

Key Account Management: Making It Happen in B2B Markets

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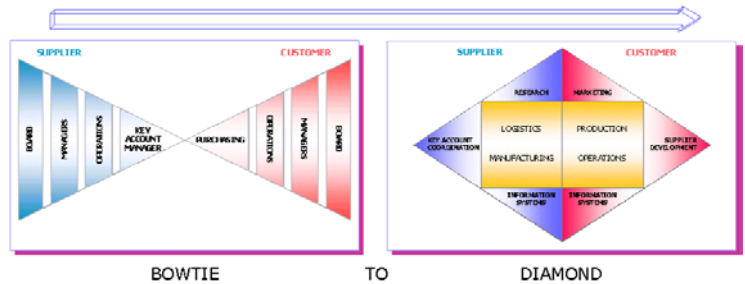
The simplest of concepts

The concept is neither revolutionary, nor difficult to understand, but its practical implementation, as indicated below, is far from easy.

There are four steps or elements to the concept:

1. For a carefully selected group of customers, to develop a depth and breadth of relationship that goes well beyond a classic buyer/seller relationship – moving from the *bow-tie* to the *diamond* relationship.

(Too many companies skip the first part of this point and call far too many customers key accounts – the result being that none of them are genuine key accounts.)



2. To use that relationship to acquire a thorough understanding of the customer's business, their objectives, their drivers, their markets and their challenges.

(This goes well beyond the objectives and purpose of traditional selling, calling on skills of strategic thinking and analysis that may not be present even in your best sales people.)

3. Create genuinely added value propositions that impact positively on those objectives drivers and challenges.

(Delivering these propositions may take you beyond your current capabilities. Developing business wide capabilities is part of the responsibility of key account management.)

4. To align your whole business behind implementing these propositions, so improving the quality of your total business.

(This is the hardest step of all – dealing with organisational issues and not least politics and egos – yet quite frankly if you cannot achieve this fourth step in the process you may be better off not starting out on the first three. Raised customer expectations that are dashed are much worse than no expectations at all.)

So easy in concept but, as we start to see, somewhat harder to achieve in practice. Not only are there obstacles between you and the customer, there are perhaps larger ones lurking within your own organisation.

Why KAM matters, and why now?

In maturing markets where achieving competitive advantage through product or technology grows ever harder, where customers grow larger, more genuinely global, more complex, and more sophisticated in their purchasing practices, Key Account Management provides a rare opportunity to redress the balance to the supplier's advantage. For some perhaps, the only opportunity.

Add to these trends the way that professional purchasers are harnessing the e-revolution, their increasing focus on value through supply chain management, and their reluctance to accept any supplier process or organisation that is not directed at improving their value received, and we can understand why key account management is vital and very much now.

Consider the plight of many business-to-business companies. A handful of 'super-customers' with frightening muscle power might easily contribute 60% to 80% of turnover, meaning that any one of these customers would be very hard to replace. Needless to say, suppliers are responding with extra special treatment for them. This lies at the heart of the interest in KAM.



Opportunities and obstacles

On the positive side, 'super-customers' can provide 'super-opportunities' – the potential for growth is often extremely exciting, provided of course that suppliers can deliver exactly what is needed. Suppliers can grow as the customer's own volume grows, new areas of business become accessible, and substantial cost savings are possible for both sides. However, lurking in this apparent Garden of Eden is the occasional snake...

- Such customers are **very** demanding – perhaps even beyond the capability of your own business?
- Understanding such huge and complex customers requires exceptional skills
- Delivering on the promise of added value tailored solutions is not easy. It demands commitment and support across the suppliers organisation – hard to manage, particularly if key account management is seen simply as a sales led initiative
- Suppliers have a limited capacity for such 'intimacy' and can only select a handful of customers with whom to develop high-involvement relationships – most suppliers try to work with far too many
- Customers have an even more limited capacity for such intimacy and will be prepared to allow such relationships only with their key suppliers – and achieving key supplier status is often a rather mysterious process for the supplier concerned!
- Competition is fierce, sometimes even desperate – you are not alone in wanting to improve relationships...

KAM – bridging the gaps

Key account management (KAM) is the process by which the supplier aims to deal with these issues. Clearly, KAM is much more than a selling process, and involves the development of a relationship with the customer which consists of more than ad-hoc transactions.

Large buying companies expect special treatment. They themselves face fierce competition, and must seek new routes to competitive advantage and value for their customers. Today, buyers naturally look to their suppliers to help them achieve their aspirations. Whether they are directly or indirectly involved, companies in a modern supply chain, are more closely connected together than ever before.

As buying companies, like selling companies, can only handle a limited number of close relationships with suppliers, they must be the key suppliers who are important to the fulfilment of their objectives. At the same time, the supplier should decide what this customer can contribute to its own strategic objectives. Its limited capacity for intimacy must not be squandered on the wrong customers.

First of all, a selling company needs to understand whether it has the opportunity to be one of the customer's key suppliers. The chances are small if it is one of many competitors, is in a weak position relative to the customer, or supplies a product or service which does not contribute to the customer's strategic critical path. If and, generally speaking, only if buyer and seller positions and strategies are complementary, will it be possible to develop the relationship beyond a fairly simple level.

Getting the relationship right

Having selected appropriate partners, relationship development can be specifically targeted. Key account relationships are intrinsically complex, but a hierarchy of stages can be discerned. Based on the relational development model¹, we gave these stages names which reflect the positions of both parties:

- *Exploratory*: pre-trading relationship with a customer qualifying as a key account, 'signalling' is important, probably a single point of contact through the key account manager.
- *Basic*: largely focused on transactions, fulfils the minimum needed to conduct business with an important account, still a single point of contact, probably one of several suppliers so exit is easy.
- *Co-operative*: has a positive feel, includes more points of contact within the customer than a *basic* relationship, but information exchange is limited and little real trust exists.
- *Interdependent*: acceptance of mutual dependency, contacts are multi-function and multi-level, sensitive information is shared, a significant degree of trust exists and substantial cost savings become possible.
- *Integrated*: barriers and boundaries are dissolved, supplier has sole status or primary contractor managing secondary suppliers, major opportunities exist to save cost and create customer value, strategic planning is a joint activity focused on the long-term future.

Observation suggests that the incidence of each type of relationship declines as the degree of sophistication and involvement increases. There are very few *integrated* relationships to be found, and even *interdependent* ones are limited in number. In fact, our research shows that suppliers tend to over-estimate the stage of relationship they have reached: customers often do not view it in the same way. Indeed, some suppliers are reluctant to admit that their capacity for intimacy is restricted. We have even come across companies who have allocated 50 or 60 'key accounts' per key account manager, which is patently silly.

Clearly, the nature of the relationship between the buying company and the selling company has a strong influence on what can be achieved with a customer. To begin with, a supplier in close communication with its customer is in a good position to gain the deep understanding required to develop creatively tailored offers. However, a supplier with a *basic* or a *co-operative* relationship, even where the customer is quite positive towards the supplier, is not sufficiently close to the buyer to have enough information on which to base better-targeted offers.

For example, compared with a supplier in a *co-operative* relationship, a company with an *interdependent* relationship is more likely to be admitted to new product development projects. This alone potentially offers a major advantage over competitors. Suppliers with *basic* or *co-operative* relationships are largely 'out in the cold' and therefore 'in the dark'. Breaking out of this self-perpetuating cycle is not easy.

Key supplier status

Only key suppliers are allowed the privilege of *co-operative* or *interdependent* relationships, so how do you get to know what is required to be a key supplier if you are not allowed beyond a *basic* relationship?

One answer is to understand how the customer 'positions' you as a supplier, and then to act in accordance with their expectations.

Supplier Positioning

Risk / Significance	High	Strategic Security	Strategic Partner
	Low	Tactical Make Easy	Tactical Profit
		Low	High
		Relative Spend	

Supplier positioning is a part of the purchasing revolution, an attempt to define suppliers in certain categories that help the buying organisation determine how to work with them, how to manage them, and what to demand from them.

A simple four box matrix might be used to compare suppliers based on the total spend with them (the horizontal axis) and on their significance to the customer's business (the vertical axis). The vertical axis will be based on a range of factors unique to the situation of that market, but might include things such as having unique technology, the use of brand names, whether suppliers provide cost savings, the number of competitors, the time required to change suppliers, and the level of investment in the market by suppliers.

The resultant positioning suggests a lot about how to manage such a supplier. Top left is not a price fight but a focus on long-term guarantees. Bottom left is about removing the 'noise' from the transactions – electronic commerce, sole supplier status, or self managed suppliers may be options here. Top right is where to spend the time and the effort, and the most likely place to find *co-operative* or *interdependent* relationships. Bottom right is the home of old fashioned buying, the demand for discounts and the focus on the jugular. In every revolution there must be a home for the old guard.

Nothing to fear and everything to gain

As the purchasing revolution unfolds the good supplier has much to gain, but only if they understand what is required. Those that see the changes as a threat to established means of doing business and so bury their heads in the sand will be the losers in the continuing supplier rationalisation schemes. Those that aim to provide the kind of value required depending on their positioning, and by doing so increase their opportunity to build the kind of relationships required for key account management will prosper. Competitive advantage in B2B markets is increasingly about the quality of relationships – the quality of products and services are simply the result of that relationship.

¹ Millman & Wilson 1994