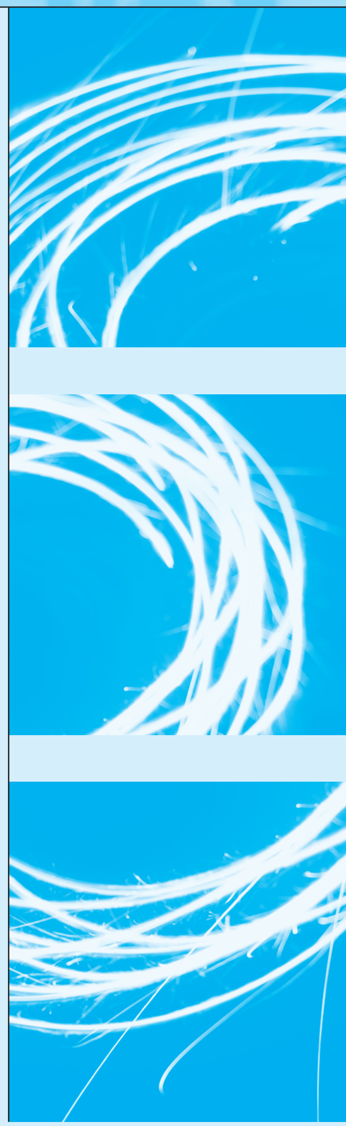
part five

Implementing the Strategy



Part 5 looks at several of the topical and relevant issues which are emerging in marketing practice concerned with the challenges of implementing or executing marketing strategies. We have featured here two areas not extensively covered in earlier editions of the book: the management of strategic customer relationships through sales and account management methods (Chapter 15), and the topical question of corporate social responsibility and its link to competitive positioning and advantage (Chapter 18). The logic for these additional points of focus is that these are topics proving of substantial and growing significance to the shaping and implementation of marketing strategy.

In the earlier parts of the book, we have provided extensive coverage of the analytical and theoretical underpinning of marketing strategy: planning market-led strategy; analysis of the competitive marketplace and organisational capabilities; and market segmentation and competitive positioning. However, the focus now changes from the *content* of strategy to the *context* – the organisational and environmental realities in which marketing strategy must be put into effect. Nonetheless, the conventional dichotomising of strategy and implementation is largely unproductive. Both issues are interdependent parts of the same process of strategic development and market performance. It is also intriguing that, in each area of strategy context that we examine, there are both challenges and obstacles for executives to meet, and also, importantly, new opportunities to compete more effectively and develop new types of competitive advantage.

Chapter 15 is concerned with strategic customer management. The focus here is the strategic role of the sales organisation and the development of strategic account management approaches to handle relationships with large, powerful, dominant business-to-business customers. We examine the role of strategic sales capabilities in managing business-to-business customer relationships and the evolution of the strategic sales organisation to enhance and apply these new types of capabilities. Strategic customer management is concerned both with the strategic management of investment of resources in different parts of the customer portfolio and, relatedly, with the management of relationships with strategic customers. Very large (or, more strictly, very important) customers provide the domain of strategic account management – moving from transactional and relationship marketing approaches to major accounts towards the partnering with a small number of key accounts. This strategy has potential gains in locking in relationships with the most dominant customers in the portfolio, but also carries substantial risks from dependence and customer opportunism, which should be carefully weighed. Nonetheless, strategic account management approaches are highly topical and a balanced case should be established prior to making decisions and commitments.

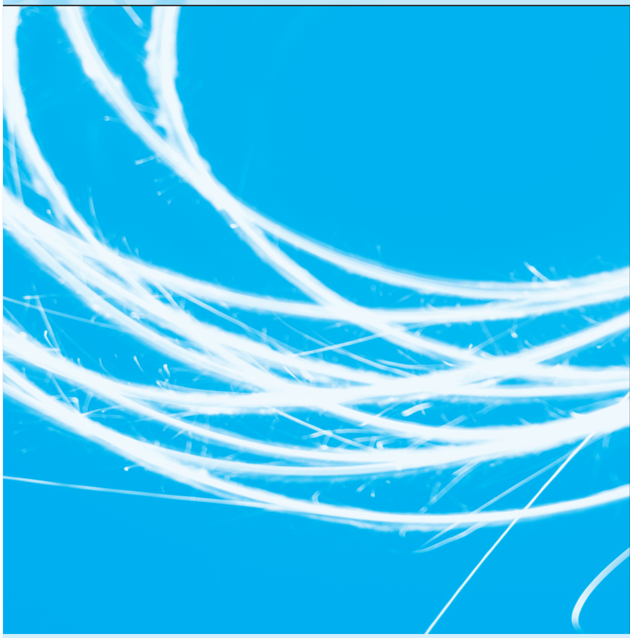
Our concern with key external dependencies continues in Chapter 16, which examines the role of alliances and networks in marketing strategy as the organisational forms developed by many organisations to take their strategies to market. Environment change and complexity has heralded for many organisations an era of strategic collaboration. We examine the drivers of collaboration strategies and the types of networks, alliances and partnerships which result. Our emphasis is on the emergence in many sectors of alliances as the way in which we compete, but we also underline the risks in strategic alliances. Competing through strategic alliances offers many potential benefits, but requires that attention be given to the underlying rationale and priorities for collaboration and investment of effort in managing and appraising alliances, which pose quite different challenges to conventional organisational structures.

Chapter 17 turns explicit attention to strategy implementation and internal marketing, where our focus is more on key internal dependencies than external ones. We review the sources of the continuing implementation or execution challenges in marketing, and examine internal marketing as a set of tools, or a template, for structuring and managing the implementation process. The development and scope of internal marketing has been associated with enhancing service quality, improving internal communications, innovation management, and internal markets, but our focus is on internal marketing as a parallel to external marketing, which focuses on the organisational and behavioural changes required to effectively implement strategy. A particularly vital purpose of strategic internal marketing is achieving cross-functional collaboration and seamlessness in delivering value to customers.

Chapter 18 focuses on the rapidly emerging area of corporate social responsibility, and its impact on the ways organisations must adapt to new societal demands, but also how it is creating new areas to consider in developing different kinds of competitive strength. This chapter is concerned with an important linkage between external and internal dependencies. At one level, attention to corporate social responsibility concerns is mandated by customer pressures, both in consumer and business-to-business markets. However, a fuller consideration of the scope of corporate citizenship suggests that the drivers of social responsibility go much further than moral obligation and are linked to the ability of companies to compete effectively. We look at defensive social responsibility initiatives in responding to competitor and customer pressures. However, what emerges is a view of corporate social responsibility as a route to competitive advantage. This view emphasises a strategic perspective on social responsibilities, where a social dimension becomes part of the company's value proposition to its customers. The goal becomes not altruism for its own importance, but the combination of business and social benefits. It is likely that this challenge will be extremely important to management thinking in the current business environment.

chapter fifteen

15 Strategic customer management



Irresistible new forces are reshaping the world of selling. Sales functions everywhere are in the early stages of radical and profound changes comparable to those that began to transform manufacturing 20 years ago. . . . The meaning of selling itself is changing. The very purpose of sales is being rapidly redefined.

Rackham and DeVincentis (1999)

Today's competitive environment demands a radically different approach. Specifically, the ability of firms to exploit the true potential of the sales organization requires that company executives adopt a new mindset about the role of the selling function within the firm, how the sales force is managed, and what salespeople are expected to produce. The sales function must serve as a dynamic source of value creation and innovation within the firm.

The Sales Educators (2006)

Introduction

This chapter is an innovation for the current edition of this book. Interestingly, it is relatively rare for books concerned with marketing strategy to pay much attention to issues concerning the salesforce or strategic account management structures. The view has generally been that marketing executives and business planners make strategic decisions, and create value through product and brand innovation, while sales and account management are really concerned only with the implementation of the plans created by strategic decision-makers. However, this oversimplified view of the world does not stand up to the scrutiny of managers who have to develop and implement strategy in the complex and highly competitive conditions that characterise most business-to-business situations. It is illustrative that a growing number of companies are making appointments such as director of strategic customer management, or strategic customer manager.

The ability of organisations to achieve superiority in how they manage customer relationships to create value and to sustain profitable relationships is increasingly recognised as a core capability – a capability which has been largely ignored in the literature of marketing strategy (Piercy, 2006). This chapter seeks to explain why the sales organisation and related account management activities should form an important element in considering the development of marketing strategy – and they certainly define important implementation capabilities (see Chapter 17). Many marketing strategy implementation failures are explained by the poor alignment of strategy with sales capabilities. Sales capabilities provide a critical resource which differentiates suppliers from each other in the eyes of professional purchasers.

First, we examine the factors which should encourage executives to re-examine the salesforce as a strategic capability, and the marketplace demands which are reinforcing these efforts. Then we examine the notion of the strategic sales organisation – the new forms of organising the front-line resources that impact on customer relationships and deliver superiority in customer value.

This brings us to the issue of 'strategic customer management'. Our logic is that in the same way that companies have come to recognise the strategic aspects of operations management (for example, in total quality deployment, and business process re-engineering initiatives), and in supply chain management (rather than simpler notions of transportation and warehousing), then there is now an increasing priority for a strategic perspective on the management of customer relationships.

There are two aspects of strategic customer management. The first relates to the strategic management of the customer portfolio – making investment choices between different types of customer to deliver the goals of marketing strategy, but also to shape that strategy. The second aspect relates to the management of strategic customers – building relationships with the dominant customers in the company's portfolio, some of which may be classified as strategic accounts and handled differently from the rest. These are important strategic decisions which impact directly on the profitability and risk profile of the company's business.

15.1 Priorities for identifying strategic sales capabilities

To begin, we examine the factors that are encouraging executives in many major organisations to re-examine the role of salesforce capabilities in the context of developing and implementing marketing strategy. This is an important starting point in understanding the potential role of strategic customer management approaches to enhancing the development and implementation of strategy.

Traditional views were that marketing and sales should be considered separate entities in the organisation because, according to Levitt, 'Selling focuses on the needs of the seller; marketing on the needs of the buyer' (Levitt, 1960). The conventional subordination of marketing (strategic) from sales (tactical) was elaborated by statements like Drucker's view that 'the aim of marketing is to make selling superfluous' (Drucker, 1973). However, it should be noted that Levitt was writing almost 50 years ago, and Drucker more than 30 years, underlining the risk that their views may have dated somewhat. It is worth considering the following issues in reaching a view about the strategic significance of sales capabilities in a particular company situation.

15.1.1 Customer relationships

Clearly, in many companies channels development has included the establishment of direct channels, such as those based around Internet websites – even in consumer marketing, by 2007 10 per cent of all retail spending took place on the Internet (Rigby, 2007), and this figure is much higher for many business-to-business sellers. At the same time, there is a growing trend towards the outsourcing to third parties of routine sales operations (Anderson and Trinkle, 2005) – while in the US Procter & Gamble has a 200-person team wholly dedicated to Wal-Mart (the single customer that constitutes 20 per cent of P&G's business), it is relatively easy for P&G to outsource routine sales visits to stores to a third-party sales organisation. Similarly, global corporate expenditure on customer relationship management (CRM) technology is measured each year in billions of dollars, and individual spends by companies can be in tens of millions of dollars. CRM explicitly aims to automate many of the functions traditionally associated with the salesforce.

However, this leaves the vital issue of whether a company's most important business-to-business customer relationships can really be managed to full advantage through a website, a third-party seller, or a call centre. Consider, for example, that Home Depot in the USA has asked many suppliers, including Black & Decker, to pull back from their more extreme Internet strategies, or risk losing the Home Depot business (Friedman, 2002). Answering this question is important to understanding the strategic role of sales for a company, rather than considering only the routine activities involved in taking and processing orders, For instance, Dell Computers is an Internet-based company – the majority of sales and service provisions are on the web. Nonetheless, Dell maintains both account executives in the field and internal salespeople in branches, because the view is that the technology exists to free salespeople to sell and develop customer relationships, not to process orders (which the technology generally does better and more cheaply).

There is a substantial business and competitive risk in underestimating the role of the salesforce in defending and sustaining a competitive position. Consider the case of a $210 million manufacturer of specialty industrial lubricants, based in Atlanta. Expecting in an Internet-enabled world that the 400-person salesforce would be increasingly irrelevant, the company spent $16 million on its website, e-portals, call centres and an integrated CRM system. When the new sales model went live, the anticipated 35 per cent sales increase in sales turned out to be an 18 per cent decline, with falling margins (largely because of the cost of the new Internet infrastructure). In addition, nearly a third of the salesforce resigned in just over a year (including 17 of the top 20 salespeople), because there was a general feeling that there was no point in staying to compete with the new website, after spending years developing personal relationships with their customers. There had been no customer involvement in developing the new sales model – the company had not bothered to ask customers how they wanted to do business. When asked, customers identified this company's only real competitive advantage as the expertise of the salesforce and their ability to design solutions to solve technical problems for customers. The new sales model deploys salesperson expertise in the specification and design phases, and in negotiating prices and terms, and uses the web for routine repeat purchases and order tracking, and the competitive situation is being retrieved (Friedman, 2002).

Understanding and enhancing the ways in which sales resources add value and protect customer relationships is becoming of strategic importance in markets being driven towards commoditisation (see below). To the extent that a marketing strategy depends upon strong and sustained customer relationships, there is an implicit reliance on sales capabilities. To the extent that a salesforce has built and sustains strong customer relationships by creating value for customers, this provides a strategic resource for the company, which should impact on strategic choices.

15.1.2 Customer sophistication and complexity

The growing sophistication and aggressiveness of purchasers in business-to-business markets has escalated the strategic importance of effectively managing buyer–seller relationships (Jones *et al.*, 2005). The challenge to the seller is to implement effective marketing strategy in a dramatically changed world of sophisticated buyers (Shapiro *et al.*, 1998). This change is underlined by the shift in the traditional role played by purchasing functions in customer organisations. Increasingly, purchasing has become a strategic function linked to the customer's strategic plans, with a major level of responsibility for profitability, cost control and enhanced shareholder value (Janda and Sheshandri, 2001).

When professional purchasing managers use complex sourcing metrics to select the 'right' suppliers, and to dictate terms on how they will be supplied, more than ever before supplier profitability is determined at the point of sale, where the sales organisation meets the customer (De Boer *et al.*, 2001; Talluri and Narasimhan, 2004). Correspondingly, the sales task has become much more complex and the stakes have become much higher.

Sellers in business-to-business markets increasingly face much more complex decisions about their marketing and sales investments in customer relationships. Historically, seller profits were generally in line with account size, because prices tended to be cost-based, sales costs were relatively low, and the size of accounts did not vary dramatically. However, consolidation by merger and acquisition and attrition has changed this situation in many markets. In industrial markets, sales situations are increasingly characterised by fewer, larger and more complex purchasing organisations, and in consumer markets there has been a massive shift in power to retailers (Shapiro *et al.*, 1998). Unsurprisingly, very large customers are powerful and demand customised sales and account management, and are challenging in terms of profitability for the supplier. Other customers also demand special treatment, but it is likely to be different. Small and medium-sized accounts require yet more different approaches, mainly because of the cost of serving them. The strategic challenge is to match sales efforts and approaches to different parts of a complex portfolio of customers, to balance revenue and profitability with business risk. These choices impact substantially on corporate performance.

These market trends have elevated the importance of the effective deployment of sales capabilities to a strategic issue. In particular, we will develop the themes of the customer portfolio and the impact of dominant customers as the chapter develops.

15.1.3 Commoditisation

One impact of the revolutions that have taken place in operations management and supply chain design has been to reduce product and service differentiation in many sectors. Competing products are frequently built to near-identical modularised platforms, and supply chains are designed for maximum speed and lowest cost. Benchmarking systems encourage suppliers to achieve similar performance against the same metrics. It is unsurprising that the result is growth in product similarity rather than differentiation.

In parallel, customer organisations increasingly pursue aggressive commoditisation strategies with their suppliers – if all competitive offerings are essentially similar, then differentiation can only be achieved through price, because that is how commodities are sold. This is a preferred situation for the purchaser, but not usually for the seller. The chief purchasing officer's modern armoury includes: RFPs (request for proposal or an invitation to suppliers to bid for business on a specific product or service); internet auctions; purchasing consultants; and buying consortiums. These mechanisms all seek to reduce purchasing to a comparison of prices and specifications. The challenge to sellers is to constantly expand the scope and value of the offering to the customer, and the impact of the offering on the customer's business performance. Achieving differentiation with strategic customers requires new types of buyer–seller relationships that assist customers in implementing their own strategies. This underlines the need for the sales organisation to take a more strategic and less tactical role in developing and implementing business and marketing strategy.

It may be that the sales/customer interface is the place where competitive differentiation is actually achieved. Indeed, research by the US consultancy H.R. Chally suggests that salesperson effectiveness accounts for as much as 40 per cent of business-to-business customer choice of supplier, because technology has made products increasingly substitutable (Stephens, 2003).

15.1.4 Corporate expenditure

It is worth recalling also that corporate expenditure on sales operations exceeds that on higher profile advertising and sales promotion activities. Figures can only be estimated, but 2000 levels of UK expenditure on personal selling by British companies is estimated at £20 billion, compared with £13 billion on advertising and £14 billion on sales promotion (Doyle, 2002). Indeed, it is also clear that sales activities are frequently among the most expensive in the marketing budget. US survey data suggest that in 2005 the average salary for salespeople was approximately $130,000, while high performers averaged almost $160,000. Survey participants expected sales salaries to continue to increase (Galea, 2006). Research in the US finds that, while in some sectors companies spend as little as 1 per cent of sales on their salesforce (e.g. banking, hotels), the average company spends 10 per cent of sales revenue on the salesforce, and some spend as much as 22 per cent (e.g. printing and publishing) (Dartnell, 1999). Indeed, it is not uncommon for sustained salesforce costs to be as high as 50 per cent of sales (Zoltners *et al.*, 2004).

In addition, the sales function employs more people and in many companies is a much larger function than marketing. Interestingly, estimates in both the UK and the USA suggest that sales employment is expected to increase up to 2010. The 'death of the salesman' forecast as a result of the expansion in Internet marketing and other direct channels appears to have been somewhat exaggerated.

The expenditure levels and the growth in employment suggest that managers are likely to continue asking questions about the full utilisation of these resources to add value to the company. Indeed, evidence in the US suggests that many senior managers are dissatisfied with the productivity of their sales organisations, and many see salesforce costs poorly aligned with strategic goals (Deloitte Touche, 2005). These indications support the view that the sales organisation will become a substantially higher priority issue for strategic decision-makers. However, notwithstanding the cost of the salesforce, the changing role of the sales organisation is driven by more than cost, and reflects the power of salesforce capabilities to change a company's competitive position for the better or for the worse.

15.2 The new and emerging competitive role for sales

This section draws on Piercy, 2006.

Writing in *Harvard Business Review*, Thomas Stewart summarises the new and emerging role for the sales organisation in the following terms:

> . . . *Selling is changing fast and in such a way that sales teams have become strategic resources. When corporations strive to become customer focused, salespeople move to the foreground; engineers recede. As companies go to market with increasingly complex bundles of products and services, their representatives cease to be mere order takers (most orders are placed online, anyway) and become relationship managers.*
>
> (Stewart, 2006b)

Understanding the evolution of the sales organisation, and the strategic capability it represents, and the forces shaping this capability, has become an important issue for strategic decision-makers.

15.2.1 The evolution of the sales organisation to strategic importance

There is little doubt that the role of the sales organisation has gone through major changes in many companies in recent years, and it is likely that this change process will continue and escalate. However, what should not be underestimated is the extent to which such changes are increasingly radical and disruptive to traditional business models and theories (Shapiro *et al.*, 1998).

For example, in identifying priorities for sales in 2001, Thomas Leigh and Greg Marshall wrote that 'The sales function is undergoing an unparalleled metamorphosis, driven by the plethora of changing conditions' (Leigh and Marshall, 2001). They suggested that this metamorphosis was seeing the selling function shift its role from selling products and services to one emphasising 'increased customer productivity' through enhanced revenues or cost advantage. They support the transformation of the traditional sales function to a pan-company activity or process, driven by market pressures: 'customers indicate that the seller's organisation must embrace a customer-driven culture that wholeheartedly supports the sales force.' Interestingly, they also underline the parallel between the transformation of the sales organisation and other company-wide marketing developments, such as: market orientation (Jaworski *et al.*, 1993), market-oriented organisational culture (Homburg and Plesser, 2000), and marketing as a cross-functional process rather than a functional department (Workman *et al.*, 1998).

A further analysis suggests that 'the sales function is in the midst of a renaissance – a genuine rebirth and revival. Progressive firms are becoming more strategic in their approaches to the sales function . . . Enlightened firms view their customers as assets, and are entrusting their salespeople to management of these assets' (Ingram *et al.*, 2002). These authors call for joint action by sales managers, educators, trainers, consultants and professional organisations to improve the conceptualisation and practice of sales management. Certainly, there appears growing consensus that traditional approaches will fail, and that 'The shaping of the selling function has become a strategic corporate issue', requiring clarity about the new sales role, new structures and new management approaches (Shapiro *et al.*, 1998).

Many suggest that the revolution has already arrived, even if marketing executives (and educators) have yet to notice. One British commentator has suggested that 'sales functions are in the early stages of a transformation comparable to that which reshaped manufacturing 20 years ago (Mazur, 2000). The evolution of the sales organisation is already becoming apparent in studies of marketing organisations and there is growing evidence of the expanding influence of sales over strategic decisions. For example, there are research findings that the sales department has more influence than the marketing department on many so-called 'marketing' decisions (Krohmer *et al.*, 2002), and that 'primary marketing coordinators increasingly reside in sales rather than the marketing organization' (Homburg *et al.*, 2000), while sales plays a growing role in formulating as well as executing marketing strategies (Cross *et al.*, 2001). In fact, even the success of marketing initiatives like market orientation may depend in large part on the sales organisation – for example, one study shows the impact of market orientation on performance to be fully mediated by the adoption of customer-oriented selling by the salesforce (Langerak, 2001). Similarly, the sales organisation may have a decisive influence on shaping the direction of new product innovation through the intelligence they collect and interpret (Lambert *et al.*, 1990), and on assessing and accessing targeted key market segments (Maier and Saunders, 1990).

These arguments suggest that there is an urgent need in many companies to consider the transformation of the traditional sales organisation and its more strategic role.

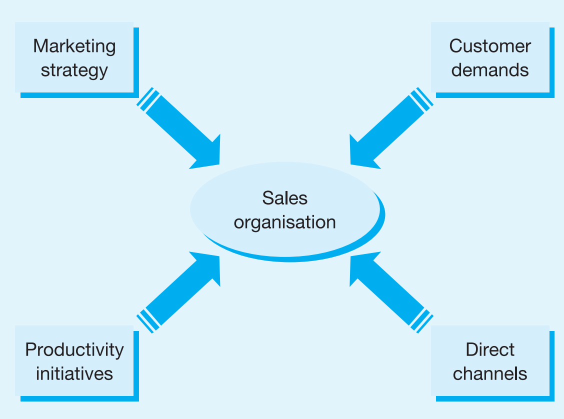
15.2.2 Shaping forces for the new sales organisation

The sales organisation has for some time been under powerful company and customer forces that have reshaped its role and operation (Jones *et al.*, 2005). The forces acting to reshape the sales function in organisations are summarised in Figure 15.1. As we have already seen, the implementation of new types of marketing strategy requires the realignment of sales processes with the strategy. At the same time, multi-channelling and the growth in Internet-based direct channels are substituting for many traditional sales activities.

Perhaps most telling in business-to-business marketing has been the dramatic escalation in the demands for enhanced service and added value by customers. For example, the H.R. Challey consultancy's *World Class Sales Excellent Research Report* (2006) reports the views of corporate purchasers and their expectations for the relationship with the salesperson from a supplier as follows:

1. **Be personally accountable for our desired results** – the sales contact with the supplier is expected to be committed to the customer and accountable for achievement.
2. **Understand our business** – to be able to add value, the supplier must understand the customer's competencies, strategies, challenges and organisational culture.
3. **Be on our side** – the salesperson must be the customer's advocate in his/her own organisation, and operate through the policies and politics to focus on the customer's needs.
4. **Design the right applications** – the salesperson is expected to think beyond technical features and functions to the implementation of the product or service in the customer's environment, thinking beyond the transaction to the customer's end state.
5. **Be easily accessible** – customers expect salespeople to be constantly connected and within reach.

Figure 15.1 Forces acting on the sales organisation



6 **Solve our problems** – customers no longer buy products or services; they buy solutions to their business problems, and expect salespeople to diagnose, prescribe, and resolve their issues, not just sell them products.

7 **Be creative in responding to our needs** – buyers expect salespeople to be innovators, who bring them new ideas to solve problems, so creativity is a major source of added value.

These qualities characterise how world-class salesforces are distinguished in the eyes of their customers. They describe a customer environment which is radically different from the transactional approaches of the past, and which poses substantially different management challenges in managing business-to-business customer relationships. However, at the same time, business constraints in seller organisations suggest that in most companies there is considerable pressure to reduce costs and enhance productivity in the salesforce.

While the ways in which traditional sales organisations are likely to transform to meet these contrasting forces to reshape will vary considerably between different industrial and commercial sectors, one way of integrating the outcomes in general terms is in a model of the strategic sales organisation.

15.3 The strategic sales organisation

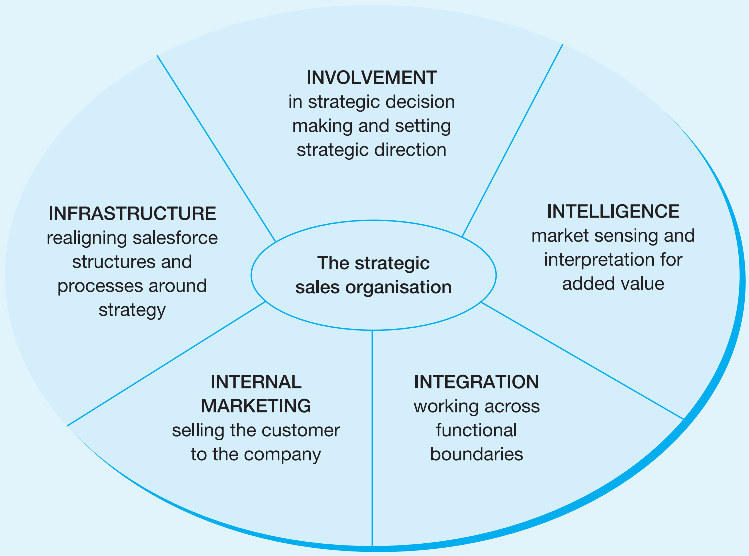
The importance of strategic customer relationships mandates a strategic response from sales and account management. The strategic sales organisation is an attempt to capture the range of changes which may transform the traditional sales organisation into a strategic force, impacting on the ability to implement marketing strategy, but also providing leadership in the shaping of that strategy.

The bulk of attention given to the sales and account management area in the past has been largely concerned with tactical and operational issues, and has failed to adopt a strategic perspective on the management of customer relationships. Interestingly, similar comments would have applied in the operations and supply chain strategies prior to the revolutions in thinking and practice experienced by those disciplines in the 1990s and early 2000s. We suggest that the sales and account management field is in the early stage of a similar and related revolution, characterised by a shift in approach from tactical to strategic. There can be little further doubt that, as Shapiro and his colleagues at Harvard have asserted, once again 'Sales is a boardroom topic' (1998), and that the strategic sales organisation is positioned on the top management agenda in many organisations.

However, the new processes and structures needed to enhance and sustain value delivery to customers through the sales organisation are likely to require careful evaluation and appraisal that extends to domains far beyond those traditionally associated with selling activities (Ogbuchi and Sharma, 1999). To support this analysis and to provide a framework for management action, we propose the framework shown in Figure 15.2 and identify several tools for practical application.

The framework we propose suggests the following imperatives for management focus:

Figure 15.2 The strategic sales organisation



- **Involvement** – placing the sales organisation in the centre of the business and marketing strategy debate in companies, and aligning sales operations with strategic direction.
- **Intelligence** – building customer knowledge as a strategic resource critical both to strategy formulation and to building added-value strategies with major customers.
- **Integration** – establishing cross-functional relationships necessary to lead the processes which define, develop and deliver superior value propositions to customers, and managing the interfaces between functions and business units impacting on service and value as it is perceived by customers.
- **Internal marketing** – using sales resources to 'sell' the customer across functional and divisional boundaries within the company and across organisational boundaries with partner companies, to achieve seamless value delivery.
- **Infrastructure** – developing the structure and processes needed to manage sales and account management organisations to match customer relationship requirements and to build competitive advantage.

15.3.1 Involvement in strategic decision making

As customer demands for superior seller relationships continue to evolve and escalate, a distinct new role is becoming critical in selling organisations – the strategic management of the relationship with the customer. While harsh economic conditions and the search for competitive edge mandate cost reductions to increase margins, sales revenues and profits are derived not only from finding new customers and sales channels, but also from growing relationships with existing customers and sales channels. However, conventionally, sales organisations manage customers for short-term revenues, which in highly competitive markets often results in declining margins and commoditisation (Lombardi, 2005). Underpinning a strategic response to radical market change is the challenge of repositioning sales as a core part of the company's competitiveness, where the sales organisation is closely integrated into marketing strategy (Stephens, 2003).

Involvement of the sales organisation in strategy has two aspects. The first strategic sales issue is concerned with developing a perspective on the sales organisation which does not focus simply on the tactical management of transactional sales processes, but examines the relationships formed with different types of customers as the basis for long-term business development (Olson *et al.*, 2001). This implies a new appraisal of the activities and processes required to enhance and sustain value delivery to customers through the sales organisation. It is also increasingly the case that major customers require a highly specific value proposition built around 'unique value' for the customer. Nonetheless, different customers have different value requirements, for example: intrinsic value buyers, who require transactional selling; extrinsic value buyers, who require consultative selling; and strategic value buyers, who require enterprise selling (Rackham and Vincentis, 1999).

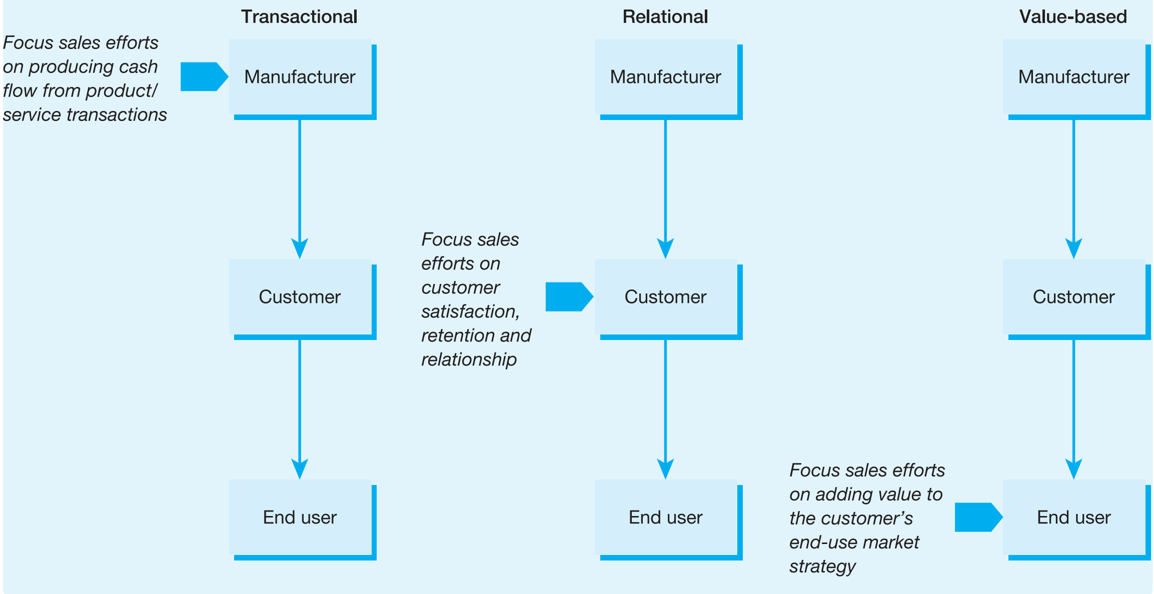
The second strategic sales issue is concerned with the role of sales and account management in interpreting the customer environment as a basis for strategic decisions. As the costs of dealing with major customers continue to increase, companies face major choices in where they choose to invest resources in developing a customer relationship, and where they choose not to invest. With large customers in particular, the risks in investment or disinvestment are high, and it likely that the intelligence-gathering and market sensing capabilities of the sales and account organisation will play a growing role in influencing strategic decisions about resource allocation in the customer portfolio. The shift in thinking required is from the tactical management of sales transactions to focus on the relationships formed in different ways with different types of customers as the basis for long-term business development (Olson *et al.*, 2001). We will consider below the customer portfolio as a tool for surfacing these issues.

15.3.2 Intelligence to add value

One clear and repeated demand by corporate buyers is that salespeople should demonstrate deep knowledge of the customer's business, such that they can identify needs and opportunities before the buyer does (H.R. Chally, 2006). The deployment of such superior knowledge and expertise is a defining characteristic of the world-class sales organisation, in the buyer's eyes. The buyer logic is straightforward: if the seller cannot bring added value to the relationship by identifying new opportunities for the buyer to gain competitive advantage in the end-use marketplace, then the seller is no more than a commodity supplier, and can be treated as such (the product is bought on price and technical specification).

This represents a challenging change in focus in the way sales organisations interact with major customers. While traditional selling activities focus primarily on the need to convert product and service into cash flow, conventional marketing shifts

Figure 15.3 Changing focus in buyer–seller relationships



the focus from seller need to buyer need and developing the customer relationship. However, in many situations now faced by suppliers, strategic customers demand that the seller displays not simply a superior understanding of the customer's own organisation, but detailed and insightful knowledge of the customer's end-use markets. The strategic sales role is becoming one of deploying end-use market knowledge to enhance the customer's competitive position and cost efficiency. This is summarised in Figure 15.3, which provides a framework for evaluating where a company's salesforce is currently focusing efforts and how this compares with customer demands.

Even in the consumer goods sector, retailers still report that their suppliers perform inadequately in key areas which help differentiate them to the consumer, such as consumer insight development. Major retailers emphasise that trade relationships are no longer based on buyer–seller roles, and characterise the best-in-class supplier as one that has a firm understanding of the retailer's position, strategy and ambitions in the marketplace – they require consumer insight from their suppliers (IBM, 2005).

Successful business models like those at companies as diverse as Dell Inc. in computers, Johnsons Controls in automotive controls, and Kraft in groceries display this type of end-use market perspective in strategic sales relationships. Major customers evaluate their suppliers on the seller's success in enhancing the customer's competitive position, and increasingly expect proof of this achievement.

The challenge to suppliers from an increasing proportion of their major customers is to understand the customer's business and the customer's end-use markets, to leverage that knowledge to create competitive advantage for the customer. The alternative is to face growing commoditisation and declining margins. Meeting this challenge with major accounts and strategic accounts is a central element of strategic sales choices. The corresponding challenge for the reformed sales organisation is to develop, deploy and sustain new skills and capabilities in market sensing.

15.3.3 Integration across functional boundaries

Turbulent and demanding markets create new challenges for managers in supplier organisations. Powerful customers increasingly demand problem-solving and creative thinking about their business, requiring the commitment of, and access to, the supplier's total operation. One European executive describes this as 'the convergence of strategic management, change management and process management, all critical elements of transforming the sales function to meet today's customer requirements.' (Seidenschwartz, 2005) Certainly, in some cases programmes of value creation around major customers have been plagued by problems of 'organisational drag' – the seller's organisational functions are not aligned around processes of creating and delivering customer value (Koerner, 2005). Similarly, retailers emphasise supplier organisational structure and culture as key obstacles to improving customer management effectiveness (IBM, 2005).

Success in the new marketplace increasingly demands the integration of a company's entire set of capabilities into a seamless system that delivers superior customer value – what has been called elsewhere 'total integrated marketing' (Hulbert *et al.*, 2003). This logic is based on the observation that superior performing companies share a simple characteristic: they get their act together around the things that matter most to their customers, and they make a totally integrated offer of superior value in customer terms. Management attention must focus on the actual and potential contributions of functional units and departments, and third-party suppliers in alliances and networks, in delivering superior value to customers, and how to improve the integration of these activities.

One of the developing roles of the sales organisation will be in managing processes of value definition, development and delivery that cut across functional interfaces to build real customer focus. Many of the barriers to developing and delivering superior customer value come from the characteristics of supplier organisations. One challenge of strategic customer management mandates effective approaches to cross-functional integration around value processes. Rather than managing only the interface with the customer, the reformed salesforce must cope with a range of interfaces with internal functions and departments and, increasingly, partner organisations to deliver value seamlessly to customers. We discuss the issue of cross-functional partnership further in Chapter 17.

15.3.4 Internal marketing of the customer

It seems inevitable that a strategic approach to the role of sales in managing customer value will simultaneously impose the problem of positioning and 'selling' the customer value strategy inside the organisation.

For example, consider the issue of service quality, which has proved to be a decisive competitive weapon in many industries. Service quality is normally evaluated in the customer marketplace in terms of the perceived delivery of the product or service confirming or disconfirming customer expectations to create satisfaction or dissatisfaction (Berry and Parasuraman, 1991). However, those same dimensions of attitudes and beliefs are mirrored in the internal marketplace of company employees and managers.

In the internal marketplace, expectations are concerned with anticipations by people inside the company of external customer preferences and behaviour, and perceived delivery is about differences between internal and external criteria of what 'matters' – priorities of people in the 'back office' or the factory may conflict with those of the external customer. Confirmation/disconfirmation relates not to consumption of the product, but to judgements people inside the company make about the external customer. When external customers 'disappoint' employees by their adverse reaction or complaints, this may easily have a negative effect on the future behaviour of employees in dealing with customers (Piercy, 1995; Bell *et al.*, 2004).

The risk of undermining the competitive position with a major customer as a result of such internal market factors is too serious to be ignored. One role of the reformed sales organisation is likely to be 'selling' the customer to employees and managers, as a basis for understanding customer priorities and the importance of meeting them, as an activity that parallels conventional sales and marketing efforts, as suggested in Figure 15.4.

Internal marketing is discussed further in Chapter 17.

15.3.5 Infrastructure for the new sales organisation

The role of the transforming sales organisation is unlikely to be implemented effectively through traditional salesforce structures and processes. Shapiro and his colleagues suggest that 'most established sales forces are in deep trouble. They were designed for a much simpler, more pleasant era . . . The old sales force must be redesigned to meet the new needs' (1998). New definitions of the sales task will require

Figure 15.4 The internal marketing challenge for sales

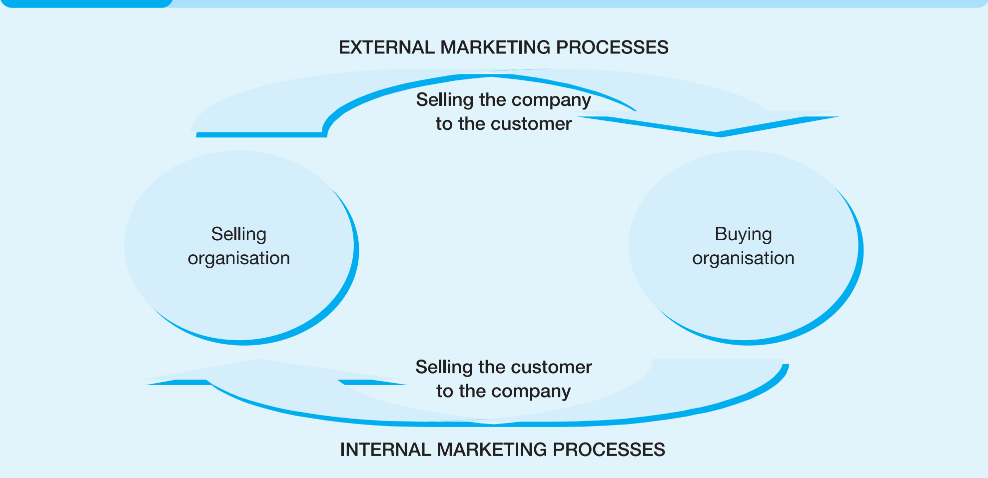
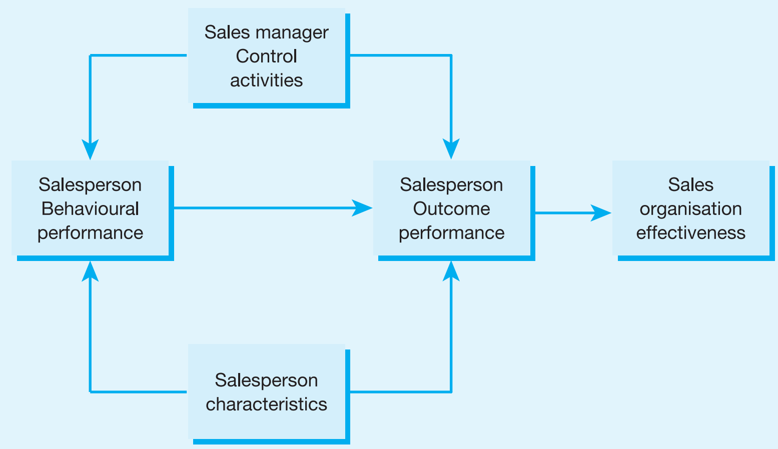


Figure 15.5 Realigning sales structures and processes



substantial shifts in the way that the sales organisation is managed. Turbulent markets mandate constant attention to alignment between sales processes and the goals of market and business strategy (Strelsin and Mlot, 1992). Certainly, research suggests that the move from transactional relationships with customers (selling on the basis of price and product advantages) to value-added relationships is proving extremely challenging for many organisations striving to pursue this strategy (*American Salesman*, November 2002).

Change in the infrastructure supporting the strategic sales organisation is likely to span organisation structure, performance measurement systems, competency creation systems, and motivation systems – all driven by the definition of the new task and role of the sales operation (Shapiro *et al.*, 1998).

Figure 15.5 suggests some of the areas where particular attention is required, and where new research into sales organisation effectiveness indicates some of the productive approaches to be explored. The logic is that the overall result on which attention should focus is the effectiveness of the sales organisation in implementing business strategy and meeting organisational goals. Traditionally, management attention has focused on outcome performance as the main indicator of effectiveness (i.e. meeting sales volume and revenue targets). However, if strategy requires the development of closer customer relationships and the implementation of a value-based strategy, then salesperson behaviour performance may be a more productive point of focus (i.e. not simply what salespeople sell, but the behaviours they undertake to achieve their goals and to build customer relationships).

If salesperson behaviour performance is key to delivering the outcomes and overall effectiveness required as marketing strategy moves towards a relationship focus, then this has several important implications for the competencies and behaviours to be developed in salespeople, and against which to evaluate their performance. This, in turn, has major implications for the type of people to be recruited to sales and account management roles, as well as for the way in which they are managed

(Baldauf, Cravens and Piercy, 2001; Baldauf, Piercy and Cravens, 2001). Particular controversy is reserved for the move from outcome-based control (primarily in the form of compensation-based incentives such as sales commission and bonus) towards behaviour-based control (direct manager intervention in how salespeople do their jobs, and greater reliance on fixed salary compensation packages) (Piercy, Low and Cravens, 2004a, 2004b).

The process of 'reinventing' the salesforce to meet the challenges of new markets and new strategies is likely to require attention to several critical issues:

- Focus on long-term customer relationships, but also assessing customer value and prioritising the most attractive prospects.
- Creating sales organisation structures that are nimble and adaptable to the needs of different customer groups.
- Gaining greater ownership and commitment from salespeople by removing functional barriers within the organisation and leveraging team-based working.
- Shifting sales management from 'command and control' to coaching and facilitation.
- Applying new technologies appropriately.
- Designing salesperson evaluation to incorporate the full range of activities and outcomes relevant to new types of sales and account management jobs (Cravens, 1995).

While beyond the scope of this present review, a study of the antecedents and consequences of sales management control strategy is revealing of several issues, which are commonly neglected in leveraging change and superior performance in the salesforce in aligning sales efforts with strategic direction (Baldauf *et al.*, 2005). It should be quite apparent, however, that new business and marketing strategies and an evolving role for the sales organisation in leading strategic customer management will inevitably require considerable re-evaluation of the management of the sales organisation.

15.4 Strategic customer management tasks

The transformation of the traditional sales organisation into a strategic force that should feature centrally in the analysis that underpins strategic choices by marketing executives may be achieved by moves towards at least some of the characteristics of the strategic sales organisation. However, the larger goal we pursue is a strategic customer management perspective, which may be achieved through the strategising of sales processes and structures. The key distinguishing features of a strategic customer management (SCM) approach are summarised below and developed further in the sections that follow.

15.4.1 Alignment of sales processes with strategy

At one level, the SCM mandate is concerned with the issue of marketing strategy implementation. To many business-to-business customers, the salesperson who visits *is* the supplier company, and has far more impact on customer perceptions of the supplier than promotional and other communications approaches. The interface between the customer and the supplier managed by the salesforce has long been recognised as a major source of implementation failures. We consider implementation issues in Chapter 17, but particular problems relating to the sales/marketing strategy interface which are frequently encountered include:

- Marketing strategies which aim to build strong competitive positions through superior customer relationships fall foul of sales organisations where salespeople are rewarded by volume-based commission paid for sales transactions – traditional evaluation and reward systems often value most sales activities that run counter to strategic goals of customer orientation and relationship building and favour short-term volume.
- Strategies are built around vertical markets and customer focus, but salespeople struggle to implement these approaches because they are organised into geographical areas or product divisions.
- Sales managers do not ‘buy in’ to marketing strategies, and cling to traditional leadership behaviours and performance management in controlling sales operations.
- Traditional conflicts of interest between marketing and sales executives (they are frequently rewarded for different achievements and evaluated against different measures) spill over into lack of cooperation and coordination.
- Marketing strategies are developed in isolation from the customer and competitor insights provided by salespeople and account managers, and without any understanding of the company’s sales capabilities compared with competitors.
- Salespeople and sales executives experience job ambiguity and conflict in attempting to implement strategies that fit poorly with the systems and structures in the sales organisation, experiencing lower motivation, lower job satisfaction and perhaps higher levels of stress and burnout (Baldauf *et al.*, 2005).

Poor alignment of the realities of existing sales processes and structures and the intent of marketing strategy is likely to make effective implementation difficult to achieve. Nonetheless, it must be recognised that changing issues like evaluation and reward systems, leadership and control strategies, and organisational structures in the salesforce is usually not a minor undertaking.

15.4.2 Providing the customer perspective to marketing strategy

However, the importance of understanding the sales/customer interface is important to strategy analysts and decision-makers for another reason as well. In most business-to-business situations, the salesforce represents an important market sensing capability, or source of intelligence. However, research evidence suggests that this resource is generally poorly used and applied by marketing decision-makers (Fitzhugh and Piercy, 2006). A high priority is emerging for the better management of market sensing processes which involve the salesforce and account management teams as primary sources of intelligence.

15.4.3 Managing the customer portfolio

Our earlier comments on changing customer relationship requirements and demands for service enhancement suggest that different customer groups should be evaluated very differently in terms of their potential attractiveness and the supplier's cost to serve them. Choices regarding the customers in which to make investments of selling efforts of different types, and where not to make such investments, will shape the future of a business and merit senior management attention. We will consider the customer portfolio in the next section of this chapter.

15.4.4 Developing effective positioning with dominant customers

Currently, one of the most troublesome issue for developing effective strategy in business-to-business companies is the impact of powerful customers and the demands that they can make on their suppliers – whether the consumer goods manufacturer dealing with very large retailers like Tesco and Wal-Mart, or the components manufacturer dealing with automotive companies. One response to this has been the growth in strategic (or key) account management approaches to 'partner' with the most important customers. However, it is clear that some customers do not provide good partnership prospects – while they may be large, they are transactional customers, not collaborators. The last major section of this chapter turns to the issue of dominant customers.

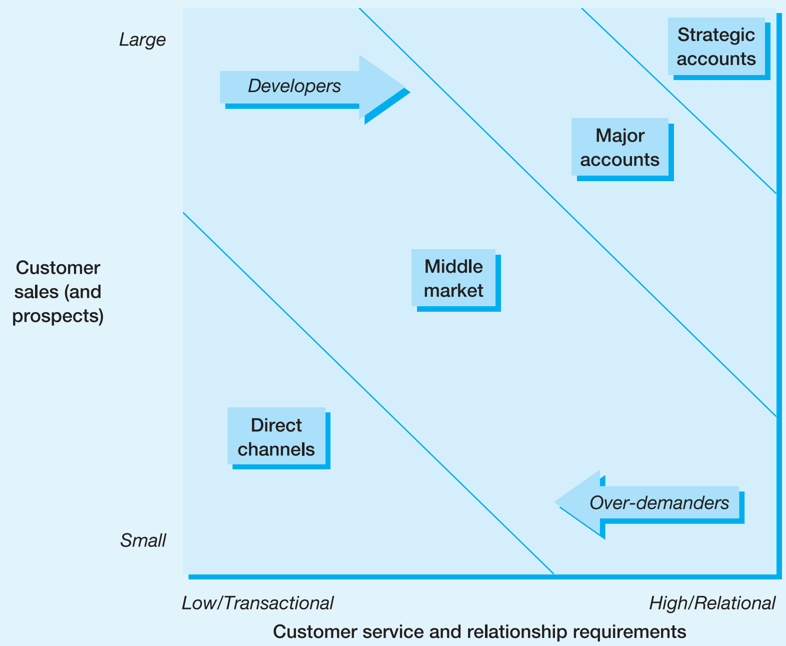
15.5 Managing the customer portfolio

In much the same way that we can examine a portfolio of products or brands, the importance of customers as assets and investment centres mandates a similar portfolio analysis. Figure 15.6 shows an approach to mapping the number of customer accounts held by a company or business unit, by their sales level and potential, and their service and relationship requirements from the supplier. This categorisation can be initially made simply by the number of accounts, but can be subsequently enhanced by examining the profitability and stability of business in the different account categories. Identifying the categories is the important first step.

The *direct channel* is typically the route to market for smaller accounts with low relationship/service requirements, e.g. the Internet, telemarketing. Importantly, customer development strategy may also involve moving some accounts towards the direct channel, because they are consuming more service/relationship resources than they merit, but also moving some out of the direct channel, based on changing prospects and the costs of serving the account. Such considerations illustrate the potential importance of shifting some salesforce resources from a short-term transactional focus to longer-term business development issues in line with business strategy.

The *middle market* contains customers with varying prospects, but generally with moderate relationship/service requirements. These are the most conventional buyer–seller relationships. Those with promising potential may be moved into the

Figure 15.6 The customer portfolio



major account area over time, while those with relationship/service requirements which are excessive compared with their potential may be moved towards the direct channel.

Major accounts are usually large in the supplier's terms and have high relationship/service requirements, but they are customers in a conventional buyer–seller relationship. While major accounts are important to the supplier, it is quite possible that the supplier is of far less importance to the customer (if accounting for a relatively small part of the customer's expenditure, or capable of being replaced reasonably easily). However, major account size and prospects identifies the need to develop appropriate salesforce approaches to deliver added value to these customers. Nonetheless, it is likely that appropriate salesforce strategies will be, and should be, substantially different between major accounts and strategic accounts.

Strategic accounts are those where collaborative and joint problem-solving approaches are appropriate to win strategic supplier status. Strategic account management strategies and structures have developed in many companies as a way of developing close, long-term and collaborative relationships with the most important customers and meeting their needs in ways which the traditional salesforce did not (Homburg *et al.*, 2002). Important questions surround the selection and management of relationships with strategic accounts, which may be the most expensive customers to serve. Growing buyer concentration in many markets mandates collaborative relationships with these accounts as strategic suppliers, but the costs of partnership and the growing dependence involved underline the need for careful choices and evaluation of performance.

The distinction between major accounts (conventional customers) and strategic accounts (collaborators or partners) underlines several strategic choices. Plans may include the movement of accounts between these categories – developing a closer relationship with a major account to develop a new strategic account relationship, or moving away from a close relationship that is ineffective to move a strategic account to major account status.

This customer portfolio mapping process is a screening device for identifying the most appropriate relationship to offer a specific account and the choices to be made in allocating scarce salesforce, account management and other company resources, as well as evaluating the risks involved in overdependence on a small number of very large accounts.

Underlying the strategic sales issue is the question of developing the capability of the sales organisation to deliver added value in different ways to various categories of customers. It is unlikely that a traditional, transaction-focused salesforce will be able to deliver added value required by some customers. However, the deployment of expensive resources to develop added-value sales strategies for particular customers implies choices and investment in creating new types of salesforce resource and capability, which should be confronted at a strategy level in an organisation.

Major accounts and strategic accounts are normally the supplier's largest customers (although it may be more appropriate to consider prospective sales rather than just existing sales). These accounts constitute the dominant customers whose impact can be massive on the supplier's performance and ability to implement marketing strategies. We now turn more detailed attention to the dominant customer issue.

15.6 Dealing with dominant customers

This section draws on Piercy and Lane, 2006a, 2006b, 2007.

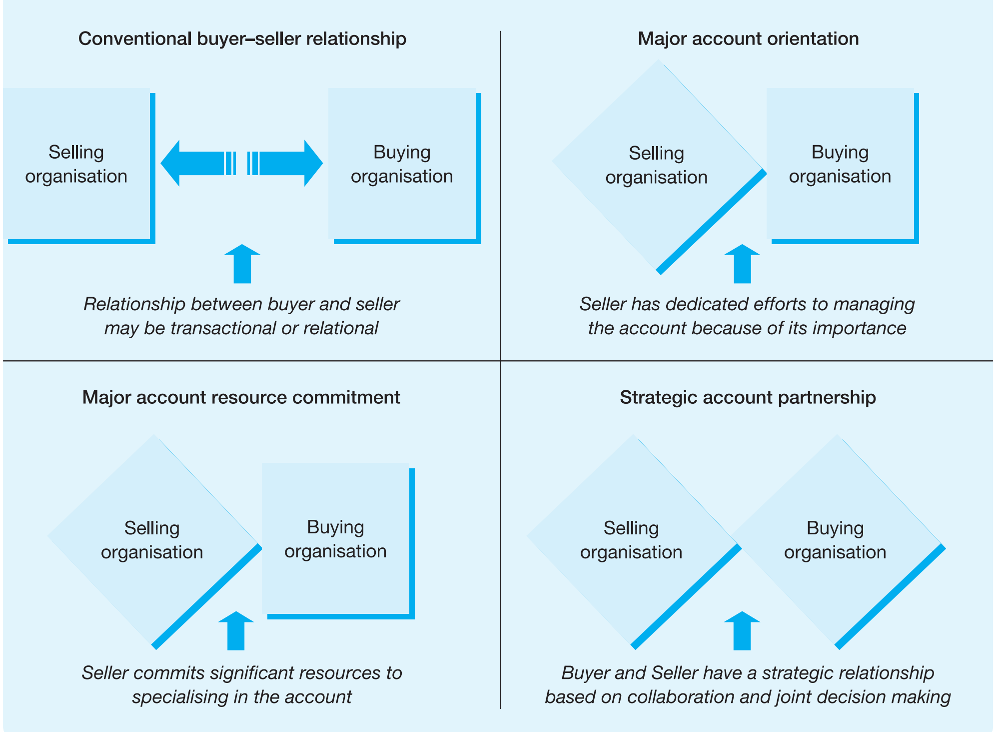
15.6.1 Differences between customers, major accounts and strategic partners

One important insight from the customer portfolio analysis is the recognition of the different types of customer in the company's portfolio, and their differing demands for value and relationship. Particular questions are raised about the largest and most influential customers – perhaps the 20 per cent of customers who may account for 80 per cent (or more) of the supplier's business.

It is important for strategic decision-makers to understand the basis for the different types of customer relationship which exist in the portfolio, and particularly the idea of a transition from traditional transactional relationships to much closer links between the seller and the most dominant buyers. Figure 15.7 summarises some of the commonest business-to-business buyer–seller relationships, and the critical differences between them.

The *conventional buyer–seller relationship* is the most familiar – it typifies the middle market. Links are between salespeople and purchasers, and the relationship

Figure 15.7 The transition from customer to strategic partner



may be purely transactional (depending largely on the importance of the purchase to the customer, or the way in which the customer chooses to do business), or it may involve a higher level or closer relationship being built between buyer and seller. This is the type of relationship which most traditional salesforces were created to manage.

However, the existence of larger, more dominant customers requires different approaches. The *major account orientation* case is where the size and impact of a customer requires that sales and management efforts should be refocused to provide a dedicated approach to a particular customer. This may involve the appointment of an account manager, or a national account specialist, and the development of plans around this customer's specific needs. Nonetheless, the relationship remains largely a conventional buyer–seller format.

The *major account resource commitment* situation takes things substantially further in terms of dedicated efforts around the major account. Substantial teams of people may now work around the single account and offerings may be substantially different for this customer. Nonetheless, the resource commitment remains essentially one-sided. Procter & Gamble's 200-person team for the Wal-Mart account is P&G's investment in that customer. Correspondingly, while Dell Computers has a dedicated team for its major customer, Boeing, this does not suggest that Boeing makes decisions about Dell's business. At the end of the day, these relationships remain buyer–seller transactions. The investment is essentially one-sided – it is made by the seller.

The big difference is with the *strategic account partnership*. This type of account relationship is based on collaboration and joint decision making between the buyer and seller. It is a two-sided relationship – both buyer and seller invest time and resources in the relationship. This relationship has much in common with the strategic alliances discussed in Chapter 16. The impact of strategic account relationships and management merits more detailed attention.

15.6.2 Strategic account management

Growth in management attention given to strategic account management (SAM)* as a way of developing and nurturing relationships with a company's most important customers is close to unprecedented. While currently given relatively little attention in the mainstream strategy literature, a Google search reveals hundreds of web pages detailing managerial books about SAM, countless consultants eager to offer advice, numerous training courses for executives, and a growing number of business school programmes in SAM in universities across the world. The underlying concept is the shift from adversarial buyer–seller relationships towards collaborative or partnership-based relationships with the company's most important customers.

Many major international companies have made SAM an important element of how they manage relationships with their largest customers. For example, IMI plc is a major UK engineering group whose published strategy statement identifies SAM as a key theme in achieving its goal of 'leading global niche markets'. The company is investing heavily 'to enhance our ability to create and manage close customer relationships with our clients [and] provide IMI business managers with the skills to create and develop close and successful relationships with major customers . . . which places key account management among the central elements of IMI's business approach' (www.imi.plc.uk). For a growing number of companies, SAM is a deep-seated strategy for customer partnering, often on a global basis.

Norgren, a brand of IMI PLC

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* For purposes of discussion we regard the terms strategic account management and key account management as interchangeable, and our commentary generally applies to what some designate as national account management and global account management.

At the same time, many major buyers have adopted radical strategic supplier strategies. In 2005, Ford Motor Company announced it was consolidating its supply base for its $90 billion components purchases from 2,000 suppliers to 1,000 globally. Moreover, the first seven 'key suppliers' constitute some 50 per cent of Ford's parts purchases, and will enjoy superior access to Ford's engineering resources and product planning. Ford will work closely with its key suppliers, giving them access to key business plans for new vehicles and committing to give them business (Mackintosh and Simon, 2005).

On one hand, a compelling case can be made for the attractiveness of SAM as a strategy of collaboration and partnership with major customers. However, there are several assumptions and propositions underpinning the case for SAM, which appear to have been largely ignored by its adopters and advocates. Balancing these issues is an important challenge for strategic decision-makers in marketing.

15.6.3 The case for strategic account management

A recent study suggests that strategic/key account management is one of the most fundamental changes in marketing organisation (Homburg *et al.*, 2000), and yet one in which a sound research foundation to guide management's strategic decisions remains almost completely lacking (Homburg *et al.*, 2002). Indeed, while there is a long stream of research in the areas of national and key account selling starting in the 1960s, this research has been largely descriptive and conceptual and has not addressed the long-term impact of SAM on buyer–seller performance (Workman *et al.*, 2003).

The rationale for SAM is that demands from large customers have caused suppliers to respond with dedicated organisational resources to concentrate on these 'key' or 'strategic' accounts and to incorporate special value-adding activities (e.g. joint product development, business planning, consulting services) into their offering to the customer (Dorsch *et al.*, 1998). Fundamental to the logic of SAM is the suggestion of an inevitable concentration effect whereby a small number of customers provide a disproportionately large share of a seller's sales and profits (the so-called '20:80 rule'). Almost as a natural consequence, suppliers frequently dedicate most of their resources to the core portfolio of buyers who represent the highest stakes and are identified as 'strategic accounts' or 'key accounts' (Pardo, 1997).

SAM is a strategic development which has become increasingly widespread in response to a variety of customer and market pressures, which may be summarised as:

- escalating levels of competition in most markets and consequently higher selling costs for suppliers;
- increased customer concentration resulting from merger and acquisition activity, as well as competitive attrition in many markets;
- growing customer emphasis on centralised strategic purchasing as a major contributor to enhancing the buyer's cost structure and building competitive success in their end-user markets;
- active strategies of supplier-base reduction by larger buyers to reduce purchasing costs; and

- increasing exploitation by large customers of their position of strategic importance to their suppliers to gain lower prices and enhanced terms of trade (Capon, 2001).

Importantly, however, SAM is not seen simply as an organisational response that focuses on meeting growing demands from dominant customers; it is seen as progression towards a form of 'partnership' with those customers, characterised by joint decision making and problem solving, integrated business processes and collaborative working across buyer–seller boundaries, described as a process of 'relational development' (Millman and Wilson, 1989). However, while we have discussed the strengths in effective strategic account relationships, decision-makers should also recognise the growing evidence that ineffective strategic account relationships may create a range of strategic vulnerabilities for sellers.

15.6.4 Vulnerabilities in strategic account relationships

There are a number of potential flaws in the underlying logic for SAM, which may make it unattractive for sellers in some situations, and which should be explicit in making strategic customer management choices.

Investing in strategic weakness

There is a case that SAM involves the seller investing in strategic weakness, in the sense that it may be unattractive to institutionalise dependency on major customers as a way of doing business. The SAM approach rests on the notion that the 20:80 rule produces a situation for the seller which is attractive, or at least inevitable. Conversely, it can be argued that any company which has reached a situation where a 20:80 position exists – i.e. 80 per cent or more of profits and/or revenue come from 20 per cent or less of the customer base – has already witnessed the failure of its business model. The business model has failed because it has led to such a high degree of dependence on a small number of customers that the company's strategic freedom of manoeuvre has been undermined, and much control of the supplier's business has effectively been ceded to its major customers. The eventual outcome for selling companies in this situation is likely to be falling prices, commoditisation of their products, and progressively lower profits as major customers exert their market power.

Clearly, many practitioners would dismiss this line of argument as pointless. They argue that in businesses like grocery there is no choice other than to deal with the major retailers who dominate the consumer marketplace, because there is no other route to market, and little choice other than to accept the terms they offer. Similarly, suppliers of automotive components would point to the limited number of automobile manufacturers in the world, and producers of computer components would argue that, if you want Dell's business, then you do business on Dell's terms, robust though those terms may be. Such responses at least clarify that in many 'strategic account' situations the real issue is less partnership and more about one party dictating terms to the other, which is not the concept of 'collaboration' normally advanced to justify SAM investments by suppliers.

If it is conceded that powerful customers will ultimately exploit that power to their own advantage, then their business carries a disproportionately higher risk than that of less powerful, less dominant customers, and it is less attractive as a result. If it is inevitable that major customers will demand more concessions and pay less, then it is likely they will also be substantially less profitable than other customers. There is little consistent empirical evidence, but there are suggestions that for many sellers strategic or key accounts are the least profitable part of their business.

The importance of understanding the balance of power

Notwithstanding the importance of strategic buyer–seller relationships, there seems a strong case that the party in the supply chain enjoying the balance of power will use that to their advantage. For example, in spite of surging raw material costs in 2005, the pricing power of manufacturers continued to deteriorate. Producers were absorbing most cost increases and were unable to pass them fully through the supply chain, simply because powerful buyers would not permit it (Cave, 2005). It is further illustrative that in the automotive components market, notwithstanding escalating steel and oil prices faced by producers, Volkswagen told its parts suppliers in 2005 it wanted 10 per cent cost savings over the following two years. At Chrysler, the CEO demanded an immediate 5 per cent price cut by suppliers, with a further 10 per cent over the following three years (Mackintosh, 2005).

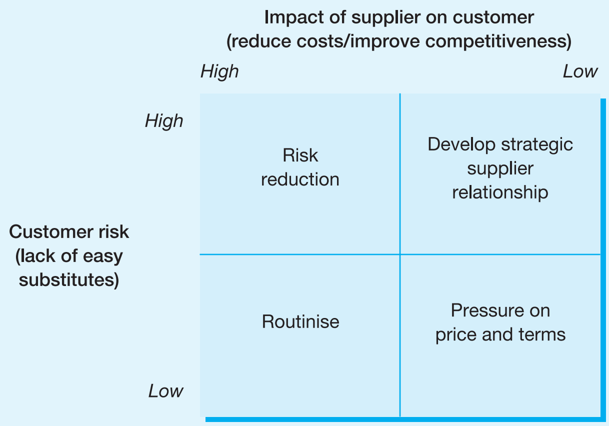
For such reasons, in sectors like automotive components, suppliers are actively seeking to diversify their customer bases and to change product portfolios to reduce dependence on a small number of powerful accounts (Simon, 2005). The issue is becoming one of staying close to key customers, but reaching out to other customer groups as a route to reduced dependency on a few and enhanced profits (Witzel, 2005). Indeed, this shift in dependency may be one of the highest strategic priorities impacting on survival.

The real buyer–seller relationship

The critical issue is interdependence between buyer and seller, or perhaps more aptly the balance of dependence, since it is rarely symmetrical. The question is, who is dependent on whom in the buyer–seller relationship? Failure to grasp the simple issue of the direction of dependency is likely to blind the seller to a critical vulnerability of SAM, while simultaneously souring relationships with the account in question – professional purchasers find it difficult to work with suppliers who misunderstand the nature of the relationship they really have with the buyer. Sellers with an exaggerated view of their strategic importance to a buyer have unrealistic expectations of the customer, with the potential for growing frustration because the customer does not behave in the way expected, and ultimately leading to conflict between buyer and seller.

Figure 15.8 illustrates a buyer perspective on supplier types – the professional purchaser distinguishes on the basis of risk (substitutability) and impact (reduced costs or improved competitive advantage) in the end-use marketplace. From a purchaser perspective, suppliers with significant impact on the buyer's business, but who can easily be replaced, are mainly targets for pressure on price and terms, while

Figure 15.8 Customer purchasing strategy



those with low impact, who can be easily substituted, are likely to be treated as commodities, where the goal is to routinise transactions to reduce supply chain costs. With suppliers who cannot easily be replaced, but have limited impact, the goal is to reduce the customer's risk exposure (e.g. to negotiate guaranteed supplies). Only where a supplier cannot easily be substituted by a competitor, and has a major impact on the customer's business, is the customer likely to work towards a strategic supplier relationship. At any time, for most buyers it is likely that very few suppliers will have strategic importance. It is important to understand the relationship defined by the customer before assuming that the buyer should be treated as a strategic account.

The risks of dependence

A related point is that SAM exposes the seller to another type of risk, which is derived from the strategic account's own end-use markets. The closer the relationship becomes to strategic account/strategic supplier status, the higher this risk becomes for the supplier. Quite simply, if the key account's performance declines, or if its business fails, its strategic suppliers will suffer businesses losses which are likely to be substantial, and over which they have little control.

Consider the dilemma faced by tyre manufacturer Dunlop, and many other smaller suppliers, created by the 2005 collapse of MG Rover – it is believed some 15–20 per cent of Dunlop's UK business was lost with Rover's demise. Further, the value of Dunlop's investment in a long-term collaborative relationship based on new product development for Rover was also lost. The impact is equally serious for some 1,500 small car parts manufacturers who supplied Rover, both in lost business and bad debts (Quinn, 2005). Focus on a strategic account creates a shared business risk for suppliers, which may be uncontrollable, unrecompensed and unattractively high.

The paradox of customer attractiveness and competitive intensity

Advocates of the SAM strategy argue that this model should only be applied to the customers who are most 'attractive' to a particular supplier (Capon, 2001). Setting aside the issue of how a company defines its criteria of attractiveness, the paradox is that the customers who are most attractive to one supplier will probably at the same time be the most attractive to competitors. While there will be situations of 'fit', which make a customer attractive to one supplier and unattractive to others, this is likely to be the exception rather than the rule. Accordingly, the most attractive customers for a SAM strategy are also likely to be those where competitive intensity is highest and consequently where the ability of the customer to substitute one supplier for another is highest. The likelihood seems that competitive intensity will deny strategic supplier status for any seller and place all in the routinised commodity supplier category. The most attractive customers become the least attractive through processes of competitive convergence of suppliers on the same customers as strategic accounts (Saunders *et al.*, 2000).

The case for key account investment

This brings us to a critical question – if strategic accounts are less profitable for a supplier and impose higher levels of risk on the supplier's business, then how is it possible to make a case for increasing dependence on such accounts, and to invest in SAM systems to further reinforce the dependence of the company on low-profit, high-risk business? There may be no choice, certainly in the short term, other than to meet the requirements of dominant customers for special treatment, but to regard this element of the business as the highest investment priority for the longer term may be questionable. Indeed, the more rational course might be to find ways of ring-fencing such customers and diverting resources to develop more profitable parts of the customer portfolio.

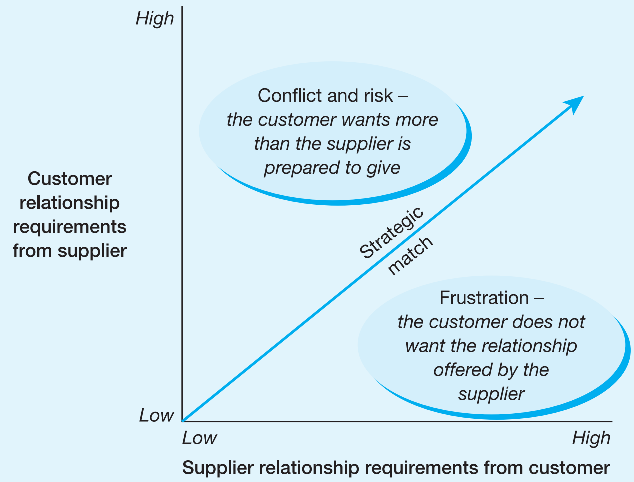
SAM strategy also carries the substantial opportunity cost that management focus on key accounts reduces the attention given to other customers, who in reality offer higher margins and lower risk. Indeed, there is a significant danger that having invested in SAM with a customer, even as the account becomes progressively less profitable because of excess demands, inertia and reluctance to admit failure may easily cause the supplier to cling to the key account relationship regardless of disappearing margins.

There is a strong, and for some companies urgent, argument that investment priorities should be reconsidered in many customer relationships, with an emphasis on long-term profitability and balanced risk exposure, and less on the short-term characteristics of existing markets. The logic is that if the business model has failed then the issue becomes one of searching and developing a new business model, not persisting with the old model until commercial failure ensues. The goal is to invest in strength and enhanced future earnings, not to invest in positions of weakness and to maintain the *status quo*, only to enjoy progressively reduced earnings.

Understanding customer relationship requirements

The European purchasing manager with a leading engineering company observes that 'I love it when a supplier tells me I am a key account – I make a lot of fuss of

Figure 15.9 Buying and selling relationship strategies



them. However, most times all I really do is to get concessions on price and terms. I almost feel guilty, it is so easy, but it's my job' (Piercy and Lane, 2006a). Underpinning the weakness of SAM strategy in potentially mismanaging critical inter-organisational dependencies is the observation that suppliers frequently tend to have exaggerated views about the relationship that major customers want to have with their suppliers.

It is likely that SAM can only be an effective strategy from a supplier perspective where there is a close match between seller and buyer relationship requirements. Consider the scenario in Figure 15.9. Frustration results for the supplier attempting to build closer relationships with customers who mainly want efficient transactions – from the buyer perspective the supplier is not important enough to justify strategic supplier status, or this may simply not be how this company does business with its suppliers. On the other hand, conflict arises when a customer looks for a close relationship with a supplier prepared only to offer more limited engagement – this customer does not warrant a larger relationship investment by the supplier. Only where there is continuous alignment between buyer and seller relationship requirements is there potential for effective SAM. The problem facing suppliers seems to be recognising how rare alignment may be in practice, as well as how transitory.

Distinguishing large (major) customers from strategic accounts

The tendency among sellers is to equate large customers with strategic accounts. We commented earlier on the importance of distinguishing major accounts from strategic accounts in the customer portfolio. The danger of not distinguishing these types of customer is threefold: first, confusing the major account with the real strategic account prospect, leading to unproductive investments in the relationship;

second, diverting attention from developing new and profitable major accounts growing out of the traditional middle market; and, third, neglecting the productivity enhancements available by moving over-demanding customers from the traditional middle market to the direct channel. Identifying major customers wrongly as strategic accounts is capable of undermining the management of the whole portfolio of accounts being serviced by the seller, with likely further negative effects on overall performance and profitability.

Furthermore, some major customers may be relatively unattractive because they offer little profit or future growth. The fact that such customers may presently be large buyers does not alter this fact. On these grounds, simply being a large customer does not justify supplier relationship investments like SAM. There is no logic in building stronger relationships with unattractive customers, particularly if this reduces opportunities to invest more productively elsewhere. As noted earlier, in many ways the large low-profit customer should encourage ring-fencing to minimise additional investment to the lowest level that retains the business, and the diversion of resources to more profitable applications elsewhere in the business.

Understanding the reality of customer loyalty

Much of the attraction of SAM lies in the promise that collaborative relationships with key customers will enhance the retention of that business – i.e. strategic accounts will reciprocate by offering loyalty to their long-term strategic suppliers. This promise may not be fulfilled.

Consider the long-term textile and clothing suppliers who believed their relationship with Marks & Spencer was secure, only to discover that, when their customer was under pressure, purchasing transferred to cheaper offshore sources. Examine the current US situation for clothing manufacturers for whom Wal-Mart is a 'key account' – Wal-Mart is now the eighth largest purchaser of Chinese products at incredibly low prices, which matters more than long-term relationships with domestic suppliers. Alternatively, view the Dell Inc. situation – a company renowned for its strategic account strategy, acting almost as an outsourced IT department for major customers. Dell Inc. does not extend the same philosophy to its suppliers – a company remains a Dell supplier only as long as it has better technology than the rest.

Recent research suggests that relational exchanges between suppliers and customers frequently benefit customers in performance improvements, but that generally the customers concerned do not reward suppliers with a higher share of their expenditure or long-term contractual commitments (Fink *et al.*, 2007). The mutual benefit and long-term relationship building implicit in strategic account management approaches may have been exaggerated.

If SAM is seen as a model of collaboration that has many similarities with strategic alliances (both involve agreement for partnership and joint decision making, with no transfer of ownership), then it is perhaps worth considering the evidence that the majority of strategic alliances fail, and in the view of many executives do not deliver the benefits they promised. The success of alliances seems to depend on conditions of mutuality and symmetry between partners. Those conditions do not appear to exist in many SAM situations.

Underestimating the rate of change

Even if a customer is willing and eager to offer a seller the status of a strategic supplier and is treated as a strategic account, with all the additional investment that this is likely to require, some sellers believe that strategic relationships with these accounts will be stable and long term.

The more likely truth is that, as a seller's own strategy changes, the importance of a particular supplier will change – possibly dramatically and quickly. As the recorded music business transforms to one based on Internet downloads instead of physical products, strategic suppliers will be those with expertise in the new technology, not those offering CDs and support for the old technology. Indeed, supplier switching may increasingly be an explicit element of a company's business strategy. In 2005, Apple announced it was teaming up with Intel to provide the components suitable for new generations of Apple products, effectively bringing an unexpected end to long-term supplier relationships with IBM and Freescale (formerly Motorola) (Morrison and Waters, 2005; Witzel, 2005). Apple's goal is to build on the momentum created by its iPod digital music player and to meet the lower prices demanded in the mass consumer market. Also in the consumer marketplace, Dixons, the electrical retailer, ceased selling video recorders in favour of DVD players at the end of 2004 and film-based cameras in favour of digital cameras in 2005. Dixon's strategy follows trends in the consumer marketplace notwithstanding disruption to established supplier relationships (Rigby and Wiggins, 2003). Supplier switching may be an inevitable consequence of strategic change.

The reality is that the strategic supplier relationship for many suppliers will be temporary and transitory, as customers develop their own market strategies and adopt new technologies. This leaves the supplier investing heavily in the strategic account relationship, only to see that relationship disappear as the customer moves on. Customers rarely offer recompense to a supplier to cover the costs of dismantling a redundant SAM system.

Even more traumatic is the sudden collapse of a key account/strategic supplier relationship. Changes in customer businesses may end relationships that had taken years to build – the key account is taken over and the acquiring company imposes its own supplier arrangements on the acquired business; there is a change in supply strategy from the top of the customer organisation, for example the move from single sourcing to multiple sourcing; the customer learns technology and process from its strategic supplier, enabling it to undertake production of the product in-house; or customer personnel move on and their replacements do not have a close relationship with the supplier and maybe do not want one. The collapse of a strategic account relationship will have a major negative impact on sales volume, which may not have been predicted. The end of a SAM relationship may impose additional and substantial costs – adjusting operations capacity to allow for short-term volume reduction, disentangling integrated systems, rebuilding processes previously shared with the key account, reallocating or removing personnel previously dedicated to the key account, putting in place new arrangements to retain whatever residual business there may be in the account.

The failure of a strategic account relationship may be very public and create additional vulnerability. If a company's shares are written down because of the collapse of business with a strategic account, then the supplier becomes vulnerable to a predator – perhaps even the customer in question, who has the opportunity to in-source the product by buying the supplier; possibly a competitor; or possibly a stalker from outside the sector. The point is that the cost of a failed key account relationship may not simply be losing the customer, it may be losing the company as well.

Consider the experiences of Marconi in its strategic relationship with British Telecom. Marconi is the rump of the former GEC and through the 1990s focused investment heavily on the telecommunications sector. Marconi was one of British Telecom's largest suppliers of network equipment for several decades. By 2004 BT represented a quarter of Marconi's total sales – as much as the next nine customers put together. Notwithstanding being described as a 'terrific partner' by the chief executive of BT Wholesale, in 2005 Marconi was shut out of BT's £10 billion '21st Century Network' project. BT's decision was based on price, not technology or relationships, and Marconi could not equal the prices of overseas competitors from eight countries ranging from France to China. Under BT pressure, Marconi had even lowered prices to a level that would have represented substantial losses in its UK operation, but not enough to satisfy BT. With the loss of a quarter of its sales base, shares falling 60 per cent in value, and substantial job losses in prospect, Marconi's experience underlines the risks of over-reliance on one customer, and the critical error of believing that BT would be a loyal partner. The loss of the BT business fundamentally weakens Marconi's ability to compete globally in new areas like Internet protocol networks. Within months of the BT decision, it was clear that investors were looking for Marconi to sell the business or merge to survive. Marconi's Chinese joint venture partner, Huawei, gained two parts of the BT contract, and ironically Marconi's technology may be available to BT through this low-price channel. In 2006 the main Marconi business was sold to Ericsson, leaving Marconi only a smaller services business working on maintenance of legacy systems (Ashton, 2005; Brummer, 2005; Durman and Box, 2005; Grande, 2005).

Challenging the regulator

SAM strategy is akin to a full-blown merger between buying and selling organisations – in buyer and seller making joint investment decisions, the exchange of proprietary information, the exclusion of third parties, and so on. SAM strategy creates a potential for anti-trust violation. Competition regulators are increasingly taking the view that close collaboration between buyer and seller is potentially anti-competitive.

Believing that SAM is easily implemented

Lastly, there appears inadequate recognition of the implementation barriers and organisational issues faced in SAM strategy. To assume that this is a strategy that can be made effective easily underestimates the degree to which this is a quite radical new business model. Even if a SAM strategy is appropriate for a supplier to manage strategic relationships with certain critical customers, there remains the issue of whether the supplier has the capabilities and resources to make the strategy real, in ways which matter to the customer.

5.3.7 Balancing the case for strategic account management

We have attempted to contrast the apparently compelling case for strategic account management (SAM) models that develop collaborative and integrative relationships with major or dominant customers, with the serious flaws in the underlying assumptions of those models and the potentially damaging traps for the unwary. In many situations, it appears that the adoption of SAM models is based on the suspect logic that the best use of a company's resources is to invest heavily in that part of the business (the largest most dominant customers) which has the lowest margins and the highest business risk.

Defenders of the SAM model would argue that this scenario reflects not the weakness of the model, but poor choice of key accounts by companies. There is some merit in such a response. However, since the apparent reality is that companies choose as strategic accounts those customers to which they sell most, or respond to the demands of large customers for special treatment, then suggesting that the weaknesses inherent in the SAM model can be overcome by better choice of strategic accounts seems somewhat unrealistic.

One logic is that the search should be for alternative strategies that avoid the trap of high dependence on a small number of powerful dominant accounts. Some would probably suggest that this is a search doomed to failure – the most powerful customers control markets and are unlikely to surrender this control willingly. Yet, on the other hand, consider the potential disruption of the *status quo* in a market by the introduction of a new business model. For example, consumer and business computer users have voiced numerous complaints over the years about the product functionality of Microsoft offerings, and struggled in vain against the massive Microsoft market share in areas like operating systems and server software. In 2005, we saw the dramatic impact of Linux software – available free or cheaply – developed through a peer-to-peer network, in a business model that appears uninvolved with concerns like profitability. Microsoft increasingly looks like a company with a midlife crisis, that has no effective response to Linux. However, more interesting yet is the fact that much of the Linux revolution has been driven and facilitated by IBM, Sun Microsystems and Dell, which are dramatically reducing their dependence on the old adversaries at Microsoft. Actively managing dependence between buyer and seller may be one way out of the trap.

It is illustrative that 2006 saw the Procter & Gamble/Gillette merger to create the world's largest consumer brands group. The combined portfolio of brands provides a much stronger hand in dealing with major retailers (Quinn, 2005). However, the merger also represents a fundamental change to P&G's business model. The goal is to serve not only the world's most affluent 1 billion consumers in developed countries, but to serve the world's 6 billion consumers, with a new focus on lower-income consumers in such markets as China and India. In developing these emerging markets, P&G is not deliberately partnering with global retailers like Wal-Mart and Carrefour. Instead, in China P&G will offer Gillette access to a huge distribution system staffed by an army of individual Chinese entrepreneurs – what P&G calls a 'down the trade' system ending up with a one-person kiosk in a small village selling shampoo and toothpaste. The effect should be that stable growth in Asian markets will reduce the combined company's dependence on mature markets dominated by powerful retailers (Grant, 2005).

New business models that will be effective in avoiding the dominant customer trap will probably share some of the following characteristics:

- reducing critical dependencies and risks by developing alternative routes to market – consider the example of the automotive manufacturers developing direct channel strategies to take back control of the value chain and reduce dependencies on independent distributors;
- developing alternative product offerings to rebuild brand strength as a counter to the power of the largest customers;
- emphasising the need for high returns to justify taking on high-risk business, not the other way around;
- reducing strategic vulnerabilities created by excessive levels of dependence on a small number of customers or distributors;
- clarifying the difference between major accounts and key accounts and developing appropriate ways of managing these different types of relationship profitably;
- actively rejecting business from some sources because the customer is unattractive in terms of profitability and risk, even if the business on offer is large;
- managing customer accounts as a portfolio (see Figure 15.3), using criteria of attractiveness and prospective performance, not simply customer size.

There are situations when SAM is an effective strategy to manage relationships with major buyers and to develop collaboration and partnership rather than adversarial transactions. However, what requires careful management consideration is under what conditions this is true, and whether these are truly the conditions they face. There is potential insight in evaluating the customer portfolio and its changing composition, and to consider not simply the quantity of business offered by the largest accounts, but also the quality of that business. The quality of business with major accounts includes the profitability of the business, but also the business risk involved, the impact of increased dependence on a small number of customers, and the opportunities given up. A balanced evaluation of this kind provides the basis for a more informed decision, but may also be the trigger for the search for strategic alternatives that may avoid the downside of dependence on powerful key accounts. This balanced evaluation and search for new business models appears urgently needed in many organisations.

15.7 SUMMARY

Strategic sales capabilities are an increasingly vital resource in adding value and sustaining effective customer relationships. Strategic customer management is a broad term describing the sales and account management relationships that link buyers and sellers in business-to-business markets. In particular, it focuses on the choices companies face in how they allocate selling and marketing resources between different customer types and the approaches taken to implementing effective relationships with powerful, dominant customers. The growing attention given to these issues reflects both internal company pressures to reform and reshape the traditional sales organisation so that it can deliver the value and the customer relationship upon which marketing strategy implementation rests. However, the strategic sales organisation elevates attention from the salesforce as the route to implementing strategy, to a force that participates in shaping strategy around the realities of the marketplace. Analysis of the customer portfolio provides the basis for distinguishing between customers in a direct channel and in the traditional middle market, but importantly major account and strategic accounts. Strategic account management represents a new business model based on collaboration and joint decision making between buyer and seller. It provides a mechanism for managing some dominant customer relationships. Nonetheless, while there is a compelling case for strategic account management, there is a balancing case of the vulnerabilities and risks in this model. Managers need to balance these factors carefully in deciding whether to implement strategic account management models. The analysis of choices in marketing is closely related to strategic sales capabilities in the business-to-business marketing company.

Xerox

FT **Case study**

Punchstock/Corbis

In the four years since she was appointed chief executive of Xerox, Anne Mulcahy has cut costs, closed business units, repaired the balance sheet, settled an accounting investigation, outsourced operations, refreshed product lines and rethought strategy. Now comes the hard part.

'They can't ease up on the cost cutting, but what they have really got to do now is grow the top line,' says Jack Kelly, analyst at Goldman Sachs in New York.

It is a measure of Ms Mulcahy's achievement so far that growth is even on the agenda. In 2001 and 2002, against a background of mounting debt, falling sales and an investigation by the Securities and Exchange Commission, the question was whether Xerox would survive.

It is also a measure of her down-to-earth directness that the growth question is tackled head-on: 'We've got to show that we can deliver on the top line as well as the bottom line,' she says. 'This is a defining moment for the company.'

The consensus among Wall Street analysts is that strategy mapped out by Ms Mulcahy and her team could, in principle, deliver all the growth required. This three-pronged approach involves speeding up the shift from black and white to colour copying; pushing hard into the graphics and printing industries with a new breed of high-end digital presses; and persuading big corporate customers to buy not only copiers and printers but also software and services.

The unanswered question is whether Xerox can pull it off. The crisis of 2001 and 2002 was in many ways the culmination of a comedy of errors. Investors still wince at the memory of the botched sales force reorganisation that hastened the exit of then-CEO Rick Thoman. Don't even mention the dysfunctional billing and debt collection system that, in late 2001, exacerbated an already precarious financial position.

The good news is that Ms Mulcahy knows the troubled history as well as anyone. She joined Xerox in 1975 as a sales rep and worked her way up through the managerial ranks. Her husband is a retired Xerox employee; her older brother is part of the senior executive team.

She also knows – and has set out to change – the bureaucratic corporate culture that allowed problems to fester until it was too late for anything but drastic action.

Ms Mulcahy's direct personal style is itself a force for change. Her elevation to the top job was a signal that Xerox would have to shed its lingering stuffiness if it was to survive. The new CEO soon found a weapon that would ram the point home: Six Sigma, the process improvement technique pioneered by Motorola and popularised by General Electric (see below).

She explains: 'I went after Six Sigma because I wanted to embed productivity improvement in the company in a way that would prevent problems building up over time. If you really get it going in your company it massively reduces the chance that you will discover problems that require dramatic restructuring.'

So far, it appears to be working. Thanks in part to productivity improvements yielded by Six Sigma, Xerox has been able to regain market share while also maintaining its investment in research and keeping earnings on a rising trend. Neither has the company slipped on any serious operational banana skins.

But Ms Mulcahy and her team know they are entering a crucial – and potentially dangerous – phase. The growth strategy demands organisational changes of the type that Xerox has stumbled upon in the past. Importantly, the services strategy will make new demands on a sales force that, until now, has focused on selling mostly hardware.

Xerox is hardly the first big company to make the transition from products to 'solutions'. General Electric and International Business Machines, its near neighbours north of New York, made similar journeys in the 1990s. More than half of IBM's revenue comes from IT-related services.

But the fact that it has been done before does not make it any easier. The immediate task of making it happen at Xerox falls to Jim Firestone, former strategy chief and now head of the North American business.

'We need to integrate services into the discussion from day one with our biggest clients,' he says.

At first glance, the management issue seems trivial. Xerox's small services sales team, numbering 200–300, must be integrated into the 2,500-strong army of account managers and product specialists. Crucial to this process are the 'major account managers' who look after relationships with Xerox's 300 largest corporate customers. They must be educated in the art and science of selling services: everything from analysis of document flow through organisations to outsourcing of document imaging, archiving and retrieval. This is a very different proposition to selling copiers and printers.

But while the number of people is tiny as a proportion of the total workforce (Xerox employs 58,000 worldwide), on their shoulders rest many of the company's most important client relationships. Ineffective – or disaffected – account managers could cause more than a blip in quarterly revenues and earnings.

'When we did this in the past we did this in a way that caused a lot of disruption for the customer. This time we don't anticipate that many account managers will change roles. The emphasis is on stable account relationships,' says Mr Firestone, whose style is as measured as Ms Mulcahy's is direct.

Judging the pace of change correctly is crucial. Move too quickly and relationships are jeopardised. Proceed too slowly and competitors move in. Hewlett-Packard is counting on its printing and imaging division to drive growth and already boasts a large services division. Ikon Office Systems, which distributes Canon, Ricoh and HP equipment, is another formidable competitor – and, incidentally, another proponent of Six Sigma.

'The services-solutions arena is getting more crowded,' observes Mr Kelly at Goldman Sachs.

Against this background, Xerox has reached the point where it must press ahead with organisational changes and trust to careful planning. Even the cautious Mr Firestone concedes: 'This set of changes is in many ways the most fundamental we have made in changing the nature of Xerox.'

Adventures in Six Sigma: how the technique helped Xerox

Like many other US companies, Xerox was introduced to Six Sigma through its interactions with General Electric. The financial services to biotechnology conglomerate adopted the metrics-mad process improvement technique in the mid-1990s. Thanks to its size and influence, it has served as an effective missionary.

Anne Mulcahy's conversion came as she was negotiating the outsourcing of Xerox's troubled billing and collections operation to GE Capital. She recalls: 'I remember sitting there and watching the discipline with which [the GE team] defined the problem, scoped the problem and attacked it from a Six Sigma perspective. I remember feeling for the first time that the problem would be fixed.'

The precise definition of Six Sigma quality is an error rate of 3.4 per million. More important than the exact number, however, is an approach to problem solving that emphasises small teams, measurement and economic return.

Quality improvement techniques were by no means new to Xerox. In the 1980s, it was one of the first US companies to adopt Total Quality Management (TQM) as it fought to turn back the tide of Japanese competition.

As an up-and-coming manager, Ms Mulcahy experienced TQM first hand. 'The financial metrics were not as precise with TQM,' she recalls. 'Six Sigma is very rigid and very disciplined by comparison. Every project is managed with economic profit metrics. There is none of the squishy stuff.'

The 'squishy stuff' is the emphasis in TQM on consensus building that, while part of an earnest desire to replicate the best of Japanese management, did not always play well at US companies.

Ms Mulcahy is also at pains to point out that Xerox practises Lean Six Sigma, a variation that asks managers to think not only how processes can be improved but also how waste can be reduced: 'Lean is an important nuance. The leaning process begins with taking out waste, working out where value gets added and where it does not. For big companies, this is very important.'

While companies generally adopt Six Sigma to improve efficiency, converts insist that there are other benefits. The introduction of a company-wide approach to project management is reckoned to break down barriers between departments, and make it easier to work with suppliers and customers. Ms Mulcahy says: 'The reality of our business is that in order to compete you have to find ways to deliver 8, 9, 10 per cent productivity improvements every single year. You only get there if you have a systemic approach.'

Source: Simon London, 'Xerox runs off a new blueprint', *The Financial Times*, 22 September 2005.

Discussion questions

1 How does strategic customer management differ from selling? How is it strategic?
2 Xerox aims 'to show that [they] can deliver on the top line as well as the bottom line'. How can strategic customer management help the company achieve this aim?
3 How can Xerox implement an SCM programme? What challenges is it likely to face?