Key Account Management - global best practice

by

Professor Malcolm McDonald

Video available @ www.oxlearn.com
Content

- What are the key challenges and how do the most successful companies respond to them?
- How can we develop a customer classification system that really does work?
- How can we develop the kind of synergy with our key customers that will enable the seller and the buyer together to create value in the market place?
- How can we understand our key customers better?
- How can we avoid the price driven commodity trap?
- How can we produce strategic plans for our key customers?
- What skills are essential for Key Account Managers?
Challenges

- Market Maturity
- Globalisation
- Customer power
Challenges

- Customer Power
The critical new interfaces for sales

- Marketing Strategy
- Key/Global Account Management
- Direct channels/Internet-based sales
- The shrinking domain for the traditional salesforce?

Customer Service/Relationship Requirements

- Low
- High

Customer Sales Level/Potential

- Large
- Small

Copyright Professor Nigel Piercy
Double your money: cut spend on purchases

Other costs (44%)

Purchases (50%)
Profit (6%)

Other costs 44%

Purchases (45%)
Profit (11%)

‘Purchasing: adding value to your purchasing through effective supply management’ Institute of Directors, September 2003
Customer power

- Big customers are getting bigger
- Customers are rationalising their supplier base
- Customers have become more sophisticated
- Customers want tailor-made solutions
- The cost of serving customers is increasing
- Suppliers and customers are developing new ways of working together
Increasing customer concentration...

Sales to the top 5 customers as a % of total supplier sales over 25 years.

% of total supplier sales

- Biscuit Manufacturer: 76%
- Board/ Packaging: 64%
- Speciality Adhesives: 39%
- Metal Bearings: 44%

From: *Profitable Customers*, Charles Wilson

www.oxlearn.com
Customer power

- Big customers are getting bigger
- Customers are rationalising their supplier base
- Customers have become more sophisticated
- Customers want tailor-made solutions
- The cost of serving customers is increasing
- Suppliers and customers are developing new ways of working together
Increasing costs of interfacing with customers

Costs of the frontline (Sales, service, trade promotions etc. over 15 years)

Interface costs £'000 per customer (adj. for inflation)

Supplier to the print industry (turnover £200M)

Source: Profitable Customers, by Charles Wilson

www.oxlearn.com
KAM Research Findings
What is a Key Account?

Percentage of our business

- Turnover
- “Added Value”
- Potential
## Desirable factors in suppliers

<table>
<thead>
<tr>
<th>Criteria for partnership</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of doing business</td>
<td>100</td>
</tr>
<tr>
<td>Quality (product)</td>
<td>100</td>
</tr>
<tr>
<td>Quality (people factors)</td>
<td>100</td>
</tr>
<tr>
<td>Volume related</td>
<td>64</td>
</tr>
<tr>
<td>Added value/value for money</td>
<td>64</td>
</tr>
<tr>
<td>Company culture</td>
<td>36</td>
</tr>
</tbody>
</table>

From ‘Key Account Management’ Cranfield University School of Management, 1996
Suppliers are still interested principally in volume.

Whilst they are interested in the potential for ‘added value’, most still do not measure account profitability.

From ‘Key Account Management’
Cranfield University School of Management, 1996
The widening rift between profitable and unprofitable customers:

% of company profit by customer decile (each decile = 10% of customer base)

Adapted from: ‘Profitable Customers’ by Charles Wilson

www.oxlearn.com
Customer account profitability analysis

The key phrase is Attributable Costing

The objective is to highlight the financial impact of the different ways in which customers are serviced
How well do you know the real profitability of the top ten accounts?
Creating closer relationships with supply chain partners

From

Supplier

Marketing
Operations
Information Systems

Sales
Purchasing

Customer

Marketing
Operations
Information Systems

www.oxlearn.com
Creating closer relationships with supply chain partners

- Directors selling company
- Directors buying company
- Marketing
- Operations
- Information Systems
- Key-Account Co-ordination
- Supplier Development
- Supplier
- Customer

www.oxlearn.com
Preliminary selection of key accounts
Key account preliminary categorisation

Top 15 (in volume/revenue generated)

Next 30

Next 55

www.oxlearn.com
Preliminary Selection of Key Accounts

Large
Medium
Small

Supplier Business Strength with Customer

High
Strategic
Star
Status
Streamline

Account Attractiveness

Low
The relational development model

Strategic intent of seller
- Exploratory
- Basic
- Cooperative
- Interdependent
- Integrated

Strategic intent of buyer

Adapted from a model developed by Millman, A.F. and Wilson, K.J.
“From Key Account Selling to Key Account Management” (1994)
Relationships and the customer profitability trap

- Sales
- Total costs
- Cost of sale
- Attributable overheads
- Contribution

£m

-20 0 20 40 60 80 100 120 140 160

Basic Co-operative Interdependent Integrated

www.oxlearn.com
Many activities cross the boundaries - especially information based activities such as: Sales Forecasting, Capacity Planning, Resource Scheduling, Pricing, etc
Internal value chain: service companies eg IFAs

For service companies such as IFAs this version may be more appropriate. For each key account, list ways in which you can use your resources/skills (eg. E-commerce) to improve their value chain, by reducing their costs, by avoiding costs, or by creating value for their customers.

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Legal, Accounting, Financial Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource Management</td>
<td>Personnel, Pay, Recruitment, Training, Manpower Planning, etc</td>
</tr>
<tr>
<td>Product &amp; Technology Development</td>
<td>Product and Process Design, Market Testing, R&amp;D, etc</td>
</tr>
<tr>
<td>Procurement</td>
<td>Supplier Management, Funding, Subcontracting, Specification</td>
</tr>
</tbody>
</table>

© Professor Malcolm McDonald
Impact of an upstream action

- Cost generated by decisions
- Increase of expenses
- Potential saving

<table>
<thead>
<tr>
<th>Time</th>
<th>Design</th>
<th>Industrial prototype</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost (%)</td>
<td>100</td>
<td>90</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>
Strategic Purchasing

SUPPLIER PREFERENCE

Development
Nurture Client
Expand Business
Seek New
Opportunities

Core
Cosset Client
Defend Vigorously
High Level of Service
High Responsiveness

Nuisance
Give Low Attention
Lose Without Pain

Exploitable
Drive Premium Price
Seek Short Term Adv.
Risk Losing Customer

Source: PMMS Consulting Group
e-auctions might not be suitable for every kind of deal. They can be perceived as confrontational tools by suppliers and have the potential, therefore, to sour good working relationships. Although good management can minimise the risks, it might be prudent to use e-auctions for price improvements only in circumstances where you regard the relationship with the supplier as less important to you than price advantage.

‘Purchasing: adding value to your purchasing through effective supply management’
Institute of Directors, September 2003
There are risks attached to sharing information and granting access, but these are minimised in the context of a close, trusting relationship between purchaser and supplier. Provided intellectual property rights issues are addressed early on, there is no reason why this kind of ideas-sharing should not work to mutual benefit. Managed properly, it will greatly enhance strategic alliances with suppliers.

‘Purchasing: adding value to your purchasing through effective supply management’
Institute of Directors, September 2003
Supplier Relationships as a Source of Business Advantage

<table>
<thead>
<tr>
<th>Type</th>
<th>Business Contribution Criteria</th>
<th>Business Process Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Suppliers</td>
<td>• “First mover” advantage&lt;br&gt;• Channels to market&lt;br&gt;• Reverse revenue generation</td>
<td>• VP lead&lt;br&gt;• Business strategy driven&lt;br&gt;• “A team” on both side</td>
</tr>
<tr>
<td>Preferred Suppliers</td>
<td>• Point-to-point solution&lt;br&gt;• Technology access&lt;br&gt;• Operational advantage</td>
<td>• Relationship manager&lt;br&gt;• Strategy from CatMan&lt;br&gt;• SLA scorecard</td>
</tr>
<tr>
<td>Commodity Suppliers</td>
<td>• Cost improvement&lt;br&gt;• Superior service levels&lt;br&gt;• Ease of transaction</td>
<td>• Managed locally&lt;br&gt;• Performance monitored&lt;br&gt;• E-enabled</td>
</tr>
</tbody>
</table>
“Must Have’ Criteria Drive Hard and Soft Measures

1. Vision
   - Sharing of long-term vision and orientation.
   - Global focus and commitment with service & support capability.
   - Defined but yet flexible boundaries.

2. Culture
   - Similar or complementary values.
   - Understanding of the process to deal with differences.
   - Flexibility in approach since circumstances may change over time. An exit route needs to exist.

3. Impact
   - Maximum economic and strategic leverage, i.e. product / market differentiation.
   - Attainment of time to market, quality & productivity objectives.
   - Shareholder value creation.
   - Blending core competencies, leadership capabilities & complementary strengths (allowing outsourcing of non-core capability).
   - Adding real productivity & value (significant cost savings & revenue potential).
   - Globally focused, linkages to new business opportunities & capable of complementing the business focus.
   - Attainment of high performance, low cost & strategic objectives (producing unique design, integration & marketing capabilities).

4. Intimacy
   - Readiness to share ideas & information.
   - Not overly locked into a competitor.

5. Balance
   - An element of demonstrated commitment from both sides.
   - Readiness for risk taking and sharing of costs.
   - Building trust and, thereby, moving to intimacy.
Key account preliminary categorisation

- Degree of collaboration:
  - High: collaborative
  - Low: transactional

- KAM relationship stage:
  - Integrated
  - Interdependent
  - Cooperative
  - Basic

- Needs of parties to KAM relationship:
  - Realisation of fullest potential of both organisations
  - Confidence in relationship, stable & highly evaluated by both sides
  - Reduction of risk, ability to forecast
  - Operational, efficient transactions

www.oxlearn.com
The key customer portfolio

Supplier business strength with customer

Key account attractiveness

High

High

Low

Strategic investment

Selective investment

Pro-active maintenance

Management for cash
<table>
<thead>
<tr>
<th>K.A. Attractiveness Factors</th>
<th>10-7</th>
<th>6-4</th>
<th>3-0</th>
<th>X weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume/value</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Growth/potential %</td>
<td></td>
<td></td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Profit potential%</td>
<td></td>
<td></td>
<td></td>
<td>40</td>
</tr>
<tr>
<td>‘soft’ factors</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
</tbody>
</table>

Total: 100
Key Account Selection Matrix Tool - KA Selection Matrix

Chart

Display Spend: Spend with Us

Display Group: National

Customer: College Group  Relative Customer Satisfaction: 0.80  Account Attractiveness: 4.40 Spend

Customers on Chart

<table>
<thead>
<tr>
<th>ID</th>
<th>Name</th>
<th>Maximum Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alexander Smith</td>
<td>$14,000,000</td>
</tr>
<tr>
<td>2</td>
<td>Ash &amp; Williams</td>
<td>$13,000,000</td>
</tr>
<tr>
<td>3</td>
<td>College Group</td>
<td>$12,000,000</td>
</tr>
<tr>
<td>4</td>
<td>F T Group</td>
<td>$9,900,000</td>
</tr>
<tr>
<td>5</td>
<td>Harpers</td>
<td>$7,600,000</td>
</tr>
<tr>
<td>6</td>
<td>Parker</td>
<td>$9,400,000</td>
</tr>
<tr>
<td>7</td>
<td>Quality Insurers</td>
<td>$16,200,000</td>
</tr>
<tr>
<td>8</td>
<td>Randsome</td>
<td>$14,500,000</td>
</tr>
<tr>
<td>9</td>
<td>Royal &amp; Co</td>
<td>$6,400,000</td>
</tr>
<tr>
<td>10</td>
<td>Thompson Group</td>
<td>$32,000,000</td>
</tr>
<tr>
<td>11</td>
<td>Tudor Rose</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>12</td>
<td>Woods</td>
<td>$11,500,000</td>
</tr>
</tbody>
</table>

Relationship Stage

- Exploratory
- Basic
- Interdependent
- Co-operative
- Integrated
Selecting and categorising customers by potential

Supplier business strength with customer

<table>
<thead>
<tr>
<th>High Account attractiveness</th>
<th>Low Account attractiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Strategic investment</td>
<td>Selective investment</td>
</tr>
<tr>
<td>Pro-active maintenance</td>
<td>Management for cash</td>
</tr>
<tr>
<td>Strategic maintenance</td>
<td>Star</td>
</tr>
<tr>
<td>Status</td>
<td>Streamline</td>
</tr>
</tbody>
</table>
Category

Strategic Customers

Description
- Very important customers, but the relationship has developed still further, to the level of partnership.
  - The relationship is ‘win-win’; both sides have recognised the benefits they gain from working together.
  - Customers buy not on price but on the added value derived from being in partnership with the supplier.
  - The range of contacts is very broad and joint plans for the future are in place.
  - Products and services are developed side-by-side with the customer. Because of their large size and the level of resource which they absorb, only a few customers fall into this category.

Status Customers

- Very important customers (in terms of value).
  - Commit to security of supply and offer products and services which are tailored to the customer’s particular needs.
  - Price is less important in the customer’s choice of supplier.
  - Both parties have some goals in common.
  - The two organisations have made some form of commitment to each other.
  - Invest as necessary in these customers in order to continue the business relationship for mutual advantage, but do not over invest.

Star Customers

- Price is still a major factor in the decision to buy but security of supply is very important and so is service.
  - Spend more time with some of these customers and aim to develop a deeper relationship with them in time.

Streamline Customers

- These customers usually want a standard product, ‘off the shelf’.
  - Price is the key factor in their decision to buy.
  - The relationship is helpful and professional, but transactional.
  - Do not invest large amounts of time in the business relationship at this stage.
Adapted from a model developed by Millman, A.F. and Wilson, K.J. “From Key Account Selling to Key Account Management” (1994)
Key Account Analysis
Business Partnership Process

1. Market / segment selection criteria
2. Defining and selecting target key accounts
3. Industry driving forces analysis

For each key account
4. Client’s objectives analysis
5. Client’s annual report summary and financial analysis
6. Client’s internal value chain analysis
7. Client’s buying process and information needs analysis
8. Our sales history with the client
9. Competitive analysis

Client's Basic CSF Analysis Process

The Applications Portfolio Analysis

<table>
<thead>
<tr>
<th></th>
<th>Strategic</th>
<th>High Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gaining Advantage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avoiding Disadvantage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Key Operational</td>
<td>Support</td>
<td></td>
</tr>
</tbody>
</table>

Our objectives, strategies and plan for T + 3

www.oxlearn.com
## The application portfolio

<table>
<thead>
<tr>
<th>Creating Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic</strong></td>
</tr>
<tr>
<td>Applications which are critical to achieving future business strategy</td>
</tr>
<tr>
<td><strong>High Potential</strong></td>
</tr>
<tr>
<td>Applications which may be critical in achieving future business strategy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Avoiding Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Operational</strong></td>
</tr>
<tr>
<td>Applications upon which the organisation currently depends for success</td>
</tr>
<tr>
<td><strong>Support</strong></td>
</tr>
<tr>
<td>Applications which are valuable but not critical to success</td>
</tr>
</tbody>
</table>

Adapted from Professor Chris Edwards, Cranfield School of Management
The contents of a KAM strategic marketing plan (T+3)

- Purpose statement
- Financial summary
- KA overview
- Client’s CSF analysis summary
- Applications portfolio summary
- Assumptions
- Objectives and strategies
- Budget
<table>
<thead>
<tr>
<th>Plan element</th>
<th>Reference sections</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
<th>Level 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Business issues</td>
<td>Executive summary</td>
<td>Excellent understanding of KAM</td>
<td>Good understanding of KAM</td>
<td>Acceptable understanding of KAM</td>
<td>Weak understanding of KAM</td>
<td>Little or no understanding of KAM</td>
</tr>
<tr>
<td>Presentation</td>
<td></td>
<td>Complete, coherent</td>
<td>Mostly complete, some visible coherence.</td>
<td>Essential components</td>
<td>Significantly incomplete or incoherent</td>
<td>Incomplete and/or includes major contradictions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Addresses key issues</td>
<td>Addresses key issues</td>
<td>No significant contradictions or omissions</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Focused and clear</td>
<td>Clear</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Creative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analyses, esp market map</td>
<td>Section A, outline Section B, customer Appendices</td>
<td>Comprehensive &amp; effective use of tools Valid conclusions drawn</td>
<td>Significant &amp; effective use of tools. Illustrates main points of customer situation</td>
<td>Some use of tools Elucidates key issues facing customer</td>
<td>Little use of tools Does not draw valid conclusions</td>
<td>Little or no use of tools No collusions, poor customer understandings</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deep understanding of customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Objectives</td>
<td>Section C, your plans</td>
<td>Realistic. Connected up with customer situation, customer and supplier strategies</td>
<td>Realistic Connects current situation and supplier strategies</td>
<td>Statement building from current situation</td>
<td>Unclear or not well connected to situation</td>
<td>Not stated, or just sales targets</td>
</tr>
<tr>
<td>Strategy</td>
<td>Section C, your plans</td>
<td>Clearly stated. Targeted. Added value for customer Feasible, clear resource requirement Consistent with objectives</td>
<td>Clearly stated. Targeted. Added value for customer Feasible, clear resource requirement Consistent with objectives</td>
<td>Clearly stated. Targeted. Added value for customer</td>
<td>Strategy simply stated</td>
<td>Strategy not stated, and/or stated strategies are outcomes or actions</td>
</tr>
<tr>
<td>Action</td>
<td>Section C, your plans</td>
<td>12 month development 3 year major action Matched with strategy Thorough measurement framework</td>
<td>12 month development 3 year major action Matched with strategy Focused measurement framework</td>
<td>12 month development Limited measurement framework</td>
<td>Short-term action Measurement is just sales targets</td>
<td>Short-term action No control mechanism</td>
</tr>
</tbody>
</table>
The market understanding process
Blake and Mouton

- The customers friend (1/9)
- The problem solver (9/9)
- Compromise “Method” approach (5/5)
- The order taker (1/1)
- The pressure salesman (9/1)

Concern for customer

Concern for making the sale
The key customer portfolio

Supplier business strength with customer

High

Strategic investment

Pro-active maintenance

Low

Selective investment

Management for cash

Key account attractiveness
Significant differences

Buying companies valued...
- integrity
- Trust

Selling companies valued...
- Selling skills
- Negotiating skills
Developing key account professionals

- Commercial awareness
- Interpreting business performance
- Advanced marketing techniques
- Business planning/strategy
- Finance
- Project management
- Interpersonal skills
The Buyers’ View of Sellers (78%)

- The enemy
- Untrustworthy
- Pushy
- Aggressive
- Manipulative
- Unreliable
- Devious
- Opinionated
- Arrogant
- Poor Listeners
- Big Talkers

Only 18% saw the salesperson in positive terms

Some key findings from KAM research

- Key account management is a strategic activity
- KAM is fashionable, but difficult
- KAM can develop beyond partnership to synergy
- There are mismatches between suppliers and customers
- KAM does reduce costs and improve quality but these are rarely measured
- A key account manager needs far more skills than a sales person
- KAM needs a customer-focused organisation
SECOND EDITION

KEY ACCOUNT MANAGEMENT
THE DEFINITIVE GUIDE

Malcolm McDonald • Diana Woodburn