1.1 Introduction to Key Account Management

1.1.2 Identifying key accounts

Postgraduate Certificate in Key Account Management

Dr Diana Woodburn

AKAM The Association for Key Account Management

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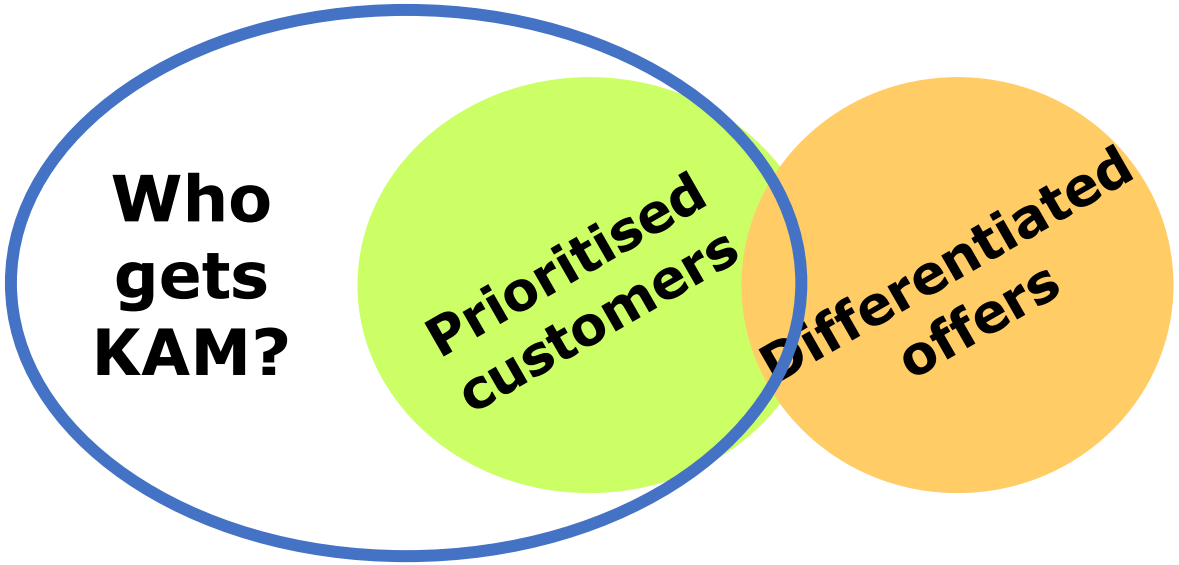
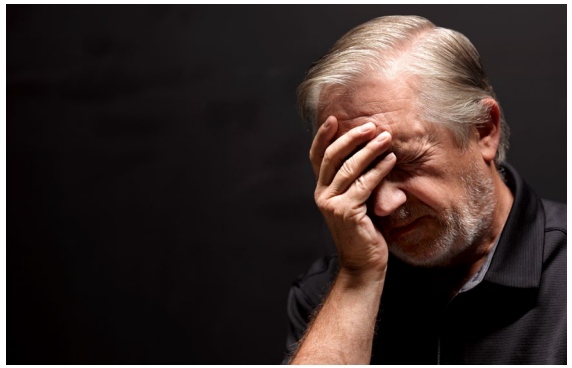
Critical decision



What do they get?

First decision in KAM initiatives



- Hard to visualize KAM without relating to customers
- Identification of key accounts is crucial
- Helps to focus: ‘interference’ from other customers confuses thinking

Agenda: Identifying key accounts

1. Who are the key accounts?
2. Strategic importance of key accounts
3. How many key accounts?
4. What does it mean to be a key account?

Learning points

- To appreciate why key accounts are selected
- To understand resource implications of KAM
- To be aware of RoI and customer profitability issues
- To understand and accept the universal limitation on numbers
- To exmine the reality of key accounts' prioritisation

Who are the key accounts?

KAM is for individual key accounts

KAM principle: all customers are different in some way: in their sector, their strategy, their structure, their ambition, their operations, their culture etc etc.

Key accounts are of sufficient importance to the supplier for their differences to be taken into consideration, and offers, ways of working, info etc tailored to them individually.

Only through closely aligning with their needs and wishes will your organisation receive the full response and reward that such accounts are capable of providing.

Saying ‘All (e.g supermarkets/ hauliers/ insurance companies etc) are the same and want the same thing’ refutes the whole basis of KAM.

Therefore: the KAM programme must deal with key accounts as individuals, not groups (like platinum, gold, silver etc)

Definitions of key accounts

A **key account** is a customer which is (individually) of strategic importance to the supplier.

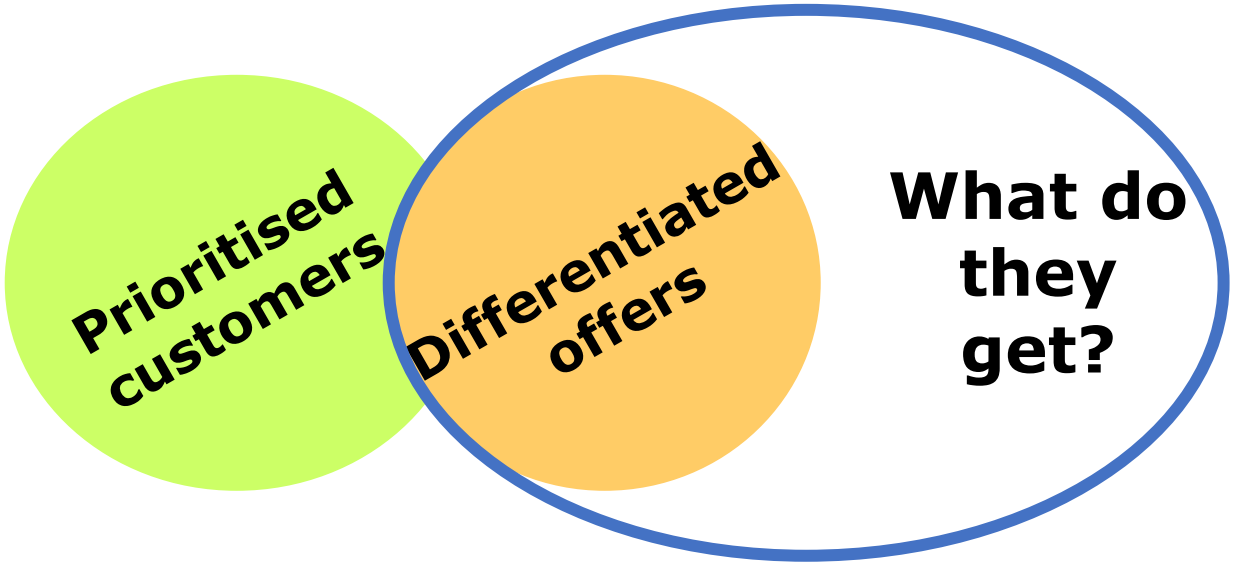
From Millman and Wilson (1996)"From Key Account Selling to Key Account Management" Journal of Marketing Practice Applied Marketing Science Vol 1 No 1

A Key Account is one of a subsection of major accounts with which we can grow business through developing a cross divisional strategic supplier relationship and will give an assured stream of long term quality earnings

DeLaRue

Inseparable linkages

Who gets KAM?



Different treatment

Individual treatment

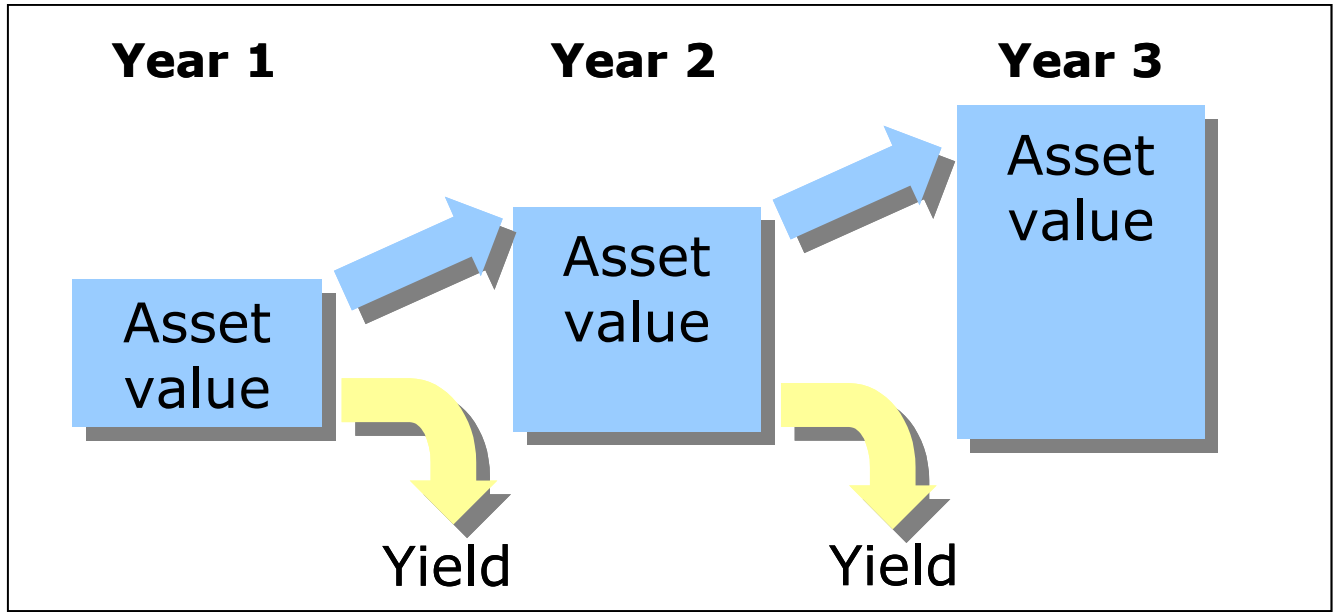
Resources!

Securing resources: talking finance

Investing resources in key customers (assets)

Investment → **Business case**

- development or maintenance of an **asset**
- increase in **value**
- short-term **yield**
- longer-term **return**



A. Why is picking the ‘right’ key accounts important ?

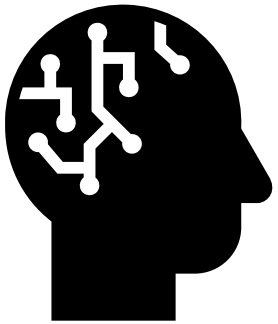
Exercise

10 minutes

What are the potential consequences of a poor selection process, ending up with a mixed bag of ‘right’ and ‘not right’ accounts?

Does it really matter?

Pause the video now and write down your ideas. Restart when you have some good answers.



A. Potential consequences

- Challenges to selection
- Confusion about identity and treatment
- Conflict over resources, fighting for ‘my’ customers
- Suboptimal application of resources
- Shortage of resources for good key customers > less interesting offers > defection to competitors.
- Spreading resource too thin > no detectable benefit for anyone > getting no result at all

KAM overall yields lower RoI than expected > abandonment of whole KAM programme!

What makes an account key?

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'….strategic importance to the business' (Millman & Wilson, 1996)

- +ve: significant potential contribution to the business
- -ve: loss would cause significant damage to the business
- Aligned with supplier strategy
- Demands/expectations beyond standard offer
- Good supplier relationships and ability to partner
- Mostly big and complex
- Market leader?

Requires clear supplier strategy. Is it clear? Do you know what it is?

Not (necessarily) key accounts?

- Big customers
- Long-standing customers
- Obligations
- Liking

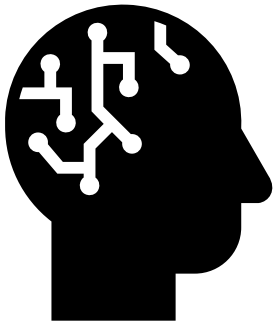
B. Contra indicators

Exercise

10 minutes

What characteristics or other factors do you think should tend to <u>disqualify</u> a potential key account?

Pause the video now and write down your ideas. Restart when you have some good answers.



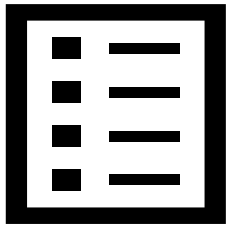
B. Factors to consider

- Risky customers
- Poor approach to supplier relationships
- Low margin/contribution customers
- Over-demanding, high cost-to-serve, low reward customers
- Strategy misaligned with supplier’s
- Don’t want to be a key account!
- Unable to respond to obligations of partnership

Key account segmentation

List? – no indication of different treatments, all appear equal

- simple to communicate
- open to different and inconsistent interpretations
- no guidance on where and how to invest resources

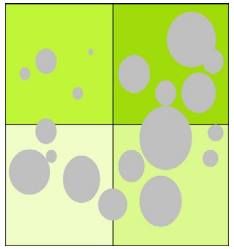


Premium groups? (gold, silver, bronze) – same, pre-formulated menu for each group:

- supplier generated, poorly-matched to customer need
- counter-KAM principle
- expensive (offer a menu and they'll take it all!)

Portfolio matrix?

- based on different potential of key accounts
- indicates where to apply resources
- basis of differentiation for determining appropriate KAM practices

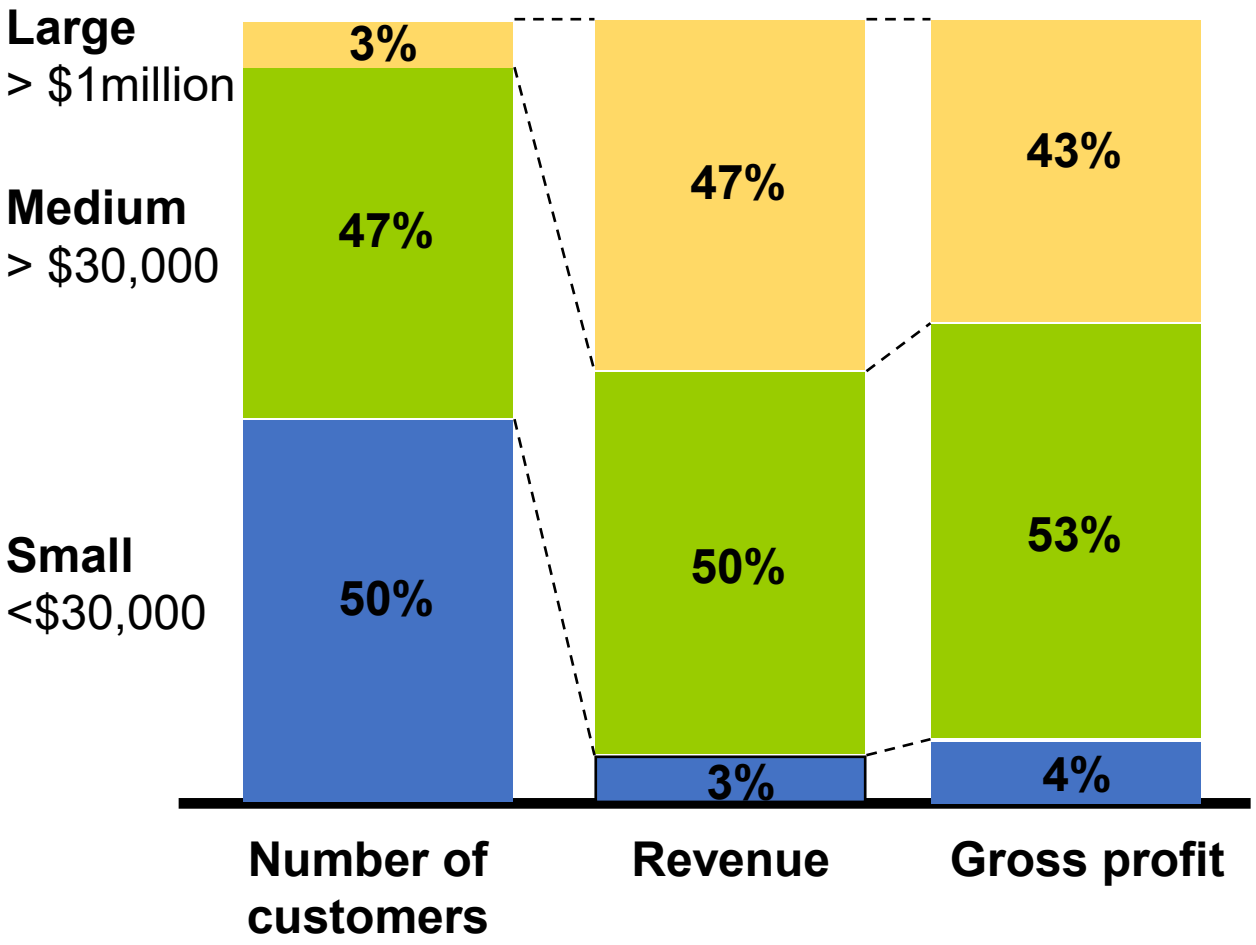


Summary Section 1: Who are the key accounts?

- Key accounts are of individual strategic importance to a supplier
- They are not necessarily the biggest or the friendliest
- KAM means exceptional treatment, which requires resources
- Selected key accounts should be seen as a portfolio
- Review the key account portfolio annually, make changes carefully

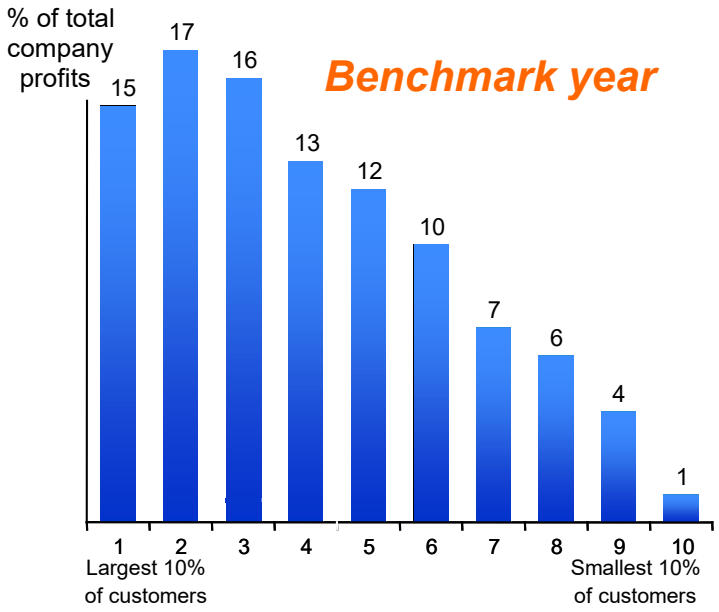
Strategic importance of key accounts

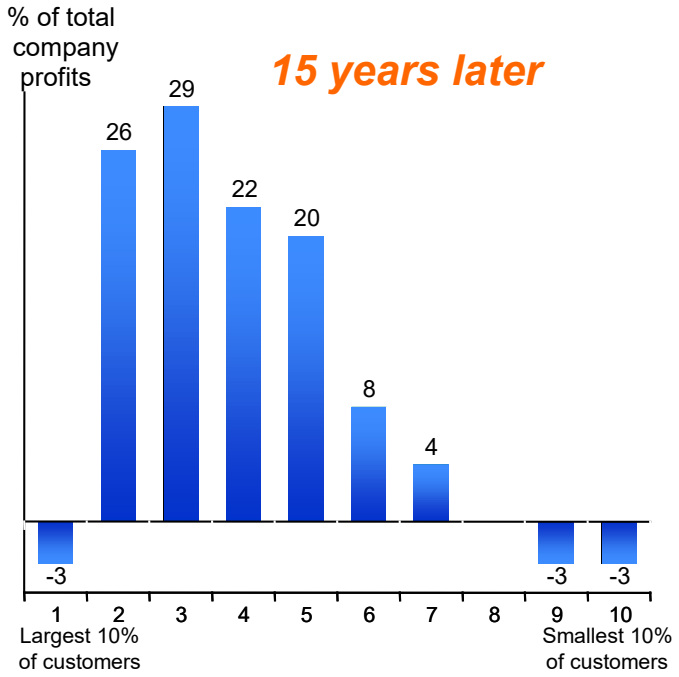
Strategic financial importance: typical case



Not necessarily so….

% of company profit by customer decile





Wilson, C. ‘Profitable Customers: How to Identify, Develop and Keep Them’

Definitions of key accounts

A **key account** is a customer which

…is (individually) of strategic importance to the supplier.

…offers a good RoI and substantial contribution to profit in future.

or not-for-profit
…offers a good RoI and substantial contribution in terms of contribution to core goals in future.

> consider cash (= reality) <u>and</u> % (management tool)

Size does matter!
Not necessarily current size

But how will you know?

Kanthal experience

KANTHAL®
Part of Sandvik Group

Kanthal: global heating materials and systems company

KANTHAL'S 20:225 RULE

- 20% of customers = 225% of profit
- 70% of customers = break even
- 10% of customers = (125%) of profit

"The Kanthal customers generating the greatest losses were among those with the largest sales volume..."

Cooper and Kaplan, Harvard Business Review

C. Awareness of profitability

Exercise

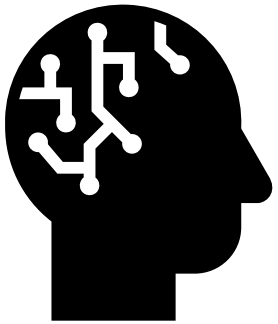
5-10 minutes

Does your company have access to key account profitability (i.e. how much it makes from the customer after all costs)?

Do you/key account managers have access to that information?

What inappropriate decisions might be made if the real profitability of a key account is not known?

Pause the video now and write down your ideas. Restart when you have some good answers.



C. Lack of awareness leads to poor decisions

Allocating investment to a ‘key’ account which:

- yields poor margins through relentless price bargaining
- yields poor margins through buying low-margin products
- makes a poor contribution by demanding lots of costly services and support
- can’t grow or has no intention of offering more business

Not allocating scarce investment to a key account:

- because resources are taken by others where they won’t get a good return
- which might defect to other more supportive and creative suppliers

Bring the KAM initiative into disrepute by failing to show a good ROI overall

What/who is a good customer?

Multinational, Germany-headquartered chemical and consumer goods company

GENERAL PRINCIPLE

- Treat good customers well
- Do something about bad customers!

But which is which? Henkel discovered major differences in agreement on who was and wasn't a 'good' customer!

Agreed 'good' customers should be those making most *contribution* to Henkel profits.

Researched customer profitability.

FINDINGS

'GOOD' customers = most 'liked' - lots of relationships and contact, even social; widely understood; easy to do business with; long history with Henkel

BUT some of these were BAD in terms of customer profitability.

WHY? took up lots of time (not free), asked for lots of new & costly initiatives not necessarily linked to more business. Henkel people tended to comply without proper evaluation, through sense of obligation and habit

BUT some 'GOOD' customers were GOOD: relationship led to more secure and more and better business

Henkel's 'bad' customers

'BAD' customers = most disliked - caused discomfort: lots of demands requiring major change; aggressive, confrontational relationships, often not well understood

BUT some of them were GOOD in terms of customer profitability.

WHY? focused, purposeful demands; thought/market leaders pushing Henkel to market-leading innovations; paid for value when changes delivered; growing their business

BUT Some 'BAD' customers were BAD: lots of demands/unpleasant relationships/low profitability

If you don't know which is which, you can make some very wrong decisions!

Need to know …. need to act

Case 1:

Situation recognised but costs not captured

Customer A is well-organised, gives forecasts and sticks to them.

Customer B gives poor information and often cancels at short notice – or expects deliveries at equally short notice. This disorganised behaviour clearly costs the supplier money.

The supplier's systems don't pick up how much Customer B's erratic behaviour costs, so profitability reporting does not reflect the difference.

Customer terms are the same, Customer A is worth more, should get more, open to competition.

Case 2:

Data captured but no action taken

Customer A offers relationships at all levels, fantastic penetration, very stable, easier and cheaper to run than Customer B.

Customer B is big and aggressive, 'as tough as old boots', squeezes out value, takes whatever is available and won't pay for it. Pays less and more expensive to run. The supplier knows it receives a much lower margin than on Customer A.

Customer B is consuming resources not available to Customer A: opportunity for competition.

Overall RoI on KAM doesn't look good.

Summary Section 2:
Strategic importance of key accounts

- Strategic importance equals optimum contribution to profit in business.
- In not-for-profit organisations, the optimum contribution is to the organisation's core objective
- Customer profitability cannot be assumed
- It's hard to judge a key account without knowledge of customer profitability/contribution. But other indicators can help.

How many key accounts?

Limited numbers

- Too many and the company can't cope with quantity of non-standard requirements, so fails to deliver KAM to all of them and disappoints expectations
  - Logistics company example: 18 → 36 → 250 'key' accounts → 75 ↓↓↓.
    Angry, disillusioned customers with built-in resistance and scepticism, next time around.

- Too few and the company doesn't consider them sufficiently important to the business so it doesn't adapt to KAM, again fails to deliver
  - Sometimes very few accounts make up large % of supplier's market and business (e.g. manufacturer with 3 key accounts = 75% of business! Dangerous position, brilliant KAM mandatory.)

Raising expectations among the kind of customers who would be key accounts and then disappointing them is a really bad idea!

How do organisations find the ‘right’ number?

“However many there are out there” – normally no such group

Professor Nigel Piercy, 2002

How do organisations find the ‘right’ number?

- “However many there are out there”
- Determined by sector, e.g. car manufacturers
- Given number per SBU or geography – being ‘fair’ (not)
- Given number per ‘key account manager’ – rewarding seniority

Should be

- Process of objective research and analysis

Step 1: decide how many can be managed

How much flexibility and change can the organisation cope with, how much resource will it allocate?

How many? Early research findings

How many?

- Nearly 2/3 of suppliers surveyed had fewer than 20 key accounts
- 1/3 had fewer than 10 key accounts

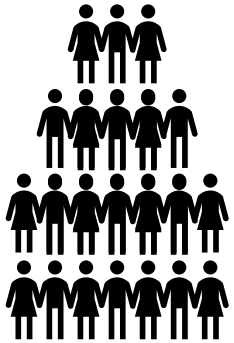
How important?

- **Pareto 'rule':** 20% of customers deliver 80% of business
- 8/10 said their key accounts delivered over 50% of total turnover
- 3/10 said their key accounts delivered over 75% of total turnover

Numbers commonly seen

- Normally 5 - 25, partly depending on sector and company

- Lower number (e.g. 5) in highly concentrated markets and smaller suppliers
- 25 in large diverse companies with sufficient resource but more complex, so still limited capacity for KAM



D. Number of key accounts?

Exercise

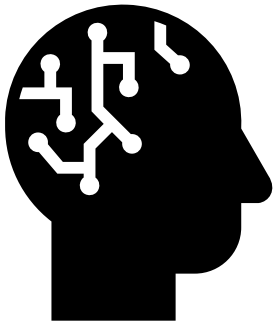
10 minutes

How many key accounts does your organisation have?

Is the number and identity of the key accounts clear to everyone in the company?

What are the consequences if the number and identity aren't clear and agreed?

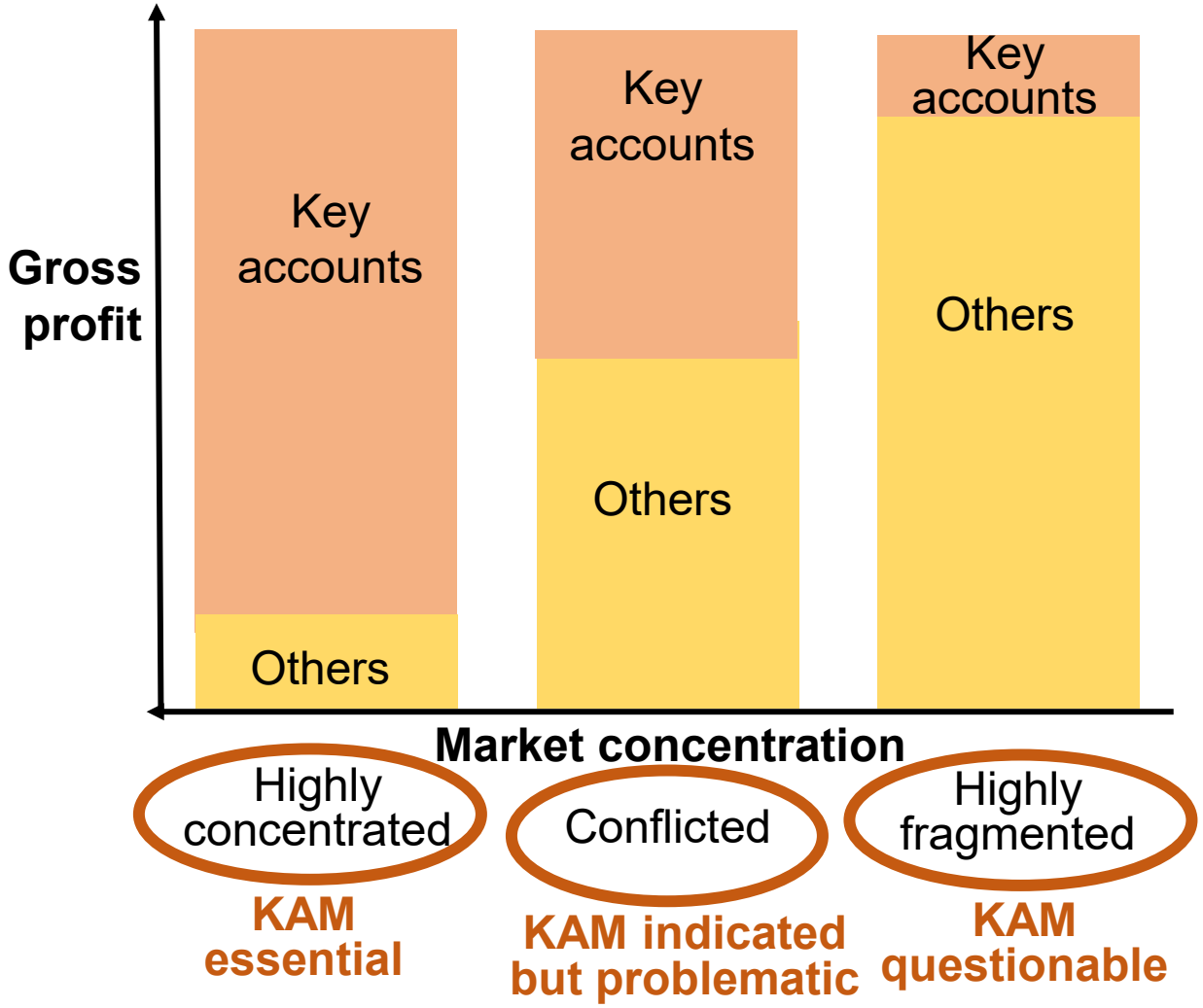
Pause the video now and write down your ideas. Restart when you have some good answers.



Importance of clarity (and acceptance)

- Resource is focused on the right accounts, not spread around thinly
- Reduces internal conflict
- Helps internal functions to organise responses
- Helps internal functions can assess capacity for new demands
- Customer receives appropriate responses <u>whenever</u> and <u>however</u> they make contact
- Optimises ROI!

Internal situations



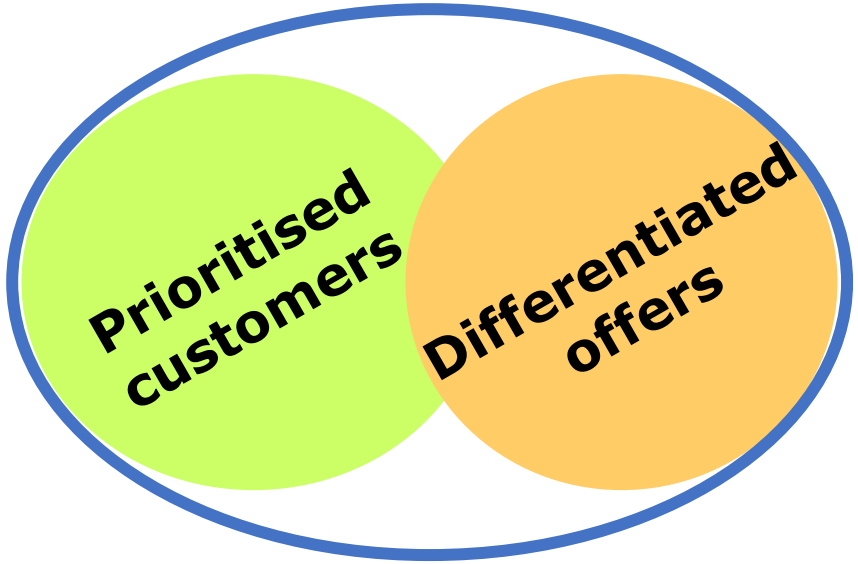
Summary Section 3: How many key accounts?

- Capacity generally limits the number, sometimes the marketplace
- Every organisation, however large, has a limited capacity for delivering KAM
- Clarity and agreement on the number and identity of key accounts is crucial
- Over-estimating the number equates to teasing and disappointing important customers – never a good idea!

What does it mean to be a key account?

What does ‘prioritised customer’ mean?

Who gets KAM?



What do they get?

E. What does ‘prioritised’ mean?

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Exercise

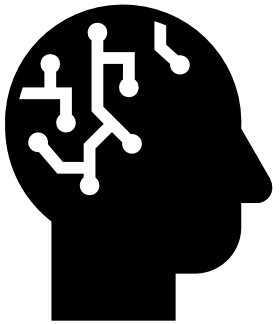
10 minutes

How does your organisation prioritise key accounts?

Who is involved in organising prioritisation?

How effective is your organisation at prioritising key accounts?

Pause the video now and write down your ideas. Restart when you have some good answers.



E. What does prioritisation mean?

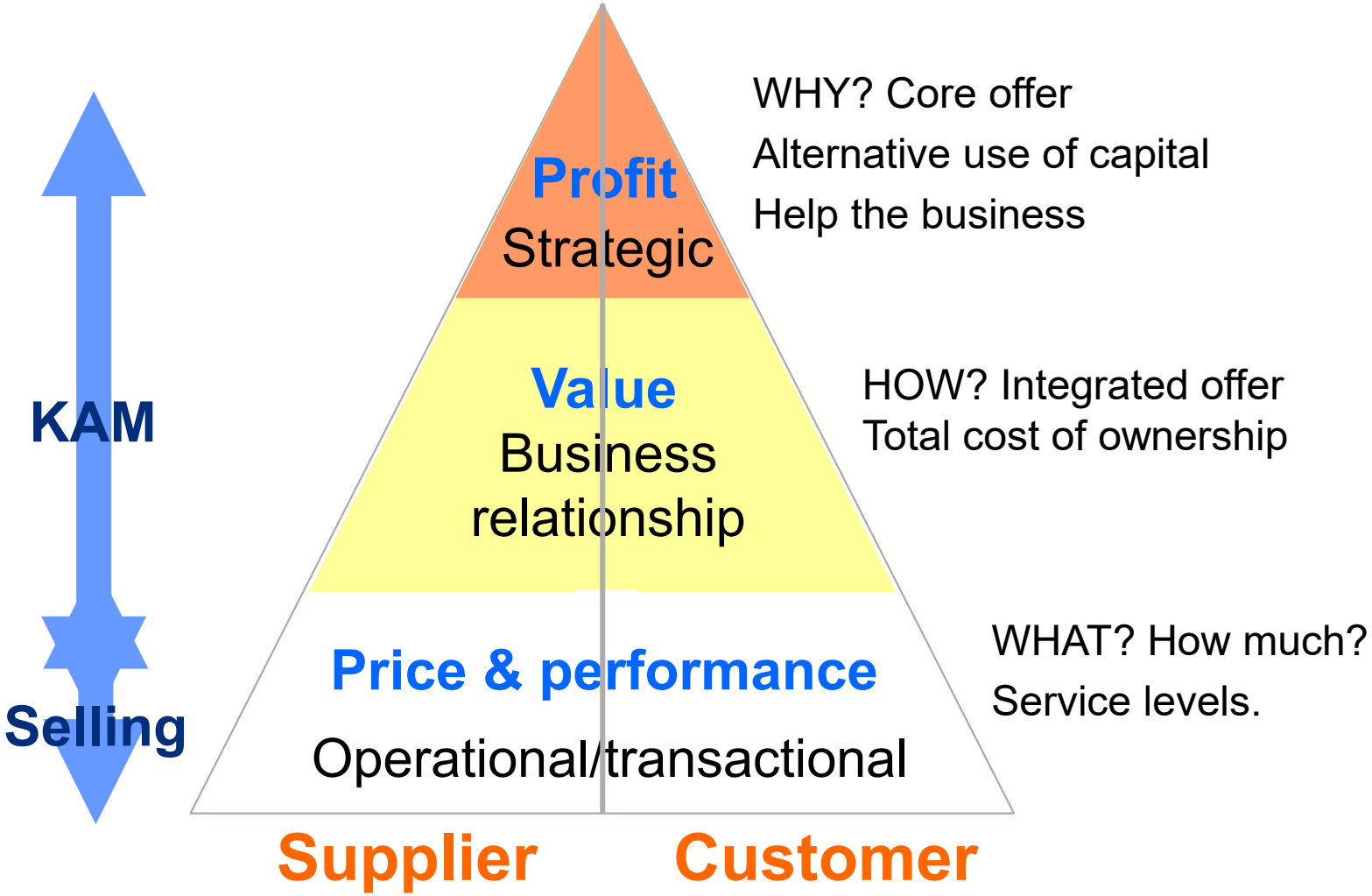
- Resource prioritisation
- Operational prioritisation
- More, senior-level attention
- Privileged communications
- First access to information and innovations
- Acknowledgement in marketplace
- ……

Check

Is prioritisation **real** or assumed/ imaginary?

Do **processes** exist to deliver prioritisation?

Different levels, different conversations



KAM expectations: example

Anticipates our needs

- Proactive not reactive
- Spots supply chain weaknesses
- Helps us sell in value

Shares our vision

- A competitive weapon!
- Tangible, measurable, substantive evidence of short term contribution toward long term vision.

Shares our values

- Integrity, Quality, Excelling, Passion & Creativity

Can deliver

- Integrated approach
- Consistently
- Good timing

‘Anticipates our needs’

- Deep understanding of the customer, the customer’s business and the customer’s environment
- Develops that understanding through external sources of information, as well as customer sources
- Pro-actively develops tailored Value Propositions
    - Doesn’t just ask ‘What do you want me/us to do?’
    - Does not say ‘We’ll do anything you want’!
    - Understands what value is to the customer and acts on that
    - Develops creative ideas to address opportunities as well as solutions to problems
- Captures Value Propositions in a strategic account plan and secures supplier’s commitment to implementation

‘Shares our vision’

- Understanding their vision, mission and strategies (really, not just website)

  …and how the supplier may align with it

- Anticipates the future and

  …incorporates the future into current activity

- Operates with a timeframe to match the vision

- Captures alignment with the vision in a strategic account plan and secures supplier’s commitment to implementation

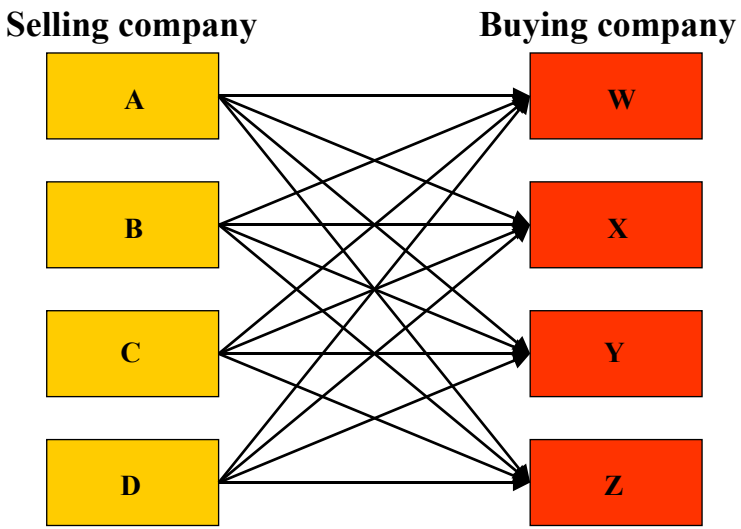
‘Shares our values’

- Difficult for mismatched cultures to build a relationship
- Mutual trust is essential in KAM
- Understand their values, and your own organisation’s
- Your company can be a supplier without sharing the same values – but not a key supplier

‘Can deliver’

- Integrated approach: not wasting time on supplier management (they don’t want your company acting like separate suppliers!)

“The customer just wants to see my company. They don’t care what the product is. But they have to deal with 3 or 4 people just to get our range into their company”.



- Consistency: confidence in the basics, no unnecessary complications
- Timing: supply of information and decisions - need for speed!

Our expectations of key accounts

- **R**elationship
- **R**eciprocity
- **R**esponse
- **R**eward

Summary Section 4:
What does it mean to be a key account?

- Key accounts are an elite segment of prioritised customers
- Prioritisation needs processes to be real
- Suppliers are expected to make tangible and valuable contributions to a key account’s business
- Who is a key account is the supplier’s choice, initially, NOT the customer’s. But if a KAM approach won’t be reciprocated and rewarded by the customer, there is no point and they shouldn't be a key account.

Following this session

Recommendations for reading

Chapter 2 ‘Selecting and categorizing key customers’ and Chapter 5, ‘The buyer perspective’, ‘Key Account Management: The definitive guide’, 3rd Ed, Woodburn & McDonald, Wiley

‘The strategic buyer: how emerging procurement strategies may support KAM/SAM relationships,’ Croom, *in* ‘Handbook of Strategic Account Management,’ 2013, *Ed Woodburn & Wilson,* Wiley

Key account management in the business to business field: the key account’s point of view’, Pardo, 1997, *Journal of Personal Selling and Sales Management*, 17

Researching and reflecting

How many key accounts does your organisation count as key? Do you think it’s a suitable number, is the company able to deliver KAM to all of them?

Does your organisation measure the contribution/ profitability of key customers (rather than sales or gross margin)?

Are the number and names of key accounts known throughout the company? If not, why not, do you think? If they are, what does the company do to make them known to everyone?

Can the people in your company articulate the customer's expectations in a way you think the customer would?