Rewarding KAM performance: survey findings

Many thanks to all of you who responded to our 10-question survey on Key Account Management performance & rewards. What did we find out?

Rewarding KAM - actually, rewarding key account managers - is far from simple. Rewards are generally linked to performance, and there are different views of what constitutes performance in KAM. Furthermore, while most organisations hope that rewards act as incentives, there are some approaches which actively disincentivize desirable outcomes. This article will look at some of these issues and incorporate the results of our latest survey on the subject.

NB The survey sample includes strong representation from pharma: major differences from the rest will be noted.

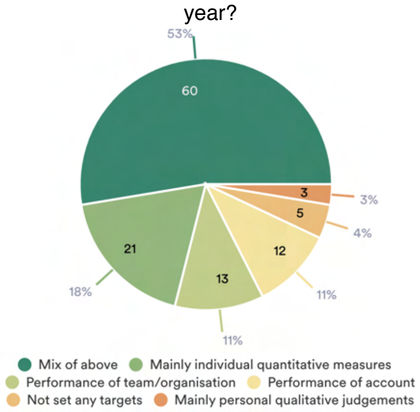
Is performance about quantity or quality?

And is it about the quantity or quality of inputs or outputs? To what extent is it about elements for which key account managers are responsible? There can be many factors beyond the control of the key account manager that intervene in achievement of delivery of sales and payment - like supply rationing, project implementation issues, acquisitions and takeovers and many more. Key account managers don't generally have much impact on such issues, but they are surely responsible for their own behaviour.

Assessing performance

112 key account managers responded to AKAM's survey on performance and rewards between July and September 2022. Assuming that each organisation would define the performance required in terms of individuals' objectives, the survey asked, 'What kind of targets/objectives/KPIs are formally set for you at the beginning of each year?' Most have a mix of quantitative and qualitative objectives set for them, particularly individual quantitative measures

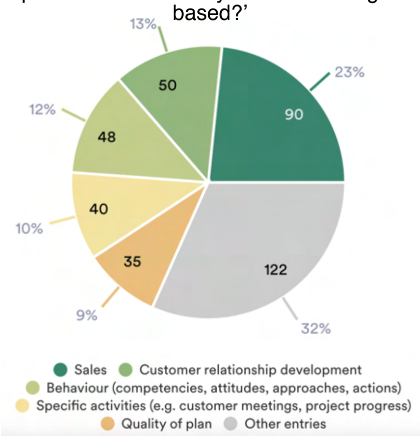
What kind of targets/objectives/KPIs are formally set for you at the beginning of each year?



(c. 20%). A few (<5%) are not set any, which is a surprise.

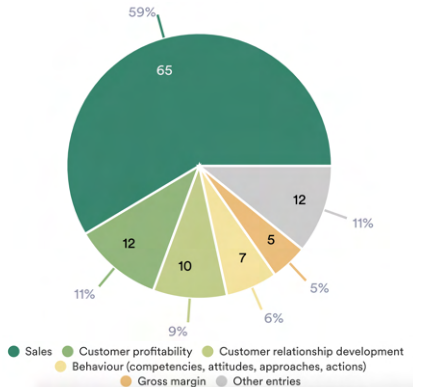
To find out which were most important the survey asked, 'On what is the assessment of your performance as a key account manager based?' Respondents could choose multiple factors and averaged 3.5 each, so at first sight it seems that organisations are applying a balance of criteria. Financial criteria, i.e. sales and customer profitability made up one third; relationship development, behaviour and activities a further third; and other factors the last third.

On what is the assessment of your performance as a key account manager based?'



However, that masks the fact that 80% of respondents cite sales as at least one of bases on which their performance is assessed. And when asked, 'Which is the most important factor (receives the most attention)?', the emphasis on results, particularly sales, is much more stark. Nearly 60% say it is sales, and a further 16% cite customer profitability and gross margin, so the performance of three quarters of respondents is really judged on financial outcomes.

Which is the most important factor (receives the most attention)?



Are organisations getting it right?

Key account managers don't agree with the dominant use of sales in their assessment. When asked, 'In your view, what factors should be included in the assessment of your performance as a key account manager', 4 factors are chosen on average and financial outcomes almost disappear: they certainly aren't one of key account managers' top five factors. Indeed, the top five are all clearly within the responsibility of the key account manager, highlighting their view of the dislocation between inputs they can deliver and outcomes influenced by many others:

In your view, what factors should be included in the assessment of your performance as a key account manager?

Customer relationship development	18%
Customer Feedback	13%
Behaviour	13%
Quality of plan	12%
Specific activities	11%
Others	33%

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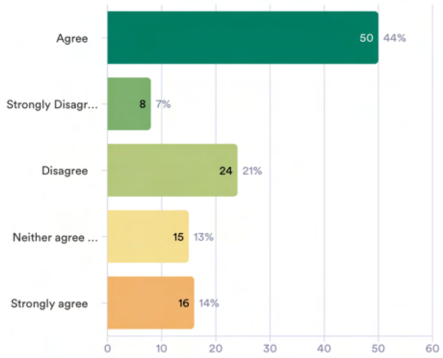
So, interestingly, the conclusion would seem to be that key account managers are at odds with their organisations in terms of how their performance should be valued and assessed.

But at the beginning of the survey they were asked whether they think ‘My organisation’s approach to performance and rewards properly reflects my job as a key account manager and my performance’ and half agree, which rather contradicts the results of the previous question - although a third still disagree. Maybe views change as respondents get deeper into the issues?

My organisation’s approach to performance and rewards properly reflects my job as a key account manager and my performance



Nevertheless, overall the survey suggests that a lot of organisations are not getting performance and rewarding right. Key account managers, the ‘owners’ of the performance, don’t necessarily think that the right balance has been struck.

Quantitative versus qualitative

One possible cause may be the managers often prefer to use metrics rather than qualitative judgement to assess performance, but that can be a ‘cop-out’. Metrics can be manipulated and may not be as neutral and objective as they assume. However, presenting them as independent, unarguable facts serves to distance the line manager from the assessment. Then they don’t have to feel uncomfortable about delivering a negative review – it’s not their judgement, not their responsibility.

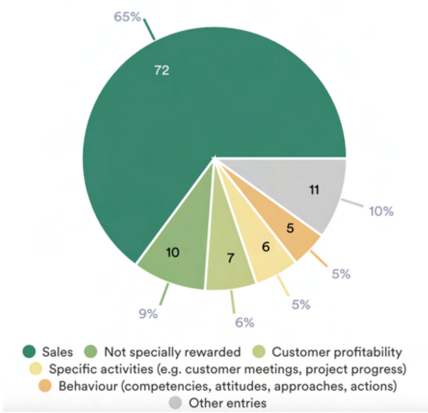
Of course, metrics have a role to play but should not be used exclusively. Simply rewarding by metrics requires no management thinking and is inappropriate in assessing complex activities and behaviours like KAM.

Rewards = incentives?

The issues with performance assessment become more acute when linked with rewards. Generally, rewards are seen as incentives, and if that’s the case, the way they are applied will drive key account managers’ approach.

When asked, ‘On what basis is your reward calculated?’, the response is overwhelmingly ‘sales’: two thirds of respondents say so (as did pharma). 14% of the non-pharma sample are not specially rewarded at all, but this doesn’t happen in pharma.

On what basis is your reward calculated?



It’s arguable that this emphasis on sales will be by far the strongest driver in determining key account-managers’ activities. It implies that they are encouraged to take more immediate routes to achieving sales results, potentially discouraging investment of time and energy in actions that have a longer-term payoff.

What rewards?

In an earlier research project (xxx) three types of rewards were found:

- Bonus cash
- Salary increase
- Recognition

Cash bonuses were the most commonly used, probably because companies are comfortable about paying them from achieved business, and feel that they don’t constitute any future commitment. Actually, that often isn’t the case, as key account managers become habituated to receiving a bonus and some companies feel obliged to fulfil expectations, even when the market is down and sales less than in previous years.

Commitment is the issue with salary increases because they continue after the period of success, regardless of future results. They can also distort the organisational hierarchy, so that a successful key account manager could end up earning a higher salary than their line manager or another job in the company seen as equivalent. This kind of reward is much less popular.

Recognition consists of a range of rewards which may or may not have a cost attached to them. Things like weekends away, entertainment events and training courses obviously cost some money, while trophies, publicity and access to senior people are more or less free of charge. However, recognition is probably more powerful and lasting than bonuses: money is easily absorbed and forgettable, whem recognition is more memorable and can even be a means to change cultures. For example, a trophy for KAM teams conveys a very different message from an individual sales trophy.

Recognition only works if the individual values the reward. For some people, being known to and meeting the global CEO would be a great event, but it might even be a burden to others! They might be much more motivated by a weekend on the beach. It requires the line manager to really understand the individual and put an effort into

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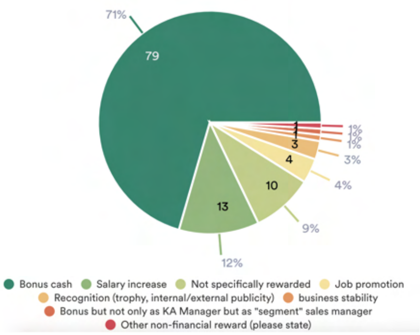
coming up with the right kind of recognition for each. Sadly, earlier research concluded that not many organisations had line managers of the calibre to do that job.

And so organisations mainly fall back on cash to reward KAM. When asked, 'With what are you rewarded for your performance as a key account manager?', nearly three-quarters reported bonus cash, only 12% a salary increase.

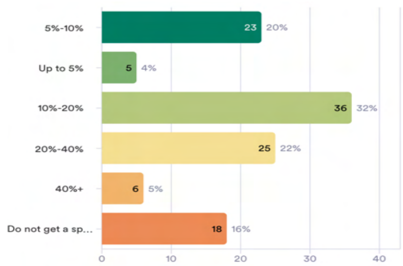
With what are you rewarded for your performance as a key account manager?



Rewards = drivers

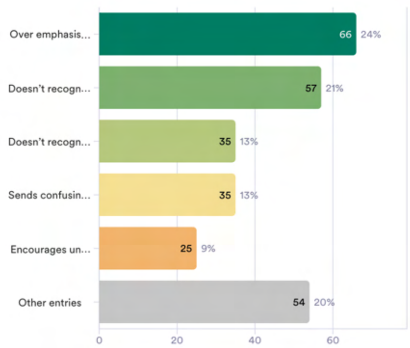
The size of the bonus relative to salary may determine its strength as a driver. A quarter of key account managers reported that their bonus is less than 10% of salary for them. In response to the question, 'If you receive a bonus for your performance what approximate percentage of salary is it normally?'. It's 10-20% for about a third (a bit more in pharma) and a fairly similar number get 20%+ (fewer in pharma). It must be a powerful driver for the few who receive 40%+ bonus on sales (virtually none in pharma), which is more commonly a model for salespeople, and even 20-40% seems likely to strongly influence activity.

If you receive a bonus for your performance what approximate percentage of salary is it normally?



Key account managers had some decided views on the question, 'Are there any downsides of the current approach? If so how would you describe them?' Multiple answers were allowed, but they averaged just 1.25. Top of the list were 'Overemphasises sales/short term results', and 'Doesn't recognise important inputs like relationship building and strategic account planning'. 'Doesn't recognise the customer's point of view' and 'Sends confusing/mixed messages about the key account manager role' were also significant.

Are there any downsides of the current approach? If so how would you describe them?



Rewards characterize key account managers

The reward scheme is a strong indicator of how an organisation views its key account managers. Where they are rewarded on the financial success of the company they are seen as part of the management team, and where rewarded on sales to their accounts they are seen as salespeople.

There are two types of key account manager, with key differences:

- basically salespeople, motivated by low security/ high risk/ high immediate reward/ winning
- key account managers motivated by high security/ low risk/ longer term reward.

Companies recruiting 'oven ready' key account managers tend to overvalue sales success as a criterion, which will result in the acquisition of more salespeople for the KAM job. That perpetuate a dominant sales culture in KAM, which can be difficult to recognise and therefore hard to overcome.

Companies normally need both salespeople and key account managers, but shouldn't mix them together: the organisation can't cope with the distinction and ends up blurring them all together. Salespeople should be kept separate from key account managers (separate team, separate department).

Salespeople do the deal, walk away and don't get involved with delivery afterwards. Key account managers need to be good relationship builders with longer-term goals who manage larger customers with longer installations and ongoing processes, and should be judged quite differently.

Rewarding sales

There are differences of opinion among managers on whether bonuses for sales to the key account manager's own key account(s) are beneficial, partly depending on:

- views of whether driving short-term sales behaviour was positive or negative
- beliefs about whether it's possible to have 'hunting and farming' all in one person. (Ed: in my view, hybrid hunters/farmers are very rare)

Hunters may give 'a shot in the arm' to a key account or KAM team, but they tend to want to move on quickly, and don't give the customer the continuity they prefer.

Rewarding sales is likely to promote short-term/ self-centred behaviour/ more immediate sales growth, compared with longer term/more team behaviour/ more relationship

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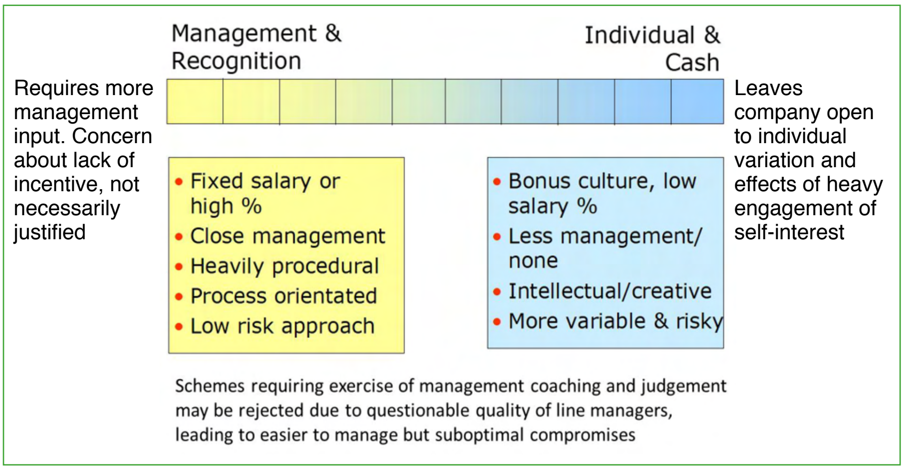

compared with longer term/more team behaviour/ more relationship development/potentially less immediate sales growth. Diverse companies in a research group agreed that if a key account manager has any sales-based bonus, it should be a substantially lower percentage than for a salesperson, in order to achieve an appropriate balance of behaviours.

The spectrum of KAM management

An earlier research project identified a spectrum of approaches to performance management and rewarding.

Companies at both ends of the spectrum tended to think they should change their approach towards a balance somewhere in the middle. 'Management and recognition' companies were afraid of complacency among their key account managers, while 'individual and cash' companies felt they had no control over their key account managers, who worked solely for their bonus and dropped any activity that would only have a longer-term pay-back.

At the 'management and recognition' end of the spectrum, key account managers tend to be rewarded based on the financial success of the company as a whole and their Personal Development Plan, agreed between the line manager and key account manager The PDP may be set according to improvements on specific requirements which can be anything, including behaviour, activities, sales and developments in the key account.

'Individual and cash' companies effectively show their key account managers a big pot of gold and leave it to the individual to work out how to get it, with minimal management guidance and support. Even this approach requires target-setting, though. Targets should be very carefully determined for each key account separately, to avoid their becoming distinct disincentives to optimisation, as they often are (see reference Franco-Santos & Bourne, 2008). It isn't always possible to know what targets should be and setting them for key accounts requires a high level of insight and capability, which is often lacking.

The extreme 'individual and cash' approach can be seen as an abdication of management, since it depends on each individual to interpret the job for themselves, and is therefore rather inconsistent and risky. It's hard to see the value of line managers in this approach. Commonly, the leadership team understands and supports KAM, but below that country managers and line managers who have reached their position by being successful at something else – often traditional sales - regard KAM as sales and (mis)manage key Account Managers accordingly.

A group of companies regretfully agreed that their line managers probably weren't good enough to support key account managers, and wondered whether that was cause or effect? Do they not add value because they aren't sufficiently capable? Or because such capabilities are not valued?

Overall conclusions

- Key account managers' performance still depends heavily on sales results: other factors have considerably less weight.
- KAM performance is most commonly rewarded with a bonus, leading to the conclusion that largely sales-based rewarding with cash is likely to drive key account managers towards short-term activities, and not encourage activities deemed important for successful KAM.
- A good proportion of key account managers don't think their organisation is using the right balance of performance indicators and rewards.
- The way key account managers are rewarded indicates and characterises their positioning in the organisation.
- Key account managers and salespeople should be rewarded and managed distinctly differently.
- Recognition could be used as a more powerful reward, offering better value for money if the quality of key account managers' line management were good enough - which it often is not.

By Dr Diana Woodburn, AKAM Chairman

For further information on this topic, members can ***click here.***

Reference Targets: 'The impact of performance targets on behaviour: A close look at sales force contexts', 2008 Monica Franco-Santos & Mike Bourne