospective customer, that is, whether the customer is a leader or follower. In this way we can classify specific prospects into four types; Leader – Existing Customer (LE), Leader – New Customer (LN), Follower – Existing Customer (FE), Follower – New Customer (FN).

**TABLE 1.** *Network Biases of Industrial Salespersons’ Cognition.*

|                      |                   | Network Position of Prospect  |  |
|----------------------|-------------------|---|--|
|                      |                   | Leader Customer   | Follower Customer  |
| Relationship History | Existing Customer | LE<br>         |  LNB<br>FE<br> |
|                      | New Customer      | ENB<br>LN<br> | ENB<br>FN  |

- LE: Leader – Existing Customer
- FE: Follower – Existing Customer
- LN: Leader – New Customer
- FN: Follower – New Customer
- ENB: Existing Customer oriented Network Bias
- LNB: Leader Customer oriented Network Bias

## **Existing customer oriented Network Bias (ENB)**

According to the idea of relationship selling, most salespersons are supposed to emphasize enhancing the relationships with their existing customers. If a salesperson has the tendency to emphasize an existing customer, we call it existing customer oriented network bias (ENB). No companies are in isolation. So, emphasizing existing customers seems to be natural.

ENB is not always harmful. An important point is whether the relationship with the existing customer is good or not, viewing from the network point of view. If a salesperson has an advantageous network structure with his/her existing customer, emphasizing the existing relationship is a good strategy for the salesperson. If he/she does not have such network, he/she should try to change his/her position by changing the network. Prospective new customers and building relationships with them is an opportunity to change the network position. ENB might lose the important opportunity.

## **Leader customer oriented Network Bias (LNB)**

Regarding to the horizontal axis of Table 1, if a salesperson has the tendency to emphasize the leader customer in an industry, we call it leader customer oriented network bias (LNB). LNB is caused by a network of the whole industry rather than a network of an individual salesperson or an individual company. In almost all industries, a network has been formed with the leader company at the top. Christensen (1997) called it a value network. Of course, in an industrial setting, a competent customer is deemed as a good partner. If a salesperson is looking for a new customer and he/she has no constraint from an old business network, he/she is likely to choose the highest competent customer, i.e. the leader company of the industry. Thus offers to start new relationship are concentrated to the leader company.

This phenomenon can be explained by the concept of preferential attachment in the network theory. Barabasi and Albert (1999) found that the network formed by two rules, growth and preferential attachment, became powered distribution, which was subjected to scale free distribution. In scale free network, a hub with a lot of bonds shortened the distance between certain nodes (Albert, Jeong, and Barabasi, 1999). A scale free network characterized by growth and preferential attachment is similar to the phenomenon in the real world: the rich became richer. Many salespersons are likely to try to

connect with a person who is positioned at the center of an existing network, and then the existing network becomes bigger and stronger. In contrast, to connect with a person who is not at the top of the existing network does not seem to have any advantages. This is the reason why LNB occurs.

## CONSEQUENCES OF NETWORK BIAS ON INDUSTRIAL SALESPERSONS' PERFORMANCE, NETWORK BIAS AND PROSPECTING STRATEGY

Network bias affects salespersons' behavior. Each cell of Table 1 represents a type of a prospective customer. We would like to call the decision on which prospective customer to sell as a prospecting strategy. The prospecting strategy is influenced by the network bias.

First, the choice probability of each cell is influenced by network bias. Leader–Existing customer (LE) is most likely to be chosen because the cell is influenced by both of the two network biases, Leader oriented network bias (LNB) and existing customer oriented network bias (ENB). The cell least likely to be chosen is Follower–New customer (FN) because the cell is not influenced by any network biases. Follower–Existing customer (FE) and Leader–New customer (LN) have medium choice probability.

Proposition1: Choice probability of four cells in Figure 1 is as follows;

$$LE > FE, LN > FN$$

While the choice probability of the four cells varies, LE and LN could be regarded as the same prospecting strategy because they have common orientation to a leader customer. We call LE and LN altogether as leader oriented prospecting strategy (LPS). Similarly, FE and FN are called altogether as follower oriented prospecting strategy (FPS).

Leader customer oriented network bias (LNB) could be positively correlated to LPS and negatively correlated to FPS. Existing customer oriented network bias (ENB) is not correlated to any prospecting strategy by itself. But, ENB has the moderating effects to correlation with prospecting strategies. If a salesperson has an existing relationship with a leader customer, he/she is likely to choose to continue to deal with the leader customer, that is, to choose



LE. Similarly, if a salesperson has an existing relationship with a follower customer, he/she is likely to choose FE. In terms of prospecting strategies, ENB strengthens the positive relationship of LNB and LPS and weakens the negative relationship of LNB and FPS. As a result, FN, the most promising cell with a lot of opportunity to span the structural hole, is hardly chosen.

Proposition2: LNB is positively related to LPS.

Proposition3: LNB is negatively related to FPS.

Proposition4: ENB strengthens the positive relationship of LNB and LPS.

Proposition5: ENB weakens the negative relationship of LNB and FPS.

## Prospecting strategy and salespersons' performance

Each prospective strategy has different effects on the salespersons' effectiveness. LPS is a strategy which is oriented to the largest company in the industry. Thus, it could cause a large sales volume in the short term. In the long term, however, it is not expected to cause a large sales volume. A leader company has a lot of business partners. It means that the salespersons must compete with many rivals. Furthermore, LPS is not always expected to earn large revenue, because of the hard competition.

On the other hand, FPS, orienting to a follower company with smaller size than a leader company, is not positively related to a large sales volume and large revenue of salespersons in the short term. However, FPS might have a benefit in the long run. Because the follower company has motivation to compete with the leader company, the follower company might be willing to reorganize their value network. For the leader company, reorganizing their value network might lead to suicidal behavior. But for the follower company, it could lead to an opportunity to beat the leader. So, if reorganization of the value network has happened centered on the salesperson and if the salesperson could get the ideal position spanning a structural hole in the reorganizing process, he/she could get a large sales volume and revenue in the long term.

Proposition6: LPS is positively related to financial performance in the short run.

Proposition7: LPS is negatively related to financial performance in the long run.

Proposition8: Basically, FPS is not related to salespersons' performance.

Proposition9: If reorganization of value networks happens centered on the salespersons, FPS is positively related to financial performance in the long run.

## CONCLUSION

In this paper, we have discussed the nature and consequences of the concept of network bias. In conclusion, we would again like to emphasize that the network bias and its consequences are inherent to the relationship selling. The more a salesperson appreciates the relationship with his/her customer, the more often bias and its consequence occur.

Despite the importance of the concept, the authors have just proposed a few hypothetical propositions. There are still many unanswered questions.

First of all, the existence of the network bias should be examined. If the network bias exists, the choice probability of four cells in Table 1 is not the same. As we mentioned in proposition 1, LE is most likely to be chosen, FN is least likely to be chosen, and FE and LN are somewhere in between.

The consequences of the bias also should be examined. In this paper, we have discussed two prospecting strategies. Investigating an actual salesperson's prospecting behavior in the situation that the salesperson started to sell an innovative new product in an industrial sales setting is the first step to examine the propositions in this paper.

Because network bias is a cognitive problem, the cognitive approach of sales management (Weitz et al. 1986) is supposed to be useful. The cognitive approach of sales management revealed effective salespersons' (HP: high performer) behavior as a cognitive representation and then intended to transfer knowledge from HP to LP (low performer: not effective salespersons).

However, knowledge transfer from HP to LP should be done carefully. HP is well adapted to the existing network. HP's cognition must be skewed

by network bias. In other words, HP's knowledge is specific to a particular network. So, in case HP has network bias, knowledge transfer might be harmful to LP. To promote research on adaptive selling and relationship selling, the cognitive bias of salespersons needs to be investigated further in future research.

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# CROSS-CULTURAL EQUIVALENCE: THE CASE OF GLOBAL SALES TRAINING

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## ABSTRACT

Over the past three decades myriad research has been conducted in the area of global sales training. If culture and equivalence issues are not taken into consideration when gathering primary data, then spurious contextual differences are reported. The purpose of this study is to review the extant sales training literature to understand if methodological issues exist in current global sales research. Eighteen articles were published in nine different journals with thirteen reaching press in “highly-“ or “well-regarded” outlets. Most studies are based upon small, convenience samples, empirical studies showed a lack of sophistication, and only translation equivalence was discussed in these articles. Based upon the findings, recommendations for future sales research and suggestions for minimizing cross-cultural equivalence issues are provided.

# CLOSER TO A WIN-WIN SITUATION? CHANGES IN THE SALESPERSON-CUSTOMER RELATIONSHIP WHEN IMPLEMENTING VALUE SELLING

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## ABSTRACT

Value selling is often presented to be the most profitable and competitive sales practice in business markets. This paper argues that the relevant theory does not consider the consequences of introducing value selling for the relationship between the individual salesperson and buyer. This is problematic since the literature assigns most responsibilities within value selling to the salesperson. The purpose of this paper is to understand how implementing value selling changes the salesperson-customer relationships. In a case study of two manufacturing firms and their implementation of value selling two changes have been identified. Firstly, value selling results in enhanced customer relationships, due to the salesperson's improved understanding of the customer's situation. Secondly, it leads to a stronger power position for the salesperson because of a decreased focus on prices and increased focus on value in the discussions with the customer.

## INTRODUCTION

Sales researchers seem to agree about the idea that business sales is not about selling products, services or product bundles anymore, but about selling value. Whether it has been framed as consultative selling (Hanan, 2004; Liu et al., 2001), solution selling (Bonney & Williams, 2009; Bosworth, 2002; Eades, 2004; Sharma et al., 2008) or value selling (Kaario et al., 2004; Rose, 1991; Terho et al., 2012) the notion is the same: The sales force should create monetary value for the customer. The intention behind selling value is not only to maintain the customer whose expectations go beyond product delivery (Geiger & Guenzi, 2009; Rose, 1991), but also to capture more value for the own company through a value-based price (Anderson et al., 2007; Hinterhuber, 2008). A value selling practice is often advocated as the most profitable one compared to more traditionally selling practices (Cannon & Morgan, 1990; Hinterhuber, 2008; Rackham & DeVincentis, 1999).

Most of the literature designated to this topic provides help for practitioners on how to implement value selling. One part of the literature discusses how value selling should be done by the individual salesperson, which includes the necessary steps and skills (Hanan, 2004; Kaario et al., 2004; Rackham & DeVincentis, 1999; Rose, 1991; Terho et al., 2012). The other part provides insights for management on how to implement value selling in the sales force, that is the necessary tools and systems that need to be in place and the training as well as motivation of the sales force (Anderson et al., 2007; Hinterhuber, 2008; Kaario et al., 2004). The relevant discussions deal primarily with the struggle that companies face with the implementation, especially with regard to the value capture. It has been suggested that problems with implementation are due to a lack of top management support and mismanagement of the sales force (Hinterhuber, 2008).

Based on best practice examples (e.g. IBM) the literature argues that value selling, when implemented successfully, is profitable for businesses. Even though increased profitability is the main benefit and the ultimate goal of a company, one could expect other benefits of implementing value selling for the company and the salespeople, for example relationship effects (Terho et al., 2012). To the best of our knowledge, there is no study that investigates the customer relationship in the light of value selling. Hence, the introducing of value selling on the relationship between the individual salesperson and buyer are currently still neglected. This is problematic since the literature assigns most responsibilities within value selling to the salesperson.



In order to expand our understanding of the consequences for the supplier company to implement value selling, the purpose of this paper is to understand possible effects on the salesperson-customer relationships. These insights will not only contribute to expand the academic discussion on value selling, but also give a broader perspective on the benefits of value selling for businesses beyond the pure profitability argument. Finally, it will provide managers with important knowledge for the challenge to create a value selling sales force.

After the review of and positioning within the relevant literature, we present our qualitative case study of two case companies that have successfully implemented value selling. Based on our empirical findings from in-depth interviews with salespeople and managers, we detect the salespeople's perceived changes in the customer relationship.

## THEORETICAL FRAMEWORK

### Effects of value selling

Based on best-practice examples, value selling is considered a successful way for those manufacturing companies that struggle to differentiate based on their products to increase their margins (Anderson et al., 2007; Cannon & Morgan, 1990; Hanan, 2004; Hinterhuber, 2008; Kaario et al., 2004; Rackham & DeVincentis, 1999). The idea of value selling is that the salesperson identifies and implements improvements for the customers that increase the customer's profitability. Hence, the aim of value selling is to create positive effects for the customer with regards to attainment of business goals, market and financial performance. Based on these effects, salespeople can expect increased sales at higher profit and the supplier company is expected to capture more value and increase profitability through higher prices and therewith improve the own profitability. Even though increased profitability is the main benefit and the ultimate goal of a company, one could expect other benefits of implementing value selling for the company and the salespeople. Some suggested relationship benefits are customer satisfaction, loyalty, share of wallet, reduced price sensitivity and a stronger relationship (Terho et al., 2012). The other effects of value selling for the supplier company are hardly discussed.

## The value selling process

Within value selling literature, the customer value is monetary, achieved either as increased benefits or decreased costs. Hence, *value in business markets is the worth in monetary terms of the technical, economic, service, and social (net) benefits a customer firm receives in exchange for the price it pays for a market offering*. (Anderson et al., 2007:24). The price is therefore not a part of the customer value, but it is what he/she pays in exchange for an offering. A change in price does not change the customer value, that is the set of benefits of an offering, but the customer's willingness to purchase (Anderson et al., 2007).

Value selling is usually discussed in three steps, understanding of the customer's business, crafting the value proposition or communicating value and the value capture (Anderson et al., 2007; Kaario et al., 2004; Terho et al., 2012). *Understanding the customer's business* means to know the goals and strategies of the customer, the customer's production processes and even to understand the customer's customer (Hanan, 2004; Rackham & DeVincentis, 1999; Rose, 1991). Gaining this knowledge is considered the most crucial precondition to be able to do value selling and it is not easy to always get the information, as it requires involvement of the customer. Hence, to be able to do value selling the buyer needs to be willing to partner and see value in the relationship (Kaario et al., 2004).

In order to *communicate value*, the salesperson needs to quantify the value created for the customer. This requires customer information and salesperson experience and can be enriched by market studies or information systems (Kaario et al., 2004; Terho et al., 2012). The value proposition is formulated by comparing the product with the customer's next best alternative and identifying the most significant point of difference in terms of customer value (Anderson et al., 2007). This approach to value communication is considered crucial in order to achieve the credibility and persuasiveness that is necessary to capture value (Anderson et al., 2007; Terho et al., 2012).

Finally, there are different options to *capture the value*. A price premium, hence a better profit margin, is however the most common way for businesses that do value selling to get a fair return on their efforts (Anderson et al., 2007). The idea is to get a price that is in relation to a market offering's value, hence a value-based price (Anderson et al., 2007): *In perceived value pricing, the vendor assesses the value of the product to each customer and charges a price based*

*upon the customer's perceived value of the attributes of the product offering that each receives.* (Kortge & Okonkwo, 1993:133). It can be value delivered to a predefined segment of customers (Hinterhuber, 2008; Morris & Calantone, 1990) or to each individual customer (Cannon & Morgan, 1990; Monroe, 2003). What is important is that it is measurable. A suggested method to calculate the price is the economic value of the product to the customer (EVC) (Forbis & Mehta, 1981). According to EVC, the maximum amount the customer is assumed to be willing to pay is, thus, equivalent to the price of the alternative product plus or minus the aggregated difference in value provided by the differentiating features of the focal product, such as difference in productivity, cost for maintenance or product life-time productivity. Taking into consideration the customer's incentive to purchase the new offering rather than staying with the current alternative, the price should be lower than the total customer value created. In short,  $\text{Price (offering)} < \text{Price (alternative)} + \Delta \text{Value (offering, alternative)}$  (Anderson et al., 2007:153).

## The implementation of value selling

Many companies still face a major challenge in implementing value selling (Hinterhuber, 2008). The literature identifies several crucial aspects that the management needs to consider when implementing value selling successfully. These are training, support systems, culture and motivation.

At the beginning of value selling implementation, the company usually introduces processes and systems that will be followed by trainings with success stories and role-playing exercises. Putting a sales process into place aims to turn a tacit process into explicit knowledge and make the change in the working processes visible. One example of such a value selling process is a) understand the customer business process, b) innovate process enhancement, c) quantify business impacts, d) deliver & implement, e) verify business impacts (Kaario et al., 2004). An important part of the training is to convince the salespeople of the fact that with value selling they are able to sell more, increase the closing rate and diminish the price discussions (Anderson et al., 2007).

The culture of a company is an evident factor that influences the success of value selling implementation. Anderson et al. (2007) propose that a salesperson's title strongly forms the image of the salesperson that the customer

gets and the salesperson holds about him/herself. Hence, if the salesperson should become a value creator, the traditional rather negative image of the extroverted, pushy salesperson that tries to sell anything needs to be changed (Avlonitis & Panagopoulos, 2010). As it is discussed in branding literature, the work of champions or in this case, sales councils promoting the idea of value selling, can have strong influence in forming the culture.

Finally, motivation of the sales force has received much research attention (Plouffe et al., 2008), also because the salesperson is different from other employees due to his/her boundary-spanning and isolated position. Empirical studies comparing behavior versus outcome control systems have shown that behavioral control encourages more intrinsic motivation (Baldauf et al., 2001; Cravens et al., 1993; Oliver & Anderson, 1994), long-term customer relationships (Slater & Olson, 2000), understanding of customers' needs (Cravens et al., 1993; Slater & Olson, 2000) and achieving high customer satisfaction (Cravens et al., 1993). In general, it seems that a combined behavior and outcome-based control system is positively related to sales growth and profitability (Babakus et al., 1996; Baldauf et al., 2001; Cravens et al., 1993). Whether outcome or behavior-based control is more suited for value selling is however not clear. With regard to the outcome-based control system there is agreement between researchers that the sales representatives should be rewarded based on gross profit margin, not just revenue (Hinterhuber, 2004, 2008; Marn et al., 2004; Nagle & Hogan, 2006; Vogel et al., 2002). The problem is otherwise that the salespersons will focus purely on the number of orders and order volume, instead of profitability, and give too many discounts (Joseph, 2001; Mishra & Prasad, 2005). This is linked to the discussion whether the salesperson should have the pricing authority or whether it should be centralized. This discussion is to date still inconclusive, as the argument for delegating pricing to the salespeople because of their knowledge advantage (Frenzen et al., 2010; Lal, 1986; Richards et al., 2005; Weinberg, 1975) and potential motivation effects (Dolan & Simon, 1996) stands against the fear of an inconsistent image to the customer and too many discounts (Joseph, 2001; Mishra & Prasad, 2005).

The review of the literature on value selling and value-based pricing shows that the current insights assume the improved profitability of the supplier company and address mostly company internal aspects with regard to how value selling should be conducted and organized. As a consequence, it hardly

discusses any other effects of value selling, for example with regard to the individual salesperson's work and his/her relationship with the customer. This is in line with the overall lack of qualitative, explorative research on the salesperson's individual level (Plouffe et al., 2008; Williams & Plouffe, 2007).

## METHOD

In order to address the question how the implementation of value selling changes salesperson-customer relationships, we have conducted a case study (Eisenhardt & Graebner, 2007; Yin, 2009). Case studies are in particular relevant when the purpose is to explain how a defined action is linked to one or many operational outcomes (Yin, 2009). The decision to study B2B manufacturing firms within mature industries was made due to the relevance and importance of value selling in these particular industrial settings. Companies that act within mature markets are often faced with the challenge of commoditization and, consequently, an increasing pressure to reduce price. They are often urged to strive for differentiation through other means than product differentiation, such as customer relations. We decided to study Gamma and Delta since they were able to successfully implement value selling between 2008 and 2011. Here, successful means that according to the management, the new value selling practice has resulted in an improved ability to appropriate the customer value created at both Gamma and Delta. As seen in Table 1, both companies offer standardized and semi-customized products, meaning that modules are used to a large extent but product design and material composition varies between customers. Both firms price their product in the high-end segment and differentiate themselves relative to the competitors based on customer service, product design and a wide product portfolio. The main difference between Gamma and Delta is the bargaining power of the customers (see Table 1). In the case of Gamma, the bargaining power of the customers is relatively high, since the competitors offer similar products and the cost for changing to a competitor is low. For that reason, the pressure on Gamma to reduce prices is very high. In the case of Delta, the bargaining power of the customers is relatively lower since the customers have to make substantial, costly changes in their production facilities if changing to a competitor. However, the high switching costs for customers if changing to a competitor were something that the firm realized as a result of the implementation of the value selling practice. In other words, prior to

the change of selling practice, Delta believed that the customers had much higher bargaining power. For that reason, Delta had for years assumed that the pressure from competitors to reduce prices was high.

**TABLE 1.** *Overview of the two case companies.*

|   | <b>Gamma</b>  | <b>Delta</b>  |
|---|---|---|
| <b>Industry</b>                                       | Construction and infrastructure   | The transportation and military sector  |
| <b>Geographical coverage</b>                          | International, focused on the European market   | National, focused on the North American market  |
| <b>Turnover</b>                                       | Euro 29 million (2009)  | Euro 45 million (2009)  |
| <b>Number of employees</b>                            | 200   | 240   |
| <b>Price segment</b>                                  | High end  | High end  |
| <b>Market position</b>                                | Market leader in Europe   | Market leader in North America  |
| <b>Product portfolio</b>                              | 1 900 articles (65% semi-customized)  | 1 500 articles (80% semi-customized)  |
| <b>Competitors' characteristics</b>                   | Smaller firms that compete within relatively smaller geographical regions, offering relatively smaller product portfolios | Smaller firms that offer relatively smaller product portfolios  |
| <b>Customer base</b>                                  | A mix of larger firms purchasing for relatively larger amounts and smaller players  | Mainly smaller firms  |
| <b>Number of customers</b>                            | 700   | 1000  |
| <b>Customers' bargaining power</b>                    | Relatively high since the market is mature and the cost for changing to a competitor is low.                              | Relatively weak since the cost of changing to a competitor is high.   |
| <b>Product differentiation (relative competitors)</b> | Achieved based on technical service, R&D, the ability to offer a wide product portfolio and the quality of the material   | Achieved based on technical service, R&D, the ability to offer a wide product portfolio and the quality of the material |
| <b>Barriers of entry</b>                              | Low, due to the high maturity level of the market   | Relatively high, due to the technical competence that is required   |

## Data collection

The project of implementing value selling at Gamma was studied longitudinally. We made our first visit to the head office of Gamma in January 2009, shortly after the project had been initiated, and interviewed the sales manager and sales representatives. A follow-up visit, with more interviews, was made in January 2012. In between our visits we had phone interviews with the Sales Manager regarding the progress of the project. The implementation process of Delta was studied in retrospective. Our first interview with the Sales Manager was made in October 2010, shortly after the project was formally finished, and the sales representatives and management consultant involved in the project were interviewed throughout 2011. The advantages with the combination of longitudinal studies and retrospective studies is that it provides the researcher with complementary data, since retrospective cases allow the research to identify the sequential pattern of the change process ex-post whereas the longitudinal study allows the research to observe when these patterns occur over time (Leonard-Barton, 1990).

The data has been collected through interviews and documents (e.g. reports related to the value selling implementation project, presentation material for internal use, internal training material and external consultancy reports). Fourteen individuals were interviewed, eight at Gamma and six at Delta. The respondents held such positions as sales manager, sales representative and external management consultant (hired by Delta during the project of implementing the value selling). The interview questions covered the project of implementing value selling, procedures for defining and communicating the customer value, customer relationship management, value-based pricing and the competitive situation (see Appendix). Each interview lasted between one and three hours and was recorded and transcribed.

## Data analysis

The transcribed interviews and the relevant data from the documents were first structured chronologically, according to the projects of implementing value selling at each firm. In the following, the case descriptions were structured according to prior constructs (Eisenhardt, 1989:536) such as procedures for defining customer value, communicating customer value and capturing value. From the analysis of the changes perceived by the individual salesperson in the relationship, two major themes have emerged, *enhanced relationship and*

*stronger power position.* Our empirical findings are only based on two cases and therefore the findings cannot be statistically generalized. Nevertheless, analytical generalization can be drawn from a small number of cases (Yin, 2009).

## IMPLEMENTING VALUE SELLING AT GAMMA AND DELTA

This section describes the projects of implementing value selling at Gamma and Delta.

### Gamma

In October 2008, a new Sales Manager with an academic and professional background in sales and marketing joined the company. The first thing he observed was that even though nearly all of the salespersons had several decades of experience they had in his eyes a weak understanding of what Gamma's products offer to the customers. He said:

*All companies say: 'We have know-how'. But, especially in our case: 'What does know-how mean? In which specific area, which specific know-how, and what does it mean for a customer, how can we benefit from that?' This is what we had to figure out.*

The sales representatives relied on their experience and gut feeling in the negotiations with the customer, resulting in prices that were set based on customer history rather than delivered customer value. When asked how they were able to decide which profit margin to add for a given customer, one of the salespersons, who has been with the company for 35 years, answered:

*From my point of view, we didn't have the feeling for which price was OK. Sometimes it worked and sometimes it did not work.*

In the situation of a customer asking for a customized product, the sales representatives asked the product designers to deliver a suggested solution. Based on their suggestions, the sales representatives added a gross profit margin (estimated on a combination of a target margin and the salesperson's gut feeling) to the cost of the product. If the customer asked for lower prices,



the salespeople either lowered the price or contacted the product designers for a product with a lower cost of production. According to the sales representatives, the result of this practice was that the discussions with the customers mainly evolved around the price and not the product design, nor the choice of material. The Sales Manager considered the sales representatives skills for defining, quantifying and communicating the products' customer value as weak and he said:

*I guarantee you, [in the price discussions with the customers] many sales people would say: 'I know the price is too high, so what is the price you need?'*

For that reason, he made the decision to implement a new value selling practice. Table 2 summarizes the project of implementing value selling at Gamma that is elaborated in the following.

**TABLE 2.** *The project of implementing value selling at Gamma.*

|   | Before   | Actions taken during the project of implementing value selling  | After   |
|---|--|---|---|
| <b>Selling practice (i.e. defining and communicating value)</b> | The individual sales representatives' relied on their experience and gut feeling in the discussions with the customers                                       | Sales representatives provided with training in how to identify and communicate the customer value to the customers<br>Management consultant hired<br>Reorganization with the purpose of coordinating the interface to the larger customers and improve customer service<br>Sales representatives' responsibility increased to covering the entire product portfolio, instead of only a limited range.<br>Top management focus on pricing Layoffs | Sales representatives provided with concrete selling arguments which they are required to use in the discussions with the customers<br>Cross-functional team of indoor sales rep, designer and technicians sitting desk-to-desk facilitates the customer service  |
| <b>Pricing practice (i.e. capturing value)</b>                  | Prices based on historical prices and customer history<br>Cost of product plus mark-up<br>Pricing authority delegated to the individual sales representative | Sales representatives provided with training in value-based pricing techniques<br>New CRM-system enabling customer-profitability analysis, product-profitability analysis, revenue leakage analysis and improved cost control<br>New price lists regarding the standardized item Sales representatives' authority to give discounts restricted  | Value-based pricing<br>Customer-profitability analysis<br>Product-profitability analysis<br>A centralized pricing practice towards the larger customers<br>Guidelines regarding minimum gross profit margin<br><br>Sales representatives rewarded on gross profit margin achievement<br>Price lists regarding the standardized products |

## Understanding the customer's business and communicating the value

In order to overcome the sales representatives' weak skills for communicating the products' customer value and matching it according to individual customer needs, they were, together with an external management consultant, gathered for workshops with the purpose of clarifying the value Gamma's products offer to the customers. The consultant used real cases (i.e. Gamma's products and customers) when explaining the concept of value selling. The workshops resulted in ten selling arguments that the salespersons were told to use when communicating the value, such as "products with long product life cycle" and "low cost of maintenance". The ten selling arguments did not only have the purpose of creating a common idea of the customer value Gamma can provide, but also to provide the salespersons with selling arguments. The sales representatives were also told to use different selling arguments depending on different customers. The Sales Manager explained:

*Customers are not equal, customers are different so you need different arguments for different customers, this is very important to understand. A door manufacturer has different requirements than a customer dealing with hoses for the car industry.*

As a consequence of the implemented value selling practice, each salesperson is responsible for selling all of the articles, instead of only a limited number of articles. Additionally, the salespersons are responsible for estimating a price for the customized product inquiries (before, this was done by the product designers). The intention was to secure that the prices were estimated primarily based on the value for the customer, not cost of product. Additionally, the ambitions were to shorten response time to the customer and reduce the workload of the product designer. For these reasons, the sales representatives were provided with four training sessions, in order for them to have technical knowledge about all of the articles.

Moreover, the management decided to relocate all indoor salespersons and product designers to the same market office, in order to centralize the interface towards the larger customers and, thus, provide better customer service. Thus, as a result of the reorganization, the employees are instead grouped into teams consisting of both designers and indoor salespersons.

## Capture the value

Besides workshops, the company has arranged training sessions, where salespeople have been trained to quantify the customer value and how to provide the right selling argument for the customer. New IT tools, which allow for customer and product profitability analysis, have been implemented in order to facilitate that prices are set according to customer value.

Additionally, in order to promote higher gross profit margin achievement, the Sales Manager decided to change the reward system for the salespersons. He implemented new procedures for calculating each individual sales representative's gross profit margin achievement, in order to be able to set the bonus according to their individual contribution.

Moreover, restrictions regarding minimum gross profit margin were imposed and the sales representatives' authority to allow discounts was restricted. Lastly, new pricelists were introduced regarding the standardized products with the intention to centralize the price setting for these products and secure that the customer value is captured and not lost in discounts.

## Delta

During the autumn of 2009, the decision to implement value selling at Delta was made by management due to the following three reasons: 1) the products were due to their semi-customized characteristic considered as suitable for value selling, 2) the unit had struggled with squeezed profit margins for years, due to an increased maturity level of the market and a perceived high pressure from customers to reduce prices, 3) the Sales Manager had experience in value selling from previous employers. The following two sections elaborate the project of implementing value selling, see Table 3.

**TABLE 3.** *The project of implementing value selling at Delta.*

|   | Before   | Actions taken during the project of implementing value selling   | After  |
|---|--|--|--|
| <b>Selling practice (i.e. defining and communicating value)</b> | The individual sales-representatives relied on their experience and gut feeling in the discussions with the customers.   | Sales representatives provided with training in and how to identify and communicate the customer value to the customers<br>Management consultants hired<br>Top-management focus on pricing   | The sales representatives are: -Identifying and quantifying the customer value for Delta's products and the competitors' products<br>-Performing weighted customer buying criteria<br>-Constructing their selling arguments accordingly.   |
| <b>Pricing practice (i.e. capturing value)</b>                  | Prices based on historical prices and customer history<br>Cost of product plus mark-up<br><br>Pricing authority for all products delegated to the individual sales representative<br><br>Sales representatives rewarded on gross profit margin achievement | Sales representatives provided with training in value-based pricing techniques.<br>New IT tool allowing better customer and product profitability analysis.<br><br>Price lists for standardized products up-dated through the means of weighted customer-value analysis and revenue leakage analysis in collaboration with the sales representatives | Value-based pricing<br>Customers' value map position analysis<br>Customer-profitability analysis<br><br>Product-profitability<br>Revenue leakage analysis<br><br>Identify and analyze competitor's prices.<br>Price lists regarding the standardized products<br><br>Pricing authority for the customized products delegated to the individual sales representative<br>Sales representatives rewarded on gross profit margin achievement |

Understanding the customer's business and communicating the value

The salespersons at Delta are, similar to the ones at Gamma, all very experienced after working many years in the business. Moreover, the high maturity level of the industry has resulted in a stable customer base, resulting in long-term customer relationships. For these reasons, the sales representatives had, already previous to the project of implementing value selling, good knowledge about the products and needs of the customers. Yet, even though the salespersons believed that no changes were needed in terms of the selling practice, the management had identified that their skills for matching prices with customer value were weak. The pricing practice was very similar to the one that Gamma practiced prior to the implementation of the value selling practice. In other words, both customized and standardized products were priced according to cost-plus profit margin logic. When the customers asked for lower prices, the salespersons either reduced the price or asked the designer to suggest a product at a lower cost. For that reason, the price was the main focus in the discussions with the customers. Just like the case with Gamma, the sales representatives were not able to sufficiently analyze the products' customer value. In order to change the sales representatives' working practices, the management decided to hire consultants who performed workshops in value selling together with the sales representatives.

The key challenge, according to the consultants, was to get the employees to understand the concept of value selling and change their way of thinking about pricing and, thus, value capture. Changing the individual salespersons' habits of relying on their gut feeling when setting prices was by far the greatest challenge, the consultants said. In order to overcome this, the consultants had workshops with the managers and the salespersons in which they used real cases when explaining the concept of setting prices according to customer value. For that reason, the consultants made phone interviews with the customers in order to get the information needed for the value selling exercises.

The employees at Delta assumed that the customers would provide the consultants with little or no information, besides complaining that the products are too expensive. The consultants stressed that when making the customer calls, they informed the customers that they did a customer survey on behalf of Delta. Yet, they did not explicitly tell the customer that they were analyzing the price levels relative to the competitors. When asking the customers open questions about Delta's products and their strengths and

weaknesses in relation to the competitors' products, the customers gave detailed information. When commenting on the information the consultants were able to get from the customers, one of the salespersons said:

*One of the great things that came out of this was that the customers were not put off by this [the consultants contacting them on phone], but that they were actually open. They told flat out that we were 15 percent lower in price than the competitors. I was absolutely shocked. These are customers that I have talked to for years and they would never tell me anything like this.*

### Capture the value

In order to improve the sales representatives' ability to more efficiently capture value by setting prices according to customer value, the consultants trained them in how to analyze weighted-customer-value compared to the next-best alternative and customers' value map position analysis. Through their relationships, the sales representatives gather required data regarding competing products with the customers. The salespersons were told to use these value-based pricing techniques when setting prices and explaining the price setting logic to the customers, instead of relying on their experience and gut feeling. Hence, the sales representatives' previous autonomy to freely decide how to set prices and communicate the customer value has been restricted.

Parallel to the training session with the employees, an IT tool that allows for price analysis was implemented. The customer value is estimated and quantified in Excel sheets linked to the IT tool. Once the new IT tool is incorporated into the CRM system, it will be able to provide all the information needed when making the customer propositions, for example customer purchasing criteria and customer perceived value. Moreover, the plan is to systemize the data about the competitors as well, which are currently saved in the IT tool below the different individual customers.

The new IT tools for product-profitability analysis enable the Sales Manager to provide his salespersons with price floors and price ceilings. Hence, he is able to avoid sales below break-even and prevent the situation of a customer being over-priced and, as a result, upset, which in turn might result in bad reputation. The price ceiling is calculated according to product cost, customer

history and the competitors' prices. Lastly, the Sales Manager decided, just like the management at Gamma and for the same reasons, to introduce price lists for the standardized products.

## **PERCEIVED CHANGES IN THE SALESPERSON-BUYER RELATIONSHIP**

According to the management at both Gamma and Delta, the sales representatives were initially skeptical when introduced to the new value selling practice. They believed that it was a waste of time and argued that they had nothing to gain from it since they were already able to set prices according to customer value by using their gut feeling and experience. Nevertheless, once the projects had been finished, the salespersons at both Gamma and Delta were mainly positive towards the new selling practice. They describe how the new selling practice has resulted in enhanced customer relationships and a stronger power position for the salesperson in negotiations with the customers.

### **Enhanced customer relationships**

The salespersons at both Gamma and Delta argue that their improved skills for defining and communicating the customer value have enhanced the relationships with the customers. They have gained a deeper insight into the customers' needs and the customer meetings are more centered on the products' customer value, rather than price and discounts. The fact that both Delta and Gamma offer semi-customized products implies that the sales representative would have had good customer relationships already prior to the changed value selling practices. However, prior to the changes, the sales representatives handed over the customer inquiries to the product designers who delivered suggested product solutions. The sales representatives then calculated the prices by adding a gross profit margin (estimated on a combination of target margin and his/her gut feeling) to the cost of the product. In other words, the sales representatives did not analyze the products' customer value.

As a consequence of the new value selling practice, the sales representatives are more interested in their customers' production chain and are more often gathering information about the customers' end products before getting into



customer meetings. This information enables them to better pinpoint the product's value to the customers. For example, one important buying criterion for the customer's customer might be the end-product's fuel consumption. Assuming that the products results in a lower consumption relative to the competing products, the sales representatives quantify the reduction in fuel consumption relative to the customer's next best alternative. For the same reasons, the salespersons are more concerned with gathering information about the competitors' products, in order to understand the customers' options and how the customer value of the products differs. This new practice resulted in Delta realizing that the customers have to make substantial, costly changes in their production facilities if deciding to change to a competitor. Hence, the sales representatives' perceived ability to understand the customer and the customer's business have improved.

The new practice of systematically identifying customer value and set the price accordingly enhances the customer relationships, since it enables the sales representatives to better understand the product's value, usefulness and drawbacks to each individual customer. The salespersons experience that customers often provide them with real figures about the value the product in question provides. One of the sales representatives at Delta said:

*You are going to get the most value when you are first launching the product or with a customer you don't have a history with. But all of this [the new value selling] is good even with an existing customer. For example, when you go in to your fifth price negotiation in two years and justify why you need two or three cents more by showing them [the customer] the value that they are getting.*

Management at both Gamma and Delta had foreseen that the long-term customer relationships with the customers would make it possible to quantify the added value for the customers and, thus, enable a more efficient value appropriation. However, the enhanced relationships between the salespersons and the customers, as a consequence of the sales representatives gaining a deeper insight to the customers' business, were a positive surprise to them.

At Delta, which compared to Gamma handles larger but fewer orders in terms of price, the case is often that the sales representative makes a quantification of the value-adding features according to his/her estimation prior to the customer meeting. He/she then shows the figures to the customers and the customers

correct the figures that are incorrect. The result is that the quantification of the value-adding features in dollars matches the real customer savings. One of the salespersons at Delta said:

*I do not use the cost-plus mentality anymore [when deciding the prices]. I try to look at the next best alternative [i.e. the second-best product that the customer could get from a competitor]. So I really do not follow what my margin is because I see it as independent. I do not spend as much time looking at the margin or profitability as I did before. [...] The tool [the value selling practice] really has given us an ability to come in and justify why our pricing is as it is.*

Similarly, a salesperson at Gamma, who has been with the company for nearly 20 years, expressed that the new value selling practice has resulted in a change in mindset among the sales representatives. She explained: *In the past, all focus was on the prices, now it is about selling added value.*

Additionally, management at both Gamma and Delta decided to introduce price lists for the standardized products, in order to secure that the prices matched the products' customer value. In the eyes of the salespersons it has not only reduced the workload, since they no longer have to spend time calculating prices and negotiating discounts for these particular products, but it has also enhanced the relationships with the customers. An enhanced relationship with the customer is here considered as the improved understanding of the customer and the customer's business as perceived by the customer. Previously, when the salespersons had a larger authority to price the standardized products, the discussions with the customers were more focused on prices and discounts and less on value.

### Stronger power position

According to the salespersons at both Gamma and Delta, the new selling arguments have improved their negotiations skills and given them stronger arguments for the customer meetings. Thus, the sales representatives are more confident when entering a meeting with a customer due to the training they have received. Even though the salespersons at both Gamma and Delta had many years of experience and, according to them, a fairly good gut feeling about the customer value, the new value selling practice has encouraged them

to try to capture even more of the created value. Hence, they are no longer relying purely on their experiences in negotiation but are instead prior to the customer meeting defining and quantifying the customer value in order to convince the customer of the created value. In the situation that a customer should still ask for a lower price, the salesperson offers a different product with a lower value and, thus, lower price, instead of immediately getting into a price discussion. Overall, the practice of value selling seems to have brought the salesperson into a stronger power position in the negotiation with the customer.

Value selling gives the salesperson new confidence as it enables him/her to rationalize the unique customer value, for example a lower total cost of ownership, pay-back time or return on investment. One salesperson at Delta described the new value selling practice as

*a different way of presenting information to the customer than just going straight into a customer and saying: 'We have recognized that our [product] is a better one, so we are going to raise our price'. But using the value-based pricing helps you explain to the customer the rationale for the way the pricing is structured.*

According to the Sales Manager at Gamma, self-confidence is an important part of value selling:

*It [the value selling practice] is about making the salesperson convinced of what Gamma stands for and what the added value is. The salespeople need the self-confidence in order to know what Gamma has to offer for the customers, they need to be proud of working for Gamma and stand behind the values of what they are selling.*

The Sales Manager at Delta expressed the importance of practicing value selling on those customers that tend to be more price sensitive and, thus, provide relatively smaller profit margins:

*It [value selling] is more important for something where you are not making incredible margins on, because those one or two percent extra will make the difference whether the business can support itself or not. The more data that you can bring into hard negotiations, the better off you are.*

One of the sales representatives at Delta explained the increase in average price:

*I think what it [the value selling practice] has done for us is that it has allowed us to really push it [the profit margins] to the limit. If we were at, let's say 15, 18 percent margin on [a product category], I think that we push it now to 25 percent.*

The bonus system of rewarding the salesperson on gross profit margin further enhances the salesperson's focus on profit margin rather than volume, to the extent that the sales representatives are prepared to purposely lose a customer that is not profitable. According to the salespeople, almost no customers have been lost as a consequence of the increased prices. One of the salespersons at Delta expressed:

*I would say that I probably lost one customer, which I'm OK with. But I think there is some fear in our group, and I share it, that if we raise our prices too much, we might invite competition into the market place.*

However, some of the salespeople ask to raise prices even further, even if it might be at the cost of losing the customer in question. Hence, the bonus system of rewarding the salespersons on gross profit margin achievement has made the salespeople notice the unprofitable customers.

The decision by the management at both Gamma and Delta to centralize the price setting of the standardized products, in terms of using list prices for these products and restricting the salesperson's authority to grant discounts, has strengthened the salesperson's position in the negotiations with the customers. The sales representatives argue that their restricted autonomy to decide prices and allow discounts has reduced the pressure from the customers to lower prices. The new practice has, according to the salespeople, resulted in less focus on the price during the discussions with the customers and more on the different products and their potential for improving the customer's business. When the customers are now asking for lower prices, the sales representatives are instead giving them different offerings that provide lower value at lower prices. According to the sales representatives, some customers are expressing that they consider fixed prices to be more convenient. One of the salespeople, who have been with the company for 35 years, described the difference in the discussions with the customer:

*[Before the value selling practice] there was no discussion about different products. It was just about pricing. Today I tell them: 'We are the market leader, this is our complete portfolio, this is our prices and you decide which is the right one. It is up to you what do you want?'*

## DISCUSSION AND MANAGERIAL IMPLICATIONS

The discussion on consequences of implementing value selling at Gamma and Delta for the salesperson-customer relationship enriches the understanding of value selling effects for the supplier company, by pointing out two major changes in this relationship perceived by the salesperson. These are enhanced customer relationships, as in a better understanding of the customer and the customer's business, and stronger power positions. Even though these benefits could be seen as evident steps on the way to increased supplier profitability, this paper has considered the exploration of different effects of value selling, also on the level of the salesperson as crucial. Further, the insights provide some intriguing managerial implications for the creation of a value selling sales force.

Theory proposes that enhanced customer relationships are necessary in order to successfully implement value selling as it requires involvement and work from the customer's side (Anderson et al., 2007; Kaario et al., 2004). Both Gamma and Delta already had long-term customer relationships prior to the implementation of value selling. Yet, the new value selling practice required the sales representatives to put extra efforts into understanding the customers' situation. They had to gather even more information about the customers' next best alternatives, i.e. competitors' products, the key buying criteria of the customers' customers and the end products in order to effectively identify and quantify the customer value. This detailed information search requires the salesperson to establish different contacts at the customer company and it encourages more cooperation as well as trust between the salesperson and customer. The transparency of the salesperson towards the customer in the value capture process supports the trust building since created value and costs are calculated together, openly discussed and compared to alternative products. These insights indicate that value selling does not only require some form of cooperation between customer and salesperson but encourages this cooperation to develop into a partnership aiming to create value. Hence, it

contributes to the discussions about aspects, such as dependency or increased contact frequency, which are said to enhance business relationships, and adds the influence of increased information exchange (Ford, 1984; Grönroos, 1981; Turnbull et al., 1996).

The other outcome suggests that implementation of value selling brings the sales representatives into a stronger power position in negotiations with customers. This indicates that value selling might be a powerful approach when negotiating with price sensitive customers. Hence, contrary to the assumption that value selling requires value buyers (Anderson et al., 2007; Kaario et al., 2004), findings indicate that value selling cannot only be used to change the customer's focus from price to value, but also to dismantle the customer's price haggling arguments by presenting objective, fact-based numbers of saved costs or increased benefits. Hence, one could argue that the salesperson leaves his/her position as the 'underdog' in the price negotiation and that relationships might approach an actual win-win situation.

This paper provides two major managerial implications. Firstly, since the paper has shown that value selling can enhance customer relationships through increased information exchange, it could be considered as a strategy for companies that want to achieve long-term relationships with their customers. Even though it will require more effort and patience than a low price strategy, new established companies or companies entering a new market could use this approach to establish their position in the market. Secondly, the paper shows that the delegation of value-based pricing to the individual salesperson is not a necessary condition for implementing value selling successfully. On the contrary, if salespeople have the authority to grant discounts they might feel more pressure from the customer to divide the discount between them. Hence, restricting the pricing authority of the salesperson in the presented cases has not only relieved the salesperson from the discount pressure, but at the same time shifted the focus to the value argumentation. Hence, in the salesperson's eyes customer-orientation is not to achieve the best, i.e. lowest price for the customer, but to create the highest customer value.

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## APPENDIX: INTERVIEW GUIDE

| Practice for defining and communicating value (in order to map the practice before and after the project of implementing the value selling practice)  | The project of implementing the value selling practice  |
|---|---|
| <ul style="list-style-type: none"> <li>• Customer relationship management               <ul style="list-style-type: none"> <li>o Character of customer relations</li> <li>o Customers' buying criteria and determinants of purchasing decision</li> <li>o Delivered customer value</li> <li>o Customer feedback</li> <li>o Procedures for gathering and coordinating information about the customers</li> <li>o Handling larger (international) customers</li> <li>o Different pricing practices depending on different customers and/or sales regions</li> <li>o The role of the customer's customer</li> </ul> </li> <li>• Competitors               <ul style="list-style-type: none"> <li>o Competitive situation</li> <li>o Information about competitors and competitors' products</li> <li>o Procedures for gathering and coordinating information about the competitors</li> </ul> </li> <li>• Information about the products among sales representatives and sales managers</li> <li>• Communication between management and lower-level</li> <li>• Communication between different departments/ functions/divisions regarding pricing</li> <li>• Sales force management (e.g. incentive programs)</li> </ul> | <ul style="list-style-type: none"> <li>• Why was the decision made to launch the pricing project?</li> <li>• How was the project carried out?               <ul style="list-style-type: none"> <li>o Who was responsible?</li> <li>o How was it carried out?</li> </ul> </li> <li>• What was the outcome from the project?               <ul style="list-style-type: none"> <li>o Changes in terms of:</li> <li>o The practice for defining the customer value</li> <li>o The practice for communicating the customer value</li> <li>o Customer relationship management</li> <li>o Sales force management</li> <li>o The pricing practice</li> <li>o Prices and/or other financial figures?</li> <li>o Have there been any reactions from the customers, competitors and/or suppliers?</li> </ul> </li> </ul> |
| Practice for capturing value (in order to map the pricing practice before and after the project)  |   |
| <ul style="list-style-type: none"> <li>• Procedures and techniques for calculating and deciding on prices (e.g. customer segmentation, customer and product profitability, identifying customers' buying criteria)</li> <li>• Handling price changes</li> <li>• Management involvement on pricing decisions</li> <li>• Discount policy</li> <li>• Formal/informal guidelines for price setting</li> <li>• Data used when calculating prices (e.g. customer history, target margin, competitors' prices)</li> <li>• Training provided to price setters</li> <li>• Information management</li> </ul>  |   |

# THE EMERGENCE OF VALUE IN A SALES MEETING: THE SALESPERSON'S PERSPECTIVE

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## ABSTRACT

This paper asks, from the perspective of a salesperson, can there be value prior to the point of sale and more specifically, is a single sales meeting as such an independent source of value during the course of a selling process? This paper fills an intriguing research gap with providing an understanding of the possibilities an interpersonal context of a sales meeting offers for the emergence of value. The paper builds on the perspective of symbolic interactionism and offers a constructed grounded theory presentation of sales meetings, based on eleven salesperson interviews in the context of selling business-to-business professional services. Value related to a single sales meeting is analyzed with empirically grounded value themes together with the aspects of relating and participating. According to the novel view offered in the paper, a sales meeting is service for the salesperson; in addition to being exclusively a giver in a sales meeting, the salesperson actually becomes a beneficiary as well.

Keywords: sales meeting, salesperson, value, business-to-business, symbolic interactionism, constructivist grounded theory.

# OBJECTIVITY OF SHARED EVALUATIONS OF SALES PRACTICES

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## ABSTRACT

Evaluation is not a new concept in sales force management. But what is really evaluated? Literature and management practice show us that, on the one hand, evaluation is mainly based on sales performance. This is conducted in various ways, which could be interpreted as a lack of a globally accepted evaluation process. On the other hand, the object of the evaluation is essentially the statements of the salespeople under evaluation. The question is therefore: to what extent is sales practice evaluated effectively, and by whom? As a consequence, what could be learned from a shared and co-produced evaluation of observed practices?

This paper intends to, firstly, provide an overview of practices of sales force evaluation in the existing literature. Secondly, we focus on 360° evaluation processes, often used in management, rarely in sales force management. The third part of the paper is dedicated to an empirical study, conducted with sales managers and experts, in which the 360° evaluation of sales practices was tested. To conclude, suggestions for further development, together with research and managerial issues, are provided.

Sales force evaluation is a topic apparently appreciated by researchers. The question of sales performance evaluation lies at the center of a large body of contributions. In the past ten to twelve years alone, from Piercy et al. (1999) to Blocker et al. (2012), many have highlighted, for example, the causes of sales performance, the links between outcome performance and behavioral performance (Piercy et al. 1999), or the impact of client-oriented behaviors on this performance.

It appears however that two questions receive little attention from researchers:

- Why are *shared evaluations* underused, when it appears that this method may provide a better evaluation?
- Why are evaluations based mainly on sales performance and almost never on *real and observed sales practices*? In other words, why are the effects, and not their causes, evaluated?

This research, as a work in progress and a part of a broader project on organizational sales practices, intends to investigate these elements as a whole: examining the conditions for a *shared evaluation of real sales practices*.

## EVALUATION OF SALES PRACTICES

### The object of the evaluation: sales practices

Researchers in sales force management pay much attention to evaluation and control. Since Churchill et al. (1985), the literature has provided managers with important instruments and knowledge essentially regarding the way to evaluate sales performance. But due to this focus on outcomes, the question of the practices, actions and behaviors which generate such performance is probably under-estimated.

Nevertheless, it appears that, in this body of work, the notion of sales performance often includes the notion of practice: on the one hand we observe an understanding of sales performance in terms of items of sales outcomes, and on the other hand, the concept of sales behaviors.

In a ‘classic’ dichotomy, based on the scale developed by Behrmann and Perreault (1982, 1984), two sets of distinct variables, concerning ‘behavioral performance’ and ‘outcome performance’, are determinants of sales force effectiveness (Piercy et al. 1999).

As a consequence, managers should be able to develop and evaluate salespeople’s behaviors within the context of an organizational understanding of sales effectiveness. The evaluation of sales behaviors and practices would then be based on factors that could be controlled by the salespeople themselves.

If the concept of ‘behavioral performance’ is probably closer to the notion of practice, it covers a wide range of elements. Nowadays it includes more tasks, in a context of complexity and knowledge management. Expertise is required regarding technical skills, adaptative selling methods, the ability to work as sales teams, to master sales presentations, personal organization, administrative tasks, etc. Generally speaking, today’s salespeople must now be very proactive, as this attitude is recognized as influencing sales performance (Pitt et al. 2002).

The concept of ‘sales practice’ has, therefore, to be clearly defined. It is only after this definition that we may hope for a rigorous evaluation process of effective sales practices. Practitioners define a practice as *the way someone behaves in general in a given situation*. And a behavioral competence is *how someone activates his/her practices to obtain a given result*.

The concept of sales practice can be understood as a *set of acts and tasks (daily action) and activities (global action) performed by a salesperson*.

We could also talk about competencies, which is a broader idea than the practice itself. We can define competencies as the “repertoires of behaviors” necessary for a specific position and role (Lévy-Leboyer 1996, Brasseur et al., 2011). Mastering and developing one’s competencies depends deeply on the person him/herself as much as on the context in which he/she works (Defélix et al., 2006).

This question of practice, and not only of performance, can be directly related to a recent critical observation: scholars and managers should focus more, as a key instrument, on “salesperson activities” and “sales management activities” (Dixon and Tanner 2012, p. 11). One of the most constantly addressed ideas is that sales management could act to improve salespersons’ practices, in order to ultimately obtain better performances.

But practicing specific tasks and actions, or having expertise regarding them, is not a goal in itself. Salespeople's practices are particularly important for sales force managers because they are known to be effectiveness drivers (Zoltners et al. 2008). This is why there is real value in revisiting sales performance drivers.

Several years ago, Walker et al. (1977) and Churchill et al. (1985) produced what can now be considered a core reference in terms of classification. They include the knowledge possessed and used. Here we find micro and macro selling skills: communication and presentation skills, adaptive selling and presentation expertise, product/technical and customer knowledge (Verbeke et al. 2011). But these are understood as a set of knowledge and know-how possessed in theory by a salesperson, not necessarily demonstrated and observed at a good/excellent level in practice.

Modern selling now deserves to be viewed as a complex process of value co-creation, both at inter-individual and inter-organizational levels (Dixon and Tanner 2012). The focus has, more than ever, to be on interactions and acts, on practices and the value they generate, and on associated weaknesses and difficulties subject to improvement.

We can agree that acts and practices determine, to a large extent, individual sales performance, shared sales force performance, and the ability to establish stable organizational success through collective value creation. Next, we must define the effective evaluation processes of such practices.

## The evaluation process

The idea that a managerial model of sales forces control should be based on salespeople's behaviors (Anderson and Oliver 1987), including evaluation, is not new. The level of expertise in a set of sales competencies is recognized as essential for professional success, in particular for industrial sales forces operating in a complex context. It totally justifies devoting considerable managerial efforts to fine-tuning evaluation, training and skills development. This is related to one of the roles of sales managers: that of supervision, evaluation and control, both on outcomes and on behaviors, more or less formally (Krafft et al. 2012).

To achieve such a goal, one subjective evaluation made only by the field manager is not sufficient. Whilst this probably has some significance, its impact on outcomes is tenuous (Pitt et al. 2002). In addition, we notice a



lack of consensus regarding the type of sales performance measurement used by sales managers. There is disagreement regarding the 'best' way to measure performance. But multi-evaluation appears to be better: the manager's evaluation and self-evaluation are often compared, even if this comparison is mainly based on outcomes, whether objective (company data collection) or subjective (post-analysis based on perception) (Chonko et al. 2000). Sometimes literature and practice also use evaluations provided by clients, regarding the way in which salespeople interact with them. A recent example analyzes client perceptions of sales representatives' service behaviors (Amyx and Bhuian 2009).

Nevertheless, since Churchill et al. (1985), we know that these instruments could suffer from identified biases: there is much subjective evaluation of sales performance. Jaramillo and his colleagues in particular have built a body of knowledge showing how effective performance impacts managers' and salespersons' evaluations (2003, 2004, 2005).

They question to what extent self-reports and managerial reports of salespeople's performance should be taken as seriously as objective measurement. Over- and under-evaluation are observed.

The authors study the influence of subjective and objective evaluation of performance on such variations (2004). They shed light on how salespeople and their managers evaluate performance, based on their discourse: "how I believe I act, and how I report this analysis," for a salesperson; "how my sales reps act, in my perception," from the manager's point of view.

Self-reports are visibly inaccurate: over-estimated by low performers, under-estimated by the best performers, to a lesser degree. Some aspects of the evaluation are differently weighted, depending on the performance of the salesperson concerned.

These findings raise a very important element: irrespective of the instrument used for evaluating salespeople's practices, some significant biases should be taken into account, impacting the evaluation finally attributed to a given action and/or outcome.

This may add an element of complexity to the current role of sales managers. This includes structuring and clarifying salespeople's role, and as a consequence clarifying practices and actions required from them (Ingram 2005). Managers'

added value could then consist of their ability to distinguish objective factors from perceptual information, which may become biased in a situation of increased complexity. But in that context, more than ever, role perceptions and applied skills at a certain level are determinants of performance.

Such leadership emphasizes the value of evaluation: sales managers have to precisely detect deficiencies in practices, and help their teams to address them. Salespeople themselves must deal with “increasing task difficulty” and “task overload”. Evaluation can be viewed as a way to empower salespeople, a task highlighted by their implication in a shared evaluation process. This kind of internal collaboration, concretized by the evaluation process, criteria and consequences, constitutes a positive aspect of a “learning sales organization.”

Finally, our assumptions in this research project are the following:

- Sales practices are a strategic topic, both for individual and organizational understanding of sales performance, in a context of complex situations and the knowledge economy.
- Salespeople’s evaluation has to be shared in order to obtain a set of robust data, reflecting the reality of what is done to generate sustainable sales performance.
- Because a generalized approach to sales evaluation is not yet in place, certain experiments can contribute interesting knowledge on how such evaluations could be conducted.

It is important to notice that we do not define hypotheses, in the positivist understanding. This work follows a constructivist approach. One of its objectives is to bring some theoretical findings about practices’ appraisal in complex situations, through shared evaluations.

The following case demonstrates a way of applying an instrument for shared evaluation: the *360° Feedback Evaluation Instrument* (360 FEI).

## THE 360° FEEDBACK EVALUATION INSTRUMENT (360 FEI)

### Concept and principles

If, in the past, evaluation was synonymous with control and sanction, it is now one of the improvement instruments that any manager should possess (Handy et al. 1996).

360 FEI has been defined as a set of evaluation records coming from two or more referrals, and concerning one actor in the firm. This set of evaluators may include supervisors, peers, subordinates, internal and/or external clients, salespeople and suppliers (from Dalessio, 1998, p. 278). Since 1990, more than 100 scholars and practitioners have contributed to research on shared retroactive evaluation.

95% of Fortune 1000 companies use a form of multisource evaluation (Atwater et Waldman, 1998). Irrespective of the popularity and interest of 360 FEI, it is necessary to clarify what this type of evaluation is. Problems in application and interpretation often arise from misconception or errors in implementation.

In the sales force context, the 360 FEI approach to evaluating salespeople may provide several benefits:

- It reveals weaknesses in the skills possessed, and helps to address them in order to generate better performance.
- It is a proactive way to encourage the improvement of competencies and the achievement of objectives.
- It is a process included in a knowledge management system.
- It is client-orientated, highlighting his/her point of view and needs.
- It adopts a wide vision of the sources of performance.

The implementation of such a process has its constraints. It implies cost in terms of budget and time spent by evaluators including the salesperson him/herself. In terms of outcomes, it could also be subjective, displaying an over- or under-estimation bias, as already mentioned for evaluations in general. Last but not least, it may generate some tension between the salesperson and his/her evaluators (Vinson, 1996).

When it has been used in sales forces, the 360 FEI has helped salespeople who received constructive feedback to improve their behaviors and practices, and they have shown a positive perception of their evaluators (McEvoy and Buller, 1987). Several explanations can support this observation: introducing a 360 FEI process helps salespeople to consciously analyze and use their techniques and observe their impact on the achievement of objectives (Smither et al., 1995). In addition, the larger the gap between someone's feedback and performance norms, the more he/she is motivated to change his/her behavior.

This may be related to the fact that salespeople have a deep desire to be positively compared to their peers, and want to act when the comparison fails to meet their expectations. Johnson and Ferstl (1999) have already shown that employees who receive lower feedback scores than their self-assessment are particularly interested in closing this perceived gap.

In other words, recognizing the importance of the 360 FEI process means taking into consideration the gaps between existing individual performance and norms, and linking this performance to a strategic and collective appreciation.

The 360 FEI process itself can be applied with various ways. Tornow (1993) identifies four of them:

- *For individual development:* to help individuals to be conscious of the differences between 'how they see themselves' and 'how they are perceived by close partners', highlighting the main weaknesses.
- *For professional evaluation:* with several categories of evaluators involved, from hierarchy to colleagues and other partners.
- *For salespeople selection:* it is a way to collect systematic data about potential candidates, and predict their potential fit with the job.
- *For organizational management:* the instrument helps to analyze and share perceptions and/or observation on existing skills, and to align for example leadership behaviors on the company strategy.

The cultural context in each organization is another major factor in implementing a 360 FEI process. It has to be carefully prepared, as noticed by Atwater and Waldman (1998): it is a proactive process in which employees

have to participate for their own positive improvement. Some conditions are required (Moravec et al. 1993):

- Is the organizational culture linked to its success through learning and change processes?
- Are employees free to express themselves without any negative consequences?
- Do they accept to openly communicate and change in order to actively participate to the organizational performance?
- Do managers (top managers in particular) integrate what they learn, and prepare to change anything required?
- Do they exchange on outcomes and their factors with employees?

Some of these dimensions have been used in the 360 FEI approach. But research shows important variations among the elements evaluated: leadership, communication skills, self-organization, professional knowledge, conflict management, human development, coaching and support, quality delivered to clients, etc. (Antonioni 1994; Johnson and Ferstl 1999; Mount et al. 1998; Smither et al. 1995; Walker and Smither 1999). What type of information should be collected and used in a 360 FEI? The fact that several sources provide such data (supervisor, colleagues, clients, etc.) should help to triangulate and verify their validity. But each of them can only observe a part of the total set of sales practices. The manager's role could be focused on their aggregation and verification (Bernardin et al. 1993).

Finally, most researches have chosen to combine all the dimensions evaluated for one purpose, the measurement of salespeople's performance. One of the risks of that orientation is that of a halo effect, by which evaluators and the salesperson may be overly focused, even unconsciously, on the explanation of the performance, high or low.

Taking into account all these interests and limits, one company specialized in sales team management and training has developed its own 360 FEI over the years, the so-called '4LS'.

## The 4LS evaluation instrument and its application in sales forces

### Presentation of the 4LS instrument

The 4LS is built on a 360 degree evaluation methodology. It allows evaluators to assess the practices applied by an actor in his/her professional environment. 4LS was created by Krauthammer International, a consultancy and training company specialized in sales and sales management.

The instrument was developed to “calibrate professional practices” in management and sales, as a unique “frame of reference of observable behaviors”. It is described in the same way for everybody, evaluators or salespeople evaluated. It potentially answers one criticism regarding performance evaluation questionnaires, since behaviors are interpreted and evaluated on the way they are visible and observed, not as assumptions of “how they should be”.

The instrument lists behavioral skills as ordinal items, divided into two groups. The first represents fundamental skills, the second, applied skills:

**TABLE I.** *The 4LS instrument, 10 variables and 38 items.*

| Salespeople's Fundamental skills,<br>4 variables (12 items)  | Salespeople's Applied Skills,<br>6 variables (26 items)  |
|--|--|
| <ul style="list-style-type: none"><li>• Self-demandingness (2 items)</li><li>• Questioning oneself (3)</li><li>• Interpersonal communication (4)</li><li>• Self- control (3)</li></ul> | <ul style="list-style-type: none"><li>• Prospecting (5)</li><li>• Diagnosing (5)</li><li>• Persuading (5)</li><li>• Negotiating (6)</li><li>• Closing (2)</li><li>• Developing loyalty (3)</li></ul> |

The scale used in the instrument is not an evaluation on a Likert Scale of 5 or 7 points; rather, it is a scale proposing 4 levels of expertise (Krauthammer 2010): (1) Disqualifying, (2) Penalizing, (3) Operational, and (4) Exemplary.

For example, for the item “prospecting over the phone” in the variable “prospecting”, the observable behaviors are:

**TABLE 2.** *The four levels of evaluation.*

|   |
|---|
| 1. Disqualifying: <i>Shows no discipline, relies on intuition</i>                       |
| 2. Penalizing: <i>Prospects sporadically, when forced to (results, hierarchy, etc.)</i> |
| 3. Operational: <i>Sets time slots for regular prospecting</i>                          |
| 4. Exemplary: <i>Constantly sets a pace and a minimum number of calls</i>               |

This methodology is a way to avoid personal judgments, based by nature on subjective value scales. The goal is only to identify, among four levels of practice, those most frequently observed. The results should then be further explained, and should facilitate a personalized action plan.

Behavioral skills and practices are expressed using arithmetical methods. Evaluators’ answers represent an average indicator of the most frequent behavior, not the level of practice by itself. As an example, a practice evaluated ‘3’ with 50% of answers at ‘2’ and 50% of ‘4’ cannot be assimilated to another one which has 100% of ‘3’. These means are represented with different colors in the results report:

**TABLE 3.** *Representation of the four levels of evaluation.*

|        |                        |                |
|--------|------------------------|----------------|
| BLUE   | Level 4, Exemplary     | Mean ≥ 3.5     |
| GREEN  | Level 3, Operational   | 3 ≤ mean < 3.5 |
| ORANGE | Level 2, Penalizing    | 2 ≤ mean < 3   |
| RED    | Level 1, Disqualifying | 1 ≤ mean < 2   |

**An empirical survey: key findings**

Univariate analysis

A database of more than 3 600 salespeople evaluated was available for this research.

**TABLE 4.** *Population by hierarchical ranking.*

| Hierarchical position |                    |            |       |         |         |
|-----------------------|--------------------|------------|-------|---------|---------|
|                       |                    | Population | %     | Valid % | Total % |
| Valid                 | 1,00 (Salesperson) | 579        | 15.9  | 16.0    | 16.0    |
|                       | 2,00 (Manager)     | 540        | 14.8  | 14.9    | 31.0    |
|                       | 3,00 (Client)      | 760        | 20.9  | 21.0    | 52.0    |
|                       | 4,00 (Colleague)   | 1 735      | 47.7  | 48.0    | 100.0   |
|                       | Total              | 3 614      | 99.4  | 100.0   |         |
| Missing               | Missing system     | 23         | .6    |         |         |
| Total                 |                    | 3 637      | 100.0 |         |         |

These first figures indicate that a salesperson is on average evaluated by one manager, one client and three colleagues, due to the proportions of participants. In theory, it offers a good understanding of a potential 360 degree evaluation.

However, the database shows that some salespeople have more evaluators than others: some of them have, for example, only their supervisor, whereas others are evaluated by several clients, or by a top manager. This calls for further analysis: to determine whether the number of evaluators and their status (manager, colleague or client) influences the result of the evaluation.

Some research shows, for example, that the number and the quality of appraisers have got an effect on the effectiveness of the process (Antonioni 1996). It could even be an important mistake if “key stakeholders” are not involved in the process (Wimer and Nowak 1998).

10 to 50% of responses constitute missing values for all except four items. All the evaluators cannot therefore fully evaluate the participant. Among the four levels of expertise, ‘level 1’ is least-used (less than 2% of responses).

This could be related to several reasons: for example, the over-estimation of the evaluators, including the salesperson, which indicates that it is pretty hard to estimate when a skill is not possessed. It may also be due to objective situations: no-one has a disqualifying level, from beginners to senior practitioners, even those who need to be trained.



‘Level 2’ is the second-least used (less than 11% of answers) except for 3 items:

**TABLE 5.** *Items over-evaluated for the level 2.*

|  |       |
|--|-------|
| “Saying NO to a request” (variable “persuading”)   | 21.9% |
| “Discipline applied to him/herself when prospecting over the phone” (variable “prospecting”) | 19.1% |
| “Reaction to a criticism or aggressive remark” (variable “self-control”)                     | 14.5% |

At this stage, we cannot identify a correlation between these items, or with certain characteristics of the interviewees. Thus, an independent chi -square test shows that 34 items among 38 are not correlated with the evaluator grade level (chi-square value 17.667; degrees of freedom 12).

As a consequence, we cannot consider that this instrument provides significant differences among the groups of evaluators: salespeople, managers, peers or clients. Before a deeper analysis, we may imagine two hypotheses:

- The consistency of the instrument provides a set of equivalent evaluations for almost all the practices observed,
- Or the opposite, the instrument fails to provide a significant correlation on existing differences of evaluations.

This could be contradictory with Jamarillo et al. (2005): it is not certain that managers under-evaluate their salespeople’ practices, or that salespeople over-evaluate their own behavior.

But with a more detailed examination of the database structure, we identified a bias which could offer more understanding of the 360 degrees applied in practice.

### The 360 degree vision

It seems difficult, even on a large sample of sales forces like this one, to apply a real 360 degree approach: each of the salespeople should be evaluated by at least one manager, one or two peers and one client. It is not the case. A re-organization of the database is therefore necessary, in order to distinguish between four situations:

- *90° Evaluation*: the context of self-evaluation only
- *180° Evaluation*: the context of self-evaluation plus that of the manager
- *270° Evaluation*: the context of self-evaluation plus that of the manager and at least one client
- *360° Evaluation*: the context of total evaluation, including that of the manager, client(s) and peer(s).

As a work in progress, the whole database of more than 3 600 people is still undergoing re-organization. But a first trial shows that, with a high and significant Chi-square result, the evaluation between these four contexts is different.

Without showing the analysis for the 38 items, which all support this result, the item “Saying NO to a request” illustrates the point:

**TABLE 6.** *Chi-square analysis of the four contexts, item ‘SNTAR’.*

| Chi-Square Test | Value  | Degrees freedom | Asymptotic signification (bilateral) |
|-----------------|--------|-----------------|--------------------------------------|
| Chi-Square      | 54.281 | 12              | .000                                 |
| Likelihood      | 51.660 | 12              | .000                                 |
| Observations    | 3251   |                 |                                      |

The partial results tend to indicate higher<sup>1</sup> average evaluation scores when the clients participate than yielded by self-evaluation. When colleagues and managers participate, we obtain a lower average evaluation result.

A bivariate analysis of the data provides further clarification. Managers evaluate more negatively than other evaluators.

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1. The complete database and its results was presented for the conference.

**TABLE 7.** *Evaluation by type of individual in means.*

|                 | <i>Negative (1 and 2)</i> | <i>Positive (3 and 4)</i> |
|-----------------|---------------------------|---------------------------|
| <b>Clients</b>  | 6.66 %                    | 44.70%                    |
| <b>Managers</b> | 11.52%                    | 33.40%                    |
| <b>Peers</b>    | 7.25%                     | 40.30%                    |
| <b>Self</b>     | 6.61%                     | 42.47%                    |

In other words, even if the instrument has been built with the intention of avoiding subjective judgments, it seems difficult to obtain completely objective evaluations. One reason could lie in the definition of the 4LS tool: to evaluate “among four levels of practice, the most frequently observed”. It is then an appeal to memory and creates an “average” recollection of various and partial observations.

Are the evaluations homogeneous?

We can make a comparison of the evaluations in order to show their homogeneity or heterogeneity, even if there is no valid correlation analysis. We can calculate homogeneity as follows:

$$H = 1 - (\sigma / 2)$$

Where  $\sigma$  is the standard deviation between evaluators’ answers, for each salesperson. 100 indicates a total homogeneity, 0 indicates a total heterogeneity, as illustrated in this example:



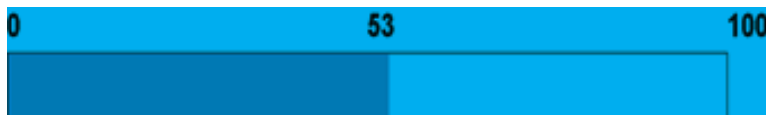
**FIGURE 1.** *Homogeneity measurement, salesperson N.*

Average results for the salesperson N:



**FIGURE 2.** *Homogeneity representation on a scale of 0–100, example N.*

The whole database shows a low homogeneity:



**FIGURE 3.** *Average homogeneity representation on a scale of 0–100.*

These results demonstrate that the 4LS instrument does not provide a homogeneous evaluation of the salespeople’s practice. This calls into question the lucidity of the evaluators, and/or their objectivity.

The univariate analysis suggests that all the participants have difficulties considering the evaluated salesperson as “disqualified” or even “penalizing”, as viewed previously. The following table presents an example on one item.

**TABLE 8.** *Evaluations by grade, item “Negotiating facing several people”.*

|       |        |            | Negotiating facing several people |            |              |              | Total |
|-------|--------|------------|-----------------------------------|------------|--------------|--------------|-------|
|       |        |            | Disqualifying                     | Penalizing | Operational  | Exemplary    |       |
| Grade | Client | Population | 1                                 | 20         | 205          | 165          | 391   |
|       |        | % in grade | 0.3%                              | 5.1%       | <b>52.4%</b> | <b>42.2%</b> |       |
|       |        | % total    | 0.0%                              | 0.7%       | 7.1%         | 5.7%         | 13.5% |
|       | N+     | Population | 6                                 | 79         | 378          | 188          | 651   |
|       |        | % in grade | 0.9%                              | 12.1%      | <b>58.1%</b> | <b>28.9%</b> |       |
|       |        | % total    | 0.2%                              | 2.7%       | 13.0%        | 6.5%         | 22.4% |
|       | Peers  | Population | 0                                 | 98         | 693          | 494          | 1 285 |
|       |        | % in grade | 0.0%                              | 7.6%       | <b>53.9%</b> | <b>38.4%</b> |       |
|       |        | % total    | 0.0%                              | 3.4%       | 23.9%        | 17.0%        | 44.3% |
|       | Self   | Population | 1                                 | 31         | 269          | 254          | 555   |
|       |        | % in grade | 0.2%                              | 5.6%       | <b>48.5%</b> | <b>45.8%</b> |       |
|       |        | % total    | 0.0%                              | 1.1%       | 9.3%         | 8.8%         | 19.1% |
|       | Total  | Population | 8                                 | 228        | 1 561        | 1 105        | 2 902 |
|       |        | % in grade | 0.3%                              | 7.9%       | <b>53.8%</b> | <b>38.1%</b> |       |
|       |        | % total    | 0.3%                              | 7.9%       | 53.8%        | 38.1%        |       |

It would be unrealistic to consider that all salespeople should be good or excellent in their practice. The source could come from the strongly negative definition and titles of the “disqualifying” and “penalizing” levels: “The participant *ignores* his/her environment, *damages* the relationship and *prevents* performance”. This is a type of value judgment.

## CONCLUSION

As a shared evaluation, an instrument such as the 4LS provides an opportunity to obtain several evaluations of a sales practice, conducted by professionals exploring this behavior. But evaluating observable behaviors, without any subjectivity, from several points of view, seems particularly difficult.

On one hand, this is a reflexive instrument. It uses memory feedback, albeit as objective and as shared as possible. Then it may retain some differences in evaluations regarding the same person. This is one aspect of the 4LS that we wanted to verify.

On the other hand, this work in progress does not include global multivariate analysis or correlation models. The database still needs to be purified, and the hypothesis refined. But several interesting points emerged during the first analysis of this large database: the instrument partially applied a 360° vision. And the evaluations display limited homogeneity.

Among other future developments of the tool and deeper analysis of the current data, we will question the capacity of evaluators to evaluate on more than 3 levels and on a large number of items. We will group observations of both negative criteria, in order to balance their weight, and to see if the “operating” level should help if it is the neutral point. An observed practice deserves to stay as neutral as possible to avoid subjectivity.

Even if 360 degree evaluation tools offer many positive aspects, with a rich literature, we observe the lack of practical and effective instruments. An overview of the existing research and an empirical case on a large international scale show all the interest of the 4LS approach. But it also reveals its limits, and the need to more rigorously improve the instrument in the interests of both practitioners and researchers.

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# WHY KEY ACCOUNT ORGANIZATION DOES NOT FIX: A JAPANESE CASE

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## ABSTRACT

The purpose of this paper is to discuss the drivers which influence organizational structures. In the course of our study, both organizational structure and key account organization sometimes transformed. Key account organization is one of the most important sales functions. Dominant studies on key accounts are tended to focus on customers and relationship management with them. From our four years of field research, we recognized that the key account organization was sometimes reconstructed. In this paper, we will propose an analytical framework which understands some drivers that influence the key account organization construction.

Keywords: key account management, key account organization, organizational structure

## INTRODUCTION

The aim of this paper is to discuss the drivers which influence organizational structures. Through our case study of more than four years, we found that a key account organization sometimes reformed during the period of study. Kempeners and van der Hart (1999) classified the types of account management systems. That was a very important study and we referred to it many times. Their focus was, however, placed on internal dynamics in constructing the account management systems. Workman et al. (1998) discussed the determinants of marketing organization structures. Their study was very comprehensive and integrative. However, their results, too, focused on outside factors and firm-specific factors, not on customer relationships. Our study is going to deal with the relationship factors between supplier and buyer.

Key account management studies have been one of the rewarding topics in sales management studies in the past two decades. There are three main reasons; the customer portfolio, a closed relationship, and customer functions. Firstly the volume of sales in a company is usually concentrated on a small amount of customers. Piercy and Lane (2009) indicated that customers, especially in business to business markets, must be divided into four categories; key accounts, major accounts, volume users, and small customers. They emphasized that a supply-side company was better off with adapting to each customer respectively.

Secondly, important customers want closer relations with a supplier to achieve worldwide competitiveness. Gadde and Hakansson (1991) described the newest purchasing functions from a relationship view at that time. They indicated that a company could gain competitiveness from reconstructing its purchasing strategy based on long-term relationships. The total owning cost of a company can be reduced when the buying company can forge a good relationship with the supply-side company.

Thirdly, related to the first reason, customers are not equally meaningful and important to a supply-side company. Some of them are technically important, but some are not. Others are important due to sales volume, but some are not. More than a decade ago, von Hippel (1976; 1978) had already found a type of customer who had important technical functions; a lead user. The lead user has several unique needs before ordinary customers, who will have them two

or three years later. Though von Hippel did not clearly indicate the differences, we have easily learned different customer roles from his proposition.

Key account management has mainly been studied from two perspectives. The first is related to key accounts as customers. In this type of study, researchers try to know who is a key account, how a key account behaves, how a supplier can have a good relationship with them and so on. The second one treats management issues from a supply-side company's perspective. These studies include sales force management to key accounts, segmentation of key accounts, building good relationships with key accounts and so on.

This paper is concerned with effective key account management, especially from a relationship view. Key account management tends to be an entire company's response to key accounts for sales contribution reasons. In this case, knowing the construction of a key account organization is one of the ways to design an effective sales strategy for key accounts.

Through our four years of research, we found that a key account organization is sometimes redesigned. This paper shall focus on supplier-customer relationships as the organizational reconfiguration drivers.

This paper is organized as follows. First, we will briefly review some previous studies. In that section, we will state what a key account is, why key account is an important topic, and what we initially knew about it. Second, we will show our case study on the topic of reconfiguration of key account organization. In this section, we will show that Japanese companies sometimes reconstruct a key account organization by their own logic. Third, we will discuss why this kind of reconstruction occurs by reviewing previous organizational theories. Finally, we will develop our hypothetical framework for future research.

## PREVIOUS FINDINGS

Key accounts and their management were initially discussed in the early 1980's (Shapiro and Moriarty 1980; Shapiro and Moriarty 1982; Shapiro and Moriarty 1984; Stevenson 1980). Key accounts are, now, often defined as the biggest and most important of one's customers (Barrett 1986). Key accounts have been viewed as national sales, major sales, national accounts, and major accounts for a long time (Pardo 1999). In this paper, we will use the term key account.

## Market Segmentation and Customer Segmentation Studies

Key accounts are identified through market segmentation research and customer portfolio studies. Market segmentation is a method to classify a huge amount of customers. Customers can be categorized into several small sections or groups with characteristics. These groups are called segments. The process of dividing a market into meaningful, relatively similar, and identifiable segments or groups is called market segmentation. The purpose of market segmentation is to enable the marketer to tailor marketing mixes to meet the needs of one or more specific segments.

In early studies, Wind and Cardozo (1974) identified some evaluation criteria for the basis of segmentation. There were many but they revealed that sales volume, profits, and market share were the primary criteria. The logic goes as follows: when an industrial company would like to decide which customer contributes the most sales, sales volume criteria must be used to classify the customers.

Choffray and Lillien (1978) developed a more sophisticated segmentation model. There were three main reasons for developing the new model. The first was to find potential customers who could be treated the same way with one marketing strategy. The second was to evaluate which segments did pay off. The last reason was to know what marketing programs could be implemented that were most appropriate for each of the target segments. They developed a decision matrix model which was based on cluster analysis. Cluster analysis is one of the statistical methods for assigning a set of objects into groups.

The criteria were based on traditional organizational buying behavior studies. The focus was on the decision-making units in the buying companies. Decision-making units are the groups which influence the buying processes in a company (Webster and Wind 1972). This unit is made up of many members of personnel from several divisions and departments in a company, e.g. the technology department, production department, R&D department, sales department and so on.

Recently, market segmentation is more precisely divided into a more sophisticated concept, customer segmentation. Panagopoulos and Avlonitis (2009) emphasized the necessity for systematic customer classification, such as customer segmentation. Customer segmentation refers to the systematic process undertaken by a firm for the development of a highly granular

customer typology that allows for the identification of individual customers within each target market. This segmentation can be implemented to use the following measures: customer buying behavior, customer lifetime value, or customer profitability.

## Customer Portfolio Studies

From market and customer segmentation research, we have learnt that customers can be divided into several segments by appropriateness for profitability. Then customer portfolio studies have told us which customers have paid off.

Webster et al. (1980) suggested that top managers and corporate planners have begun to use more sophisticated measures of marketing performance in recent years. Products, customers, market segments and sales territories are treated as competing uses of scarce financial resources, guided by the logic of the product portfolio approach. Schiff (1983) also proposed that companies should use a portfolio approach to customer categorization for allocating their time and other company resources.

Dubinsky and Ingram (1984) deplored that salespersons solely believed that sales volume impacted a company's profitability, despite the admonitions for them to adopt a profit orientation. If sales personnel recognize the importance of a profit perspective, their concern will move to customer composition and a more desired customer balance in terms of present and future profitability. Dubinsky and Ingram suggested that those managing a customer base adopted a portfolio concept. Their customer portfolio consisted of a potential profit contribution axis and the present profit contribution axis. This matrix divided customers into four quadrants called undeveloped accounts for "high-low", undesirable accounts for "low-low", desirable accounts for "high-high" and developed accounts for "low-high". Dubinsky and Ingram urged the salespeople to use three questions for this customer portfolio; what the present customer composition is, what kind of customer composition you want and how to achieve the desired customer composition. Using this portfolio and considering the three questions, sales personnel could identify which accounts were worthy of their time and that their efforts were compatible with the company's financial goals.

York and Droussiotis (1994) explored Fiocca's matrix in a Cypriot textile agency. They constructed a customer portfolio that consisted of the strategic importance of the account axis and the difficulty in managing each account axis. The four quadrants of this matrix divided the customers into "Non-key/easy", "Key/easy", "Non-key/difficult" and "Key/difficult". They found that "Key/easy" customers could be described as the "cash cows". Other findings from their research were about customer profitability using the costs and profits of each customer. They clarified that there were no differences in costs between a small order and a large order. This means that large accounts ("Key/easy" and "Key/difficult") are more profitable than small accounts ("Non-key/easy" and "Non-Key/difficult"). In addition, they found that a strong relationship brought in very good prospects of becoming profitable in the future from analyzing customer-based variables and the variables based on internal company sources. They suggested that it was important for companies to take time with and give attention to their customers.

## Key Account Organization Studies

As we briefly reviewed above, key account management studies are often discussed from the customer perspective and the management perspective. From a management perspective, the key account management organization in a company is included, but there are few studies on it. Homburg et al. (2002) is the best known study on this topic.

Homburg et al. (2002) emphasized the understanding of the marketing organization structure. They state some reasons why organizational issues are important. One reason and the most important are the customer's procurement functions. Key accounts are, logically deduced from the definition, sometimes huge enterprises or a volume user and usually important for suppliers. Now they tend to centralize their procurement and expect a similarly coordinated selling approach from their suppliers. According to Homburg et al. (2002), for example, global industrial customers may demand uniform pricing terms, logistics, and service standards on a world-wide basis from their suppliers.

These demands from important accounts raise an organizational design problem for many suppliers. As Kempeners and van der Hart (1999, p. 312) note, "Organizational structure is perhaps the most interesting and controversial part of account management." Internal organizational structures often hamper coordinated account management, such as when the same customer is

served by decentralized product divisions or by highly independent local sales operations. In addition, the set of activities for complex customers cannot be handled by the sales function alone but requires participation from other functional groups. These developments have caused many suppliers to rethink how they manage their most important customers and how they design their internal organization in order to be responsive to these key customers.

Our study is centered on this research idea, but there are two new additions to the study. First, we tend to focus on structural issues. Workman et al. (1998) is one of the earliest works on marketing organization structure, but it focused on a marketing organization in general. We will pay special attention to key account management organization, as McDonald et al. (2000) initially discussed. Our work will be in line with McDonald's work. Second, we discuss the drivers that influence organizational reconstruction. Of course, we will briefly show our results from the case study, but we will not just be showing facts.

In the next section we present our case study, but before the case it is important to justify our research method from a social scientific aspect. Especially since this type of case study is often criticized by critics from an empirical scientific view. As we will discuss below, a case study is not supportive evidence used to judge whether a theoretical hypothesis is correct or wrong, rather it is a real world experience.

## RESEARCH METHOD

This paper is based on our four years field research observing the change in the relationship between GEHC and Chugai. During this period both companies were studied extensively. We had large amounts of information about them since the early stages of SAS to the end of it. Though this information mainly consisted of quantitative information, it is also supplemented by qualitative data extracted from interviews. In order to build a managerial theory from this information, a case study is appropriate for the methodology. (Carlile and Christensen, 2004; Christensen and Carlile, 2009).

Since very complex, evolving, and entwined relationships in industrial transactions have happened, the case method must be suited to our study (Halinen and Tornroos, 2005). Studies on the event with unanticipated



consequences have sometimes adopted case methods. In our study, though the key account management organization was sometimes transformed, it was not planned. Rather it was haphazardness or improvisation; something happened, then something had changed. This process is very similar to the innovation process.

In the innovation process, trial and error are very important. Lester and Piore (2004) recognized two types of innovation abilities that were analytical and interpretive processes. They criticized that the scholarly literature on innovation, competitiveness, and economics had concentrated on the analytical process, but that the interpretive view had not been widely understood or even fully recognized. They emphasized the important role of the interpretive process in innovation and competitiveness. According to Lester and Piore (2004), the interpretive process determines the range of alternatives from which business choices are actually made. If the interpretive process is truncated, the range will become too narrow. The range is sometimes ambiguous and this ambiguity often leads us to trial and error.

A case study is the best way to understand this type of information. We will deliberately describe the transaction sequence in our case in the next section.

## THE CASE

In this section, we examine empirically how the key account management organization of GE Health Care Co., LTD (hereafter GEHC) had been changed. By examining this case, we suggest that the key account management organization (which has conventionally been pointed out to be stable) is not necessarily stable, i.e. permanently fixed. Especially in the GEHC case, it was more important that the function of the marketing division was in co-operation. We could expect that it would be more appropriate to revise the organization than to design an official organization according to the depth of customer relationship.

In the next part, we first refer to the profile of GEHC and its counterpart, Chugai Pharmaceutical Co., LTD (hereafter Chugai). After that, we introduce a scientific asset management system, which GEHC and Chugai used. Finally, we describe the process of gradually revising the key account management organization.

## **GE Health Care Co. LTD.**

The empirical background of this paper was a study spanning for over four years with informants in both of the case study companies. The case we will look at in this paper is the ten-year interaction between GEHC and Chugai. In this case, we can describe how a company creates new business from its interactions. However this interaction was not based on mutual understandings, rather misunderstandings. The misunderstandings in this case mean over- and/or underestimation by both companies.

GEHC was established on the 1st of August 2009 by merging GE healthcare bioscience and GE-Yokogawa medical systems. The capital of GEHC is 6,016,485,000 Yen (48,520,040 Euro, 1EUR = 124JPY). Their sales are 12.3 billion Yen (as of December 2008) with about 1890 employees. Their main businesses are medical diagnostic imaging systems, biotechnological equipment, testing and software for bio science.

### **Relationship by Smart Asset Management Services**

Key account management in GEHC was established when the company developed a new service called the scientific asset service. This will be abbreviated to SAS. SAS is a service which was contracted in January 2008 between GEHC and Chugai. Under the SAS, GEHC performs support services of Chugai's laboratory instruments' asset management. GEHC manages all research laboratory instruments as a whole, not only the instruments of GEHC, but also those of other companies. GEHC stations' service staff are called FEs (Field Engineers), and they do maintenance work there and then if possible; otherwise GEHC places an order for maintenance service with the original maker of the instruments. They also inspect if the instruments are operating normally. Based on GEHC taking on all management as a whole, it enables the improvement of the efficiency operations management, reduce management costs and release scientists from the responsibility of having to manage instruments. In those senses, we could say SAS is an epoch-making service.

SAS is now becoming a broader service. It is now called SAMS, Smart Asset Management Services. SAMS is a program which comprehensively provides support concerning the multi-vendor service of laboratory instruments, suggestions of asset management plans based on quantitative data and support to optimum processes from know-how fostered so far. This has been

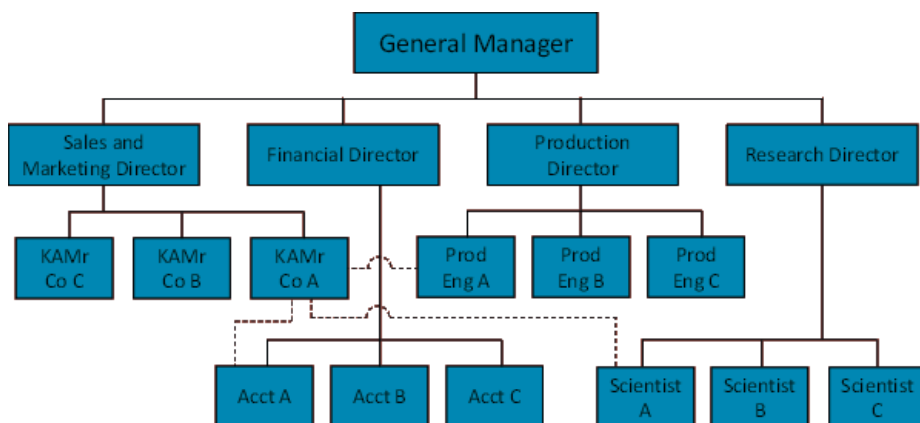
continuing for more than fifteen years. By analyzing the data of individual customers' circumstances, SAMS can suggest customized solutions and support continuous management.

## Transformation of Key Account Organization

SAMS process took a long time. In this part, it is better to describe the process in three stages. The first is the small business stage. There was a longitudinal relationship between Chugai and GEHC for a long time before GEHC was merged by GE. GEHC had sold test reagents and equipment for bio science to Chugai. In this stage GEHC was recognized as an excellent manufacturer with excellent technology for protein purification but was just one small vendor with only one or two percent share of the delivery of Chugai's gross purchase. In the first stage, GEHC did not have a specific key account organization.

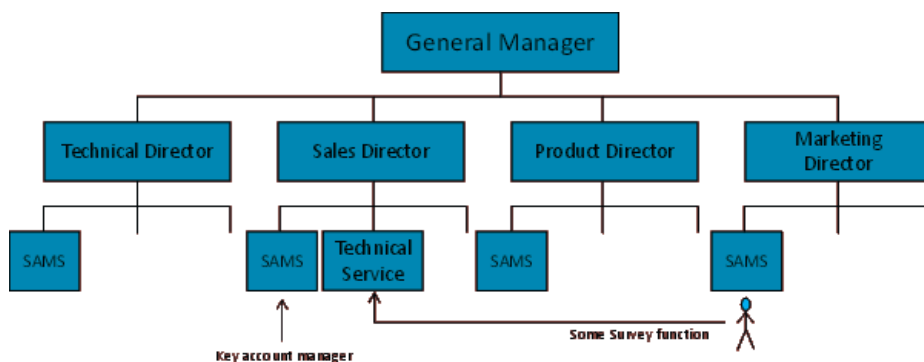
On April 2004, Amersham Bioscience, one of the forerunners of GEHC, entered the GE group. At this time, embryonic movements of change occurred in GEHC. First of all, GEHC received big backing from the GE group. GEHC learned various know-hows and received entire resources for business. As GEHC was a bridge to the pharmaceutical company, GEHC had become the focus of attention in the GE group. Group members interested in the pharmaceutical company's rich money and pharmaceutical business raced to give advice on business with the pharmaceutical company. Most importantly, one of the concepts learnt was Enterprise Selling, which became widespread in GEHC. Enterprise Selling is a concept to sell not only the product itself but also the entire resources of the whole company i.e. the enterprise itself. It was a kind of paradigm shift for GEHC. This paradigm shift that had

occurred in GEHC was the second and most important change entering the GE group. In this stage, GEHC was established with the standard key account organization as follows. Figure 1 is a semi-formal key account teams as McDonald et al.(2000) described.



**FIGURE 1.** *Semi-formal key account organization. (Source: McDonald et al. (2000), p.192, Figure 8.8)*

In the third and last stage, of course, there were many things that GEHC and Chugai both had to treat with problem solving, but they have completed them and achieved a full-scale SAS operation by September 2007. SAS now is called SMAS, with some modifications added to SAS. In this stage, GEHC changed the key account organization.



**FIGURE 2.** *Abbreviated Scheme of Key Account Organization Transformation.*

Figure 2 indicates the abbreviated form of the key account organization in GEHC in 2012. What changed compared to before 2012 was the function of marketing. Now SAMS is getting bigger in GEHC. GEHC has begun to promote SAMS to other companies than Chugai. In this process, GEHC reconsidered the marketing functions, especially surveys. Then it decided to re-construct the key account organization.

## DISCUSSION

So far, we have verified that a key account organization frequently transforms itself. In this section we examine why such transformation occurs. The existing theory on an organization transforming and adjusting to its environment, which we call contingency theory, explains such phenomenon. However, contingency theory merely distinguishes between an organic organization and a mechanical organization, depending on fluctuations of uncertainty. In our case, we explain that it often differs depending on which department the marketing function is set in. Our thoughts about this issue are as follows.

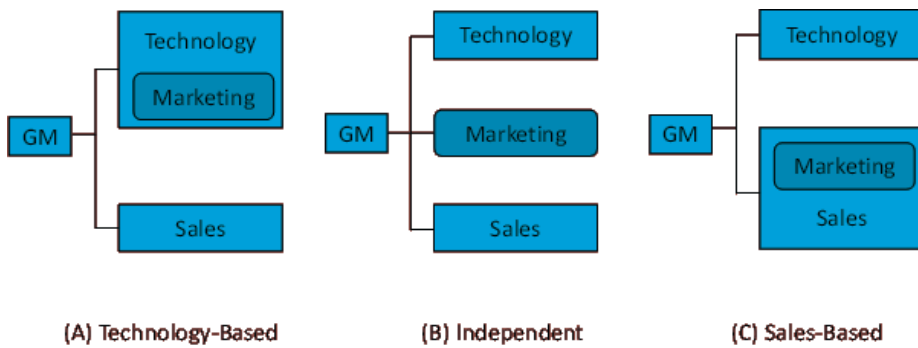
### Configuration of marketing functions

The most interesting thing in the findings from our case is the configuration of organizations. In our GEHC case, the marketing function was sometimes placed in the marketing department and at other times in the sales department. In some of our previous cases with interviews, the marketing function was even located in the R&D section.

We could summarize that our case might show that it is much more important which department a firm makes the marketing function belong to, as it is important to the relationship with firms that have several functions, like key accounts.

### Ideal Key Account Organizations

We can distinguish several patterns, as below: we could practically place the marketing function in any department, but here we file these patterns according to the framework, whether it is to the technical department or to the sales department.



**FIGURE 3.** *Selections of ideal key account organizations.*

Figure 3 is the ideal schema classified by which department one should make the marketing function belong to. Suppose that the technical, marketing and sales department of a company respectively interact with the key account. Each department pays a visit to the other parties according to the requests of the key account. A typical key account is an independent organization of type (B). In fact, McDonald et al. (2000) also assumes this type of model.

Deduced from the analysis of our case, the issue with this model is that there could be an occasion when the marketing department could not provide effective information to the technology or sales department. This happens when the marketing department takes on the role of the staff, because they often cannot develop technology, sell products or measure and evaluate outcomes in terms of figures.

Therefore, Japanese firms generally tend to place the marketing department as in type (A), which is in the technical department or as in type (C), which is in the sales department. A marketing department as in type (A) could gather information from the key account to meet the needs of the technological department, or as in type (C) to meet the needs of the sales department. With regard to the efficiency of obtaining information, we can assume that type (A) and (C) will be higher than type (B).

### Technology-based key account organization

This organization structure is a type where the marketing function is settled in the technological department. This organization type's results are demonstrated by the technical development of the key accounts or product

development which the company contributes to. On such occasions, the personnel who visit the key account belong to the marketing department and the personnel in the technical department request they take information in advance of the technological or product development of the key accounts. We should draw the hypothesis that this type of organizational structure would be effective when a company has a lead-user, whom von Hippel refers to as its key account.

### Sales-based key account organization

This organization structure is such that the type of marketing function is settled in the sales department. In an organization of this type, the marketing function is supposed to gather sales or market information of the key account or information of the rival companies. As for the relationship with the key accounts, the company has already supplied their products or parts and is in a stable state. This type of structure should be chosen when the company tackles the sales support of the client positively. We classified these discussions and a table has been drawn up below:

**TABLE 1.** *Roles of customer for key account organization.*

|   | Technology-based       | Sales-based          |
|---|------------------------|----------------------|
| Characteristics of key accounts, as     | Lead users             | Volume seller        |
| Relationship with key accounts, when    | Technology uncertainty | Market uncertainty   |
| Mission of key account organization, as | Initial technology     | Competitive analysis |

### CONCLUSION AND SOME MANAGERIAL IMPLICATIONS

In this paper, we have examined the transformation of key account organizations. We have looked at how existing studies or research rarely discussed the organizational structure. This is because researchers of organizations seldom pay attention to it, which is caused by key account organizations not presenting any new structures. Key account organization does not present any new structures theoretically; however, the distinguishing feature is that it enables rearranging functions flexibly, or rather into a network organization.

The important thing is what function we allocate to the structure. This is the issue we have discussed in this paper. When the function is distinguished or extracted from the structure one tends to assume that it shows results automatically, in accordance with the abstraction of the theory. However this is not true, the functions work only when organization is involved. In addition, as we have shown so far, there might even be occasions when the roles of the function differ entirely no matter what structure the function belongs to. This paper is still a work in progress, yet we can show what the theoretical and managerial contributions are and indicate the future course of this kind of study.

## Theoretical Contribution

Our discussion might theoretically contribute to the organizational structure theory. First, it makes it possible to review the relationship between structure and function. We could suppose the substance of the study is like this: the relationship between structure and function should not be pre-determined. Indeed we could apply the findings to the study of organizations, especially those with several functions in the structure as in the field of social science.

Second, we could consider why a structure matches with a function under certain conditions. In this paper, we have emphasized the drivers of transformation at a business scale. Yet we need further empirical studies to support our findings firmly. Subjects like this tend to be abstract to a relatively high degree; however, the study would open doors not only to marketing researchers but to economists or game-theory researchers.

## Managerial Contributions

With regard to managerial contributions, we could assume a practical contribution to organizational structure design. As researchers of organization inertia show, once an organization stabilizes it will become harder to change. Then someone who would want to change the structure would have to deal with a useless cost (mainly a psychological cost) to rearrange it into a new organization. When we understand that key account organization is defined as a relationship between customers, it is expected that the reorganization of the organizational structure of a key account would become relatively manageable. These trial-and-error issues would generate new innovations, and also offer us new research material.



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