

1.2 Key account relationships

1.2.1 Nature and expectations

Postgraduate Certificate in
Key Account Management



Dr Diana Woodburn

Agenda: Nature and expectations of key account relationships



1. Relationships: what and why?
2. Relationship drivers
3. Key account relationship stages

Learning points

- To confirm the nature of relationships
- To establish why companies engage in relationships
- To appreciate the different stages of inter-organisational relationships with key accounts
- To manage relationships appropriately

Section 1



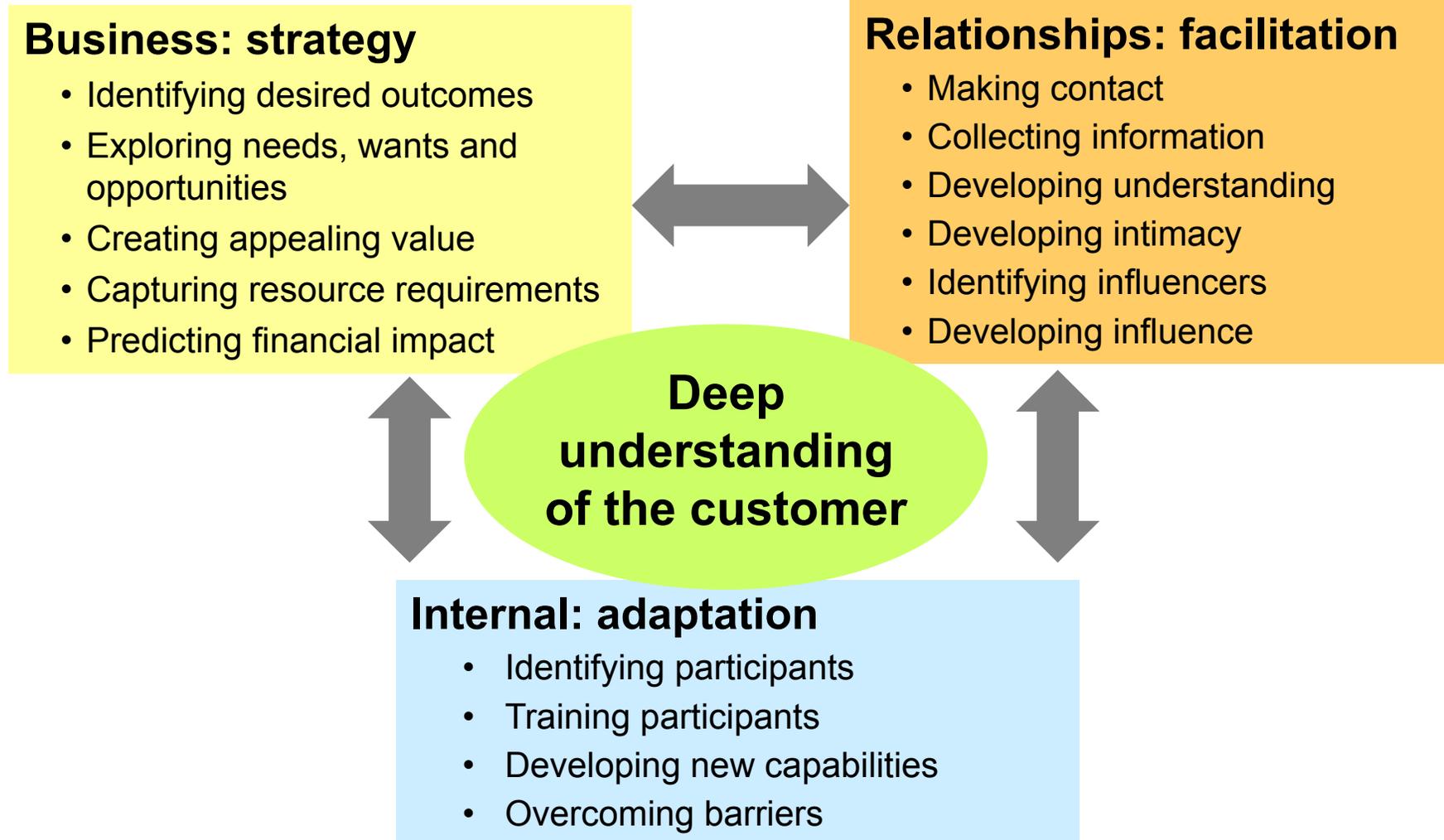
Relationships: what and why?

Relationships are important



But it's not only/'all about relationships'

Relationships are means to an end



Relationship definition

A relationship is the way in which

...two or more people or things are connected or work together, or the state of being connected.

E.g. “The study will assess the relationship between unemployment and political attitudes.

...two or more people, groups, countries, etc., talk to, behave toward, and deal with each other.

Not enough to describe key account relationships

Relationship ingredients

- Empathy
- Communication
- Commitment
- Co-operation
- Conflict

Business relationships are made of different episodes in which conflict and cooperation are both to be found.

(Hakansson and Gadde, Industrial Marketing and Purchasing (IMP), 2002)

When is it a key account relationship?



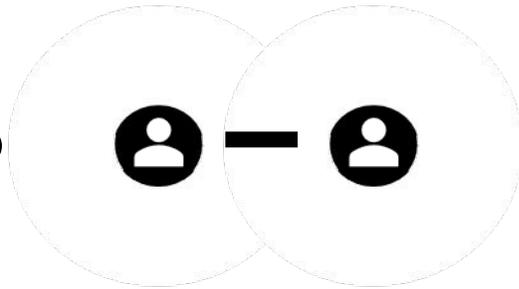
Does the act of selling/buying itself constitute a relationship?

Is it when an organisation feels it has relationship?

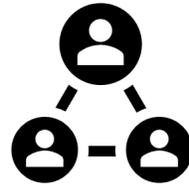
Is reciprocation intrinsic in a relationship?

Relationships with whom? Dyads and networks

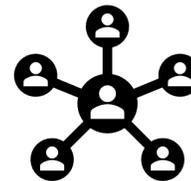
Dyadic relationship



Simple network



Less simple network



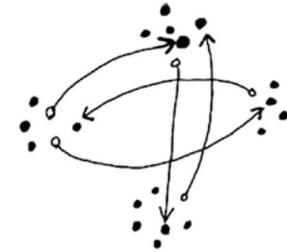
Complex network



Dr Kristina Maikštėnienė, ISM Lithuania, 2018

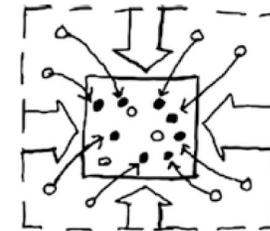
For top-line growth: Brokerage

Reach diverse teams and connect clusters



For bottom-line growth: Closure

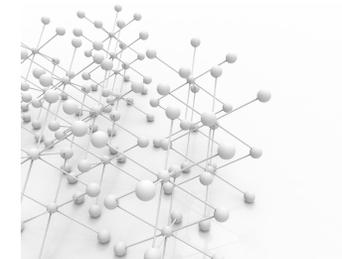
Increase relationship density within cluster



For influence and effectiveness: Centrality

Identify the most powerful person in a network.

- has high number of potential connections
- all close and easily accessible
- can block or grant access to other nodes



A. Customer expectations

Exercise

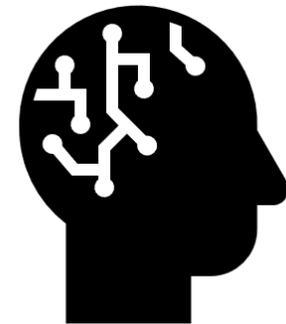
5-10 minutes

Why does a CUSTOMER want a relationship with a key supplier?

What does the customer expect from the engagement?

(Hint: it's a long list, so should yours be)

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



A. Customer expectations



+ Preferential treatment
+ Innovation

Value

B. Supplier expectations



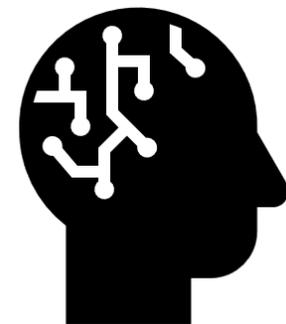
5-10 minutes

Why does a SUPPLIER want a relationship with a key customer?

What does the supplier expect from the engagement?

(Hint: also a long list.)

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



B. Supplier expectations

- ✓ More sales value and volume
- ✓ More profit
- ✓ Higher prices
- ✓ Customer retention
- ✓ Dominant supplier
- ✓ Trusted advisor status
- ✓ Market intelligence
- ✓ Warning of innovation
- ✓ Confidential information
- ✓ Commitment
- ✓ Security



Value

C. Key account relationship top three



5-10 minutes

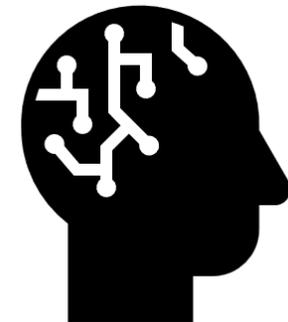
Think about one of your organisation's key accounts (.....).

From your answers to Q.A, which elements would be this specific customer's top 3 requirements from the relationship it has with your organisation? Mark their order of importance to the customer 1/2/3.

And which elements from Q.B are your organisation's requirements from the relationship it has with this specific customer? Mark their order of importance to your organisation 1/2/3.

To what extent are they matched – or mismatched?

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



C. Relationship top three

You can't deliver everything, so where do you focus?

How well matched are the expectations of each party to the relationship?

- There are likely to be some shared expectations and some different.
- It's important to find out – you can spend a lot of time and money doing things of no particular importance to the customer, which won't further the business or the relationship.
- Focus on where you both want the same things.
- Consider how you can meet – and be seen to care about - more of the account's most important expectations.
- You can't ignore what your organisation wants, but you don't have to make it constantly obvious to the customer.
- Consider how you can demonstrate to your organisation that the relationship is delivering to its expectations.

Relationships are multi-layered

Layers of involvement

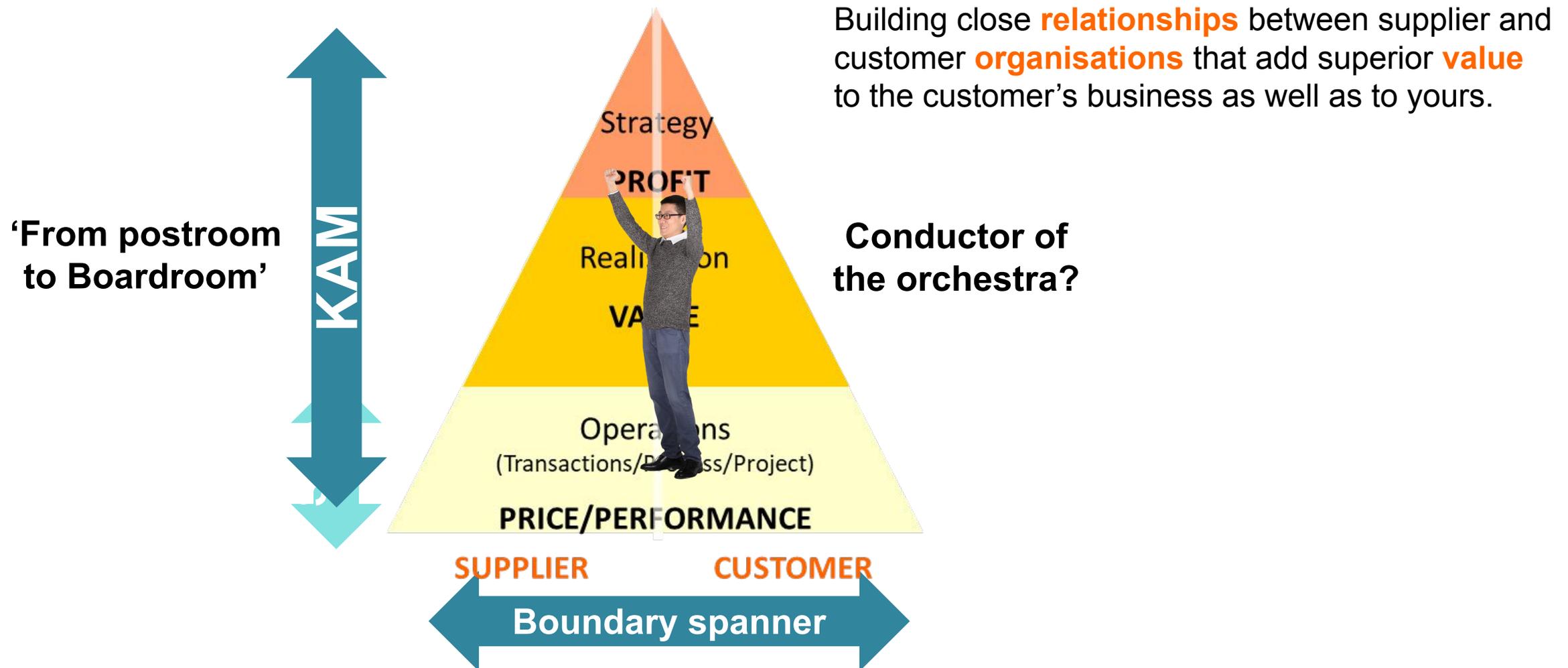
Activity links
Co-ordination

Resource ties
Change

People bonds
Facilitation

Professional,
not 'buddies'!

Multi-level relationship builder

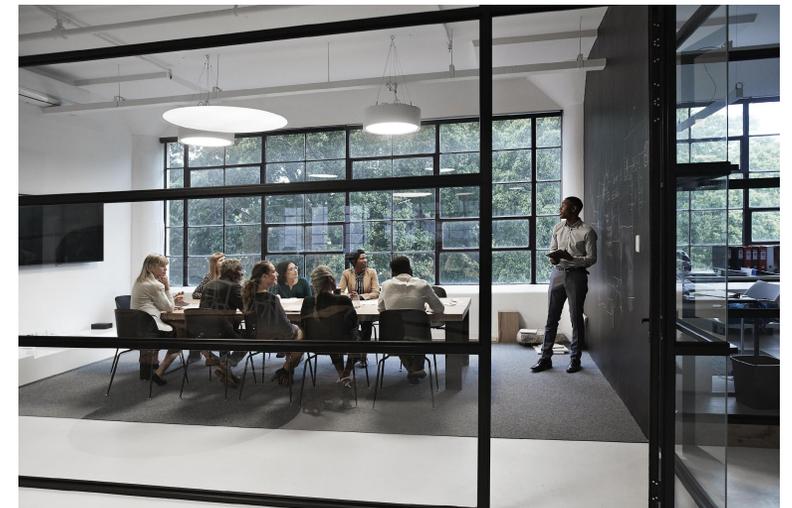


Relationship governance

Description of how the relationship will be organised and managed Increasingly required in major contracts

- details who's involved (often specifies qualifications)
- when meetings are held, how often
- specifies their purpose
- lays out ways of working together
- defines their scope, what decisions they can make
- details communication links
- required outcomes

Be pro-active anyway - propose working out a scheme for relationship governance with your key account



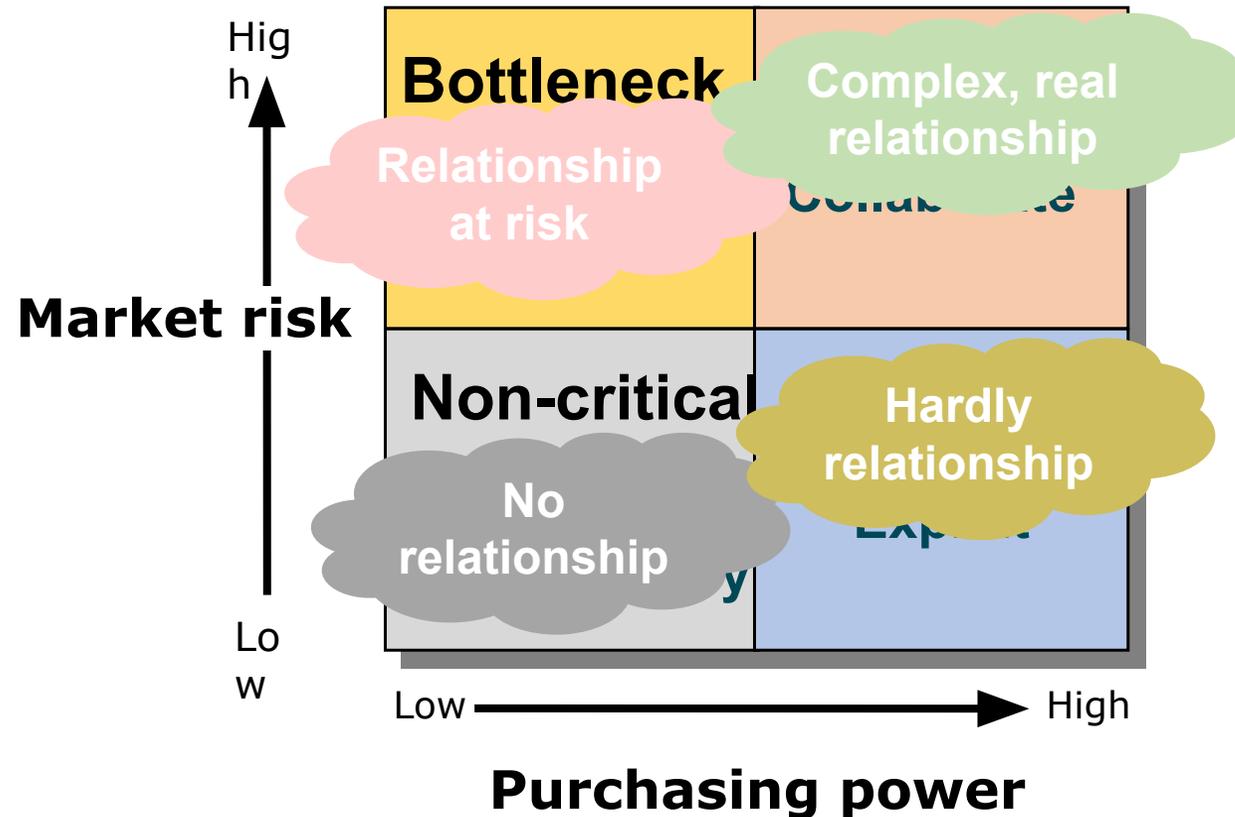
Summary Section 1: Relationships - what and why?

- **Key account relationships exist to create value, for both parties**
- KAM relationships include elements of personal relationships, but also differences
- KAM relationships are often networks, not just simple dyads
- Each party has high expectations of a relationship, but not necessarily the same expectations
- Successful, effective relationships acknowledge the expectations of each and respond to them
- Relationships are essential in achieving desired strategies: significant business strategies cannot work without them

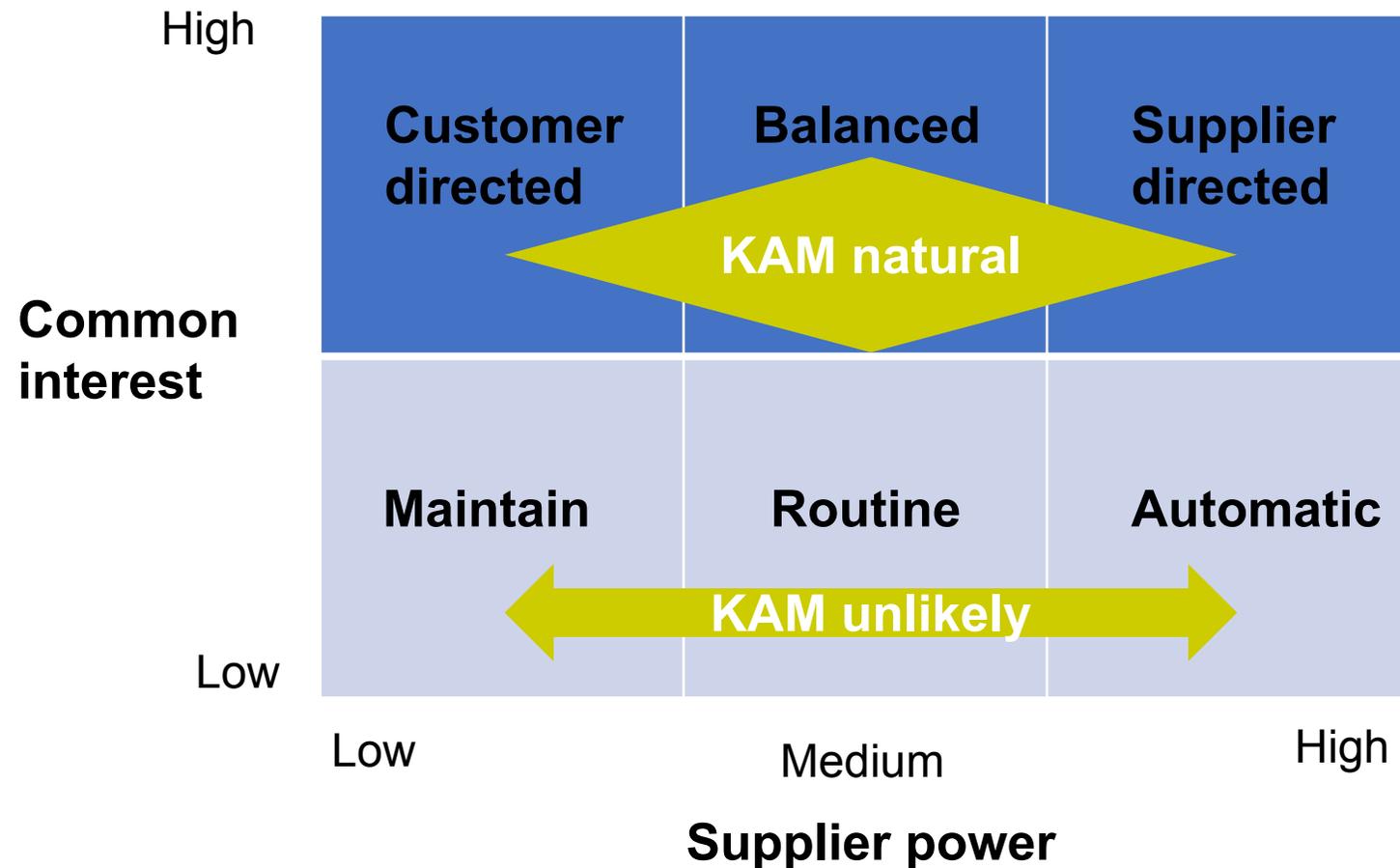
Relationship drivers

Customer's Kraljic purchasing matrix

Where is your organisation?

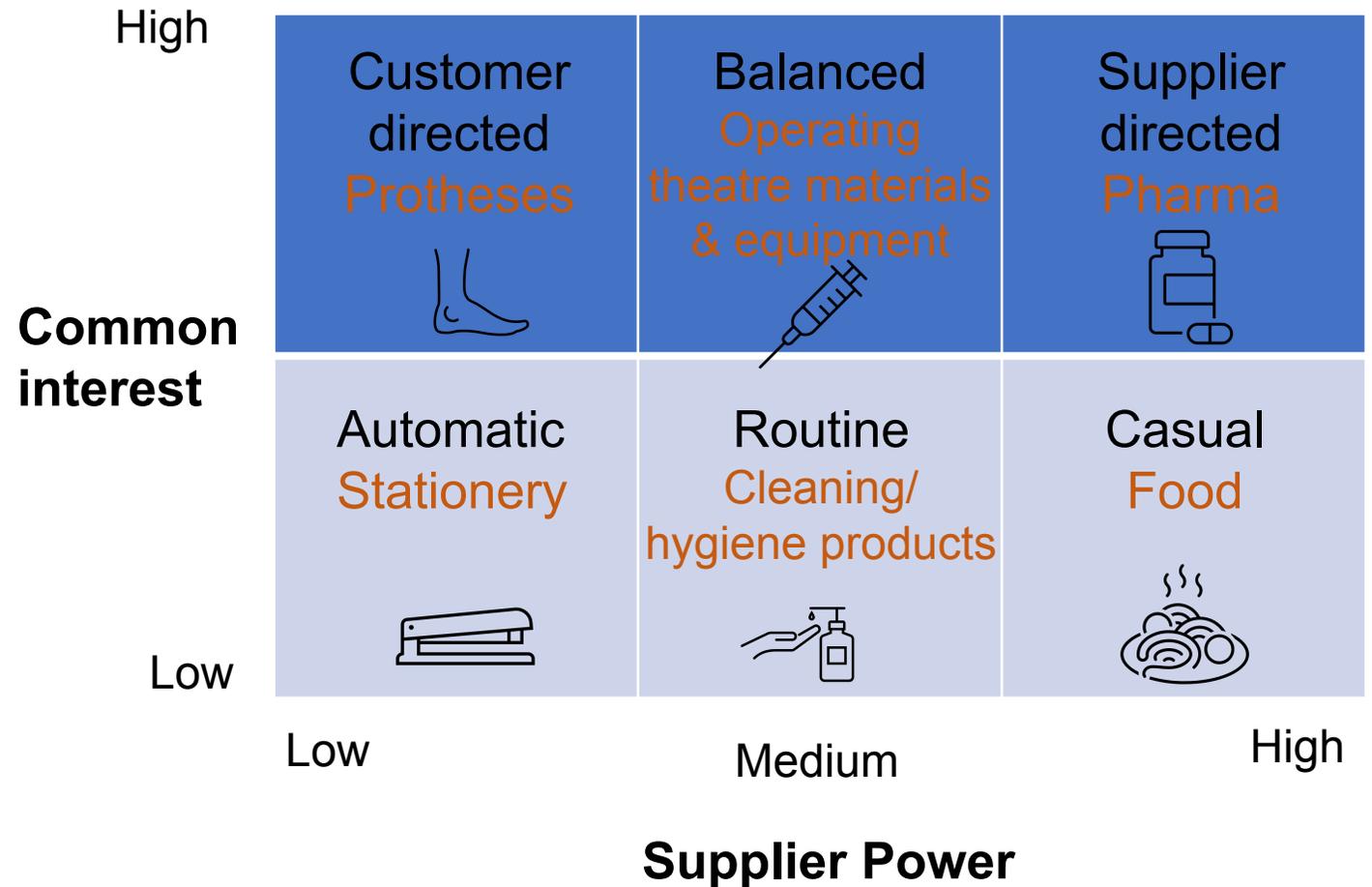


Relationship in context



Example: Health Service customers

- Purchasing function held supplier meetings every year and invited all suppliers of specific categories.
- Meetings had very different atmospheres and outcomes, and mirrored on-going relationships, but customer couldn't understand why.
- Matrix provided explanation: where common interest was high, all suppliers attended, involved, keen to have relationship. Where common interest was low, attendance was poor and meetings inconclusive and unhelpful.
- Supplier attitudes matched power perceptions. Some were quite directive/aggressive (e.g. Pharma), some more 'petitioning' (e.g. Prostheses, all small companies). Meetings were worthwhile.



Importance of understanding power

Based on Lacoste and Blois, Journal of Business & Industrial Marketing, 2015

- Power perceptions have a direct impact on the length and quality of the relationship
- Supplier may over- or under-estimate customer's power (and the reverse)
- More powerful side likely to be more assertive in negotiations
- Power misperceptions may drive inappropriate strategies and tactics and cause conflict
- Agreement about the balance of power supports collaboration.

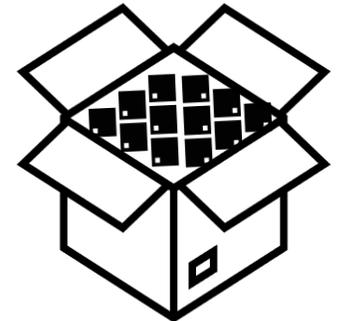
Sources of power

Expert power - is based on desired knowledge, expertise or skills.

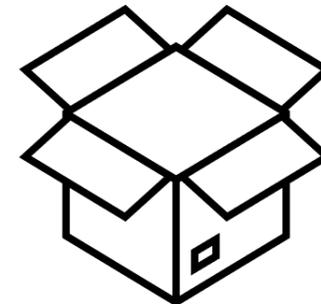
Referent power - when identification/association is seen as valuable

Legitimate power - belief that a party has a natural right to influence actions.

Reward power - ability to confer attractive rewards (e.g. increase purchases or supplies)



Coercive power - ability to provide detrimental punishments
(e.g. withdraw purchases or supplies)

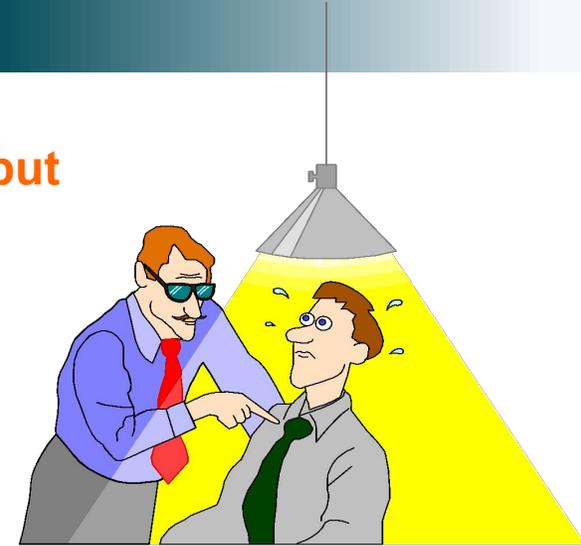


Organisation v individual power

Common situation: supplier organisation has significant power but

Key account manager personally does not feel powerful:

- Personal position dependent on account's performance
- “Key account management is a serious career risk!”



Approach:

- Analyse the customer and your organisation's position, understand its value to the customer, hence its power.
- Believe!
- Your organisation's position of power is yours, as its representative
- Develop strategies based on this value/power
- Involve the team, especially senior people

'Dark side' of KAM relationships?

Zhang, Henneberg, Heirati & Leischnig, 2021

Risks to avoid

Inside relationship

- Excessive confidence in relationship > neglected monitoring > partner takes advantage
- Ever-rising expectations > increasingly difficult to satisfy > dissatisfaction with basically good business
- Time > accumulation of conflict > souring of relationship unnecessarily
- Overly strong interpersonal relationships > idiosyncratic actions > volatility

Other relationships

- Copying from one relationship to another > mismatched approaches > higher cost, poorer performance

Summary Section 2: Relationship drivers

- Relative power can determine KAM relationships
- Understanding power, its effects and sources helps mitigation or rebalancing
- Power doesn't all belong to the customer
- Key account managers need to believe in their organisation's power
- Recognise the 'dark side' of close relationships and avoid the trap.

Key account relationship stages

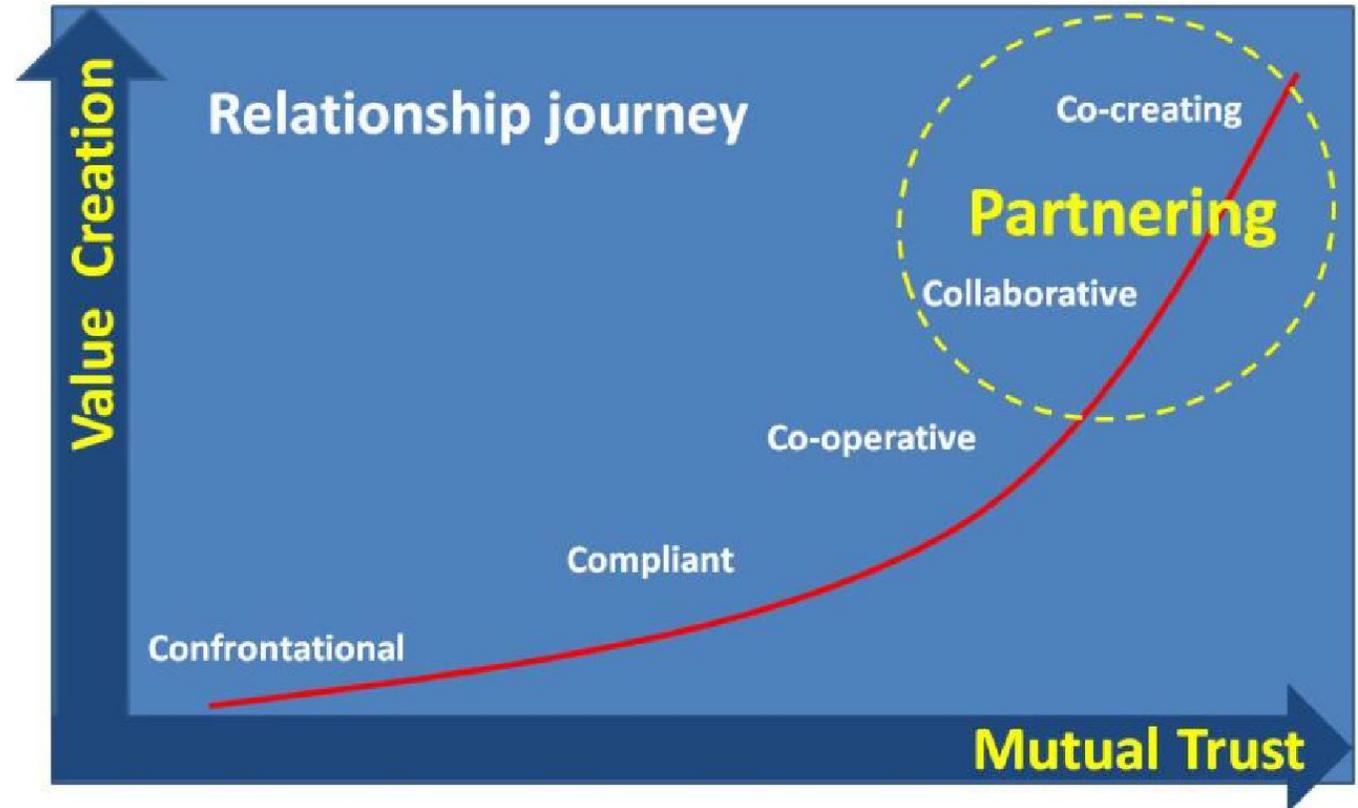
Relationship progression

‘Partnership’

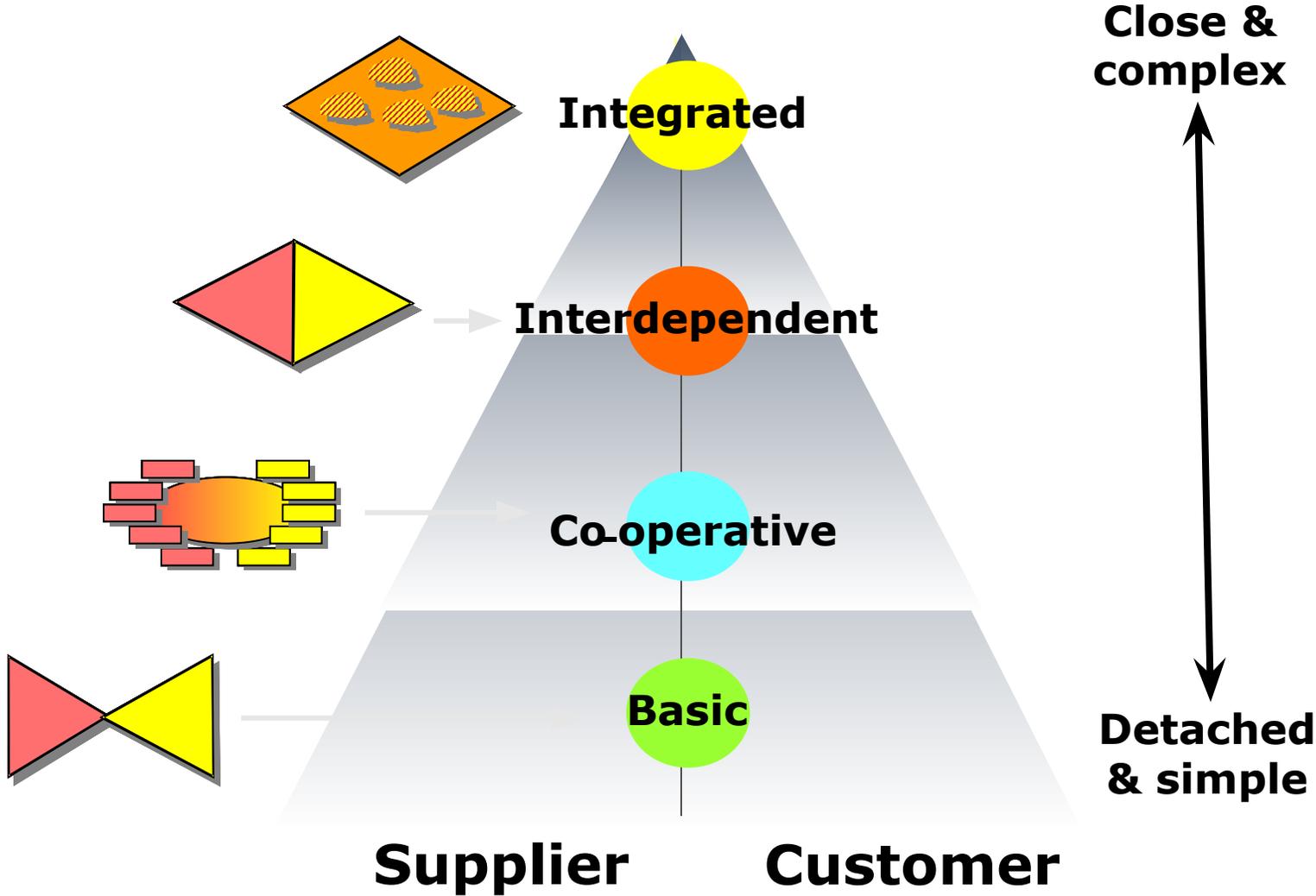
- misunderstood
- abused
- best avoided!

Suppliers have made accounts cynical about partnership.

Don't even mention the word unless it's concretely, genuinely intended.

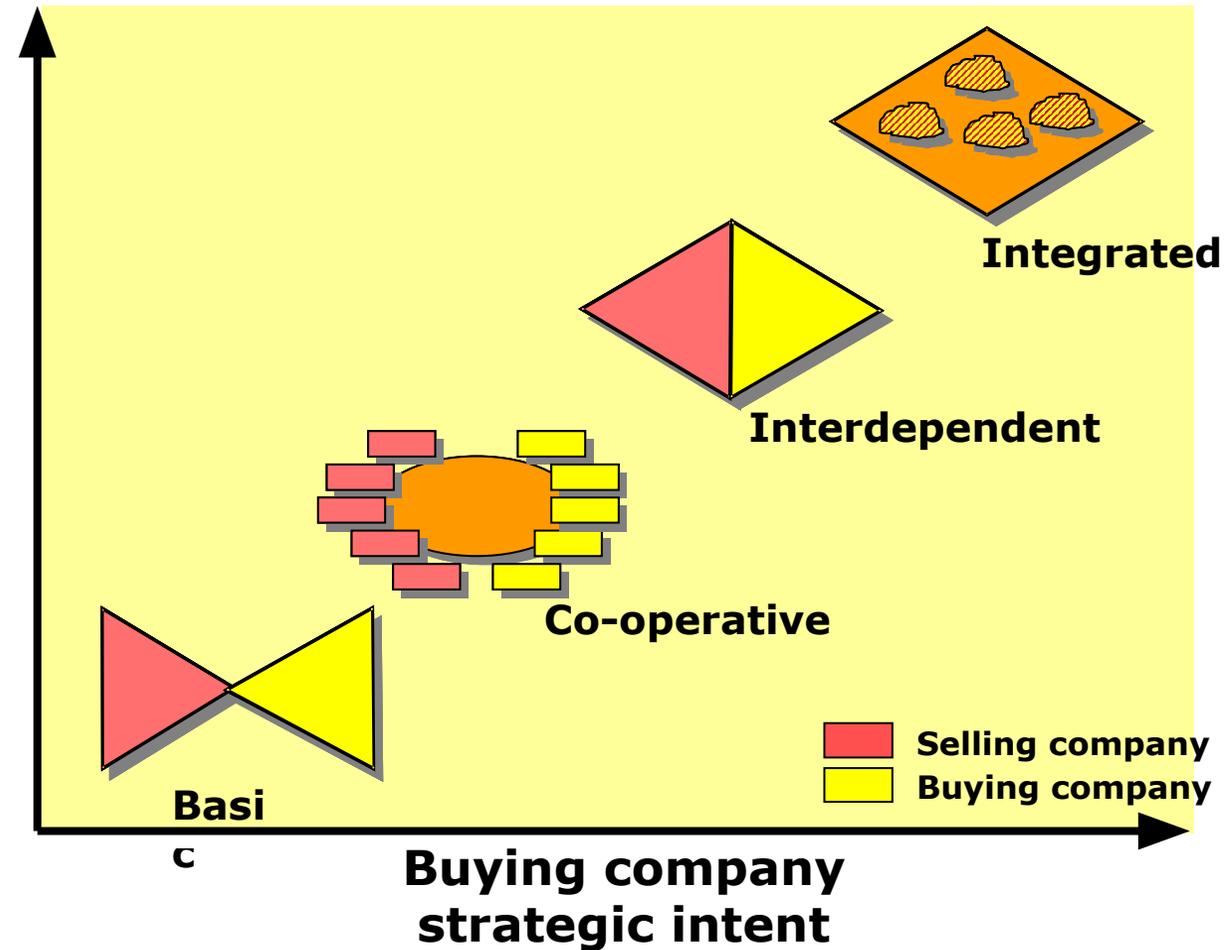


Relationship labels



Intent and relationship progression

**Selling
company
strategic
intent**



Relationship characterisation

- If our relationship ended, both parties would find it difficult and disruptive to exit
- There is a real spirit of partnership and trust between our two organisations
- 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 onto 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

D. Diagnosing relationship stages



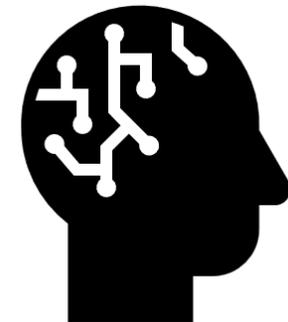
5-10 minutes

Complete the table in the previous slide for a key customer, including a total score.

What extent does this statement apply to your company's relationship with this customer?	Score
If our relationship ended, both parties would find it difficult and disruptive to exit	
There is a real spirit of partnership and trust between our two organisations	
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 onto 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	

Score
Strongly agree 3
Agree 2
Disagree 1
Strongly disagree 0

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

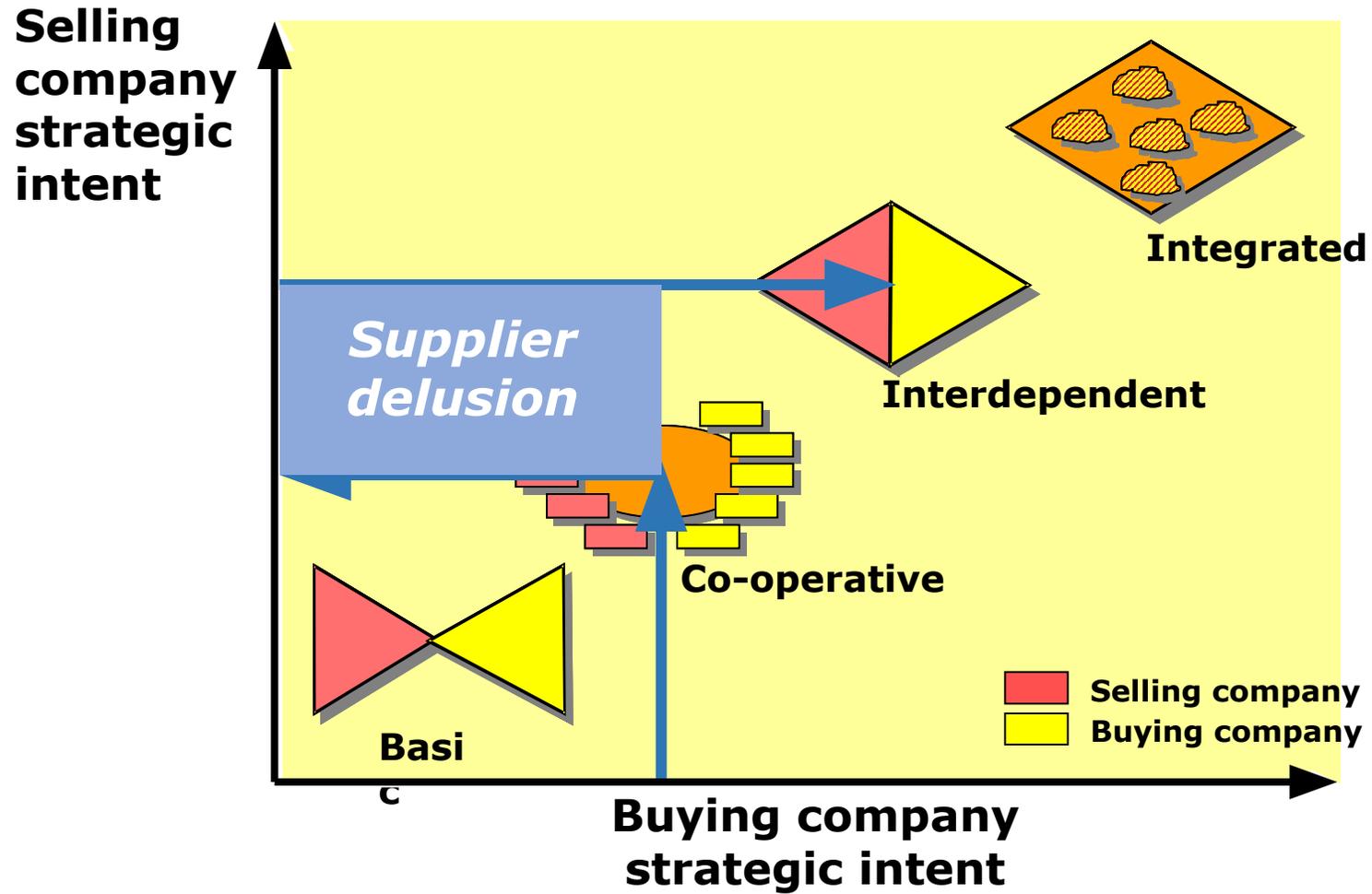


D. Quick relationship check

What score did you give your key customer relationship?

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

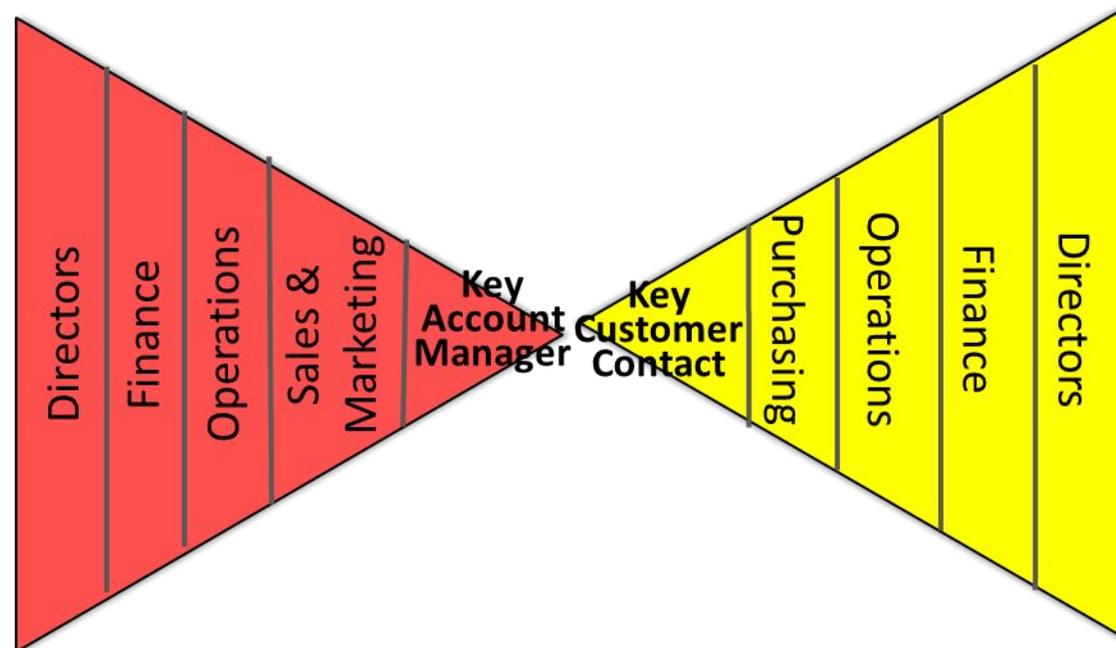
Warning!



Basic relationships

Supplier

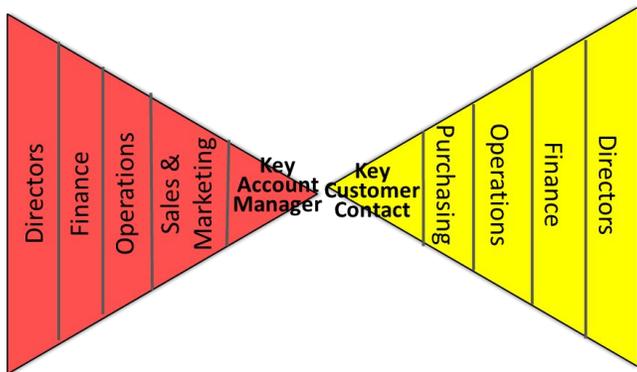
Customer



Key characteristics of *basic* relationships



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



E. Basic relationships in KAM



10 minutes

Is a basic relationship suitable in KAM?

What's good about basic relationships?

What's bad about basic relationships?

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



E. Basic relationship + ves and -ves

Positives

- Efficiency
- Simplicity
- Low cost
- Easier to control
- Could suit streamline customer business

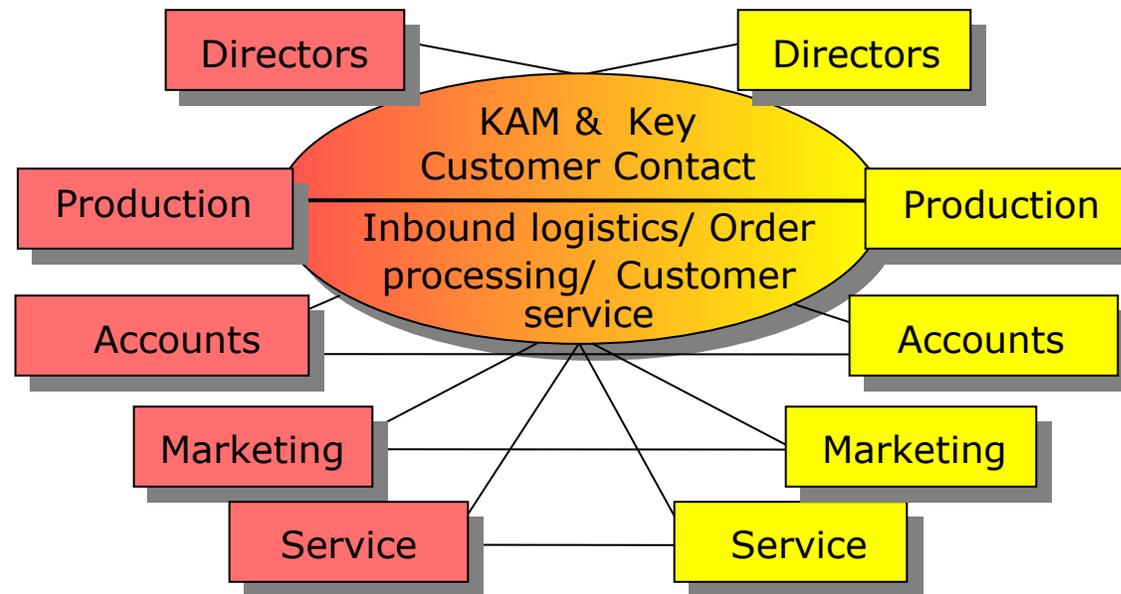
Negatives

- Fragility
- Single point of view
- Defections, 'going native'
- Minimal info exchange, 'need to know'
- Self-limiting

Co-operative relationships

Supplier

Customer



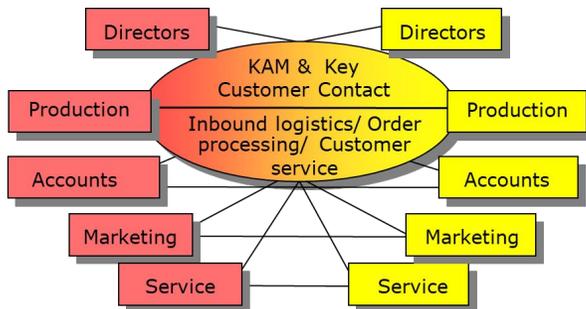
Key characteristics of *co-operative* relationships



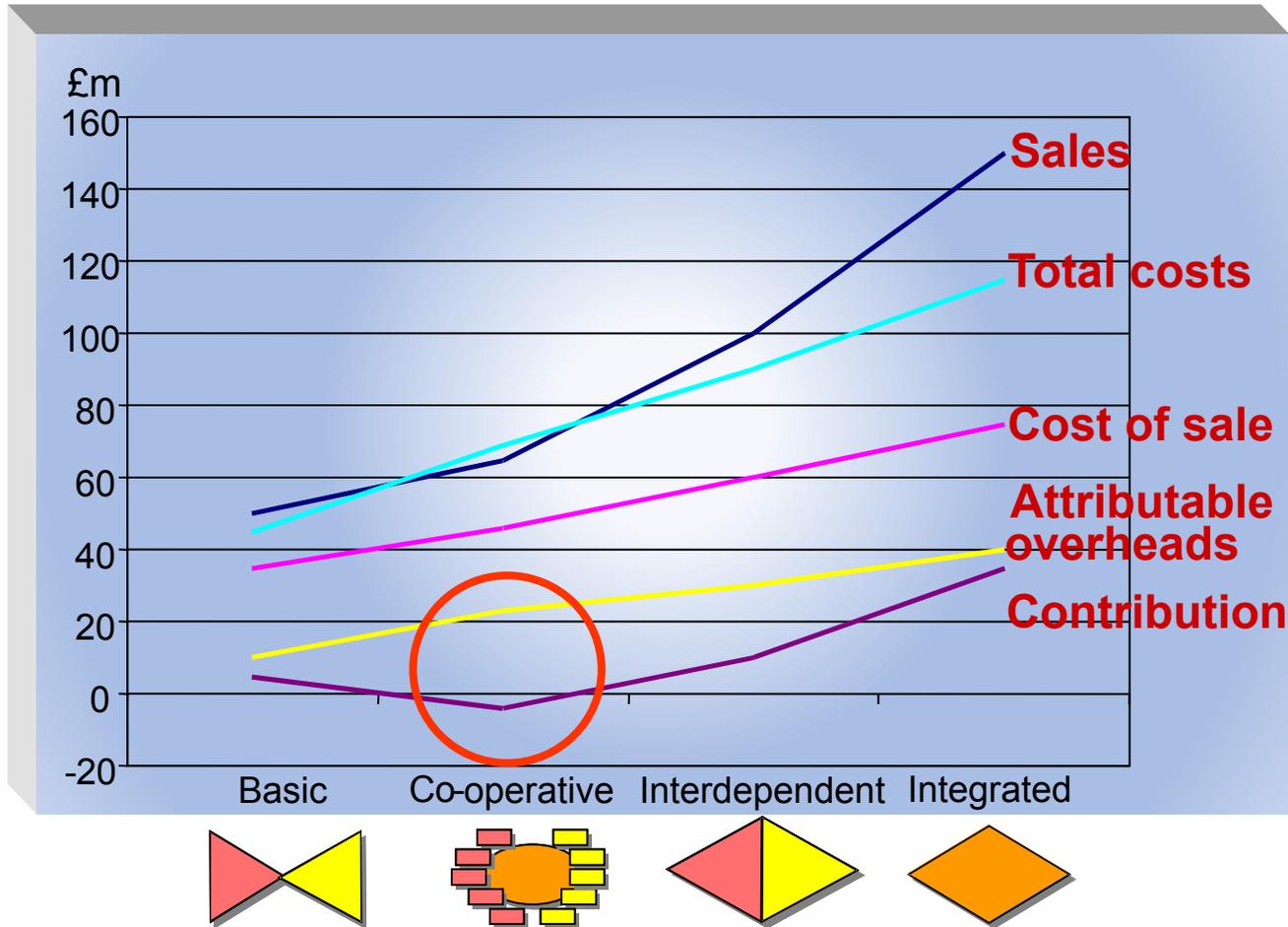
- Wider range of functions loosely involved but few consistently, relationship still mainly with buyer and order processing team
- Not really under control, 'blind spots' in relationship manager's visibility
- One of preferred few suppliers, but minor share of spend
- Exit not particularly difficult

- 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!**



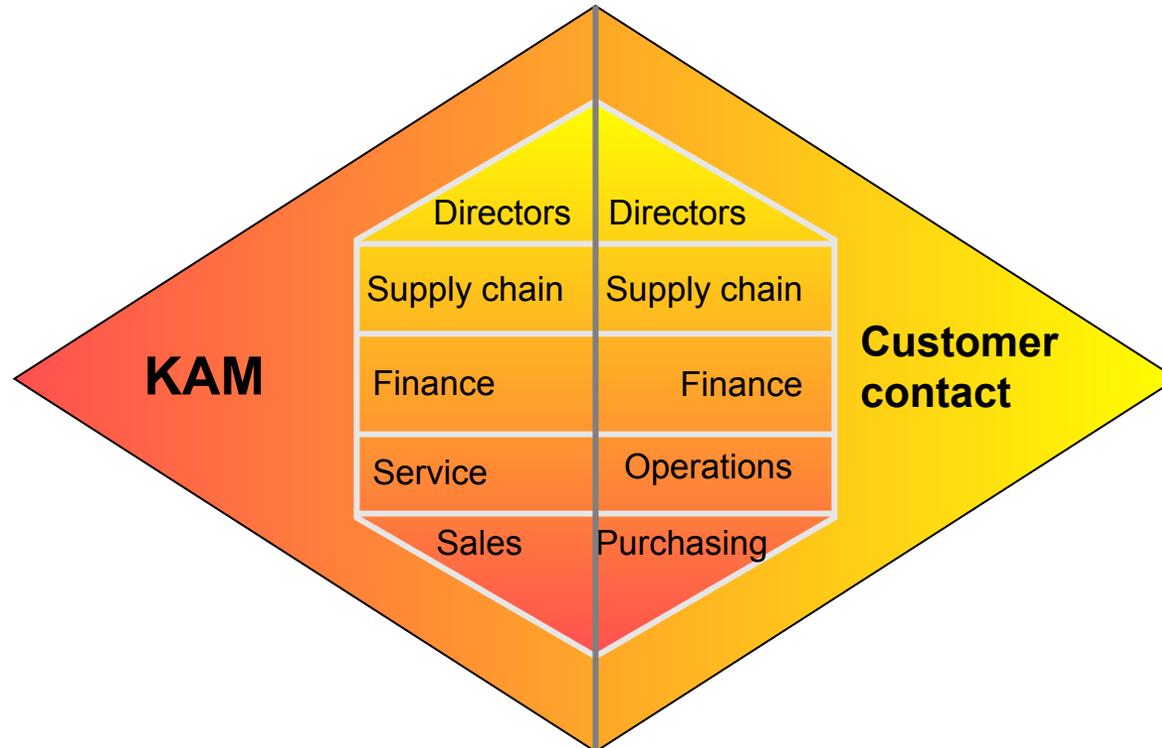
Relationship and the customer profitability trap



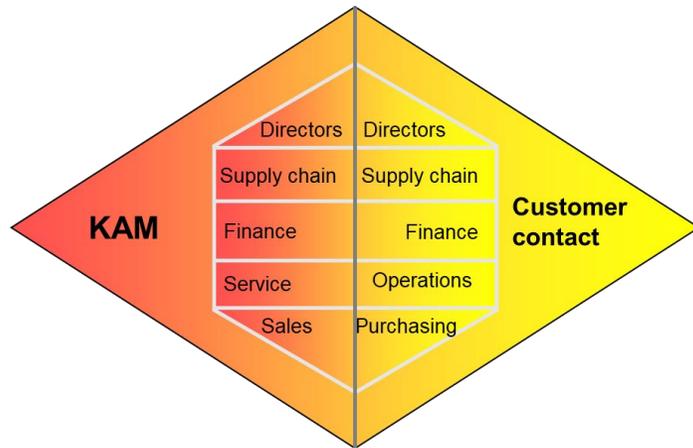
Interdependent KAM relationships

Supplier

Customer



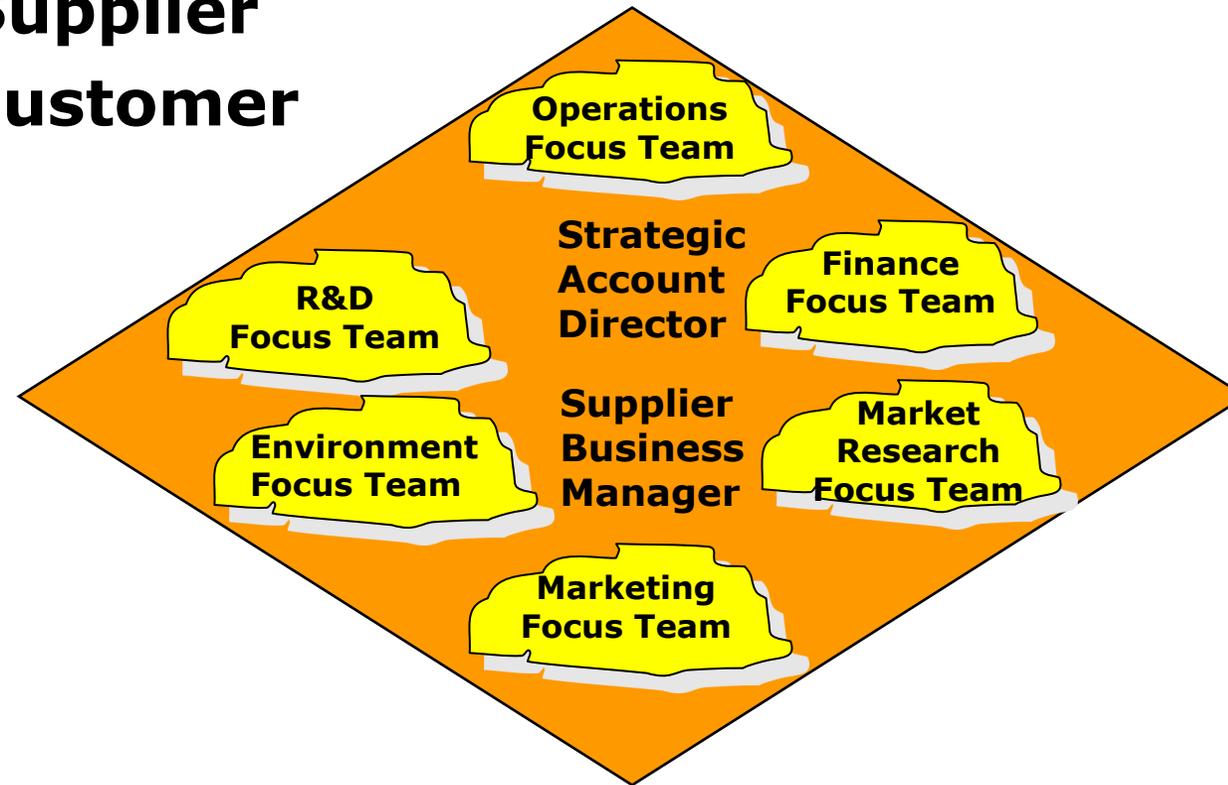
Key characteristics of *interdependent* relationships



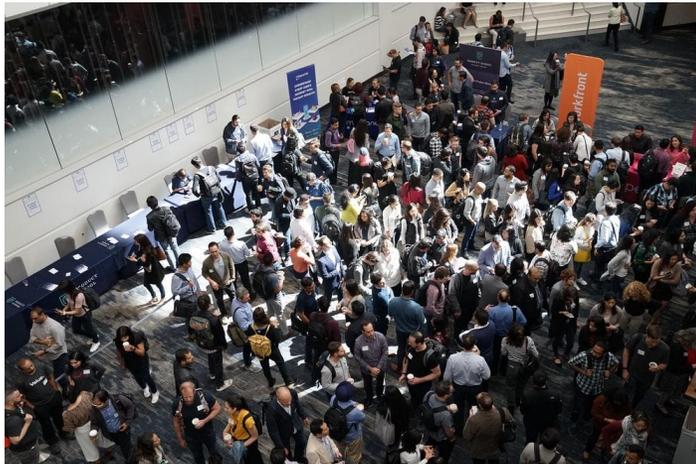
- Wide range of functions and senior people consistently involved
- Relationship manager positioned to manage entire relationship
- Sole supplier or major share of two
- Both acknowledge importance to each other, exit difficult
- Fully satisfactory access, including key people
- High level of information exchange, including sensitive business info
- 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
- **Opportunities to improve and develop business**
- **Trust on both sides**

Integrated relationships

Supplier
Customer



Key characteristics of *integrated* relationships



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

F. Identifying relationships



2 minutes

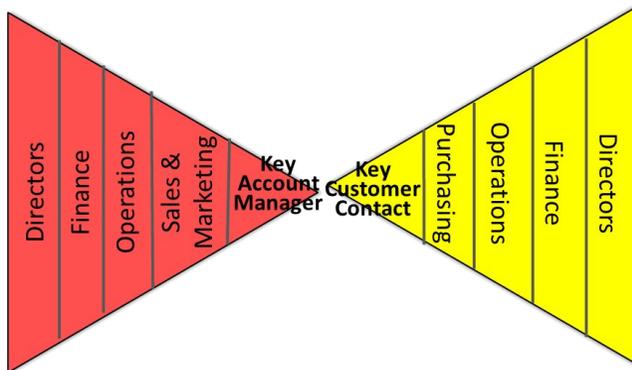
A global IT company created this picture of its relationships with key accounts. What stage of relationship do you think it depicts?



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



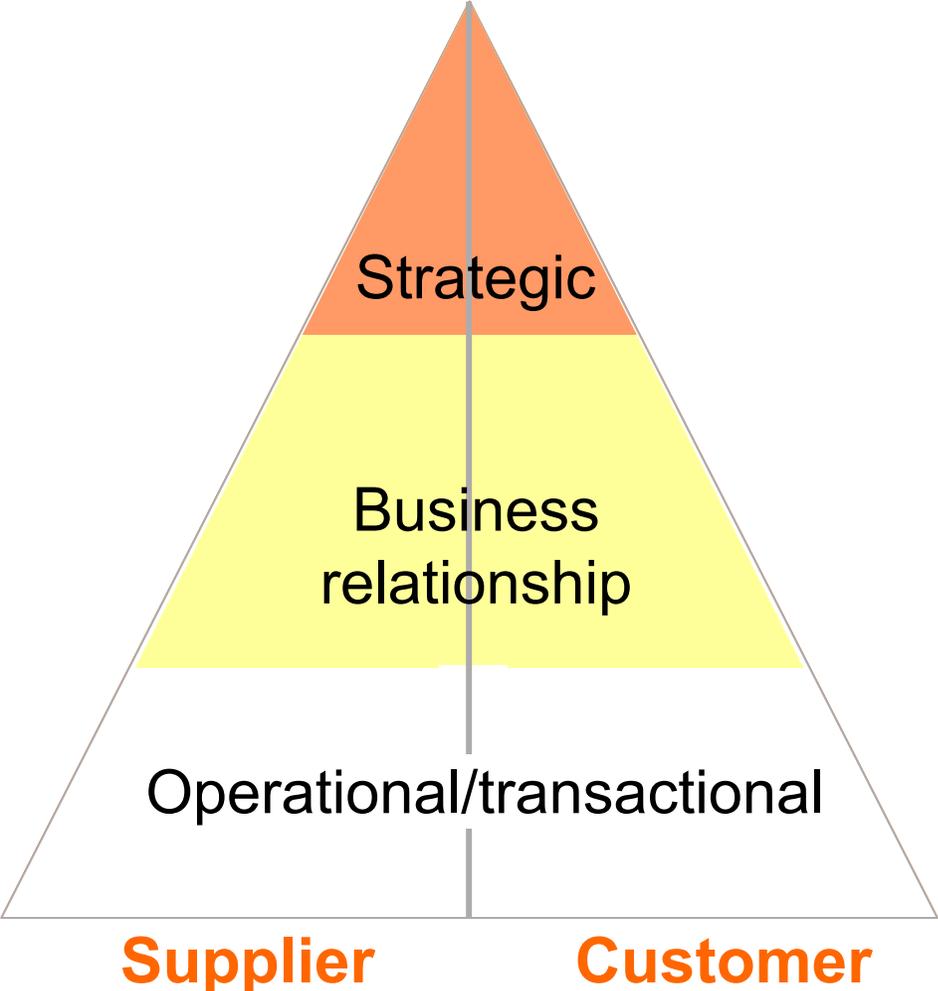
F. Linear organisation



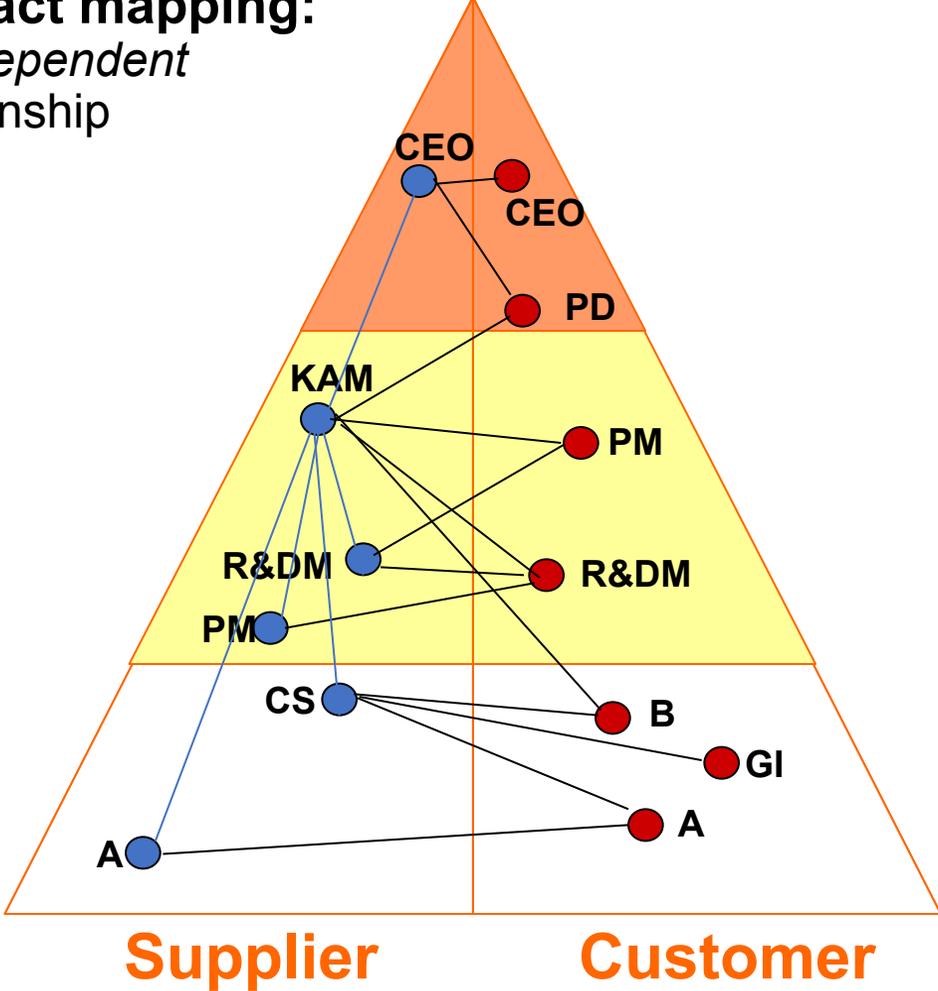
It's still basic!

- Smart pictures don't always equal smart relationships!
- ✓ Integrated, but behind the key account manager
- x Supplier organisation still ranged behind the key account manager, not alongside, disconnected from customer

Relationship mapping diagnostic



Contact mapping:
Interdependent relationship



G. Mapping a relationship



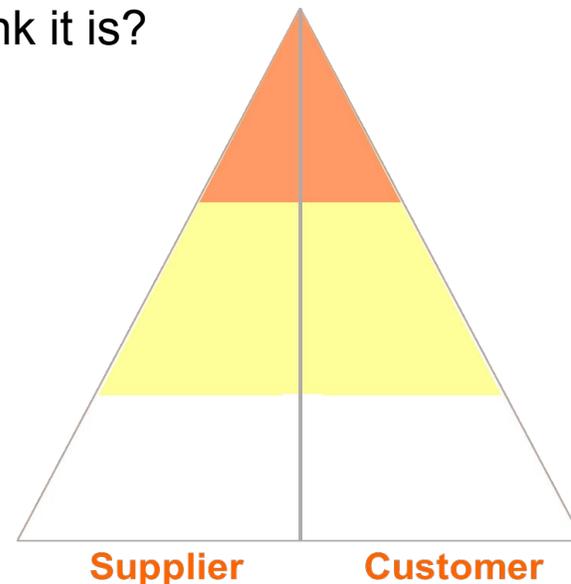
Exercise

10 minutes

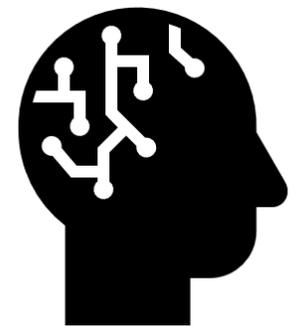
Think of a specific key customer and plot all the contacts between the two organisations on the model, as in the previous slide.

What does it show you about the relationship?

Which stage do you think it is?

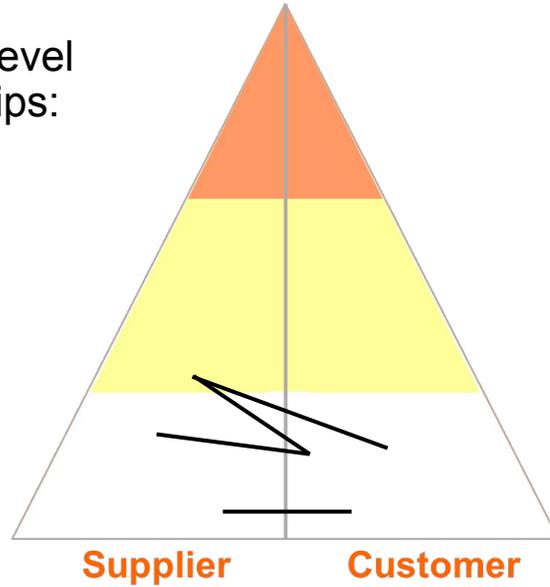


Pause the video now
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ideas. Restart
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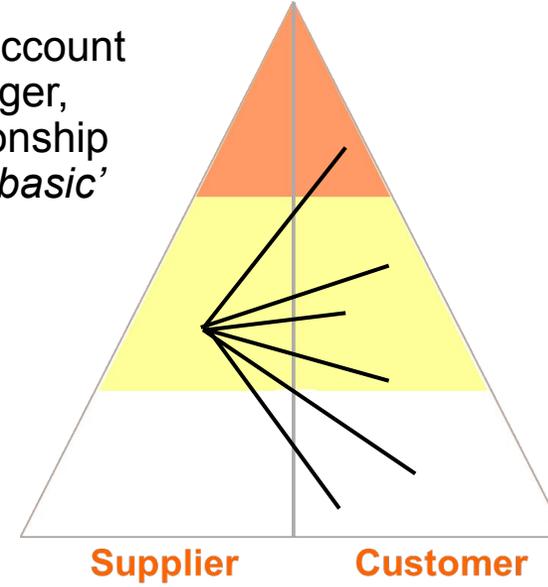


G. Examples: characterising relationships by mapping

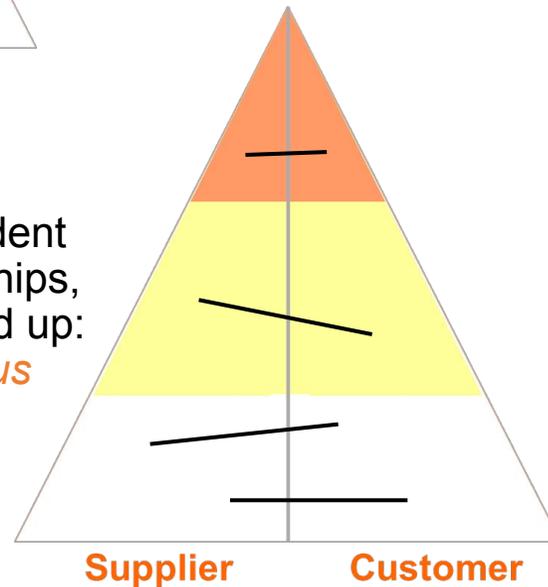
Few, low level relationships: *'basic'*



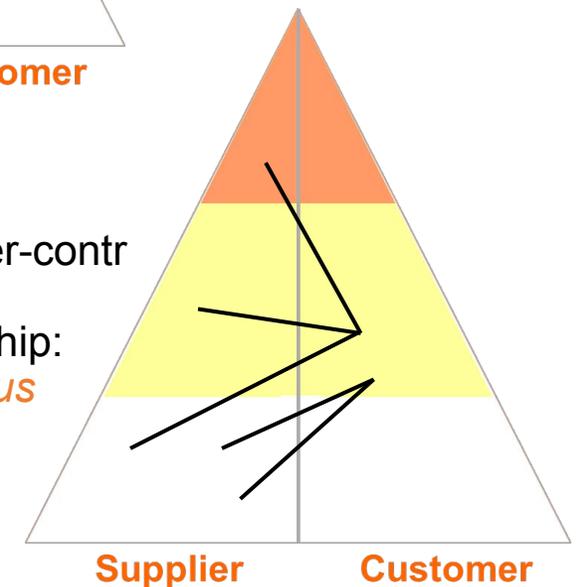
Key account manager, relationship hog: *'basic'*



Independent relationships, not joined up: *dangerous*



Customer-controlled relationship: *dangerous*



Relationships need to be managed

- 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 were 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 *Co-operative*, move it forwards or backwards.

Why understand relationships....

... if you can't control your behaviour?

“We throw more at our worst key account than we do at any of the others!”

Supplier, Cranfield School of
Management Research

Summary Section 3: Key account relationship stages

- Key account relationships can progress through identifiably different stages.
- Development from one stage to the next is not inevitable
- Relationship labels - basic, co-operative, interdependent and integrated – are a useful shorthand in discussion
- Co-operative relationships should be carefully monitored, they can be loss-making
- Key account relationship stages need to be pro-actively managed

Following this session

Recommendations for reading

Chapter 3 'Relationship stages' 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

'Developing strategic key account relationships in business-to-business markets,' Wilson, *in* 'Handbook of Strategic Account Management,' 2013, *Ed Woodburn & Wilson*, Wiley

'A strategic approach to buyer-seller relationships', Krapfel, Salmond & Spekman, 1991, *European Journal of Marketing*, 25(9)

'CRM: engagement versus exploitation', Hawkins, 2012, *Institute of Collaborative Working*

Researching and reflecting

Can your organisation's key account managers tell you the top 3 relationship expectations of each key account? Have they asked? If not, why not?

Can they tell you their top 3 relationship expectations from each key account? Are they different in each case?

Is the current relationship stage of each of your organisation's key accounts clear to everyone? How many of your organisation's key accounts are at each relationship stage?

Are strategies well matched with relationships in terms of intensity, ambition and resource?