



**CHALMERS**  
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# **How to design and integrate a customer-centric sales & service organisation**

## **A study on a medtech company in emerging markets**

*Master's Thesis in the Master's Programme  
Quality and Operations Management*

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CHALMERS UNIVERSITY OF TECHNOLOGY  
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## **ABSTRACT**

The medtech industry is facing changes and increased competition due to demanding customers, rapid technology development, globalization and innovative low-priced business models. Moreover, the customer's purchasing processes are becoming centralized and with more stakeholders involved in the purchases, which has led to a complex sales environment.

To investigate how companies cope with such issues, a comparative case study was carried out on Kahun, an international medtech group. Due to a decrease in revenue Kahun is integrating and redesigning the sales & service organisation to create cost and revenue synergies. This can also be seen as an initiative to become a customer-centric organisation in order to increase their competitiveness. Fast growing markets, i.e. emerging markets, have been highlighted as the location for the integration as this is an area for growth and further exposure for Kahun.

The aim of this thesis is to find the key parameters of how to integrate Kahun's sales & service organisation in the emerging markets to become more customer-centric in the future. Semi-structured interview guides were used and interviews were conducted with managers at Kahun, as well as medtech experts, sales experts, customers and benchmarked companies, to find key aspects about how to redesign a sales & service organisation within the medtech industry.

The findings indicate there are benefits as well as drawbacks in integrating a sales & service organisation. It can increase profit and decrease cost. On the other hand, it can also cause problems, such as creating a more complex organisation, and shifting the bargaining power away from Kahun. To become customer-centric the entire organisation must prioritize the idea of customer-centricity in their strategy and be aware of how redesigning the sales organisation can affect other parts of the organisation. Customer-centricity also requires customer segmentation, strategic sales people and measurements for leading indicators. Another finding is the low maturity level on emerging markets and the use of distributors as the sales channel which make it difficult to become customer-centric.

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# TABLE OF CONTENTS

<b>ABSTRACT</b> .....	<b>2</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>3</b>
<b>1. INTRODUCTION</b> .....	<b>1</b>
<b>1.1 BACKGROUND AND PROBLEM ANALYSIS</b> .....	<b>1</b>
1.1.1 THE MEDTECH INDUSTRY .....	1
1.1.2 CHANGES IN BUSINESS-TO-BUSINESS SALES.....	1
1.1.3 COMPANY SITUATION .....	2
<b>1.2 PURPOSE AND RESEARCH QUESTIONS</b> .....	<b>2</b>
<b>1.3 DELIMITATIONS</b> .....	<b>3</b>
<b>2. THEORY</b> .....	<b>4</b>
<b>2.1 ORGANISATIONAL DESIGN</b> .....	<b>4</b>
2.1.1 STRATEGY .....	5
2.1.2 STRUCTURE .....	6
2.1.3 PROCESSES.....	7
2.1.4 METRICS AND REWARDS .....	8
2.1.5 PEOPLE .....	8
<b>2.2 DESIGNING A CUSTOMER-CENTRIC ORGANISATION</b> .....	<b>8</b>
2.2.1 STRATEGY .....	9
2.2.2 STRUCTURE .....	12
2.2.3 PROCESSES.....	13
2.2.4 REWARDS AND METRICS .....	13
2.2.5 PEOPLE .....	14
<b>2.3 INTEGRATION OF BUSINESS AREAS</b> .....	<b>15</b>
2.3.1 REASONS WHY INTEGRATIONS FAIL .....	16
2.3.2 HOW TO SUCCEED WITH INTEGRATIONS.....	17
<b>2.4 EMERGING MARKETS</b> .....	<b>17</b>
<b>3. METHODOLOGY</b> .....	<b>19</b>
<b>3.1 RESEARCH STRATEGY</b> .....	<b>19</b>
<b>3.2 RESEARCH DESIGN</b> .....	<b>19</b>
<b>3.3 RESEARCH METHODS</b> .....	<b>19</b>
3.3.1 PRE-STUDY .....	20
3.3.2 MAIN STUDY .....	20
3.3.3 INTERVIEWS .....	20
<b>3.4 TRUSTWORTHINESS</b> .....	<b>21</b>
<b>3.5 ETHICS</b> .....	<b>21</b>
<b>3.6 CHALLENGES DURING THE STUDY</b> .....	<b>22</b>
<b>4. EMPIRICAL FINDINGS</b> .....	<b>23</b>
<b>4.1 Interviewees</b> .....	<b>23</b>
<b>4.2 THE COMPANY KAHUN</b> .....	<b>25</b>
4.2.2 KAHUN'S SITUATION.....	25
4.2.3 KAHUN'S SOLUTION .....	25
4.2.4 THE NEW ORGANISATION .....	26

4.2.5 BENEFITS OF THE NEW ORGANISATION .....	28
4.2.6 CHALLENGES WITH THE NEW ORGANISATION.....	28
<b>4.3 INTERNAL PRECONDITIONS FOR DESIGNING A SALES ORGANISATION.....</b>	<b>31</b>
4.3.1 KAHUN'S DIRECTION .....	31
4.3.2 METRICS.....	31
4.3.3 SELECTION OF CUSTOMERS.....	32
4.3.4 ORGANISING ACCORDING TO CUSTOMERS.....	33
4.3.5 KAHUN'S SALES MODEL .....	33
<b>4.4 KEY DESIGN ASPECTS FROM BENCHMARKS .....</b>	<b>34</b>
4.4.1 STRATEGY .....	34
4.4.2 STRUCTURE.....	37
4.4.3 PROCESSES.....	38
4.4.4 REWARDS AND METRICS.....	39
4.4.5 PEOPLE .....	40
<b>4.5 SALES TO MEDTECH CUSTOMERS.....</b>	<b>41</b>
4.5.1 A CHANGING LANDSCAPE.....	41
4.5.2 CUSTOMER-CENTRICITY AS A MIND-SET .....	41
4.5.3 COMPLEX PURCHASING.....	42
<b>4.6 THE CUSTOMERS .....</b>	<b>43</b>
4.6.1 CENTRALISED VS. DECENTRALISED PURCHASING ORGANISATIONS.....	43
4.6.2 CHANGED RELATIONSHIPS.....	43
4.6.3 ABILITY TO PURCHASE SOLUTIONS .....	43
4.6.4 PURCHASING PROCESS .....	44
<b>4.7 EMERGING MARKETS.....</b>	<b>45</b>
4.7.1 CUSTOMERS ON EMERGING MARKETS.....	45
4.7.2 MATURITY LEVEL.....	46
<b>5. Analysis .....</b>	<b>47</b>
5.1 BARGAINING POWER SHIFTING FROM KAHUN TO CUSTOMERS .....	47
5.2 INTERNAL PROBLEMS COULD RESULT IN CUSTOMER PROBLEMS .....	48
5.3 IMPORTANCE OF SYSTEM THINKING .....	49
5.4 DIFFERENT VIEWS OF THE INTEGRATION .....	49
5.5 A CLEAR STATEMENT OF WHAT TO ACHIEVE.....	50
5.6 CREATING VALUE FOR THE CUSTOMERS .....	52
5.7 DIFFERENT CAPABILITIES OF BUYING SOLUTIONS.....	53
5.8 SEGMENTATION OF CUSTOMER TYPES .....	54
5.9 NEW TYPES OF SALES REQUIRE OTHER METRICS AND PEOPLE.....	55
5.10 IMPORTANCE OF COLLABORATION WHEN SELLING SOLUTIONS .....	56
5.11 ABILITY TO BECOME CUSTOMER-CENTRIC WITH DISTRIBUTORS .....	57
5.12 MATURITY LEVEL OF EMERGING MARKETS AND ITS EFFECT ON CUSTOMER- CENTRICITY.....	58
<b>6. CONCLUSIONS.....</b>	<b>59</b>
6.1 FUTURE RESEARCH .....	61
<b>REFERENCES.....</b>	<b>63</b>
<b>APPENDIX.....</b>	<b>66</b>
Exhibit A – Standard interview guide.....	66



# **1. INTRODUCTION**

This chapter presents the introduction to this master thesis. It starts with the background and the problem description, which build up to the purpose and research questions. The chapter ends with the delimitations for this study to clarify the scope of the thesis.

## **1.1 BACKGROUND AND PROBLEM ANALYSIS**

The background and problem description frame the scope of the thesis. First, there will be an introduction of the medtech industry, followed by a section on recent changes in business-to-business (B2B) sales. Then, a company description will be given to the readers in order to provide a basic understanding of the company in the study and the challenges when integrating across business areas to become customer-centric in emerging markets.

### **1.1.1 THE MEDTECH INDUSTRY**

The medtech industry is a wide-ranging industry that includes a variety of products and solutions used in health and social care (Swedish Medtech, 2015). The industry is composed of a variety of companies, from small one-man businesses all the way to large multinational companies. Most companies are small and medium enterprises (Swedish Medtech, 2015). Medtech solutions have an import role in the health care system as they help reduce symptoms and prevent disease progression, which ensure the health of individuals. Billions of patients worldwide depend on medtech at home, at hospitals and in nursing homes. Medtech helps people to live healthier, be more productive and socially active, and live independent lives. It also reinforces employability, which is a prerequisite for well-being and economic prosperity. Despite the high diversity of products in the medical industry, the common aim is to develop medtech of the highest quality and offer the greatest benefit to patients to elevate the quality and effectiveness of care (Eucomed, 2015).

Companies in the medtech industry are facing an increased level of challenges characterized by more demanding customers, rapidly advancing technology, and increased competition due to globalization and innovative low-priced business models. This have increased the focus on providing products that are more competitive when it comes to pricing to present real value to the customers (Llewellyn et al., 2015). Moreover, governments and health insurers are now focusing their resources on how to reduce and control healthcare costs. These efforts have a direct impact on the budgets for public hospitals and leave private hospitals with lower reimbursements (Llewellyn et al., 2015).

As a result of the changing environment, new purchasing process have started to arise and new people are involved in the purchasing decisions (Llewellyn et al., 2015). EY (2014) points out that purchasing decisions are becoming more centralized and that physicians are becoming less influential. Piercy (2006) argues that this change on the agenda has put pressure on the sales organisations to develop its internal processes and structures in order to meet the new purchasing expectations.

### **1.1.2 CHANGES IN BUSINESS-TO-BUSINESS SALES**

Not only have there been changes in the medtech industry itself, but there have also been changes in business-to-business sales over the last decades. Purchasing processes are becoming more centralized and more people are getting involved in the decisions, which has led to a more complex sales environment. The traditional sales model with the seller as an informant and expert is too simplistic (EY, 2014). Vargo & Lusch (2004) have also identified

a significant change in the understanding of sales. The traditional view of a distinction between tangible goods and intangible services has been replaced by a solution-centred logic, comprised of both goods and services that deliver value to customers. This has forced sales organisations to shift their mind-set from push selling products and services to becoming a solution provider (Piercy, 2006), which is a characteristic of customer-centric organisation. However, there has been little research on customer-centricity in the medtech industry to date.

### **1.1.3 COMPANY SITUATION**

The company studied in this master thesis is an international medtech group, Kahun. Kahun develop, produce and sell medtech products, both consumable and capital goods, for the premium segment. The customers operate in the fields of health care, elderly care and life science. Kahun's major markets are Europe and North America, but also have considerable activity in other parts of the world. Kahun is organized into three business areas (BA) and they operate independently of each other and sell different products.

Over the past decade, Kahun's total revenue has increased five times its value and the stock exchange rate has tripled (Kahun, 2013a). But looking back on the last three years, the revenue has shown a declining trend (Kahun, 2013a). To shift the trend, Kahun is currently deploying a number of initiatives in order to stimulate organic growth and competitiveness. Two of the initiatives, which this study will investigate, are to create a shared sales & service unit organisation and also to become customer-centric. As the company's three different business areas operate independently of each other, the new sales & service organisation is intended to work across the business areas with the use of a shared sales & service organisation. Kahun aims to create synergies between their business areas. This can be seen as the first initiative to become a customer-centric organisation. In combination with integration, the emerging markets have been highlighted as the location for the customer-centric approach as they are a small area that is fast growing and offers opportunities for growth and exposure for Kahun.

## **1.2 PURPOSE AND RESEARCH QUESTIONS**

The aim of thesis is to find the key parameters of how to integrate Kahun's sales & service organisation in the emerging markets to become more customer-centric in the future. This is due to the anticipated market changes in the healthcare industry and the pressure on medtech providers to become more value oriented towards the customers. The thesis also covers the challenges of integrating across business areas that currently work independently of each other. Moreover, it elaborates on what influences the emerging markets have on the new organisation design. In order to investigate these issues, three research questions were generated to guide the study. The following part of the chapter presents the context of the research questions.

Before being reorganized into an environment with shared resources, Kahun must acknowledge barriers that could hinder their plans for collaboration between the business areas. Collaboration between business areas is often perceived as an obvious and tangible alliance that only needs social support and motivational alignment in order to be executed; however, collaboration between business areas is often poorly specified and difficult to evaluate (Martin and Eisenhardt, 2010). This is related to the first research question this study attempts to answer:

**RQ1:** What are the benefits and problems when integrating a sales & service organisation across business areas?

The increased challenges in the medtech industry and strategic purchasing processes among the customers have called for changes in the sales organisations. In order to compete, it is vital to be flexible in order to create value for independent customers, which is a key component in a customer-centric organisation. As little research has been done on the subject, especially when it comes to sales, the second research question attempts to address this issue:

**RQ2:** *What are the key characteristics to consider when designing a customer-centric sales & service organisation?*

McKinsey & Company (Donoghoe et al., 2012) has highlighted emerging markets as important markets for medtech companies in the future and BCG (Benedetto et al., 2014) estimates that that one third of the global healthcare expenditures will occur in emerging markets by 2022. This makes the emerging markets a potential lucrative environment. However, McKinsey & Company's (Donoghoe et al., 2012) research shows that one barrier to succeed in the emerging markets is that the offerings brought to the emerging markets are seldom adopted to fit the customers. The reason for this is that many of the products and services are developed in the west and not customized to fit local needs. Therefore, the third research question is:

**RQ3:** *What impact does emerging markets have on the sales & service organisation in this context?*

### **1.3 DELIMITATIONS**

The arena for this strategic change has been set to the emerging markets. When justifying why emerging markets have been chosen for the development of a new organisational design, officials within Kahun pointed to a more complex internal situation and that this environment suits well as a testing ground for the new organisational design. The research is performed from Sweden, regarding both general aspects when designing a sales & service organisation but also regarding more specific aspects to consider on emerging markets.

The thesis will focus only on the sales aspects of the sales & service organisation. In other words, the service organisation has been left out; otherwise, the scope would have been too broad. The culture aspect of an organisation has been excluded because of Kates and Galbraith's (2007) view on a company culture, which implies that a leader cannot design a culture directly; instead, the culture is an effect of design decisions over time.

Furthermore, although laws and regulations have a major role in the medtech sales, they are not considered in the study due to the scope of the topic. Finally, only hospitals have been considered as customers for the company studied, excluding middlemen in the supply-chain, such as distributors.

## **2. THEORY**

This chapter gives an explanation of organisational design, integration and emerging markets. The theory about organisational design is divided into two sections: general organisation design and design of a customer-centric sales organisation. Both parts are presented according to the components of the Star Model™, which includes: strategy, structure, process, rewards/metrics and people. The theory about integration provides a description of the considerations to be taken when integrating business areas and the emerging market theory and its uniqueness.

### **2.1 ORGANISATIONAL DESIGN**

An organisation is defined as an arrangement of activities involving a set of people (Spiro et al., 2008). The aim is that the people in the arrangement will work better than if they would have worked individually (Spiro et al., 2008). When an organisation grows, by number of employees, products, business areas and/or sets of customers, more connections and interfaces are generated between the people. The increase in connections and interfaces create a more complex organisation (Kates and Galbraith, 2007). Kates and Galbraith (2007) imply that complex organisations need guidance on how to organize a simple and clear design that benefits the arrangement of activities. Organisational design is the process of how to create an effective organisation that is eligible to fulfil the business strategy of the organisation (Kates and Galbraith, 2007). However, there is no use in copying other companies' successful organisations set-up. According to Lawrence et al. (1967) contingency theory, the optimal organisation set-up depends on both internal and external factors.

The Star Model™ is a framework on how to design an effective organisation (Kates and Galbraith, 2007). The Star Model™ guides decisions on how to reach the goal of the strategy by forming the structures, processes, reward systems and people (Kates and Galbraith, 2007). The Star Model™ is based on system thinking, which means that each component of a system is interrelated; when one part of an organisation is changed all other parts will be affected (Senge, 1993). For example, people of the organisation must be supported and motivated by the reward system and the reward system should support behaviour in line with the strategy. Consequently, to succeed with the organisational design, each component of the organisation needs to be aligned towards the strategy and the interconnections between the components have to be linked (Kates and Galbraith, 2007).

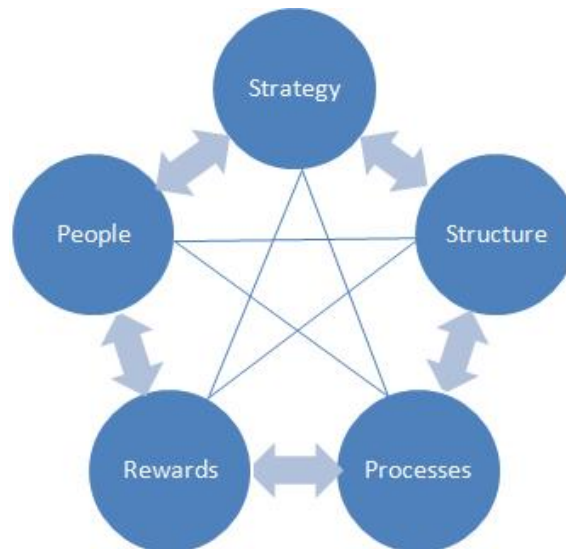


Figure 1 - Illustration of the Star Model™ (Kates and Galbraith, 2007)

### 2.1.1 STRATEGY

The strategy is the backbone of the organisational design as it builds on the vision and mission of the company. It includes both long and short-term goals and decides which operations an organisation should undertake (Rumelt, 2011). The strategy determines how to form a competitive advantage on the market and it is fundamental of how to design the components of the Star Model™ (Kates and Galbraith, 2007). An organisation has different strategies for different functions and the strategies have to be coordinated. According to Spiro et al.(2008), business strategy spans over the whole organisation and needs to be aligned with the marketing strategy, which guides the sales strategy.

Kates and Galbraith (2007) argue that the core of the strategy is the combination of internal strengths, known as capabilities, and external factors that fit the strategy into the prevailed context. Examples of external factors are: competitors, suppliers, customers and emerging technologies (Kates and Galbraith, 2007). Rumelt (2011) argues that a good strategy always includes three elements and summarized as:

- A diagnosis of the challenge, which the company is exposed to. The diagnosis has to define or explain the complex nature of the challenge in a easy manner in order to recognize critical aspects;
- A guiding policy to overcome the recognized critical aspects of the diagnose;
- A set of coherent actions, which are coordinated to execute the guiding policy.

However, a strategy is not successful just because it includes the above-mentioned elements. Rumelt (2011, p. 77) says that *"[I]f an element is absent or misshapen, then there is a serious problem"*. The elements make it easier to create, describe and evaluate a strategy. However, many companies tend to shape vague strategies, which are unconnected and conflict each other. According to Rumelt (2011) there are four ways to recognize a bad strategy which can be summarized as:

- Fluff words, which are words that do not say how to accomplish anything;
- Failure to face the challenge, which means that a company cannot improve a strategy if the challenge is undefined;

- Mistake goal for strategy, implies that companies use desired outcomes rather than a plan to overcome obstacles in their strategy;
- Bad strategic objectives, objectives which are impractical and do not accomplish the aim as they fail to face critical issues.

#### **2.1.1.1 CAPABILITIES**

Different strategies require different sets of capabilities, which effect how to design the organisation. Kates and Galbraith (2007) define capabilities as a unique set of skills, processes, technologies and human abilities that differentiate the company and are hard to copy for other companies. The capabilities can be seen as the link between the strategy and the organisation's prerequisites. An organisation must identify a limited set of capabilities, usually no more than five, that appeal to the customers and differentiate the organisation's offers from others (Kates and Galbraith, 2007). Just as the strategy, capabilities have to be contingent with both the organisation and the environment the organisation acts in (Lawrence et al., 1967).

#### **2.1.2 STRUCTURE**

The structure is the arrangement of formal power and authority. The structure indicates the reporting relationships, power distribution and communication channels. It enables managers to plan, direct and organize the activities of a company. A precondition for aligning the elements of the Star Model™ is to have a structure that supports the decisions of the organisational design (Kates and Galbraith, 2007). There are two general types of structures: line and matrix organisations.

##### **2.1.2.1 LINE ORGANISATIONS**

The traditional line organisation has a hierarchical and centralized structure and is characterized by employees that only report to one manager. Line organisations consist of either a functional hierarchy or a divisional hierarchy (figure 2). The function-based hierarchy groups the organisation into various joint activities and is characterized by interdependent tasks and common goals within each function, but independent tasks and goals between the functions. The divisional hierarchy is however divided into several separate functions based on activities, where all are accountable to the same management. A divisional hierarchy divides individuals, positions and devices into areas with similarities based on products, production processes, customer groups or geographical areas of operation (Hatch and Cunliffe, 2013).

## FUNCTIONAL ORGANISATION



## DIVISIONAL ORGANISATION



Figure 2 - Illustration of a functional hierarchy (Hatch and Cunliffe, 2013)

### 2.1.2.2 MATRIX ORGANISATIONS

A matrix is defined by employees that report to two or more managers with different objectives (Kates and Galbraith, 2007). The idea of a matrix structure is to combine the function-based structure's efficiency with the divisional structure's flexibility (figure 3) to make use of the best of the functional and divisional organisational structure (Hatch and Cunliffe, 2013).

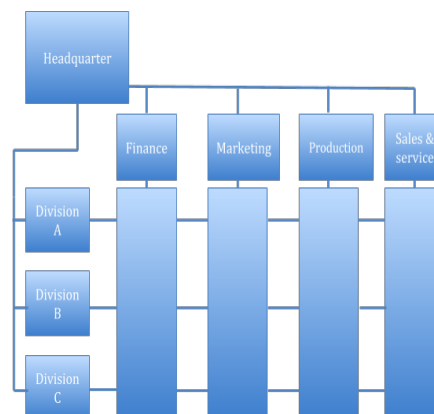


Figure 3 - Illustration of a matrix organisation (Hatch and Cunliffe, 2013)

### 2.1.3 PROCESSES

Processes can be seen as the interrelated activities that move information around the organisation and combine the separate functions of structures to ensure coordination and collaboration within a company (Kates and Galbraith, 2007). Additionally, Ljungberg & Larsson (2012) explain a process as the repetitive use of networks. These networks link information and resources for activities, in order to refine inputs that create outputs that satisfy the customers' needs. An accurate shaped process, aligned with the structure, can

bring the right people and information together which enables fast decisions in order to make organisations respondent to opportunities and challenges (Kates and Galbraith, 2007).

A prerequisite when designing processes is to have clear roles and responsibilities (Kates and Galbraith, 2007). According to Ljungberg & Larsson (2012), there are three criteria that must be met in order for a process to work and they are:

- a beginning and an end;
- the available required resources to fulfil the process;
- the skills for the activities to be carried out.

#### **2.1.4 METRICS AND REWARDS**

Metrics and rewards make organisations behave and perform in the direction of the organisational strategy (Kates and Galbraith, 2007). They complement each other: metrics are the measures used to evaluate performance; rewards motivate employees and reinforce the behaviours' that add value to the organisations (Kates and Galbraith, 2007). In addition, the metrics and the reward system communicate what the company considers as important (Kates and Galbraith, 2007).

An organisation must consider which level to use for measurements and rewards, since it can be applied on both individuals and groups. As the result of an organisation is dependent on interrelated activities between business areas, the rewards need to be based on the metrics that drive the results of the whole business (Kates and Galbraith, 2007). On the other hand, the employees need to feel that they are being measured and rewarded on their own outcomes (Kates and Galbraith, 2007). The risks with rewards based on measures for individuals are that they can be harmful if they sub optimize the organisation's performance (Kates and Galbraith, 2007). Therefore, since the rewards have to be directed in alignment with business strategy, large organisations usually base the compensations on team, unit and business level performance (Kates and Galbraith, 2007).

#### **2.1.5 PEOPLE**

People are considered as the most important assets of an organisation since they are the value-creators. Even if an organisation has got a great financial status, the finest IT systems and facilities, it does not create any value without the human application (Pease et al., 2012). According to Kates and Galbraith (2007) do the people of the Star Model™, which imply the human resource policies for selection, staffing, training and development, support the capabilities and mind-sets necessary to carry out the organisation strategy.

The organisation is also dependent on the management to enhance a competitive advantage. The need of management arises when tasks get too large and complex to handle for individuals (Thomas, 1997). The management has to understand the organisation to be able to lead it in the direction of the strategy (Kates and Galbraith, 2007). Management needs to be able to model good abilities and behaviours and be capable of choosing a direction for the strategy and deciding which actions are required (Kates and Galbraith, 2007).

## **2.2 DESIGNING A CUSTOMER-CENTRIC ORGANISATION**

This subchapter presents the theory about the customer-centric sales organisations with the same layout as the Star Model™. This is done since the design need to be consistent with



all parts of the organisation as well as it guides the reader to discover similarities and differences with previous subchapter.

Belz & Bussmann (2002) define sales as a market development tool used to provide effective support for information gathering, decision-making and service processes for targeted customers. These are the ones who incorporate decision makers and influencers amongst the customers in order to reach an agreement on the price of a security. According to Zoltners et al. (2004), the sales force design affects a company's profitability directly since it aims to maximize the income and keep the cost under control, which is the difference between failure and success for a company.

It has become important to form the sales organisation around the customer, also known as a customer-centric organisation. Product-centric organisations are structured around business areas, information is gathered about products and, users and customers are found for its products (Galbraith, 2011). On the other hand, a customer-centric organisation is structured around customer segments, information is gathered around profit categories and products, and the integration of them, are found for the customer (Galbraith, 2011). Kates and Galbraith describes a customer-centric organisation as an organisation that *“brings together and integrates products, services, and experiences from within and beyond the firm to provide solutions to the complex and multifaceted needs of its customers”* (2007, p. 29). In the following table, Bosworth et al. (2011) show the difference between product-centric sales and customer-centric sales:

<b>Product-centric sales</b>	<b>Customer-centric sales</b>
Convincing/persuading	Solve problems
Handling objection	Achieve goals
Overcoming resistance	Satisfy needs

**Table 1 – Difference between product and customer centric sales (Bosworth et al., 2011)**

Value creation is an important part of a customer-centric organisation. It can be seen as a combination of advice, software and services in combination with products that shape solutions for the customer. It creates more value than a customer can create by purchasing a set of stand-alone products (Kates and Galbraith, 2007). Moreover, Bosworth et al. (2011) explain that value for a customer is when an offer helps the customer to achieve a goal, solve a problem, or satisfy a need. They emphasize that revealing the value of an offer towards a customer is more important than building relationships.

### **2.2.1 STRATEGY**

The strategy is the first step when designing a sales organisation. According to Zoltners et al. (2004, p. 54), a sales strategy defines *“who a firm sell to, what a customer offering is and how the sales are done”*. It determines that the right combination of products and services are delivered to the right customers (Zoltners et al., 2004).

There are different types of customers. According to Zoltners et al. (2004), customers can be divided into three major categories: transactional, consultative and enterprise.

- Transactional customers are the ones who understand the product and want an inexpensive and simple purchasing process. Transactional goods are characterized by being bought only on price and technical specifications.

- Consultative customers are the ones who want to purchase the value, which the product can produce. It can be integration between other products, as an IT-system or a product to improve the customers' organisation: this type of sale can be seen as complex.
- Enterprise customers are the ones who want a partnership to create value for both the sales organisation and customer. It is characterized by that the partnership is strategically vital for the customer and the sales organisation. These kind of deals or commonly made up by tailor-made solutions.

Additionally, a sales organisation should be designed according to what customers want to purchase and how they conduct purchases, not about what an organisation can sell to customers (Prosales, 2015a). The sales strategy is based on customer segmentation, in order to prioritize and customize offers for the customer.

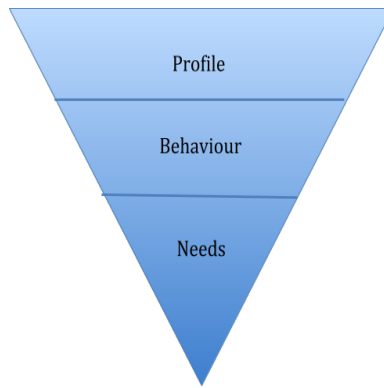
### **2.2.1.1 SEGMENTATION**

Customer segmentation is the process where customers and prospects are grouped into homogenous groups (Zoltners et al., 2004). Segmentation gives a holistic view of the customer and makes sales distribution and advertising more efficient (Dannenberg and Zupancic, 2009). It distinguishes which customers to focus on and how to approach them (Dannenberg and Zupancic, 2009).

The creation of customer segments to form the sales strategy have been highlighted as important, but unfortunately an often-dismissed activity by the sales organisation (Ingram et al., 2002). Dannenberg and Zupancic (2009) mention that working towards all possible customers and doing it in the same way is costly and leads to less income. Therefore, a company needs to identify market segments in which it can successfully develop better satisfaction among customers. In addition, it reduces competitive pressure by lowering the number of competitors in the market (Dannenberg and Zupancic, 2009).

#### **Segmentation according to profile, behaviour and needs**

According to Zoltners et al. (2004), there are three types of segmentation criteria; profile, behaviour and needs. The profile determines to map the market of customers based on location and company size. Mapping of the market is enrolled to get an understanding of the size of the organisations that operate on the market today, key trends and the shape of the market in the future (Prosales, 2015b). The customer behaviour explains how customers purchase and in what quantities, the loyalty to the company, responsiveness to innovation and sensibility to effort. Lastly, the needs for what the customers purchase are the important reasons for why customers make the purchase. According to Zoltners et al. (2004) the reason for purchase could be due to price, technology or service level or how critical the offer is to the purchaser.



**Figure 4 - Segmentation according to profile, behaviour and needs (Zoltners et al., 2004)**

#### Segmentation according to potential

According to Piercy (2006), an additional segmentation criterion is the potential sales level. The aim by segmenting customers according to the potential sales level is to work towards the customers that can create the biggest income for the organisation over time (Prosales, 2015b). The sales potential is evaluated to be able to prioritize which customer to spend the sales budget on in order to get more out of the market and sales budget (Prosales, 2015b). Organisations with large sales level potential require customized sales and account management and therefore justify higher budget for sales and marketing investments (Prosales, 2015c). The customers with the least potential are less likely to receive any personal attention and are commonly served by electronic interaction, direct mail or telemarketing efforts (Prosales, 2015c). Therefore, the challenge for the sales force is to match sales efforts with the different customers in order to balance revenue and profit with business risks (Piercy, 2006).

The potential sales level is analysed by sales performance. The analysis rests on matters that affect the sales of a product and it includes both a purchaser and end-user analysis. The analysis can be performed by a market factor estimation, survey of purchaser intentions and evaluation of test markets (Dannenbergh and Zupancic, 2009). Moreover, evaluation of the sales potential can also be conducted by estimation of the market, in regard to the size of the companies based on employees and overall sales (Zoltners et al., 2004). Identifying the sales potential and matching it with the sales approach is a way to ensure the maximization of the profit of the sales organisation (Zoltners et al., 2004).

Furthermore, when acting as a customer-centric organisation, the critical step of the segmentation is to identify the behaviour to find the customers who are ready to purchase the solutions. According to Kates and Galbraith (2007), customers indicate readiness summarized to the following reasons:

- Purchasing multiple products and services;
- Asking for complex and customized products;
- Complaining about multiple points of sales & services;
- Wanting advice before purchase;
- Having complex needs, which command substantial understanding of the customers business;
- Being willing to pay for advice, service, integration or the combination of all of them.

### 2.2.2 STRUCTURE

A customer-centric organisation is structured around the customer. According to Kates and Galbraith (2007), roles required for the customer-centric organisation include customer teams, relationship managers, account teams and integrative roles. Furthermore, Kates and Galbraith (2007) argue that there is a need for external collaboration such as alliances and joint ventures in order to be able to provide solutions for the customer.

The structure of an organisation has to reflect the market orientation (Spiro et al., 2008). The most recurring approach to structure medium and large sized sales forces is to divide them into areas of sales specialization. There are three ways to structure a sales organisation: geographical areas, type of product sold or segments of customers (Spiro et al., 2008). However, a customer centric-organisation is many times organized as a matrix organisation. This is due to the fact that the sales departments are structured by region in order to get close to customers, while global accounts, major distributors and global product lines are organized across these functions (Kates and Galbraith, 2007). This infers that the sales manager reports to both the head of sales for the region and the head of sales for the product line. According to Kates and Galbraith (2007), there are four reasons for using a matrix structure for a customer-centric organisation:

- The matrix enables the organisation to shift resources towards what is needed from the customer at a given time. Moreover, Hatch and Cunliffe (2013) argue that it allows the organisation to focus on more different targets simultaneously, allowing a rapid exchange of resources.
- It makes the organisation flexible by simplifying the coordination of teams around opportunities and customers.
- The matrix also creates cross-organisational collaboration. It enables integrated solutions, which can take several perspectives in consideration. Additionally, Hatch and Cunliffe (2013) mention that the matrix encourages employees to solve complex problems and act with personal responsibility.
- It enhances the learning in the organisation by sharing the best practices inside and around the organisation. It shares both functional information as well as information about the business.

There are also weaknesses to matrix organisations. Hatch and Cunliffe (2013) mention that the structure may entail increased costs for administration while Kates and Galbraith (2007) mention four other challenges with a matrix structure:

- Power struggles are based on that managers do not like to share resources or be accountable for less important matters. Additionally, Hatch and Cunliffe (2013) say it violates the principle that powers would be equally responsible.
- Determining the best practice as different markets requires different products and services, therefore it has to be determined what is standardized and what is not.
- Decision strangulation, with the need for good meeting standards, clear decision rights and strong conflict resolution, might affect the speed of decision taking.
- Personal stress, which might be the case due to the matrix need for flexibility and the ability to adapt. It can also be an effect of people having more than one objective to consider.

### **2.2.3 PROCESSES**

Process orientation has been a standard in different organisation divisions, such as production and logistics, while sales forces have continued to work in a largely unstructured manner (Dannenberg and Zupancic, 2009). As it is less transactional sales and new complex sales models are arising, it has become more complicated to work in an unstructured manner (Dannenberg and Zupancic, 2009).

According to Kates and Galbraith (2007) there are two major processes of a customer-centric organisation: relationship management and solution development. The relationship management process is needed to capture customer behaviour to form future decisions. The relationship management makes it possible to work in a more optimal manner (Dannenberg and Zupancic, 2009). The process of the development of a solution includes the ability to combine the product and service portfolio into solutions, to provide value for the customer and pricing the solutions (Kates and Galbraith, 2007).

The major challenge in the implementation of a sales process is to clearly define and describe the process. In the end, the success is determined by how much the seller knows about and follows the sales process (Dannenberg and Zupancic, 2009). The sales process starts from the customer's purchasing behaviour, which is tailored to fit the sales process. There are six major factors affecting the design of the sales process: customer needs; market characteristics; product characteristics; economic factors; company environment; country environment and industry environment (Zoltners et al., 2004).

There is no sales process that is suitable for all types of business. Major customers and segments have their own appropriate sales process (Zoltners et al., 2004). When selling to consultant and enterprise customers there are many decisions and influence points. These types of sales imply more activities, longer sales cycles, with higher risks and the need for control points (Piercy, 2006). The more complex sales create demands on new sales organisations to work in a more process-oriented manner and across functions to deliver value to the customer (Piercy, 2006). Active steering of process and prioritization of resources are needed when it comes to complex sales processes that consume a lot of resources. The successful companies take active decisions by the sales management around which on-going business dialogues to should be prioritized and which ones should be discontinued. It should be mapped which purchasing roles exist in the organisation, the purchasing orientation as well as the level of support. A part of being successful in complex sales is that the sales force has to identify where decision-making power lies. The sales force has to have a clear sales strategy for how to tip the decision in its favour (ProSales, 2015c).

If a customer considers the products or services as a major investment, they will desire a vast amount of attention. Furthermore, it needs to be considered if the customer's purchasing decisions are made locally or centrally, since it requires different approaches. Therefore, the customer's purchasing process has to be matched with the sales process. (Prosales, 2015c)

### **2.2.4 REWARDS AND METRICS**

It is important to realize the behaviours and actions that are essential in order to support the organisation's strategy (Kates and Galbraith, 2007). The metrics and reward system intend to steer, lead and follow up on the sales organisation (Prosales, 2015d).

In a customer-centric organisation, performance metrics need to be based on customer spending, customer satisfaction and retention, and the lifetime value of the customer. People should be rewarded for the knowledge of the customers, the ability to create solutions with the highest value and to retain and develop relationships (Kates and Galbraith, 2007). The metrics coordinate efforts and results of the salespeople with rewards. The rewards control salespeople's behaviour, ensure proper treatment of customers and they also attract and keep competent sales persons (Spiro et al., 2008). Moreover, the metrics system needs to be constructed so the sales force is rewarded based on the activities, which the sales force can control (Spiro et al., 2008).

A reward system aims to create effective motivation of the salespeople, as it is essential for the success of sales organisations. The basic structure of a reward system is one which is easy to understand, administer and which people find fair (Spiro et al., 2008). The motivation can be harmed if the reward system becomes contra productive for example if one business area is rewarded in a way that has a negative effect on the total business of a (Spiro et al., 2008).

Rewards fall into two categories; financial rewards as compensation, bonuses, travel and merchandise, and nonfinancial rewards such as job enrichment, recognition and honours', promotions, encouragement and praise (Spiro et al., 2008). Both types of rewards aim to create motivation. Spiro et al. (2008) define motivation as the desire to expand an aroused need and in sales it is of interest to create incentives for various activities or tasks associated with the sales job. The management has to find the right mix of motivation between the two motivators (Spiro et al., 2008). Individuals respond differently to given motivators which is why there is a problem finding the right combination of motivators for a whole group. In order to motivate people the reward system has been designed in accordance to what is valuable to each individual. The rewards system needs to be formed so that the salespeople consider the rewards more valuable than the effort of the sales (Spiro et al., 2008).

### **2.2.5 PEOPLE**

People play a major role in the success of the sales organisation. A salesperson's effectiveness accounts for as much as 40 % of the business-to-business customer choice of seller due to technology has made products easily substitutable (Stephens, 2003). To go from transactional sales to a more complex approach, as in a customer-centric organisation, asserts a major change of the type people in the sales organisation. There has to be a change in how people collaborate and what kind of people are needed. The employees have to be able to interact across the organisational boundaries, participate in teams and make decisions on multiple perspectives to become successful (Kates and Galbraith, 2007). Transparency and open communication channels are fundamental between employees and managers in order to shape a ground for successful business (Kates and Galbraith, 2007).

The most distinct change is in the front-end organisation where salespeople need to work on how to add value to the customer. Ingram et al. (2009) identified that the key role for customer-oriented salespeople are is to act as a value agent. The task of the sales force is to optimize the customer processes and create value for the customers by making them more successful in supplying their goods and services (Ingram et al., 2009). The authors argue that salespeople do more than communicate value to the customer: they are co-creating value with the customer (Ingram et al., 2009).

Moreover, what is essential in a customer-centric organisation is the management's' faith in that the increased profitability, customer satisfaction and share of customer spending will eliminate the focus on internal costs of integration, collaboration and training (Zoltners et al., 2004).

#### **2.2.5.1 COLLABORATION WITH OTHER FUNCTIONS**

To deliver solutions, the salespeople need to have more collaboration with the rest of the organisation (Kates and Galbraith, 2007). When selling solutions, knowledge possessed by individual members of the sales force can be inadequate to this task. The need for cooperation between different departments has an increased importance when the offer is customized, the more decision-makers require to be influenced, with long sales cycles, greater uncertainty, the higher the competition is on the market and if the company is dependent on launching new products (Prosales, 2015e). To overcome the knowledge gap, the sales force might integrate specialists from their own company into the customer development process. This can be a specialist working with IT connections, logistics concepts or product modifications. This can result in tailored concepts for cooperating with customers (Dannenbergh and Zupancic, 2009). To cope with the challenge of strategic customer management, companies require effective approaches to cross-functionally integrate around the value processes (Piercy, 2006).

### **2.3 INTEGRATION OF BUSINESS AREAS**

Integration is the process of creating coordination between systems of an organisation as business areas or groups. There have been different reasons conducting integrations over time but the aim has always been to create the 2+2=5 effect (Ansoff, 1965) even if it has been achieved in different ways. According to Schriber (2009), most integrations are done to create advantages against competitors either by reducing a company's expenses or by increasing the incomes. Schriber (2009) describes four main themes of how companies can reduce their cost integration, which are named as operative, and investment synergies according to Holtström et al. (2009).

#### **1. Economies of scale**

Economies of scale are when the price decreases for each product by the increase of production volume per entity. It is possible to produce more with the same fixed costs with the decrease of the price for each product (Schriber, 2009).

#### **2. Economies of scope**

The use of common resources to reduce costs is called economies of scope (Schriber, 2009). It can decrease the cost of each unit by increasing utilization of the free capacity. This can for example be to used to share administration or IT systems as well as less overhead costs (Holtström et al., 2009).

#### **3. Learning effect**

According to Schriber (2009), the learning effect is when the staff enhances experience, which in the long run increases the productivity. This can include learning between business areas, of which the effects can lead to higher productivity (Holtström et al., 2009).

#### **4. Increased bargaining power with the sales organisation**

Higher capacity creates better preconditions for deals with sub contractors. An organisation with increased purchases can request better prices from a sales organisation (Holtström et al., 2009). As a company purchases larger quantities, it naturally becomes more important for the sales organisation (Schriber, 2009).

Schriber (2009) also explains four main themes on how the synergies can create a higher income. These are, according to Holtström et al. (2009), types of sales strategies.

1. Cross-selling

The sales volume can increase as the organisation gets an ability to sell each other's products and to reach more customers. This can be achieved by better access to distributors (Holtström et al., 2009).

2. Bundling

Bundling is the increased price through increased value of the offer since more than one product or service is sold together. If the organisation can offer a total solution with a higher value for the customer the price can be increased (Schriber, 2009).

3. Knowledge transfer

It is the understanding of how to convey knowledge. It is a way to use different organisations competences to create new capabilities through knowledge transfer, both within the company and between customers (Schriber, 2009). Moreover, Holtström et al. (2009) describes that knowledge transfer between management can increase the utilization of competence and gives a broader view of where each manager are needed within the company.

4. Increased bargaining power with customers

An integrated company can get better bargain power towards the customer and though the power of the market gain a better ability to decide the price of the offers (Holtström et al., 2009).

### **2.3.1 REASONS WHY INTEGRATIONS FAIL**

Even if the prerequisites of organisational integration are lucrative studies have shown that integrations often fail. Schriber (2009) says that even integrations with good preconditions can fail and the outcome is difficult to predict. The most common reason for stumbled integrations are due to the organisations failure to realize the value creation (Schriber, 2009). This occurs typically due to the management and the fact that they overestimate the potential of the synergies and define the synergies to broad, general and abstract (Holtström et al., 2009). Many times, it ends up with managers searching for synergies that do not exist or are impossible to reach. To prevent it from happening, the management needs to have information on the surroundings in order to get insights about which challenges there are with integration and how it will affect the outcome (Schriber, 2009). Moreover, the management have to realize that the integration consists of processes which face new prerequisites all the time and changes the potential for the synergies (Schriber, 2009).

The integration can affect the career paths for the management, as integrations usually require less manager specific business, therefore a downsizing comes naturally. As an



effect, a manager might be forced to step down the career ladder. The manager's identity can be threatened, as their high status can be lost. It can end in a political game where the managers challenge and slander each other which might harm the work environment (Schriber, 2009). Similarly, the most tangible synergy in integration might be the ability to cut cost by reducing the number of staff. This creates social instability related to downsizing prospects, which can create anxiety and increase stress among the staff (Schweiger and Goulet, 2000). These negative effects of integration can harm the organisation and result in decreased motivation, increased staff turnover and loss of skills (Schriber, 2009). If a company waits too long to design new organisational structures and put the leadership in place, talented people might leave the company (Daniel and Metcalf, 2001).

### **2.3.2 HOW TO SUCCEED WITH INTEGRATIONS**

There are several ways to prevent failures of integration. According to Schriber (2009), information is the key aspects. Lack of information causes specifications and rumours, which increase anxiety. Information is most useful at the start of the integration when there is the highest uncertainty about discharge, changing of positions and daily tasks (Schriber, 2009). According to Daniel & Metcalf (2001) selection of the management is vital because when the management is in place the people in the level below can be selected. This increases the possibility of getting the best talents as well as the customers. According to Daniel & Metcalf (2001), there is a need for a communication program to ensure rapid and frequent information sharing in order to prevent misunderstandings, which can spoke the integration. A communication program includes what needs to be communicated to whom at the right time.

Furthermore, extra staff is a way to decrease the workload of the employees. During integrations there is an extra workload as in extra tasks, extra meetings and integration projects. The task added to the daily workload make the employees work extra hours which can lead to stress in a short run and in the long run people can suffer from stress-related disorders (Schriber, 2009). As the operations often are underestimated, not many organisations use extra staff during the integration.

A integration has an effect on the direct costs and needs to be limited to areas where the value is bigger than the costs. Schriber (2009) mentions new IT systems, training and education and the need of external expertise such as consultants as examples of direct costs. The cost can be extensive and therefore the management has to consider what to integrate. The management is often tempted to integrate more things than needed in order to feel control and show initiative (Schriber, 2009).

The research on integrations of organisations is very focused on the internal aspects such as the internal productivity and there is little research on how the surroundings are affecting the realization. The company, with the management in the lead, needs to adapt to the context and act to influence the external stakeholders (Schriber, 2009).

## **2.4 EMERGING MARKETS**

An emerging market is an economical term that describes a country where investment is likely to achieve higher returns than in a mature market. However, it is accomplished by a greater risk (Miller, 1998). Miller (1998) divides an emerging market into the following three categories:

1. Physical characteristics, such as reduced commercial infrastructure as well as a lack of all other aspects of a physical infrastructure in terms of communication, transport, and power generation. Significant structural changes occur, such as modernization of infrastructure. Agriculture is changed to manufacturing and middle-class becomes larger in number;
2. Socio-political characteristics, such as a lack of legal framework, weak social discipline and reduced technological levels. There are also unique cultural characteristics. Moreover, there are higher levels of corruption and political risk and lower levels of wealth accumulation per capita;
3. Economic characteristics, such as limited personal income, and centrally controlled currencies with an influential role of government. The economic growth is higher than average and the stock and bond markets are fast growing.

Emerging markets are interesting for investors because of their potential. Investors interested in the prospect of high returns seek out emerging markets as they often experience faster economic growth. The growth potential is high as emerging economies are expected to increase two to three times faster than developed nations. The corporate revenues have the potential to grow faster when economic growth is higher (Takushi, 2013). According to Nigam (Nigam, 2010), 70% of the world's population live in in emerging markets. They share many types of risk with developed markets. However, emerging markets have higher risks. According to Takushi (2013), the main risks are summarized to:

- Potential for political instability with unstable governments which can lead to conflicts.
- Financial conditions, since many counties do not have fiscal and monetary policies, which mean that growth can be undercut and inflation can be rare, which can harm the ability of companies to keep up with the input price.
- Currency fluctuations, which imply that the currency of one's investment might fall relative to the US dollar, and thus lowering the return.
- Regulatory environment, which means that the rules and regulations of the emerging markets tend to be under development.
- Higher costs to invest as emerging markets tend to have higher fees compared with developed markets.
- Market restriction or exclusion as some emerging nations forbid foreigners' access to some markets.

### **3. METHODOLOGY**

This chapter presents the research strategy, research design and research methodology. The research method explains how the study was conducted and how the data was collected.

#### **3.1 RESEARCH STRATEGY**

This study is conducted as a qualitative research. The focus has been on formulating hypotheses based on interpretations and analysis of words and expressions rather than creating hypotheses prior to the collection of words and expressions. The relationship between research and theory in this study can be described as abductive. This means theory is used to understand the empirical data, and empirical data is used to understand theory (Dubois and Gadde, 2002). With regards to the qualitative research strategy, this study has primarily an inductive approach, which implies a problem is examined and to find out how it is caused and how it might be solved (Bryman and Bell, 2011). However, it has been difficult to ignore the deductive elements since previous literature in the field was used to shape the purpose of the study. A deductive approach implies testing a theory to confirm it or reject it (Bryman and Bell, 2011).

Furthermore, the study was influenced by the researchers' position on epistemology and ontology (Bryman and Bell, 2011). Regarding epistemology, there is a distinction between the social sciences and the natural sciences, and the research design and methods have been in line with interpretivism. The position on ontology is constructionism, which implies that "*social phenomena and their meanings are continually being accomplished by social actors*" (Bryman and Bell, 2011, p. 22).

#### **3.2 RESEARCH DESIGN**

This study was performed as a case study with a comparative design. A case study is a profound and detailed research of a subject in a specific context is usually used in social science (Bryman & Bell, 2011). Data was gathered from four major hubs - Kahun, other companies, customer and experts - with the focuses on enhanced learning from the differences and similarities in the uniqueness of each case. At the start of the study, the hub for data collection was at Kahun, but data was also acquired from experts in the fields of Medtech, sales & marketing and emerging markets. Companies with similar experience of setting up sales & marketing organisations account for a large part of the data. Furthermore, customers of Kahun, both in Sweden and in the emerging markets, were used to create the customer's perspective.

#### **3.3 RESEARCH METHODS**

The study has two major phases: a pre-study and a main study. The methods used in each phase are presented here and the overall plan with respect to duration and milestones is provided in the appendix.

The study is designed to benchmark numerous companies. According to Lawrence et al. (1967) it is not possible to copy other companies' successful organisation set-up; therefore, the benchmark aims to identify and learn about key activities in other sales & service organisations. This approach also included talking to sales experts and medtech industry professionals. A specific focus is placed on the specific context for sales & services in emerging markets.

### 3.3.1 PRE-STUDY

The pre-study is composed of a literature review and initial interviews with Kahun, experts and customers. The purpose of the pre-study is to sharpen the focus of the study and to design and refine the research questions to fit the desired outcome. A literature review was performed with the aim to enhance a sound general understanding of the field of organisational design, sales & marketing organisations and the medtech industry. The literature review was, in the extent that was possible, connected to the emerging markets. Internal documents regarding the planned change and the internal benchmarked case from Latin America were also a part of the pre-study in order to understand Kahun as a company.

Unstructured interviews were performed with people from Kahun to get a holistic view of the planned change. There were also semi-structured interviews with experts in the medtech industry and experts within the field of sales & marketing in order to get a direction of how to proceed with the study. Additionally, there were semi-structured interviews with the purchasing division from health care organisations' in Sweden to obtain a comprehensive understanding of purchasing processes in the medtech industry. Semi-structured interviews was performed in order to examine the subject in detail but still give the interviewee the possibility to elaborate beyond the topic.

### 3.3.2 MAIN STUDY

In the main study, semi-structured interviews with key persons and key customers were conducted in Sweden as well as in the local context. Interviewees were mainly chosen based on their roles and involvement in the organisations. In order to address the ethical considerations (sub-chapter 2.5), the interviews followed an interview guide. The questions were based on current theory about organisational design, sales and integrations with the aim to answer the research questions.

The amount of interviews depended on when the data was perceived as saturated which means that no new data appear and all concepts in the theory are well-developed (Bryman and Bell, 2011). For the semi-structured interviews, the researchers asked examined questions directly linked to the research questions. This ensured that the main topics were discussed throughout all interviews: however, semi-structured interviews make it possible to go deeper if a topic of interest is brought up (Bryman and Bell, 2011).

Generally, large amount of textual data is collected in qualitative research (Bryman and Bell, 2011). To guide the analytics of data, the framework for the grounded theory was followed. Grounded theory means that the analysis of the data is on-going at the same time as the data collection (Bryman and Bell, 2011).

### 3.3.3 INTERVIEWS

The interviews have been conducted face-to-face or via aids such as phone, Skype or through a video meeting service. Face-to-face interviews were the preferred choice, but the latter category was used due to geographical distance. In the study a total of 22 persons were interviewed and some of these interviewees provided internal documents of their organisation for further research and understanding.

The interview guide used created a cluster of answers and common topics in advance due to the STAR™ Model (Kates and Galbraith, 2007) structure (*Strategy, Structure, Processes, Rewards/Metric and People*). Therefore, information from the interviews did not need to be

clustered in any common topics after the interviews were conducted. One example of an interview guide is provided, see exhibit A. A majority of the interviews have been transcribed as most of the interviewees allowed for recording.

### **3.4 TRUSTWORTHINESS**

Qualitative studies are usually criticized for being subjective and difficult to replicate and prone to the problems of generalization and lack of transparency (Bryman and Bell, 2011). To assess the quality of this research, the four criteria's of trustworthiness were addressed: credibility, transferability, dependability and conformability.

- Credibility means if the study is accepted and believable to others (Bryman and Bell, 2011). By showing good practice and being respondent to validation, credibility was assured in this study. The study applied triangulation by interviewing people from different companies about the same subject and by studying documents about the topics. This was performed to make the study credible, implying multiple reference points (Bryman & Bell, 2011).
- It is difficult to make case studies transferable since each case has its own context (Bryman and Bell, 2011). By providing a clear description and a great deal of details from the whole study to facilitate the understanding of the context, the transferability was addressed in this study.
- Dependability judge if it is possible to repeat the study (Bryman and Bell, 2011). The researchers thoroughly described the line of action of this research, even though all the sources of data might be hard to access at another time.
- Conformability of the study was addressed through striving for objectivity, even though it is impossible to have a complete objective research in qualitative research (Bryman and Bell, 2011). Objectivity was also ensured by acting in good faith to the highest possible extent and by not allowing personal values affect.

### **3.5 ETHICS**

Ethics is about how to treat the people involved in the research. Diener & Crandall (1978) describes four main ethical principles: harm to participants, lack of informed consent, invasion of privacy and deception.

- Harm to participants is when the participants can endure from the research (Bryman and Bell, 2011). In this research, the confidentiality and anonymity of the data and persons of the company were respected to minimize possible harm from the research.
- The principle about lack of informed consent is about the participants in the research should get the information needed to make decisions if they wish to take part in the research (Bryman and Bell, 2011). The researchers clearly explained who they were and the purpose of the study, even if it might impact answers.
- The invasion of privacy is about to respect individuals' values (Bryman and Bell, 2011). The researchers treated everybody personally, sensitively and accepted if anybody wanted to withdraw from the research.
- The last ethical principle is deception, which occurs if researchers present their research as something other than it is (Bryman and Bell, 2011). To avoid deception, the purpose of the study was clearly stated for all participants. The researchers also acted with honesty and integrity.

### **3.6 CHALLENGES DURING THE STUDY**

Receiving access to internal information from Kahun was a challenge during the study. The management at the company was occupied with the integration, which made it difficult to conduct interviews. Most of the interviews took place in a late phase of the study, which gave the authors a very limited time frame to analyse data. Moreover, there were no interviews with the local hospitals in emerging markets due to distance and language barriers. If the situation had been the opposite, it could have affected the quality of the analysis in a positive way.

Furthermore, the quality of the interviews with the company has to a great extent been limited by geographical distance. This has led to a majority of the interviews being conducted via telephone or through other digital aid. This has resulted in a limited possibility to analyse facial expressions and body movements during the interviews. Moreover, aids, such as an ordinary whiteboard, could not be used to explain structures and processes. This could have increased the understanding even more and in the end enhanced the results.

The research was not concentrated on any specific business region within the company. Instead, empirical information was gathered from several regions. Due to this, a view of what is common and what is specific for each region has been hard to establish. This was considered throughout the study, but the regional presidents had limited understanding of their colleagues' plans for each region.

## 4. EMPIRICAL FINDINGS

In this chapter, results from interviews and internal documents are presented. Only the most important statements to answer the research questions are submitted. The empirical chapter covers the following topics:

- Information about Kahun
- Kahun's preconditions for integrating to a customer-centric organisation
- Key design aspect from benchmarks
- Kahun's customers and their organisations
- Aspects to consider on emerging markets

### 4.1 Interviewees

This sub-chapter presents a list of the 22 persons that have been interviewed during the study, see table 2. Three of the interviewees were customers representing two different hospitals. Furthermore, seven people were interviewed representing five benchmarked companies. Finally, six people that were interviewed of the purpose of receiving expertise knowledge within medtech and sales or having general guidance. It shall also be known that a majority of the six interviewees at the studied company have a background within sales.

For anonymity reasons, all names and companies throughout the report have been replaced with pseudonyms. Some specific titles have also been altered to reduce the risk of losing anonymity.

Name	Company	Title	Empirical information via	Type	Phase	Purpose
<b>Mr. Johansson</b>	Apparatus	CEO & President	Phone	Manufacturing	Pre-study	Benchmark
<b>Mr. Andersson</b>	Apparatus	VP of Operations	Video meeting service	Manufacturing	Main	Benchmark
<b>Mrs. Ingvarsson</b>	Argentum	VP Marketing & Products	Face-to-face meeting	Manufacturing	Pre-study	Benchmark
<b>Mr. Henriksson</b>	Auxilium	Senior Consultant	Face-to-face, phone and internal documents	Consulting	Pre- & main study	Expert within sales
<b>Mr. Lennartsson</b>	Hospitalum	Business Advisor	Face-to-face meeting	Consulting	Pre-study	Expert within sales & medtech
<b>Mr. Knutsson</b>	Incubator	Business Advisor	Face-to-face meeting	Consulting	Pre-study	Expert within medtech

<b>Mr. Evaldsson</b>	BA 1 Kahun	Senior Vice President of Sales & Marketing	Phone	Medtech	Main	Internal
<b>Mr. Erlandsson</b>	Kahun Group	Vice President	Face-to-face, internal documents	Medtech	Pre & main study	Internal
<b>Mr. Pettersson</b>	Kahun Group	Regional President	Face-to-face	Medtech	Main study	Internal
<b>Mr. Stefansson</b>	Kahun Group	Regional President	Phone	Medtech	Main study	Internal
<b>Mr. Berntsson</b>	Kahun Group	Regional President	Phone	Medtech	Main study	Internal
<b>Mr. Rickardsson</b>	Kahun Group	Regional President	Phone	Medtech	Main study	Internal
<b>Mrs. Olausson</b>	Medicus	Global Sales Leader	Phone	Medtech competitor	Main study	Benchmark
<b>Mrs. Bengtsson</b>	Private	Executive Vice President	Phone	Hospital	Main study	Customer
<b>Mr. Arvidsson</b>	Private	Head of Purchasing & Logistics	Phone	Hospital	Main study	Customer
<b>Mr. Olsson</b>	Procurator	Director	Face-to-face	Consulting	Pre-study	General guidance
<b>Mr. Albertsson</b>	Quadratum	Head of Purchasing	Face-to-face	Hospital	Main study	Customer
<b>Mr. Albinsson</b>	Security	Senior Vice President	Skype	Manufacturing	Main study	Benchmark
<b>Mr. Folkesson</b>	Signum	Manager	Video meeting service	Consulting	Main study	General guidance
<b>Mr. Gabrielsson</b>	Signum	Management Consultant	Face-to-face	Consulting	Main study	General guidance
<b>Mr. Larsson</b>	Tenacissimum	Director Development & Support	Face-to-face, internal documents	Manufacturing	Main study	Benchmark
<b>Mr. Eriksson</b>	Tenacissimum	Global Accounts Director	Face-to-face	Manufacturing	Main study	Benchmark

**Table 2 – Interviewees**



## 4.2 THE COMPANY KAHUN

Kahun Group develop, produce and sell products and services towards the premium segment in the medtech industry. It is an international company with major markets in Europe and North America. However, they also have considerable activity in other parts of the world. Kahun provides both consumable goods, and capital goods and their customers operate within the fields of health care, elderly care and life science.

Kahun is organised into three different business areas (BA) that operate independently (figure 5). These business areas are lead by one Business Area Manager (BAM) respectively. According to Mr. Erlandsson, VP at Kahun Group, it is a wrong assumption that the BAs work together to any extent: the only thing that is common is the CEO. The BAs' products are distinct from each other and there is no cross-selling between the business areas, except in Latin America according to Mr Petterson, Regional President at Kahun Group. One reason of why Kahun Group has never worked together before is the fact that they are divided into different legal entities. This makes it difficult to use common contracts when performing sales. It is also due to internal reasons such as how to share the profit and what to do with debt loss from a customer according to Mr. Erlandsson.

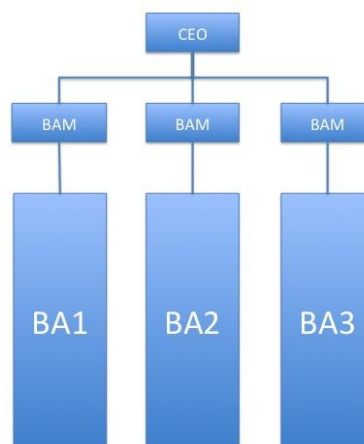


Figure 5 - Current Organisation

### 4.2.2 KAHUN'S SITUATION

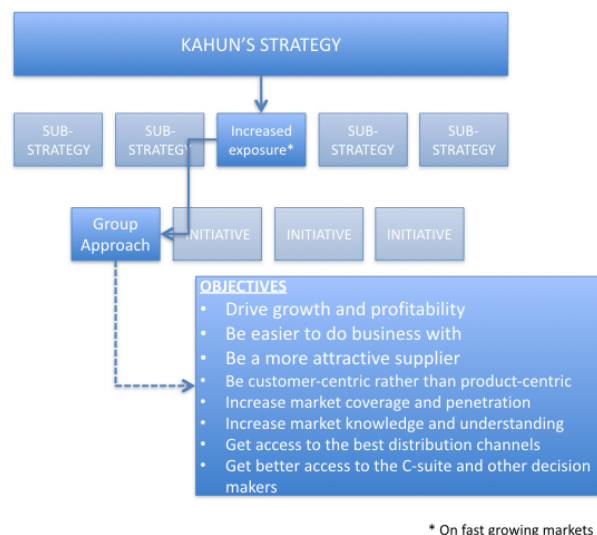
Over the last decade, Kahun's total revenue has increased five times its value and the stock exchange rate has tripled. But looking back on the last three years, revenue has shown a declining trend (Kahun, 2014a). Furthermore, Kahun's own study shows that the compound annual growth rate (CAGR) in emerging markets (EM) is expected to be twelve percent for the next years, compared with two to four percent in the western markets (Kahun, 2014a). Even so, Kahun's growth rate in EMs has decreased from about 20 percent in 2010 to minus three percent in the last year (Kahun, 2014b).

### 4.2.3 KAHUN'S SOLUTION

In order to cope with the situation, to stimulate organic growth and competitiveness, Kahun has developed a new strategy. One of the vision's pillar states that Kahun should be: *"agenda setting and preferred partner to solve critical customer challenges"*. The strategy targets the whole group instead of, as previously, three separate strategies for the

independent business areas. One of their sub-strategies aims towards fast growing markets, i.e. emerging markets, as Kahun want to increase their exposure and seize the market shares. One of the initiatives that intend to create this outcome is called the *Group Approach*. The purpose of this initiative is to leverage the size and resources of the whole group on emerging markets, done primarily through a shared sales & service organisation that integrates the separated organisations into one common.

By this, Kahun aims to create synergies between the business areas in order to provide customers with cross-business solutions and to reduce the number of interfaces to shape an easier business environment for the customer (Kahun, 2014b). Kahun also expect the integration to streamline the organisation to make it more cost efficient (Kahun, 2014b). Kahun’s corporate strategy is built up by a number of sub-strategies. The link between the strategy to one of the sub-strategies, *increased exposure on emerging markets*, and further into the Group Approach is best described by figure 6. Note that the objectives, such as becoming customer-centric are not described in the strategy and Group Approach specifically, but in a separate document.



**Figure 6 - Breakdown of Kahun's structure**

#### 4.2.4 THE NEW ORGANISATION

The integration where Kahun merge their existing organisations into one common legal entity will not only result in a common sales & service organisation for each country. Kahun will also create joint areas within finance, logistics and warehouse, information systems and Human Resources (Kahun, 2014b). Some of the activities that Kahun Group will be able to create with this organisation are:

- A Key Account Management organisation for important customers and groups;
- Joint offers of capital equipment;
- A common marketing organisation (Kahun, 2014b).

According to Mr. Erlandsson, VP at Kahun there is no consideration of how to incorporate manufacturing in this integration. Mr. Evaldsson, SVP Sales and Marketing at BA 1 Kahun Group explained that each business area will need to adapt their functions to the new organisation regarding this matter.

#### 4.2.4.1 NEW ROLES

Due to the integration, new roles and responsibilities will be created (figure 7). A Managing Director (MD) will run each new legal entity. This person will be in charge of coordinating the joint efforts on a country level. The Country MD will report to a Regional President, with responsibility of coordinating the efforts between the countries, i.e. within each region. Finally, there will be a board to where the Regional President is reporting. The board's purpose is to guide the Regional President in certain issues and solve power struggles that can occur.

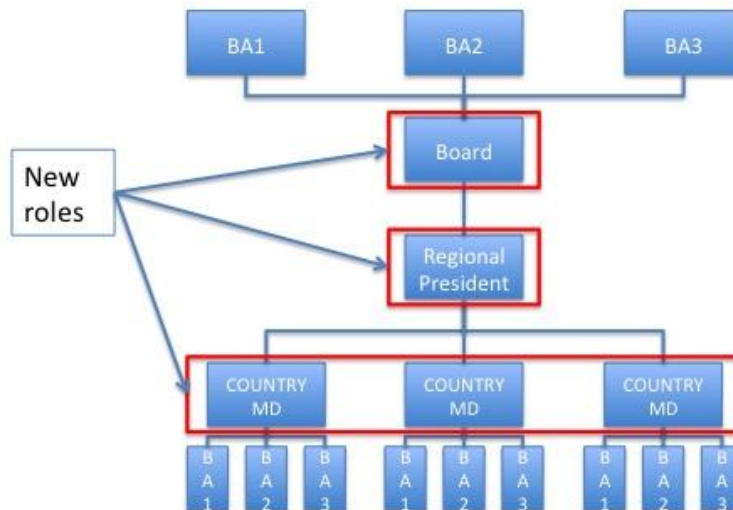


Figure 7 – Structure example of the new organisation

#### 4.2.4.2 EXPLANATION OF BOARD AND INTERNAL RELATIONS

In order to understand the integration and the design of the new organisation, the composition of the board and the appointment of Regional Presidents is an imperative part for clarification.

The board is consisting of four members, each person with considerable sales background. The chairman of this board, once the integration is completed, is Mr. Erlandsson, Vice President (VP). He is today working for Kahun Group, but have a previous history within Business Area 2 (BA 2). Mr. Erlandsson is also the project leader for the integration, meaning that he has had the overall responsibility for shaping and coordinating the plans for a shared sales & service organisation. Due to the three business areas, there is also one representative from each. Their purpose is to make sure that their BA's agenda is considered in the shared organisation.

Finally, all Regional Managers have left their previous BA positions to work for Kahun Group instead. All managers originate from BA 1 and one reason to this is thought to be that BA 1 is by far the largest business area within the group, but also due to having the experience from a similar set-up within the BA according to Mr. Rickardsson, Regional President at Kahun Group.

Name	Role	Title	Entity	Previous
Mr. Erlandsson	Board member, project leader	Vice President	Kahun Group	BA 2
Mr. Evaldsson	Board member	SVP of Sales & Marketing	BA 1	

<b>Mr. Fredriksson</b>	Board member	President	BA3	
<b>Mr. Hansen</b>	Board member	President	BA 2	
<b>Mr. Bertsson</b>		Regional President	Kahun Group	BA 1
<b>Mr. Stefansson</b>		Regional President	Kahun Group	BA 1
<b>Mr. Pettersson</b>		Regional President	Kahun Group	BA 1
<b>Mr. Rickardsson</b>		Regional President	Kahun Group	BA 1

Table 3 – Kahun’s internal organisation

#### 4.2.5 BENEFITS OF THE NEW ORGANISATION

There are many benefits of the integration. According to Mr. Erlandsson, VP at Kahun Group, the customers are not satisfied with the three interfaces they must deal with when performing business with Kahun today. The customers are expecting this change according to Mr. Evaldsson, SVP of Sales & Marketing, BA 1 Kahun. Reducing the number of suppliers will correspond with a huge saving for the customers as there is a cost applied to each time they approach a sales organisation according to Mr. Evaldsson. Furthermore, the integration comes with the possibility to improve customer relations. According to Mr. Erlandsson, relationships are the most important capability of Kahun, and necessary for Kahun in order to become a solution provider. Mr. Stefansson, Regional President at Kahun Group clarified that the integration allow for sharing of each other’s relationships: *“BA 2 can have a very good relationship that BA 1, let's say, sales rep do not have, does not have at the moment. And then he can use BA ’s reps relations for developing his business at that customer”*.

The integration reduces costs and the savings will be used to expand the footprint. Only the administration is calculated to save 20 MSEK per year from 2017 (Kahun, 2014c). More specifically, the savings will come from less administrative processes and savings in projects because there is only one entity to deal with according to Mr. Evaldsson. In Latin America, where the integration has already taken place, common back-offices has been a significant improvement of the costs according to Mr. Pettersson, Regional President. Kahun will use those savings in another area to expand the footprint according to Mr. Stefansson. Kahun’s footprint is of great importance according to Mr. Pettersson: *“The size is extremely important and if you have the size you get better possibility to act in different markets”*. Moreover, internal documents proclaims that the integration in Latin America has led to stronger interest from distributors and agents due to a greater footprint (Kahun, 2014d).

With the integration there is also opportunities for new incomes. Kahun Group has calculated that sales will increase by 200 MSEK per year from 2017, a lot due to cross-selling. This has been a reality in Latin America were Kahun have created synergies in sales and administrative activities which allowed for growth in sales with limited cost increases. Mr. Erlandsson, VP at Kahun Group said: *“Cross-selling opportunity become enormous”* (free translation).

Finally, leveraging Kahun’s whole portfolio is now a reality. Distributors will now have the possibility to represent the whole portfolio and provide solutions from Kahun according to Mr. Stefansson, which is supported by internal documents from the integration in Latin America: *“With the integration we moved to a real solution provider”* (Kahun, 2014d).

#### 4.2.6 CHALLENGES WITH THE NEW ORGANISATION

There are also challenges to deal with when integrating the organisations. Mr. Evaldsson, SVP Sales & Marketing, BA 1 Kahun was worried that the integration will create problems in

the front-end where distributors and customers are. One problem he mentioned was the merge of customers' relationships: *"Some customers have a very good relationship with one leg of your organisation, while there is no or poor relationship with the others"*. Another customer aspect is the messages that Kahun is sending to the customers by consolidating.

Furthermore, Mr. Pettersson explained that integration comes with a lot of choices, one of them being HR challenges, such as choosing which candidates to retain within the organisation. Mr. Olsson, Director at Procurator highlighted the importance of keeping the best people during a change, as there is a risk of people transferring to competitors while the organisation is in a non-steady state. Internal audit documents of the Latin American approach showed that HR policies were not coordinated when the integration was performed.

Moreover, the integration in Latin America has led to an increase of workload for the management. According to Mr. Pettersson, Regional Manager at Kahun Group: *"All the management support and controlling have tripled. So basically some people have much more to do."*

Integration towards other functions within Kahun Group will be done through IT and CRM systems. According to Mr. Evaldsson, SVP Sales & Marketing at BA 1 Kahun Group, these supporting systems makes it easier for everyone, not only for financial report systems but also for customer management. Unfortunately, these systems will not be in place prior to the integration, which was a key aspect to manage according to the Latin American take-aways. Mr. Erlandsson, VP at Kahun Group explained that, to his surprise, the delivery of IT support systems will take much longer than he had anticipated and that these systems would not be up and running when the structural aspects of the integration is completed.

Finally, the combination of consumable goods and capitals goods is a challenge. According to Mrs. Berntsson, Kahun cannot combine these two different types of goods and argues that this will be a problem as BA 2 has consumable goods, something BA 1 does not have.

#### **4.2.6.1 DIFFERENT OPINIONS REGARDING THE ORGANISATION**

The integration itself is perceived differently by people working within Kahun, with comments from management such as: *"It is not so much of an integration initially"* (Mr. Evaldsson, SVP Sales & Marketing BA 1). Furthermore, Mr. Berntsson, Regional President, explained his view of the integration, that Kahun will not integrate the sales organisation: it will only be the call-points that become integrated from a sales perspective. He stated: *"There is no organisation that have integrated the organisation like we do. We do not integrate the sales organisation, we integrate the service organisations and the management"*. Mr. Rickardsson had a different opinion of what is to be integrated: *"[W]e are integrating all the functions that are represented in a location, whether the sales or service or finance or logistics or HR or regulatory affairs or whatever"* (Mr. Rickardsson, Regional President at Kahun Group).

Another diverging opinion (figure 7) regarding the integration came from Mr. Evaldsson SVP Sales & Marketing, BA 1, who explained that the Regional Presidents will report directly to the Senior Vice President of the business area that they used to belong to. According to Mr. Evaldsson, who is the SVP Sales & Marketing at BA 1, all the Regional President will continue to report to him as all the Regional Managers represented BA 1 before they left for their new position. On the other hand, Mr. Berntsson, Regional President, shared a different

view of how to report: “I report to all three. The problems with this set up is that I need to get a trust relation with all the three people and agree with the strategy with all the three people which is not that easy”.

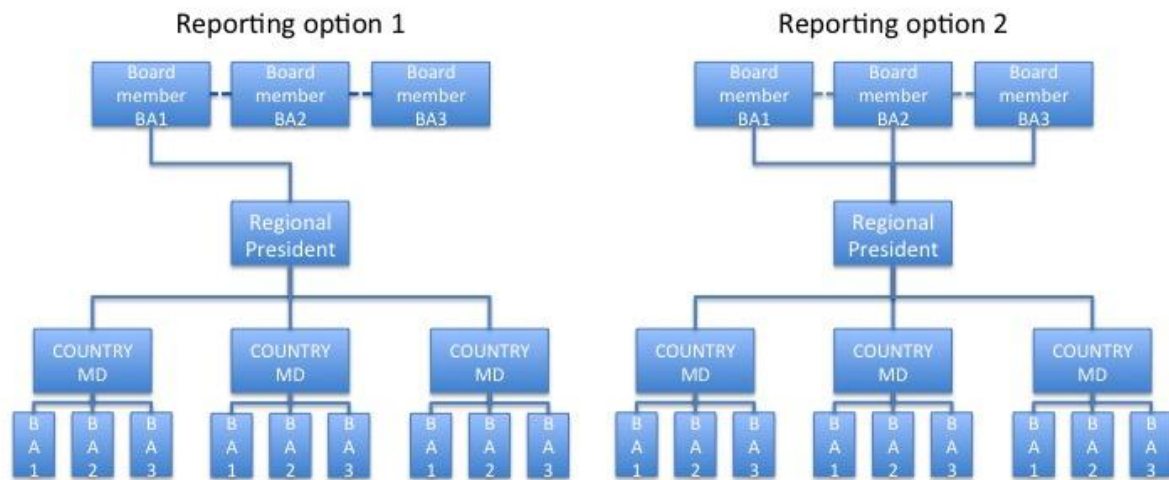


Figure 7 - Different perception of reporting structure

Finally, integration of marketing functions when creating the shared sales & service organisations is also a diverging topic. According to Mr. Erlandsson, VP at Kahun Group, the marketing plans are done centrally and operationalised on the local markets and marketing will therefore not be integrated. In contrast to this, internal documents show that the marketing organisations will also be integrated (Kahun, 2014b).

#### 4.2.6.2 INTERNAL POWER ISSUES

There will be a loss of authority for the BA Managers. According to Mr. Evaldsson, SVP of Sales & Marketing at Kahun BA 1, these managers will lose some of their authority to the new Regional Presidents. According to Mr. Erlandsson, VP at Kahun Group, the BA Managers are not very satisfied with the shared sales & service organisation. They like the fact of working together, but leaving the power to Regional Presidents will make them suffer from information loss and decrease of responsibility. On the contrary, the Regional Presidents were not willing to take on their assignment if they did not receive full authority over their operations according to Mr. Erlandsson. He has therefore explained that he is struggling with questions regarding authority: “Who has the power in different questions? Who makes the decisions?” (Mr. Erlandsson, VP at Kahun Group, free translation). One of the issues raised regarding decisions is where to allocate profit and loss when giving discounts to customers that purchase from more than one business area.

Furthermore, Mr. Erlandsson see challenges due to the different sizes of the BAs, as this might influence the power structure when sharing resources. It exists a history where one of the BAs feel less important in Kahun Group, and this fact could be even more common now that they will cooperate and make joint decisions. Mr. Berntsson, Regional President at Kahun Group, previously from BA 1, shared the same thought, as he was worried about people feeling that their business areas would be less prioritised under his management. Mr. Erlandsson also explained his awareness of a possible scenario where a Regional President might become biased in the decision making due to having a history in a BA prior to becoming a Regional President for Kahun Group.

Moreover, Mr. Berntsson argued that reporting to three people is a challenge if trust does not exist and therefore highlighted shared targets as a difficult topic to deal with: *“That’s why the biggest challenge is to set the targets for the regional management. Because roughly in the emerging market we got 80 percent BA 1 business and the others are small. I will get targets for all three business areas. BA 1 will be more important since they are the biggest BA”*.

### **4.3 INTERNAL PRECONDITIONS FOR DESIGNING A SALES ORGANISATION**

This chapter contains information that is considered important when shaping a sales & service organisation. The STAR™ Model has been applied as a foundation for the structure.

#### **4.3.1 KAHUN’S DIRECTION**

The direction towards where Kahun is heading is a topic with spread opinions. Mr. Erlandsson, VP at Kahun Group, has clarified the strategy in detail during a face-to-face interview with aid of internal documents and by Mr. Rickardsson, Regional President briefly over phone. On the other hand, Mr. Pettersson, Regional President at Kahun Group, explained Kahun’s strategy in an opposite manner: *“[It is] hard to say what our general strategy is. Of course what our vision is and what we strive for is to be market leading in all our segments. How to get there, there are different ways depending on the product”*. Mr. Pettersson, further emphasised a product focus and argued that Kahun cannot be 100 percent customer-centric: *“You can’t be 100 percent customer-centric since you need to be a bit product-centric since you need specialist in different areas and responsibility. You need accountability for the product lines”*.

On the contrary, Mr. Evaldsson, SVP of Sales & Marketing at BA 1 Kahun, explained another side of Kahun’s future direction. He argued that listening to the customer is one important aspect of how Kahun Group will become customer-centric instead of being product-oriented with the Group Approach. Furthermore, addressing the right segments and call-points were even more important: *“The customer-centric approach is where by, one portfolio which is now the Kahun Group portfolio and the KAM and sales executives will target the segment with the whole product portfolio which target the needs of that segments”* (Mr. Evaldsson, SVP Sales & Marketing at BA 1 Kahun). Mr. Stefansson, Regional Manager at Kahun Group, shared the same view that Kahun is now aiming towards reaching the customers with a very broad range of solutions. Mr. Rickardsson however, had a different view of being customer-centric: *“... Customer-centricity for me means that actually whenever you take a relevant decisions you would not be taking that without considering the impact it has for a customer and whether you would create value for that customer. It probably also would mean that in certain specific decisions you would make sure that you, the voice of the customer is represented in the decision and the action”* (Mr. Rickardsson, Regional President at Kahun Group).

#### **4.3.2 METRICS**

To determine whether the regional organisations have succeeded and are going in the right direction, Kahun will use revenue growth profit as their main Key Performance Indicator (KPI). According to Mr. Erlandsson, VP at Kahun Group, the metric will be used for Kahun Group as well as for each business area. It is also this common measurement, of revenue growth profit, that will determine the amount of cross sales according to Mr. Evaldsson, SVP Sales & Marketing, BA 1 Kahun. Mr. Stefansson and Mr. Pettersson, both Regional

Presidents, shared the same idea and Mr. Pettersson explained his view of the financial measurements: *"I think the best way to see performance is to first see the outcome. Then it goes back to what do I have to do to reach the outcome"*. Mr. Pettersson further explained his opinion about financial measurements: *"I think it has to be purely financial and you have to be aligned with your vision and mission and values"*. The same type of KPIs will also determine Kahun's approach of becoming more solution oriented. Mr. Evaldsson explained his view of becoming solution oriented: *"The first target is 6 months away. Then it is the long-term target so when you open a new business in a region you have to give it 10-12 months to get a nice flow of revenue. So for the long-term I'm looking at having strong technical advisors in all markets. Then it is going to be the Revenue, GP and the EBITDA<sup>1</sup> we deliver"*.

Mr. Stefansson shared a similar thought of how to use KPIs to determine how well Kahun is becoming solution oriented towards the customers: *"We are going to look at the amounts that we are selling and the type that we are selling to the customer. If we are just selling only one business area product in the past but after some certain period if we start to sell with additional product lines, from different business groups, then that can be a very good point, a sign, that we are becoming more customer-centric and that we are serving them"*.

#### 4.3.3 SELECTION OF CUSTOMERS

Kahun has for long been a product-centric company and therefore segmented their customers accordingly. Mr. Pettersson, Regional President explained that Kahun's focus has been on the product lines and that the segmentation model has been focused towards customers who can purchase their portfolio. According to him, Kahun have now changed approach: *"It is a bit of a paradigm shift that we are going through. We have been a product-centric company and not too much of a customer-centric. That is something that we are changing right now. We have been very much focused on our product-line and then look for the customer where we can sell the product. Now we look into different segment where we can sell our products"* (Mr. Pettersson, Regional President at Kahun Group). More specifically, Mr. Stefansson, Regional President, explained that the customer segmentation should aim towards the customers that can purchase as much of Kahun's portfolio as possible, both public and private hospitals, as long as they can afford it. Mr. Rickardsson, Regional President explained more specifically how his region is segmenting their customers:

- Relevant call-point or the customer;
- Size of customer, which includes the integrated margin;
- Profitability;
- Potential of the customer.

On the other hand Mr. Erlandsson, VP explained that Kahun has chosen not to be on the same price level as their competitors. Instead, Kahun aim a little bit higher with the prices. Mr. Pettersson, Regional President, exemplified this by saying that private hospitals are the most profitable customers: *"[!]Imagine that we sell Mercedes, if you go to a public tender for police cars you will not make it because the price level is more on a Volkswagen level"*.

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<sup>1</sup> EBITDA – Earnings before interest, taxes, depreciation and amortization



#### 4.3.4 ORGANISING ACCORDING TO CUSTOMERS

Selling consumable goods and capital goods requires different capabilities. Mr. Pettersson, Regional President at Kahun Group, argued that managing the consumable goods puts more focus on distribution and analysing how the hospitals handle the stock in order to determine how you can deliver. In order to manage sales of capital goods, relations are the foundation and time is needed for this process, especially for public hospitals according to Mr. Pettersson. According to him, selling consumable goods is a matter of delivering quantity, while capital goods is a matter of delivering quality to the customers.

Mr. Erlandsson, VP at Kahun Group, explained that public hospitals purchase equipment through a tender process where the object to be purchased is pre-defined by specific requirements and do not allow changes of a quote that as been offered to the customers purchasing organisation. Purchases at a private hospital on the other hand, allow you to negotiate until the very end according to Mr. Erlandsson. Due to the specific requirements, Mr. Pettersson explained that the Latin American (LA) region has set up the organisation to specifically work with public hospitals besides consumable and capital goods (Figure 8).



Figure 8 - The Latin American sales organisation

#### 4.3.5 KAHUN'S SALES MODEL

Kahun is conducting sales mainly through a hybrid model. This means that a majority of the sales are performed via distributors, and not directly via Kahun. According to Mr. Evaldsson, SVP of Sales & Marketing at Kahun Group, emerging markets have 85 percent of its revenue coming through a distributed model. In China, Kahun uses a network of 300 different distributors and there exist no direct sales at all according to Mr. Berntsson. One reason for not applying a direct sales model is because of the costs that come with it. According to Mr. Stefansson, Regional President, a direct sales model requires more resources: sales and administrative expenses are much higher. At the same time, using a direct sales model comes with the ability of taking a larger market share. It is the market size that matters when choosing which sales model to apply. If the market is big enough and have potential, a direct model would be preferable according to Mr. Stefansson. He explained that a smaller market worth 1 million EUR in total for all the business areas would not be suitable for a direct model. According to him, a market worth 20 million EUR in total would be more preferable.

Furthermore, customers do have the possibility to go directly to Kahun, even though they have distributors according to Mr. Evaldsson. Normally, BA 1's technical advisors join the distributors and visit the customers, but they have made it even more simple now: the customers will now have the possibility to bring their projects to Kahun who brings together the distributors in order to determine what the scope is.

#### **4.3.5.1 DISTRIBUTORS' ROLE IN BECOMING CUSTOMER-CENTRIC**

Distributors will play an important role in Kahun's approach of providing solutions. According to Mr. Stefansson, Regional President, his region will focus on finding a distributor that represent Kahun as a solution provider, a challenge according to Mr. Evaldsson, SVP Sales & Marketing at BA 1 Kahun. He explained that the integration could result in a selection of distributors that already sell competing products. He further explained that these distributors will act as a call-points, which means that this is where the customers turn to in order to purchase one of Kahun's solutions, such as all the products for an operating theatre: *"Five years ago, we changed our business model so it is a distributor business model but what we changed is that we didn't give access to a division's product offering to our distributor. We gave them access to specific product offerings, like operating room products. We don't longer have contracts by divisions, we have contract by products. So that is how you can become customer centric with distributors as well."* Mr. Rickardsson, Regional President further explained the use of distributors: *"In the region X, BA 1 follows a call-point approach that we, that by simply by rolling BA 2 and BA 3 under the same kind of go-to-market approach, BA 2 and BA 3 they will suddenly benefit from a very large pool of a clinical team that is basically cross-trained and that even though we are represented through a distribution model of distributors we still are touching the end-user customers and promoting our therapies and solutions. And that cross-trained clinical team will not only be promoting the let's say, the BA 1 therapies and solutions, but we will be able to support BA 3 and BA2 likewise"*.

On the other hand, according to Mr. Rickardsson, the go-to-market approach will differ for each country once the integration is done, which implies that the sales model also will differ. This will have an effect on to which extent distributors are used from country to country.

### **4.4 KEY DESIGN ASPECTS FROM BENCHMARKS**

In order to discover key aspects when designing a sales & service organisation, the study has included a benchmark on seven companies from various industries. This also included one competitor to Kahun, Medicus.

The findings from the companies are structured in sub-chapters according to the STAR™ Model's components: Strategy, Structure, Processes, Rewards & Metrics and People.

#### **4.4.1 STRATEGY**

The strategy is the foundation of the sales & service organisation at Apparatus. According to Mr. Andersson, VP of Operations at Apparatus their strategy is very simple: *"What we try to do is to come up with a strategy about what make customers happy when they speak to us. We try to come up with a very simple strategy saying okay, customer wants machines to be running so make sure the machines run"*. Mrs. Olausson, Global Sales Leader at Medicus also highlighted their strategy that will help them grow and become more successful with their customers. Medicus have realised that long-term partnerships with strategic customers is the key for realising this scenario: *"[I]n order to get the customer to adopt and consider some of our technologies we have to help them more broadly and help them implement or you know, look at things like workflow. Give a little extra in order to be successful"*. According to Mrs. Olausson, it is not possible with only a product focused strategy.

The consultancy company Auxilium have gone one step further when it comes to stating the importance of a strategy. Internal documents expressed Auxillium's opinion on how a client

approached their customers: *"Furthermore the sales approaches are mainly focused on great service and problem solving. Simply put and a bit blunt would be to say that the sales organisation serve customers acting like "butlers", rather than taking the front seat in the sales/purchasing process driving the agenda and the business"*.

#### **4.4.1.1 HOW TO SELECT THE CUSTOMERS AND WORK WITH THEM**

Segmenting the customers is an important activity for a sales organisation. Mr. Eriksson, Global Accounts Director at Tenacissimum, explained that the normal way of segmenting the customers is according to size and what sales value the customers have. According to Mr. Eriksson, this is the wrong approach: *"There might be some that are big here, who does not have any potential at all for us to sell. So we do not think it is as good model"*. According to Mr. Henriksson, consultant at Auxilium, segmenting customers according to business potential is a key aspect when conducting sales. A business case from Auxilium exemplifies the problem of not working with potential: *"If I travel to have a meeting with a customer, I make other calls to customers nearby. So it is geography and convenience rather than potential that decides what calls I make"* (Client to Auxilium).

Mrs. Ingvarsson, SVP of Marketing & Product Support stated clearly that the model Argentum use for segmenting focuses on which customer has the greatest business potential with no regards to the current business between the two parties. Medicus uses a similar segmentation model, constructed by the following parameters: existing business, potential business, strategic fit, the latter the alignment between Medicus strategy and the customers according to Mrs. Olausson, Global Sales Leader.

The model used at Tenacissimum also explained what previous companies have shown; work with customers that possess the greatest business potential. Mr. Larsson, Director of Development and Support exemplified how Tenacissimum perceives business potential: if a customer have a cluster of operation facilities in an area, Tenacissimum see this as an opportunity to set up one service point that could support all these facilities. According to Mr. Larsson, this is a low investment but a great opportunity to offer great value to the customer. Mr. Eriksson, Global Accounts Director at Tenacissimum summarised the idea of business potential to be the selection of customers that can provide you with a large share of the wallet.

Customers can also be segmented according to service level. Apparatus use what they call a service ladder when they segment and work with their customers according to Mr. Andersson, VP of Operations. In general, the model can be divided into three different approaches of how they engage their customers, much dependent of the maturity level of the customers:

- Customers that only seek reactive maintenance. The most basic level customers purchase products such as spare parts and oil refill;
- For customers that want to work with Apparatus in a more professional way. At this level, the service is available for the first time which means that Apparatus will for example change the oil for the customer;
- Customers who are more willing to invest in service contracts and long-term relations that will result in cost savings for the future. At this step of the service ladder is condition-based maintenance, where Apparatus monitor and provide maintenance

with the intention of zero down-time and for Apparatus, the ultimate way of removing any worries of the customer according to Mr. Andersson.

#### DIFFERENT TYPES OF SALES

Sales is constructed by three key aspects: *productivity*, *quality* and *priority* and according to Mr. Eriksson, Global Accounts Director at Tenacissimum, sales can be conducted by using four different approaches, where no approach exclude the use of another:

- The *traditional* approach has its origin from productivity. It is useful when you meet many customers and offer standardised products. What the customer prioritises is price and delivery. The idea is to standardise the offerings, produce large volumes, and make sales resource efficient by using automation to reduce cost of sales. Margins are often very low within this type of sales. Mr. Eriksson exemplified the traditional sales as *push sales*.
- The *transactional* sales approach emerged due to digitalisation. Using this approach does not require any sales force, such as Internet purchasing. On the other hand, it might require people for customer support or similar, according to Mr. Eriksson. A customer that is reached with this approach prioritises price and delivery.
- Mr. Eriksson explained the *complex* sales approach to have emerged due to more centralised purchasing behaviours and technology that need involvement from many departments. According to Mr. Eriksson, it is important to collect the employees' opinions and knowledge in order to take the right purchasing decision. This approach is more focused on the customers and providing value, i.e. *quality*. The name complex comes from complexity perceived by the customer when conducting this kind of purchasing.
- The *distributed* sales approach requires a totally different way of organising around the deal. This is the reason for separating the complex and the distributed sales approaches. According to Mr. Eriksson, it shares the same characteristics as the complex sales approach with the difference of being even more complex: *"What we call the distributed complex sales is really the same thing, it is complex sales. But now it is really complex. Maybe we should write a contract with a company throughout Europe. Then it must affect both headquarter and as well as local companies and different, perhaps pairing departments"* (Mr. Eriksson, Global Accounts Director at Tenacissimum, free translation).

Both Medicus and Tenacissimum are differentiating between regular customers and strategic customers. Strategic customers search for a greater value offering than regular customers. Mr. Larsson, Director of Development and Support expressed the need for Tenacissimum to become even more integrated with their strategic customers and building knowledge about them. Tenacissimum is selective of which customers to work with, and are more close with the ones that have been selected. According to Mr. Larsson, Tenacissimum want to become a trusted advisor that will have the possibility to advice these customers, even before they make any decisions.

Medicus strategic customers must fit with their value proposition, and these customers must have a desire for being assisted on a higher level and at the same time allow for growth of Medicus as well. According to Mrs. Olausson, VP Global Sales, the criteria for these customers are many but can be summarised: *"... good synergies between the two organisations, tends to be the ones that prove a variety of criteria and that be the strategic*

*customers that we spend a little more time with.*" (Mrs. Olausson, VP Global Sales at Medicus).

#### **4.4.2 STRUCTURE**

This sub-chapter presents empirical findings regarding key design aspects when deciding the structure of a sales organisation.

##### **4.4.2.1 INTEGRATION OF SALES AND MARKETING**

The integration between sales and marketing is a key aspect in a sales organisation: *"Sales and marketing is for us one function. The integration between sales and marketing is just by putting them together under the same responsibility"* (Mr. Andersson, VP of Operations at Apparatus). Both Tenacissimum and Argentum agreed of this importance. Mrs. Ingvarsson, VP of Marketing and Products at Argentum explained the importance of teamwork and alignment between the two functions: *"The critical success factor is to align everyone on the same objective. And then make sure that the marketing team is as knowledgeable as what's happening in the field as salespeople. So that they do not build marketing plans that are totally unrealistic to implement afterwards"*.

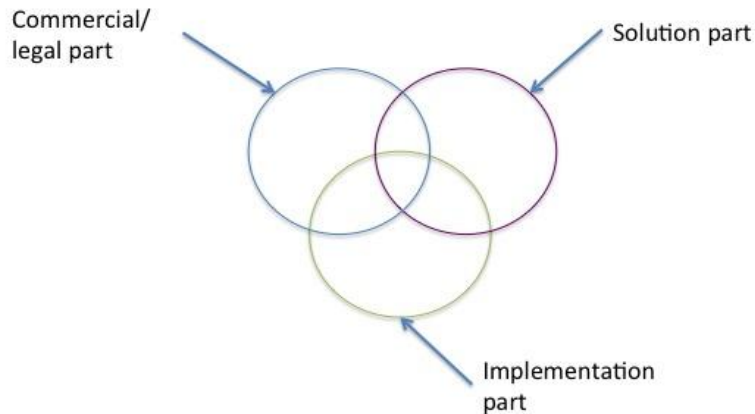
##### **4.4.2.2 COLLABORATION BETWEEN FUNCTIONS**

Performing sales in a complex environment with increasing risks requires collaboration and support, not only from the sales organisations, but from other internal functions as well. Mr. Eriksson, Global Accounts Director at Tenacissimum described a scenario where the purchaser's operation function and finance function needed to be involved in order to influence functions beyond the customers purchasing function. He further argued that Tenacissimum therefore need to ramp up with different competence profiles and people that can deal with the purchasing, operation and finance function of the customers, in order to reduce the complexity and convince the customer of the purchase. Mr. Eriksson explained the importance of leaving out one-man-jobs and instead focus on cross-functional teams that combine knowledge, such as finance, to deal with the complexity perceived by the customer. He exemplified how the finance function could stop a purchase due to budget constraints and how Tenacissimum would solve the situation cross-functionally: *"But if we do this, then we will reduce OPEX by x%. Then I get their support too and they say this: But that sounds great. And so they can, otherwise they will stop the entire purchase"* (Mr. Eriksson, Global Accounts Director at Tenacissimum, free translation).

Mr. Eriksson was even more specific about how Tenacissimum structures the sales teams. He explained that a sales contract includes three main areas:

- A commercial/legal area of the contracts;
- A solution area telling what it is that Tenacissimum will deliver;
- An implementation area, how Tenacissimum will deliver it.

According to Mr. Eriksson, there is one responsible person for each of these areas (Figure 9). He explained that these persons have the whole picture of the deal as they work together even though their different specialties. During the sales process these persons also have the possibility to call for reinforcement where even the CEO of Tenacissimum could be called to assist a deal: *"I do not have access to this manager. Could you open the door and have a meeting?"* (Mr. Eriksson, Global Accounts Director at Tenacissimum, free translation).



**Figure 9 - A sales team at Tenacissimum**

Medicus reasoned just like Tenacissimum, using different competencies can be required depending on the customer: *“In order to win an opportunity, we determine what the stakeholders are that will help you be successful. So I would say the answer to that question, how will we engage other functions, it depends on the strategy that you have of that you need in order to be successful to that customer”* (Mrs. Olausson, VP of Global Sales at Medicus).

#### **4.4.3 PROCESSES**

This sub-chapter presents key empirical findings regarding process related aspects vital to consider when designing a sales organisation.

##### **4.4.3.1 BUILDING RELATIONS**

Mr. Eriksson, Global Accounts Director at Tenacissimum explained the importance of the sales process in a complex sales environment and emphasised the importance of having a sales process that matches the customers purchasing process. The difference between traditional sales and complex sales is that it often ends after the delivery has been made, as it is in this moment where the traditional sales organisation moves on to the next customer. A complex sales process must be designed so that it enables the building of partnerships in order to make the customers return, a key aspect of this approach. Mr. Eriksson exemplified this by explaining the vital activity of finding out how the customer uses the solution(s) in order to go to the next step with the customers. Reviewing it becomes very important from a sales perspective: *“... you can create a lot of up-sales and additional sales and here you can find the things that will make you find new business opportunities...”* (Mr. Eriksson, Global Accounts Director at Tenacissimum).

##### **4.4.3.2 THE CHALLENGE OF DISCOVERING OPPORTUNITIES**

Mr. Knutsson, Business Advisor at Incubator highlighted problem of working with distributors in the sales process: there could be a competition from other products of other companies; and receiving filtered information. About the filtered information Mr. Knutsson said: *“One danger is if you work with intermediaries the information becomes filtered. Therefore it is good that you are there and make customer visits with distributors so that you get the right information from the clients so that you know you have the right offer to the customer “.*

##### **4.4.3.3 A SYSTEM THINKING WHEN CHANGING**

A change within the sales organisation will also have effects on other functions. Mr. Gabrielsson from the consulting firm Signum argued that you must have a system thinking

when you perform these types of changes as changing one function will affect the interface with others. Mr. Andersson, VP of Operations, highlighted one of these important relations, between sales and operation functions. This emerged as an important topic when Apparatus found out that their salespeople will stop selling when the operations people do not have sufficient capacity to deliver. Apparatus' solution to the problem was a simple and straightforward capacity planning process, where the general manager and the distribution manager reviewed the strategic balance between the sales capacity and the operational capacity: *"The relationship between sales and operations planning is crucial. The sales force has to sell a commitment and the operation has to execute the commitment"* (Mr. Andersson, VP of Operations at Apparatus).

#### 4.4.4 REWARDS AND METRICS

This sub-chapter presents empirical information of important aspects regarding KPIs when designing a sales organisation. Incentives are also an important area when designing a sales organisation, however, due to working with top-management, information regarding incentives for salespeople could not be provided to a detailed extent.

##### 4.4.4.1 KEY PERFORMANCE INDICATORS

Using KPIs based on volume, such as number of units sold, is only suitable for traditional sales, but not in a complex sales environment. According to Mr. Eriksson, Global Accounts Director at Tenacissimum, these metrics are irrelevant when working with longer sales cycles as in complex sales: *"... When working with long sales cycles, it becomes irrelevant to say how many X were sold this month"* (free translation).

Mr. Eriksson, explained that measuring results is something that has already happened and that the measurements are too late to react upon. Mr. Eriksson therefore explained the importance of also measuring behaviours in order to be proactive and receive good results (figure 10). He stated the importance of driving behaviours such as the *number of relations created*; and *where these relations are being created*: *"What relationships are we creating? In what departments? What type of business is it we discuss with the customers?"* There is maturity there, it must also be measured. One must start measuring the behaviours and not just only on results." (Mr. Eriksson, Global Accounts Director at Tenacissimum, free translation). According to Mrs. Olausson, Global Sales Leader, Medicus can also make use of strategic targets that drive a certain action or behaviour, where a measurement could be setting targets for creating accounts for customers.

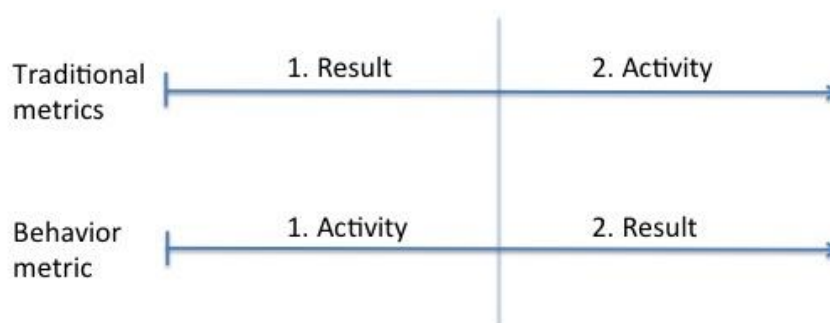


Figure 10 - Traditional vs. Behaviour metrics

Mr. Andersson, VP of Operations at Apparatus exemplified a similar idea of what Mr. Eriksson, Global Accounts Director at Tenacissimum, claimed was important. According to

Mr. Andersson, customer satisfaction is the result of many years of work and does not tell them much about the customer satisfaction level today. He explained that in order for Apparatus to be customer-centric and to realise their strategy, they have created what is called leading indicators. These indicators focuses on what can be controlled in order to support the main goal, in their case: customer satisfaction. Mr. Andersson exemplified that measuring and keeping the warehouse stock level high will enable a quicker response to customers' demands and therefore, in the end, increase customer satisfaction (figure 11).



Figure 11 - Leading vs. lagging indicator

#### 4.4.5 PEOPLE

Organisations must separate the people working with traditional sales and complex sales. Mr. Eriksson, Global Accounts Director at Tenacissimum explained: *"You cannot have the same suppliers that sell both solutions and products and so on because then they will become schizophrenic, it won't work, it is totally different driving forces, different competences"* (free translation). Working with traditional sales requires people that like to close deals and sell volumes. An organisation working with complex sales, needs to have people that can work with longer sales cycles, which require a lot of energy and resources. Mr. Eriksson further explained the difference between the two sales organisations in a slightly generalised manner: traditional salespeople have a high driving force, love to win and can be a bit of lone wolfs; the complex salespeople are more analytical and more genuinely interested in the customer and creating customer value. Mr. Albinsson, SVP at Security AB shared a similar opinion; *"due to customers being different, sales must be different, which requires different salespeople that understand the customers operation"* (free translation). A quote from a business case done by Auxilium captured the differences perceived by one of their clients: *"I'm not really a commodity seller. There are colleagues that are better. I should really be doing just solution sales and no commodity sales. But I do both."*

Mrs. Olausson, Global Sales Leader at Medicus shared a similar opinion of using different people. Medicus have salespeople responsible for knowing all the details of their products and technologies. These salespeople focus on key decision makers interested in purchasing these products. At the same time, for strategic customers, Medicus have salespeople working across Medicus' business areas, called strategic accounts. According to Mrs. Olausson, these people need other competences then the product-oriented people: *"[T]here's this other strategic account person that's just, exactly, more strategic in their approach to the customer. And they can help coordinate the efforts of that sales team with the customer and look for those opportunities or synergies."* (Mrs. Olausson, Global Sales Leader at Medicus).



## 4.5 SALES TO MEDTECH CUSTOMERS

Both sales and the medtech industry are changing according to the interviewees in this study. This section provides key findings of what to consider when designing a sales organisation in the medtech environment.

### 4.5.1 A CHANGING LANDSCAPE

The interviewees of Kahun share a common view of the future. Previously, there was a very decentralised way of purchasing medical equipment, according to Mr. Erlandsson, VP at Kahun Group. The hospital management did not interfere in what the hospital wards bought: each department had the ability to perform purchases themselves. The management at Kahun Group now believes that the power of purchasing is moving further up in the hierarchy and that executives will make the decisions in future hospital organisations. Mrs. Olausson, Global Sales Leader at Medicus shared a similar opinion and explained that the customers are consolidating and will continue to do so in the future.

Another aspect is that customers want to become more efficient as the pressure to deliver value to the customer is increasing. Mrs. Olausson believes sales organisations must evolve with the customers as they are changing continuously and will continue to change: *"[I]t is changing and will continue to change over the next several years. It is not going to go away, and it is not going to be done. It is just going to continue and continue"*.

### 4.5.2 CUSTOMER-CENTRICITY AS A MIND-SET

If a sales organisation wants to become customer-centric they need to change their mind-set. Mr. Larsson, Director of Development and Support at Tenacissimum, have set aside the fact that even though their bundled solutions of products and services might harm the profit margin for one or two of their business areas: as long as the customers are satisfied, it is the total margin for the organisation that matters. He further explained that when Tenacissimum sell complex solutions with products and services from all their business areas, the company must see the broad picture of how much they have sold in total, not for specific products. Mr. Lennartsson, Business Advisor at Hospitalum went even further when he described customer-centricity, implying that: *"[I]t is not only focus on the customer, but on the customer's customer. How can I help you as a customer to sell more to your customer, then my price uninteresting"* (free translation).

#### 4.5.2.1 VALUE CREATION

Another dimension within customer-centric organisations is the importance of *value-creation*. Understanding what the customer's key priorities and issues are, is the foundation of being customer-centric. Kahun Group sees their customers to be more focused on the efficiency they can achieve with the new product or service. The customers put more pressure on the sales organisation to explicitly prove what value Kahun will bring. According to Mr. Henriksson at Auxilium, one must understand that sales is about increasing the customers' competitiveness and that the sales organisation must deliver value to the customer. Both Mr. Andersson, VP of Operations at Apparatus and Mr. Eriksson, Global Accounts Director at Tenacissimum share the same idea: delivering customer value is fundamental. Mr. Eriksson is even more specific when it comes to the complex customers: *"[H]ow will this offer make you earn more money, save on costs or how will you be able to deal with risks a lot better in your company?"* (free translation).

For Medicus, value creation comes from providing solutions that help their customers achieve their objectives. According to Mrs. Olausson, Global Sales Leader, Medicus provide solutions that are both tactical: such as improvement of diagnostic test accuracy; and strategic, such as solutions aiming to improve the customers' supply chain.

Affecting the bottom-line results is a way to create value for the customer. Mrs. Olausson explained that if the bottom-line results are important for a strategic customer, then they will solve this by providing operational improvement, such as: reducing inventory on hand or improving the clinician's work-flow. They even acquire external people to help create value for the customers with this task. A business case from Auxilium captured the essence of value from an interview: *"Company X needs to create value for me. If something comes up during a meeting and Company X comes back with a solution proactively, THAT is creating value"*. To be able to create value, the sales organisation must know the customers' organisation and operation even better than the customers themselves. Mr. Knutsson, Business Coach at Incubator, argued that it is important to perform cost benefit calculations and show where the customer can become more efficient and save money.

Furthermore, Mr. Lennartsson at Hospitalum explained that today's products and services will not be sold if they only appeal to the customer's *needs*, it should also appeal to what the customer *wants*. According to Mr. Lennartsson, solving a need could be to investigate how the department can work more efficiently. But solving the wants might be the possibility for someone to go home earlier or impress the boss. Wants are the things that are unspoken and can be the deal breakers as these driving forces are much larger. Mr. Lennartsson described a want as what follows: *"[T]his solution hell, costing three million, but it will ensure that I will be able to go home four every damn day, then we have the business"* (free translation).

#### 4.5.3 COMPLEX PURCHASING

Purchasing is becoming more complex and Mr. Eriksson, Global Accounts Director at Tenacissimum explained complexity as the level of perceived risks when purchasing. He further explained: *"If I would purchase this from you, what consequences is that for me? And what are the risks? Do I need to train personnel? Do I need to change routines?"* (free translation). Mr. Lennartsson, Business Advisor at Hospitalum, shared another example of complexity perceived by the customer: *"It should be installed, people must be trained, it must be implemented, we have to rewrite operating procedures. So, it will take months, maybe six months before results begin ticking out from the this new investment. And I do not have the time or the budget for any of this. And the one who gets to rewrite operating procedures will be me then, so no thanks"* (free translation). Complexity can be perceived in three different ways according to Mr. Eriksson:

- *Risk exposure* is characterised by the amount of time, money and resources that is needed to be invested in the particular offer by the customer;
- *Grade of change* is to which extent the purchaser need to change the own organisation to fit with what is to be purchased, such as changing routines and processes;
- *Time horizon* is the complexity that can be perceived when dealing with the specific length and dynamics of the contract.

## 4.6 THE CUSTOMERS

In this study, two larger hospital groups from Sweden have taken part in interviews: one public organisation (Publico) and one private (Private). Key take-aways regarding their purchasing process is presented in this sub-chapter.

### 4.6.1 CENTRALISED VS. DECENTRALISED PURCHASING ORGANISATIONS

Publico has during the last years gone from a decentralised purchasing process to a more central. According to Mr. Albertsson, Head of Purchasing, all purchasing is now being coordinated through a central purchasing department. Furthermore, Publico's purchasing organisation has been divided into separate purchasing areas: one for medical and surgical healthcare; another for indirect material; and a third for diagnostic products and drugs.

Private has made the opposite journey compared to the public healthcare: it has gone from a centralised purchasing organisation to a decentralised purchasing organisation. According to Mr. Arvidsson who is Head of Purchasing and Logistics at a hospital within Private, the reasons were many. One of them was that they could not receive cost synergies they intended to reach and in relation to this, the sales forces would not adapt to this new way of working. Private who is an international company, working on European level, could not perform central purchasing as the sales forces of the supplier were scattered into countries instead of working across nations. Therefore, purchasing is being done locally on each respective hospital, with a focus on procuring quality instead.

### 4.6.2 CHANGED RELATIONSHIPS

The larger suppliers and their sales organisations are well aware that penetrating other levels than the purchasing organisation is not allowed in today's centralised purchase process at Publico. Mr. Albertsson, Head of Purchasing at Publico, do not believe that this is the right way to perform business in a centralised purchasing organisation. Mr. Albertsson explained that if the sales forces would go out to the daily operations and talk to a doctor at one hospital, this doctor would probably only explain the requirements for a specific area, at a specific hospital, instead of covering the need for all hospitals within Publico's hospital group. Mr. Albertsson also added: *"It disturbs the operations, and it is not purchasing you are talking to. It is purchasing that is commercially liable, it does not help talking to a nurse"* (Mr. Albertsson, Head of Purchasing at Publico, free translation).

### 4.6.3 ABILITY TO PURCHASE SOLUTIONS

The different budget processes between the public and private hospitals creates different capabilities for purchasing. Mr. Albertsson, Head of Purchasing at Publico explained that today's organisation have a problem of purchasing equipment that in the longer perspective could make the healthcare organisation more efficient and affect the bottom-line result. It is mainly due to the one-year budget planning. Mr. Albertsson, Head of Purchasing, at Publico points out that even though organisational changes have taken place, the organisation does not have exceptional capabilities to purchase solutions, mainly due to the time it takes to coordinate the different areas and considering the needs of all their hospitals. On the contrary, it is something that they encourage sales organisations to act upon. *"We are definitely interested of it, so if you, if you have an idea. If a company have an idea, then it works as with any other company, you contact purchasing and we discuss is"* (Mr. Albertsson, Head of Purchasing at Publico, free translation).

The requirements set for products and services prior to a purchase at Publico are divided into *conditional requirements* and *award criteria*. These requirements are evaluated upon a kind of rating system. An organisation that can deliver something more than only the conditional requirements will have a higher grade. In spite of that, Mr. Albertsson is very clear when it comes to setting the requirements: “... *it is important to understand, it must not be directed, targeted requirements. And with targeted requirements, I mean, it may not be obvious that we have imposed the requirement that we want this supplier* (free translation). Furthermore, it is an incorrect perception that a public organisation only purchases products and services to the lowest price: “[L]et us say it is 10 providers who operate, so it is perhaps three or five that meet the requirements and then it means that these five suppliers can deliver what we need. Then we look at which of these five that have the lowest price” (Mr. Albertsson, Head of Purchasing at Publico, free translation).

Private has a different focus when purchasing. The total offer combining *direct cost, service on a five-year perspective* and *spare parts* is what matters. Mr. Arvidsson, Head of Purchasing and Logistics further explained that the Return on Investment and how the products and services affect the bottom-line result is important aspects when they purchase. Mr. Albertsson at Publico is positive to companies trying to establish that kind of deal and explain that the purchasing organisation is willing to go far if the right idea is presented. He also explained the fact that a majority thinks that being tax funded is equal to no budget limitations. But of course, that is wrong: “*All ideas that generates more money for care is of interest*” (Mr. Albertsson, Head of Purchasing at Publico, free translation).

Private feel more satisfied with organisations that are new to the industry. Mr. Arvidsson, Head of Purchasing and Logistics explained that these organisations are often more clear about their organisation around the deal and who is responsible for what and more responsive and keen to solve their problems. According to Mr. Arvidsson, the larger organisations are still stuck in an old way of working, often focused on public healthcare organisations that use the Public Procurement Act (PPA). Mr. Arvidsson argued that these organisations must come to a conclusion of whether and whom they should target and how they should do it, i.e. public or private hospitals and if they choose both, determine an efficient approach.

#### **4.6.4 PURCHASING PROCESS**

There are three types of purchasing processes at Publico according to Mr. Albertsson, Head of Purchasing at Publico:

- The standard process that follows the PPA at Publico starts by initiating contact with a steering committee, a year prior to the current agreement ending. Once initiated, a project group is constructed out of stakeholders, besides the head of purchase, regarding the new purchase, such as surgeons and anaesthetists.
- Another process regards purchases without agreement. The purchase organisation’s own internal customer service desk is handling these matters up to a certain price level before the steering group is contacted: “*Customer service purchases what does have not have an agreement. And we have control of how much money that is being spent there. According to the Public Purchases Act, you are required to procure when it reaches a certain limit*” (Mr. Albertsson, Head of Purchasing at Publico, free translation).

- The third way of how purchasing is done at Publico is labelled *research*. An exception from the Public Purchases Act can be made if a company bring something new that does not currently exist on the market. The purchasing organisation then has the right to try the product during a couple of months without considering the *principle of equal treatment* found in the PPA.

Private hospitals on the other hand are not bound to any limiting Public Procurement Act. According to Mr. Arvidsson, Head of Purchasing and Logistics, Private have two types of purchases: *replacement purchasing* and *cost/efficiency purchasing*. In order for Private's organisation to procure, there must be a need or a purpose established. Both processes go from need, further into budget planning where cost and reason for purchasing must be cleared. Next step is approval from management; an approval that is sent to the purchasing organisation and a mapping of available sellers is performed. This includes a proper definition of what to purchase. Hereafter, a Request For Proposal is being sent out. According to Mr. Arvidsson, this is a step that is normally characterised by a lot of negotiations and comparisons between the offers. Mr. Arvidsson also explained that it is not uncommon that the purchasing organisation wants to be provided with a sample test for try-out during a couple of weeks.

## 4.7 EMERGING MARKETS

This chapter presents key aspects to consider when setting up operations on emerging markets due to that Kahun's integration is taking place in emerging markets.

### 4.7.1 CUSTOMERS ON EMERGING MARKETS

In contrast to the normal perception of emerging markets, Mr. Johansson, CEO & President at Apparatus, explained his view of emerging markets: *"There is not one emerging market. They are all diverging. That approach, one-size fits all are not working. We realised that quite quickly"*. One example of this is that the proportion of public versus private hospitals on the emerging markets differs. In China there is 99 % public hospitals whereas in India, up to 60-70% is private hospitals with negotiation processes according to Mr. Erlandsson, VP at Kahun Group and Mr Berntsson, Regional President at Kahun Group.

Just as in mature markets, private versus public hospitals purchase on different conditions. According to Mrs. Ingvarsson, VP of Marketing and Products at Argentum, the private hospitals are more quality driven then the public and are not limited by budgets to the same extent as the public. Mr. Andersson, VP of Operations, have also experienced the price sensitivity challenge when Apparatus is operating on emerging markets, but in a somewhat different way: *"In India the price of the labour is so low so it sometimes much cheaper to hire somebody to sit next to a machine to monitor it than purchase a service contracts"*. According to Mr. Knutsson, Advisor at Incubator, it can be a more lucrative business working towards the private hospitals customers as these organisations pay with money from their own pocket. This is also confirmed by Mr. Petterson, who states that Kahun is more profitable from private hospitals than public ones.

Finally, the power structure on emerging markets is very centralised. According to Mr. Erlandsson, VP at Kahun Group, the managing director of a hospital, most often a surgeon of some kind, also owns the private hospital. Mr. Erlandsson's opinion is that this power structure differs from the one at Sahlgrenska University Hospital in Sweden, where he sees the power to be very decentralised.

#### 4.7.2 MATURITY LEVEL

One aspect to consider when operating on the emerging markets is the level of *maturity* amongst the customers. Mr. Andersson, VP of Operations at Apparatus argued that maturity level on emerging markets is lower compared to mature markets and he described it with the following statement: *“You can’t go in and sell a bicycle if they never seen a bicycle before”*. Mrs. Ingvarsson, VP of Marketing and Products at Argentum described the maturity level in a similar manner by saying: *“Every supermarket in Sweden has a scanning system so it means that they can track immediately what has been sold and the stock levels and everything. In India, they still write on a piece of paper how many products you have bought”*.

Furthermore, Mrs. Ingvarsson described the level of knowledge and awareness as an important aspect to consider on the emerging markets. It sets the limits of which products and services they can sell. Argentum only provide a very small base and the simplest products of their global product portfolio on the Indian market. According to Mrs. Ingvarsson you must: *“[F]ocus and concentrate on the 20 % of the products and offers that will make 80 % of your business”*. Another aspect regarding products where explained by Mr. Andersson was that Apparatus realised that they were not flexible according to how the local people wanted to do business on emerging markets. Mr. Andersson’s answer was to adopt the products and product portfolio to be more flexible, but also provide more flexibility to the local sales organisation in order to satisfy the customer.

Finally, it was also acknowledged by Mr. Andersson that it is harder to create awareness of the long-term value Apparatus bring. Mr. Andersson explained: *“They are much more difficult to convince the people on the emerging markets to think long-term. They are not thinking of long-term issues. Is hard to convince them of the value. What is important is that many of the emerging market people thinks that service is for free”* (Mr. Andersson, VP of Operations at Apparatus).

## 5. Analysis

This chapter presents an analysis of the empirical findings in light of the existing theory and previous research. The reasoning is based on interpretations of a holistic view with logical arguments, from which conclusions are drawn. This chapter is divided into smaller sub-chapters where the research questions are broken down into minor problem areas and examined closely to give it an explanatory meaning. This intends to give the readers an exhaustive understanding of the analysis. The sub-chapters are as follows:

- Bargaining power shifting from Kahun to customers
- Internal problems could result in customer problems
- Importance of system thinking
- Integration of knowledge to offer better solutions
- Different views on the integration
- Creating value for the customers
- Segmentation of customer types
- New type of sales process
- Importance of collaboration when selling solutions
- Different capabilities when buying solutions
- Ability to become customer-centric with distributors
- Maturity level on emerging markets and the effect on customer centricity

### 5.1 BARGAINING POWER SHIFTING FROM KAHUN TO CUSTOMERS

Integrating a company comes with several internal opportunities. An integrated company like Kahun possesses the ability to create a better bargaining power over their customers by bundling their products and thereby decide on the price offers, as Holtström et al. (2009) and Schriber (2009) reasons. According to Schriber (2009), bundling is equal to solutions when products and services are combined and sold together in order to create more value for the customer. On the other hand, there are findings that indicate Kahun occasionally does not realize their bargaining power over the customers when they are bundling their products. While having customers purchasing from more than one BA is considered as a solution by Kahun, internal documents have shown that discounts become a reality in such cases. As Kahun has collected all the products and services in one place, the cost of approaching the sales organisation will be reduced for the customers. The research has shown as customers will have the possibility to purchase even larger volumes of products and services from Kahun, they can, therefore, also request even lower prices.

One could argue about the many reasons as to why there will there is a decrease of the price, instead of an increase. One could be that Kahun has not realized their plan of becoming a customer-centric solution provider, at least not according to how it is described by theory: an organisation that customizes solutions, in the combination of products, services and experiences, to fulfil customers needs (Kates and Galbraith, 2007). The current scenario at Kahun could be described as equal to providing stand-alone products instead of solutions. The outcome of only bundling products and not having full-scale solutions is that Kahun will not be able to create any extra value for the customer (Kates and Galbraith, 2007). Empirical findings suggest that solutions have the ability to create a higher profit than the traditional sales of products and services (figure 5). The reasoning behind these findings is that the price for solutions is based on the value being provided to the customer, instead

of on cost and mark-up. This implies that the value is greater when selling solutions comparing to stand-alone products.

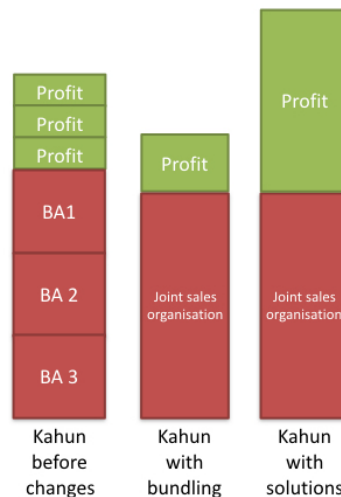


Figure 12 - Stand-alone products vs. Solutions

## 5.2 INTERNAL PROBLEMS COULD RESULT IN CUSTOMER PROBLEMS

The growth of an organisation, i.e. number of people, products, business and sets of customers, creates a complex organisation (Kates and Galbraith, 2007). The interviews suggest that the number of connections and interfaces between people and business areas at Kahun have increased, which also increases the amount of work. In Latin America, the management has experienced such a complexity as the work has tripled with an increased need for support and control. According to Schriber (2009) the increased workload of an integration is often underestimated, which can inhibit the integration process. Hiring extra staff during the integration can reduce the risk.

The theory of the Star Model™ clarifies the importance of aligning processes with the structure and as it is the processes that move information to ensure collaboration and coordination (Kates and Galbraith, 2007). Ljungberg & Larsson (2001) even claim that these processes are important to provide information and resources for activities that satisfy the customer needs. The integration between sales and other functions within Kahun will be done through IT systems, such as CRM systems, to make it easier for customer management. Feedback from the Latin American region has emphasized the importance of having those systems up and running when integrating the three business areas. However, Kahun has met resistance regarding their implementation plan of IT systems. According to management, the implementation of these IT systems is not on schedule.

As the organisation increases in its complexity, the authors argue that it becomes more strenuous to work within the organisation, especially if the new interfaces are not integrated properly. Furthermore, it is not only internally where new interfaces are being created. Empirical findings suggest that complex sales, i.e. solutions, requires more interfaces with the customer due to that communication interfaces between buyer and seller does not only



exist between their respective sales departments but also between the buyers and the sellers other departments such as the HR and Manufacturing department, hence, an even more complex organisation.

Processes can enable efficient information sharing (Kates and Galbraith, 2007), and therefore become vital in this integration. On the other hand, the processes must be supported by IT systems. Unfortunately, Kahun is being hampered in their implementation of these supporting systems. Kates and Galbraith (2007) argue that accurately shaped processes can enable faster decision making to satisfy customers according to their demands. The authors believe that the customers could be affected negatively due to not having the proper support systems. As they are not in place to provide the correct information and allow for right and swift decisions, there is a risk that customers will suffer from problems caused by miscommunication, such as late deliveries.

### **5.3 IMPORTANCE OF SYSTEM THINKING**

The Star Model™ is based on a system thinking (Kates and Galbraith, 2007), which means that each component of a system is interrelated; when one part of an organisation is changed all other parts will be affected (Senge, 1993). This theory has been confirmed by empirical information from one company that also suggested the importance of having a system thinking when changing the organisation. One company highlighted the importance of the process of capacity planning between sales and operations in order for sales to have enough capacity when performing sales with the customers. Another company explained the importance of the integration between sales and marketing in setting the right objectives and working towards the same goals.

As the system thinking of the Star Model™ proclaims, when changing one component such as structure, there is also the need to change the other components of the model (Kates and Galbraith, 2007). Kahun have not, to some extent, considered system thinking. The relations between different operations are not being considered even though Kahun will initiate a new structure. Moreover, as there are different views on whether marketing will be integrated, the authors wonder whether Kahun have thought about how marketing will be used to support the shared sales organisation. One interesting observation that could explain the lack of cross-functional consideration could be that the board solely consists of people with a background in sales which accounts for the reason that most of their attention is on sales.

Moreover, as solutions are set to become a reality, it must be determined what effect this will have on the other functions. If the relation between sales and operations is not considered, the complexity of providing solutions can become challenging for Kahun. As solutions require products and services from different business areas, there is a need for increased collaboration between the functions in order to coordinate deliveries. Kates and Galbraith (2007) argue that the increased complexity of an integration commands efficient communication.

### **5.4 DIFFERENT VIEWS OF THE INTEGRATION**

Kahun's management has different perceptions of what the organisation will actually look like after the integration. One aspect is that there are differences to what is to be integrated: *"There is no organisation that has integrated the organisation like we do. We do not integrate the sales organisation, we integrate the service organisations and the*

management” (Mr. Berntsson). However, all other internal documents on integration and management have expressed the same opinion: the sales organisation will be integrated.

Another aspect to deal with is the reporting structure (figure 13). Mr. Evaldsson, SVP of Sales & Marketing, BA1, explained that the regional presidents will report in a solid line to the Senior Vice President of the business area that they used to belong to. On the other hand, Mr. Berntsson, a regional president, shared a different understanding: *“I report to all three [board members]. The problems with this set up is that I need to get a trust relation with all three people and agree with the strategy with all three people which is not that easy”*. As all regional presidents represented BA 1 before they left for their new position in the group, they will continue to report to the SVP.

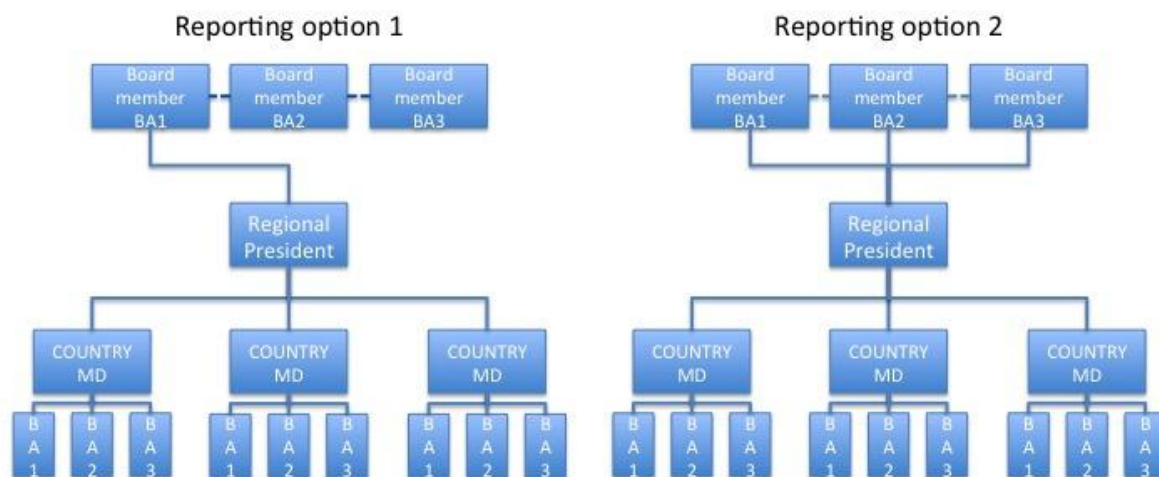


Figure 13 - Different perception of reporting structure

Whether either of the scenarios described is true or not, or if there has been any misunderstanding or miscommunication during the project, the situation speaks for itself: there are two major issues to take care of in this integration, the reporting structure and the actual functions being integrated. One can raise questions how these issues will affect the internal organisation if everyone is not on board with the integration plan. Outcomes of not all being on board, such as who decides what, can become problematic. Furthermore, these internal disagreements can lead to external challenges. One of such could be how the customer would be affected if efficient steering of the organisation is not in place, for example, which customers to prioritize to achieve optimal benefits.

All the new regional managers have a background in BA 1. With the integration the regional managers will get the responsibility of managing a region that consists of all the BAs. The authors deliberate that the regional managers might be biased because of their past, which according to the interviews with Kahun and a benchmarked company, is a possible risk. When making decisions involving all three business areas, it can be questioned if the regional managers can prioritize what is the most valuable for the Group without being influenced by their former BA.

## 5.5 A CLEAR STATEMENT OF WHAT TO ACHIEVE

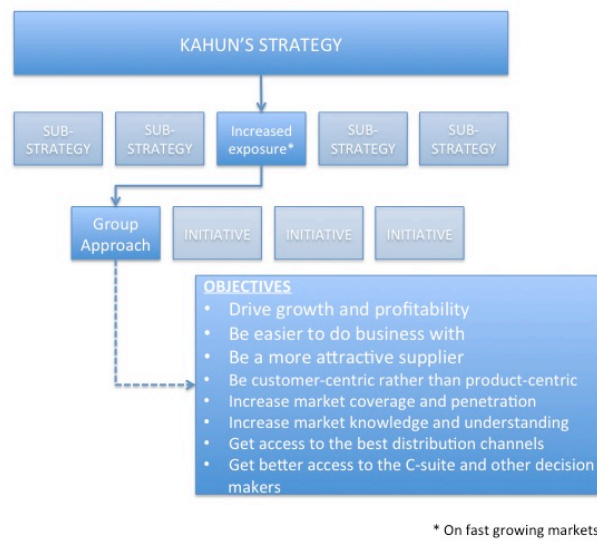
The strategy should be the backbone of an organisation (Rumelt, 2011) and it determines how to form a competitive advantage (Kates and Galbraith, 2007). Rumelt (2011) explains

that a good strategy defines or explains the complex nature of an organisation in an easy manner, in order to recognize critical aspects through a guiding policy of how to overcome the recognized critical aspects of the diagnose. It should also provide a set of coherent actions, which are coordinated to execute the guiding policy. Mr. Andersson, VP Operations at Apparatus AB, offered an interesting and tangible guiding policy (although not necessarily customer-centric): *“What we try to do is to come up with a strategy about what make customers happy when they speak to us. We try to come up with a very simple strategy saying okay, the customer wants machines to be running so make sure the machines run.”*

Kahun aims to become a solution provider that goes beyond the product and works together with the customers to solve their problems. A common view is the distinction from a customer-centricity strategy. As expressed by Mr. Pettersson, Regional President: *“Hard to say what our general strategy is. Of course what our vision is and what we strive for is to be market leading in all our segments. How to get there, there are different ways depending on the product”*. Kahun’s management sees a wider portfolio and a decrease of call-points as a way to become customer-centric. However, interviews have shown that the internal view of strategy differs among the management at Kahun. For example, one manager questions if Kahun have the ability to become 100 percent customer-centric, while pointing out that each product line had different strategies.

There has been a lack within the management at Kahun of a common description and guiding policy of what they want to accomplish. At the same time, there is partial information about being an *“agenda setting and preferred partner to solve critical customer challenges”* in their group strategy. Furthermore, the management at Kahun has had a very financially oriented mind-set and language throughout the interviews and described their strategy from a very product-centric point of view. These characteristics implies desired outcomes rather than a plan to overcome obstacles, which is considered as weakness of a strategy according to Rumelt (2011).

According to Rumelt’s (2011) guide on how to determine whether a strategy is good or not, Kahun’s strategy appears to lean towards the latter. The strategy does not seem to easily communicate how to overcome certain difficulties. Furthermore, customer-centricity has been given very little exposure and prioritization in Kahun’s strategy. In a Kahun document on Increased Exposure for the Group Approach, customer-centric is mentioned as an initiative of the strategy without any guidance on how to realize this future state. In a separate document is customer-centricity only mentioned as a sub-objective of the Group Approach (Kahun, 2014b). This is visualized in the figure 14.



**Figure 14 - Kahun's low prioritization of becoming customer-centric**

The authors believe that the customer-centric objective should be given a higher priority in order to show its significance. As customer-centricity seems to be down-prioritized, one can argue whether Kahun has the right focus to solve the critical challenges for their customers and engage the organisation. Kahun must consider if their current strategy prioritizes the right objectives and how it is communicated. The interviews with the hospitals indicate that the critical challenge for Kahun is to become more adapted to what the customer considers as value.

However, the strategy might have been perceived as ambiguous because of the qualitative research method and the concept of “strategy” being extensive in its nature. It could have been challenging for the interviewees to describe strategy clearly within the interview environment. On the other hand, Apparatus was able to give a solid description of a strategy of what they want to achieve. This could be due to the fact that they have a guiding policy in place.

## 5.6 CREATING VALUE FOR THE CUSTOMERS

When selling solutions, both the theory and a majority of the benchmarked companies indicate the importance of understanding their customers in order to provide value for them. In one interview it was implied that a company must understand their customers' organisations and operations even better than the customers themselves, in order to provide value that increases their competitiveness. Bosworth et al. (2011) suggest value-creation is even more important than building relationships, whereas the latter was considered as a major capability at Kahun.

In this study, customers have perceived value in different ways. A medtech expert explained that a supplier has to take the responsibility of improving their customers' bottom-line results. It was also confirmed by a medtech company who argued for the importance of being able to provide operational improvement to their customers, such as reducing inventory and improving workflow. The private hospital in this study underlined the improvement of bottom-line results as a purchasing criterion. The public hospital, on the other hand, did not apply this criteria, due to not having an organisation that could perform purchases that affect the

bottom-line results positively. Value for the public hospital in this study was instead the fulfilment of product or service specific requirements: *conditional requirements* and *award criteria*.

In addition to the requirements, a recurring topic during this study has been how these requirements are prioritized. One company's perception of public hospitals is that they are more focused on price than quality. However, the public hospital is still focused on quality (e.g., product-specific requirements). They choose the supplier with the lowest price only after all the requirements have been fulfilled: "*[L]et us say it is 10 providers who operate, so it is perhaps three or five that meet the requirements. And then it means that these five suppliers can deliver what we need. Then we look at which of these five that have the lowest price*" (Mr. Albertsson, Head of Purchasing at Publico).

The differences in what customers perceive as value indicate a need for identifying what specific customers consider as value. In order to achieve this, the authors believe that a sales organisation must think in new ways when it comes to providing value. Improving the bottom-line result is vital for some customers, while product-specific value is a key aspect for other companies. Building knowledge and creating capabilities to understand and improve the customers' operations, therefore, becomes critical in competing for solution-driven customers - in this case, the private customers. This can be knowledge about the company's supply chain and finance. A medtech expert asserted it has become important today to satisfy not only the needs but also the wants of a customer. The needs in this statement are interpreted as being what the organisation needs to solve their problems or to become more efficient; wants, on the other hand, are something more personal that does not correspond with the improvement of bottom-line results, such as employees having the flexibility of going home earlier. The authors believe that, even though the public hospital in this study is focused on product-specific requirements, the sales organisation must also determine the potential of these customers – so that they can evolve and build capabilities just like private hospitals.

Furthermore, the authors argue that relations with the customer could be considered as an advantage in order to understand what the customer wants, and therefore being able to deliver what is of value. This more or less contradicts the claim of Bosworth et al. (2011) that value creation is more important than creating relationships. The authors think that the two go hand in hand.

However, only Swedish hospitals have been interviewed in the study, which means that the findings can be difficult to generalize for hospitals in emerging markets.

## **5.7 DIFFERENT CAPABILITIES OF BUYING SOLUTIONS**

If Kahun develops the capabilities to provide real solutions, they will unfortunately face certain challenges in providing them. Kates and Galbraith (2007) argue that organisations must have the right behaviour and be ready to buy solutions for a customer-centric approach, such as willingness to pay for advice, service, integration or a combination of them. Publico claimed they do not have proper capabilities to purchase solutions for two reasons. Firstly, the time horizon of budgets spanning no more than a year limits the purchasing of solution if the payments are stretching more than one year. Their budget planning does not give consideration to value creation such as enhancing the bottom-line results, which acts as the base-line for solutions. Secondly, as the public hospital includes

several hospitals, it would have required the solutions to be coordinated with all the hospitals due to their centralized purchasing organisation. However, Private AB, who has the capabilities of buying solutions, argued that some of their suppliers have an out-dated approach of looking at their needs. The suppliers are focused on public hospitals, so their tender processes are based on public procurements.

One can argue that public hospitals have less capability of buying solutions since the tender process is not created for handling solutions. The tender processes that Publico uses is very much dependent on the development of the requirements for specific products and services. As solutions are combinations of products and services (Kates and Galbraith, 2007), Publico could be hampered in buying solutions due to their purchasing process being focused on product requirements. This, in combination with a one-year budget planning, makes it difficult to purchase solutions. Even though the solution provides a saving for the future, a higher initial cost might be incurred by the existing budget plans at Publico. Moreover, the authors argues that the public hospital can have difficulties in purchasing solutions as their purchasing organisation is divided into three separate divisions with responsibility for different types of products. Moreover, it might be suggested that it is difficult to coordinate solutions between different hospitals as each hospital has its own set of people and processes. This becomes a great challenge for Kahun when aiming to become a solution provider for public hospitals.

## **5.8 SEGMENTATION OF CUSTOMER TYPES**

As mentioned earlier, the empirical findings showed that value was perceived differently depending on the customer. This has also been identified by Dannenberg and Zupancic (2009) who explain that a company is unable to satisfy all customers due to the diversity of the customers purchase requirements. Therefore, segmentation is used by Kahun to cluster customers into homogenous groups.

The empirical findings imply that Kahun segments customers according to what Kahun can sell. As an example, one manager mentioned that their segmentation model is based on their portfolio and the ability of the customers to purchase from it. This contradicts how Prosales (2015a) and Piercy (2006) view customer-centricity segmentation. They state that sales should be designed according to what customers want to purchase, not what an organisation can sell. This segmentation is also used by a benchmarked company, who clusters their customers based on the perception of the purchase. The benchmarked company can be seen as more customer-centric since it bases the segmentation on the customers' purchasing behaviour.

Both theory and the empirical findings indicate that potential is used as a segmentation criterion in customer-centric sales. Piercy (2006) states that potential is about the amount of income a customer can create for the company over time. The majority of the benchmarked companies agree that segmenting customers according to potential is a key for sales success. The benchmarked customers use potential as a selection criteria to decide which customers to spend their sales budget on, while the benchmarked medtech company uses potential as the criterion to choose strategic customers. Another benchmarked company uses the potential to decide what level of service to offer customers.

Based on the interviews, potential is not included as a parameter in Kahun's segmentation model. Kahun's Latin American organisation is a great example of not focusing on potential.

They do not prioritize their resources on the most profitable customers, where potential lies, as they have a special organisation for public hospitals but not for private ones.

Kahun's segmentation model differs from both ProSales' and Piercy's theory. Kahun segments their customers according to which customers can buy their offers, instead of what customers want to buy. The authors argue that if Kahun focus solely on what they have, they cannot become a full scale solution provider as the customers may want more than what Kahun can provide. Kahun must instead ask themselves what the customers want and what purchasing process they use, and build capabilities accordingly. Only then can Kahun become a solution provider. As theory and the empirical findings suggest, the medical industry is changing rapidly: *"[I]t is changing and will continue to change over the next several years. It is not going to go away, and it is not going to be done. It is just going to continue and continue"* (Mrs. Olausson, Global Sales Leader, Medicus). The authors think that the outcome of segmenting customers according to what they want does not only help with the short-term development. The approach can also help detecting future opportunities if companies evolve with the customers.

## **5.9 NEW TYPES OF SALES REQUIRE OTHER METRICS AND PEOPLE**

Segmentation is the foundation of matching sales efforts with different customers to balance profit with sales costs (Piercy, 2006). According to Prosales (2015c), complex sales with high potential allows for a larger budget as they create longer sales cycles and customization of offers. This is what mainly distinguishes complex sales from traditional sales. According to the empirical findings, complex sales processes require an understanding of the customer, proactive problem solving and the ability to create customer value. This differs from traditional sales, which is more about product volume and technical specifications. This implies that complex and traditional sales must be treated differently and require other types of salespeople and metrics.

The interviews indicate that Kahun will use revenue growth profit as their overall metric for each separate business area and for determining the success of cross sales. Two of Kahun's managers suggested measuring performance to evaluate sales in the business areas. Mr. Stefansson explained performance measurement as *"the amounts that we are selling and the type [of product] that we are selling to the customer"*. However, Kates and Galbraith (2007) argue that performance metrics in a customer-centric organisation must be based on the knowledge of the customers and the ability to create solutions with the highest value. The different benchmarked companies in this study have also verified this. For example, one benchmarked company explained metrics in a customer-centric organisation as the ability to create solutions with the highest value for the customer. As Mr. Eriksson stated: *"[W]hen working with long sales cycles, it becomes irrelevant to say how many X were sold this month"*. He further explained it as more important to measure behaviours and not simply results such as the number of units sold, a metric often used in traditional sales.

Another empirical finding is that the metric Customer satisfaction is a lagging indicator. According to Kates and Galbraith (2007), customer satisfaction is an important metric in a customer-centric sales organisation. A benchmarked company explained that financial results is a metric which is too late to act upon since it is based on previous activities. In this industry, customer satisfaction is the result of many years of work and does not reveal much about the real-time customer satisfaction. The same company also mentioned that they had identified the main features that make the customers satisfied and developed so-called

leading indicators. These indicate the measures that are important in order to keep the customer satisfied. For example, one measure can be keeping the warehouse stock level at a certain level, which enables instant service for the customer if a machine breaks down and eventual customer satisfaction.

In contrast to how Kahun use metrics, the authors interpret that there is a potential of using leading indicators to predict future outcomes. As the purchasing processes in the medtech industry is changing, there is a need for being adaptable to what customers consider as satisfaction and the leading indicators are a way of being proactive. However, the empirical findings demonstrate a challenge in developing leading indicators as what customers consider as satisfactory can vary widely. This implies that different leading indicators have to be considered for specific customers.

When working with sales covering several BAs, it is the total margin for the integrated solution that matters. According to a benchmarked company, solutions of products and services from the whole group might harm the profit margin for one or two of their business areas while it is still profitable for the company in total. According to Spiro, Rich & Stanton (2008), metrics are important for coordinating salespeople's efforts and behavior. The empirical findings show that moving from silo thinking in each BA to performing sales for the entire company can be challenging. There must be a balance between the metrics that drive the individual salesperson as well as the group to encourage both traditional sales and solutions.

To move from product-centric sales to a more customer-driven approach demands a change of salespeople, as customer-centric salespeople communicate and co-create value with the customer (Ingram et al., 2009). Mr. Eriksson, from one of the benchmarked companies explained: *"You cannot have the same sellers that sell both solutions and products and so on because then they will become schizophrenic. It won't work, it is totally different driving forces, different competences"*. He further explained the difference between different sales: Traditional salespeople have a high driving force, love to win and can be a bit of lone wolfs; complex salespeople are more analytical and more genuinely interested in the customer and in creating customer value. Another company shared a similar opinion: due to the customers being different, sales must be different, which requires different salespeople that understand the customers' operations. A quote from a business case done by Auxillium captures the differences perceived by one of their clients: *"I'm not really commodity seller. There are colleagues that are better. I should really be doing just solution sales and no commodity sales. But I do both"*. The benchmarked medtech company has different salespeople. A few are responsible for knowing all the details of products and technologies, while other work strategically with providing customers solutions. These salespeople need other competences than the product-oriented people: *"[T]here's this other strategic account person that's just, exactly, more strategic in their approach the customer. And they can help coordinate the efforts of that sales team with the customer and look for those opportunities or synergies"*.

## **5.10 IMPORTANCE OF COLLABORATION WHEN SELLING SOLUTIONS**

The findings show an increased importance of cross-functional collaboration when selling solutions compared to traditional sales. As the buying landscape has become centralized, more stakeholders are involved in the purchasing decision that increases the complexity. The stakeholders have different incentives and are influenced independently of each other.



This is identified by Prosales (2015c) who asserts that working with solutions increases the amount of decision-makers who need to be influenced as well as requires longer sales cycles. The benchmarked solution providers have identified collaboration between functions as an important approach in the new purchasing landscape. For this reason, they have aligned the objectives of different functions to be able to persuade different stakeholders in order to sell solutions. Kates and Galbraith (2007) also emphasize the importance of collaboration between different functions in order to become a solution provider.

The view of how marketing is integrated between the BAs differs within Kahun. Internal documents showed that there would be a joint marketing organisation after the integration. On the other hand, two of Kahun's managers were united about that it will not be an integration of the marketing function. One of the managers described the task as only local marketing, such as smaller customer events. This indicates that the major marketing initiative will continue to operate centrally, divided among each BA. The marketing function becomes an important aspect to consider for Kahun when integrating. The questions come to whether it is possible to efficiently market the developed solutions if the marketing functions from the three business areas are not integrated. According to Spiro, Rich & Stanton (2008), the marketing strategy guides the sales strategy. When Kahun's marketing is divided among the three BAs, it is uncertain how they will be able to offer full support to the solution-driven sales organisation because the products and services are spread out across different business areas. Furthermore, the marketing function has to be knowledgeable about the market trends to provide marketing strategies relevant to the context.

### **5.11 ABILITY TO BECOME CUSTOMER-CENTRIC WITH DISTRIBUTORS**

There are challenges that could hinder a customer-centric relationship. A medtech expert highlighted the problems of working with distributors due to receiving filtered information: *"One danger is if you work with intermediaries is that this information becomes filtered. Therefore it is good that you are there and make customer visits with distributors so that you get the right information from the clients so that you know you have the right offer to the customer"* (Mr. Knutsson, Business Advisor, Incubator AB). This is of course a challenge as Kahun have a set-up on emerging markets that is up to 85 percent a hybrid organisation. In other words, sales are to a great extent performed by distributors. However, according to management, distributors play an important role in Kahun's approach of providing solutions. Sometimes an advisor joins the distributors and visits the customers. To make it simpler, customers now have the possibility to go directly to Kahun with their projects. According to Mr. Evaldsson, at Kahun, customers and distributors sit down together to determine what the scope of the project is and how to solve it.

Even though Kahun visits their hospital customers and the new initiative to be contacted by them directly exists, there is still a great challenge to become customer-centric with the current sales organisation set-up. Zoltners et al. (2004) argue that the sales force design affect a company's profitability directly since it maximizes the relationship with customers. The authors argue that, as the sales relation with the hospitals is practically owned by the distributors, it becomes a question whether it is possible to fully become a customer-centric organisation with this sales model. Using distributors and not "owning" the relation will filter the knowledge of customers. This could result in an inability to provide what different stakeholders of the customers' organisation consider as value. As a medtech expert argued,

in order to provide value, one must know the customer's organisation and operations even better than the customers themselves.

## **5.12 MATURITY LEVEL OF EMERGING MARKETS AND ITS EFFECT ON CUSTOMER-CENTRICITY**

The empirical findings show that offers have to be designed differently depending on which market to target, i.e., whether it is mature or emerging. The interviews indicate that each market has to be treated separately. A benchmarked company mentioned that all emerging markets are diverging from each other and the one-size-fits-all mentality does not work. The same company explained that they design their product offers and portfolio differently for each market. In the medtech industry, there are differences in how and what private and public customers purchase. The segment of the market that is public versus private also varies. For example, more than 99 % of the hospitals in China are public, while the majority of hospitals in India are private (Mr. Erlandsson, VP at Kahun Group). According to the interviews with Kahun, they have the same portfolio around the world and the offers are quite similar for all markets.

Another aspect to consider when operating in emerging markets is the level of *maturity*. The empirical findings show that the customers in emerging markets have lower maturity and this affects the business in several ways. One benchmarked company explained that it is hard to sell contracts in India, as it is often cheaper to hire somebody to monitor a machine for 24/7. Furthermore, the same company experienced that it is more difficult to show the value of their products over time. They also found the people less knowledgeable regarding technology, which forced them to design their products in a simpler way. Mr. Andersson explained: "*You can't go in and sell a bicycle if they never seen a bicycle before*". Therefore, the company adapted a short-term perspective and customized their offers to have little technical knowledge.

The empirical findings suggest that it can be difficult to sell solutions in the emerging market as there is a lack of knowledge about what value a solution can bring in the long run. On the other hand, the authors suggest that as Kahun is directed at the premium segment, it could be possible to set the level of the knowledge to be the same as the ones in the mature markets.

## 6. CONCLUSIONS

The increased competition in the medtech industry and the changing buying processes within the medtech customers have called for a change of the suppliers' sales organisations. The company in this study, Kahun Group, has identified this challenge and, as an initiative, the company is integrating their sales & service organisation for emerging markets. This can also be seen as the first step towards becoming a customer centric organisation. In this study, interviews were conducted with Kahun, sales experts and benchmarked companies. The interviews were analysed using the existing theory about organisation design, sales and integrations and previous research in order to answer the following questions:

**RQ1:** What are the benefits and problems when integrating a sales & service organisation across business areas?

**RQ2:** What are the key characteristics to consider when designing a customer-centric sales & service organisation?

**RQ3:** What impacts does emerging markets have on the sales & service organisation in this context?

Both the empirical findings and theory indicate that integrations have several obvious benefits which can increase the profit and decrease the costs, such as cross-selling, bundling and economies of scope. Additionally, theory suggests learning effect, increased bargaining power with suppliers and knowledge transfer as benefits of an integration. These, however, have not been identified in the findings from Kahun. Contrary to theory, findings have shown that the bargaining power of customers has decreased as the customers have discovered an additional bargaining power through buying higher quantities of products. To change this trend, Kahun needs to increase their strive towards a solution provider, which means to compound the value of a total offer that can have a positive effect on the buyers bottom-line result, instead of only bundling a set of stand-alone products and services. To become a solution provider is a key characteristic of a customer-centric organisation.

The integration consolidates the three BAs and calls for a common group approach to guide the design of the entire organisation. The Star Model™ suggests that starting by declaring a strategy helps an organisation set the direction for a goal. Kahun seems to lack in the common perspective of the strategy and the group approach that can become a problem when integrating the BAs as they do not know the direction nor the goal. Kahun need to clarify their strategy for the group approach so the management can have a shared view of the integration. This is required in order to clarify the design of the organisation, such as the reporting structure, a design aspect where the management viewpoints differ.

One problem with the integration is the increase of complexity, which is also a key characteristic of a customer-centric organisation. The integration creates an enhanced internal complexity as more parts are interconnected. The customer-centric design also increases the complexity in customer relations, as cross-functional collaboration is needed when conducting solution driven sales. When the structure becomes more complex, there is an increased demand of having clear processes and support processes in place, such as IT-systems, to allow efficient sales. It is shown that Kahun do not have these support systems in place, something which is recommended to be prioritized.

Given this finding, an organisation must emphasize and prioritize the idea of customer-centricity throughout all possible communication channels. In order to become customer-centric, this has to be the number one objective for a company, not a minor objective seen as a part of the strategy. Kahun's entire organisation must start to prioritize the strategy of customer-centricity and resign their integration around the concept to capture the essentials and reclaim the advantages.

The research shows that a customer-centric organisation must be designed from the customers' perspective, as it is characterized by being flexible towards the customers. It should be organized according to *how* and *what* the customers want to purchase, not according to what the organisation can offer. What customers consider as value can be very different; it spans from product characteristics to the bottom-line value beyond products and services. It is imperative to define what the customers consider as value before it is possible to design a customer-centric organisation.

Similar to design, the segmentation within a customer-centric organisation should be done according to what customers want to purchase and what their purchasing behaviours are, instead of what can be offered. To be able to cope with both traditional sales and complex sales, Kahun must change their way of segmenting and clustering customers in order to focus on customers with high potential and the ability to buy solutions, and thereby liberate the resources needed for those types of sales.

Customer centric organisations must be capable of providing value in different forms such as by having different types of salespeople. For a sales organisation, this means having people with knowledge about traditional sales and product specialists, as well as strategic salespeople who can see beyond their own product portfolio in order satisfy the needs of the customer. It is evident that medtech companies must provide integrated knowledge from within their own organisation as well as acquire external knowledge to go beyond their standard offering. Only then can solutions for the customers become a reality. It is suggested that Kahun adopt a wider view of the resources that are required to develop solutions for the customers. Moreover, the new types of sales and salespeople require new ways of measuring performance as customer-centric sales is built on a different logic than traditional sales. Kahun must ensure their metrics and rewards drive the new type of behaviour. They also have to implement leading indicators to get the knowledge about customer satisfaction in real-time.

Depending on the emerging market the customer-centric approach varies. This is evident for the medtech industry where there is much diversity in each market's composition of public versus private hospitals, with each type of hospitals having different budget processes and capabilities of purchasing solutions. Not all hospitals have the ability to purchase solutions due to their lack of technological knowledge or inability to plan the budget over a long time perspective. To move towards customer-centricity in emerging markets, Kahun need to identify customers who have the capabilities to buy solutions, otherwise, they should continue to sell products and services as before. There is also the opportunity to train the customers so they have the capabilities needed to buy solutions.

The sales channels in the emerging markets of the medtech industry mostly consist of distributors. The findings show that distributors are important for sales in these markets, as they own the relationship with the customers. However, it is difficult to become customer-

centric when working with distributors, as it requires close collaboration with customers. As Kahun is dependent on their distributors, it is worth investigating how they can deepen their relationship with the distributors in order to provide solutions together.

System-thinking is both a foundation for integrating an organisation and a key characteristic of a customer-centric strategy as it requires new structures, clearly defined process, strategic salespeople, metrics and rewards which motivate the new type of salespeople, and cross-functional collaboration. For example, collaboration between sales and marketing is needed as it decides where the sales organisation should direct their efforts and operations since it ensures the right delivery on the right time. Kahun needs to take a holistic view of the integration, and one way of doing this is to involve managers from other functions than the sales organisation on the board instead of letting solely salespeople direct the integration, as is seen in the current integration layout.

## 6.1 FUTURE RESEARCH

86 percent of the interviewees had a male gender throughout this study. The authors are debating that the lack of diversity could affect the efficiency of an organisational design. Gender diversity is a common topic for research today, but combining this knowledge and determining the effects on shaping a customer-centric organisation would be a contribution to the research of how to design efficient organisations.

**Future research question 1:** *How does lack of gender diversity affect a customer-centric organisation?*

Furthermore, the project group in charge of the integration and organisational design have been constructed of people with a strong background within sales. There has been no official members from other functions such as finance, logistics and operations. The authors argue that the organisational system-thinking becomes limited and therefore affects the interfaces and processes outside the sales organisation in a negative manner.

**Future research question 2:** *How does concentration of specific functional areas affect system-thinking and in the end the shaping of a customer-centric design?*

Finally, only managers coming from the same business area within the studied company have been appointed regional presidents in the new shared organisation. The authors have discussed the effects on the perception of these appointments among the other business areas and their employees. The authors debate that the 100 % representation from one business area can affect the attitude to collaboration between the organisations that before have not had any common activities at all.

**Future research question 3:** *How does a primary focus on one entity affect the perceptions among other entities and their employees during an integration?*

In the medtech industry on the emerging markets most companies are using distributors as their sales channel. Research has shown that there is a need for close collaboration with customers to become customer-centric and that the sales organisation needs to know the customer's business better than the customer itself. As distributors hinder the sales organisation to have close contact with the customers it can become challenging to become customer-centric.

**Future research question 4:** *How to become a customer-centric organisation with distributors?*

The research has shown that public and private hospitals diverse in their purchasing pattern. Private hospitals purchase as any other company in any other industry while public hospitals purchase according to a tender process. The tender process focus on product requirements without any consideration to what value the integration of products and services, i.e. solutions, can create. Therefore, it is hard for a supplier to sell solutions that brings enhanced value to the customer.

**Future research question 5:** *How can a company sell solutions to tender businesses?*

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### ***Internal documents***

Kahun 2014a – Strategy documents

Kahun 2014b – Internal presentation of current situation and plans for the change

Kahun 2014c – Internal document of planned organisational structure

Kahun 2014d – Internal review document of the Latin American organisation

## **APPENDIX**

### **Exhibit A – Standard interview guide**

#### **Strategy**

1. What is the strategy for X's sales & service organisation?
  - a. What is it that you want to achieve?

#### **Customer perspective**

2. Describe your segmenting model
  - a. How are your customers divided into different segments?
    - i. What criteria are used to segment the customers?
3. How are customer segments approached differently?
  - a. How does the customer offers' differ depending on the segment?
4. What trends do you see in the how the customers want to do business?
5. What is customer-centricity for you?
  - a. How good do you think X is with this?

#### **Structure**

6. How is X structured? (product, geography, matrix etc.)
7. How is the sales organisation organized?
  - a. Can you describe today's reporting structure?
8. How do you utilize synergies between the BA:s?
  - a. Do you perform cross-sales between the BA:s?
    1. Solutions?

#### **Processes**

9. What factors did you consider when you designed your sales processes?
  - a. How do X work with developing the sales processes?
10. How does the sales process differ depending on the type of sales?
  - a. How do you work with distributors?
    - i. In a world working towards more solutions, how well is that concept working?
11. What processes do you rely on in your sales organisation besides the sales process itself?

#### **Metrics and rewards**

12. How do you measure if your organisation is successful?
13. What incentives are used today? (Intrinsic/extrinsic)
  - a. How would you develop your incentives to increase sales?
14. What types of KPI's are you using in your sales organisation?
  - a. On what level in the organisation are you measuring? (personal, team etc.?)
  - b. Do you have different KPI's for different types of customers?
15. How do you measure if the customers are satisfied?

**People**

16. Depending on different ways of performing sales, do you have different types of customers to perform these type of different sales?
  - a. Do X differ between people that sell transactional goods and the ones who sell solutions?
  - b. Do X differ between the people that sell for one BA and the people who sell for all BA's in a team structure?

**Other**

17. What do you recommend to take into consideration when transforming the sales & service organisation in order to become more organized around the customer?