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BARRIERS TO ADOPTING A CUSTOMER PROFITABILITY-ORIENTED MINDSET -A CASE STUDY

Master's Thesis
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Abstract of master's thesis

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Abstract

Customer profitability is a key issue for companies in the increasingly dynamic business environment, and many organizations have made the shift to a more customer profitability focused mindset in their ways of working. A multitude of companies have the motivation and a business case for doing so, however, such changes are not often simple. Various factors may hinder the companies' abilities to exploit the resources available to them and truly transition into a customer profitability-oriented model of working.

The purpose of this study is to understand the change process associated with shifting to a more customer profitability-oriented way of operating as outlined above. The study is conducted as a case study within an organization that stays anonymous in the Thesis.

The study aims to answer two research questions: (1) "What kinds of barriers can hinder companies' efforts in adopting a customer profitability focus?" and (2) "How are the barriers identified interrelated as a combination of components that have a hindering effect on adoption?".

The research is carried out as a qualitative case study. Eight semi-structured interviews were conducted among employees in various roles within the organization. The interviewees were identified by using a method of snowball sampling, which finds research subjects by interviewees giving the interviewer the name of the next potential interviewee.

The results indicate that there are five main barriers when it comes to adopting a profitability-oriented mindset within the case company. The barriers identified are 1) Traditional Way of Thinking and Resistance to Change; 2) Accuracy Issues and Trust Issues; 3) Complexity and Multiple Systems; 4) Alignment Issues Within Company; and 5) Lack of Ownership and Know-how.

An analysis was constructed from the findings of the research. They demonstrate how the adoption of a customer profitability-oriented mindset is hindered as a result of two barriers as individual components, and how the components are interrelated and thus the negative effect on adoption is magnified.

Keywords Customer Profitability, Adoption, Change Process

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Tiivistelmä

Asiakaskannattavuus on avainkysymys dynaamisessa liiketoimintaympäristössä toimiville yrityksille, ja monet yritykset ovat siirtyneet toimintatapoihin, jotka ottavat asiakaskannattavuuden huomioon entistä enemmän. Vaikka monilla yrityksillä on motivaatio toimia näin, kyseiset muutokset eivät usein ole yksinkertaisia. Erinäiset tekijät voivat heikentää yritysten kykyä maksimoida saatavaa hyötyä heidän käytettävissään olevista resursseista, ja todella siirtyä asiakaskannattavuusorientoituneeseen toimintamalliin.

Tämän tutkimuksen tarkoitus on ymmärtää yllämainittuun toimintamalliin liittyvä muutosprosessi. Tutkimus suoritetaan tapaustutkimuksena organisaatiossa, joka pysyy nimettömänä.

Tutkimus pyrkii vastaamaan seuraaviin tutkimuskysymyksiin: (1) ”Mitkä tekijät voivat haitata yritysten pyrkimyksiä omaksua asiakaskannattavuuskeskeinen toimintamalli?” ja (2) ”Kuinka nämä tekijät liittyvät toisiinsa ja muodostavat yhdistelmiä, joiden komponentteina niillä voi olla negatiivinen vaikutus adoptioon?”

Tutkimus suoritetaan laadullisena tapaustutkimuksena. Kahdeksan semi-strukturoitua haastattelua tehtiin yrityksessä eri tehtävissä työskentelevien henkilöiden kanssa. Haastateltavat löytyivät ”snowball sampling” – menetelmällä, jossa haastateltavat löytyvät edellisen haastateltavan suosituksien perusteella.

Tulokset osoittavat, että tapausyrityksellä on viisi merkittävää estettä, joilla on vaikutus kannattavuuslähtöisen ajattelutapaan siirtymiseen. Esteet ovat 1) Perinteinen ajattelutapa ja muutosvastarinta; 2) Tarkkuus- ja luottamusongelmat; 3) Monimutkaisuus ja usean järjestelmän ympäristö; 4) Prosessien yhdenmukaistamisongelmat yrityksen sisällä; 5) Omistajuuden ja osaamisen puute.

Tutkimuksen tuloksista rakennettiin analyysi, joka osoittaa miten asiakaskannattavuusorientoituneen toimintamallin omaksuminen voi estyä kahden yllämainitun komponentin takia, sekä miten nämä kaksi komponenttia ovat toisiinsa yhteydessä ja miten tämän yhdistelmän myötä negatiivinen vaikutus voi kasvaa.

Avainsanat Asiakaskannattavuus, Adoptio, Muutosprosessi

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1 Introduction

1.1. Background and Motivation

Customer profitability is a key issue for organizations in today's business environment, which is as dynamic and fast-changing as ever and characterized by intense competition. In order to secure long-lasting success, companies are under increasing pressure to improve their understanding of their customers, and in particular the value that their customers bring to the company. Advances in technologies, particularly in Customer Relationship Management (CRM) technologies, allow companies to do this with unprecedented efficiency, as well as at an individual customer level. Additionally, various concepts and calculations exist which allow companies to assess their customer bases' profitability from different perspectives, such as Customer Profitability Analysis (CPA) and Customer Lifetime Value (CLV). However, not only is it enough for organizations and decision makers to understand the profitability levels of their customers - systematically measuring, analyzing, and managing customer profitability play a vital role in making the right business decisions and paving the path to a more profitable business overall. The ever-developing advancements in technologies allow companies to do the above with unforeseen efficiency.

Despite the great advances in technologies that can provide organizations with tools for customer relationship management and customer profitability analysis, not all companies are seizing the opportunity and exploiting them at full potential or even at all. This statement provides the basis for this study, which aims to dig deep into the underlying reasons why these tools are not being exploited, when they could bring great benefits to companies in terms of understanding their customers, managing relationships and making better-informed decisions to eventually sustain overall profitability and growth of their business.

Shifting an organization to a more customer profitability-oriented mindset is not a simple task, even if the motivation to do so exists. As outlined in this Thesis, there are various barriers to adapting to change. These barriers can affect organizations' attempts in doing so, either by hindering the process or blocking it completely. The Thesis considers barriers to change as outlined in the literature review and those which arose as findings from the interviews conducted among employees in the case company. The findings of this Thesis imply that factors that can affect the change process can be for example: resistance to change, lack of ownership and know-how related to change process and lack of alignment within the company.

1.2. Research Objective and Questions

The objective of this research is to identify barriers that can hinder or prevent companies from adopting a systematic approach to measuring, analyzing, and managing customer profitability, even if they have a business case and motivation to do so. As the research is conducted in the form of a case study, the second objective of the research is to understand which barriers affect the case company specifically.

The research questions guiding this research are as follows:

1. What kinds of barriers can hinder companies' efforts in adopting a customer profitability focus?

2. How are the barriers identified interrelated as a combination of components that have a hindering effect on adoption?

1.3 Selection of Case Company

The case company was chosen using a Purposive Sampling Method. In this method, the research questions presented above lay a foundation for how the study is carried out. In the case of Purposive Sampling and this Thesis, the aim is to form a deep understanding of a cultural domain by collecting insights from knowledgeable experts within that culture (Tongco, 2007).

Considering the objectives of this Thesis, the case company would ideally be involved in a change process to define how they incorporate the use of customer profitability effectively within the organization. More specifically, as the research questions involve understanding the barriers, or factors hindering an organizational shift to a customer profitability-oriented mindset, the case company would ideally be an organization which demonstrates a clear motivation for change as outlined above; who is currently on the journey of change on the same; and who has identified obstacles on the journey to achieve the outcomes which they have a clear motivation to reach.

Having identified an ideal case company, the first interviews clearly showed that the above criteria would be met. As a result of interviews from various employees in different roles within the organization, it was possible to paint a picture of the change journey the organization was on – their motivation to engage in such change process, the current situation and the direction they were moving in, as well as what factors stand in their way of achieving the vision they have. This Thesis outlines five separate barriers, which each have the power to hinder the case company's – or any organization's – change efforts to vast extent.

More importantly, the Thesis suggests that the interrelatedness of these barriers strengthens their effect, which was also identified in the case organization. The effect they can have as a dynamic entity of attached components is magnified, as opposed to the effect the barriers hold individually. This Thesis argues why a lack of ownership and know-how can lead to alignment issues, which can further lead to a hindering ability to adopt a customer profitability-oriented mindset**.** This is done by assessing knowledge available from existing studies and synchronizing it with insights from experts within a culture affected by a period of change and these specific barriers, By dwelling into this topic, the Thesis is able to address the research questions as outlined above.

1.4 Thesis Structure

This Master's Thesis is divided into six sections. The introduction presents the research objectives and questions and the motivation for researching the topic, as well as background into why the matter is pressing in the business environment of today. The literature review considers relevant literature to the research and is split specifically into two sections – one outlining the key concepts in the field of customer profitability, and the other one dwelling into literature on barriers to adapting to change. The methodology for carrying out the research is presented in the third section of the Thesis, and it considers the research method used, the data collection process as well as how the data was analyzed.

Following the methodology section, the findings of the research are presented. This section is divided into three main parts: the first one aiming to demonstrate the direction to which the case company aspires to move toward in terms of customer profitability, the second one assessing the current situation, and the third one identifying five main barriers that affect how well the case company is able to fulfill the aforementioned aspirations. In the fifth section, the findings are discussed in more detail. Focus is placed on analyzing two of the identified barriers and the dynamic relationship and interrelatedness of the components. Finally, the conclusion provides a summary of the Thesis as well as its limitations and suggestions for further research.

2 Literature Review

In this literature review, the fundamental research and literature regarding the topic are examined and discussed. The literature review will be divided into two sections. Key concepts will be introduced, and fundamental frameworks in the field will be presented.

2.1 Defining Key Concepts

2.1.1 Customer Profitability Analysis

There are many different techniques and methods that aim to measure and indicate the value of a customer, and one of the most prominent ones is Customer Profitability Analysis (CPA). CPA is used as a tool to measure differences between customers in terms of profitability and make distinctions between the most profitable customers of a company, the least profitable customers of a company, and all the customers that fall somewhere in between on the spectrum (Niraj et al, 2001; Pfeifer et al, 2005).

CPA aims to estimate the value of an individual customer in a certain period of time in the past, usually in the previous year (Ryals, 2009). As such, it provides a retrospective perspective in terms of how profitable a particular customer was and how they contributed to the overall financial results of a company in a certain term. The value of the insights companies can gain from CPA stems from the gained ability to make predictions and decisions regarding the future based on the retrospective findings (Holm, 2012).

There are many factors that affect profitability, which are considered in CPA calculations. Customer size, total revenue and sales volumes are examples which can be associated to defining the profitability of a customer. However, the costs of serving customers can vary largely and thus play a role in determining the overall profitability of a customer all the same (Niraj et al, 2001). There seems to be a consensus in related research that in the end, the two main attributes affecting customer profitability are customer specific costs and earned revenue, and the calculation provides a view into the relationship and difference between the two (Gurău & Ranchhod, 2002). The costs of serving customers may be broken down to include for example cost of sales and account management, customer service and administration, and logistics (Ryals, 2009). Collings and Baxter (2005) and Holm et al (2012) suggest that the calculation itself is carried out by assigning the aforementioned costs to certain products, and to the customer relationship that caused them. The total cost and the revenue associated with a particular customer are then compared to indicate the customer’s total profitability. Pfeifer et al (2005) note that the two are measured on an accrual basis, which refers to recording revenues and expenses when they are earned, rather than on a cash basis, where cash is received and expenses paid (Bench.co, 2018).

There are a few alternative methods and techniques of calculating CPA that arise in literature. The Activity-Based Costing method (ABC) has the strongest presence especially in more recent literature. In broad terms, the method considers cost drivers and allocates them to specific groups of customers. ABC is split into two dimensions: the process view and the cost assignment view. The process view shows cost drivers and performance measures - in other words what are the factors causing work and how well that work is done. The cost assignment view assigns costs from the resources, that the company has allocated to the customer relationships, to the relevant activities, and from these activities to cost objects. Activity is analyzed at the crossroads of the two dimensions. The mentioned attributes allow ABC to indicate the causal relationships between activities to which specific resources have been assigned, and costs to which the activities are assigned (Jankovic et al, 2012).

Alternative methods to mention are BASE and MULH - although these methods do not present themselves in modern literature frequently, they act as a tool for comparison to the ABC technique. BASE is described as a traditional method of calculation customer profitability which assumes costs to be a constant percentage of revenue. Therefore, the method does not consider costs allocated customer specifically - it assumes that costs do not fluctuate based on factors other than revenue in the customer relationship. MULH, on the other hand, does assign direct costs from to specific customers. However, it does not consider costs of operations such as procurement, warehousing, order processing or other supply chain operations (Niraj et al, 2001; Mulhern, 1999)

It is worthwhile to consider what CPA enables companies to do in addition to simply analyzing the differences between the economic value of their customers. CPA is a tool which allows for better-informed decision making in companies with awareness and consideration of the possible trade-offs. It allows companies to ensure that both resources as well as appropriate activities are focused on the customers with the most economic potential and where they can generate the greatest possible value. Lastly, it also enables them to strengthen the respective relationships, which in turn can make them more profitable (Gurau & Ranchhod, 2002). However, companies must also understand that each customer portfolio also has its less profitable customers. CPA can assist not only in identifying where to maintain or grow capacity and resources, but also where to divest in the case of marginally profitable customers.

The customer-specific data on customer behavior, preferences, and transaction patterns which CPA provides, helps companies to better understand their customers and how they differ from one another. Use cases include for example assessing customer related costs more efficiently and finding opportunities for better cost allocation, making better-informed pricing decisions and policies, and adapting product and service mixes as well as marketing focus accordingly (Jankovic et al, 2012).

However, it is worth noting that CPA has its specific limitations when it comes to estimating the value of a customer. Firstly, as CPA is a retrospective method, it assumes that rather than being dynamic, customer behavior is more or less static, and does not radically change over the course of the customer-company relationship. Secondly, the method does not consider the effects of taxation on cash flow. Thirdly, CPA usually does not consider how single customers contribute to the overall firm portfolio risk (Holm et al, 2012).

2.1.2 Customer Lifetime Value

Another prominent term and method that arises in literature is Customer Lifetime Value (CLV). As opposed to the retrospective CPA, CLV is future-oriented. CLV calculates the expected value a certain customer relationship will generate in cash flow in a certain period in the future in net present value (Pfeifer et al, 2005). CLV is a tool which enables companies to estimate their future profitability, identify where each customer falls on the profitability spectrum, and practice profitability-based segmentation (Collings & Baxter, 2005).

In CLV, customers are viewed as assets that generate economic value for the company through the revenues they produce. Future cash inflow and outflow are estimated and discounted at appropriate discount rates to define the customer specific revenue estimations for the projected life of the customer relationship. It is important to note that the calculations consider cash flow instead of profit (Pfeifer et al, 2005).

The most important yet challenging component to measure in CLV calculations is costs. The calculation itself considers costs related to for example sales and management, acquisition activities, customer service, administrative activities and logistics and used time. However, many costs may be indirect and therefore difficult to identify and estimate correctly, as well as divide accurately per customer. This poses a challenge in producing accurate CLV calculations. Other factors to consider in estimating CLV are margins, discount rates, and the lifespan of the customer relationship. The CLV calculation can consider customers as individuals, or it can be extended to consider groups of customers (Gurau & Ranchhod, 2002; Collings & Baxter, 2005; Ryals, 2009)

Based on the breakdown of the calculation above, it can be concluded that expected revenue over the lifetime of the customer relationship plays a vital part in the CLV calculation. According to Haenlein et al (2006), once the expected revenue has been estimated or defined based on the customer specific variables it consists of, the process goes on to consider average amounts spent by a customer, based on findings of the purchasing pattern of the customer. Calculations are made to define the probability that this purchasing pattern can be observed in the future. This is how a calculation on the expected revenues and costs, that takes into consideration volatility in customer behavior, can be made to give an estimate on a customer's profit contribution in the future.

A component of the CLV method is the RFM approach, which helps to estimate for example the probability that a purchase will take place, and the expected monetary spending. RFM stands for the three purchase history variables it takes into account – recency, frequency and monetary value, which allow a basis for estimation of the future purchase behavior of a customer. Recency considers how much time has passed since the customer's previous purchase; Frequency indicates how many purchases have been made in a certain period of time; and Monetary Value is the total dollar value of the purchases the customer has made in a period of time (Jonker et al, 2004; Haenlein et al, 2006).

A differentiation of whether CLV includes versus excludes option value can be made in the calculation. The figures can be compared at individual customer level to understand and estimate the divergence between the outcomes. However, it is to be noted that calculating CLV, which does not include option value, may result in an outcome that underestimates the true value of the customer significantly (Haenlein et al, 2006).

Simply put, CLV allows identification of the customers who yield a positive lifetime value to the company. This enables an “analogue between a customer and the equity of the company”. Furthermore, CLV allows companies to systematically assess the financial viability of their customer relationships and make appropriate changes to improve in this sense (Collings & Baxter, 2005).

In more detail, CLV allows companies to identify the customer prospects with the greatest lifetime value and target their acquisition activities in the direction of those customers (Gurau & Ranchhod, 2002). Once the value of an acquired customer has been assessed through CLV, the company is able to make informed decisions to maximize its chances of retaining these customers and capture the forecasted lifetime value. The RFM approach can be exploited to understand the options the company has in the various phases of the customer relationship to make it as profitable as possible (Haenlein et al, 2006).

As previously discussed, RFM estimates future purchasing behavior of customers (Haenlein et al, 2006). Forecasts can be made on the specific products or services that a customer will buy and what they will be willing to pay for those products and services (Ryals, 2009). Based on these insights, companies can strategize to for example up-sell or cross-sell to high-value customers or reduce costs and apply marketing tactics to increase the spending of lower-value customers (Collings & Baxter, 2005). In some cases of low or even negative CLV, an option to consider is the divestment of a customer altogether, if the previously mentioned tactics are proven ineffective (Haenlein et al, 2006).

Furthermore, CLV allows the costs generated per customer to be assessed (Haenlein et al, 2006). Once the forecast of future customer behavior and overall costs have been finalized, the results of the calculations can be used for customer segmentation purposes. A ranking of customers can be made on a spectrum of expected highest profitability to expected lowest profitability. Resources can then be allocated accordingly.

However, CLV has its own limitations. Firstly, asymmetrical behavior of customers in the future is not taken into account (Haenlein et al, 2006). For example, customers may leave the relationship and return multiple times, and this behavior is difficult to consider in CLV calculations. Additionally, the effects of external factors on customer behavior are often dismissed, thus providing a biased outcome. As forecasting an economic value for the lifetime of a customer is difficult considering that external factors and market dynamics will always have an effect, some literature has concluded that the retrospective CPA can provide more accurate results than CLV (Gurau & Ranchhod, 2002).

2.1.3 Customer Relationship Management

“Companies should view themselves as a portfolio of customers, not product lines”. This quote from a study by McWilliams (2004) demonstrates the basic motivation for companies to use Customer Relationship Management, or CRM systems. While customer satisfaction is a substantial metric in itself, an excessive and exclusive focus on the same may result in strategies which have no significance to increasing the value and profitability of the company and therefore shareholder value. Retaining a satisfied but unprofitable customer may have a negative impact on shareholder value, as the risk of over-spending on a low-value relationship is high (Collings & Baxter, 2005). Based on a study by Soderlund and Vilgon (1999), there is only weak correlation between satisfaction and profitability of a customer.

CRM, on the other hand, has the power to change how value is created in the company and to shareholders by generating insights regarding which customers to serve and how to serve them in the right ways (Ryals, 2003). In the case of most companies, customers are the main source of bringing revenue. Therefore, to view and treat the customer base as consisting of random units rather than “revenue-producing assets”, companies risk undervaluing customers’ role in the overall value and profitability of the business and making choices based on the wrong considerations (Collings & Baxter, 2005).

In simple terms, the objective of CRM is to measure, manage and maximize customer profitability (Reinartz et al, 2005). There are two main drivers for the increased use of CRM systems in the past years. Firstly, companies are more aware of the fact that a large portion of their customers may indeed be unprofitable, and of the detrimental effects they can have on overall profitability. In a research by Haenlein & Kaplan (2009), the authors find that the number of customers with negative contribution margins can reach 30 percent in both B2B and B2C context. Secondly, the increasingly advanced capabilities and decreasing costs of CRM technologies enable more and more companies to engage in respective activities - to measure, manage and maximize customer profitability.

Furthermore, the objective of CRM is to understand customer needs. In cases where there is a misalignment between offering and customer needs, the insights generated by CRM can lead the company the right way to adapt and align offerings accordingly. Changing the business model based on such findings can essentially make the relationships overall more profitable (Haenlein & Kaplan, 2009). Some companies manage situations of such misalignment reactively only once the conflict has arisen, but others manage to take proactive action once the defects have been identified at an earlier stage (Gurau & Ranchhod, 2002). Companies actively engaging in CRM activities are better equipped to respond to such incidents proactively and practice any necessary damage control than companies not implementing CRM in their business.

Ryals (2003) suggests that the three objectives for relationship management are as follows: 1) To find ways to increase the value of customers and consequently increase satisfaction; 2) To segment the customer base based on their value to the company and make appropriate targeted strategies; 3) To reduce the risk of losing the most profitable and valuable customers to competitors. The authors further suggest that customer data is vital in all three objectives, and as CRM applications enable companies to get detailed insights regarding their customers, it can be concluded that implementing CRM systems to business can help businesses achieve these objectives.

To segment the customer base based on their value to the company and make appropriate targeted strategies - as suggested as an objective by Ryals (2003) - can take businesses forward in making decisions regarding retainment, or even abandonment of customers. CRM facilitates targeting the focus and resources towards the most profitable customers and their retention and finding alternative strategies for problem customers. Even customer divestment can be an option of last resort, but companies should bear in mind that the risks often outweigh the benefits of such activity. Fixed costs will be allocated to reminding clients, and negative word of mouth may be detrimental. Companies are also valuable sources of information to the company, and abandonment may result in these sources of knowledge shifting to competitors (Mittal et al 2008). Less intense strategies for unprofitable customer management are subtly reducing the intimacy of the relationship, reduce service levels or raise prices. On the other hand, some situations require directly discussing the issues with the customer and trying to convince them to change their behavior (Haenlein & Kaplan, 2009, Haenlein & Kaplan, 2012).

The above objectives can be reached due to the insights CRM systems provide based on the data they collect. The customer-specific information collected by CRM and other related systems and the insights generated are vast. Examples include identifying changes or defects in customer behavior and purchasing patterns via transactional data – such as customers not paying invoices on time, customers buying less in volume than usual or buying at decreased frequency. McWilliams (2004) discusses use cases to be for example CRM systems' ability to automatically assess time spent in call centers per customer, as well as to examine sales records and demographic data. The systems can use sales force automation to estimate sales times and thus costs for specific customers (Ryals, 2003).

By assessing all of the information that becomes available by using CRM systems, businesses can gain a better understanding of the costs and revenues associated with particular customers, and thus begin to segment their customers based on economic value. This in turn allows the business to practice better, more efficient targeting of resources, products and prices. Especially in B2B settings, this allows for more personalized and customized customer relationships, which can lead to greater profitability as outlined earlier. In addition, as the company has now identified what its most profitable customers are characterized by, it can begin to focus its efforts on the acquisition phase to locate and attract the most profitable customers (Niraj et al, 2001; Reinartz et al, 2005; Ryals, 2009).

2.1.4 Customer Segmentation

This section will consider in greater detail the basis on which customers can be segmented within an organization. The tools and systems described in the first three sections of the literature review provides an overview of the approaches and technologies companies are using in increasing volume for segmentation purposes. Overall, the objective of using these technologies for the purpose of segmentation is to effectively identify and capitalize on customer differences by applying to most appropriate customer management practices (Gurau & Ranchhod, 2002; Pfeifer et al, 2005). However, there are differences in what researchers in the field suggest segmentation to be based on.

Before looking at the different methods for segmentation, it is valuable to understand what an efficient segmentation implementation strategy consists of. Gurau and Ranchhod (2002) emphasize the significance of the following for the functionality of any segmentation strategy: 1) A set of transaction data collected in a proper and accurate manner and updated appropriately; 2) Sufficient database capabilities for collection and storage of data; 3) Systems to facilitate retrieval and delivery of required data; 4) Customized data mining tools based on the needs of the business and the desired outcomes; 5) Detailed data regarding all costs; and 6) A business model reflecting how the company interacts with the customer and vice versa.

It is quite commonly agreed among various authors in the field that segmentation methods should discriminate based on the value of the customer, however, the ways how to assess value differ. One attribute various authors suggest as consideration in segmentation practices is risk. Risk in itself can lessen the value of a customer. For example, if a company has identified two customers with similar expected returns for the future, but the risk factor for one of the customers is more prominent, then the customer with less risk associated is of greater value to the company (Ryals, 2003). A technique which involves considering risks and their probability is the Expected Monetary Value (EMV) technique. EMV helps businesses to quantitatively analyze the risk factors in a portfolio of customers and distinguish the good opportunities from the bad (Collings & Baxter, 2005; Ryals, 2009).

Gurau and Ranchhod (2002) state that companies should select one of the two segmentation motives - revenues or costs generated. Zeithaml (2000), on the other hand, argues that revenue and/ or price sensitivity are not the best attributes to base segmentation on. This is because when the ultimate goal is to segment based on profitability, factors in addition to revenue, such as acquisition spending should be considered and thus segmenting solely based on revenue or cost would not suffice. Zeithaml also suggests segmentation by usage - however, companies must be aware that heavy usage may either run parallel to profitability or that heavy usage may require relatively higher servicing and deep discounting, which would drive profitability down. However, in the recommendation of Gurau & Ranchhod

(2002) to segment based on revenue or costs, revenues indeed are characterized as consisting of e.g. usage intensity and behavior. In reality the two examples of segmentation methods are rather similar, the authors merely do not use terminology in an equivalent matter.

Another method is to segment between those customers that can be identified as transaction buyers - customers that are price sensitive and usually demonstrate low loyalty - versus those that are relationship buyers - loyal customers invested in a long-term relationship with the company (Hughes, 2001). However, there are varying theories in literature whether or not the method is directly linked to segmentation by profitability. Collings and Baxter (2005) argue that it is an oversimplification to assume that loyal customers directly translate into profitable ones, because studies have shown that the correlation between the two is often weak. The authors suggest that loyal customers are no less costly as customers than non-loyal ones and they do not pay premium prices. Therefore, there is no basis to assume that loyal customers are profitable ones. On the other hand, Gurau and Ranchhod (2002) suggest that customer satisfaction is a valid metric in measuring customer satisfaction, which in turn correlates with customer loyalty.

An interesting and relevant model demonstrated by Kim et al (2006) considers the past contribution of customer (CPA), its potential future value (CLV) and the probability for churn, to provide insights regarding current and potential value as well as customer loyalty. The insights in turn allow for refined and relevant strategies for various segments. They also guide the way in decision making on how to handle particular relationships in the future, highlighting opportunities for certain activities such as cross-selling and up-selling.

Ryals (2009) proposes a model of splitting customers into four quadrants based on the revenue and cost factors of the customer relationship. When revenues are high and costs are low, the situation is ideal, and the lifetime value of the customer is naturally the highest it can be. However, if the cost of serving high revenue customers is also high, profitability may be affected in negative ways. Such customers are often large customers which companies want to retain for various reasons. The goal in such a case is to retain the high revenues but manage the relationship with lower costs. In reality, this can be achieved by either renegotiating terms of the agreement between the parties, or by facilitating a move to cheaper channels or processes.

Low-revenue and low-cost customers are referred to as commodity customers. Contrarily to handling high-revenue customers, the proposed strategy for commodity customers is to maintain the current cost structure and level by restraining from developing costly new value propositions for this segment. The final segment consists of customers with relatively low revenues but high costs to serve. Strategies to manage this segment include pushing prices up, reducing service levels to bring costs down, or re-routing the customer to different channels where they are less costly to serve.

Storbacka (1997) suggests the following to be considered as methods for segmentation: 1) segmentation based on combining relationship revenues and costs, 2) segmentation based on relationship volume, 3) segmentation based on relationship profitability and 4) segmentation based on combining relationship volume (2) and customer relationship profitability (3).

The first method, segmenting by revenues and costs is divided into four further quadrants. These identically reflect the ones proposed by Ryals (2009) - profitable high-revenue and low-cost customers, high-revenue and high-cost customers which can be either profitable or unprofitable, low-revenue and low-costs (commodity) customers which can also be profitable or unprofitable, and the unprofitable low-revenue high-cost customers.

Segmentation based on volume uses a volume indicator to generate segments. The indicator would be industry or business specific. For example, in a product-based business the company can segment based on customers' purchase volume. In the case of an insurance company, the customers can be segmented based on volume of claims.

Segmentation based on relationship profitability can be considered from two different perspectives: by looking at relative profitability versus absolute profitability. Relative profitability allows the profitability of a customer to be compared to the profitability of the whole customer base. For instance, the customer base can be divided into an X number of groups, e.g. groups A, B and C. Group A would be the top 30% in terms of profitability, group C would be the bottom 30%, and group B would be the 40% that fall in between. Again, similarly to the revenue and costs -model, the ideal strategies would be to retain the customers in group A and their level of profitability, and find strategies to dramatically improve the profitability of customers in group C.

The final method of segmenting based on combining relationship volume and relationship profitability can also be divided into four groups, each characterizing a different type of customer. The first group contain unprofitable customers characterized by low volume. To improve the profitability of this segment, the company needs to drive the customers' transaction behavior to become more voluminous or alter the prices to improve revenue per transaction. The second method considers profitable customers with low volume. Transactions are limited but more valuable than in the first group. The third group consists of unprofitable customers with high volume. As volumes are already high, efforts to improve profitability should focus on pricing. Another reason for low profitability in the case of high volume would be excessive usage which is creating additional costs without bringing in more revenue. The mitigation strategy would vary based on the core reason for the low profitability. The fourth and final segment contains the profitable customers with high volumes, or the "cash cows". Companies should strive to maintain these customers as well as the satisfaction levels, or even try to improve the customers' behavior in terms of volumes or improve pricing models.

2.2 Barriers to Adapting to Change

The second part of the literature review will consider another major theme in the research, namely barriers to adapting to change. This relates closely to the topic of change management, which is why it is valuable to understand its fundamentals.

Change management refers to the renewing of direction, structure and capabilities within an organization at both operational and strategic levels (Todnem By, 2005). Two out of three change initiatives fail (Sirkin et al, 2005). It is valuable to conceptualize which factors separate successful initiatives from unsuccessful ones.

A well-planned change management process is crucial for the process to be a success. However, it is not sufficient. It is often overlooked that successful change management starts from effective leadership. A study by Gill (2002) suggests that vision, strategy and a culture supporting the two are crucial for leadership to succeed in their change management projects.

A major theme in change management is uncertainty. According to Waddell and Sohal (1998), it is not change itself that people resist, but rather the uncertain outcomes surrounding change. Because of this, the significance of communications around change management processes is great. Aligning and communicating with affected stakeholders is a key success factor in implementing change.

The adoption of a change initiative within an organization is greatly dependent on various factors, of which the most prominent ones arising in literature will be discussed here. Research performed by Cascio et al (2010) which studies how sales departments adopted to newly implemented sales force automation tools, shows that one of the most important success factors for such projects was the commitment from top management. However, the positive results were magnified in cases where the sales representatives affected by the implementation were convinced of the commitment from management's side. In other words, when the management had set the vision and strategy, and successfully communicated that to the end-users, the project was the most successful.

The knowledge within the organization affected by change was raised in literature to be a success factor. Chao & Chandra (2012) find that there is a positive correlation between the owner's knowledge of IT, strategic alignment and IT use. Their study shows that the presence of the combination of these components increased the chances of a successful deployment of IT projects. Knowledge management practices within an organization lead to improved decision making overall, because such practices tend to have a positive impact on strategy, processes, activities and management leadership and support (Wong & Aspinwall, 2005). However, in reality, systematically transferring knowledge within an organization is often a challenge that can hinder the efficiency of change processes (Gopalakrishnan & Bierly, 2001).

To conclude this section, based on the literature on the topic, the main factors affecting the successful adoption of a change process in an organization were:

- How well the process is planned
- How effective the leadership team is
- How committed top management/ leadership is

- End users' perspectives on commitment of leadership
- The uncertainty surrounding the process
- The effectiveness of communications surrounding process
- Knowledge surrounding topic of change within organization.

3 Methodology

3.1 Research Method

This research was carried out using case study as the research method. The research focuses on one case company, which will remain anonymous throughout the research. The case company is a large company with over 4500 employees. This case company was chosen because it was identified that the organization was undergoing a change process relating to the topic of customer profitability. More specifically, the research identified motivation within the company to shift to a more customer profitability-oriented mindset, and this involved the introduction of new systems and processes to the employees. As the interviews progressed, it was clear that there were factors weighing into the complexity of the process. These factors became a core element of the research, and they are presented as the 'Barriers' hindering full utilization and adoption of the desired customer profitability-oriented focus within the organization. The barriers also provide the main discussion and analysis point for the research.

This research is qualitative, and the aim is to interpret the interviews to gain an understanding on the topic by contextualizing meaning from the interviewees' beliefs and practices (Baskarada, 2014). The nature of the case study is intensive, as only one company is studied in great detail, as opposed to an extensive study of various companies. The reasoning for an intensive case study is because the aim of the research was to get a deep view into the phenomenon in question in the case company, and to establish an understanding of the dynamics between the hindering factors, or barriers, identified.

The research will follow a divergence to convergence framework. Convergent thinking selects the ideas generated in the divergent phase, which broadly considers a variety of ideas, that are worth pursuing for further analysis and research (Avina et al, 2018).

3.2 Data Collection

The main data collection method for this research was interviewing. The first step in the interview process was formulating the interview questions. The interview questions were formed based on literature on the topic as well as on previous interviews. Interviews were semi-structured, which implies that although a list of predetermined questions were prepared, each interview unfolded in a rather conversational manner. (Longhurst, 2003).

The original set of interview questions focused heavily on the topics of customer segmentation and customer relationship management, as the original research questions had a heavier consideration on the management of unwanted customers. The questions in the following interviews were shaped as follow up questions from the previous interviews, with the aim to get a deeper understanding of the concepts that had appeared. The emphasis on customer profitability increased throughout the interviews – consequently, the interview questions evolved to consist of more customer profitability-related questions. The interview questions were drawn both from existing literature and theories as well the responses to previous interviews.

In order to gain an understanding of the various perspectives regarding the topic of research in the organization, I aimed to interview employees in different roles within the business unit. This was executed via snowball sampling - or chain-referral sampling - which finds research subjects by using a method where one interviewee gives the interviewer the name of another, who again provides the name of another. The sample therefore grows like a rolling snowball (Cohen & Arieli, 2011). The findings of the research are the result of the eight conducted interviews. The interviews were conducted in English, recorded, and transcribed for analysis.

The following table presents the informants interviewed for this Thesis.

Pseudonym	**Description**
James	Sales development and customer satisfaction, small customers
John	Sales development and customer satisfaction, small customers
Robert	Director, IT outsourcing
Mary	Large and middle-sized accounts, service monitoring
Patricia	Business lead, focus on profitability of existing customers
Michael	Sales development, product- and customer profitability enablement
William	Business director, data security
Jennifer	Sales director for small- and medium sized businesses

3.3. Data Analysis

Once the transcribing process for all eight interviews was finalized, the data analysis phase began. The method for analyzing data followed a process of thematic analysis (Boyatzis, 1998). Thematic analysis follows an explicit “code”. As per the Thematic analysis process, a list of common themes and patterns from the interviews were identified, as well as differences in interviewees responses regarding specific themes.

In addition, it is worth noting that the patterns and themes identified emerged directly from the data collected from the interviews, rather than being a result of preconceived categories pre-defined based on existing research. This grounded theory method (Bryant & Charmaz, 2007) that analyzes qualitative data was selected with the aim of providing a flexible analysis as opposed to a rigid one that may bias the research.

The themes identified would eventually form the structure and main points for the findings of the research, which are presented in the following section. The framework presented in the final section of the Thesis is an outcome of the analysis of the main themes identified in the interviews and their interrelation.

4 Findings

This section will outline the findings of the conducted research. The section is divided into three main areas of interest: The direction that the company wants to move toward, the current situation in terms of using customer profitability as a factor in making business decisions, and the identified barriers hindering full utilization of the available means.

4.1 Direction

The case company is in a time of change when it comes to the relationship with customer profitability and its utilization. Therefore, it is valuable to understand the company's motivations, and what they are aiming to achieve in this field, and whether there even is a motivation to move in the aforementioned direction. This will allow us to understand what the desired end goal is. However, as this section will demonstrate, different employees have different visions of where they see the company going in this sense and how they see the ways of working transforming. This could be a possible indicator of misalignment within the company regarding its vision of how it can utilize customer profitability metrics for better business decisions.

It is important to note that based on the interviews, management presents a case for driving customer profitability-based decision making in the case company. The latter quote especially shows the desire to move to a more proactive way of using profitability data to make decisions.

> *"There is great pressure from top management and their direct reports" (Michael)*

> *"Management wants us to be able to genuinely assess end-to-end customer- and product profitability. They want us to be able to make better decisions regarding what we should invest in and what we shouldn't. If we have something we're investing in and it's not at the profitability level that we would like it to be at, we can then intervene and make improvements in the right areas." (Michael)*

However, it is not only management that sees the need for improvements in this regard, but also employees in various roles. Mary and Patricia state that there is room for improvement, when it comes to tools and methods for assessing and understanding customer profitability.

> *"I know there are now some new tools to use that I'm not familiar with, but this is something we need to improve in our department." (Mary)*

> *"We need to better understand profit and loss. We need to better understand and analyze the profitability of both products and customers." (Patricia)*

The benefits of having a more systematic approach to understanding and using customer profitability data are understood also among employees.

> *"Of course, it's a leaner way. It's nice to have a different kind of view (into customer profitability)." (Mary)*

The desire of profitability data residing within the existing CRM system is raised. This can be interpreted as Jennifer's wish for customer data to be more centrally available in one system rather than have to use multiple different systems.

> *"The goal is for profitability data to live and reside in our CRM, but we are not there yet." (Jennifer)*

> *"I do require better tools, and that we'd have customer profitability data more widely available for use. It should be one factor among others that is connected to specific accounts and found in our CRM. That way I could more independently track their profitability development." (Jennifer)*

The desire to have customer data centrally in one system also shows that there are currently multiple systems being used. This adds complexity to the organization and the jobs of the employees. Therefore, the case company requires a more systematic way of dealing with customer profitability data. Currently employees are mostly independently responsible for acquiring and using customer profitability data. The process is not aligned nor transparent, which calls for systemization and some level of standardization.

> *"Especially in the B2B area we have very many source systems. We must expand to a more systematic way of thinking about customer profitability." (Michael)*

> *"We must be able to adjust profitability, so we'll be able to provide good value for shareholders. There is a lot of potential in these needs. There is a lot of room for improvement in this area. Now business managers are all independently doing calculations and tracking the profitability of customers, but that needs to become both more transparent and aligned, so it's not just done on an individual level. This is where we need to develop" (William)*

Michael has a clear view of the type of a system needed to automate customer profitability analysis. This kind of system, which could for example suggest optimal bundling of products and services for maximized profitability, is already in development in the case company.

> "*We have a need for a system that would for example automatically provide information if a customer's bundle of products or services is not good. We could also be able to see which services each customer has and offer supplemental services accordingly. This could act as guidance for our sales teams. We do not have a system that automatically generates this kind of information, but it is being developed." (Michael)*

Finally, in contrast to the current practices of the case company, some interviewees recognize that the current model of segmenting customers merely by size may not be the best option for customer segmentation. The case company does not yet use a model which would segment customers based on their profitability, but the following demonstrates that there may be potential in this way of thinking.

> *"Of course, you can't only look at the size. It's not always the biggest customers that are the best or most important ones. Hence, they should not only be prioritized based on size. You need to look at customers from different angles, so you also need to consider the profitability, because there are always measures you can take if the customers are not on healthy profitability levels." (Patricia)*

"I should be looking at my customers differently and understand that there are different segments and that there are specific actions related to those segments. It is not enough to segment based on headcount. We are not yet in a model (that considers customer profitability in segmentation)." (William)

As the segmentation model mainly considers the customer companies' headcount and does not consider their profitability, the case company is not able to systematically identify which customers are more profitable or less profitable than others. However, this is a strategy that Robert believes could bring value to the company, because they could better focus on the customers that are profitable, as well as make better decision regarding pricing or marketing strategies.

Interviewer: Do you actively segment profitable customers from less profitable ones?
Robert: No, this is a point we have been missing for many years.
Interviewer: If you segmented the target customers more carefully, would the overall profitability rise?
Robert: Everything would be much better. I think we would be able to get more profitable customers; we would be able to achieve a higher hit rate from competitive bidding. It's quite obvious why we should do that. (Robert)

Interviewer: Do you measure the financial value of customer assets to make decisions regarding e.g. segmentational pricing or marketing tactics to draw/repel certain types of customers?
Robert: We don't, but I understand and agree with the statement (Holm et al, 2012) and we should do this. (Robert)

"You need to choose your battles wisely and proactively, because before we even start, we know that these are the battles which we can win with good results. It's because we've identified that there is not much misalignment between price and quality expectations." (Robert)

4.2 Current Situation

This section aims to describe the stage at which the case company is currently in on its journey to becoming more conscious of its customers' profitability and utilizing that measure. Similarly, as in the previous section, the similarities and differences between the interviewees will be identified and discussed. It is important to note, that interviewees come from a variety of positions and roles within the company, which naturally causes variance in the nature of their responses to the interview questions.

We sell to everyone

The interview aimed to establish and understanding of what kinds of customers the case company is serving. Furthermore, it aimed to understand how the customer base is segmented, and how these segments are potentially treated in different ways. This could help in understanding whether customer profitability plays a role in segmentation and whether or not the case company has different strategies for various segments.

Interviews with two informants (James and Robert) revealed that customer segmentation in the case company is mainly done by size and does not consider customer profitability. In addition, all customers are viewed as "good customers". However, Robert points out that cross-departmental selling poses its particular difficulties regarding segmentation, because it should be possible to sell all of their products and services to customers who are currently already using their services.

> *"We like all customers, there are no bad customers… We have almost all sorts of companies as customers, and the primary segmentation is by size, and the number of employees (in the company) tends to be the key driver. We would have for instance the following segment: less than ten employees, between ten and a hundred employees, between one hundred and 250 employees, then approximately between 250 and 2000 employees and finally the large corporations as their own segment." (James)*

> *"We try to sell everything to everyone, which is not a very good strategy. But the other point is that we are nowadays bundling services (within the company), and in that sense I understand that we should be able to sell (all) services to all customers.*

> *"But we can see from sales results from past years that we are not doing very well here. Even though we have a lot more salespeople these days, the results are a lot lower than they used to be and I think there is a close connection." (Robert)*

To add to the points above, Robert and Patricia assume a correlation between customer size and their profitability. This means that even though customer profitability is not explicitly used as a measure for segmentation, it is still an underlying motivation in the default customer headcount-based segmentation model.

> *"The size of the customer is always one aspect to consider. Therefore, the largest customers are very important to us because the amount of revenue and the amount of people we can employ with the customers money is very different in comparison to the smaller ones, so size always matters." (Patricia)*

> *"Most of our most profitable customers are the largest customers. It can easily be seen that there is a correlation between customer size and their relative profitability. In (this type of business) where sales costs are high, it doesn't matter if you sell to a small or large customer - costs will still be high, and customer and service management and governance are quite burdening. The larger the customer, the smaller the usually less profitable." (Robert)*

Robert does identify a downfall in the idea that size and profitability are always correlated. Over-simplifying the segmentation approach poses the risk of excluding or mis-segmenting customers who are smaller in size but potentially extremely profitable.

> *"Our target group definition is really simple, any companies or public governance bodies who have more than 200 but less than 2000 workers. There are pitfalls in this definition, and mostly it is that companies who actually are large but don't have many employees may be very profitable. They go to the lowest part of the segment and are seen as less important, or they can even fall below the segment. A good example from our current customers is (Customer A), they are a wealthy company, but they have just a bit over 200 employees, just over the minimum limit of our target group. Nonetheless, their investment volume is massive.... This explains well what could go wrong with our target group definitions." (Robert)*

Product versus customer perspective

All eight interviews included questions aiming to understand whether the company has a customer- or product-centric approach to profitability. In other words, the purpose was to understand whether profitability was something that the company even wanted to assess as per customer, or whether they wanted to take a more siloed, product-centric approach. Naturally, the roles of the interviewees would greatly influence the responses. For instance, a product manager would have a different approach to the topic compared to a customer success manager.

John believes that product/ service profitability plays a more important role than customer profitability does, because the profitability can be affected through the individual services provided.

> *"(Our customers) consume multiple kinds of services. We need to consider the profitability of each of these services individually. It's not only about the profitability of the customer as a whole. It is more important to understand what the profitability of each of the consumed services is, so that we can do something about it. And what we can actually do at our end regarding profitability is in practice implemented in the various details of each service separately. The only way to address it is to improve the way you produce some kind of service". (John)*

At the other end of the spectrum, a customer-centric approach was represented. Robert believes that product or service profitability should not play a role in the equation at all, because at the end of the day the sum of the products and services is what comprises the overall profitability of the customer. This also seems to be the less established perspective within the company.

> *"The most important aspect is customer profitability as a whole. It doesn't matter whether some purchased products are highly profitable while the others are less profitable. However, that's the ideology that we currently struggle with." (Robert)*

The remainder of the interviewees had a less extreme response when it came to comparing product- and customer-centric approaches to profitability. Product profitability seems to be a more prevalent perspective in the company, but customer profitability is gaining importance. As pointed out by William, the two approaches do not necessarily have to rule each other out, but insights from both can rather be used to complement each other.

> *"We have always had this product profitability framework, but now we are looking into the customer point of view as well." (Patricia)*

> *"My point of view is that it is important to consider both product profitability on a customer-by-customer basis, as well as total profitability. They shouldn't be mutually exclusive but rather used to complement each other." (William)*

Reactive versus proactive approach

Through the interviews I aimed to understand whether the company takes a reactive or proactive approach to address conflict or crises that may arise regarding the profitability of an account. Robert wouldn't place the case company at either extreme end of the spectrum, but rather somewhere in the middle, possibly leaning more towards reactive. He notes that often the understanding of the situation is there, but a process to properly and proactively mitigate the risk is necessarily not. Misalignment through competitive bidding can have a large effect on how the profitability of the account evolves. When asked whether the company is more reactive or proactive to conflict or crisis, the response was as follows:

> *"Reactive or maybe we are somewhere in between. We know and recognize the risks when we start a new account, and often we have foreseen the misalignment. We understand that there is misalignment, like the customer wants to buy a certain thing or another thing is important, but the competitive bidding forces us to offer something different. And that's really a problem in all of IT services in Finland, that the consultants don't always understand the real customer needs, and that is when things start to go wrong before we are even involved. We are quite good at recognizing those risks and mitigating them through the customer journey, but unfortunately there are many cases in which we have been only reactive instead of proactive. The root cause of things starting to go wrong is misalignment, which starts from competitive bidding consultants forcing to keep low prices, but the customer expects high quality services, and these just don't go hand in hand." (Robert)*

Lack of focus on profitability

This section will demonstrate areas where focus on profitability could be, but has not yet been established in the case company. Profitability is seen as a universal topic rather than a metric that can be defined company specifically. As mentioned earlier, it is considered as correlative to the size of the company, which may often be the case, but does not consider the option of smaller firms having high price points. This can lead to a very profitable customer being treated as a "lower tier" customer. Overall, not having an official, systematic and automized way to approximate the customer's profitability is a core issue, and the lack thereof prevents the company from operating in more profitability-focused terms.

> *"Customer profitability is sort of a universal topic and I think we follow the same kind of principles as any other business that when customers are small, and there the price point is low, they can only afford services that are at certain price and cost levels. Then also the service offering that we provide has to be relatively standardized and uniform across the different customers, and customer self-service needs to be firstly available, and then utilized by the customers as much as possible." (James)*

> *"We are not very good at calculating customer profitability even nowadays, and we can't do that even with (our) original (core) services. That's what makes things more complicated and we do it manually, for example when we make bids to new possible customers, the calculation is done manually, has lots of approximations, and we have no systematic way to approximate the customer's profitability. The same applies to our current customers, I cannot tell based on data, or at least automatically generated data, what is this customer's profitability, and which is the order of most to least profitable. Most of the mathematics need to be approximated in some strange way, or then calculated manually. This is important because a huge amount of the costs related to the customer are shared costs in some unit of (company), which is then divided by a very bulky allocation method, first to other production units and then to products, and then from products to business lines, and from business lines some strange method to divide the costs per customer. That's where we have lost a huge amount of data and profitability intelligence. It is a shame that we are not able to calculate customer profitability and I think in many, even publicly listed companies and product houses suffer from the same problem." (Robert)*

> *"We consider the profitability of customers, but not officially or systematically. The official system is that we have large, mid-sized customers and SMEs. We don't for example use the same terminology as some companies, like healthy and toxic customers." (Patricia)*

Tools, methods and systems used

It is important to understand the current tools, methods and systems associated with customer profitability. There are various systems serving different purposes in the case company, and many systems are still quite manual. The following extract from Interview 3 demonstrates an example of the manual means of gathering customer profitability data.

> *Question: What kind of data is collected from customers to assist in decision making when it comes to customer profitability?*
> *"It is customer intelligence data, mainly collected from account managers. Account management's job is to create a strategy roadmap for the customer, and gather all the intelligence we can find, and those are the missing pieces we need to understand before deciding whether or not we should sell services to this customer. For example we need to know the company's CIO, his background, where he has worked, how he approaches IT, for example in cost or other types of elements, how he has previously handled competitive biddings, does the company manage them internally or use external consultants, and so on. This makes a huge difference. It is a manual but important process, we need to understand the customer's behavior when we are selling these services, and the buying behavior is defined closely by the CIO of the company." (Robert)*

There are various systems serving different purposes in the case company, and they vary depending on the role and the desired outcome. There were no processes identified in the interviews which would aim to bring all the customer profitability data from various sources into a single view. This all demonstrates the previously mentioned lack of a systemized method to use customer profitability data in the company. The following quotes aim to show the variance of methods, tools and systems within the company - there are three mentioned here.

"We are using Salesforce to track sales done within a week, or a month, and which should be closed within a certain products area, the customers, open sales for the future, and so on. It is to see what is happening with each customer in my product area. We also work with a kind of 'income statement' report, which is a different way of looking at profitability and revenue issues, but that's in a separate place. There are certain differences between (our separate internal profitability system) and the income statement. The income statement is more of an accounting approach, and (internal system) gets closer to source systems' product levels to assess profitability." (Mary)

In addition, new tools are emerging as the demands of people working in certain roles evolve. This shows that accessing, understanding and using customer data is of increasing interest to the employees as well as the management of the case company. However, the fact that new tools emerge beside the existing ones means that employees now have to navigate an even larger pool of resources, and customer data can become even more scattered. Among others, Salesforce is an established system within the B2B unit of the case company, as well as the internal system which will be covered in the next section.

"New tools are being provided to us product managers, I now have a chance to see for instance a data dashboard where I can see profitability and a sales funnel, open offers, what we have open in my product area mainly. Salesforce provides the dashboards and a view into the sales funnel, and there is also the (internal system) dashboard where I can look more into the profitability. You can view both on product and customer view." (Mary)

"In our B2B unit we use Salesforce CRM, that's where customer data is stored. Salesforce is more than just controlling the funnel, it also shows prospects and offers, profits and losses, it has a forecasting tool and we can determine sales targets. It also has a tool for customer service, which additionally takes the service orders into production." (William)

Currently we use other tools than CRM in evaluating the gross margin level for certain customers or certain products. Basically, they are BI systems, like ClickView

> *for example. We have an analysis tools that we use currently, in addition to of course basic excel. (Patricia)*

The previous quotes mention how the CRM allows employees to view and access different customer data. The CRM also has more forward-looking functions related to account planning, as exemplified by the following quote. This is an area where a systematic customer profitability mindset could already be in place, but as of now is not.

> *"Account planning and contracts are also done in the CRM. In addition to those, together with the customers we make strategy maps. We brainstorm next steps and how we can develop our business, how we can develop the customer's business, and from where do we bring the pipeline." (William)*

However, William also states that the CRM systems of the company have nothing to do with customer profitability, because the profitability aspect is only relevant in a later stage in the sales process.

> "*CRM is not related to profitability at all. Profitability calculations become relevant when we get to the stage in the sales process that we are building an offer. Pricing is a part of this, and here we still use excel as our main tool. We use cost drivers to calculate costs for the company's B2B unit as well as specific business and product areas." (William)*

Customer Profitability Analysis (CPA) and Customer Lifetime Value (CLV) are metrics that can bring value when assessing the profitability of customers. The case company uses them to some extent; however, they were only mentioned in two interviews out of eight. The use of these metrics is therefore on an individual level rather than systematically used throughout the business. The latter quote implies that CLV is emerging as a new way of thinking and measuring customer profitability.

> *"We use the CPA calculations; we know what the numbers are from the previous years and of course then we know looking at the history what we need to do this year." (Patricia)*

"We are developing a CLV model in my segment (small customers). We've begun to simplify it so that we track how much billing a customer bring to us and how long that customer relationship has lasted. By doing these we've divided the customers into fields. There are customers who bring lots of money and are also long-term. There are new customers who are large or small. Being in a certain field does not mean the customer is good or bad, but it's more for us to understand our customer base and can make decisions based on that. We can monitor profitability with this." (Jennifer)

However, it is important to note that the terms do have scientific definitions as demonstrated in the literature review, and the way that the case company uses these metrics may not be completely aligned with the official definitions. For example, in the quote below Patricia is referring to how she uses CLV in her work - however, it could be argued that since the forecasting is done from a single offer point of view, it does not classify officially as a CLV calculation.

"We forecast our whole business each month of course, and currently we are doing forecasting for FY 2020, where we take into account approximately 40 of our biggest customers. We make an estimation of what their revenue flow will be to us based on what we know now and what we are thinking that we will sell to them." (Patricia)

"Internal System"

In addition to the tools and systems mentioned in the previous section, the case company has an internal tool built for product- and customer profitability calculations. For the sake of anonymity, the tool will be referred to as ***"Internal System".*** In this section I will use the interviews to showcase what the Internal System and its objectives are, the features it has, its implementation status as well as current shortcomings.

The Internal System is a tool created specifically for the purposes of the case company. It provides data related to the profitability both from product and customer perspectives. The objective is to have a unified and systematic method of collecting and displaying the data for users in various roles. Using the tool is mostly a reactive method to observe profitability in the past.

“The data from (internal system) can be observed at a certain level of product- or customer precision and then analyzed. The big thing is that there are now common models used in the background as well as a common way of using them.” (Michael)

“With the internal system we can observe the past, that for example this was the profitability (in a certain area) last month. With that we can forecast how those pricing decisions affect our future.” (William)

Furthermore, the Internal System can be used for understanding differences regarding profitability within or between segments. However, it is not used to segment customers based on profitability per se, as the main segmentation in the case company is by the size of the customer.

“With the internal system we are already able to have a view into the profitability of different segments and customers within a segment. With this we are also able to make comparisons between or within segments.” (Michael)

“From our perspective, the objective of (internal system) is to enrich the comparisons made between or within segments, rather than act as a means for a completely new, profitability-based segmentation model.” (Michael)

The objective of the Internal System is to provide a systematic way for employees from different roles to get access to profitability data and use it as they see fit in their specific roles. While the mechanism to systematically access profitability data for decision-making exists, there is no process to drive the usage of that data, as it is left to the responsibility of individual employees.

“(Internal System) is a separate computational mechanism for delivering product and customer profitability perspective, where the drivers are product specific. Therefore, product managers, managers, business executives and sales managers can dig into their area of responsibility and take actions regarding profitability in their respective areas.” (William)

It is important to note that the Internal System is still in the very early phases of being fully implemented into the business. The case company is moving more and more towards proactively using profitability data to make business decisions.

> *"(Internal System) is still new, the project has been ongoing since 2014 but only now in 2019 we are at the point where we are actually implementing it in the B2B business unit." (Michael)*

> *"The AI team is building an automated forecasting model. We could forecast the direction to which the customer relationship is evolving and make decisions based on that, but we're not there yet. Using this model, we would better implement profitability-based thinking into our work and be able to more proactively plan our next steps." (Jennifer)*

This means that most employees are not yet experienced users of the system, and therefore the current situation resembles a testing phase. As users are being trained and they are beginning to use the system, the business can identify gaps that need to be filled and areas that require improvement.

> *"(Internal system) yes, we are using it but it is rather new, I just had a training on it so I can't say it is something I have used or am using. But it's quite handy, what we are looking at now is whether or not the figures we see in it are reliable, because this is something that we have just started to use but management has already used a bit longer. You can for example see which products or customers are more profitable than others." (Mary)*

> *"Our (internal system) is a good tool, although it needs some improvements because we only took it into use in April or May, so it still needs some tweaking." (Patricia)*

Because the implementation of the system is still in progress and its functionalities are being tested, there are shortcomings that were identified in the interviews. One of them is inaccuracy. Based on the experience of Patricia, the Internal System does not always take into consideration the way employees have worked before the implementation, failing to consider which metrics they need for their jobs, for example. As demonstrated in the latter quote, users do not always know where the results are derived from,

> *"Currently (company) has stated that we are looking into cash flow. To me it sounds odd because I'm used to looking at revenue, and it's a little different because basically the data that we are looking at in the new (internal system) is cash flow. Customers pay for one reason or another their bills in different order, or in different months, so currently if you look at this data in (internal system) you need to understand that it doesn't take into account periodization and things like that." (Patricia)*

> *"The whole idea in this (internal system) program has been that our business managers who were taking care of a single product area, could themselves look at the profitability, and we would always have a clear view of what is the profitability level of a certain product. Of course, we need to always look at the big picture when making a deal, and then we maybe need to give in in some areas, products or services, but then somewhere else we can sort of make up for it with other products. Now it has been a bit unclear for at least some of the business managers, so they are not completely sure what kind of costs are taken into consideration when looking at their products. So, we could have an easier to use system, but this is good enough for now."(Patricia)*

The complexity of the system is worth addressing. As the business environment of the case company is in constant change, it consequently means that the demands faced by the system change as well. As such, the system is constantly in a process of reiteration, leading to complexity in the technological side of the system, as well as potential inability of its users to fully perceive its capabilities.

> *"The internal system has its own shortcomings, as it is never truly a finished product but rather a continuous process which reiterates as the business lives. We get new customers, customers leave us, customers change their organizational structure, our organizational structure changes, product structures change and so on. The original modeling used may date back to 2015, and now that it's being implemented, we realize in some points that this logic doesn't work anymore in 2019. The entirety of*

it is so vast, that none of us involved in the project from the beginning is able to perceive the whole thing at once." (Michael)

It is also important to note that not all employees necessarily believe that having customer profitability data for use in their jobs is valuable.

"In my current role I don't see the need to calculate the NPV of my customer portfolio. I think one reason is the quarterly economy and publicly listed company, in a way it doesn't matter what the value of the portfolio is." (Patricia)

Mainly however, throughout the interviews the desire and need for a more systematic way to use customer profitability data is clear. Based on the interview with William, customer profitability is not used enough or systematically enough in the case company.

"In order to not spoil the profitability of a customer, there must be different operations (for existing customers). We need to be able to adjust the profitability in order to retain good value for shareholders. There is great potential and room for improvement." (William)

4.3 Barriers

As established in the previous sections, the case company has a strong drive to make their operations more profitability oriented, but for various reasons they have not been able to reach this point yet.

Therefore, it is worthwhile to understand what is preventing the case company of adopting a more profitability focused mindset. In the eight interviews conducted, barriers hindering the company's efforts to utilize customer profitability metrics were identified.

Barrier 1: Traditional Way of Thinking & Resistance to Change

The first identified barrier is that in many areas, the company and its employees have a traditional way of thinking when it comes to handling customers. Customer segmentation is mainly done by headcount and company size. Some employees believe profitability should not even be a factor in segmentation. The mindset can be described as narrow, and there seems to be very little motivation to challenge the current mindset when it comes to segmenting customers.

> *"We segment by customer size, simply because different things matter to companies of different sizes. Size is a good way to differentiate customers and the need is the leading aspect. Revenues, headcount and need for IT solutions most often go hand in hand." (John)*

> *"Our most profitable customers are our largest customers. It can easily be seen that there is a correlation between customer size and relative profitability." (Robert)*

> *"Personally, I don't see any reason for segmenting based on profitability." (Michael)*

There also seems to be resistance to changing mindset because of the consequences it would pose. The amount of work that a reorganization of segmentation model would require is something employees would like to avoid.

> *"I don't see a scenario where we would segment based on customer profitability. That would require a huge reorganization. For example, sales would be reorganized based on these profitability segments. I don't see it going that far, it would have to be assessed how this kind of segmentation would have an effect at the functionality level in the company." (William)*

Finally, the mindset that changes are not necessary can also rise from an underlying resistance to change. The extract below demonstrates the lack of a forward-focus, as well as a mindset where portfolios are not considered as an entity that can have a real effect on the value of the business.

> *"I don't need to calculate the NPV of my customer portfolio. It doesn't matter what the value of the portfolio is, discounting the value from three years onwards to this day, because we always live for this year. Other than very specific cases, I don't see*

any use of understanding long term profitability of the customer portfolio." (Patricia)

Barrier 2: Accuracy Issues and Trust Issues

As the implementation of a systematic method for using customer profitability in decision making is still ongoing, there are shortcomings which lead to compromised accuracy in figures, which in turns leads to a decreased level of trust in end users, the employees. The issues regarding accuracy and trust can lead to issues in employees' motivation to adopt the new ways of working.

"(System) is rather new, and there is a lot of cleaning up to do to get all measurements right. They are not so reliable yet, and we are trying to clean it up." (Mary)

"The challenge is that the whole project and its implementation are in their early stages, and there are plenty of shortcomings. The result is that finding the value of the system is hindered." (Michael)

For example, the models used in the systems for profitability analysis are not always up-to-date and may therefore not reflect the reality. If figures are consistently wrong, or employees are in the unknown whether or not they can trust the figures to be correct, the motivation to adopt the system decreases. The latter extract provides a concrete example on this issue.

"Sometimes keeping the information of models up-to-date in real time works and sometimes it doesn't. That means that figures may be slightly distorted at times, and especially as they're observed at a more accurate level. If the situation gets worse, then we could say it's pretty bad." (Michael)

"We had seen for a while that a certain modeling was misaligned, but we were always told that this was done together with management and it's correct. But when we asked if this has been a topic of discussion, they told us it hadn't. As the models were incorrect, there is a credibility and trust problem. Some people know for example that some specific costs should be reflected somewhere else than where they

currently are. The figures may be correct, but when they are distributed between for example five product areas, it could be that they only show up in one and for four there is nothing. That implies that the profitability of that one product area is very bad whereas the others are good, because the costs are not taken into consideration. Amendments to the models cannot be made retrospectively, the amendments are rather reflected only after the month of correction. This means that year-to-year or quarter-to-quarter comparisons become inaccurate. The reason why amendments cannot be made retrospectively is because at business level the amount of data is so massive, only in the B2B segment a sample can be hundreds of millions of rows. Processing this data would take a long time and there is a risk that the systems could get stuck." (Michael)

The following is another example of how cost allocation within the systems of the company is not accurate and may not reflect reality.

"In (company) the costs are not fully allocated. We have these operating costs that are split equally through the organization, based on for example number of customers, revenue, or whatever metrics have been decided. But some of those metrics have to be recalculated or redecided, because they do not necessarily mirror the reality." (Patricia)

The accuracy issue presents itself when different tools or systems are integrated to work together. Certain figures concerning the same thing may be reflected differently in different systems, and the challenge lies in educating employees on the reasons behind differences in the systems and figures.

"We don't do forecasting, budgeting or strategize economic figures with (our internal system). We have an income statement approach to these. This presents a challenge, of how the systems integrate, because now the internal system only shows how the past months were realized. We use a lot of effort to educate our employees to understand how these systems and calculations work. We need to show them why one figure is not necessarily the same in the different systems." (Michael)

To conclude this section, the afore-mentioned issues stem from a lack of understanding, among other reasons. The processes to educate employees must acknowledge the shortcomings of the systems and convince them that despite the current challenges, adopting these systems can have a positive effect on the nature of their work and the business.

> *"The company culture must support the importance of the process. We need to increase and improve understanding around this, and good processes will follow. People need to understand that this is not only some technological hype, but this has an actual effect on the business." (Jennifer)*

Barrier 3: Complexity & Multiple Systems

Another barrier is the sheer complexity of the environment where employees operate when it comes to the systems they use in their jobs. This makes the field difficult for employees to navigate, leading to lack of motivation to even understand and properly use the systems. There are constantly new tools being introduced to be used among the existing ones, which can make it overwhelming for those who are intended to use them.

> *"The problem with (company) is that there are so many systems due to many mergers, we have many daughter companies as well. We are used to using different tools, it's not always handy but you get used to it and you need to know where to look and at which figures." (Mary)*

> *"We are for example launching a new version of (product), so we have a pricing configurator for that, and it is similar to excel. The price depends on for example the kind of customer, the required services, the governance model, customer criteria and many more. By combining these items, we can give a list price." (Mary)*

The challenge is not only on the people side, but it is also difficult from a technological point of view.

> *"We operate in an environment of five different customer- and product source systems, and that does not include billing systems. Each has its own base structure*

and customer- and product structures. Modeling a profitability calculation would be extremely difficult." (Michael)

Finally, the challenge does not lie only in the number of systems, but the user-friendliness of the systems themselves. Some systems are perceived as difficult to use by employees, and this hinders the adoption and motivation to engage with them.

"(It) is just one tool among others. I personally would prefer using some other easier-to-use tools, this contains so much data that if you want to go deeper into details, you get sort of lost." (Patricia)

Barrier 4: Alignment issues within company

There seems to be a lack of alignment and connection on the topic among employees, which shows the lack of a clear and defined vision and path to achieving a more profitability focused mindset. For example, there were varying opinions among interviewees on whether the company operates or should operate on a product- or customer profitability focused approach.

"I look at how these services are used, how are the revenue and profitability going. I look at which customers are the top customers or using these services, so a customer focus. Product managers are more interested in how the products are doing and how we should improve those services." (Mary)

"Product profitability is a main focus when we think of profitability from the point of view of management and the business as a whole. Then again sales look at profitability from a customer perspective. There is however a dependency between the two, for example how does product profitability reflect onto customer profitability." (William)

Employees are however aware that the operating environment is rather siloed and that they may not see the whole picture from their individual roles.

> *"I haven't worked in (company) so long and I only see one side of it. I know there are new tools to use that I'm not familiar with, it's something we need to improve in our department." (Mary)*

The lack of alignment can also lead to employees bypassing agreed upon processes. These bypasses can be made by for example salespeople thinking it is the best option, but there may be underlying reasons not visible to the salespeople why it would be best to stick to those processes. These actions may have impacts on the profitability of customers. Employees not sticking to guidelines testifies to the lack of alignment.

> *Sometimes it can happen that processes are bypassed, that pricing decisions are made in customer negotiations without those issues actually being addressed. The goal is to act in accordance with the agreed operating models, but bypasses may happen without understanding what kind of affect that can have on our profitability. Having worked in sales I can understand that the desire is to close deals and this is when these bypasses can occur.*

Barrier 5: Lack of ownership and know-how

The final identified barriers are the lack of ownership and of know-how.

> *"This whole thing is so new, that it does not have real ownership yet. You could say that the core issue is the lack of ownership. Who really is responsible for all of this?" (William)*

It is however widely agreed by the employees, that even if the actual implementation takes places at department level, the main responsibility for an effective process flow is with management. The point of transparency is also raised - employees want to be involved in the decision-making regarding the processes in question.

> *"Top management needs to commit to this, and the pressure needs to originate from them. It's not enough that they communicate that this needs to be done. They need to show that they themselves are using this as a management tool." (Michael)*

"There is a lack of visibility when it comes to decision-making. This leads to issues in ownership, because no one seems to know whose responsibility it is to get this rolling. It's clear that it's management's job, even though where it is ultimately executed is in the specific departments, for example in sales support or sales processes where the operational work is done." (William)

There have been efforts to have management roll the process out, but these have not been as successful as hoped due to a lack of engagement from the top level. This has a direct effect on the adoption problems identified.

"We've tried to implement in a way that the pressure flows both top-down and from the bottom as well. This means that when the pressure comes from the top, the bottom part is already ready to receive that pressure and it's not coming as a surprise to them. First, we began to train product managers to show what their tools are and who is supporting them. Then we strategized how to plant this in the management system so that the pressure came from above. This did not really work because the management of the B2B sector was not adopting the model, and so it didn't naturally roll to the next levels, even though in theory it was being used." (Michael)

A lack of metrics to track the usage or goals for employees also hinders the adoption. There have not been any incentives for employees to start using these systems, as the pressure from management is weak.

"I've noticed that if there is no pressure, if the matter is not being tracked or set in our targets, or if we are not requiring action from employees, then they are not really going to start doing it." (Michael)

Finally, the shortage of know-how may hinder adoption. There is also a common misconception that these kinds of processes are simple, whereas the reality may differ based on various factors.

"There are differences in how much data is involved, from what entity calculations are made of and how extensive the sources are from where the data is extracted and modeled from. It is often thought that this is a simple process, but in such cases, there

> *are likely clear source systems and that's why it has been rather straightforward. The variety of source systems needs to be taken into account. If the case is that there are various source systems like we have, no matter how much they try to unify the product structures, there will still be twists and compromises will need to be made. This complicates and hinders implementation and utilizing the systems. The amount of data is so massive that is really difficult to understand it." (Michael)*

Finally, for the implementation to be successful, the required data must be available to use and there needs to be employees that are skilled enough to use it. As this is not often the case, the implementation is hindered.

> "*The main barrier is probably availability of data. It's hard to do this if you don't have data to utilize. Then there's the lack of understanding, of what to do with the data. So, what if we know that something is unprofitable? First, we need to have the right data for use through technologies, and then the knowledge how to use it and what to do with it." (Jennifer)*

5 Analysis and Discussion

The findings section establishes an understanding of the current operating model of the case company; it shows the company's motivation to adopt a more customer profitability-oriented way of working, as well as identifies five main barriers hindering their efforts to do so. The five main barriers identified are:

1. Traditional Way of Thinking & Resistance to Change
2. Accuracy Issues and Trust Issues
3. Complexity and Multiple Systems
4. Alignment Issues Within Company
5. Lack of Ownership and Know-how.

Of the barriers identified in the case study, some were already presented as themes in change processes in the literature review. Others, on the other hand, did not arise in the literature review. It is worth making the distinction between which barriers were expected based on the literature review, and which barriers were not considered in the literature review but arose in the case study. The lack of ownership and know-how was a prominent barrier emerging in literature on the topic, as were alignment issues within the company, as well as feelings of discomfort towards the uncertainty surrounding the process, which can be translated into resistance to change. The two barriers identified in the case study which were not prominently presented in the literature review are accuracy issues and trust issues, and complexity and multiple systems.

This section will dig deeper into two of the barriers identified as well as their relationships to one another. The barriers in question are "Alignment issues within the company" and "Lack of ownership and know-how". While all the barriers identified in the Findings section can be interrelated to some extent, the two abovementioned barriers were selected due to the strong and clear relationship to each other. In this section, I will discuss how adoption of a customer profitability-oriented mindset is hindered as a result of these two barriers as individual components, as well as how the components are interrelated and thus magnify the negative effect on adoption.

As established in the literature review, knowledge within the organization is an important component affecting the success of a change initiative. According to the research by Chao & Chandra (2012), in IT change initiatives, the project owner's knowledge of the respective IT highly increased the chances of the project succeeding. The research for this Thesis found the lack of know-how to be the initial component in the series of events that sets the stage and can lead to hindered adoption of a customer profitability-oriented mindset. This occurred with the case company. The lack of know-how is partially a consequence of the complexity of the systems and the massive amounts of data involved. It can also result from a misconception that processes to drive these kinds of changes can be simple, however, this is most often not the case in environments as complex as the one of the case company. Such misconception can lead to people with a lack of sufficient know-how being in key positions regarding the processes driving the changes, which leads to a lack of know-how affecting the whole project. As such, according to the study by Chao & Chandra (2012) a lack of know-how would decrease the chances of the project succeeding. The lack of know-how has also other consequences, which will be discussed later in this section.

Lack of ownership leads to lack of know-how

Know-how on a specific matter can come as a result of ownership. When ownership is clearly defined and appointed, pressure for the owner or owners of the process to obtain sufficient levels of know-how is present. As such, when ownership for the process is not defined, it can result in unsatisfactory levels of know-how. The findings support this theory, because the case study shows that the failure of management to successfully appoint the right change agents within the organization led to an unsuccessful attempt to roll the adoption to different levels in the unit where the change was meant to take place. This resulted in insufficient instructions, directions and specifications from management. Therefore, the employees in question would have been required to acquire an understanding of the change process, their role in it as well as what is expected of them individually so that the unit could adopt the model and system.

Lack of know-how leads to lack of ownership

The previous paragraph analyzes how ownership can result in know-how. However, reversely, know-how can also result in ownership and therefore, lack of know-how can lead to lack of ownership. Research shows that knowledge management practices in an organization lead to improved processes and management involvement, which can facilitate ownership being assigned to the appropriate people or parties (Wong & Aspinwall, 2005). However, the output from the interviews imply that there is a gap in know-how in the process, from a system as well as procedural point of view. An issue that arose in the interviews is that the project is so new, that it does not have real ownership yet. As the project is still in its early stages, the key people who have relevant and valuable data regarding the project may not have all been identified and therefore have not been equipped with the required know-how yet. As the knowledge management practice is not fully implemented, ownership assignment of certain parts of the projects is hindered.

Cascio et al (2010) concluded that when management clearly and effectively communicated the vision and strategy regarding the changes to those affected, the success of the projects increases. Therefore, in cases where communication is not carried out properly, the success of the project may be hindered. This phenomenon was visible in the interviews, as the unit is experiencing a lack of visibility when it comes to decision-making, and that had negative implications on ownership. The transparency issues on the other hand imply that there is a gap in the know-how on how to roll out such a complex operation within the business.

Lack of know-how leads to lack of alignment

The lack of know-how or knowledge can also lead to lack of alignment. A challenge discussed in the literature review was the systematic distribution and transfer of knowledge in an organization (Gopalakrishnan & Bierly, 2001). The interviews established that there is an awareness that the operating environment within the business unit is rather siloed, and that some employees only have visibility, and therefore knowledge, merely on their side of matters. As such it can be reasoned that there is a lack of alignment within the employees in the organization, and it is to some extent caused by them not being knowledgeable on the bigger picture of the operating environment. This again is a result of the issues regarding knowledge transfer, which has a negative effect on alignment.

Lack of ownership leads to lack of alignment

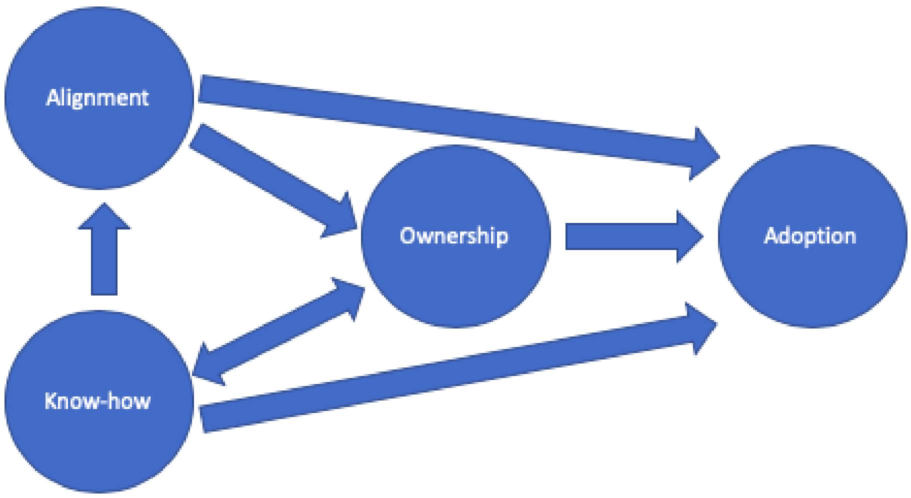
The findings show that there is a lack of connectedness regarding the topic of moving to a customer profitability focused model among employees. This can be a result of the issues the company faces regarding ownership being taken on the process. Based on the interviews, employees lack a clear and defined vision on the objectives of the organization. According to Gill (2002) vision and strategy are two of the most crucial things management must establish and communicate in order for their change projects to succeed. The same is also widely agreed among interviewees interviewed for this research, as one of the main themes arising is that management should be the key driver of the changes. However, a lack of commitment from top management is a valid concern, as no one seems to know who is actually in charge of rolling out the change. There have been concrete plans for management to roll out the process, but they failed due to a lack of a designated person in the B2B sector to drive the adoption of the model.

Alignment issues caused by a lack of ownership and know-how hinder adoption

The objective of this thesis was to understand and identify barriers that hinder the adoption of a customer profitability focused mindset and the organizational changes in relation to that, including the introduction of new tools and systems for the employees. A further emphasis was on understanding the interrelations of these barriers, to be able to prove that the barriers act as dynamic components among each other rather than as siloed events.

The previous paragraphs have shown how the barrier components of ‘alignment’, ‘know-how’ and ‘ownership’ are interrelated and have cause-and-effect relationships among each other. The final point of discussion in this Thesis is how these barriers come together to hinder adoption. In projects involving organization or unit wide change, such as the one the case company is undergoing, the direction, structures and capabilities of the organization are under stress (Todnem By, 2005). As the discussion and analysis has also proven, these three components are essential but partially compromised in the case of the case company. As the case company has a strong desire and motivation to move toward the direction that their change process is pointing them to, it can be concluded that these three components are not providing the results they are meant to provide, which is quicker and more efficient adoption of the change process. For this phenomenon there are underlying reasons. Firstly, an outcome of this Thesis is that the alignment component in the change process is lacking, and this can translate into a lack of structure. The lack of alignment is caused by a lack of ownership and know-how. Secondly, this Thesis establishes a lack of ownership regarding the change process. Without proper ownership, it is difficult to have a driving agent to set the direction that the project is supposed to transform into. Finally, the Thesis proves that the capabilities of the employees may not be aligned to the capabilities the successful execution of the project requires. All the aforementioned factors feed into the organization’s ability to absorb the changes required for adopting a more customer profitability-oriented way of working.

The diagram below provides a visual representation of the relationships between the components, as discussed in this analysis.



The combination of these components (alignment, know-how and ownership) and a lack thereof decrease the chances of a successful adoption of a customer profitability-oriented mindset.

6 Conclusion

6.1 Summary

The purpose of this Thesis was to study the barriers companies may face when aiming to transition to a more customer profitability-oriented mindset, despite having clear motivation to do so. The research method was a case study, and the case company remains anonymous throughout the Thesis due to the sensitivity of the topic. The data was collected via eight semi-structured interviews of employees in various positions within a certain unit in the company.

The findings of the study show that there are five main barriers that the case company experienced in becoming more customer profitability focused. The barriers are Traditional Way of Thinking and Resistance to Change; Accuracy Issues & Trust Issues; Complexity & Multiple Systems; Alignment Issues Within Company; Lack of Ownership & Know-how.

The findings from the interviews as well as data from the literature review were brought together to provide arguments for why lack of ownership and know-how can lead to alignment issues, which can further lead to a hindering ability to adopt a customer profitability-oriented mindset. The study found that all of these components are interrelated and have a dynamic relationship among each other.

6.2 Limitations and Suggestions for Further Research

As this Thesis is a qualitative case study, its findings are specific to the case company, and cannot necessarily be applied universally. The operating environment of each company is unique, and therefore the findings for another company could be very different. Therefore, careful consideration should be made before applying the findings to other cases.

Additionally, the research consists of a limited number of interviews. The sample considers a portion of the employees who will become affected by the changes the company is experiencing in moving to a more profitability focused mindset. Therefore, conducting more interviews, as well as expanding the reach to other business units as well could yield interesting and varying results.

There is plenty of research on using customer profitability data and metrics in organizations, as well as on change management and factors that affect change initiatives, but little research that combines the two topics. As mentioned, the findings in this thesis are specific to the case company, and although they can act as a benchmark in research concerning other companies, they still should not be applied universally. Additionally, as companies are increasingly looking into managing their customer bases in new and innovative ways, additional research on the topic is relevant and timely.

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