



The Association for
Key Account Management

Creating Value and Value Propositions

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Professionalising Key Account Management

Website
A4KAM.org

Relationship costs

- Direct procurement costs
- Direct transaction costs
- Relationship-handling costs
- Supply-handling costs

Relationship benefits

- Cost benefits
- Revenue benefits

What is value?



The perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering.

Anderson and Narus 1999

Assessing value involves a judgement comparing what was received (e.g. performance) to the acquisition costs (e.g. financial, psychological, effort).

Oliver 1997

Perception is reality!

Definition of value



Value = perceived benefit – perceived sacrifice

- benefit = attributes of importance to company
- sacrifice = total costs/effort/input as seen by company

Perceived benefit = perceived sacrifice \neq value

Potential KAM value for suppliers



Sources of business growth

- Retaining customer, averting switching
- Higher share of customer 'wallet'
- More contacts, wider view of customer opportunities
- Entry to new customer divisions/sister companies
- Consistency of prices, products, processes across locations or divisions
- Faster implementation, earlier income
- Braking inevitable decline

Sources of cost reduction

- Learning curve for efficiency increases
- Economies of scale, growth to critical size
- Business development: bid procedure waived, higher win rate
- Shared value from solutions, earned value
- Better procurement: better understanding & forecasting
- Resource allocation: better modelling & forecasting
- Supply chain development & shared savings

Value for suppliers – beyond sales



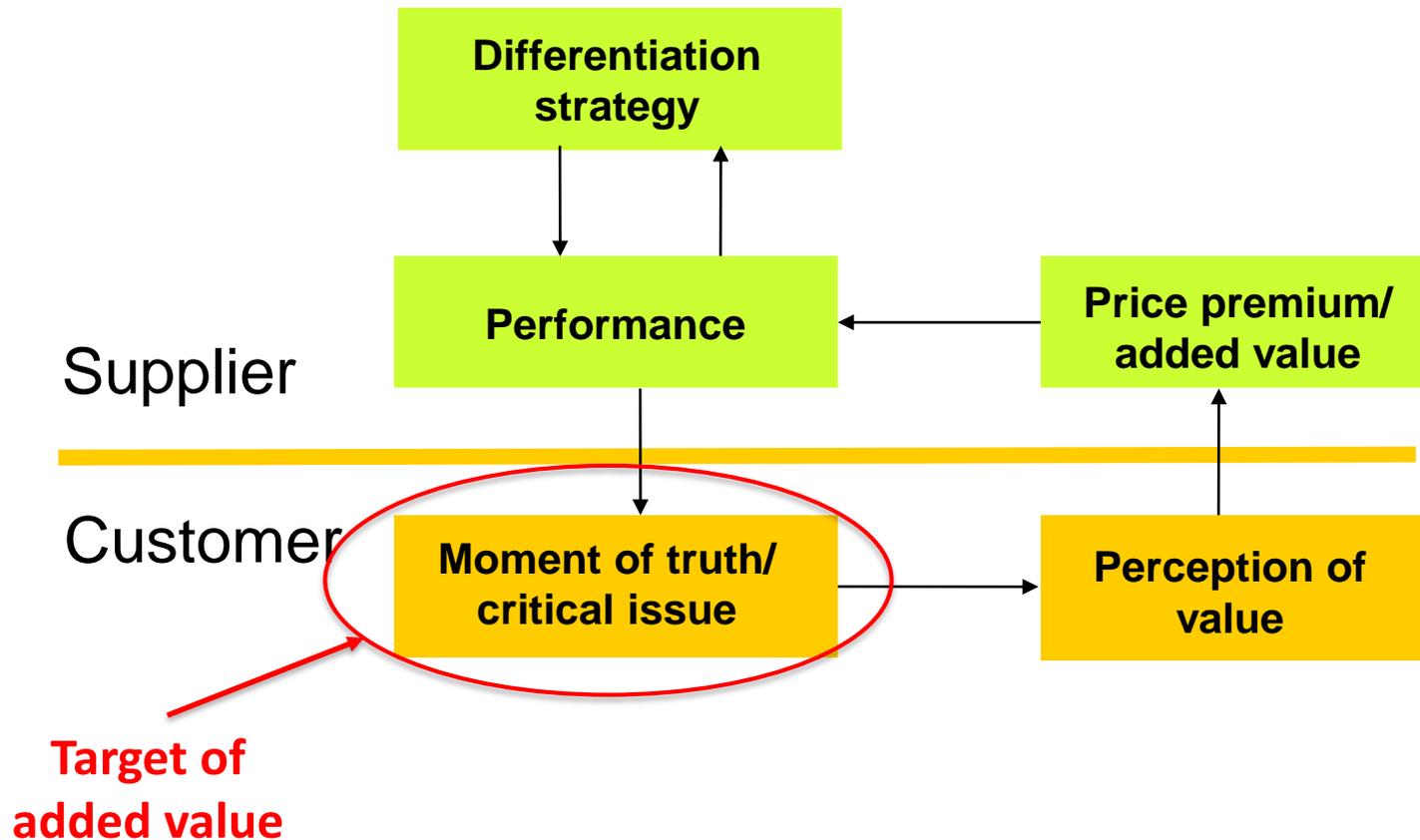
A company was comfortable with the idea that customers did not want to ‘put all their eggs in one basket’ and buy all their requirements from them. “Our analysis shows that about 70% share of wallet is best for us. At that level we maximise our profit, and beyond that we start to lose money. Anyway, we can cope with competition and it’s good for us.”

A supplier and its customer together identified £15m of savings. They reimbursed the investments each side had made to achieve these savings and split the remainder 50/50. The concept of ‘earned value’ was applied, based on a portfolio of shared measurement, so the supplier could receive some of the cost savings achieved for the customer.

A company made savings of 3-6% on their selling, administration and general costs alone in key accounts v smaller customers. “Cost reduction is easier in large accounts. Also, in smaller accounts the ‘engagement process’ is particularly expensive. We’re looking for alternative ways of doing business and it’s easier to do it in large accounts.”

“A global company could easily be touched by 50 of our salespeople ... using loads of resource ... and no-one would see it!”

Sources of value for key customers



Differentiated Value Propositions



The 3 challenges

1. Differentiated

Why your company?

How is it different from competitors?

How is it different from other customers'?

2. Value

Perceived benefit – perceived sacrifice

3. Proposition

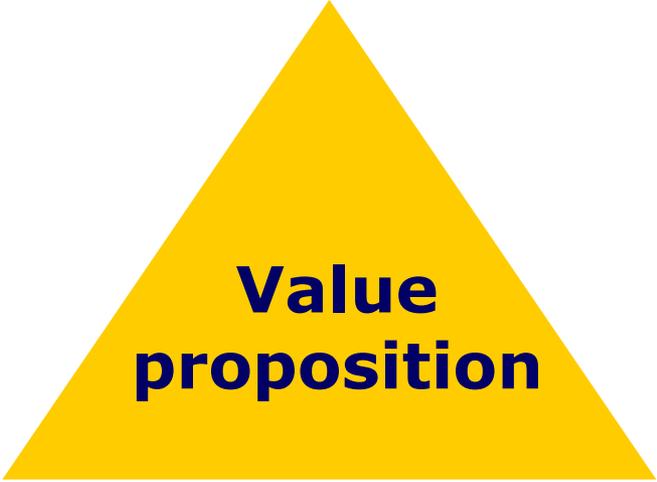
Superior value propositions must be:

- achieved
- communicated to customers

What does a VP need?

How you will help the customer
succeed in its business

Impact



**Value
proposition**

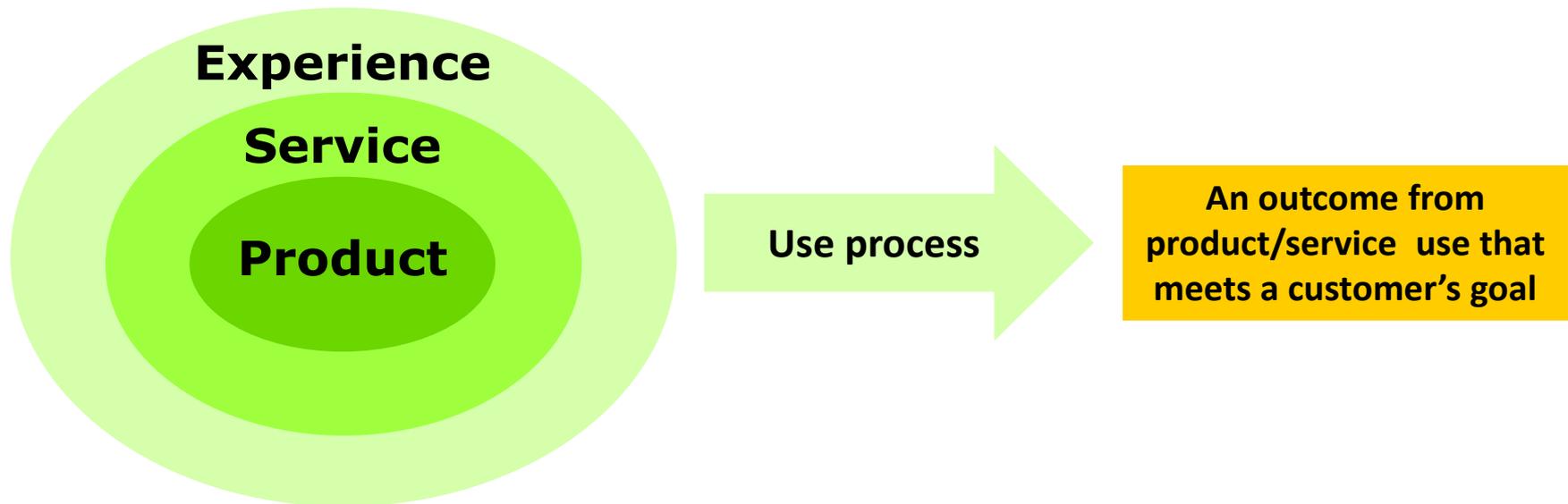
Capability

What you have and
what you can do
for the customer

Cost

What the customer
must pay or sacrifice
for the privilege

Value in use



Value for different kinds of customers



Sell-TO customer:

Customer uses what you supply to support their business.

1. Cost likely to be business overhead
2. More price and quality sensitive
3. More likely to look for cost benefit than revenue benefit.

Sell-THROUGH customer:

Customer sells what you supply on to its customers, with or without augmentation.

1. Your offer needs to be appealing to their customer
2. Price context is revenue/margin-earning opportunity
3. Other considerations less important, though still matter

Whose perception?

IBM's old value proposition



Capability	IBM will offer you very reliable IT products and expert consulting services
Benefit	so you will have trouble-free data management
Cost	at a price premium.

What changed?

- product/services no longer created enough value
- everyone's equipment became reliable
- excellent service became the norm

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IBM's new value proposition



Capability Outsource your complex business problems to IBM

Benefit to gain substantial savings and business efficiencies

Cost that will more than offset the modest price premium.

What is different?

- focus on value of solutions, not products
- IBM staff now create more value than IBM products
- IBM's institutional experience creates value (the company)
- price premium becomes "modest"

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Compelling AND believable



“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.”

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Value Propositions for a key account



	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 down

- if you don't, they probably don't exist, and even if they do, you won't be able to explain to your customer or your company

Value CO-creation



- The ideal approach
- Guarantees acceptance
- Revealing, of capabilities and policies on both sides
- Requires mutual trust
- Important to establish terms of engagement in advance
- Key account manager role? Project manager?

Summary



Value Propositions must be formulated from the customer's point of view.

Powerful VPs answer these questions:

- What value does the customer get?
- Why should the customer want it?
- What is unique about my value proposition?

Then ask:

- Where is the value for my company?