Can KAM exist in the FMCG war zone?

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Key Account Managers arriving at Morrisons Supermarket's head office encounter the grocer's first negotiation tactic before they set foot in the meeting room. It's subtle, which is why most KAMs fall for it. A few see it and laugh quietly before turning their attention back to their phone. Many sigh as their shoulders drop, looking anxious and slightly paler than before. It is playful intimidation, like a cat toying with the mouse. But the comic-strip characters are telling every KAM who reads them who has the power – and it's not the KAM.

Two cartoons hang in a frame on the waiting room wall. The first shows a gap in a limestone wall, typical of those found in the hills around Morrison's Bradford home. Gathered on the uphill side, a flock of sheep, eager to pass into the next field where the grass is more appetising, look terrified. On the downhill side, a salivating wolf asks "Who's first?"

In the second, the Viking warrior Hägar the Horrible stands armed with swords, a spear, knives, a club and his shield, on his way to sign a peace treaty with the King of England. His wife asks "So why are you taking all those weapons?" "Because first we have to negotiate!"

The cartoons caricature the famously hostile environment in which suppliers and large customers in the fast-moving consumer goods (FMCG) industry do business. Reports of relationships and individual meetings read like despatches from a war zone where carpet-bombing, hostage-taking and drone strikes translate to mass product de-listings, unjustified extreme threats and huge financial penalties imposed without discussion.

Can "pure" Key Account Management thrive in this environment?

Industry structure influences the supplier-retailer relationship

Such confrontational relationships cannot be good for business, can they? Yet they persist like rain during the English summer. The reasons are mostly structural. At the heart of the relationship is a scare resource – profit (see the diagram). Every participant in the value chain strives to increase their share at the expense of someone else. At the end of the value chain, the consumer caps the available profit by deciding at what price the product represents good value and is worth buying. Upstream, farmers compete with processors who tussle with manufacturers who battle it out with wholesalers and retailers to grab as much of the profit as they can. There is no mechanism for deciding fair shares – higher profits go to those who have the scale, skill and tenacity to fight hardest for it, which usually means a battle between the manufacturer and retailer.

Manufacturers and retailers tend to compete hardest because they invest the most to create value – manufacturers, by developing innovative, high quality products that drive consumer demand; retailers, by providing access to millions of shoppers and consumers without which manufacturers see their products suffocate and die.

Manufacturers that own big brands and that invest to grow demand perform better in the contest with retailers than manufacturers who just copy. Small suppliers with genuinely innovative products that satisfy emerging consumer needs also do well (although they sometimes undervalue their offer and let retailers win a higher share of profits than they deserve). Many private label suppliers do well too, especially those who provide something different that creates incremental category sales. We'll look more closely at the category later in the article.

Yet it's because so few buyers can grant or withhold access to millions of shoppers and consumers with the click of a mouse that retailers hold such power over suppliers. In reality, the relationship is more co-dependent: retailers need manufacturers' products and promotions to constantly attract huge numbers of shoppers into their stores and convince them to spend more of their grocery budget with them rather than another retailer.

There are truces in this war where both sides cooperate to achieve shared goals. But these can be short-lived,

Value chain members compete for limited profit

Can KAM exist in the FMCG war zone? (cont.)

shattered without warning if the retailer is forced to react to an initiative from one or other of its rivals. Grocery retailing is a vicious business where everything can change in an instant. It's an important goal of Key Account Management to increase the frequency and duration of these truces so supplier and retailer can do more productive work.

Key Account Management excels in FMCG

This hostile, confrontational, competitive environment seems neither conducive to "a supplier-led process of inter-organisational collaboration that creates value for both supplier and strategically important customer," nor to "offering individually tailored propositions designed to secure long-term profitable business through the coordinated deployment of multi-functional capabilities".

Yet it's precisely because they operate in a war zone that FMCG suppliers have some of the most effective Key Account Management programmes and some of the most skilful Key Account Managers in any industry.

FMCG suppliers that succeed with Key Account Management excel in three areas:

- They do the basics very well
- They concentrate on growing the category first, brands second
- They create value across the entire relationship

Doing the basics well

Early in my career as a Key Account Manager, I created a growth plan for one of the top four UK grocery retailers. Adopting the plan would have meant significant revenue and gross margin growth for both the customer and my organisation. Fully prepared, I was excited to present the plan and win the support of the buyer. But I didn't even open the presentation.

At the start of the meeting, the buyer recounted every instance during the previous year that we had failed to deliver an order in full or on time. "Until

you can get the basics right," he told me, "don't bother presenting a plan for growth. I'm not interested." I left the meeting crestfallen but with two important lessons learned. First, focus on the customer – I'd have seen this coming had I not been totally absorbed by the beauty of my plan. Second, the buyer was right: DO THE BASICS WELL before proposing something more ambitious. And there is nothing more basic than fulfilling an order in full and on time.

Doing the basics well builds trust. Reliability is the foundation of a trusting relationship. How can a company be trusted to deliver a complex growth plan if it can't deliver a simple order?

In FMCG, the basics extend beyond on-time, in-full deliveries. Product quality, shelf life (the time before the product reaches its Best Before date) and promotions are among a long list of "table stakes," minimum standards that suppliers must reach to be allowed into the game.

Doing the basics well is a requirement for Key Account Management in any industry, and FMCG is no different.

Concentrate on growing the category first, your brands second

Imagine that you are the Key Account Manager for a company that sells beer. You create a plan that, when successfully implemented, will result in sales growth for your brands of €5m a year. The retailer rejects your plan because it has no effect on the overall sales of beer in their stores - all it does is transfer sales from other beer brands to yours.

The retailer will support proposals that increase their total sales of beer – the category – not those that merely help one brand win share from another (unless the retailer makes a significantly higher margin from it). So, suppliers can reduce conflict and increase cooperation by having category growth as the core of their strategic account plans.

A few suppliers adopt a strategy of category leadership. They invest heavily in research and analysis to discover emerging consumer needs that will drive category demand in the coming years. The unique insight they gain means they can choose which of these growth drivers to exploit with their own brands or through new product development. They get first-mover advantage for the most lucrative opportunities that sustain superior profit into the future.

In doing so, these suppliers create value for retailers by both identifying drivers of total category growth and developing the product and other solutions that will capture that growth.

Can KAM exist in the FMCG war zone? (cont.)

Both suppliers and retailers must satisfy shopper and consumer needs to suceed

These suppliers reinforce the co-dependency in the relationship.

Of course, most suppliers don't have the money or the capability to be category leaders. But they can still build their strategic account plan on a foundation of category growth by exploiting opportunities that the category leader doesn't want but which still drive category sales for the retailer.

All suppliers, whether category leaders or not, have possibilities for Key Account Management to create mutual value beyond the core products or services.

Create value across the entire relationship

Click onto any retailer's corporate website and you'll discover their high-level objectives and strategies – sustainability is chief among them at this time. Click onto major suppliers' websites and you'll find that they, too, are committed to sustainability, so retailer and supplier have shared interests. The strategic account plan should include a programme to advance shared interests to mutual benefit.

Key Account Management creates value beyond core products and services, not just through these flagship corporate initiatives, but by improving every aspect of operations where mutual gain is possible. Retailers are obsessed with operational efficiency because their net margins are so small. Suppliers that can help their customers reduce stockholding, reduce the cost of filling shelves, unload deliveries faster, place and track orders automatically, or make one of a thousand other operational improvements, will advance their commercial relationship. Those who refuse to adapt will often find themselves forced to adopt costly disruptive change.

Does "pure" Key Account Management thrive in FMCG? What does "pure" mean? Does Key Account Management create mutual value? Of course! It goes beyond mutual value by creating value for millions of consumers every day.

FMCG boasts some of the highest standards in safety, choice, freshness, innovation and value of any industry. It often leads global causes like reducing the use of plastics, reducing CO2 emissions, improving food yields.

Neither the retailers nor the suppliers could achieve this on their own. The creative tension and constant mutual challenge between them energise the continuous improvement and innovation that make the industry so successful.

Without effective Key Account Management much of the huge contribution to satisfying consumer needs – and to growing the industry – would be lost. Effective Key Account Management is indispensable.

Which leads to the three characteristics of successful Key Account Management in FMCG.

Characteristics of successful Key Account Management in FMCG

Of all the characteristics of successful Key Account Management in FMCG, three stand out.

1. The most successful suppliers know what their customers are trying to achieve, the problems that slow their progress and the gains they hope to achieve. They concentrate their Key Account Management on finding mutually beneficial ways to help their customers prevail.
2. Suppliers gain more when they take the initiative – they apply their customer knowledge and move first with solutions that work for both their customer and themselves.
3. Suppliers must be assertive. Finding opportunities for mutual value is all well and good but suppliers must make sure that they capture their share of the value. Retailers aren't obliged to share the gains (which is maybe why purists think "real" Key Account Management in FMCG isn't possible).

Some of you might be disappointed to learn that the characteristics of great Key Account Management in FMCG are the same as in your industry. But that's the point! Whatever your industry, as a Key Account Manager, you experience periods of cooperation, collaboration, maybe even glimpses of partnership. You also experience periods of animosity, opposition and maybe even hostility. Whether arrows are whistling past your ear, or you are marching along a common path with allies, Key Account Management adapts to prevail.

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