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

PART TWO
Beyond Key Accounts - Strategic Customer/Supplier Partnerships

"Reducing customer costs while increasing supplier margin"

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This paper is one of two which consider the issue of Key and Strategic Account Management. The first paper discussed recent learning about Key Account strategy and its implications.

This paper discusses some of the most recent thinking and experience of companies which have sought a closer supplier/customer strategic partnership. It is aimed at senior managers interested in considering a more radical model of supplier/customer relationship and goes well beyond the product/price model generally used by most companies today under guise of key account/supplier.

Note of terminology – *This paper is concerned with those customers which account for the majority of the supplier's business. Different terminology is used by different companies for these customers including Strategic Accounts, Global Accounts, Regional Accounts, National Accounts, Corporate Accounts, Key Accounts and others. For the purpose of this paper, we shall use the term Key Accounts to mean the relatively few strategically important customers.*

Contents

Bullet Point Summary

- A number of corporations have gone beyond the normal key account/buyer type model with a very few selected customers/suppliers to develop a relationship which can be truly considered a strategic partnership

- As a result, the supplier tends to gain measuredly increased share, margin and longevity of relationship whilst the customer increases margin, reduces cost and gains access to the supplier's capabilities amongst other benefits

- We can observe a series of characteristics which differentiate the strategic relationship from the more usually observed key account characteristics including the role and authority of the Account Manager, the nature of the relationship itself, the move away from selling and price, the increased number of contacts and breadth of discussions and the increased focus on the value chain and especially the customer's own customers

- Although we classify 'key accounts' and 'strategic partners' for neatness, in reality we observe a continuum of relationship

- Moving towards the strategic partnership type model demands some major changes in the usual approach and way of operating – the senior management team must be aware of these demands before embarking on the initiative if it is to succeed and realise that they have a crucial role to play

- Changes will almost certainly be required to the internal management operation as each side moves to meet the needs of the other

- Changes will also occur to the scope of the relationship moving beyond the supplier/customer focus to embrace the whole value chain through to the end user

- The nature and stages of the relationship will also change significantly from the traditional selling, negotiating, agreeing and delivering to one involving establishing intent and mutual objectives, research and analysis, identify and agree mutual opportunities for gain, negotiate the collaborative operational framework, create the joint plan, joint action, measurement and reporting, review and changes

- In the strategic partnership the focus moves away from product and price towards mutual value which must be defined and measured – this becomes the focus of the relationship

- Joint activity then concentrates on delivering the value for both sides

- The supply chain is a good place to look for quick wins

- Before you engage with the other side, you must get your own 'house' in order – in particular this means ensuring that that the senior management team is supportive of the initiative and understands the implications

- We can identify a stepped process for embarking on the strategic partnership – this is the approach which experience suggests is most likely to leads to success

- It is very important to set and manage expectations – the process takes longer and requires more effort than you think – but the rewards are greater than you imagine

- Some companies have adopted a 'lighter' version of the partnership model in order to test or restrict the concept

Introduction to the concept

Large corporations have long recognised that a few suppliers and a few customers are critically important to their business and have created much closer commercial relationships with these selected companies. They might have merged parts of their operations, established sole supplier/buyer status, use open-book accounting, created a joint venture and so on. They have reached a point in which they are fully committed or locked-in to these relationships and as such have moved well beyond the more normal seller/buyer relationship.

Some companies have sought to extend this concept to rather more suppliers and customers in order to move beyond the more usual key account/supplier relationship and so derive additional commercial advantages.

For both sides, the driver is the opportunity to gain a unique competitive advantage over direct rivals. The customer aims to increase its margin through efficiency gains and having access to development capabilities not enjoyed by its rivals whilst at the same time unlocking longer term value. The supplier aims to increase its share, margin and longevity of supply with the customer and in harmony with the customer, drive long term value.

For both sides then the commercial gains can be very attractive but this approach takes both sides away from the traditional buyer/seller – price/product type of relationship and beyond the point which most companies have reached with their key account/supplier model; as a result it has significant implications for both sides.

This is an approach which you do *with* the other side, not *to* the other side. Both sides must make the decision together. Both sides must contribute and both sides must benefit for this approach to work.

This paper aims to summarise some of the most recent learning and experience and is aimed particularly at corporations and senior managers interested in exploring the benefits available as well as the implications of moving beyond the established key account/supplier approach to achieve a strategic partnership.

The characteristics of the partnership relationship

When it comes to the supplier/customer relationship, different companies use different terminology to mean the same things and the same terminology to mean different things. At the same time we find some companies will make extensive use of certain words and as a result, the meaning of these words becomes lost. It is not uncommon to see widespread use of the terms: strategic, partnership, value, world-class, without an accompanying definition of exactly what it meant.

Consequently some senior managers believe that their company is utilising a strategic customer/supplier partnership model simply because they have heard these terms used repeatedly.

So a good place to start the discussion is a survey of the typical characteristics of the strategic partnership relationship which we have observed. This will give us a good idea of what we mean by this type of relationship. We won't necessarily see every element listed in every case, some relationships might be rather different and the list is not intended to be comprehensive; rather it is intended to establish the overall vision. The specifics will be driven by the situation, objectives and constraints on both sides.

In each case, we have sought to show the typical focus point from which we move away and the vision towards which we want to move. In most cases, we see that there are significant differences between the partnership vision characteristics and the traditional key account/supplier model.

- Away from focusing on products/services – towards mutual value and competitive differentiation (rarely found in the product or service)
- Away from focusing on selling to the customer – towards focus on selling to the user and customer's customer
- Away from supplier/customer focus – towards focus on the total value chain
- Away from focusing on price – towards focusing on cost elimination and efficiencies
- Away from short term selling/buying – towards assumed ongoing business
- Away from supplier derived benefits – towards mutual value development
- Away from separate operations – towards joint working parties to address specific questions
- Away from restricting data and access – towards sharing data and promoting access
- Away from single point of contact with ad hoc additional managers as required – towards multi-disciplined dedicated teams with regular formal communication
- Away from Account Manager and Buyer led discussions - towards multi-level discussions co-ordinated and overseen by the Account Manager and Supplier or Purchasing Manager
- Away from middle-manager Account Managers/Buyers with limited decision-making authority – towards senior-level managers with the highest level decision-making authority
- Away from limited or ad hoc senior engagement – towards regular full board active role
- Away from the relatively low level formulaic Account/Supplier plan - towards mutual strategic plan underwritten by both boards
- Away from separate measurement – towards joint measures and reporting
- Away from separate operations – towards merged or mutually dependent parts of the operations
- Away from playing one customer/supplier off its rivals – towards long term commitment

To make the point again – we don't necessarily observe every characteristic in every relationship and certainly they will not all happen at once. We tend to start with mutual intent and a development plan which (ideally) proceeds by small steps. As experience and confidence grows and as both sides start to see commercial results coming from their joint activity, we tend to see increasing commitment and activity.

Implications

There are of course many implications of moving towards a greater level of strategic partnership. We have identified some of the most important here:

Change in the internal management operation

The traditional model of Account Manager/Buyer interaction, with occasional input from other managers as required, with both sides setting objectives driven by their own corporate demands does not work for the strategic partnership. We need to change the nature of the way we think about and communicate with the other side.

We move away from the idea that the customer relationship is the sole responsibility of the sales department and the supplier relationship is the sole responsibility of the purchasing department and move towards the idea that the supplier or customer is truly a strategic partner and as such demands the full attention of the whole board and an extended management group on a regular basis.

Both sides must recognise that they will have to change aspects of their current internal model to accommodate requirements of the other side. This will necessitate additional work, cost and disruption and will be objected to by internal managers uncomfortable with the changes. Typical examples of the areas requiring change include provision and availability of data, KPIs, measurement and reporting, order processing, supply chain and logistics, new product development, market and value chain knowledge, user knowledge, time commitment of senior managers and so on.

The active engagement of all senior managers is critical. Many decisions will demand board level approval at least at the start. We have to have regular and active engagement from a wide set of managers starting at the most senior level; unless the senior management team is engaged the model will not work.

The role of the Account Manager and Buyer changes significantly; the revised role of the Account Manager and Buyer is elevated in stature, responsibility and authority.

Extending the thinking beyond the immediate relationship

The traditional model used today sees the supplier considering a range of 'preferred' customers or key accounts typically based on volume (high volume customers typically become 'strategic' accounts) and the customer considering a range of 'preferred' suppliers based on their ability to meet specifications and their price.

In the partnership relationship, the thinking is extended beyond the simple supplier/customer interface with its focus on the short term to embrace the complete value chain and the medium to long term.

The interest now is on where the two parties fit into the value chain and how the chain develops in both directions. In particular we are interested in the final users and the route to the final users. So we become more focused on the customer's own customers through to the user. By taking this approach we are able to discover all sorts of insight which will inform our thinking about value at different levels and about the total offer presented to the user.

We will also be very interested to look carefully at the supply chain because it is here that we often find the early wins in the initial stages of the partnership relationship development. The initial wins often rely on cost reduction and efficiencies from jointly studying the supply chain.

In the partnership model the focus for the supplier is on selling to the customer's customer or user *with* and *through* the customer *not* simply selling *to* the customer. Similarly the Buyer must be buying with a focus on his or her own company's customer and the user not simply concentrating on the price using a standardised specification – this is often a very difficult issue for many supplier's and customer's managers to grasp, particularly those suppliers focused on the measurement of volume sales and the customer focused on price. This is why understanding the value chain and the core influencers is an important aspect of the process.

Change in the nature of the relationship

The next important point to note is that we are talking about a fundamental change in the nature of the relationship. This is important because whilst many senior managers on both sides understand the idea of using collaboration to increase the pot, they balk at the idea of changing a model of relationship which they have known for many years – there is a difference between the intellectual understanding and the emotional acceptance.

In the simplified traditional view of the relationship we see four main stages: rfp/rfq and selling, haggling (often not much in the way of negotiation – more just haggling over price), agreement and implementation of the agreement (the operational aspect of the deal).

In the partnership model there are rather more stages which can be broadly summarised as: establishing intent and mutual objectives, research and analysis, identify and agree mutual opportunities for gain, negotiate the collaborative operational framework, create the joint plan, joint action, measurement and reporting, review and changes.

As an image, we see in the traditional model the two sides on opposing sides of the table and in the collaborative or partnership model the two sides on the same side facing the mutual issues.

Focus on value

A fundamental difference with the partnership model is the focus on value. Again this point is often difficult to communicate to suppliers because so many managers are convinced that they already focus on value with their customers/suppliers without really interrogating what they mean by value.

What we are talking about here when we use the term value, are the mutual benefits for both sides *beyond* those available from the traditional relationship. We could say that the whole point of the partnership model is for both sides to work together to define, identify and extract value for both sides beyond those they currently get – and by value we really mean more money. So in the partnership model both sides must be able to show that they are *financially* better off both in the short and longer terms.

The challenge here is that in order to move away from the traditional model to a value co-creating model, both sides must recognise the need to change their approach – this is a very significant challenge for many who are vested in the traditional model.

Value is defined by each side – again a difficult point for many suppliers who think they can define value for the customer because traditionally they have been told that they must have a 'value proposition' or a 'usp'.

How can we generate more money for both sides? by selling more for less. Selling more demands deep understanding of the value chain and the end user with both sides working together to redesign the product/service offer; doing things for less requires cutting the cost of doing business together achieved through a detailed assessment of the supply chain and the overall mutual operation. This is normally where we recommend you start because cost elimination it is the easiest, clearly measurable and clearly visible of the opportunities.

When suppliers and customers work together they generally find many efficiency opportunities within the supply chain where they come together in the operational process and supply chain. In every case we considered, the gain for both sides available by working together was significantly greater that the gain available by focusing on price. This we have found to be a critical point for the customer – the margin gain for the customer is much greater when it works with the strategic supplier than when it tries to gain from price pressure. The price pressure gain is modest (the supplier resists and has little room for movement) – the joint working gain is significant.

As an example of one of the quick wins, one way to focus the thinking is to consider some of the things which the supplier is doing for the customer which do not deliver any value for the customer but do incur cost for the supplier. If we can eliminate these by working together then we can share the savings. We have found this to be a very fruitful place to start because most suppliers do many cost-bearing non value-adding things and often customers can identify them quickly.

Getting early wins is also useful to underpin the validity of the partnership model and to assuage the concerns of the many managers concerned with the changes and their implications.

Prerequisites – you must have these things in place first

So much for the concepts – what about the practical application? Before we can engage with the other side, we have to get our own house in order. This means we must be clear on what we want to achieve and ensure that the entire senior management team is fully supportive. It is important not to skimp on this stage – if it goes wrong, very often we find that vague objectives, unrealistic expectations, lack of understanding and an unwillingness to change at senior level underlie the cause.

Here is a list of prerequisites to consider before you engage with the other side:

- Active senior management endorsement, support and time commitment
- Recognition of the needs and demands of change
- Clear agreement about your aims and objectives - why bother?
- Some degree of central control and willingness to impose control
- Clarity about responsibilities and roles
- Clarity about expectations and measures of success for you
- Recognition that it will take much longer than you think
- Having, getting and being willing to share the right data

How to move towards the strategic partnership

Now we turn our attention to the practical side – what do we have to do? You will see below a series of neat steps summarising a process – in reality the process is not quite as neat as it appears and there will be much discussion and debate along the way but as a start the process outlined below will give us the main elements.

The key here is to proceed in short steps bringing the whole of your management team with you as you progress. If part of the management team does not accept the new model then it will not work.

Let's now consider the model as a series of steps:

1. Define and agree your objectives
-why are we considering this? What do we want to achieve? Is it worth it?

2. Identify potential partners
– very few – which companies are most likely to be able to work closely with us? Why?
Select one for a pilot

3. Senior manager engagement
–your most senior manager approaches their most senior manager to sound out the idea and consider possible areas for collaboration in the first instance – not the usual managers because we want to signal a change in the relationship and communicate seriousness

4. Senior management teams from both sides meet
-for one or two-day off-site working session - two days is better but often difficult at the early stage to get everyone to commit the time in which case we tend to have two single days with the first to establish the idea – this is a formal third party managed process at a neutral venue
Day 1 = exploration of either side's views, objectives and response to the other side; concludes with agreement (or sometimes not) on and areas for joint working – what do we think/what do we want?
Day 2 = more detailed consideration of areas for joint working resulting in mutually agreed objectives and measures, joint working party with a plan of action (best to pick just one thing) – ideal time no more than six months to delivery (shorter is better)

5. Establish the working party(ies)

– aims, objectives, rules, roles, operational approach, communication, confidentiality, process for managing conflict, process for escalation

6. Agree the activity
– write the Joint Plan

7. Data required
-determine what data is required and how to get it

8. Run the work stream(s)

9. Monthly senior team reporting
-mutual reporting in agreed format, requests for senior management input if required

10. Six months joint senior management/board team meeting – one or two days
-formal review of the results
-review of the relationship – what works/does not work
-agreement to continue
-identification of next areas for consideration – objectives/working parties etc.

The 'enhanced' relationship as a pilot or compromise

Some companies will consider the implications of the partnership model too extreme or not practical for them currently. Others will want to test the concept before committing. We have found that there is a compromise of the partnership model which could be considered as a 'light' version of the all-out commitment of the partnership. Simply to have a label we use the term 'enhanced' relationship to describe this lighter version.

This 'enhanced' key account/key supplier relationship might be appropriate where one or both sides are unwilling to commit totally but do see advantages in some form of closer working.

In this form of the relationship, we might see the relationships at a lower level, perhaps regional or country managers, we might see joint teams working on a defined project (very similar to the joint working of the partnership but now confined to one agreed issue), we might see sharing of specific data to a common end and so on.

We can summarise some of the typical drivers propelling this 'enhanced' relationship as:

- Recognition that advantages are available but not willing to commit to one partner or wanting to test the partner type relationship before committing (most companies prefer some testing phase both to move through the learning curve and to satisfy the inevitable doubters).

- Recognition that increased joint focus in at least one area is very likely to lead to mutual benefits – a very typical example is the reduction of cost from the supply chain.

- One side seeking to leverage a particular advantage by restricting the discussion to one company in exchange for some other benefit – for example a supplier might offer technology capability to one customer and the customer might offer distribution/customer access; both sides getting more by restricting their capabilities to one supplier/customer.

So we see that there are various circumstances in which a pilot or 'light' version of the partnership model can be employed.

Summary

What we are seeing then with the partnership model is a significant change in attitude and operation.

The customer, through the purchasing department, traditionally considers the supplier as one of a number of potential suppliers, all of which meet the basic supply requirements, with whom it may do business if the price is right.

The supplier, through the sales department, traditionally considers the large customer as one of a number of large customers to whom it must sell a supplier-created volume target.

In the partnership model, both sides focus on driving commercial gain from the value chain in such a way that both are more commercially and financially better off from the new relationship than from the traditional key account/supplier relationship.

The results available to both sides can be significant.

However the process is not simple because we are dealing with change and change is always hard.

It is better to focus the effort, have modest objectives and maintain high priority over the long term rather than aim for a spectacular quick win – always temper expectations.

The focus at the start should be on developing the working relationship and developing the joint working process rather than rapid commercial gains.

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

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The KAM Group is a team of senior practitioners, academics and consultants who work with corporations to enhance their commercial relationships with their most important customers and suppliers. In addition to consulting advice, the group runs intense, interactive Masterclasses for senior managers, delivers blended-learning and skills development at different levels.
www.KeyAccountManagement.org

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