KEY/STRATEGIC ACCOUNT STRATEGY & IMPLEMENTATION:

WHAT IT IS & HOW IT SHOULD WORK

PART ONE

Beyond Product and Price

"Delivering customer value"

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KEY ACCOUNT MANAGEMENT

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This paper is one of two which consider the issue of Key and Strategic Account Management. The second paper goes beyond key account management to discuss recent learning concerned with strategic customer partnerships.

Key Account Management means different things to different people. This paper has been written to set out the approach to the development of increased business with Key/Strategic customers recommended by the KAM Group. As such it addresses a range of issues concerned with key/strategic account management and aims to present a coherent approach.

Note of terminology

This paper is concerned with those customers which account for the majority of the supplier's business. Different terminology is used by different companies for these customers including Strategic Accounts, Global Accounts, Regional Accounts, National Accounts, Corporate Accounts, Key Accounts and others. For the purpose of this paper, we shall use the term Key Accounts to mean the relatively few strategically important customers.

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Bullet Point Summary

- Initially KAM developed to mean ‘selling to big customers’ – training programs were created to support this approach using the traditional classroom training model - Sales targets were set based upon what the supplier wanted to sell or ‘last year plus x%’
- Suppliers aimed to create a ‘USP’ or ‘value proposition’ to be communicated by the Account Manager via a one-to-one relationship with the ‘buyer’
- Today many leading companies have recognised that this traditional approach is no longer effective – they don’t see sufficient commercial gain from their KA training or initiatives
- Many suppliers talk about ‘value’ yet have not clearly defined what they really mean – for some ‘value’ has become synonymous with ‘things we do’
- Value is rarely found in the products or services, the KA relationship is too complex for a single point of contact and the intense competitive environment has put huge pressure on price and margin – some customers happily switch between a number of effective suppliers
- Far too many KA discussions are dominated by price reduction and volume – there is no long term success for the supplier if this is the case as the margin steadily declines
- Today, value must be identified and created with the customer and both sides must benefit to produce higher share, margin and longevity of relationship through the relationship
- Value ideally is measured in monetary terms and is generated through a comprehensive analysis of the value chain and the complete trading relationship
- Key or Strategic Account Management should no longer be a sales model but a business model embracing all aspects of the business and all levels of management
- There are different levels of depth of customer relationship, requiring different levels of investment, for different types of customer - at the deepest level, the supplier and customer form a mutually dependent ‘partnership’ focusing on value creation
- This approach has profound implications for the supplier in terms of its organisation, structure and operations, some of which are not always recognised by the supplier embarking on a KA initiative – as a result the KA initiative struggles to move beyond another sales effort with some classroom training
- For the KA initiative to be effective, the account strategy must be clearly defined and supported by all departments of the business from the top down
- The development must start and be driven by the commercial objectives with measures to ensure the right progress is being made - The competitive advantage and value creating model must be clearly defined as must the KA processes, systems tools and skills
- Traditional ‘two-days every few years’ classroom training will not support this approach; ongoing learning-by doing using a blended learning model has been found to be most effective as part of the overall development strategy.

What is Key Account Management?

Key Account Management has evolved since the early 1970s as corporations have recognised that a few customers account for the majority of their sales, profits and growth potential and that those key customers must be treated differently from the ‘ordinary’ customer.

In the initial model, Key Account Management was the sole responsibility of the sales department and meant “selling to big customers”. The focus was on allocating one senior sales person, now called an Account Manager, to one or more large customers and requiring that sales person to sell a volume or revenue target. Typically the Account Manager would engage with the customer’s Buyer as a single point of contact.

Generally this Account Manager would be given a sales target set by the company for the Key Account, driven by what the supplier wanted to sell calculated by allocating a proportion of the company’s total sales target or by assuming a level of growth on last year’s sales. The Account Manager was then required to create an Account Plan to show how the sales target would be achieved. This Plan was agreed internally by the senior managers and the Account Manager was then required to sell the target into the Key Account. The focus was very much on the Account Manager as sales person.

This model was sufficient in the past and although it is still used by many companies today, the approach is no longer viable in today’s complex commercial environment which puts intense pressure on price and margin.

The old model of giving away margin in exchange for volume will not enable the corporate objectives to be achieved. Today the business is required to increase volume and maintain or growth margin whilst simultaneously extending the longevity of the customer relationship. The old model with its focus on product and price will not allow this to happen; we need a different approach to account management.

Today Key Account Management is not a sales strategy but a business strategy that must embrace and be actively supported by all departments in the company. The Key Account Manager is no longer simply a good sales person (although sales skills are part of the required capabilities) but a business person and many successful Key Account Managers have emerged from departments other than sales.

The Key Account Manager does not engage with a single Buyer but across the whole of the customer’s management team and not as an individual but rather as the leader or ‘conductor’ of a multi-disciplined account management development team.

The aim is no longer to sell volume or revenue into the customer but rather to work collaboratively with the customer’s management team to create mutual value through a detailed understanding of the customer, the customer’s market environment, the customer’s customers and the changing technology and markets.

Companies and their senior managers may recognise and embrace these changes and requirements and want to know how to adjust to the new demands, they may have taken many of the steps already or they may still regard Key Account Management as merely selling more volume to big customers and so need to be convinced of the need to change.

A great many managers will understand the concepts of key account management yet find they are struggling to achieve the volume and margin growth demanded by their company.

Whatever the current view and situation, a good start to the discussion is to go back to first principles and to recall the fundamentals which should underpin the account management model.

Start at the very beginning – you already know this but...

The role of the company is to maximise profits today and to take action to ensure maximised profits tomorrow. It does this by delivering more value to its customers than its competitors are able to deliver, thereby winning and retaining more revenue. So success now and tomorrow as measured by revenue and profit are dependent upon the supplier's ability to deliver more value to the customer than its competitors – this is the key.

So far so simple, however not all customers are equal; a few are far more important than others and each one will have different conceptions of what value actually means. These very significant customers are, by their very nature, strategically important to the company; the scale of their impact on the supplier is huge, losing one will have a dramatic impact and they are very difficult to replace.

The supplier's attractiveness to a key customer is dependent upon its ability to add value to the customer but the Account Manager operating alone can't do this because delivering value to the customer will necessitate the support of the whole company.

So we have to think about these more important customers in a different way – we can't simply treat them as 'big customers' which are sole responsibility of the sales department to whom we simply sell volume.

This is where the dilemma begins – we have to identify these strategically important customers and we have to get this right because delivering value requires investment – we have to ensure that we will get a return.

Then we have to decide how much we should invest and in what. How do we know if we are delivering value at all? We think we are but how can we be sure?

If we think we are delivering value right now why aren't we winning more of the customers' business? Why are so many of our customer discussions dominated by price?

If Key Account Management is not 'selling to big customers', what is it?

We should be able to see now that success with major customers is dependent upon creating value and so Key Account Management must be the process of creating value for the customer and the supplier. Note that both sides must benefit measurably for KAM to work. It is not simply a matter of the supplier giving away value to the customer because this just leads to high volume customers generating little or no margin – a problem experienced by many suppliers today and accepted by some as the inevitable consequence of high volume and customer retention.

Viewed in these terms we see that many companies are not practicing Key Account Management but rather are trying to sell volume to big customers. We should not be surprised when these companies find their customer conversations are dominated by price and where the customer finds it difficult to differentiate between one competent supplier and another.

Where does value come from?

How is value created?

Where does value come from? as it turns out, rarely through the supplier's products and services.

Products and services offered by competing companies are very similar and for many customers, effectively identical which is why so many discussions between supplier and customer are centred on price. Price for these customers is the primary differentiator and means of selecting one from a number of equally eligible suppliers.

So Key Account Management is a process by which value is created and shared (although not necessarily equally) by the supplier and customer. Both sides must gain for the process to succeed.

Given that value is recognised and measured by the customer (the supplier can't define value for the customer), this means that the customer must be actively engaged in the Key Account or value creating process. Value is not something that the supplier gives to the customer but rather something which is created through the active customer relationship. Value is not defined by the supplier for the customer – it is not even created for the customer – it is created with the customer.

Where will value come from? It will come from four sources – taking cost out, increasing revenue, increasing efficiency and increasing quality – these are the concepts which should dominate the supplier/key account value discussions. They also represent the four points of view we should adopt when considering enhanced relationships and business growth.

The importance of the Key Account Manager and the management team

So we can see that the role of the Key Account Manager is not to sell volume but instead to work closely with the customer and to gain a depth understanding of the customer in order, with the customer, to identify the potential for value creation and agree action to capture the value. It is the rest of the supplier's and the customer's departments which take the action to deliver the value.

This is why the role of the Key Account Manager is so challenging and so different from most of the other management roles. For most roles, the manager is required to plan in order to achieve certain objectives by making use of resources and people over which the manager has authority. The Key Account Manager in contrast is required to achieve objectives with resources and people over which he or she has no authority. The Key Account Manager works closely with the customer's managers to identify the potential, create and recommend a plan and then works closely with other colleagues and the customer's managers to manage the implementation of the plan.

This is why the active engagement of all of the customer departments is crucial to effective Key Account Management. More than that, the different departments must act in conjunction; if they try to support the customer independently the interaction will be patchy at best but more likely confused and mutually conflicting.

Similarly we must have the active engagement and support of the most senior managers in the business. Implementing a Key Account Management programme involves change and all change programmes must be drive from the top if they are to succeed.

The evolution of the Key Account relationship

We can track levels of customer relationship from the simple traditional shallow selling relationship to the deep mutually committed partnership. Suppliers which achieve the greatest success over the longer term have managed to change the fundamental relationship with their key customers; it is this changing of the nature of the relationship which lies at the heart of effective Account Management.

What does that mean? What does a different relationship look like and why does this make such a big difference?

We can identify five levels of customer relationship. Understanding the difference holds the key to the collaborative insight lock. If you try to gain intelligence and insight without recognising the need to change the nature of the relationship, then it is unlikely that you will be successful. The customer is unlikely to be interested because there will be no clear gain, you won't be talking to the right people and you won't be asking the right questions internally or externally. Nothing will really change for you. You will quickly become disappointed with the lack of results of your key account initiaitve. So to start the thinking and to give us something tangible to consider, we need to explore and understand these five levels of relationship.

We can visualise the levels of relationship in a ranking with the simplest at the top, the shallow relationship, and the one with the greatest depth at the bottom.

At the very top, the relationship can be described as 'transactional'. This is the simple buyer/selling relationship in which the seller is focused on persuading the buyer to buy and the buyer focused on buying at the lowest price. The content of the discussion is almost exclusively on the product and the price. The seller is not invested in the customer and customers are segmented simplistically by industry type, sector or geography. Suppliers all look very similar to the buyer; customers all look very similar to the account manager.

At a more sophisticated level, the supplier now aims to understand the customer's needs in order present a solution which meets these needs. This means that the buyer/seller interchange sees the supplier taking time to consider the customer needs identification and analysis. This ability to understand and address specific customer needs helps to ensure that the supplier is more likely to win business. The supplier is more likely to present the offer in the customer's terms. However the focus is still likely to remain with the product and the price and the customer contact will typically still be directed to the purchasing department or buyer. Although the supplier will achieve some level of separation from the bulk of the suppliers, there will still be a core of high calibre competent suppliers at this level from which the customer can draw which means that differentiation for the supplier is still difficult. This level is categorised by various names; we will hear of SPIN selling, solution selling, professional selling and more recently challenger selling. All these models use a similar approach; use questioning to identify or create needs and then present the product or service as the best solution to these identified needs. Most sales training today is aimed at this level and for selling they all generally work very well. So there is nothing inherently wrong with these selling models if you want to sell. But given that they are used by almost all suppliers and that they are primarily focused on the supplier selling to the customer, they are unlikely to lead to the sustained share and margin growth resulting from creating value which is the aim of Key Account Management. So selling models and sales training should not be confused with Key Account Management (although selling skills remain important to the account manager).

There is a significant gap between the second and deeper third level. At the third level we see a major difference in the relationship which represents the start of the process of account management partnership and of true differentiation. At the third level we see the customer and the supplier working together to address an ad hoc issue which is not connected with the day-to-day business. It might be a project to reduce stock or cost from the supply chain, to address a particular need of the customer's customer, to improve production or operation efficiency, to change a product design and so on. Typically we expect to see a working party composed of both supplier and customer managers. The project typically is restricted to the issue at hand and lasts for the length of the project only. Interestingly most of these projects which categorise the level three relationships are initiated not by the supplier but by the customer selecting one supplier as a project partner.

Why is this relationship so important for the supplier? Because now the supplier has regular access to many new customer managers, to data and information and as a result gains a

great deal of new insight about how the customer operates, what is important, who makes and who influences decisions, the interests of the customer's customer, the way in which the customer seeks to serve its own customers and so on. This knowledge helps understand what value really means for the customer and how the customer will measure value. This is knowledge not necessarily possessed by the supplier's competitors. It is this new knowledge which enables the supplier to begin to change the nature of the relationship from one focused on selling products and services at a price to one which creates mutual value over the longer term.

Level four is a continuation of level three but now the supplier moves to becoming a permanent preferred supplier from the previous position of being a temporary preferred development partner. This in turn amplifies the benefits for the supplier as the wider scope of the relationship continues to develop. We can expect to see a range of supplier/customer projects all aimed at reducing cost, increasing customer sales and increasing mutual value. Again we see the supplier gain more and more intelligence and insight about the value chain, the customer, the customer's customer and the opportunities for competitive advantage. Where before we saw the suppliers with an account plan dominated by a sales target, now we will see a joint business plan to which both sides have formally committed focused on mutual value creation. We will see relationships throughout the structure and a common feature of this level is a regular board-to-board level off-site meeting for one or two days perhaps every 9-12 months.

The fifth or deepest level is a further continuation. At this level both sides have committed to the other so that their businesses become enmeshed in many ways. It is now all but impossible for one side to withdraw from the relationship, at least in the short term. We might see combined operations, logistics, product development and so on. We will be unlikely to see the traditional selling approach. We might see the supplier becoming directly responsible for aspects of the customer's operation. There is no longer any question of whether the two sides will be doing business together; arguably there is no longer a need for a sales person or a buyer in this relationship. The supplier is no longer operating alone; it is in a commercial partnership with the customer.

The concept of the strategic customer partner

(discussed in Part Two)

Why does the strategic partner level make such a big difference for the supplier? Because when you get it right it brings three benefits; you achieve the dominant share of the available business, that is the business for which you can legitimately compete. You do this because you become the preferred partner. At the same time you generate a higher margin. You achieve this because you are not 'buying' the volume with discounts. The incremental margin for both sides comes from the system not from each other. In other words you are not cutting price to win share. At the same time you will have identified and eliminated those cost-bearing activities which sound beneficial yet deliver no measurable value to the customer whilst at the same time doing more of the value-delivering activities which will cost you money but for which the customer will pay a premium.

By working in a strongly collaborative way with the customer, you have far more information, data and insight that anyone else. You can leverage this insight to create ongoing value improvements for the customer and for you which of course underpin the relationship and therefore your long term profitable business.

So we focus not on sales, not on achieving this quarter's sales results, not on the short-term tactical activity (promotions, price cuts) to hit the number this quarter but instead on collaborative working and adding mutual value through joint working over the longer term.

The focus on value

Value can't be defined by the supplier – only by the customer. Why? Because when you add value the customer is or feels better off. It is the customer which sees or feels the benefit. Which means that 'added value' is something for which the customer will pay a premium or at the very least prefer one supplier to another.

Much of what many suppliers do delivers little to the customers and so they won't pay for it. Many of these things are simply fundamental requirements of a supplier and as such basic to the commercial relationship; quality, service delivery, consistency of terms, effective administration and so on.

Many suppliers find that they are doing lots of different things for the customer which sound positive yet don't deliver any measurable value. These suppliers end up doing lots of things which cost them money so depress their margin but for which the customer will not pay. So the acid test for your 'value' is - will the customer pay for it and/or give you the business? If not then it is not delivering customer value but is simply a cost-bearing activity which you choose to perform or something you must do in order to be a credible supplier.

Value rarely is vested in the product. When it is, we find that the advantage conferred is transitory as competitors hurry to replicate and improve upon it.

So the primary question for the supplier management team is, what are the things which we should offer which are not offered by our competitors and which will bring measurable value for the customer? If we don't know what this is (and it may be different for different key customers) then it is unlikely that we will be able to offer much commercial improvement to the key customer's business and as a result we will be seen at best as another competent supplier from which to select.

The only way to figure out the answer to this question is by engaging closely throughout the customer. You simply can't work it out on your own and the buyer is alone unlikely to know; the buyer is employed to buy a specification at a lower price.

So value generally lies beyond the product and is dictated by the customer. But you have to consider value not only for your direct customer. The task is to work out what value means for your customer's customer. Why? Because success for your customer means doing more profitable business with its own customers. If you can demonstrate how you can help your

customer do this then your customer will be very interested in you. So very often the key to unlock the customer is found with the customer's customer and beyond this, throughout the value chain.

Implications of Key Account Management for the supplier

You must objectively define the opportunity for growth in order to calculate the potential return and manage the investment – this allows you to identify the true key accounts with whom you should be doing business as opposed to those which you are doing business right now

Simply defining a customer as a Key Account does not make it so – you must be clear about what it means to be a Key Account. You must also define the ideal profile, your commercial expectations and ensure that the whole company is committed.

Leadership must come from the top – every senior manager must be supportive

Telling a customer that it is a Key Account often results in the customer having greater expectations so timing and communication is important.

For Key Account Management to work, the customer must be actively engaged and must recognise that it is a mutual gain. 'Key Accounts' which choose not to participate in the process are simply big customers for which the supplier simply requires a good sales person.

Changing a title or promoting a manager to a 'Key Account' role does not in itself alter the individual's thoughts or actions.

Key Account Management involves change and change takes time. Setting and managing expectations throughout the business is very important.

You must understand your customer account profitability – without this knowledge you can't identify the return on your investment in the customer and you can't negotiate properly with the customer.

Key Account Management demands deep and wide relationships with the customer's managers coupled with a detailed knowledge of the customer's business and its own customers. The relationships provide the process by which value can be created. This takes time.

Depth understanding will not come from a single-point relationship with the buyer.

Trying to effect change solely in a two-day training programme rarely has any impact – implementing Key Account Management takes time. It is very difficult to inculcate and practice the complex role of the Key Account Manager over two days in a hotel. A session like this may have a role to initiate the program but it can't be the program.

Implementing a process which simply requires managers to use software or complete templates and forms does not have much impact –Key Account Managers must employ critical thinking and this requires an understanding of the concepts as well as the ability to apply and critique the concepts.

Expecting commercial results within the first few months of implementing a Key Account initiative often leads to disappointment. There is a great deal of investment in time, energy and money required before any results are seen. Many key customers have an extended buying cycle and changing the nature of the relationship takes time. This is why we must pick the Key Account carefully and set reasonable progress objectives.

The implementation of Key Account Management is a long journey requiring constant development and attention of the most senior management team. The rewards can be seen as high for those suppliers prepared to make the effort but the making effort itself is challenging.

About the author, the KAM Group and the Association for Key Account Management

Richard Ilsley is the Managing Partner of the KAM Group.

Richard advises senior managers, is a founder member of the Association for Key Account Management and sits on its main board, speaks and publishes on key account and strategic partnerships and is the author of various papers on these topics. He can be contacted at: **richard.ilsley@smcg.net** and **+44 7866 471382**

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

The Association for Key Account Management is an independent not-for-profit organsiation for the promotion of learning amongst practitioners, academics and consultants. The Association promotes knowledge sharing and discussion through its quarterly meetings hosted by different universities. Membership is open to individuals and companies.

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