The theory of Key Account Management

For AKAM Diploma students

Dr Diana Woodburn
BSc, MSc, MBA, PhD, FCIM

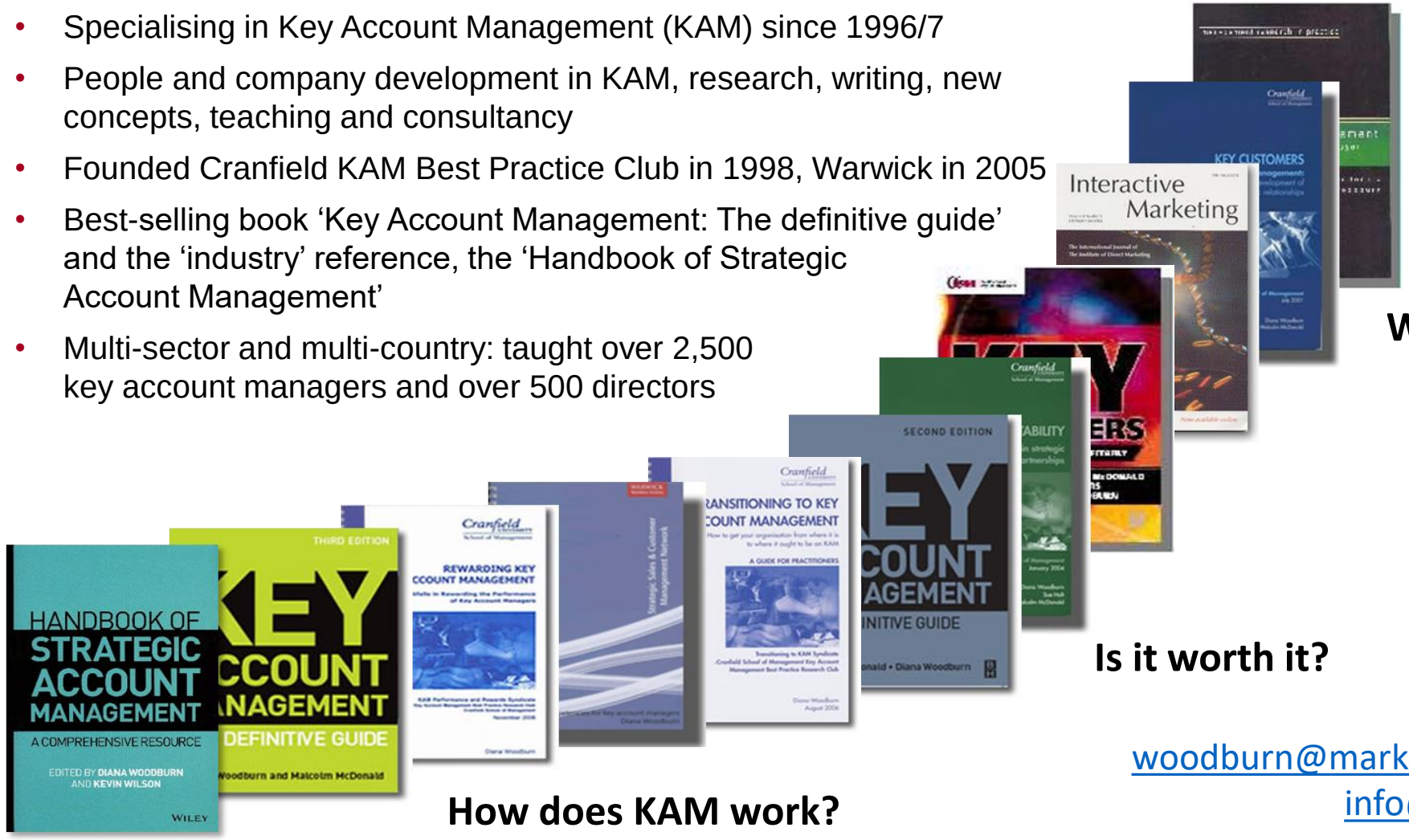
AKAM
The Association for
Key Account Management

The Association for
Key Account Management

Dr Diana Woodburn & KAM

a4kam.org

- Specialising in Key Account Management (KAM) since 1996/7
- People and company development in KAM, research, writing, new concepts, teaching and consultancy
- Founded Cranfield KAM Best Practice Club in 1998, Warwick in 2005
- Best-selling book 'Key Account Management: The definitive guide' and the 'industry' reference, the 'Handbook of Strategic Account Management'
- Multi-sector and multi-country: taught over 2,500 key account managers and over 500 directors



What is KAM?

Is it worth it?

How does KAM work?

woodburn@marketingbp.com
info@a4kam.org

Content of this session

1. Defining Key Account Management (KAM)
2. Key Account selection and categorisation
3. KAM relationships
4. Value creation and strategic account planning
5. Implementing KAM
6. The Key Account Manager job

1. Defining Key Account Management

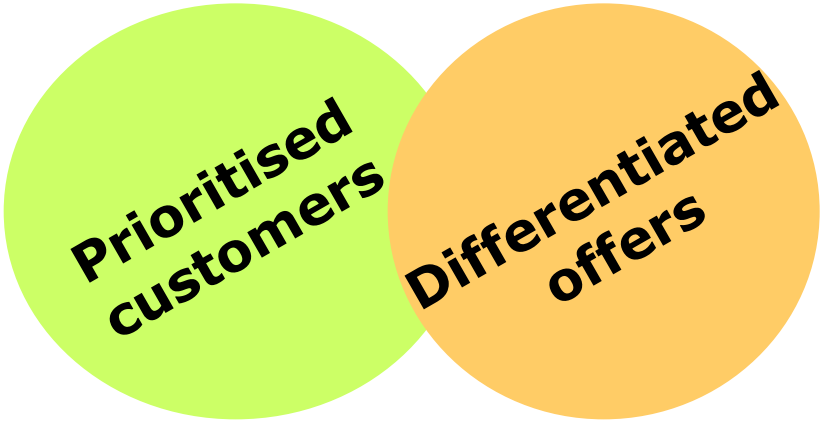
KAM definitions

An integrated approach to the profitable development of individual customers of strategic importance to the supplier

Building close relationships between the supplier and customer organisations that add superior value to the customers' businesses as well as to yours.

A process of growing, managing and harvesting the supplier's strategic customer assets.

Who gets KAM?



What do they get?

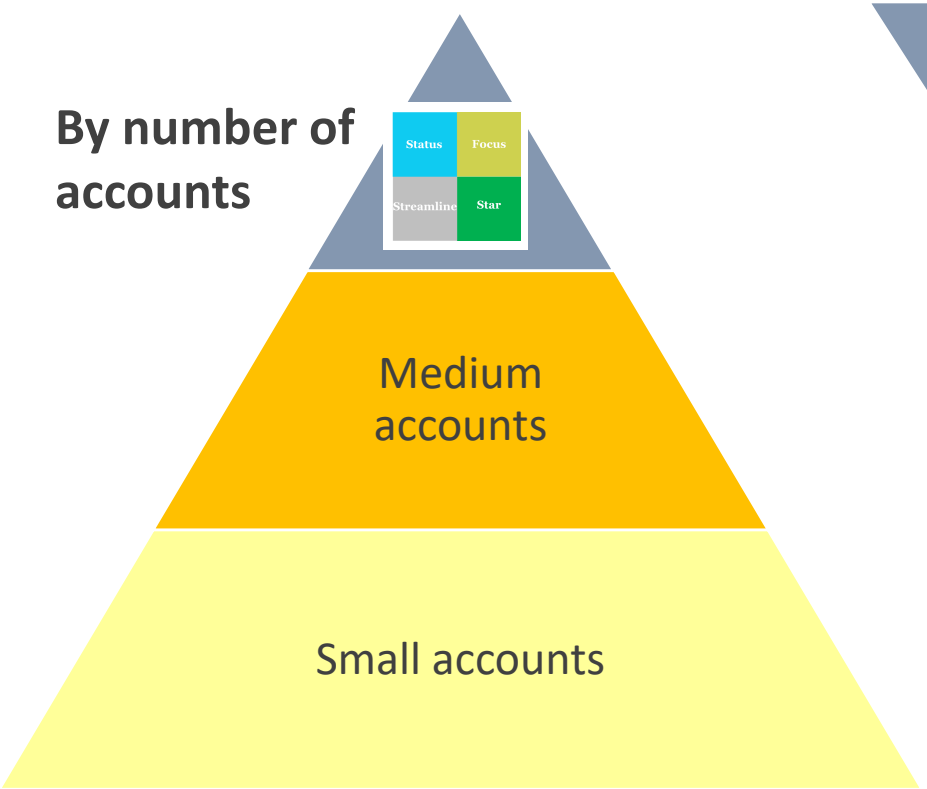
Complete KAM definition

- A supplier-led process of inter-organisational collaboration
- that creates value
- for both supplier and strategically important customers
- by offering individually tailored propositions
- designed to secure long-term profitable business
- through the co-ordinated deployment of multi-functional capabilities.

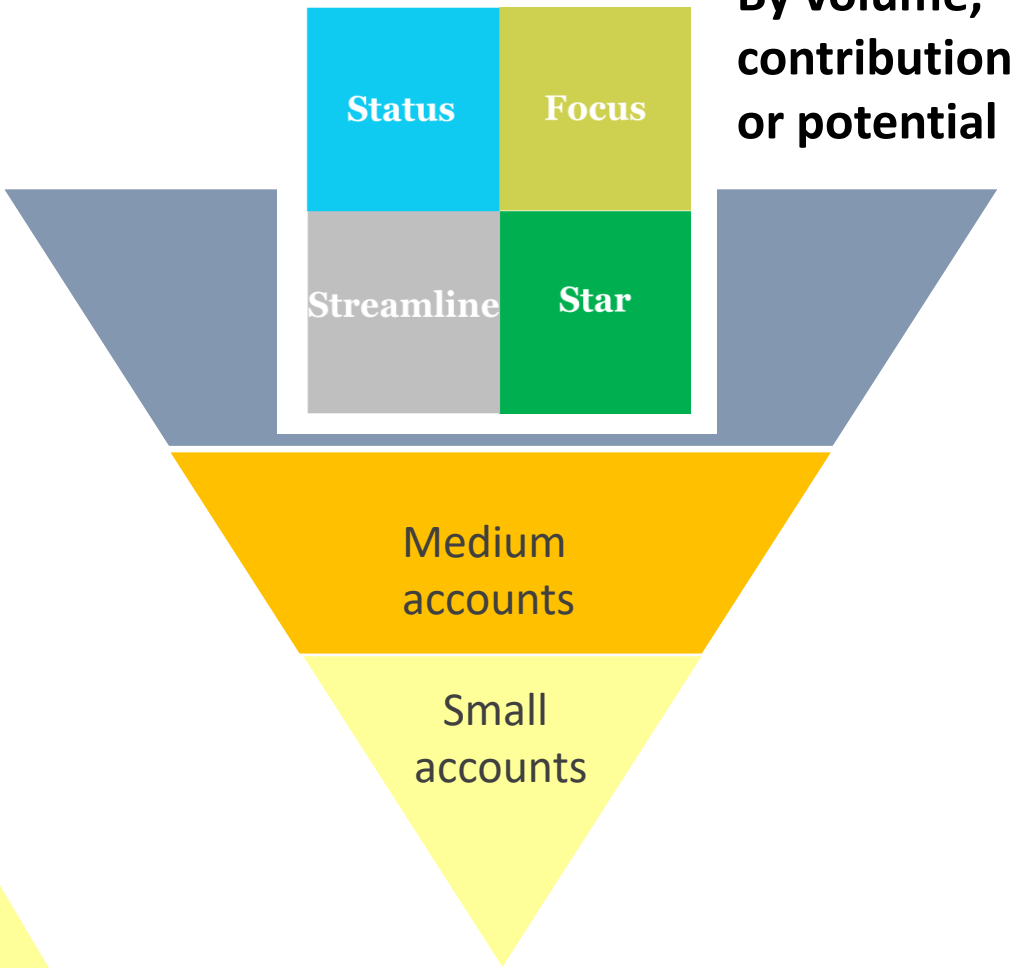
Woodburn & Wilson
Handbook of Strategic
Account Management, 2013

Who is a Key Account, who gets KAM?

By number of accounts



By volume, contribution or potential



Difference between AM and KAM

Account Management	Key Account Management
Business as usual	Managed for growth and change
1 year supplier strategy-led action plans	3-5 year complete strategic business plans unique to customer, closely aligned with custo ategy*
Works within normal organisation	Corporate responsiven engagement an
Good business	Substan
No investment or not much	Readines
Coordinated approach to account	Holistic, hel customer
Necessary relationships	Many, multi-level, mu relationships
Opportunity-focused understanding	Deep understanding of customer's business
Requires Account Manager	Requires Key Account/ Business Manager and KAM team

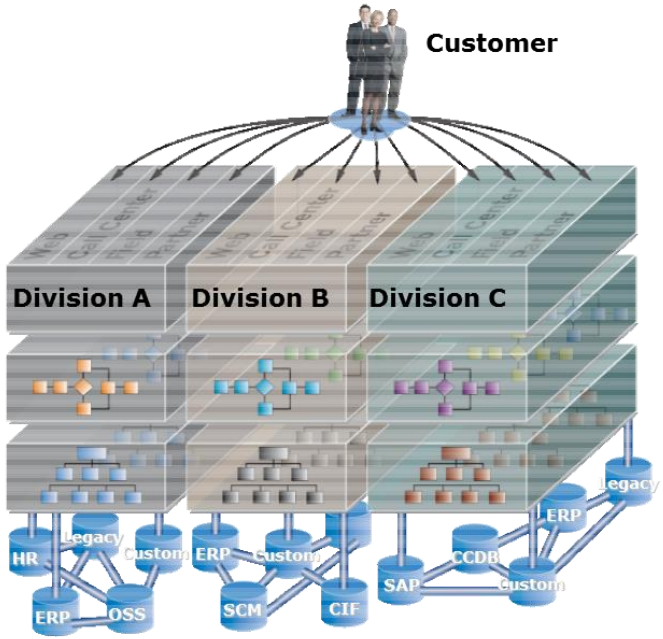
RESOURCES!

REWARDS!

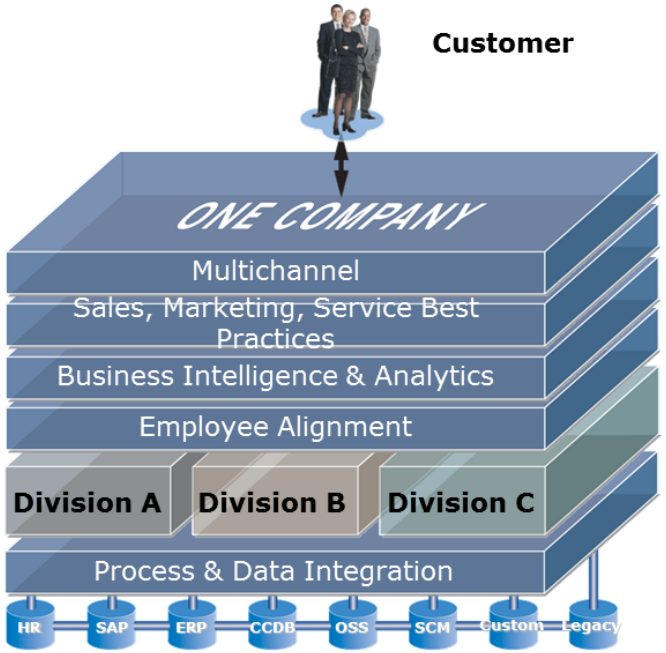
* not just personal plan/only sales & marketing aspects

Integrated/co-ordinated customer approach

'Customer engagement'

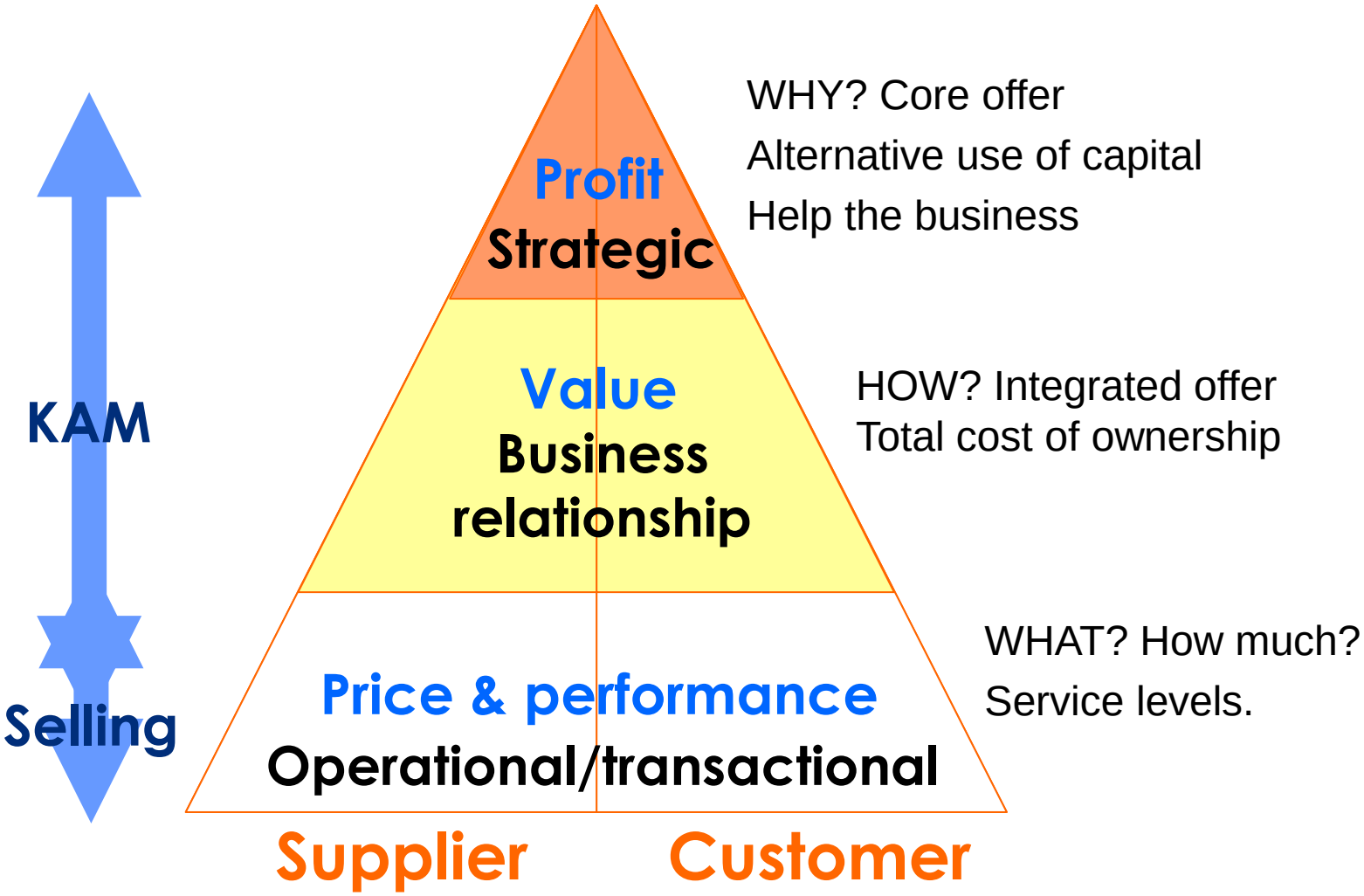


'Integrated customer-driven enterprise'



Hi-tech company

Scope of KAM


KAM
Selling
Profit
Strategic
Value
Business relationship
Price & performance
Operational/transactional
Supplier
Customer
WHY? Core offer
Alternative use of capital
Help the business
HOW? Integrated offer
Total cost of ownership
WHAT? How much?
Service levels.

Strategies for key accounts

Business strategy

- What will happen?
- What value can we offer?
- Why should we get the business?
- What do we need to do?
- What will the result be ? €/£/$

Relationship strategy

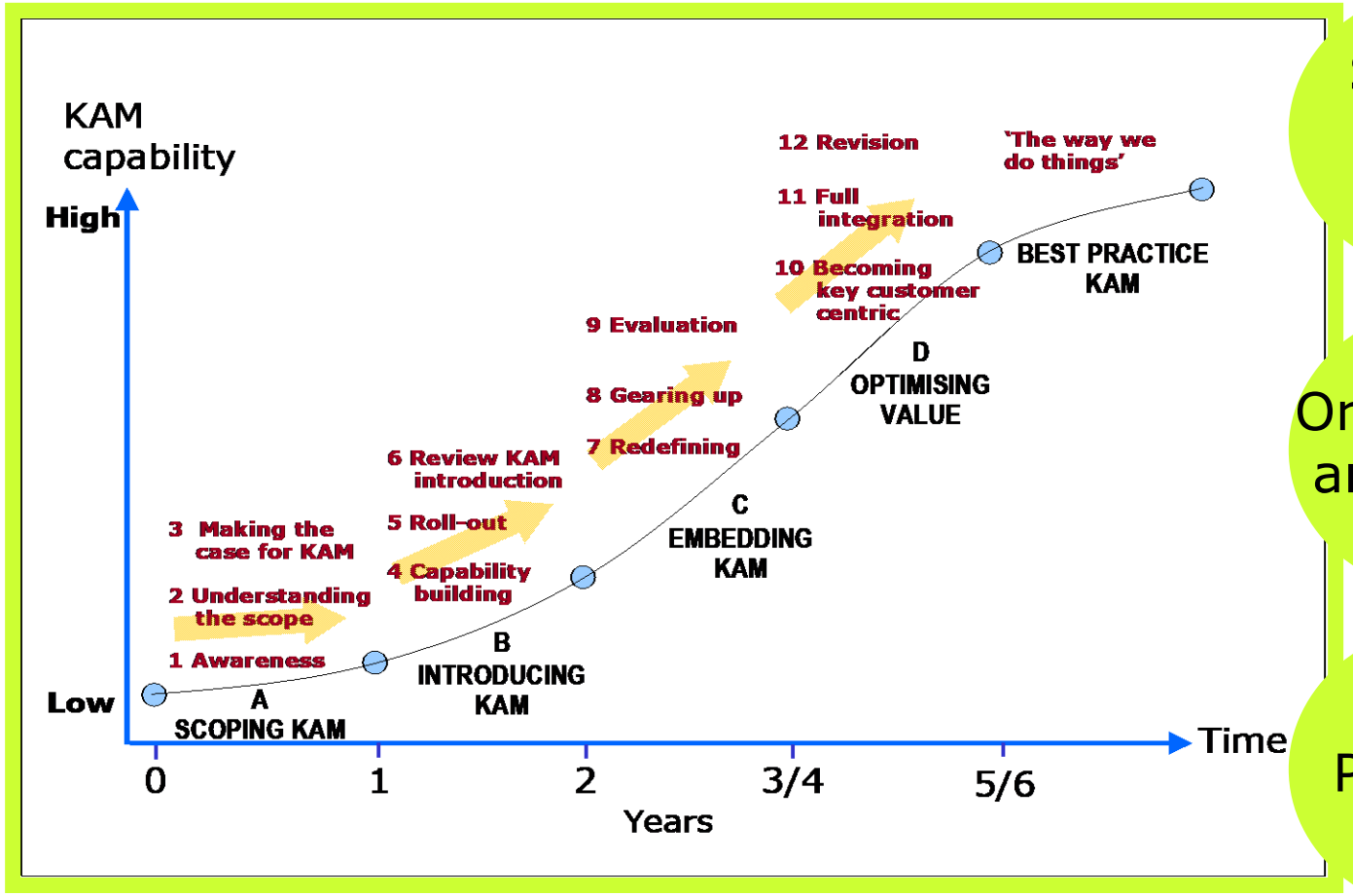
- How will we make it happen?
- How will the relationship help the business strategy?
- With whom do we need relationships and why?
- What will we say to them?
- ill they care?

Deep understanding of the customer

Internal strategies

- How can we align our KPIs with our key customer objectives?
- How can we maintain efficient processes that are flexible when needed?
- How can we measure progress and delivery to key customers specifically?
- How are non-sales functions involved?

The journey to KAM



Strategy and planning

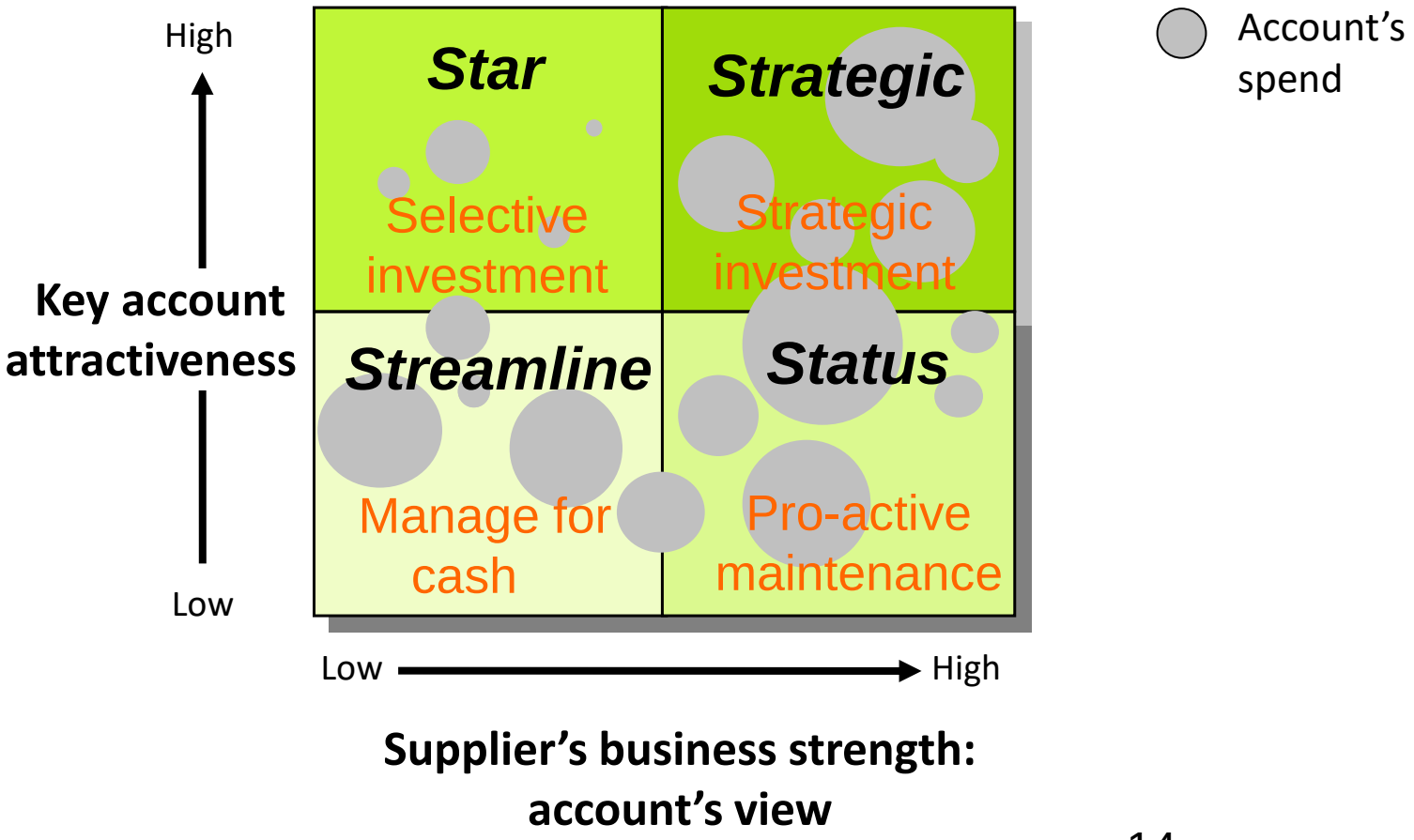
Organisation and culture

Processes

Woodburn, 2006

2. Key Account selection and categorisation

Who gets what kind of KAM?



Account attractiveness criteria

'Hard' → 'Soft'

Potential for profit

Outcomes	Customer needs	Customer attributes
Financial outcomes/profit	Opportunities for product/service differentiation	Risk reduction: working together
• Spend • Turnover • Volume • Cost to serve • Contribution • Price • Growth	• Member of targeted segment • Strategic fit (e.g. platforms, global) • Want non-standard solutions (what?) • Specifics (e.g. speed, compatible systems)	• Strategically important purchase • Appropriate decision-making structure • Right attitude to relationships • Prepared to pay for value • Prepared to invest

Assessing account attractiveness

Account attractiveness criteria	Weight	Account A		Account B		Account C	
		Rating 0-10	Score	Rating 0-10	Score	Rating 0-10	Score
Total	100						

Score = weight x rating (0 – 10)

Example: DHL and manufacturers

Account attractiveness criteria	Weight	Account A		Account B		Account C	
		Rating 0-10	Score	Rating 0-10	Score	Rating 0-10	Score
Size of wallet	25	9	225	5	125		
Moves small valuable items (= need for new, valued-added services)	25	4	100	8	200		
Central decision-making	20	3	60	9	180		
Global operator	15	6	90	3	45		
Industry growth rate	15	3	45	7	105		
Total	100		520		655		

Score = weight x rating (0 – 10)

Customer critical success factors

What does the customer really care about?

Different for each key account
Exclude 'givens' or qualifying factors

Observation

- What have they talked about?
- What are they struggling with?
- What gets their attention?

Analysis

- What is happening in their marketplace?
- What is their competition doing?
- What do their customers want?

Enquiry

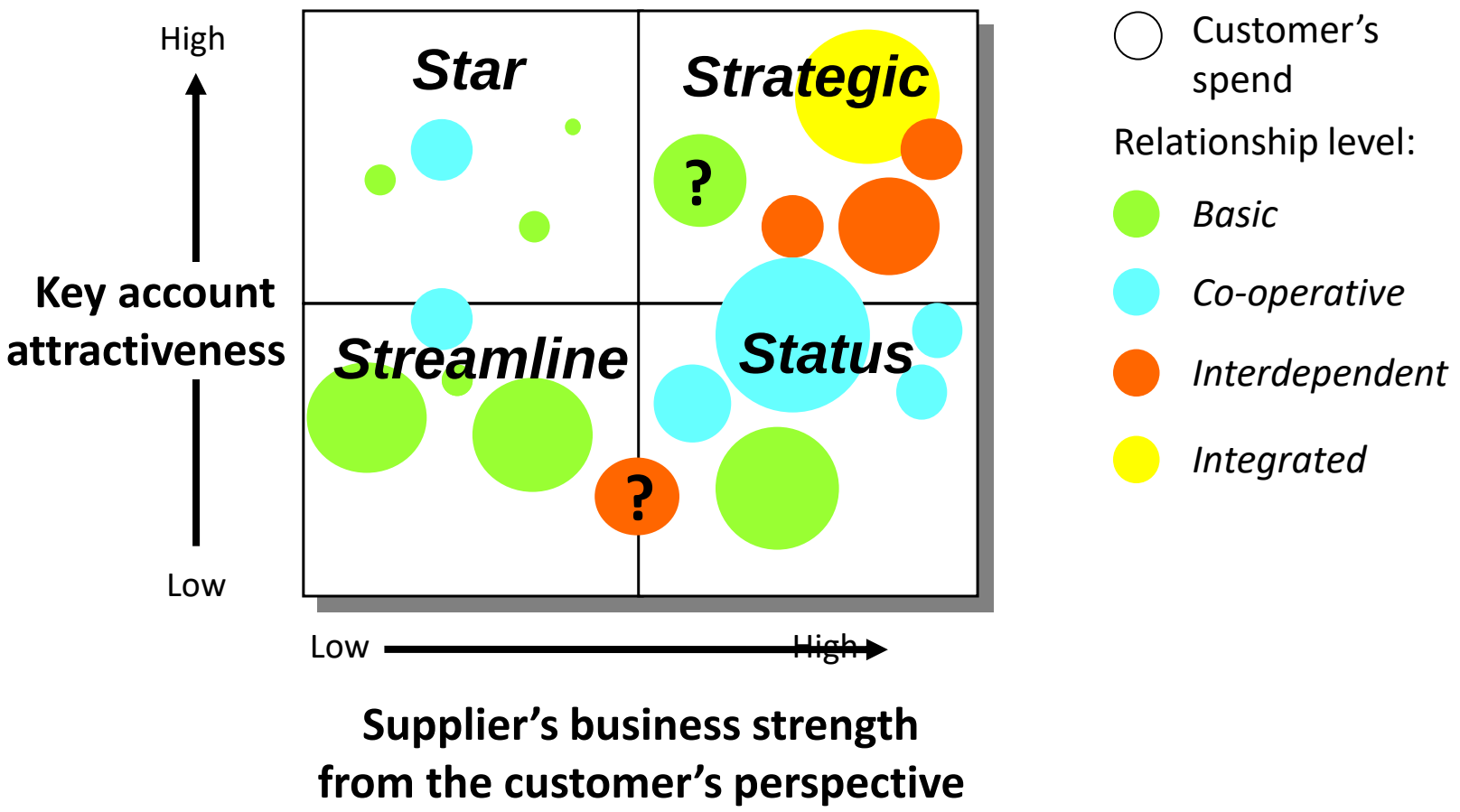
Ask them!

Customer's view of your business strength

Customer's critical success factors (CSFs)	Weight	Your company		Best competitor		Other competitor	
		Rating 0-10	Score	Rating 0-10	Score	Rating 0-10	Score
Total	100						

Score = weight x rating (0 – 10)

Who gets KAM?


High
Key account attractiveness
Low
Star
Strategic
?
Streamline
Status
?
Low
High
Supplier's business strength from the customer's perspective
Customer's spend
Relationship level:
Basic
Co-operative
Interdependent
Integrated

VERIFY with the customer

- Their **actual** attractiveness
- Their **real** critical success factors for you
- **Their** view on how they rate you currently
- **Their** attitude to a close relationship with you

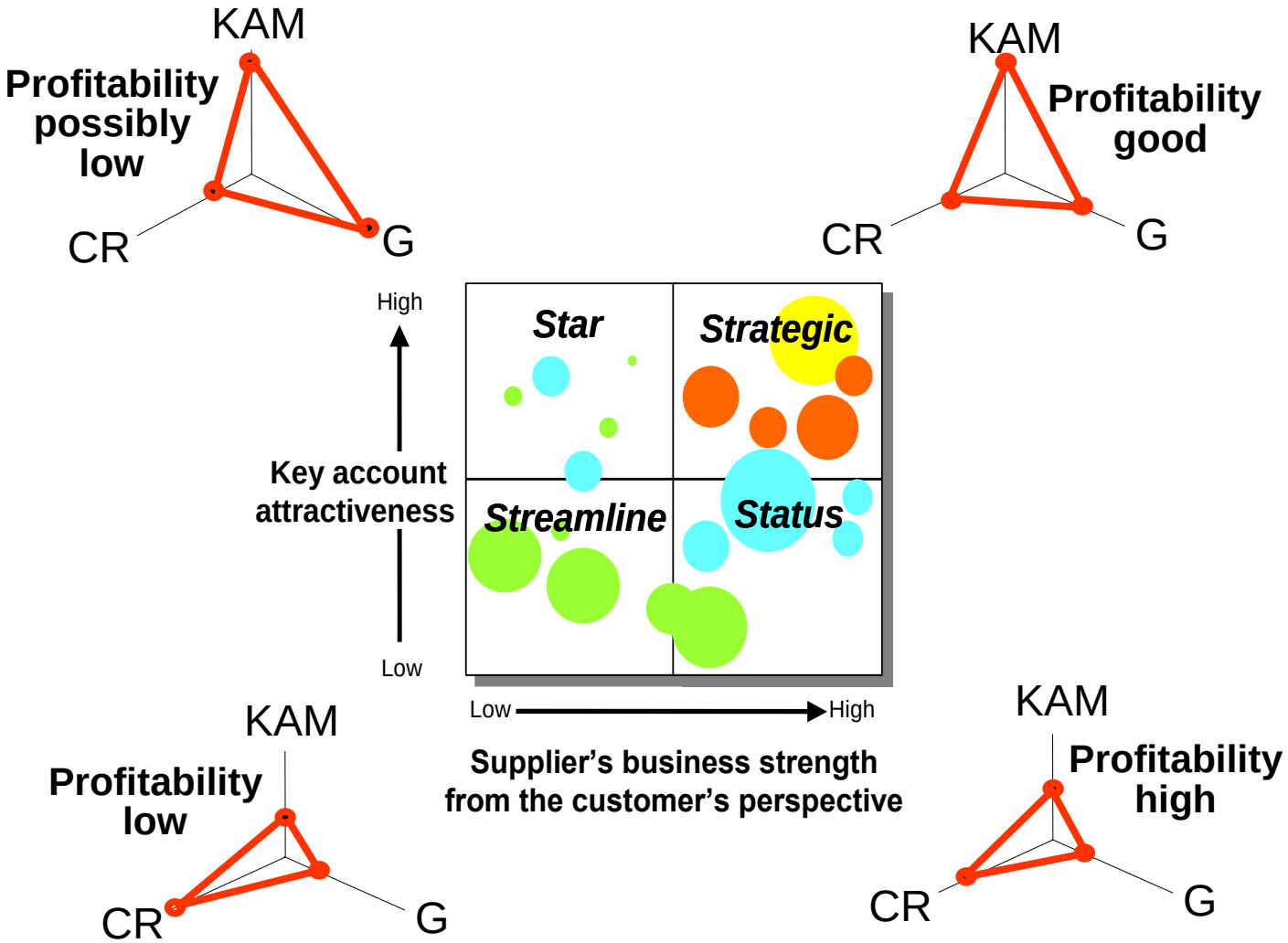
- **You can't make anyone have a close relationship with you**
- **KAM won't work if you can't build the relationship**
- **You must not waste resources on the wrong accounts**

Matching strategies and expectations

G=Growth
CR=Cost **Reduction**
KAM=KAM input/cost

Relationship level:

- *Basic*
- *Co-operative*
- *Interdependent*
- *Integrated*



3. KAM relationships

Multi-layered relationships

Layers of involvement

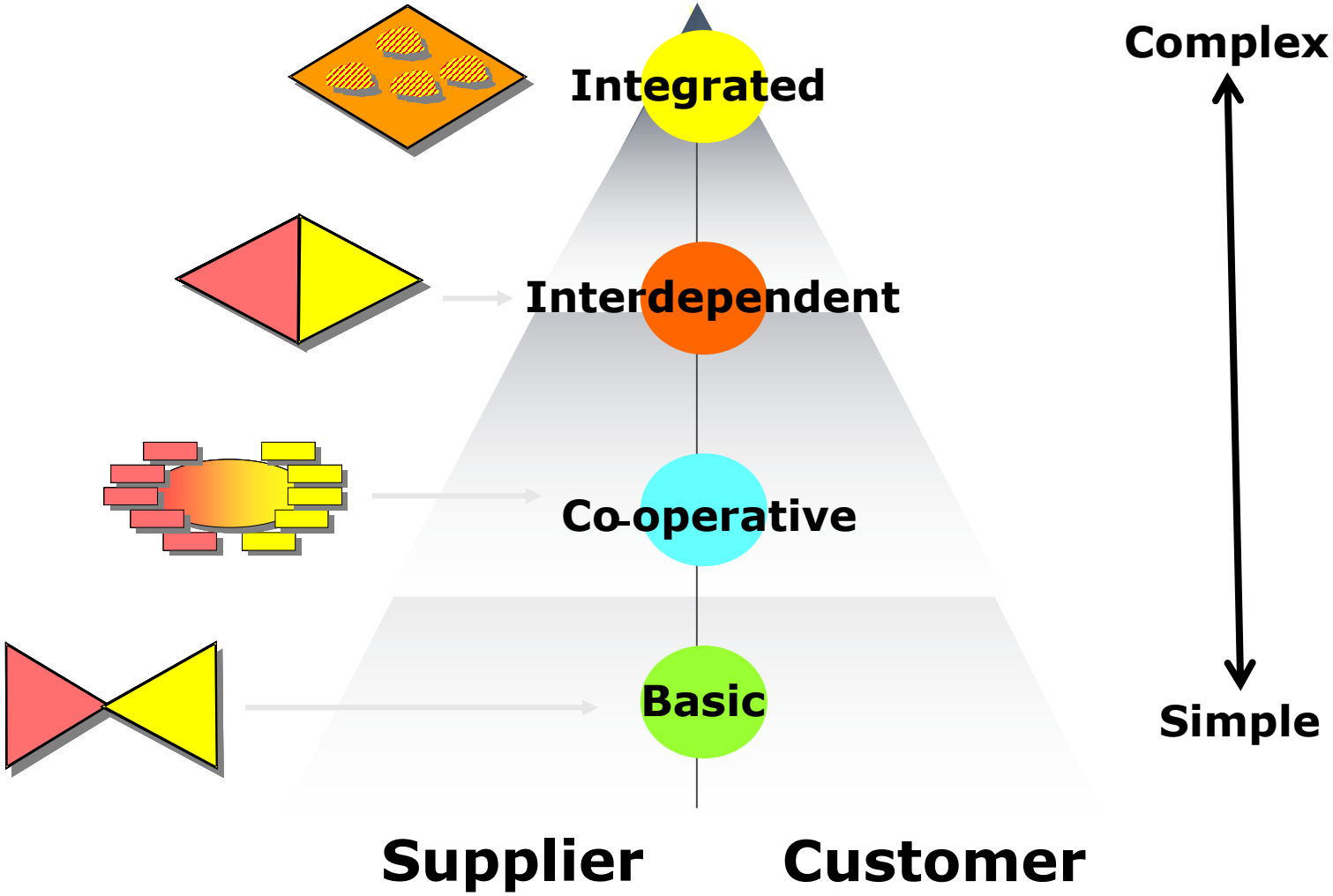
Activity links
Co-ordination

Resource ties
Change

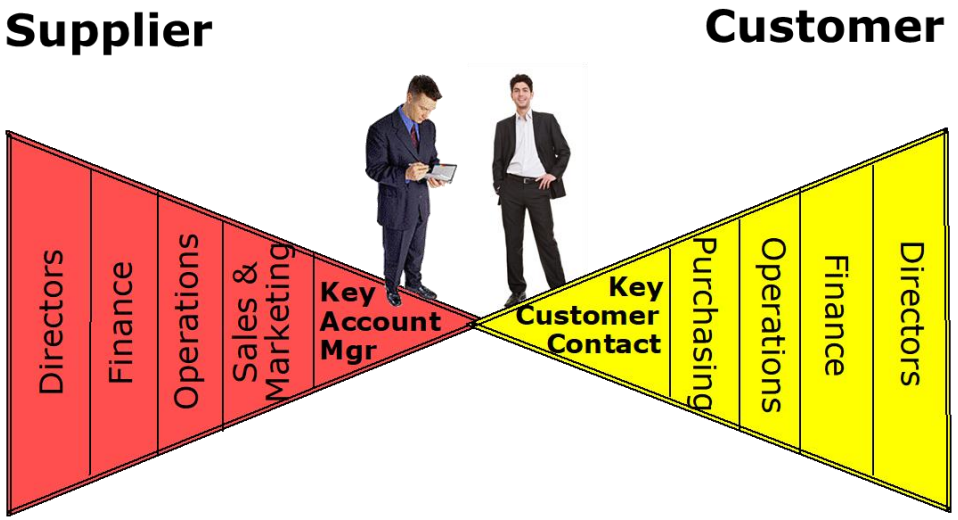
People bonds
Facilitation

Gedde & Snehota, 1999

Relationship stages



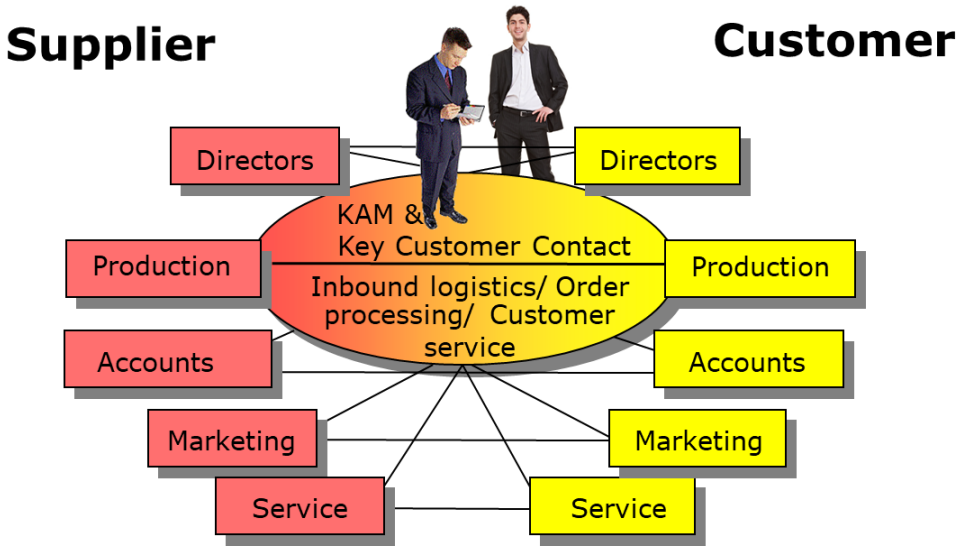
Basic relationships



- Single/limited significant points of contact
- Probably one of several suppliers
- Easy to exit
- Price and the reward structure are often the principal drivers
- Minimum information sharing
- Reactive rather than proactive
- Not seen as business partner
- Small chance of improving business
- Can be stable state or trial stage
- **Transactional: emphasis on efficiency**

Cranfield, 1996

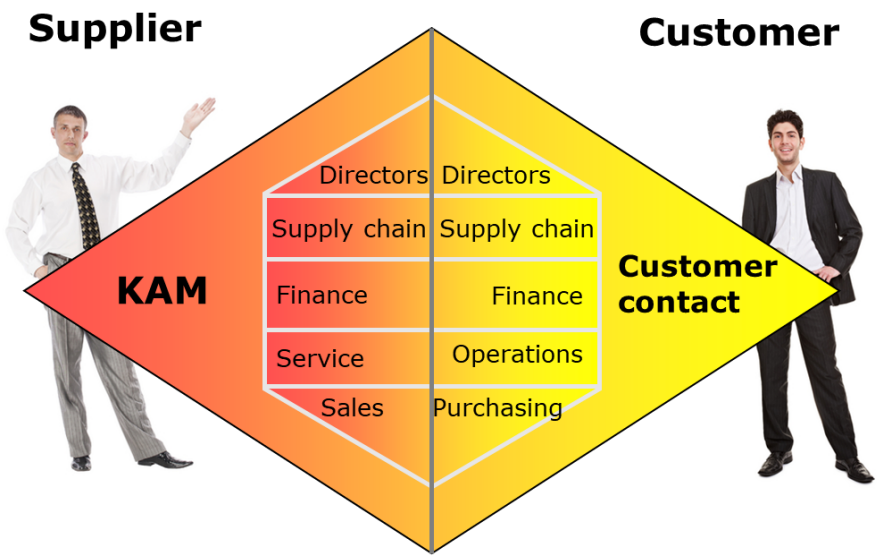
Co-operative relationships



- Wider range of functions loosely involved but few consistently, relationship still mainly with buyer and order processing team
- Not really under control, ‘blind spots’ in relationship manager's visibility
- One of preferred few suppliers, but minor share of spend
- Exit not particularly difficult
- Limited access especially to senior people
- Limited information sharing
- Forecasting rather than joint strategic planning
- Not seen as business partner, supplier ‘making the running’
- **Not yet trusted by customer**
- **Danger of losing money!**

Woodburn, 2000

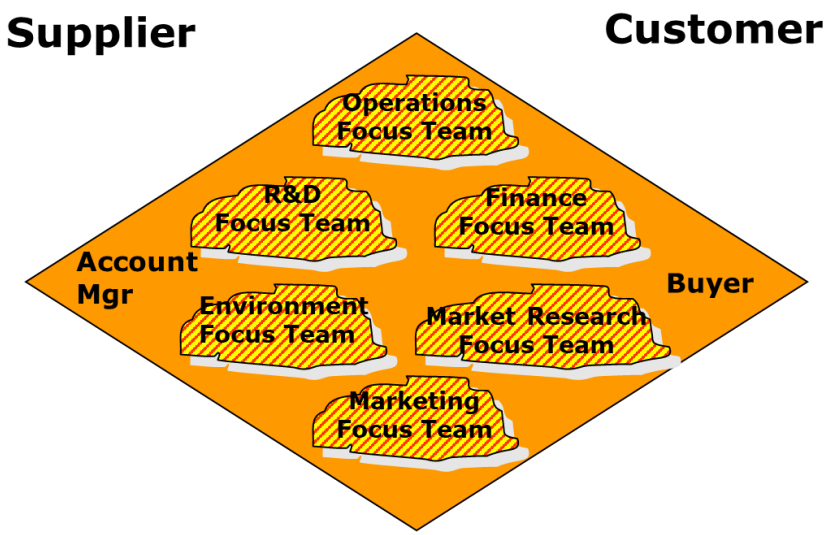
Interdependent KAM relationships



Woodburn, 2000

- Wide range of functions and senior people consistently involved
- Relationship manager positioned to manage entire relationship
- Sole supplier or major share of two
- Fully satisfactory access, including key people
- High level of information exchange, including sensitive business information
- Deep understanding of customer and customer's business
- Pro-active
- Wider range of joint and innovative activity and projects
- Streamlined processes
- Joint strategic planning with a focus on the future
- Increasingly seen as business partnership, both invest in relationship
- Both acknowledge importance to each other, exit difficult
- **Trust on both sides**
- **Wide-ranging opportunities to improve and develop business**

Integrated relationships



Cranfield, 1996

- Rare
- High exit barriers, exit is traumatic
- Dedicated, cross-boundary functional/project teams with individual organisations subsidiary to team
- Open information sharing **including** sensitive subjects
- Transparent costing systems
- Assumption of mutual trustworthiness, at all levels
- Abstention from opportunistic behaviour
- Lowered protection against opportunism
- Joint long-term strategic planning
- **Real partnership: complementary, mutually dependent**
- **Better profits for both**

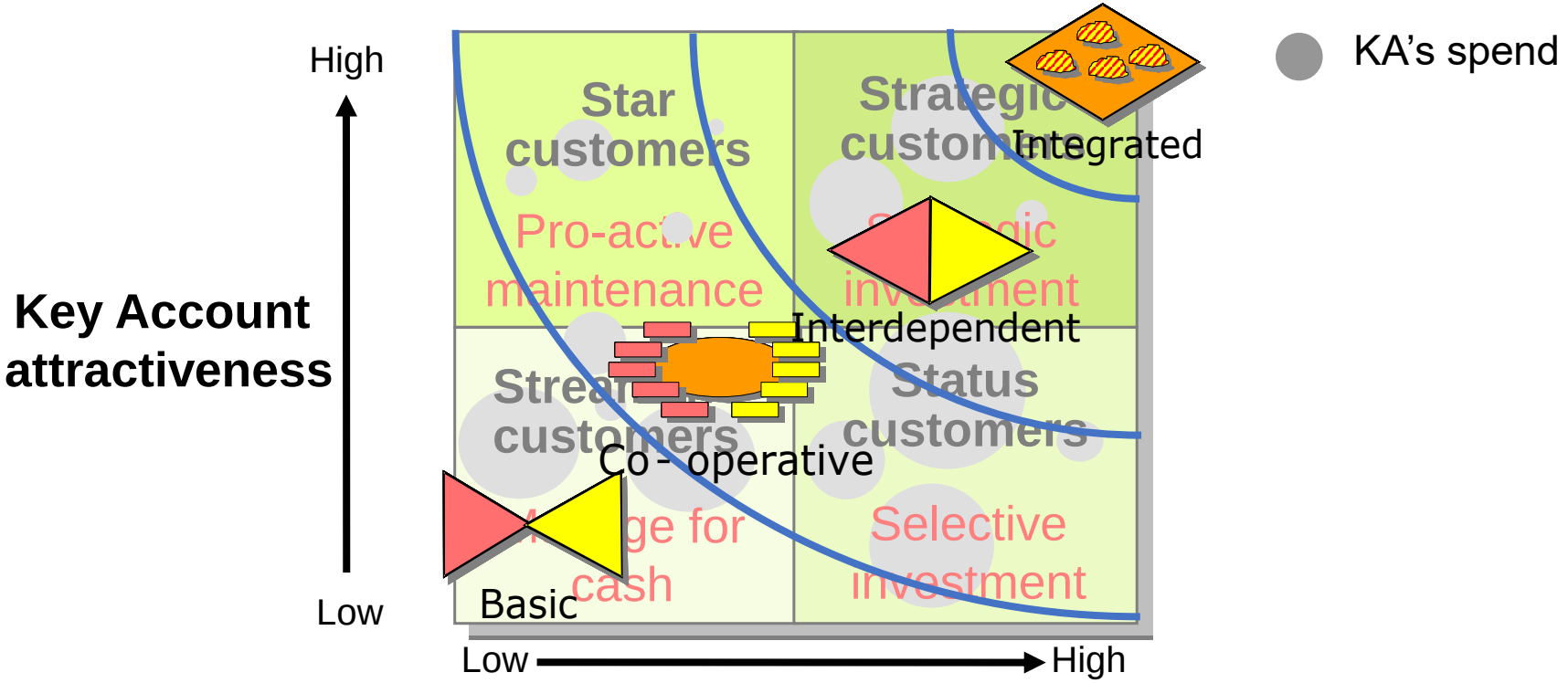
Tool: quick relationship check

To what extent does this statement apply to your relationship with your customer?	Score
If our relationship ended, both parties would find it difficult and complicated to exit	
There is a real spirit of partnership and trust between our two companies	
Together we have produced long-term strategic plans for the development of our relationship and business together	
Any information at all relevant to our business together is passed straight on to the customer	
People at all levels in both organisations are in constant communication with each other	
We have both realised substantial benefits through working together	
Total Score	

Rating	Score
Strongly agree	3
Agree	2
Disagree	1
Strongly disagree	0

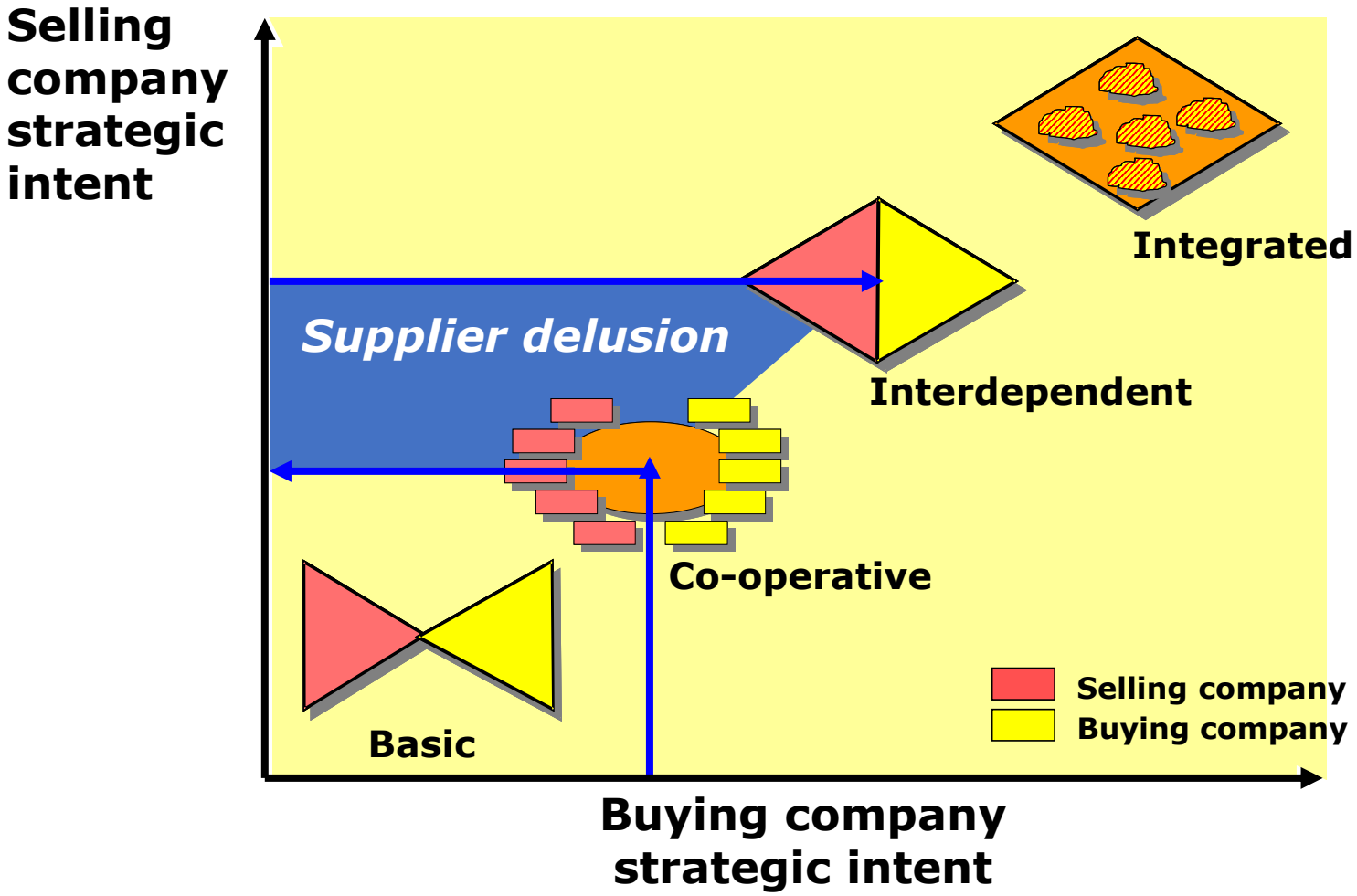
Scoring range	Relationship Stage	Score
0-6	Basic	
7-11	Co-operative	
12-15	Interdependent	
16-18	Integrated	

Matching relationships with customer potential



Supplier's business strength from the customer's perspective

Do you really understand the relationship?



Relationships need management

- Relationships cost money to run.
- Relationships require investment to develop.
- Relationship levels need to be managed and monitored.

ALERT!
66% of suppliers' top 3 accounts are at no more than co-operative stage

- Don't develop *Basic* relationships unless you can/ want to reach *Interdependent*
- Don't prolong the *Co-operative* stage.
- If a relationship is stuck at C*o-operative*, move it forwards or backwards.

4. Value creation & strategic account planning

Strategies for key accounts

Business strategy

- What will happen?
- What value can we offer?
- Why should we get the business?
- What do we need to do?
- What will the result be ? €/£/$

Relationship strategy

- How will we make it happen?
- How will the relationship help the business strategy?
- With whom do we need relationships and why?
- What will we say to them?
- ill they care?

Deep understanding of the customer

Internal strategies

- How can we align our KPIs with our key customer objectives?
- How can we maintain efficient processes that are flexible when needed?
- How can we measure progress and delivery to key customers specifically?
- How are non-sales functions involved?

The Association for
Key Account Management

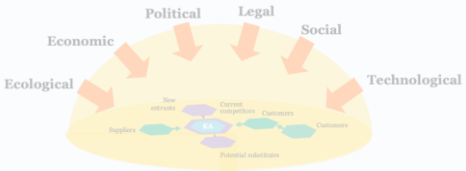
Analysis & business strategy development process

a4kam.org

Key Account

External

Environment & market analysis



Account's opportunities & threats

Internal

Account's value chain analysis

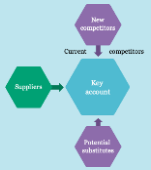
Account's strengths & weaknesses

Account's SWOT & strategies

Your organisation

External

Competitors & suppliers



Your opportunities & threats

Internal

Your value chain analysis

Your strengths & weaknesses

Your SWOT & strategies

Develop strategies via a 9-box SWOT

From your organisation's capabilities

From the key account's strategies

Objectives Revenue _____ Profit _____ Mkt share _____	Key strengths S1 _____ S2 _____ S3 _____	Key weaknesses W1 _____ W2 _____ W3 _____
Key opportunities O1 _____ O2 _____ O3 _____	**S/O Leverage strengths to address opportunities** Offensive – business developing	**W/O Address weaknesses that undermine offensive strategies** Mitigating – eliminating underminers
Key threats T1 _____ T2 _____ T3 _____	**S/T Leverage strengths to attack threats** Capitalising – pro-active response	**W/T Take action to eliminate weaknesses relevant to threats** Defensive – avoiding loss

Differentiated Value Propositions

1. Differentiated	Why your company, why not competitors? How is it different for this customer?
2. Value	Value = perceived benefit – perceived sacrifice – benefit = attributes of importance to customer – sacrifice = total costs as seen by customer
3. Proposition	Superior value propositions must be: – achieved – communicated to customers

Leveraging ALL your organisation's capabilities

- Service development
- Pricing
- Channels
- Promotion
- Communication
- Relationships

- Marketing
- Sales
- Operational
- Project management
- Internal/HR
- Cost-cutting
- Risk

- Customer service
- Teams
- Resources
- Cash flow
- Transactions
- IT

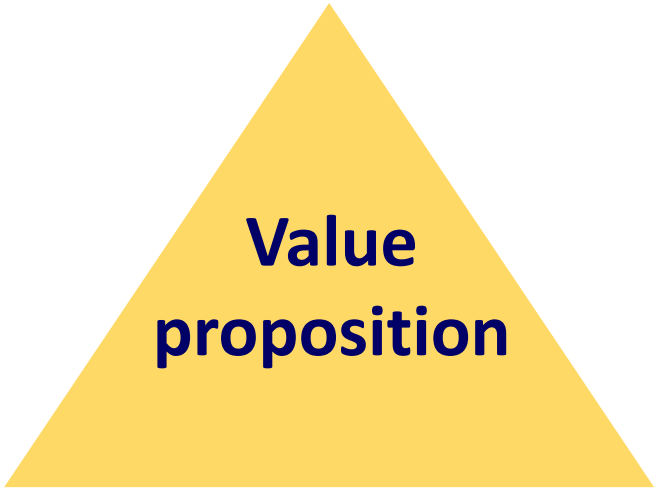
Differentiated Value Propositions

What does a VP need?

Rackham & Kotler, 2005

How you will help the customer succeed in its business

Impact



Capability

What you have and what you can do for the customer

Cost

What the customer must pay or sacrifice for the privilege

Two key requirements of VPs

"A value proposition must be both compelling and believable" Bud Hyler

Compelling but *not* believable

"Our world-leading expertise will double your business, save your marriage and make your children clever and charming, all for the price of a cup of tea."

Believable but *not* compelling

"Our capability in this area is OK. It's as good as competitors and it costs about the same."

Neil Rackham, 2008

Value Propositions for key accounts

	Your capability/ strength & strategy	Benefit to customer	Cost/ sacrifice for customer
Strategy 1			
VP 1	.....		
Strategy 2			
VP 2	.....		
Strategy 3			
VP 3	.....		

You have to write VPs into key account plans

– if you don't, they probably don't exist, and even if they do, you won't be able to explain them to the key account or your own company

Structure for strategic account plans

Writing

Executive summary

The plan

A. Where are we now?

B. Customer understanding

C. Accord strategies & objectives

D. High level action & review

Appendices

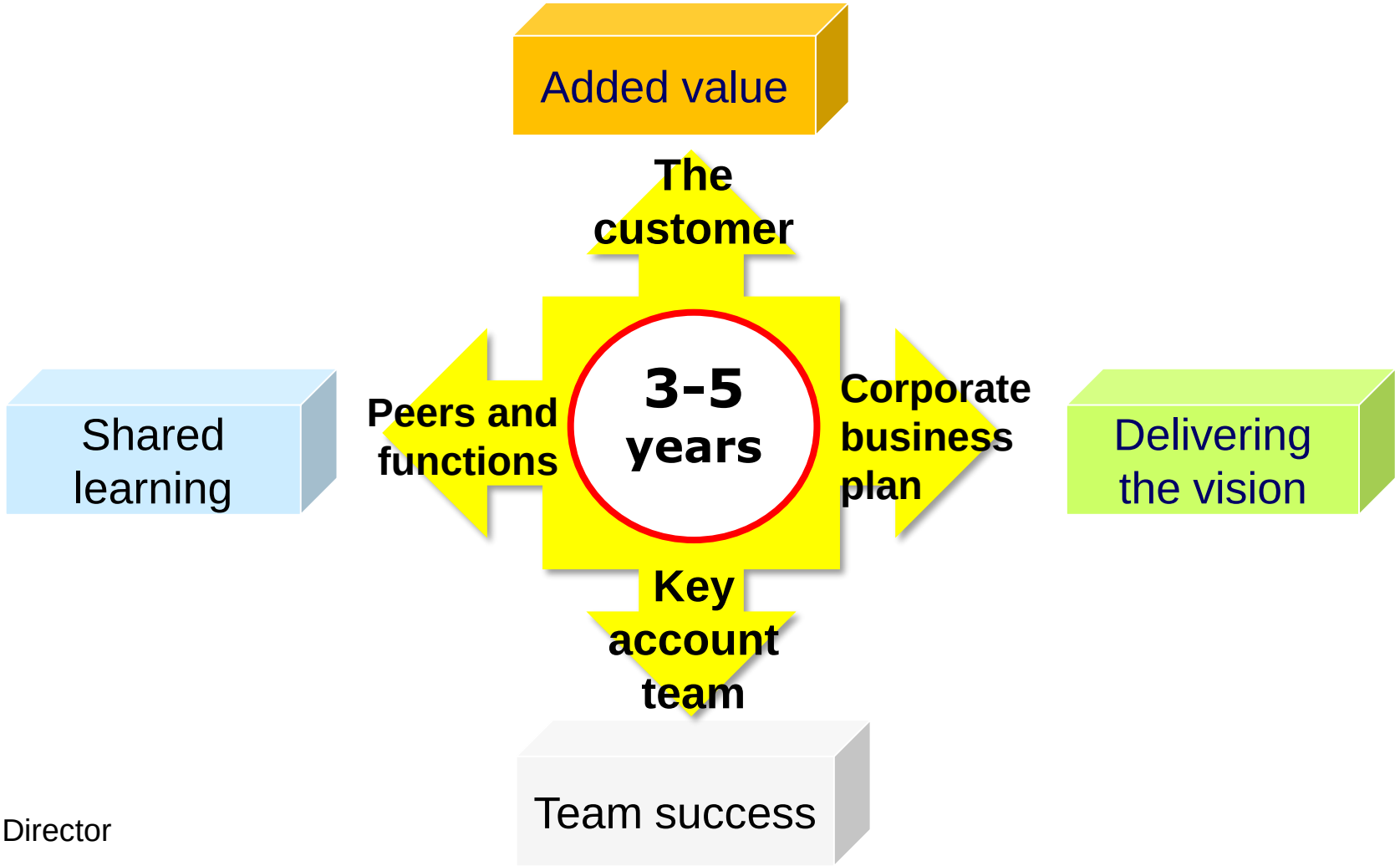
Background detail

Business analysis

Development of thinking

Reading

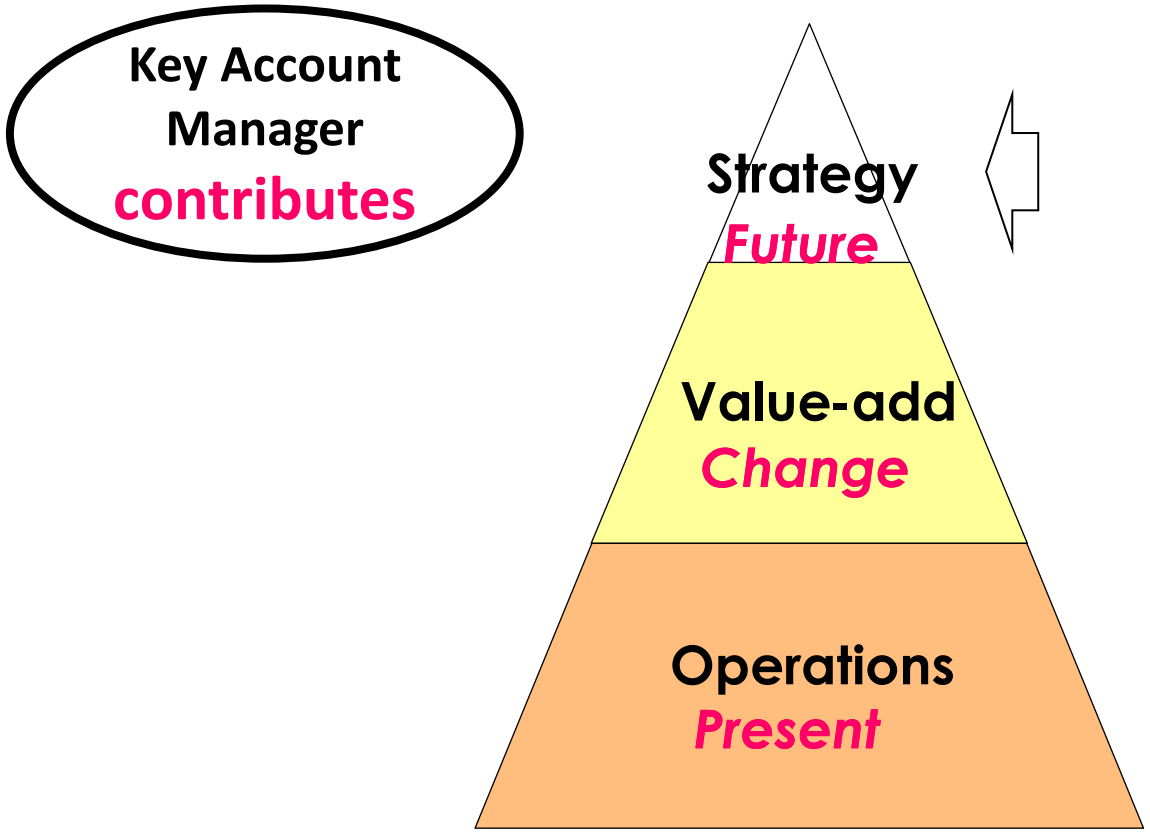
Critical importance of the plan



Professor Patrick Godfrey,
Halcrow Strategic Relationship Director

5. Implementing KAM

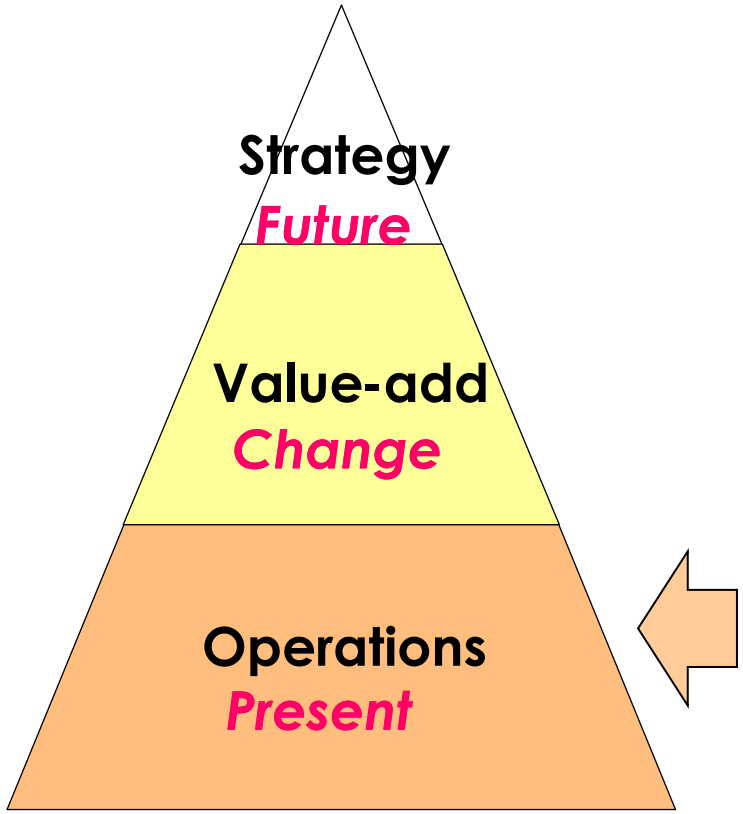
KAM strategic processes



- Key customer selection
- Customer portfolio management
- Communication of customer strategy
- Contribution to corporate planning cycle
- Risk assessment
- Resource allocation/prioritisation
- Cross-boundary co-ordination
- Organisational learning

Operational processes with KA impact

Key Account Manager
monitors

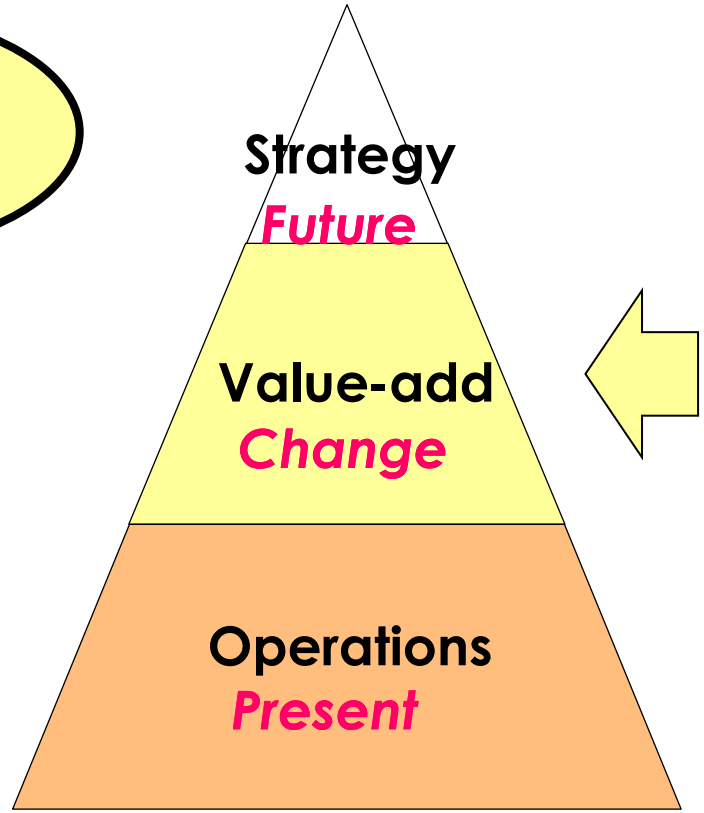


E.g.

- Selling
- Order processing
- Production/operations
- Customer service
- Delivery
- Payment

Value-adding KAM processes

Key Account Manager **responsible**

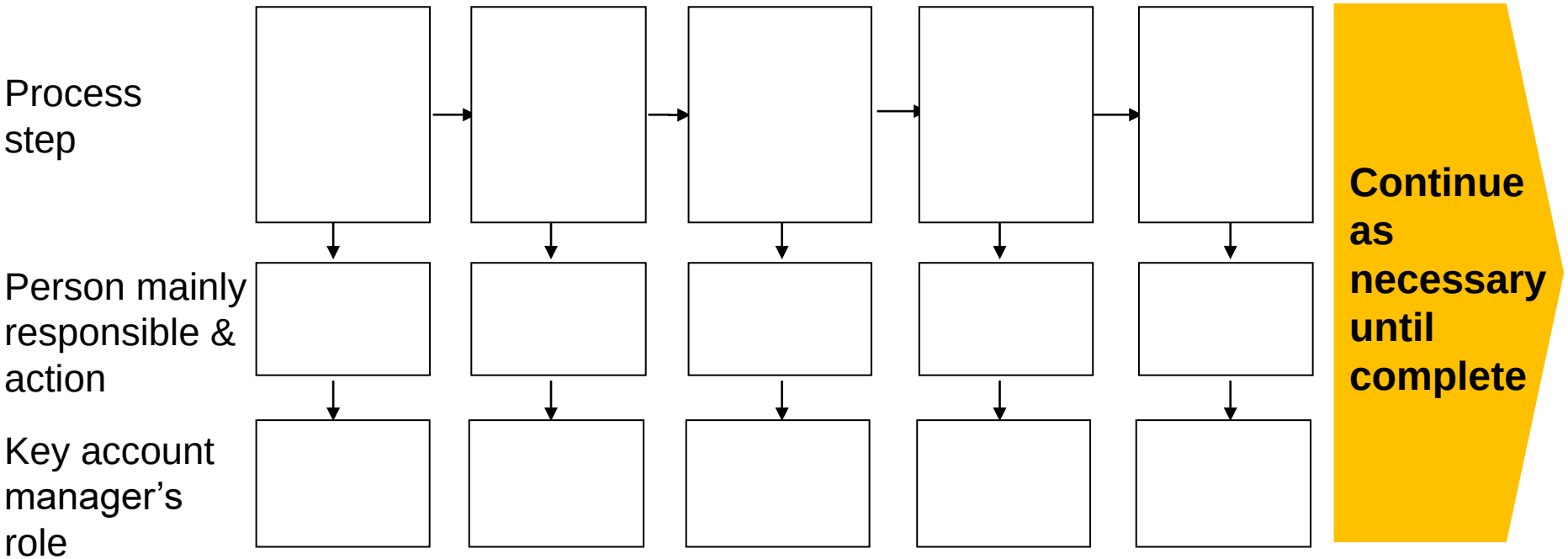


Communication

- Key account analysis, strategy development and planning
- Relationship development
- Business development
- Marketing
- Pricing
- R&D/product development
- Product customisation
- Product mix management
- Supply chain development
- Transaction handling development
- Information provision
- Training

Measurement

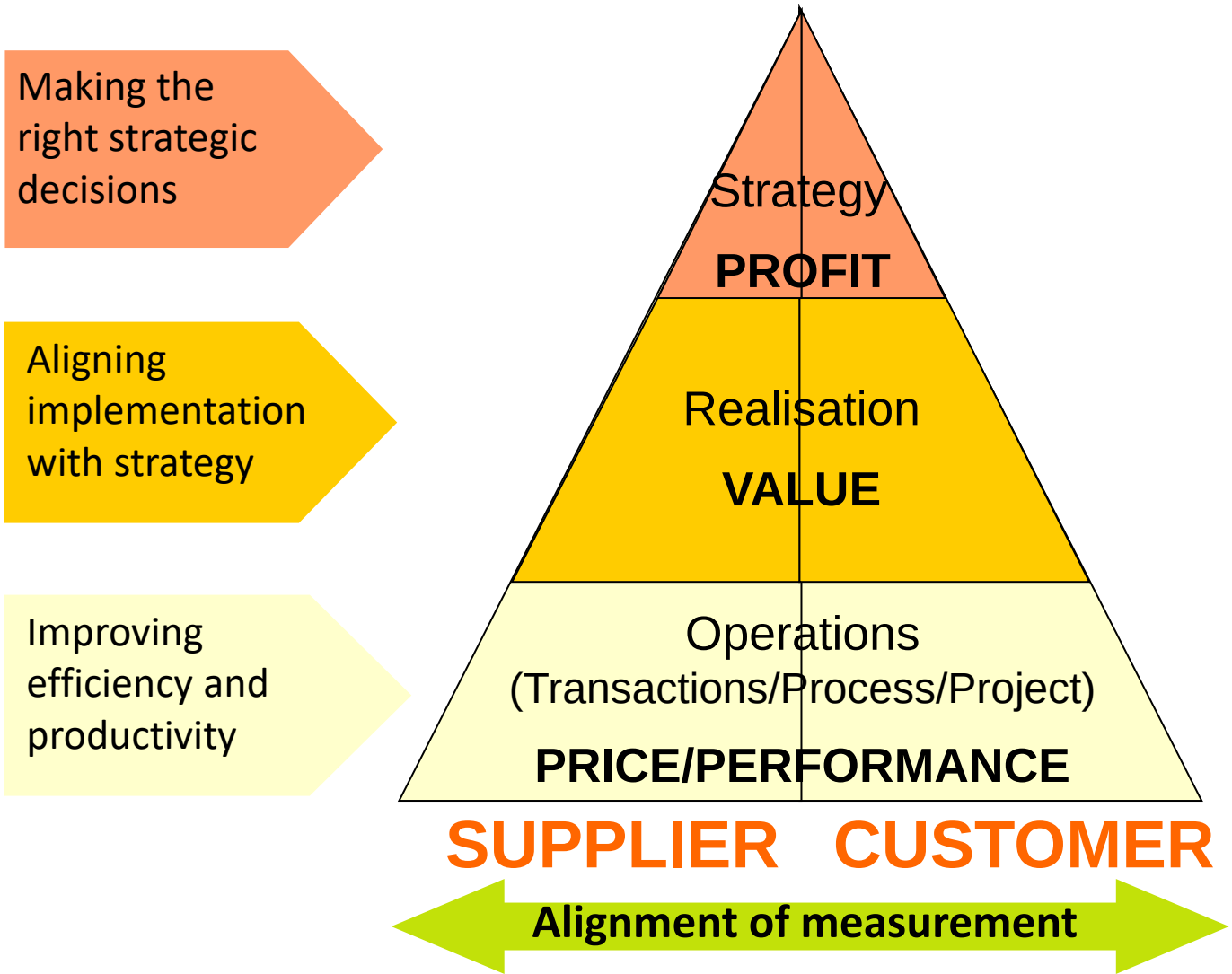
Understanding KAM processes through mapping



Inputs?
Outputs?
Tools & forms?

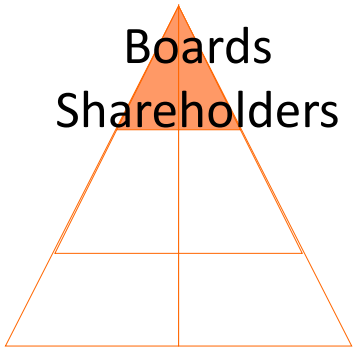
Meetings?
Approval points?
Links to other processes?

KAM measurement model



Measurement: Strategic level

Who cares?



About what?

Profit

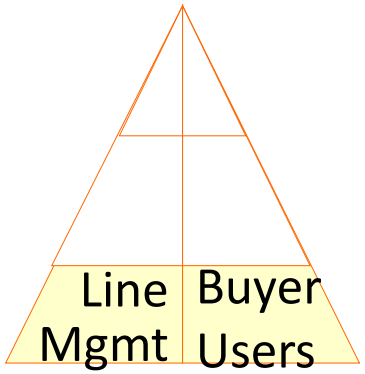
- ROI
- Asset value (customers)
- Risk
- Opportunity

Relative to what: benchmarks

- Performance against business plan (short-term)
- Growth in shareholder value (long-term)

Measurement: Operational level

Who cares?



About what?

Performance

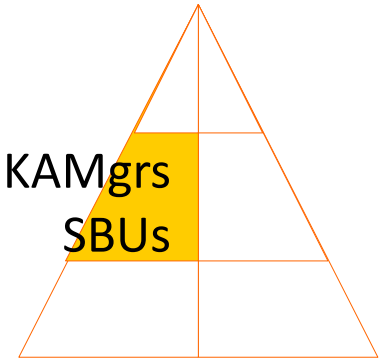
- Service levels
- Price
- Revenue
- Volume
- Failure rates etc

Relative to what: benchmarks

- Performance against previous period
- Performance against agreement

Measurement: Realisation level

Who cares? (supplier side)



About what?

Value

- Customer attractiveness
- Customer risk
- Customer satisfaction
- Sales?
- Business extension
- Customer retention
- Customer profitability
- KAM input
- KA portfolio contribution growth

Relative to what: benchmarks

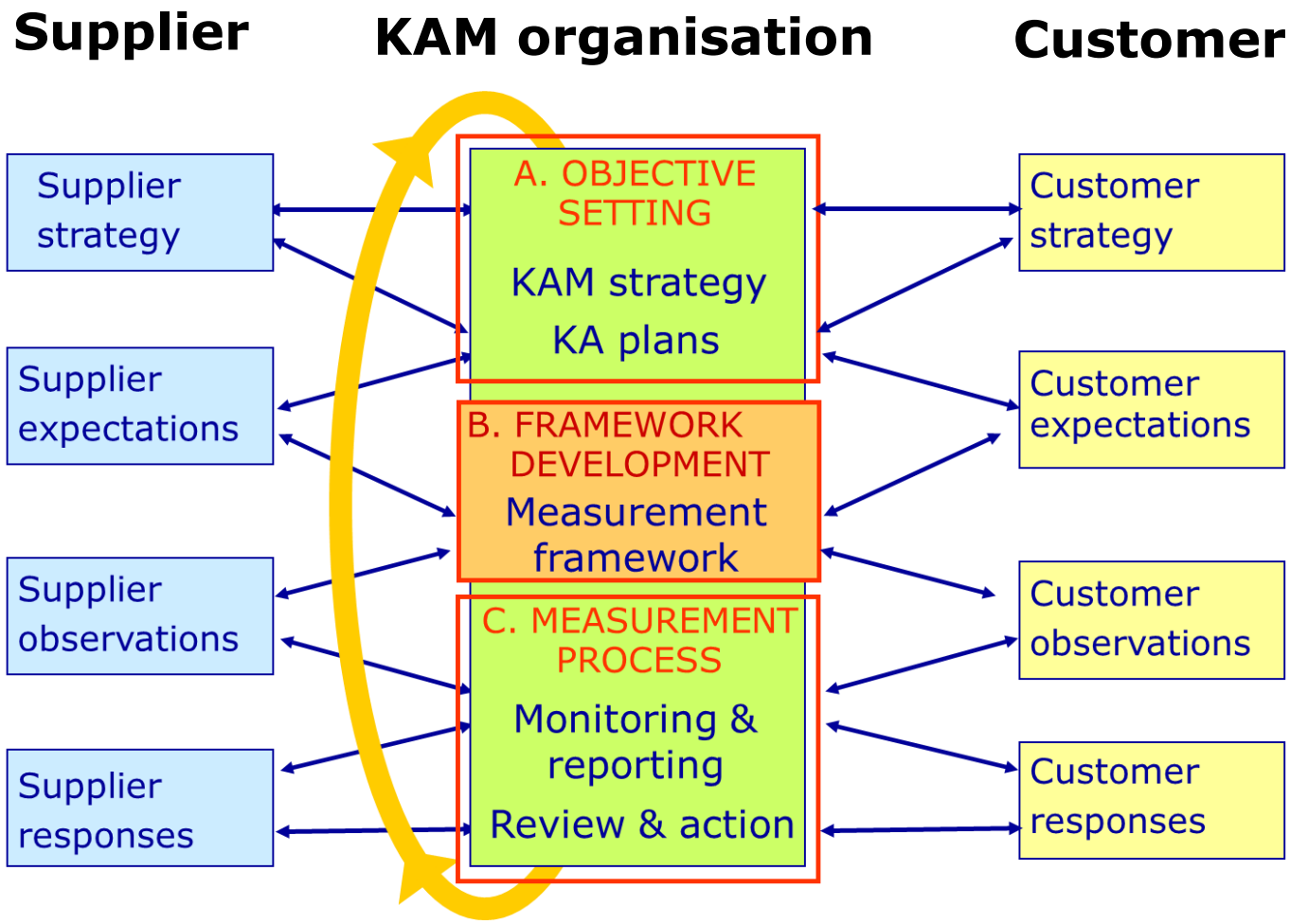
- Customer expectation
- Account plan
- Portfolio contribution plan

Customers measure key suppliers: example

Headline criteria	**Breakdown**	Score 0-5
Assured supply	• Product quality management • Supply management	
Values/trust based business relationship	• Teamwork • Openness, honesty, fair play	
Management excellence	• Quality management • Environmental management • Management depth	
Low cost- best value	• Competitive validation • Process optimisation • Financial strength	
System player	• Communication • Best practices • Customer satisfaction	
Technical competencies	• Health & safety • Product consistency	
Overall score		

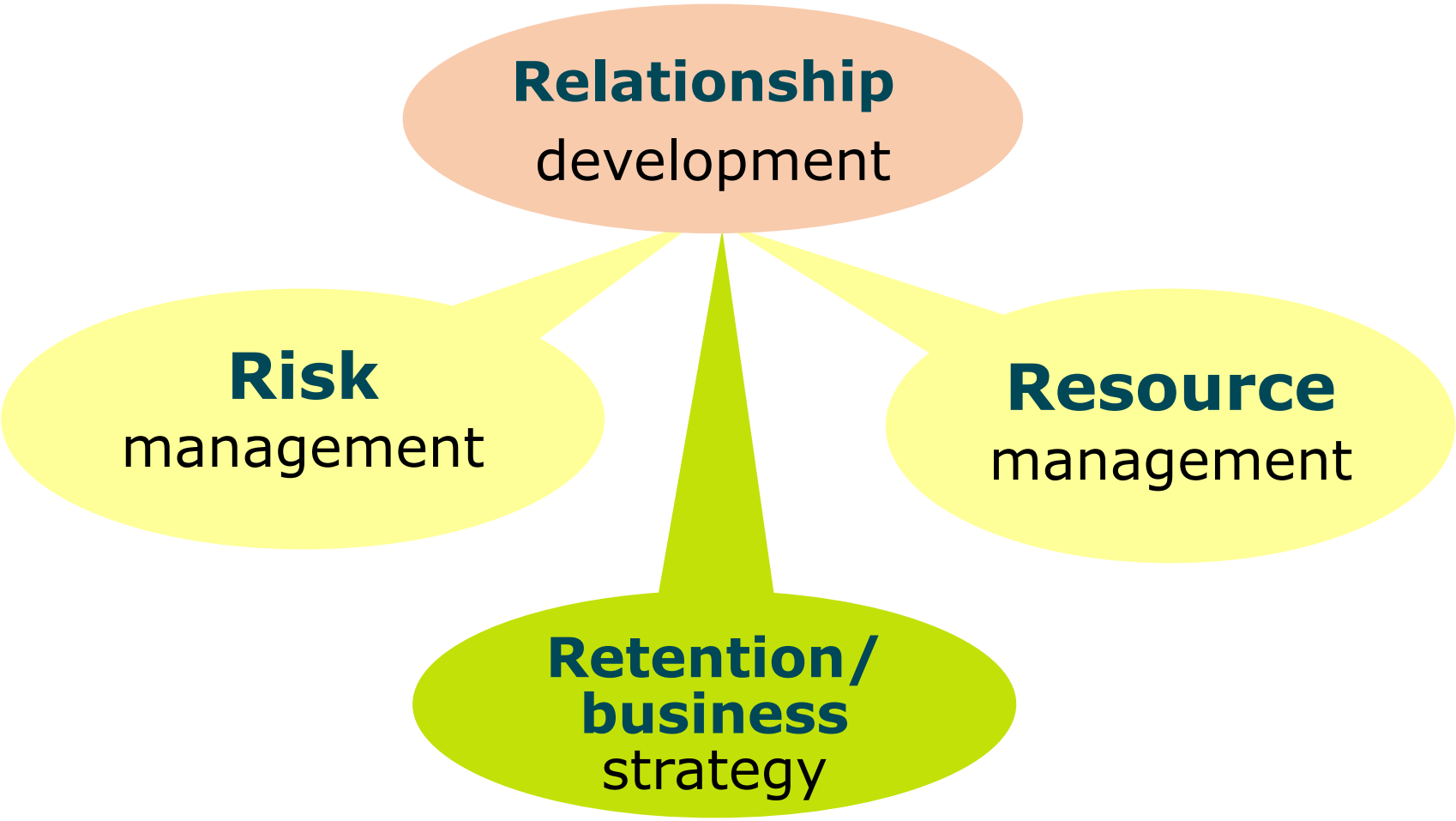
Soft (judgment) metrics matter as much to KAs as hard (quantitative) metrics – you'd better believe it!

Aligning with customers via KAM measurement

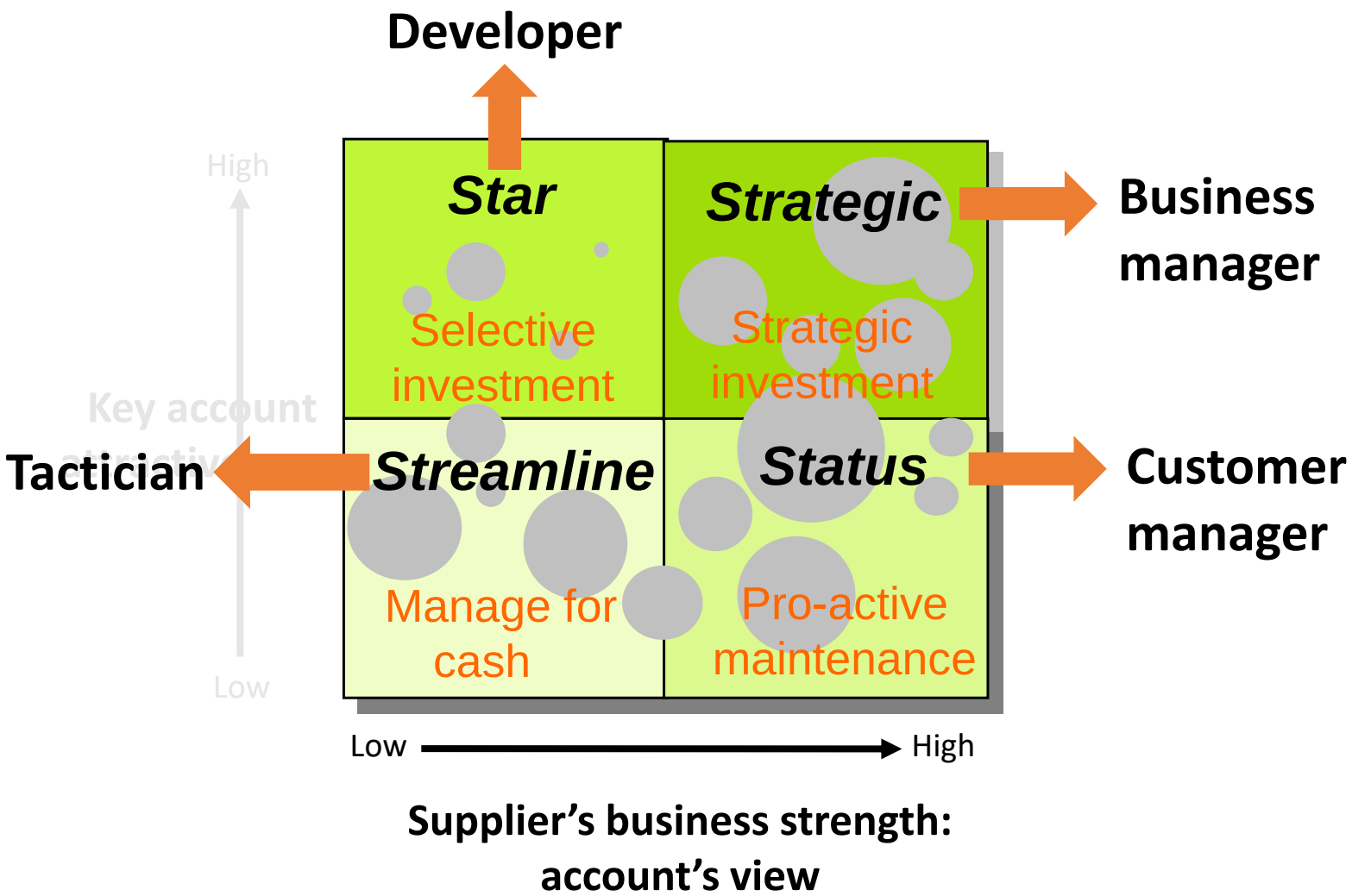


6. The Key Account Manager job

The key account manager job



Who gets what kind of Key Account Manager?



Exploring the nature of the job by activity

Key Account Manager Activity	As is	Should be
Developing relationships	25%	20%
Implementing and motivating the deal operationally	25-30%	15%
Developing industry knowledge/ understanding strategy/ planning	0%	5-15%
Selling/achieving sales result, bid sign-off	30-50%	5-10%
Internal alignment for deal commercially	0-15%	5-10%
Internal day-to-day problem solving	15%	5%
Reporting/providing information	0-10%	5%
Training and education	0-5%	5%
Internal understanding of capability	0%	5%
Promoting brand/business	0%	5%
Team management	0%	5%
Other	?	10%

Too much time

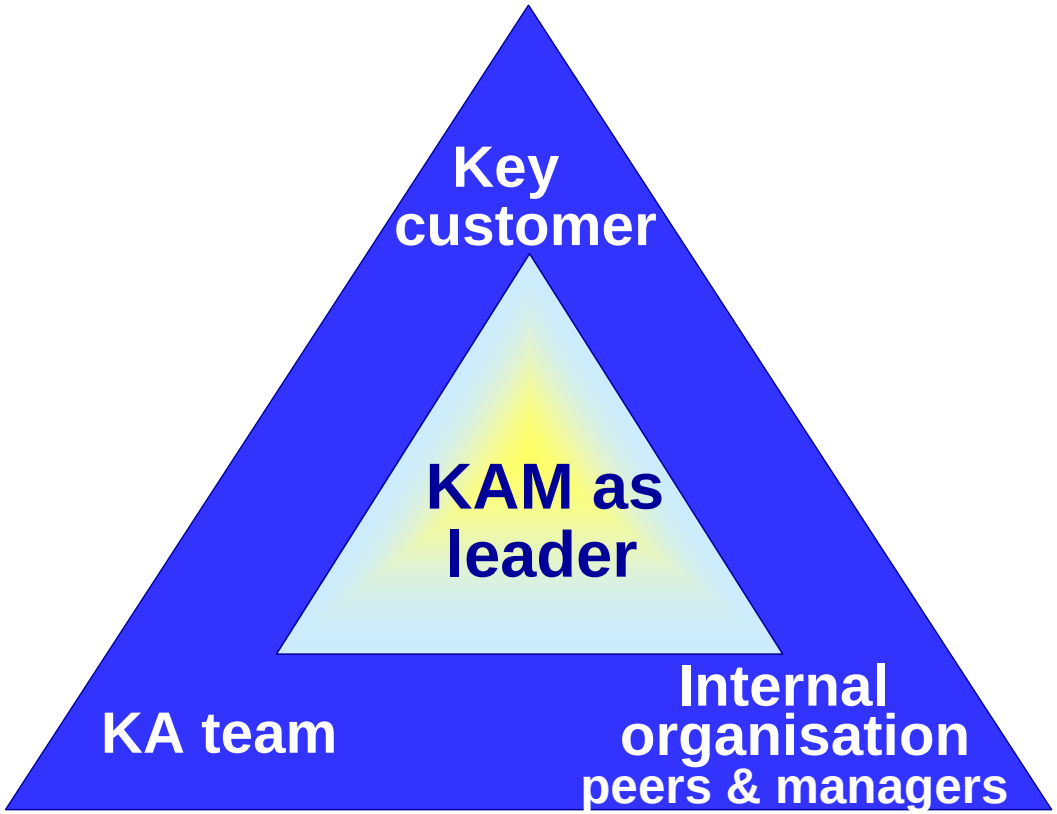
About right

Not enough time

The roles of the key account manager

	Supplier perspective	Joint perspective	Customer perspective
Implementation	Understands the customer 's business	Expert in the customer	Understands our business
	Develops strategy and value	Value developer	Anticipates customer needs, adds value
	Defines, briefs and co - ordinates commitments	Point of accountability	Ensures delivery
		LEADER	
Facilitation	Builds relationships in the customer	Boundary spanner	Leverages relationships in suppler organisation
	Represents supplier, builds the brand	Conduit	Reflects customer into supplier, ambassador
	Reference point	Focal point of contact	Single point of contact

Three leadership roles for KAMs



In summary

- Many Key Account Managers fall into the trap of executing the role just as salespeople and/or trouble-shooters, but it requires so much more.
- This and other sessions in this series offer concepts that should underpin and inform what you do as a Key Account Manager every day. “Nothing is as useful as a good theory”.
- They will also help you to demonstrate your understanding and application of the concepts in your competency write-ups for the Diploma.

Wishing you every success in your career,

Diana Woodburn, AKAM Chairman