KEY ACCOUNT STRATEGY & MANAGEMENT PRACTICE GROUP

Discussion Paper

KEY ACCOUNT SERIES

Getting it Right with Key Accounts

The Case for Re-Thinking Your Major Customers

<u>Original 2010 Paper with 2012 Updates</u>

15 minutes Briefing Paper
by
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<u>Synopsis</u>

Doing business with and actually making money from your largest strategic 'partners' has never been more difficult..

Only a few corporations are getting it right.

This Executive Briefing Paper explores what it takes to have large, strategically important and profitable long term customers

THE SMCG KEY ACCOUNT STRATEGY & MANAGEMENT PRACTICE GROUP

Much of the work of the Key Account Strategy & Management Practice Group is grounded in established best practice processes covering all of the core Key Account issues. These best practice processes have been built up over a number of years and continue to evolve as new learning is developed.

Getting it Right with Key Accounts - Executive Summary

Current State

A survey of senior managers from manufacturers, retailers and distributors In Europe and North America in 2009/10 considered their relationships with their major suppliers. [1] Only around 15% of suppliers and their 'key account managers' seem to be getting it right.

Yet around 65% of senior managers from those same or similar suppliers claim they are in the top 25% of best practice! [2]

Most suppliers equate 'key account management' with selling to big customers and a two-day training course. Most suppliers are getting it wrong.

A follow up survey in late 2011/early 2012 suggests that while the proportion of suppliers 'getting it right' has not changed significantly, those that are seen to be 'getting it right' have improved further. In other words those corporations which understand the critical importance of their key accounts and the strategy are seen to be increasingly differentiated from the mass of suppliers.

As a result these better suppliers are gaining a competitive advantage which is enabling them to post good results despite the tough economic environment.

How are we getting it wrong?

The most common errors observed are:

- Failure to identify the very few critical success factors – in other words what must we get right with this Key Account?

- Failure to define specifically what "value" means for the Key Account – and therefore incurring cost without any return

- Failure to measure the true profitability of the Key Account - and consequently taking poor decisions

- Failure to adapt to the Key Account that requires a regional or global management approach

- Failure to engage senior managers from across the business in Key Account strategic planning – assuming Key Account Management means "selling to big customers"

- Failure to understand how the Key Account takes decisions, its strategic plans and needs, how it measures its suppliers and to engage at the highest level

- Failure to create simple effective Key Account growth plans that are endorsed by the Key Account itself

A further issue of failure revealed in the more recent review is that companies are not giving sufficient authority to their account managers and are not prepared to revise their internal processes and systems to accommodate very large customers.

In addition new complaint is that not enough suppliers' most senior managers are engaging with the most important customers. A typical comment concerned with this concern is:

"Of our top 10 suppliers, only 4 CEOs or Presidents want to talk with me on a regular basis"
CEO Fortune 500 Manufacturing corporation USA

Risks of getting it wrong

Key Accounts, by definition, are the most important customers of the company. If you fail with your Key Accounts – you fail.

Companies that fail to address their Key Account strategy properly find that:

- they are increasingly reliant upon price as the primary lever
- they incur costs that deliver little or no value
- they achieve a lower margin
- they struggle to implement their growth initiatives

The follow up review showed that a greater number of suppliers were listing 'price' as one of their most important competitive weapons which is indicative of the tough market and their inability to differentiate their total customer offering and identify real value.

What does it all come down to?

You have to recognise that getting it right with your Key Accounts is fundamental to the long term success of your company

What do we have to do to get it right?

The demands of effective key account management in the 21st Century

We believe that effective Key Account Management makes a number of demands:

1. A clear simple key account strategy driven by the corporate strategy

2. A clear competitive strategy that defines exactly where the growth is coming from and why along with clarity about how value is added to the Key Account
3. Serious attention from the most senior managers across all disciplines
4. A multi-disciplinary team approach – not one KA Manager in working in isolation
5. Recognition that key account management means so much more than selling
6. Very high calibre individuals as Key Account Managers
7. A never ending drive to add real measurable value
8. A ruthless focus on cost reduction
9. A short set of simple common measures of success (key performance indicators)
10. Clearly defined roles, responsibilities and incentives coupled to simple and accepted processes, tools and skills
11. Enhanced knowledge and understanding (as opposed to collecting and storing data)
12. Short simple actionable key account plans supported by regular formal performance reporting

Companies that do this achieve better returns than companies that do not

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Getting it Right with Key Accounts – Discussion of the main points

Current situation - How are we doing right now?

"I'd say right now fewer than 15% of our suppliers are getting it right. But that's not so bad because we have a three year strategy to reduce our global supply base by 75%. You could say the winners are self-selecting."[1]
Purchasing Director – Europe - Consumer Products Manufacturer

"I tell them – we need to improve our margin – they hear – I want a discount – these guys just don't get it"[1]
Senior Buyer – US - Global Retail Group

"Most of the supplier sales managers I see seem to treat all of us like some uniform amorphous blob that have to be sold to"[1]
Head of Purchasing - Pharmaceutical & Medical Products – UK National Health Service

"They told me we had been selected to be a Key Account. The sales guy was now called a Key Account Manager. That's nice. I told them, bad news people – you are not a Key Supplier and you think you are going to manage me? Seriously?"[1]
Purchasing & Supply VP – US Manufacturer

"Most of the people they send haven't got a clue. We murder them. They can only react but really they don't know what to do and they have nowhere else to go. They bitch a bit but they give us what we want Then later I read their President writing in some magazine or whatever that the market is tough and they are making no money. Go figure!"[1]
Senior VP Purchasing – US Industrial Products Manufacturer

"We get manufacturer sales reps calling of course. None of them really do much for our business. I guess there must be lots of way we could work together more. I don't think they really understand us if I'm truthful. Pretty much they just see us as customers to sell to."[1]
VP Business Development – US National Distributor

"Where we are now – that's not for me to worry about. Where we are going – that's what I care about. And our suppliers better care about that too if they want to be our suppliers."[1]
President – EMEA – Industrial Products Manufacturer

Too many managers just don't get it, to paraphrase one of the respondents above.

For many companies, 'Key Account Management' means selling to big companies and sending sales people on a two-day training course. And that is about it.

As a result many companies are under massive pressure to achieve their short term volume and profit targets.

Key Account Management is much too important to be left entirely to the Key Account Managers and it is so much more than just selling products to big customers.

The more recent review showed that more companies are seeing key account management as important. In some market sectors the increase was significant – pharmaceutical for example. However there is still an assumption by too many companies that their needs of key account management can be met by a two-day training course.

What is going on?

The market place has changed. What worked well just a few years ago is no longer effective. But most of us don't like change. We want to stick with want we know; what worked for us before. So for too many managers, key account management means selling to big customers.

In any case most of us do not see any need to change because think we are doing just fine as it is; a study showed that 65% of senior managers believe they rank in the top 25% of best practice performance.[2]

But change is going on whether we want it or not

There are a number of drivers and most of us are familiar with most of them: technology means that information is ready available, real time communications around the world can be free, free trade areas encourage overseas competitors, consumers and users have more information, are better educated and more cynical and have more choice than ever before. There is a production glut. We have more manufacturing capacity than we have demand. Many companies are reducing their capacity.

The customers are responding. It's all about efficiency, speed of response, being environmentally aware, cutting the non value-adding parts of the business, taking out cost, having fewer suppliers, more standardisation as well as more segmentation, dealing with international customers and suppliers, outsourcing.

So what is a 'key account' and why should we care?

For most managers, a key account is just a big customer with a dedicated sales person who gets a new title and a training seminar. Our key accounts are just those big customers we happen to be selling to right now.

For the more enlightened, 'key accounts' are those customers who have a strategic role to play in our growth. So we might have key accounts to whom we sell nothing right now or key accounts that are small or in new markets, as well as the big ones whose loss would have a huge short term impact.

Corporate strategy and key account strategy are inextricably linked

If you accept this view then you have to accept that corporate success and key account success are inextricably linked. If you get it wrong with your key accounts then you get it wrong period; as the British retailer Marks & Spencer currently advertises (albeit for their environmental strategy) – "This is Plan A because there is no plan B".

Customer focus

"But we are customer focused" you might claim. It's no longer good enough. The balance of power has shifted. Customer orientation was fine 20 years ago. Customer focus might have been fine 10 years ago. Now you are customer driven – literally you are driven by the customer.

"But our products are so much better"....like Betamax, New Coke, Arch Deluxe!

"But our brands are so strong – our customers need us". Oh really! The data shows that leading brands are more likely to lose their leadership position over time than retain it.[3,4] Around 80% of new product launches fail.[5]

What are the implications?

Here is a case study from 2009. Imagine you are the Country General Manager of a 100 million Euro business. You make 5 million Euros net profit. Your largest customer is worth 10 million Euros and delivers 2 million Euros of profit. Would you allow a factory manager to spend 2 million Euros without Board approval? Certainly not. Would you want an intimate understanding of the proposed spend and return? Of course. Would you allow a key account manager almost free reign with 40% of your company's profit? Many do. Would you demand an intimate understanding of the customer and ensure that all departments have a strategic input? Few do.

This is what we see as the primary demands of effective key account management:

Key account management demands that the key account strategy is driven by the corporate strategy (and therefore the channel and brand strategy)

You can't have an effective corporate strategy without an effective key account strategy.

The key account strategy needs to reflect the vision we have for the company. The key account strategy needs to be clear about who we must be working with in the future rather than who are we selling to now. The three-year corporate vision is the start for the key account strategy.

Key account management demands a crystal clear competitive strategy

Any growth we get beyond the general market growth is very likely to represent a loss to someone else. This means we must have absolute clarity about where and who are growth will be coming from and why we will win it.

Why should the customer, consumer or user be willing to select us rather than the current supplier?

Key account management demands attention from the most senior managers

If the first point is that your company growth strategy and your key account strategy are inextricably linked then it follows that the most senior members of the management team must drive and be intimately acquainted with the key account strategy.

Key account management is a board responsibility in just the same way as capital investment, market entry and acquisitions.

Key account management demands a multi-disciplinary team approach

Your key account business is so important to your business that it must drive your decisions – right across the business. Effective key account management is far more work and requires far more expertise that one person can ever handle.

To be properly effective you must have a truly integrated multi-disciplinary approach because the decisions you will take impact every department in the business.

Key account management is so much more than selling

To think that key account management is synonymous with long terms customer partnership and profitable growth and can therefore be effectively supported by a two-day training session is hopelessly naive. Not that there is necessarily anything wrong with training. It is simply that you can't hope to equip your managers with the processes, tools, skills and embed the necessary cultural shift in that time.

Key account management demands very high calibre individuals as Key Account Managers

Key Account Managers are more akin to General Managers than to sales people and must have a generalist's approach to the business. A Key Account Manager must be well versed in financial management, product development, supply chain and logistics as well as the more specific skills pertinent to the industry. They must be experts in negotiation and presentation. Key account managers do not even need to be sales people.

Consider this: a large European packaging group promotes Country General Managers to become Key Account Managers. This company is the most profitable in its industry.

Key account management demands a never-ending drive to add value

Added value is one of those terrible cliques in the world of management rather like best practice. Everyone talks about it but few really know what they mean.[2]

The situation today is that the environment is just too competitive to allow us the luxury of doing things that do not deliver demonstrable value.

If we are doing something that adds value then clearly it must be adding value to either us or the customer and ideally both. This means we can identify it and measure it. We can determine just how much value it is adding. If we can't then we have to ask why we are doing it. It is really adding value or is it just something which seems like a good idea or more usually something we have always done.

A further complication is that those things that delivered unique value for us yesterday are unlikely to be unique today. This is because the either the competition has responded and replicated the offer or because the situation has changed.

Key account management demands a ruthless focus on ripping out cost

Closely linked to the idea of a focus on added value is a focus on cost. Too many companies are doing too many things which incur cost and deliver no value.

We must be focused on efficiency and must question all our spend. We must have clarity about where we make money. This means we need an accurate P&L for each of our key accounts. It is only by drilling into the detail of the relationship that we can identify unnecessary cost and eliminate it.

An accurate P&L means just that. A P&L that for example, smears the total sales and marketing cost across customers based on some artificial measure such as their size is worse than no P&L at all because it distorts the real situation. Effective key account management places new demands on the finance department which is often unwelcomed because it upsets the established internal accounting procedures. However it is essential because we need to understand the true cost to serve.

Key account management demands simple and effective common measures

If you can't measure it you can't manage it.

The best measurement is simple and common – we all use the same measures on a regular basis.

Actually measurement is a two-way street. In the same way that we need to know how we are performing, we also need to understand how we are measured by the key account. Most key accounts have formal well established supplier measurement models – the problem is that too few key account managers and suppliers react to them – generally because they don't fit with the supplier's way of working.

Key account management demands new management, bonus and incentives models

It is very likely that the management models that have worked well require changing as a result of the demands of effective key account management. Once again this is a difficult one because it requires significant change to well understood internal procedures and models and we don't like change.

An obvious example is the move away from national account management towards a regional or global account management approach. In this case the responsibility for managing the key account will move to a senior manager operating above the country level. This manager (ideally a key account management team) will be taking pricing, terms and supply decisions that cut across the traditional Country Manager measures such as profit.

Key account management demands knowledge in order to produce effective plans

Without a thorough understanding of the market, the channels, the consumers and users, the competitors and the key account itself, the key account manager stands little chance of success and the plan, the very document that defines how we will achieve the required profit, will be little more than a list of sales targets and one-sided activities.

One of the problems is that companies seem to confuse actionable knowledge with data. Far too many corporations have invested millions in complex CRM and other IT systems with voracious appetites for data which in turn consume huge amounts of time to feed them yet deliver no demonstrable impact in the performance of the key account.

Key account management demands short, simple, actionable plans driven by defined opportunities with regular formal reporting and adjustment

“This company is not short of sales plans. But we are short of plans that are delivering”.

Effective key account plans are short, clear and actionable. They are driven by measurable growth opportunities which in turn are identified from a deep understanding of the market. They are not one sided but incorporate the objectives of the ‘key account’ and performance reporting is regular and direct.

Key account management demands simple and effective processes and tools

The emphasis is on simple. If they are not simple they will not be used. We need simple planning, measurement and reporting systems combined with easy to use tools and ideally pre-formatted documents.

Far too many key account plans assume the size of a telephone directory of a small town and are not plans at all but rather a repository of everything we know about the customer.

Conclusions

Here is the response of the President of a European corporation.

“I guess it is a bad news – good news story. Bad news – right now we are not getting it right but good news – neither are most others so if we can fix it we should have a great advantage.”

The evidence supports the case that there are significant commercial advantages to be found by “getting it right”. These include reducing cost, adding more value, streamlining internal processes and communications as well as having more stable business with the most important customers.

The Scorecard for Success

This is a top line indicative generic Scorecard based upon what the most successful key account teams from different industries around the world are doing. More detailed Scorecards have been developed for each of the core aspects of the key account framework and they are listed in the Appendix.

SUCCESS DRIVER	GENERIC INDICATOR
1 Strategy	A clear three year KA strategy driven by the corporate strategy and objectives
	All senior managers have contributed to the strategy and understand the demands on them
	The strategy is translated into defined actionable plans with measures
2 Profitability	Clarity about the true cost to serve
	Monthly updated P&L for each KA with 'what if' capability planning
	A profit growth plan for every KA
3 Value Added	Clear objective understanding of our 'real' value adding activities
	A measure of the cost/return of the value adding activities
	A defined added value development plan for each KA
4 Systems	Senior managers imitatively involved with key account planning and delivery
	A team approach to opportunity analysis and key account development
	Clearly defined roles, responsibilities and measures for all
5 Knowledge	Common and detailed understanding of the market opportunities and most likely changes
	Common and objective understanding about the competitors and key accounts
	Common simple updated and used IT knowledge system (CRM)
6 Growth Plans	A simple actionable growth plan for each KA
	Growth plans driven by opportunity analysis in turn driven by knowledge
	Defined performance measures with regular formal reporting
7 Communication	Co-ordinated activities driven by common understanding, plans and measures
	Simple communications resulting in a clear common understanding of priorities
	Simple processes and systems minimising administration and maximising effectiveness
8 Negotiation	Well defined goals and likely variables (for both sides)
	Well thought through plans recognising the constraints and demands
	Multi-disciplinary approach to produce long term creative strategy and plans
9 Cross boarder	Integrated regional and global systems and processes
	Integrated business growth plans with common terms and conditions
	Effective team and communication to facilitate overall business development

Best Practice Scorecards

Working with a number of corporations, we have developed a series of Best Practice Scorecards, each focusing on one of the nine core success drivers outlined in the chart above.

This approach enables us to work closely with the senior management team both to define best practice for the organisation and to agree the specific output that is required for the organisation's key account model.

If you would like more information or to discuss the content of this Paper or any other aspect of your business then contact Richard Ilsley at richard.ilsley@smcg.net

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