HOW TO SECURE KEY ACCOUNT GROWTH IN A COMPETITIVE WORLD

The Guide to Increasing Share, Margin and Growth Initiatives for Leaders of Key Account Management

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If you are increasing your share, margin and the number of growth initiatives with true key accounts then you are being successful – if you do not have all three then you are failing.

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Based on case studies with major corporations this paper outlines three fundamental routes to growth recommended by the KAM Group.

Bullet Point Summary

A study published in Harvard Business Review of over 25,000 companies, which had traded on the NY Stock Exchange over 44 years, identified the activities of the most successful based on return on assets. It concluded that there are three rules of success.

»» 1) better before cheaper,

»» 2) revenue before cost,

»» 3) there are no other rules.

»» These concepts have informed the growth strategies of great companies which pursue customer engagement and value creation as their central thrust for profitable growth.

»» For many such companies a relatively small number of customers are pivotal to success. These are referred to as strategic or key accounts. These should be the engine of growth.

»» However, for most corporations at the moment growth in such accounts is often modest rather than inspiring.

»» Companies convince themselves that they hold competitive differentiation when they are perceived by key customers to rank no more than on a par with competent and dedicated competitors.

»» Corporate growth is transformed by capturing higher value with these key customers. It does not require changing healthy Corporate Strategies.

»» Companies often use the wrong measures for growth and performance. Having identified your true key accounts there are three ‘acid test’ measures of growth performance – (i) share, (ii) margin and (iii) the number of value creating initiatives.

»» If you are increasing your share, margin and the number of growth initiatives with true key accounts then you are being successful – if you do not have all three then you are failing.

»» Senior managers should use these three simple measures to define success and implement strategies to ensure all three are growing with each key account.

»» We identify three development strategies; selection will be driven by the particular circumstance.

A. If your current value proposition is competitively strong and clearly differentiated yet you are not winning your ‘rightful’ market share, then you need to address your implementation model. This will require improved processes, tools and skills. Often elements of embedded approaches need to be substituted with fresh actions crafted from best practices.

B. If customers see you as one of a number of highly competent suppliers but do not perceive that you provide measurably superior value for them then you must establish new value creating approaches and opportunities. This requires an enhanced offer model. Key accounts must recognise that you provide benefits others can’t match.

C. If you are operating in a market which is static or in decline and where your product or service offers few opportunities for differentiation then you need to change your business model with the key account – you must create a new way to drive share, margin and high value opportunities.

Methodologies that propel success include:

»» Setting Big Audacious Goals (BAG's) – a highly ambitious strategic business challenge - for each key account. This opens up new avenues of thinking and action.

»» Building 'Future Customer Experience Maps' – collaborating with the voice of the customer to capture insight and build a superior partnership.

»» Deploying game changing 'Value Mapping' and 'Competitive Value Frameworks' to craft new product, service and process solutions.

»» Skill development 'Bootcamps' to raise identified critical skills and capabilities.

We believe in a staged approach. Engaging a senior level group to 'hot-house' development one key account at a time limits risk whilst creating momentum, building learning, creating tangible results and fueling an appetite for more.

The key to success - higher levels of growth - is objectivity and focus. Objectively centre on true key accounts, apply the three core success measures, then follow the three success rules with focus on the right development strategy: eliminate other distractions.

HBR paper Three Rules for Success

In April 2013 Harvard Business Review published a paper by Raynor and Ahmed who had completed a statistical study of 25,000 companies which had traded on U.S. stock exchanges from 1966 to 2010. They measured performance according to return on assets, because they believed it is the best test of management performance.

From the total 25,000 companies, they found just 344 which they defined as “exceptional”.

They then tried, but failed, to identify the consistent measurable behaviours of these high performing companies. They could not find a set of consistent ways of doing things which set these companies apart from the rest.

So they switched their thinking to consider how their senior management teams thought about their business growth. They found that consistently high performing companies used three basic rules to govern their thinking:

(1) Better before cheaper—in other words, compete on differentiators other than price;

(2) Revenue before cost—that is, focus on the top line above driving costs down; and

(3) there are no other rules—so focus everything to follow rules 1 and 2.

Following the rules of Better before cheaper and Revenue before cost demands a strong emphasis on differentiation and revenue growth from profit generating customers. These are two points of focus required for long term corporate success.

The Three Rules of Success

(according to Raynor & Ahmed)

(1) Better before cheaper—in other words, compete on differentiators other than price;

(2) Revenue before cost—that is, focus on the top line above driving costs down; and

(3) there are no other rules—so focus everything to follow rules 1 and 2.

See Harvard Business Review April 2013

A small number of customers are pivotal to your corporate success. These key accounts should be the engine of your corporate growth.

We can see from this recent study that corporate strategy and the business model should be underpinned by these rules (1) and (2). We also know that to deliver results through these rules key or strategic account management is required.

Most companies will find that there are a small number of current or potential customers which are strategically important or key; you simply must do business with these customers if you are to achieve your corporate objectives.

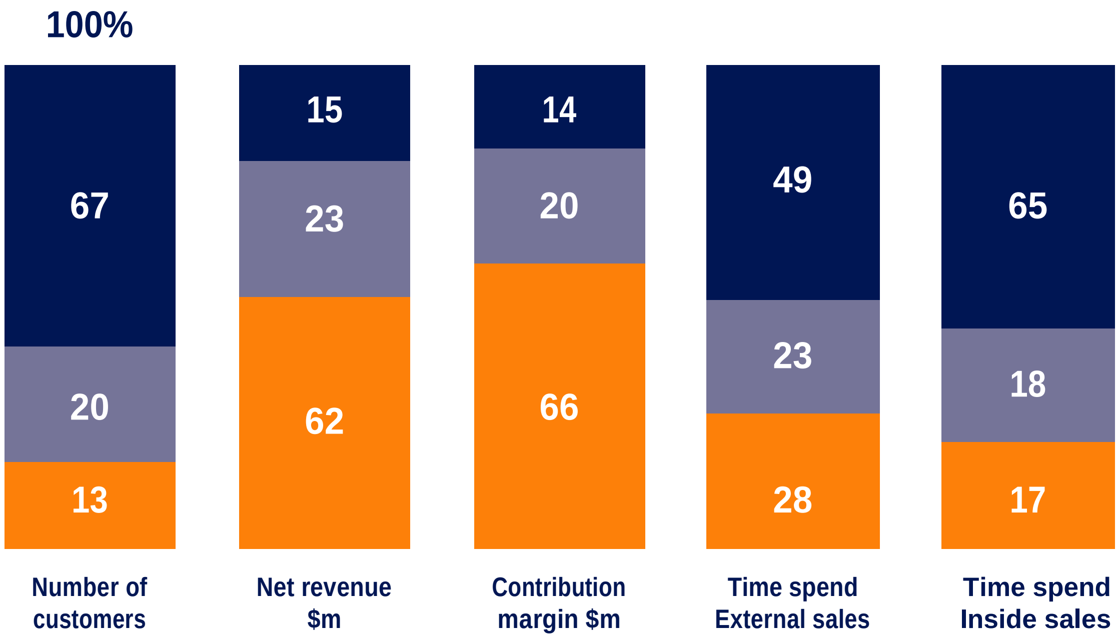
Some emerging customers may offer the highest growth potential, whilst in some industries the domination of certain customers means that you have no alternative but to be doing business with them if you are to achieve your share goals. These are ‘must-wins’.

Capturing key accounts can take time but once relationships are developed we see that linkages are generally more robust and long lived for suppliers; other customers who are not key are likely to be less loyal. Developing sales and profits through loyal existing customers is generally easier than frequently bring in new customers.

This is not to say achieving loyalty is easy. Focused effort is imperative.

Example of a typical return and effort analysis

In this example 13% of customers account for 62% of revenue



Case Study

Losing one of your key accounts can be catastrophic to the business. Every year companies can be forced to issue profit warnings or will see their share decline significantly through the loss of one single customer. As a single example, consider Carlsberg, a global brewer which saw its market share, volume and share price all decline dramatically as a result of losing one UK retailer. In the UK, the brand fell from fourth to seventh in the market.

Winning key accounts, retaining and developing them is critical for corporate success.

Growth in key accounts is driven by perception of superior value i.e. better business outcomes than would be possible otherwise

The majority of target customers have plenty of options for supply; some will operate a supply strategy which compares multiple suppliers in each category but in most cases, we will see that a few suppliers will be preferred over the rest.

After this point, customers often believe that such preferred suppliers are very similar perceiving that they act in similar ways, offer similar product and provide service in similar ways. With this interpretation customers still believe they can readily switch.

We find that this is the case in many market sectors and that only a few suppliers consistency hold more share with the most desirable key accounts.

It's the ability to identify and deliver value to the key account that is the difference between sustained high and average performance for the supplier.

If you can understand what value means for the key account and if you can then organise yourself as a supplier to deliver this value consistently, reacting to changes, then it is more likely that you will enjoy high share and returns, long term, from the customer.

Companies think they are investing sufficiently and delivering value and yet they are not seeing required growth gains

Many managers in suppliers will go on to say that this is what they are doing already. We will then ask, so how come you are not getting the growth required? How come customers are still spending so much time talking about pricing? How come your carefully developed and articulated value proposition is not having impact?

In many cases, we have found that the reason for the disconnect between the supplier's beliefs and its commercial results is that managers are complacent. On the one-hand, they have convinced themselves that they have strong key account processes and relationships which are focused on delivering customer value, on the other hand they blame poor performance on external circumstances; they will blame the economy, the competition, the customer and so on for their poor results.

There is a need to burst this artificial bubble. A simple piece of analysis helps.

Case Study

At a recent industry conference, we asked senior sales directors to consider the statement – we deliver superior value to our key accounts – the vast majority agreed. Previously we had rephrased the same question, and asked - through the industry sponsor - a selected group of the largest customers. Only 23% agreed with the statement that their preferred suppliers deliver superior value.

Such mismatches in perception need to be highlighted and addressed.

There are three true measures of key account performance

One of the issues here is that managers are using sometimes vague and occasionally wrong measures and terminology to consider their performance with the key account.

Measuring only sales revenue, an approach used by many, can present a flawed picture.

For a number of the companies, the industry sector in which they operate is growing and their business with key accounts is growing as a result. But as ‘a rising tide lifts all boats’ the apparent success is not due to anything special from the supplier or the account manager. Sales may also grow if pricing is reduced; the downside is that generally profit margins also fall as a consequence.

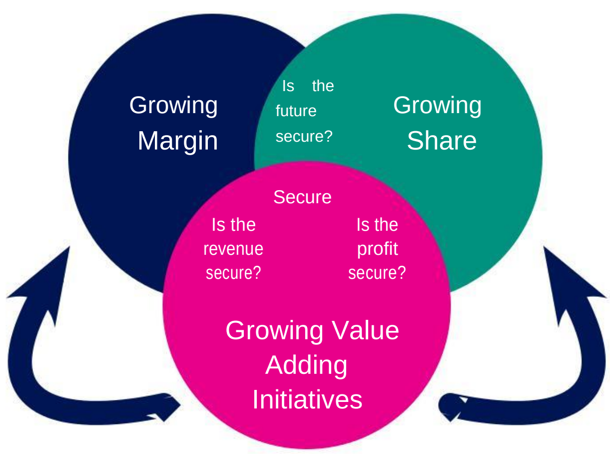
In both cases the measure of performance is not helping the manager determine the true success of the relationship. We believe that suppliers need a simple and objective measure of true key account performance.

In our view, there are just three measures that should be used. These three provide a good indication of the current and future health of your business and the relationship with the key account. We have found almost perfect correlation between the three measures and long term high performance.

The three measures are: (i) growth of your customer share, (ii) growth of your customer profitability and (iii) growth in the number of value adding initiatives conducted with the customer.

The True Measures of Account Performance

Results of activities on today’s performance



Activities today to impact tomorrow’s results

Let's consider each in turn.

i. **Growing your share of the customer spend**

We are interested not only in share per se, but also the trend and want to see rising share over the long term. Consistency of growth is important here because it is easy to fool ourselves into thinking that a current high share automatically equals success for the future – it does not. In some ways, the actual share today is less important than the trend; if the trend is consistently upwards then you are doing the right things.

ii. **Growing your profit margin**

As we saw at the very start of this paper companies which achieve long term success put revenue before cost and differentiation before price. Strong differentiation allows you to command premium prices, win more volume, raise productivity and deliver higher profit margins.

It is however worth noting that many suppliers find measuring account profitability to be challenging. Sales into a customer may go through different channels and costs may be difficult to allocate to individual projects and customers. Despite such challenges suppliers should not shy away. We find those companies that give such measurement adequate attention are able to take far better decisions.

Having an accurate measure of customer profitability is a foundation for effective account development.

iii. **Growing the number of value adding initiatives with the key account**

The two measures - growing share and margin - give a good indication of the current state of the relationship and the business, but for account management to be effective we must consider the longer term too; we therefore need another measure.

We have found that the monetary potential of new value adding initiatives being worked on with the customer is a good proxy for long term success.

It's important to note here that we are describing joint initiatives, in other words something which both the supplier and the customer are working on together with the aim of mutual gain.

The stronger the pipeline of value creating initiatives in which you, the supplier, are actively engaged with the customer, the stronger your future business is likely to be.

Our ability to engage with the customer on future areas of opportunity is both a good indication of their perception of you, and an asset providing you with time to adapt your approach to ensure you are best placed to deliver against their final requirements.

Conversely, if you have no or few value creating initiatives with your target key customer, it indicates that you are not differentiating yourselves sufficiently- something you need to address.

Taking these three metrics together will help illuminate what is required for your growth.

In our search to identify strategies which impact share, profit and future value initiatives we have considered a range of companies. Whilst these companies are in very different situations with different market drivers and constraints, we have observed three winning growth strategies.

They are:

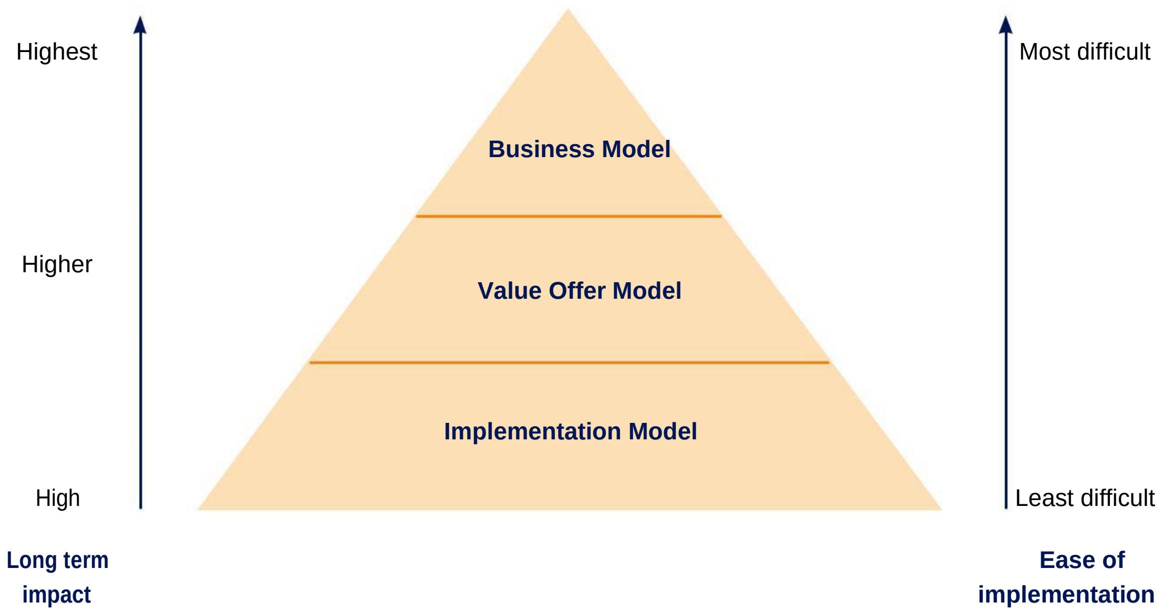
A. doing more of the same but more effectively; we refer to this as the **implementation model.**

B. focusing on the value chain to identify new competitive value; we refer to this as the **offer model.**

C. radically changing the approach with the customer: we refer to this as the **business model**.

The applicability of each of these three strategies is dependent upon the specific situation faced by the company.

The Three Key Account Growth Models



A: More of the same only better: The Implementation model.

In essence for this strategy to be effective, you have to know that your core offer is right, that there is still significant growth available to be gained from better deploying the current offer and that you have the right team and structure in place. The focus will be on implementation and on supporting your team with improved processes, systems, tools and skills to become more effective.

It may be that you need to advance the selling skills of your account managers but frequently focusing on other skills proves more productive. Improving strategic thinking, the ability to manage teams and coordinate internal activities can have high pay-offs. Key account management may also require systems that help your organisation better develop and commercialise new products or collaborate more effectively with key influencers and decision makers in your target customers.

Case Study

Winning more share through skills development

This world leader in its field of training and advisory services was losing business to ambitious competitors who were undercutting prices.

We found that when decision makers in key customers understood the quality of this organisations value proposition they were motivated to pay the premium. The issue was the organisation was failing to connect with such decision makers, failing to explain the benefits of its offer and failing to prioritise delivery of its services to such key customers.

With the market growing and the underlying strengths of its offer we discouraged the organisation to reduce its prices but instead to embark on key account training to build the skills to engage different contacts within customers and to demonstrate superior value whilst refining its processes to focus operational delivery on such customers.

Through these actions the organisation fought back, winning share whilst holding price.

Its business model remains robust but the better execution transformed performance.

B: Identify new value and increase competitive advantage

This strategy assumes that the supplier has strong implementation ability in terms of the processes, systems, tools and skills. It also assumes the market offers opportunity and your competitive strategy is correct. In such a scenario, you will have exploited most of your current value initiatives but are finding that growth is slowing. Here then the focus becomes identifying and developing new areas of value for the customer and enhancing your value proposition to fit.

We have found that the best way to do this is to assemble a cross functional development team to assess the total value chain from end user or user back through to your suppliers. By identifying the core drivers of the value in this chain, the impact these drivers are having and that can be expected, new areas of opportunity can arise. You will want to know exactly what value means at each stage with the aim of identifying how you can improve it.

There may be areas for improving service to the account, reducing costly processes or for introducing customised new products.

Our experience is that building or refining such understanding produces a series of value adding opportunities which you can work on with the customer. Some will be simple and you can implement immediately, whilst others will be complex and take some considerable effort but yield high impact.

Case Study

Implementing a 'Value' mindset: From average to sparkling performance

To a new CEO and Executive team the modest performance this top global engineering group (the 'company') had achieved for the previous decade was no longer acceptable.

To progress to higher margins, sales growth and improved market share an entirely new approach was required.

A number of hurdles existed. Low level relationships with customers resulted in projects that were tactical, which could also be served by competitors and which were price driven. There was also little foresight about future opportunities or customer initiatives.

The approach was reactive.

To progress, new approach to Key Account Management was put in place. Activities were developed to build market insight, to uncover opportunities in the value chains of key customers and to build higher level relationships within customers. This involved teams from different functions led by account managers

The results were not immediate but within 18 months resulted in the transformation of performance. Over six years, margins doubled, sales grew at above market rates and new high value products and services were launched.

C. Changing the customer business model

The third growth strategy is applicable in those situations where there are no clear opportunities to add value, little or no competitive differentiation and where the conversation with the customer is dominated by price. Often these will be market sectors which are static or in decline and where there appears little opportunity for product innovation.

In this case, we generally find that suppliers profitability quickly erodes as competitors fight for business and product and service become commoditised.

In this situation, our experience is that you must seek a new business model with the customer.

By new business model we mean a radical change to the way you are currently working.

It may require suppliers to re-evaluate the sector they are serving the customer in. Are there other sectors where the suppliers existing capabilities could be deployed? Perhaps the supplier-customer model can switch from delivering the inputs demanded by the customer to addressing improvement of the outputs such customers deliver to their own customers? Are there opportunities to innovate through bundling products and services in new ways?

You might switch the way customers are engaged from direct to indirect, you may eliminate stages in the route to market, or change your supply and logistics model totally.

Your competitive strategy may change too. Rather than going head to head against existing competitors for business, you may switch to a series of smaller attacks on new competitors in different areas of your customer's operation.

Your customer might be motivated by such a shake-up too and may even collaborate with you to discover new avenues for mutual gain.

Such changes can have a major impact on your share and profitability.

Case Study

Around the barriers. Transforming to a new 'model'

Following several unsuccessful investments to win business, a leading supplier was on the verge of 'walking away' from a large iconic customer. Two years later its business with this customer is flourishing with strong sales and a healthy, growing pipeline of future opportunities.

This transformation resulted from a fundamental change in the supplier's approach. Instead of competing head-to-head with strong entrenched competitors, the supplier pursued a new model, initially pursuing new areas of the customer's business and then gradually building its position. Through a 'flanking' strategy, it built new customer advocates and established differentiation based on exceptional service quality. A series of small gains built its credibility enabling it to advance and win significant core business too.

This required focus, creative thinking and disciplined execution. Success has been achieved through the adoption of a new mindset driven by Key Account Management.

Implementation

The easiest of these three strategies to implement is the first and the most difficult is the third because the level of change demanded increases from strategy one to three, and productive change is a very difficult thing to achieve in organisations.

On the other hand, the longevity of the competitive position is generally higher as we move from strategy one to three.

Competitors will more easily be able to replicate the changes you make in strategy one but will find it more difficult to replicate strategy two and very difficult, to copy your model inspired by strategy three.

Successful implementation of the right strategy demands resolute execution

When it comes to implementation, we have discovered some important learning.

Audacious Goals

Most account plans call for relatively modest business growth.

For key accounts, there is often a reluctance amongst managers to set very demanding revenue and margin growth goals. This can be a mistake. We have found repeatedly that setting very ambitious goals leads to much greater growth – reflecting the old adage that those who aim high get more.

Setting very ambitious goals impacts the way the account manager and the account team plans and behaves: ambitious targets demand change.

If targets are modest managers often will think it can be achieved through tweaks. If the target is highly ambitious managers will be stretched to think of targeting new opportunities, building new relationships, developing new solutions and transforming where investments are made.

Big goals are unlikely to be achieved immediately but shouldn't be relaxed at the first hurdle. Ambition, tenacity and a dose of patience are required.

Customer Collaboration

We have found that companies that wish to build productive partnerships with their key target customers must always be proactive and take the first steps. We have yet to find any passive, reactive supplier who has been actively sought out by an 'A grade' customer as the answer to their supply prayers.

Having said that, having a mindset that is focused on involving the customer early in initiatives and making an exceptional effort to understand their issues, requirements and delights is essential in building and sustaining high performing key account management.

We encourage regular collaborations with customers, collecting their views through 'voice of the customer research' and analysing the customer experience they gain from dealing with your organisation. Such activities reveal vital insights and opportunities that are invisible to other suppliers, i.e. your competitors.

Value Mapping and Competitive Value Analysis thinking

To gain a deep understanding of how your customer gains value requires deep relationships across their teams and at a variety of levels. There is need to capture and share insights over time and to refine your view as activities and personnel within your customer change. Frameworks and techniques to find new areas of opportunity can help but are only part of recipe.

We find suppliers who focus on finding a broad range of new opportunities for their target customer are best received. Mindset is important; not every opportunity discovered as a result of working with your customer has to be served by you. Customers appreciate suppliers who help them develop their business rather than just improve current supply links. They consider them the trusted advisor and a partner for growth.

Skill development beyond the sales 'boot-camps'

Our work shows that standard once a year face to face training sessions have limited impact. Investing all your efforts behind more sales training is also not the solution to improve your Key Account Management.

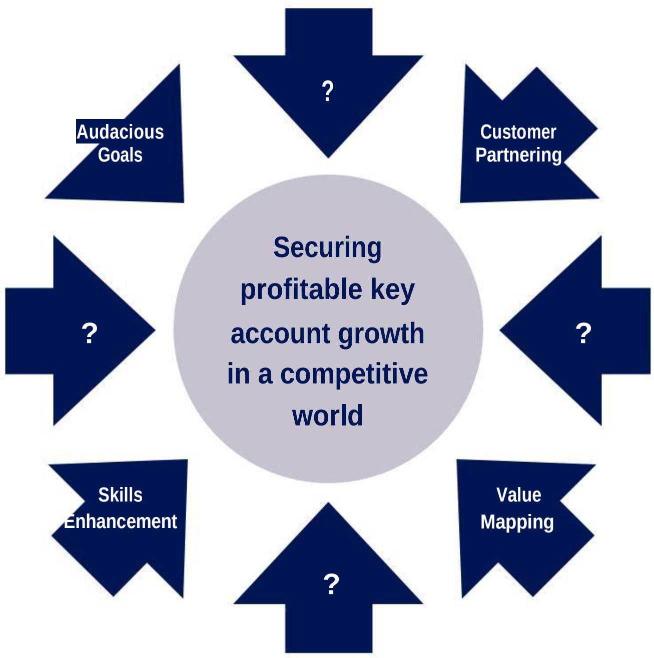
The new relationships and new models you are generating call for more.

For effective account management, the skills of cross functional – or cross practice - teams need to be improved; people from different geographies may regularly need to come together; senior executives engaged; whilst a blend of external and internal coaching is imperative.

Blended learning, exploration of relevant best practice and inspiration from outside your company are key ingredients in a joined-up approach that demands your people act in ways that are both better and different.

Tangible results from such investments produce an appetite for more and a positive virtuous cycle.

Implementation demands – some common – others specific



The key to success is objectivity and focus

Our experience shows that that being objective about your key account performance is the first step to growth. Many managers take a subjective and complacent attitude convincing themselves that all is well, that they are already delivering high customer value and that results will naturally come when external factors change. These managers prefer not to confront the data which shows them that their key account share is not growing, that their profitability is not growing or that they do not have a sufficient number of value initiatives with the customer.

We see those companies and managers which are consistently successful as taking the objective view, identifying and focusing on only the most important opportunities and issues, focusing on one strategy and then driving hard on excellent implementation. Companies must eliminate taking comfort from the wrong measures or being non-committal about which strategy to pursue.

About the authors and the KAM Group

Richard Ilsley is a Managing Partner with the KAM Group and Managing Director of the Sales & Marketing Consulting Group.

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The KAM Group is a team of senior practitioners, academics and consultants who work with corporations to enhance their commercial relationships with their most important customers and suppliers. In addition to consulting advice, the group runs intense, interactive Masterclasses for senior managers, delivers blended-learning and skills development at different levels.

www.keyaccountmanagement.org