For those who want to start or finish with the complete helicopter overview, we have compiled all the ‘Fast tracks’ of the essentials of each chapter into this rapid reprise of the content of the entire book. However, to understand more, or to find out what to do about these issues, you will need to read the chapters themselves.

**CHAPTER 1**

*The crucial role of key account management*

For over 15 years, the authors have been researching global best practice in the domain of account management, sponsored by many of the world’s leading companies. The following topics in particular have been the focus of our research:

- **Key account selection**: Only a few selected customers can be included in the key account programme.
- **Classification of key accounts**: Derogatory labels like A, B, C, or gold, silver, bronze should be avoided at all cost.
- **Key account profitability**: The power of customers and their increased purchasing power has led to greater demands on the services of their suppliers. Unfortunately, many traditional accounting systems are incapable of accurately capturing all of the associated costs of dealing with major customers. Consequently, many suppliers are acting in ignorance of which customers make or lose them money.
- **Key account needs analysis**: A deep understanding of the customer’s business is essential to success.
- **Strategic planning for key accounts**: Just as a three- to five-year strategy is essential for any business, so strategic plans for selected customers, signed off by the customers themselves, are also critical to success.
- **Roles and skills of key account managers**: Selling and negotiation skills are no longer sufficient on their own.
- **Other issues**: Information technology, organization structure and internal marketing all contribute to creating successful key account programmes.

The challenges that all organizations face today are:
Market maturity: In most sectors, mature markets have transferred power from suppliers to customers, as suppliers compete for a share of a decreasing number of customers.

Globalization: Market maturity has led to an increasing number of industries in which only a handful of truly global companies dominate the landscape. Hence, any supplier who cannot offer a seamless service in every part of the world where the customer operates will not win the business.

Customer power: With their new-found power, customers are increasingly looking to selected suppliers to give them competitive advantage by product and process development.

All these developments mean that suppliers have to be much more stringent in their key account selection criteria. They must allocate their scarce resources intelligently across their customer base, taking account of the risks associated with different kinds of customers in order to build continuous shareholder value added.

CHAPTER 2

SELECTING AND CATEGORIZING KEY CUSTOMERS

Choosing the customers that your company wants to treat as key accounts ought not to be too hard, certainly when compared with some of the difficult cultural and structural issues that arise from key account management. However, many companies approach the task in a rather casual fashion first time around, and only later realize how many onward decisions are driven by their selection of key customers, and how awkward it may be to unpick inappropriate choices.

The key customers you seek should be those that are aligned to your corporate strategy and will therefore make a major contribution to its achievement. If they do not, who will? So your portfolio of key accounts should contain these customers, and only these customers. If you dilute it with customers with dissimilar agendas, which will not respond particularly favourably to your strategies, you will be unable to demonstrate sufficiently positive results from the key account management programme, and you risk sinking the whole initiative. Undoubtedly, there will be pressures to include unsuitable accounts, but they must be resisted. Counter such pressures by adopting an objective criteria-based process, and applying it rigorously.

Whatever the size of the organization, there seems to be an almost universally appropriate number of key accounts, which is probably between 15 and 35, with 5 and 50 as the outer limits. Certainly, anything with three digits is too many. In fact, the process of selection and categorization starts with deciding, more or less, how many key accounts your company can handle.
The identity of the customer deserves careful attention. It not only determines how the customer will score against the criteria, and hence how much resource it should receive, but it also has implications about how it should be managed. Customers should be identified in their terms, not carved up according to the supplier’s structure, unless it is well matched with the customer’s.

Selection criteria should be chosen and their importance weighted by a senior management group, and then rolled out to be scored to people who know the customer. These criteria are applied to assess the customer’s attractiveness to your company, and the data are then used on the vertical axis of the key account selection/categorization matrix to build a picture of your portfolio of customers.

To complete the picture, you need the customer’s view of you as a supplier, in their terms. Obviously, that will be different for each customer, and you must resist the urge to apply a standard set of criteria on the horizontal axis. If you did that, it would only be a reflection of what you think of yourselves, and would not represent their views and differences at all. You would also, in effect, be saying that these customers are all the same and all want the same things, which is contrary to the whole philosophy of key account management, apart from being patently untrue.

The matrix identifies four kinds of key customers, to which it is appropriate to offer four generic strategies that should guide the specific strategies that are developed for each customer individually:

1. Star key customers – investment for growth
2. Strategic key customers – strategic investment
3. Status key customers – proactive maintenance

The systematic assessment approach described in this chapter enables suppliers to build a portfolio view of their customers that drives many further insights, decisions and expectations about them, which is much
more realistic and powerful than the key customer lists that many suppliers use. We will refer to it frequently in the rest of this book.

CHAPTER 3

Relationship stages

Key account management (KAM) is very much concerned with managing the relationship with the customer, but remember that the relationship is a means to an end, that is, business development, and not an end in itself. Nevertheless, it is important to understand these relationships, which vary from simple, transactional forms to intimate and complex liaisons. There is a distinct hierarchy of relationship levels which describes the progression from the simple trading stage right up to a configuration that is only a short step away from a merger. Whatever level of relationship is reached, the requirements for efficient fulfilment of basic transactions remains, although a good relationship might allow a greater period of tolerance and assistance with poor performance than a simple, easy-to-exit relationship. Ultimately, however, a customer will have to buy from the supplier who gives them the offer they need, however good the relationship.

Both the key account manager and the supplier organization need to know what kind of relationship they have with each customer, and therefore what they can and cannot do with it. Suppliers generally have delusions of intimacy with the customer, and believe that they are one stage closer than the customer does. Since the essence of a relationship is reciprocation, then the supplier can only work with the level of relationship that both parties agree on.

**Exploratory relationships**

Suppliers need to recognize potential key accounts from the outset and treat them as such. The bigger the customer, the longer it takes. Be prepared to be patient and manage internal expectations. Monitor the signals sent out rigorously.

**Basic relationships**

This simple, transactional relationship has benefits of efficiency, clarity and resource control alongside its disadvantages of vulnerability to competition, fragility to change, potential for bias, limited understanding of each other and limited opportunity.
**COOPERATIVE RELATIONSHIPS**

To be regarded as a transitional stage, this stage is hard to control and likely to be losing money. It may be a necessary rite of passage, but not a stage to prolong. Key account managers are still ‘out in the cold’ and ‘in the dark’, and the supplier is not yet trusted, so the more positive feel has yet to be translated into real advantage.

**INTERDEPENDENT RELATIONSHIPS**

This is the stage to which suppliers developing KAM normally aspire with the right kind of customer. These relationships involve trust, much more exchange of information, proactive strategies based on a much deeper understanding of the customer and opportunities for joint strategic planning leading to substantial business growth.

**INTEGRATED RELATIONSHIPS**

These relationships are just short of a merger. Boundaries between the two companies are dissolved, since a high degree of trust eliminates the need for protection. *Integrated* relationships are few in number because they take a lot of dedicated resource, are not easy to put together, and tend to repel other customers in the same marketplace.

Even close relationships do not necessarily last forever, although there are some that have worked for decades. Disintegration may be driven by changes in the ownership or market position of either company, or by the supplier’s failure to develop the relationship. Ultimately, the supplier has to be able to offer the customer what it wants, so a relationship, however good, cannot compensate if the supplier’s product or service fails to meet the customer’s needs.
CHAPTER 4

DEVELOPING KEY RELATIONSHIPS

Most companies embarking on key account management (KAM) are hoping to develop their customer relationships. We hope you will do so having first decided, very carefully, which ones are suitable for development – because some are not.

But what does deciding to develop a relationship mean? How do you know where to start? Charm has very limited leverage in corporate purchasing today and, indeed, the procurement department will make sure that it does not count for much. If you want to be a key supplier, much more tangible value is expected.

In fact, the way to a customer’s heart is through its business – not your business. As a minimum, the customer expects its key suppliers to understand:

- Its marketplace
- Its strategies
- What its customers want
- How it adds value in its business
- Where it makes its money.

There are no shortcuts that are likely to last, so Chapters 7 and 8 give you a systematic process to gain the deep customer understanding you need, plus a process to help you come up with strategies that add value to the customer’s business. Added value (for the customer, not necessarily for you) is what gains commitment. Your company is expected to bring an ongoing stream of value propositions to the customer, and you cannot possibly do that without a real understanding of what adds value and why, where and when.

Customers classify suppliers according to the potential they have to bring value to their business, in terms of the supply-side market risk and their purchasing power. If what you have to offer is, in the customer’s eyes, a commodity product delivered in a commoditized way, you are wasting your time trying to build a relationship. What would they gain? Customers, like suppliers, have a limited capacity for intimacy, and they will use what capacity they have where it gives them most advantage.

Given a strong foundation of customer understanding, relationship development can be accelerated through doing a good job of mapping the people inside the customer who matter to you, and deciding with whom you want to have your relationships. You should also decide who, in your organization, will be the ‘owner’ of that relationship – no key account manager can or should ‘own’ them all. Rather, it is the key account manager’s job to encourage and build a balanced set of relationships from top to bottom of both organizations, supporting the
supplier’s staff in working out strategies to help their counterparts in the customer organization. Rather than responding to purely personal needs, ideally, they will be adding value to the contact’s working life and area of the business, which is a more robust way to build a relationship anyway.

Many people seem to believe that relationships ‘just grow’, but if you have good business development strategies and adopt a process of applying them through good relationship development strategies, you should really be a winner with your customers. Try picking the features of an interdependent relationship and working on those alongside your business development strategies. The synergistic effect of the two together should give the relationship and its outcomes some real acceleration. Having achieved the relationship your company wants, there are a few traps to be avoided. They may seem obvious when simply stated but, sadly, they appear quite frequently:

- complacency
- lapses in integrity
- leaking profitability.

Relationships with key customers can and should be developed with purpose and with process (see Chapter 9). These relationships are too valuable and too risky to leave to any less focused approach.

**The Buyer Perspective**

As buying companies seek new routes to competitive advantage and value for their customers, they now look to key suppliers to help them. Naturally, customers are far more likely to act according to their own perceptions and aspirations than to any view or objective that selling companies might wish to impose on them. A buying company has its own set of strategic decision support tools to help it select the suppliers who are important to the fulfilment of its aspirations.

First, a selling company needs to understand whether it has the opportunity of being a key supplier. The chances are small if it is one of many competitors, or it is in a weak position relative to the customer, or it supplies a product or service which does not contribute to the customer’s critical path. If analysis reveals that this is the selling company’s situation with this customer, the supplier should look elsewhere for its own key relationships or possibly reposition itself through developing its offer. It should not waste money and effort on trying to develop a relationship that is unlikely to succeed and bear fruit.

At the same time, the supplier should decide what this customer can contribute to its own strategic objectives, using the methods described in the following chapters. These methods require an in-depth
understanding of the customer’s situation, needs and strategies and, indeed, successful key account managers are those who really know how their customers operate and why.

Generally speaking, only if buyer and seller strategies are complementary in terms of products, their approach to business and to the relationship between them will it be possible to develop the relationship beyond a fairly simple level towards an interdependent or integrated stage. However, if all these elements are in place and closer involvement is achieved, the flow of benefits to both parties can be very exciting.

At less-developed stages of the relationship the cost of nurturing the relationship can easily outweigh the benefits. The range and extent of cost savings increase on both sides as trust between the two parties grows and barriers are reduced. In some situations, reducing risk by working with a known partner can allow costs to be cut, for example by eliminating duplication of processes. In other situations, reduction of costs may increase risk, for example by moving to just-in-time supply and eliminating buffer stocks. Clearly, reduction of costs and reduction of risks are closely linked and need to be managed jointly from a foundation of a thorough understanding of the partner and its concerns.

Trust is a mediator through which most interactions pass and activities will be interpreted. Care should be taken to manage the partner’s perceptions, as reserves of trust may be crucial in carrying a supplier through any difficult patches in performance or in the relationship. In the end, powerful customers still call the shots.

CHAPTER 6  KEY ACCOUNT PROFITABILITY

Marketing as a discipline has failed during the past 60 years by concentrating on promotion rather than on developing world-class marketing strategies. The result is that in most companies, marketing has been relegated to running promotional campaigns and designing T-shirts and does not deserve a place at the high table, that is, the Board of Directors (McDonald, 2009).

The result of this sad lack of marketing leadership is the demise of many of our erstwhile famous organizations. Most of the highest earning return on investment plcs during the decade up to 1990 have gone into liquidation or were acquired in desperate circumstances, while many of the leading companies in different sectors up to 2000 also got into financial difficulties or were acquired.

At the time of writing, it is too early to complete a comparable analysis of performances of top companies for the first decade of the twenty-first century, but even a cursory glance at what happened in many of
the world’s top financial institutions such as Lloyds Banking Group, Lehman, Merrill Lynch, AIG, Freddie Mac et al., is sufficient to indicate that things have not improved.

All of this happened against a background of three major challenges that industry was facing during this period and still faces – market maturity, globalization and customer power.

The most dramatic challenge has been the massive shift of power to customers away from suppliers. Today, customers are destroying old make/sell business models, while technology has empowered customers to have more information about their suppliers than they have about them. Meanwhile, a new wave of business metrics and new pressures from institutional shareholders to report meaningful facts about corporate performance, combined with demands from other stakeholders for exemplary corporate behaviour, have resulted in a need for strategies other than downsizing and cost-cutting as a route to increased profitability.

Never before has the need for real marketing professionalism in relation to key account management been greater.

This raises the question of what marketing is. It is a function, just like finance, with its own professional institute and body of knowledge. The challenge is to understand the needs of customers, then to formulate strategies for meeting these needs in a way that enables the company to create long-term net free cash flows which, having taken account of the associated risks, represent a financial return over and above the cost of capital, thus creating shareholder value. This strategic imperative is quantitatively measurable using the body of existing marketing knowledge and CEOs must demand of their chief marketing officers that their strategic forecasts for their key account performances are subjected to the same rigorous due diligence as other initiatives, such as acquisitions.

Some key accounts will inevitably reduce shareholder value, but providing these are managed to increase net free cash flows and to reduce risk, this is acceptable. Overall, as long as the aggregate of the net forecast value from all key accounts is positive, having taken account of the risks and the cost of capital tied up in servicing them, then it is possible to prove to the Board and to shareholders that the key account performance is creating shareholder value continuously.

**Key Account Analysis**

Correct market definition and market segmentation are essential prerequisites of successful key account management. A market is the aggregation of all goods and services that can satisfy a particular need or set of needs. Drawing a map of how goods and services flow
through the value chain helps a key account manager understand the customer’s business, as well as revealing ways in which you may be able to add value as a supplier.

Market segmentation is the process of breaking a market down into smaller groups of customers who share the same or similar needs. It is important at two distinct levels. First, key accounts in one segment may have different needs from those in another segment. Second, understanding how your customer’s market is segmented provides much potential for helping them to succeed.

The total process of preplanning prior to producing a strategic plan for your customer is shown in the following diagram.

Steps 1, 2 and 3 should, ideally, be completed centrally to avoid duplication of effort by key account managers. Step 3 is about understanding in depth the forces that are being brought to bear on competitors in an industry. These are: customers, supplies, substitutes, potential entrants and, of course, industry competitors. A PEST analysis (political, economic, sociological, technological) is also an extremely useful way of understanding more about the customer’s trading environment.

Each key account manager can now use this information to delve further into each customer’s specific business processes. This includes understanding the customer’s objectives and strategies, their financial ratios, how their business processes work, their buying processes, their sales history and their dealings with competitors.

One extremely useful vehicle for summarizing much of this is the traditional SWOT analysis (strengths, weaknesses, opportunities
and threats), completed as if it were the customers themselves completing it.

All the CSFs (critical success factors) for the customer can now be sorted into those categories that merely help them to avoid disadvantage and, crucially, those that can create advantage for them, for clearly it is this latter group that will encourage a key customer to prefer dealing with you rather than with one of your competitors. You now have everything you need to approach the customer with your proposals for how you can help them increase sales, reduce costs, avoid costs or add value in other ways. They are usually so impressed that they are prepared to give you additional confidential information. You are now ready to prepare a strategic plan for the customers.

**Planning for Key Accounts**

Marketing planning is a logical sequence of events leading to the setting of marketing objectives and the formulation of plans for achieving them. The sequence is:

1. Mission statement
2. Set corporate objectives
3. Conduct marketing object
4. Conduct SWOT (strengths, weaknesses, opportunities and threats) analyses
5. Make assumptions
6. Set marketing objectives and strategies
7. Estimate expected results
8. Identify alternative plans and mixes
9. Set the budget
10. Establish first-year implementation programmes.

The plan itself contains:

1. Mission statement
2. Financial summary
3. Market overview
4. SWOT analyses
5. Portfolio summary
6. Assumptions
7. Marketing objectives and strategies
8. Forecasts and budgets.
All companies need to have a longer-term (strategic) marketing view as well as a short-term (tactical) marketing operation. Often the most potent short-term tactic is the use of the salesforce. These can combine as shown in the matrix alongside.

From this it can be seen that being good at implementation of the wrong strategy can lead to a very quick death!

Exactly the same philosophy must be applied to planning for key accounts, as sophisticated customers will only build integrated relationships with suppliers who understand this business and can help them to increase sales, reduce costs, avoid costs and create value for them on a continuous basis. As this involves committing resources to such suppliers, they insist on well-researched strategic plans which are agreed jointly.

Even in cases where suppliers do not enjoy integrated relationships, it is still essential to prepare strategic plans designed to capture the inherent value planned for customers.

In this chapter a template is provided for preparing a strategic plan for a key account. Finally, a format used by customers for preparing strategies for their key suppliers is provided.

CHAPTER 9  PROCESSES — MAKING KEY ACCOUNT MANAGEMENT WORK

Today, the delivery of superior customer value is as much about a company’s business processes as it is about the core product or service, and yet implementation gets nothing like as much attention as it needs. If something has to be done more than once, and almost everything does recur, then there should be a process for doing it. A process can even be mapped for relationship development and, indeed, relationships might develop a lot faster if such a process were followed.

A process may be defined as ‘A continuous and systematic series of actions performed in a definite manner directed to some end’. It should represent the most effective and efficient route to converting inputs into outputs. Suppliers’ processes are generally designed to deliver to many customers in a standardized, replicable manner, which is good for costs but often not good for key accounts. Start by ‘auditing’ your processes to see which perform well for key accounts and which, from their point of view, are too slow, inflexible,
unreliable, opaque, uninformative, uncosted and unsuitable for integra-
tion with the customer’s processes.

While, at first sight, you may think that there are only a limited num-
ber of processes which impact on key customers, on closer examina-
tion you will see that there are far more. They can be divided into:

- **strategic** processes that involve senior management, to which key
  account managers contribute,

- **strategy realization** processes that add value to the supplier and
  customer through realizing the agreed strategy, with which the key
  account manager spends most of his or her time, and

- **operational/transactional** processes concerned with the delivery of
  what has been promised.

The key account manager plays a different role in each and has different
levels of ‘ownership’ of the process. For example, key account
managers need to understand operational processes and be alerted to
deviations from expectations, but should not be part of the daily
machinery or they will never do anything else.

Each process should be broken down into its component steps, and the
role of the key account manager and others identified at each stage.
This exercise demonstrates how the process works, and also builds up
a picture of what their job should be.

Senior management is responsible for a number of processes in suc-
cessful key account management, and if they are not aware of that at
the outset, the requirement and the means to fulfil them should be
identified for them at an early stage. The key account manager’s role is
mostly provision of information to these processes, so he or she needs
to be aware of them, how they work, and what should be contributed.
The strategic processes include:

- Selecting attractiveness criteria and key customers
- Managing the customer portfolio
- Considering implications of customer strategies
- Incorporating account plans in business planning
- Allocating/prioritizing resources
- Assessing and managing risk to the company
- Sponsoring key customers
- Coordinating across boundaries
- Enabling organizational learning.

Key account managers have another set of processes with which
to work. ‘Developing’ occurs frequently in this list, because their job is
to add value to both organizations by managing change:
434 Key Account Management

- Analysing key accounts, developing strategy and planning
- Developing relationships with customers
- Developing business, capturing opportunities
- Selling and negotiating
- Pricing
- Developing new products
- Customizing products and service
- Managing the product mix
- Developing marketing programmes
- Developing the supply chain
- Developing transaction handling
- Providing customer training
- Developing internal relationships
- Providing information.

Below is a simplified list of operational processes, which run day in, day out. Key account managers, whether they like it or not, are held responsible by the customer for the delivery of what they have promised, so they need a process of two-way communication with operations by which they can brief operations with information they get from the customer, and operations can brief them as appropriate, about good and poor performance.

- Selling
- Processing orders
- Manufacturing/operations
- Servicing customers
- Delivering to customers
- Collecting payment.

A good deal of sales activity belongs at this operational/transactional level, and may be carried out by the field salesforce or telesales, rather than the key account manager.

CHAPTER 10

THE ROLE AND REQUIREMENTS OF KEY ACCOUNT MANAGERS

In order to determine the role of key account managers, suppliers first need to ask themselves what they intend the role of key account management (KAM) itself to be. That should decide what its ‘agents’, the key account managers, have to do. The objectives
for KAM and the route to achieving them should be worked out in some detail.

Normally, the prime driver will be the marketplace and leading customers in it, so the company should have a view on how KAM will work from their point of view. Specifying the role that KAM plays in the supplier’s strategy is of the greatest importance, and one often underestimated or misunderstood. Initially, KAM is about making reciprocated commitments to customers, but that quickly needs to be followed by fulfilment of those commitments, so companies should anticipate the issues in operations and adapt. In fact, they will find that adaptation means changing the organization and culture, as well as plans and processes.

The question then arises of ‘who does what?’ Obviously, key account managers are responsible for a great deal of the activity, but the company is also responsible for supporting them, by providing resources, communicating organization-wide, tackling barriers and making decisions that are beyond the remit of the individual.

The scope of the KAM initiative will highlight the breadth of the key account manager’s role. At the simplest level, the key account manager has two roles: implementation of a business strategy with the customer, and facilitation of that implementation through building the relationship. The relationship is not an end in itself, but should be employed to create and implement strategies that will develop business with the customer. These two roles go hand in hand: success requires both.

Exactly how the key account manager plays these roles depends on the nature of the customer and the overall strategy allotted to it. Streamline customers allocated a ‘manage for cash’ strategy should receive different treatment from strategic or star customers, so the key account manager’s role must be adjusted accordingly. The first require a tough negotiator who will need to manage costs and operations rigorously, while the latter require someone to create a vision of the future and work to make it happen.

The key account team, however, can take on part of the role. The team can apply its expertise to fulfil some elements, though some, like team leadership, cannot be separated from the key account manager. Unfortunately, key account managers’ experience of team-working is often very limited, and they make poor team leaders unless they receive proper training and support for this part of their role. To make matters worse, the members of the account team normally do not report directly to the key account manager, but still remain within their function or region. Nevertheless, the key account team should be an ongoing group of people committed to the same objectives for the customer’s business, not a project team or other transient group of people. Important customers expect team support and increasingly are getting it from suppliers.
Generally, there are two key account teams that exist simultaneously: the head office, cross-functional team, which is concerned with current delivery of commitments to the customer and also with how to adapt and develop new value; and the regional sales team, which supports customer strategic business units (SBUs) in the field and applies the deals agreed centrally.

Such a broad role demands a wide range of competencies and attributes. Regrettably, in many cases, suppliers have automatically appointed senior salespeople to the role without considering the competencies needed, and then found later that a substantial proportion of them do not have and are unable to acquire them. Indeed, ‘selling’ is a comparatively minor part of the role, and not one that should be used exclusively for determining the right people for the job.

To make appropriate appointments, suppliers should ideally start by establishing an ‘inventory’ of their key customers categorized into four types according to the strategy selected for them. Clearly, customers should be managed by a key account manager who is suited to applying the strategy selected for each of them, i.e. an ‘entrepreneur’, ‘business manager’, ‘customer manager’ or ‘tactician’. Once the supplier has assembled its customer inventory, it can see how many of each of four types of key account manager are needed.

Different competencies and attributes are demanded by each of these roles, although they also have some in common. Competencies are defined as behaviours required to achieve high levels of performance, whereas attributes are more about the way people think and the values they hold, though they also affect behaviour. Attributes are harder to learn and to change. The competencies and attributes that relate to each of the four roles have been worked out, so that individuals can be profiled and matched to the role they would perform best. Such an approach can be used as a foundation for a conversation with the key account manager to discuss how he or she can develop to achieve personal and organizational objectives, now and in the future.

CHAPTER 11 PERFORMANCE AND REWARDS IN KAM

Clearly, performance is a crucial issue in KAM, or any business initiative for that matter, but what kind of performance, and which or whose performance, is not at all clear in many conversations. In this chapter we look at different kinds of performance, and their measurement, divided into two types: either based on results or on behaviour, and considered at the level of the key account; the key account portfolio; and/or the key account manager.

At the level of the key account, expectations of performance need to be adapted to take account of the position of the key account in
the selection/categorization matrix (see Chapter 2). A range of results of outcome-based metrics gives a more balanced view of performance than just sales revenue or even customer profitability, such as:

- Sales revenue
- Customer profitability
- KAM input
- Customer retention
- Business extension
- Risk measurement
- Shareholder value
- Customer satisfaction
- Customer attractiveness:
  - Relationship.

For the key account portfolio as a whole, which can also be equated to the performance of the KAM programme, senior managers should be looking at higher level metrics such as:

- Profit
- Return on investment
- Asset value
- Risk
- Opportunity.

The performance of key account managers can be evaluated by the results of the accounts they manage, or by their behaviour. Suppliers are often concerned about the behaviour of their key account managers and recognize the major impact it has on the outcomes from the key account. Key account managers can reasonably be held accountable for their behaviour, but there are intervening factors originating in both the customer and supplier that also have a substantial impact on the outcomes – strategy changes, launching new services, delay in launches, product availability, etc.
Suppliers often have reward schemes traditionally aimed at incentivizing short-term sales, and there are many reasons why they need to change to align their schemes with KAM and with the performance they seek. They must be clear about the purpose and the practicalities of any scheme they devise, since most have negative as well as positive effects, and both sides should be fully understood and assessed before they commit. Sadly, the quality of line managers seems to be a serious limitation on the schemes that can be used: often the scheme is selected because managers will find it easy to apply, rather than because it will be powerful; appropriate to the individual customer and/or key account manager; and drive the right behaviours. Companies can use a variety of rewards, and may use a mix:

- Cash bonus
- Salary increase
- Recognition through non-financial rewards.

The main questions a supplier has to answer when setting up a reward scheme are ‘What is to be rewarded?’ and ‘What is it to be rewarded with?’ Then the ‘architecture’ is constructed from nine elements:

1. Objectives
2. Participants
3. Compensation balance
4. Performance
5. Reward
6. Rates and targets
7. Measurement
8. Timeframe

Targets probably cause the biggest problems and side effects, and are the most difficult to get right, so it is worth thinking about whether they are really necessary. Indeed, reward scheme issues can be so difficult that it is worth thinking about whether key account managers should have a reward scheme – most of the rest of the company works without one, after all.

CHAPTER 12 ORGANIZING FOR KEY ACCOUNT MANAGEMENT

Key account management (KAM) is essentially a boundary-crossing initiative. Many of the benefits accrue from crossing boundaries, whether they are internal ones or those in the customer’s organization.
More interesting and powerful propositions with hard-to-match competitive advantage can be achieved by integrating offers from different parts of the supplier organization.

Substantial growth can be won by developing business with new parts of the customer’s organization.

Companies need a clear organizational structure, understandably, especially as they become bigger and more complex, but the structure should be used positively to enact the company’s strategy, not to frustrate it. Any structure has its advantages and disadvantages, which can be offset by a genuine will to work across the structure, whatever it may be. Unfortunately, structures and their boundaries are often reinforced by a culture of ownership and defence of a territorial power base, which is not helpful in KAM. Suppliers need to be aware of how the structure can operate to produce ‘blind spots’, such as an inability to aggregate customer information that will obscure the identity of potential key customers; the ways in which they are organized; and how they make their decisions.

The supplier’s structure is not the only consideration in deciding how to organize for KAM. Obviously, the customer’s structure must be taken into account as well. For example, whether the supplier is a global or local organization, and whether its customer is global or local, produces a number of different forms of KAM.

In a traditional, country-based organization, the key account manager and hence the customer is several layers away from the top of the company, so communicating their strategies and gaining attention for their needs at a high level is very difficult, and not what key customers expect if they have been invited to participate in a strategic relationship. This form of organization also makes the management of key customers as a portfolio more or less impossible. In fact, if there is no clear process which brings them together in the same framework and authorizes the same person or people to make decisions about them, then portfolio management is not happening.

The ultimate form of organization for KAM is a central unit which has its own resources, with a director of key accounts who reports direct to the main Board rather than a national or divisional Board. Key account managers in a central unit should have the authority to make central or global deals, albeit in consultation and with a defined approval process. In all forms of organization, however, the local company or region will have to support and service the deal on the ground, so it is always important that they back it. Successful suppliers employ various mechanisms to deal with this tricky issue.

In fact, it is the company’s targets that are often responsible for many of the conflicts that arise between different parts of the organization. Suppliers that can properly align their targets will avoid many of the problems frequently encountered in KAM, just by resolving that single issue.
KAM is not an easy or simple business initiative: it involves extensive organizational and cultural change, and will undoubtedly take time to implement and overcome the inevitable resistance. However, strong internal and external factors, particularly customer demand or customer defection, drive suppliers to adopt the approach. Bringing all key stakeholders in the company to the same understanding of what KAM is and what it is not constitutes an important first step, because many companies think that they are already doing KAM when, in fact, it is account management or even thinly disguised selling in reality.

Working with experienced practitioners in large companies, we identified five stages of KAM development, culminating in best practice:

A. Scoping KAM
B. Introducing KAM
C. Embedding KAM
D. Optimizing value
E. Best practice KAM

This chapter describes the first four phases, since the rest of the book is focused on best practice. In each phase, decisions and action will be required around:

- Strategy and planning
- Organization and people
- Processes
In Phase A, Scoping KAM, the supplier needs a champion to research KAM and what it would look like in the company. The champion appoints a team, if possible, to help with the considerable amount of work that it takes to collect the information, especially from external sources, and to construct a business case for KAM. The case will never be as strong as the company would like, because it has to cover a wide-ranging initiative whose extent is uncertain, and predict outcomes beyond five years. Nevertheless, the more issues that are brought to the surface at this point, the fewer unpleasant surprises the company will get. For example, adopters should know that KAM regularly takes two years to introduce and considerably longer to become really operational, although small and medium companies with very strong commitment and dedication to the change may be able to move faster.

Phase B, Introducing KAM, can be a chaotic period, which can be mitigated by anticipation and coordination which would prevent wasted costs; premature and unsupported promises to customers; and internal confusion and non-cooperation. Building capability, particularly in key account managers, needs to occur neither too early nor too late, but be closely followed by launch and roll-out. Suppliers often make the serious mistake of appointing all their senior salespeople as key account managers, only to discover the pain of unpicking that decision later when they realize that a majority will not make the grade. KAM teams should also be appointed at this stage: too many companies delay this commitment, resulting in disappointed and even cynical customers.

Phase C is where the company really begins to operate KAM. It should learn from the launch and make early adjustments where necessary, especially working on the quality of some of the elements that were kicked off during introduction, but are not yet really fit for purpose. For example, strategic account plans should have been produced in Phase B but, typically, they are incomplete, lack explicit strategies, are operationally focused and only cover a one-year period at this stage. They should be upgraded to a three-year view with a strong push towards better insight, more strategic content and more clarity on resource requirement. Key account selection and categorization criteria should also be improved to ensure that they identify responsive and productive customers, not just large ones. Process development becomes a major focus, to operationalize KAM as far as possible without removing the flexibility and adaptability that KAM also requires.

Arrival at Phase D, Optimizing value, can be assessed by a quick litmus test for the company and another for key account managers. At this point the supplier can truly be said to be operating KAM, but there are still developments which will make the company genuinely key customer centric, and comfortable in so doing. Phase C should include a thorough review of the way the company operates KAM and the opportunities for gaining even more from the approach: some
companies become stuck in their suboptimal ways and are overtaken by others. For example, all senior managers, not just sales and commercial, should vocally and visibly recommit to KAM and proactively explore ways in which their functions can better serve key customers, rather than trying to force KAM to adapt to functional priorities.

Eventually, when the supplier’s worst fears about working more closely with key customers have proved unfounded, and it has successfully negotiated riskier areas and gained positive outcomes, the company can embark on making the deeper changes it was unwilling to implement earlier.

With confidence in its own experience of KAM, suppliers can achieve best practice KAM through whole-heartedly embracing the concept of the importance of key customers.

Now you should have a good idea of the whole content of the book, either to whet your appetite before reading it, or to remind yourself of the entirety of what you have just read in much greater depth. Try reading it again at a later date.