KEY/STRATEGIC ACCOUNT STRATEGY & IMPLEMENTATION: WHAT IT IS & HOW IT SHOULD WORK

PART FOUR
Creating Value Through Design Thinking

"Achieving commercial impact beyond the standard rhetoric"

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KEY ACCOUNT MANAGEMENT

Summary

This paper is the forth in a developing series which considers the core issues of Key and Strategic Account Management.

The paper discusses some of the practical issues encountered in developing key customer value and introduces a method to identify and create real value which has measurable commercial benefits for both supplier and customer. It is aimed at senior managers interested in identifying and implementing a value based approach with their supplier/customer relationship and goes well beyond the product/price model often used by companies today under guise of key account/supplier management.

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 or key customer to mean the relatively few strategically important customers.

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Bullet Point Summary

Growth of between two and five times the growth rate of the rest of the business can be achieved by focusing strongly on identifying and delivering measurable customer value.

This paper summarises the practical learning from a number of corporations recently engaged a long-term program to enhance their commercial performance through the identification and implementation of customer value with selected key customers.

» Effective Key Account Management demands that the supplier increases both sales and margin with the key customer – you can't trade one for the other

» To do this, the supplier must demonstrate that the customer will be commercially better off - this demonstration is commonly called the 'value' – if the supplier is unable to demonstrate that the customer is commercially better off, it has no advantage and the differentiator becomes price

» Note that it is the customer which must recognise that it is commercially better off because it is the customer which will be paying the price premium in exchange for this commercial improvement

» The supplier delivering customer value must also become better off - any value you deliver will bear a cost which must be justified

» Whilst all managers will agree that they must deliver customer value, studies show that the majority have forgotten that their 'value' must make the customer measurably better off in the mind of the customer and must make themselves better off at the same time – both sides must gain

» If the supplier value is replicated by a competitor, then the supplier's advantage is diminished or eliminated and the supplier is no longer better off – the value simply becomes a customer expectation not requiring a price premium and a cost for the supplier

» Studies show that whilst most Account Managers can state what they believe is value for the customer, only around 25% of Account Managers can demonstrate how a key customer is better off – much of this assumed 'value' may sound positive but it is not recognised by the customer thus does not command a price premium or favouring the supplier – in these cases price becomes the differentiator and dominates the conversation

» Everyone agrees that they must deliver customer value but determining what this should be and showing how it makes both the customer and the supplier commercially better off is much more difficult

» Design Thinking offers a practical approach for teams of Account Managers to work together with their colleagues (sometimes in partnership with the customer's managers) to identify value which impacts both supplier and customer commercially – as a result both sides are financially better off

» Design Thinking has its roots in product design and as a process exists in various formats to address different design needs

» The core idea is to identify a number of options rapidly and then equally rapidly create a best case prototype for live testing

» The mantra of Design Thinking is 'fail early to succeed sooner' – speed is very much of the essence

» There are a number of staged processes published for Design Thinking and the approach we have found works well for suppliers and Account Managers for key account value identification is composed of ten steps – 1) assess the current situation, 2) fill the knowledge gaps & agree the core question, 3) rapid prototyping, 4) engage external knowledge transfer, 5) interrogate & enhance the prototype, 6) final review, 7) create the test plan, 8) live testing, 9) review and refine, 10) roll out

» Experience over the last four years using this approach shows that growth with those selected customers is between two and five times the growth of the customers in the control group (the rest of the supplier's customers) over the initial two-year period

Introduction to the problem of value

"Everyone here tells me it's important but no one can tell me what it is or what we do to get it – or at least when they do they can't agree"

This is a quote from the recently appointed European President of a large manufacturing company after his initial review of the business. His summary is not unusual and it captures succinctly the dilemma faced by many suppliers and their management teams today. We all know that value is the key to success with the key customers but we are not quite sure what it means and we can't always define what it means for a specific key customer.

The problem is further compounded when we talk with the customer, because more often than not we will hear different demands and requirements depending upon with whom we talk. Buyers and purchasing managers may focus on price and cost reduction, supply chain and logistics managers on efficiency, marketing on innovation, operations on consistency and so on.

In fact as we consider the issue further, we realise that there is no such thing as the 'customer' – only a number of managers at different levels doing different jobs with different, and sometimes conflicting, requirements of the supplier.

If the customer is not able to articulate what value means – and 'value' is not value unless it is recognised by the customer – then it is little wonder that the Account Manager finds it difficult to articulate just what value means for a customer and how it is to be delivered. Little wonder that so many Account Managers duck the question entirely and concentrate on selling products and prices.

Of those Account Managers, who do attempt to address the question – what is value for your customer? - many tend to respond with a series of things which sound fine at first hearing but do not stand up to analysis. For example, here is a typical response of an Account Manager in reply to the question "how do you deliver value to your key customer?" - "..we are a well-established business with a long history of great service and multiple offices around the world, we have a broad product range with a number of recognised brands and we are constantly investing in product development." – all of which may be true but where exactly is the customer value? How exactly do any of these things make this specific customer financially better off? It is just not clear.

But ...investing time to get it right can pay huge dividends

Do we need to be concerned that Account Managers and suppliers find it so hard to define their unique customer value?

The problem with not being able to demonstrate unique key account value is that the Account Manager is likely to spend much of the time reacting to the customer's short term demands whilst selling products and services and talking mainly prices. Differentiation is rarely found in the product itself and if there is nothing else to differentiate you then inevitably price becomes the main point of differentiation.

On the other hand those suppliers which have invested in understanding and developing key customer value can show very significant benefits. This paper summarises the results and experience from a number of companies, representing different industries, which have taken part in a longer term study of the commercial impact of value identification.

To assess the impact, a proportion of Account Managers from each participating company, supported by managers from other disciplines, worked closely with selected key accounts; the growth achieved with these selected key accounts can be compared with the growth from the rest of the company's customers (acting effectively as the control group) over the same period of time.

For comparison we have selected the growth from the initial two years of the program (companies embarked on the program at different times). Over the first two years the growth increase ranged from a minimum of double to a maximum of five times the rest of the company. In later years, growth continued but comparison is less easy because different companies progressed to different levels of relationship and intensity.

The core lessons of success – what does value mean?

When we talk about 'identifying and implementing value', what do we actually mean?

Whilst the different companies in the study took slightly different approaches reflecting their different circumstances and our learning over time, we can summarise the main common elements of their activity as follows:

Define what you mean by 'value' – this is relatively straightforward, the important point being that you make use of objective measures and that everyone accepts the definition in order that it becomes common currency in your organsiation.

Whilst there are a number of different definitions of value and the marketing literature provides many options, we found that the best definition is the simplest and the ideal is the one which is objective. Over the years of the program we have come to favour the definition of value as being – "the things we do which make the customer financially and/or commercially better off."

We added the term 'commercially' because sometimes it is less easy to measure specifically financial gain even when we all agree that the customer is better off. Examples include the reduction of risk, the enhancement of brand and customer perception, greater satisfaction of operations staff and so on.

Use this definition to establish an objective view of the current situation – where and how do you deliver value right now and what commercial impact is this having? This is less easy because you will have to overcome much received wisdom and opinion. This is why starting with a clear and agreed definition which contains objective measures becomes so important. Inevitably some managers will be dismayed to discover that their long held views of value do not stand up to the analysis.

Using this approach we have found that we can consider four types of value-related activity. They can be summarised as:

1. Things you are doing which sound as though they deliver value but actually are essential to serve the customer, are not unique and are expected of all suppliers – quality products, on-time delivery, customer services and so on, often fall into this category.
2. Things you are doing which you believe add value and may be welcomed by the customer but in fact do not make the customer financially better off and therefore do not command a price premium. Thus these activities sound very positive yet may not have any impact on your business and simply add cost for you. Examples vary depending up on the industry but could involve frequency of delivery, levels of service, product format and packaging and in one case a supplier found that visits from its sales force had no impact and could be regarded in this category.
3. Things which you do which can be shown to make the customer financially or commercially better off and for which the customer will pay a premium or at least strongly favour you as a supplier – do more of these.
4. Things which you could do which will add significant measurable commercial benefits for the customer, but which currently you don't do because you have not identified or considered these options. By definition these options are not offered by your competitors because they have not yet been identified. These are the very things which we aim to identify and exploit because these are the things which bring huge impact to both sides. You can't suddenly identify these things without careful study and it is these things which the Design Thinking model aims to identify and then implement.

Identify, select, test and refine additional options to deliver value. This step follows directly from the recognition above that there will be things you are not doing but which can deliver great value. This is the most difficult of the stages and one which we have found is best addressed using an approach called Design Thinking – move on this shortly.

Create standard delivery systems and tools and roll out the new value delivery models across the business. Take the proven and successful models and make them part of the standard customer offer (recognising that not all of the new high value models will be applicable to all customers). This in turn creates a value-driving culture which will have a further positive impact on the customer. All the suppliers in the program were perceived to be 'highly innovative' by their key customers after 24 months. This is interesting given that other studies of customer expectation often show that 'innovation' is one of the important characteristics sought by key customers from their preferred suppliers.

Design Thinking and the identification of value

We come now to the most difficult part of the whole process – that of identifying new ways of delivering customer value.

One of the main difficulties here is that if it were obvious then you would already be doing it! Almost by default you must invest time and energy - this is not something which can happen without sustained effort.

In the early days of the program we soon recognised that we needed a specific process to support Managers to identify and create value. You can't simply call a meeting and tell managers to identify value one afternoon – it just does not work. (This was actually tried by one global company).

Design Thinking offers just such a formal value identifying process. Design Thinking is a formal stepped thinking process originally aimed as designing products but increasingly applied to addressing the design of processes and generating answers to difficult questions. As such it provides a good methodology to approach the development of customer value.

There is more than one version of Design Thinking but all use a series of similar steps to arrive at a 'prototype' – a model which can be tested and then refined in the real world. One of the great benefits of Design Thinking for our purposes is that it puts focus on speed and the need to weed out less likely options quickly. A core mantra is that we should aim to fail quickly to succeed sooner.

Although Design Thinking has been shown to be a powerful tool in helping suppliers to find customer value, it is not a process that can be undertaken lightly or without sufficient management support. Neither is it a quick fix to resolve this year's problems because we have found that the benefits don't start to be seen until around 9-12 months and the real impact is more likely to require 18-24 months. This is because there will be time needed to identify and correct gaps in knowledge, time required to develop and test the prototypes and time required to convince the customer to participate in the work.

In addition, Design Thinking is time intensive and will demand attention across the business over the longer period of time. Design Thinking is a methodology not a training program.

At the same time we have found that relying on Design Thinking alone is unlikely to be sufficient because Managers require a range of skills and expertise beyond innovative thinking. For example, there may be a requirement for an understanding of strategic planning, data acquisition and use, analytic tools such as value stream mapping or total cost of ownership, negotiation, project management, team building and so on. You will need to consider weaving in these additional skills and tools over the course of any program.

How does the value development process work?

We summarise below a series of stages which suppliers have been using to identify and deliver increased customer value. For ease of discussion, we are presenting one version but in reality approach will be adapted to meet each specific situation. In general though we will find that we will move through these ten phases:

1. Assess the current situation

You have to start by identifying and agreeing where you stand right now. This is an important phase yet there is a tendency by some senior managers to skip it, desiring to get to the 'real development' more quickly. We have found that it is a mistake to avoid this phase because at the start there will be a whole host of views and opinions about value within the business ranging from the enlightened who see the opportunity immediately to the satisfied who see no reason to change anything. Without an objective and common agreement about the real situation and the resulting implied threats and opportunities, it is hard to get common agreement for action or later, the commitment of resources.

In assessing the current situation, we will want to consider the definition of value, the current value delivered, map the competitive situation to understand to what extent we are leveraging the current value, identify examples where we are having demonstrable success – this helps to define the direction later – and identify gaps in our current knowledge and data.

Inevitably there will be knowledge gaps which will be determined as we assess the current situation. It will be clear to the team the some of these knowledge gaps must be addressed before any innovative thinking can proceed.

2. Fill the knowledge gaps – collect the data – identify the core value question to answer

Having identified and agreed what knowledge gaps exist and what else you need to know, you must fill these gaps. This is best done by small teams each working quickly on identified requirements. Each team will be required to create a simple plan to collect the data and knowledge, collect it and then return to the main group with the answers.

Having now defined the current situation in sufficient detail, you should be ready to define the value identifying and creating questions that you want to address through the Design Thinking process. As an example, the core value creating question might be – what is value for our customer? – but more likely, it will have become more refined during the discussion about the current situation and it is this refined question which we will take forward into the thinking process.

3. Engage Design Thinking – rapid prototyping

The Design Thinking approach is used to address the core value question. The process will proceed through a number of guided thinking steps starting with the very rapid development of many possible solutions and their synthesis to create initial versions of the possible solution. These initial versions then go through a period of further synthesising, crafting and assessment to reach the point where you will settle on one or a very few solutions for further consideration; we now call these possible solutions, prototypes.

4. Engage external learning and knowledge transfer

An interesting part of Design Thinking is the idea that we can learn quickly and spark innovative ideas by utilising the experience from others outside our own organisation. In some cases we may want to seek guidance from people and organisations who have faced similar situations and in others cases we may seek external input from different types of organisation facing rather different issues.

For example a retail bank looking at customer behaviour in the bank itself sought the experience from a well-known theme park operator. A large dairy manufacturer sought input from a supplier of radioactive products for the medical sector. An industrial parts supplier sought input from an international retailer.

We have found that companies are far more likely to welcome a conversation and exchange of ideas with companies from completely different sectors but with common issues than they are with similar companies from similar sectors where there may be a competitive or issue of conflict.

Many managers will be sceptical of the benefits of this phase initially but later will state that this was one of the most eye-opening experiences of the whole process and one which directly contributed to their successful prototype.

5. Interrogate, test and enhance the prototype

The initial prototypes are tested by the teams and are further refined, using the more recently gained knowledge, to reach a point where they can be tested in the real world. A prototype must not be confused with the ultimate solution. The prototype can be thought of as our best guess of what the solution should be using our current level of knowledge and experience.

6. Final prototype review prior to real world testing

Before the prototype is tested with real customers, it goes through a final review by managers who have not so far been involved in the process. These managers bring a fresh view which is likely to be closer to the view of the customer. Part of this final review is also to ensure that all managers throughout the business will support the test – this means that a manager of sufficient seniority must be present to commit the necessary resources. As a result of this phase some prototypes may be rejected or sent back for more work.

7. Create and agree the plan for testing

Having agreed which prototypes will be tested, we need the team to create an implementation plan.

The plan will identify which key customer should be approached to pilot the prototype, the way the customer should be approached, the argument to present to the customer, the likely steps and timing and the internal resources required.

The plan will also identify the desired commercial gains.

The plan will be agreed internally and the roles and timing defined.

8. Test the prototypes – implementation in the real world

The prototype is the best guess of the solution but it is not the complete solution. We must test the prototype and as a result of the learning we must refine it. The amount of change will vary. In some cases we will see very little change and the prototype will develop into the solution with only minimal change but in other cases we will see significant change as a result of the test experience.

Some prototypes will fail completely and we must expect this. We do not regard this as failure but as learning. One of the important aspects of Design Thinking is that we expect plenty of failure at the early stages but must still expect some later.

9. Review and refine

After generally six months of testing we should be ready to regroup to share learning and to refine the prototypes.

At this stage there a number of possible outcomes: a prototype is shown to work and can be adopted, a prototype does not work and is rejected, a prototype may be revised and retested, two or more prototypes may be combined, entirely new ideas may have been discovered and can be fed into the design and development process.

We may want to conduct more testing and development but generally within 18 months of the start we will be ready to roll out the new model.

10. Create the roll out plan and roll out the new model

The final stage is to define the new model and create the necessary support and materials for implementation throughout the relevant parts of the business.

We will also measure the financial impact on the customer's business and on our own business.

Time and resources demands

A review of the process phases above shows that there is a high demand on time and resources. Every program will be different of course but as a rough rule of thumb you can consider that the core team of managers will require a minimum of 10 days each year together physically working though the phases along with online meetings every two to four weeks. Generally this is structured as one full week face to face every six months with online discussions every two to four weeks over at least a two year period.

During this time it will be necessary to support the team with additional skills and tools and this will be integrated into the overall program using forms of blended learning. For example we may introduce the managers to analytical tools such as value stream mapping or total cost of ownership. We may want to take time to consider enhanced project management skills, team working skills or negotiation skills. The idea is to bring in any additional skill, systems or tools which are required to ensure that process and the implementation of the value model is successful. The actual requirements will differ from company to company and by team of course.

Ideally the process will integrate managers from across the business both in terms of disciplines and geography. A significant ancillary benefit from the program, which has been identified by all participating companies, is the strongly enhanced internal understanding and communication between managers and the very positive impact this has on the culture of the business. Managers from across the business become more collaborative and supportive – the business culture becomes more cohesive.

Questions to ask yourself

For those companies considering a value enhancing approach, we have identified some useful initial questions which can help to stimulate the internal discussion.

Do we see our share of business and our margin increasing with our identified key accounts?
If not it is unlikely that your current value proposition is strong enough.

Do we see a pipeline of identified development projects to be implemented with specific customers which are projected to yield a defined amount of incremental share and margin gain for us and financial gain for our customer?
If not then you are unlikely to be identifying longer term growth opportunities.

Do we all agree what value is?
If so any manager should be able to explain the concept of value succinctly.

Can we show the value we deliver to a specific customer and its measurable impact?

Can you show the financial gain to the customer and to your own business?

Do we find our customer conversations are dominated by price?
If so then you are probably focusing too heavily on the procurement department and not on customer value. Value may not be recognised by the customer's procurement department. When the customer focuses the discussion on price it is because it sees no other significant differentiator. Conversely when the customer recognises that it is commercially better off with you it will be more willing to give you more business and to pay a premium for the value you bring.

Do we have a value creation methodology?
Value development and creation is not something with happens automatically or something you consider once and then move on. It must become a way of thinking about and doing business because as you identify and launch your value creating initiatives your competitors will copy them; not immediately but certainly over time. This means that your total offer will be diminished over time and you must continue to work at enhancing it. This is also the expectation of most customers - that their suppliers will continue to work to reduce cost and enhance their benefits.

Summary

The only way the supplier will increase both share and margin over the short and longer term is by delivering measurable unique value to the key customer – value which can be shown to have a measurable impact on the customer's business and for which the customer will favour you and pay a premium.

This position cannot be achieved quickly; developing the unique value requires dedicated thought and attention.

Design Thinking is a process which can support the identification and creation of customer value.

A series of test programs with participating suppliers from different industry sectors shows that growth can be increased between two and five times the rate of the rest of the business when the new value models are deployed.

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

Richard Ilsley is the Managing Partner of the KAM 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

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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