9 Key account management

OBJECTIVES

After studying this chapter, you should be able to:

1. Understand what a key account is and the advantages and disadvantages of key account management
2. Decide whether key account management is suitable in a given situation
3. Understand the criteria used to select key accounts
4. Appreciate the tasks and skills of key account management
5. Understand the special role and competences of global account management
6. Recognise the ways in which relationships with key accounts can be built
7. Identify the key components of a key account information and planning system
8. Appreciate the key success factors for key account management

KEY CONCEPTS

- global account management (GAM)
- key account information and planning system
- key account management
- relationship building
- relational development model

Important changes are taking place in the personal selling function. Companies are reducing the size of their salesforces in response to increasing buyer concentration, the trend towards centralised buying, and in recognition of the high costs of maintaining a field salesforce. This latter factor has fuelled a move towards telemarketing. Perhaps the most significant change, however, has been the rise in importance of selling to, and managing key accounts resulting from, the growing concentration of buying power into fewer hands. These days companies often find over 70 per cent of sales coming from a few key customers. These key customers require special treatment since the loss of even one of them would significantly affect a supplier's sales and profits. In addition to the concentration of buying power, Weilbaker and Weeks (1997) have noted several business conditions that stimulated the movement to key account management.[1] These were that a small number of buying companies accounted for a large proportion of suppliers' sales, increased pressure by customers on suppliers to improve service and the wide geographic dispersion of buyers of the same company, which encouraged some suppliers to adopt key account management as a way of presenting a co-ordinated front.

They also noted that there was increased pressure on buyers to reduce costs, greater pressure from customers to improve communications and a heightened desire to develop partnerships. Previously, the usual arrangement was for salespeople to be responsible for selling to companies only within their own geographic territory. As buyers demanded higher quality service and lower costs, some companies began assigning a single salesperson to manage and develop a few accounts. The improved service and responsiveness to the key account customer was valued by those customers who were looking to off-load some of the responsibilities normally handled by their own employees.[2] Furthermore, suppliers also appear to gain, as research by Homburg, Workman and Jensen (2000) shows that actively managing key accounts results in improved supplier performance.[3]

In this chapter we shall discuss what a key account is, the advantages and drawbacks to key account management, the factors that influence the move to key account management, the criteria used to select key accounts, the skills required and how to select, and sell to, key accounts. Since the objective of key account management is to develop relationships over time, we shall also examine how to build account relationships. Next, we shall consider key account planning and evaluation. Finally, key success factors for key account management will be discussed.

9.1 WHAT IS KEY ACCOUNT MANAGEMENT?

Key account management is a strategy used by suppliers to target and serve high-potential customers with complex needs by providing them with special treatment in the areas of marketing, administration and service. In order to receive key account status, a customer must have high sales potential. A second characteristic is that of complex buying behaviour; for example, large decision-making units with many choice criteria are often found in dispersed geographical locations. The decision-making unit may be located in different functional areas and varying operating units. Third, key account status is more likely to be given to customers willing to enter into a long-term alliance or partnership. Such relationships offer buyers many benefits including reliability of supply, risk reduction, easier problem-solving, better communications and high levels of service. Key accounts that are geographically widespread are often called national accounts.

Key account management has three features. First, key account management involves special treatment of major customers that is not offered to other accounts. This may involve preferential treatment in the areas of pricing, products, services, distribution and information sharing.[4] This may take the form of special pricing, customisation of products, provision of special services, customisation of services, joint co-ordination of distribution and workflow, information sharing and joint development of business processes and new products.[5] Second, it is associated with dedicated key account managers who typically serve several key accounts. They may be placed in the suppliers' headquarters, in the local sales organisation of the key account's country, or sometimes on the premises of the key account.[6] Third, key account management requires a multifunctional effort involving, in addition to sales, such groups as engineering, marketing, finance, information technology, research and development and logistics.[7] Such cross-functional selling teams have the ability to increase an organisation's competitive advantage and are employed by such companies as Bayer, Procter & Gamble, Xerox, ABB and Kraft Foods.[8]

Key account handling requires a special kind of attention from the seller that may be beyond the capacity of the regular field salesforce. Some of the key responsibilities of key account managers are planning and developing relationships with a wide range of people in the customer firms, mobilising personnel and other resources in their own firms to assist the account, and co-ordinating and motivating the efforts and communications of their company's field salespeople in their calls on the various departments, divisions and geographical locations of the key account.[9]

According to Hise and Reid,[10] the six most critical conditions needed to ensure the success of key account management are as follows:

- integration of the key account programme into the company's overall sales effort;
- senior management's understanding of, and support for, the key account unit's role;
- clear and practical lines of communication between outlying sales and service units;
- establishment of objectives and missions;
- compatible working relationships between sales management and field salespeople;
- clear definition and identification of customers to be designated for key account status.

Some important distinctions between transactional selling and key account management are shown in Table 9.1.

Table 9.1 Distinctions between transactional selling and key account management

	Transactional selling	Key account management
Overall objective	Sales	Preferred supplier status
Sales skills	Asking questions, handling objections, closing	Building trust, providing excellent service, negotiation
Nature of relationship	Short, intermittent	Long, more intense interaction
Salesperson goal	Closed sale	Relationship management
Nature of salesforce	One or two salespeople per customer	Many salespeople, often involving multifunctional teams

9.2 ADVANTAGES AND DANGERS OF KEY ACCOUNT MANAGEMENT TO SELLERS

A number of advantages to the supplier have been identified with key account management:

1. *Close working relationships with the customer* – the salesperson knows who makes what decisions and who influences the various players involved in the decision-making process. Technical specialists from the selling organisation can call on technical people (e.g. engineers) in the buying organisation, and salespeople can call upon administrators, buyers and financial people armed with the commercial arguments for buying.
2. *Better follow-up on sales and service* – the extra resources devoted to the key account means there is more time to follow up and provide service after a key sale has been concluded.
3. *More in-depth penetration of the DMU* – there is more time to cultivate relationships within the key account. Salespeople can 'pull' the buying decision through the organisation from the users, deciders and influencers to the buyer, rather than face the more difficult task of 'pushing' it through the buyer into the organisation, as is done with more traditional sales approaches.
4. *Higher sales* – most companies that have adopted key account selling techniques claim that sales have risen as a result.
5. *The provision of an opportunity for advancement for career salespeople* – a tiered salesforce system with key account selling at the top provides promotional opportunities for salespeople who wish to advance within the salesforce rather than enter a traditional sales management position.
6. *Lower costs* – through joint agreement of optimum production and delivery schedules, and demand forecasting.
7. *Co-operation* – on research and development for new products and joint promotions (e.g. within the fast-moving consumer goods/retail sector).
8. *Integrated systems* – information communication technology (ICT) integration can benefit suppliers in the areas of delivery and billing.

However, Burnett[11] points out that key account management is not without its potential dangers. For example:

1. When resources are channelled towards a limited number of companies, the supplier runs the risk of increased dependence on, and vulnerability to, relatively few customers.
2. The risk of pressure on profit margins if a customer chooses to abuse its key account status.
3. The possible danger of a customer applying ever-increasing demands for higher levels of service and attention once they know that they have preferred customer status.
4. Focusing resources on a few key accounts may lead to neglect of smaller accounts, some of which may have high, long-term potential.
5. The team approach required by key account management may be at odds with the career aspirations of certain high achievers who prefer a more individualistic approach and object to the dilution of praise which has to be shared with other people when a big order is won. Thus care is required when recruiting key account salespeople.

It should also be recognised that not all major customers may want to have close key account managed relationships. Some companies prefer to carry out their buying on a transactional selling model with their purchasing professionals trading off quality with price, and using their market power to extract the best deal. Some supermarkets are regarded by many of their suppliers as buying on such a basis.[12]

9.3 ADVANTAGES AND DANGERS OF KEY ACCOUNT MANAGEMENT TO CUSTOMERS

Customers also derive benefits from key account management:[13]

1. *Improved service:* the special attention afforded by key account management improves services levels (including responsiveness) for the customer.
2. *Improved communication and co-ordination:* the customer has a single point of contact on the supplier side (the key account manager). In more complex situations, the customer knows who constitutes the supplier's selling team (including account managers and production, engineering and marketing specialists) and, therefore whom to contact when a problem arises.
3. *Improved terms:* key account customers are in a strong bargaining position to negotiate low prices and credit terms because of their importance to suppliers.
4. *Avoidance of switching costs:* customers benefit from working long-term with suppliers avoiding the costs associated with having to switch supplier.
5. *Customised offerings:* a result of KAM relationships can be adapted or fully customised product offerings designed to meet the specific needs of the customer.
6. *Integrated systems:* customers can gain by the integration of information communication technology (ICT) for delivery and billing.

7. *Co-operation on research and development:* can aid new product development and joint promotions (e.g. within the supermarket sector) can cut costs and improve effectiveness.

There are also potential dangers for customers involved in key account management relationships:

1. Over-reliance on one (or a few) seller(s) can lead to supply problems should the seller encounter production or delivery difficulties.
2. Doing business with the same seller over a long period can lead to complacency on the supplier's side resulting in lower service levels.
3. Established relationships with the same seller can lead to complacency on the customer's side resulting in missed opportunities with other more efficient and innovative companies.

9.4 DECIDING WHETHER TO USE KEY ACCOUNT MANAGEMENT

An important question is the suitability of key account management to suppliers. Clearly it is only one form of salesforce organisation (others are discussed in Chapter 15, which covers organisation and compensation) and care is needed in deciding whether the extra resources and costs associated with its implementation can be justified. The greater the extent to which the following circumstances exist, the more likely a company is to move towards setting up key accounts:[14]

1. A small number of customers account for a high proportion of the supplier's sales.
2. There is potential for differentiation of the product and/or service provided by the supplier in a way that is highly valued by the customer.
3. Customers exhibit complex buying behaviour with large decision-making units applying varied choice criteria, often in multiple locations, meaning that a geographical organisational structure is inappropriate.
4. Multifunction contacts between supplier and customer are required.
5. Significant cost savings are possible through dealing selectively with a small number of large customers, and joint agreements of production and delivery schedules.
6. There is a danger of different salespeople from the supplier's salesforce calling upon the same customer to sell different products or offer conflicting solutions to problems.
7. The establishment of in-depth communications and strong relationships with customers may lead to the opportunity of tailoring products and services to specific customer needs.
8. Customers are centralising their operations.
9. Competition is improving its account handling by moving to key account management.
10. Competition is high. Intensity of competition was found to be a key factor driving companies to establish key accounts in a study by Wengler, Ehret and Saab (2006).[15]

9.5 CRITERIA FOR SELECTING KEY ACCOUNTS

Traditionally the key criterion for designating particular customers as 'key accounts' was on the basis of the large quantity of output sold to a customer. On the basis that an organisation bought a considerable amount of product from a supplier, it deserved special treatment because of the high profit contribution it made. The supplier was motivated to provide the extra resources because the loss of that customer would have a significant impact on its own sales and profits.

As experience with key accounts has grown, the range of criteria used to select key accounts has grown, based on the strategic or long-term importance of specific customers to a supplier.[16] These include:

- Accounts that have growth prospects through their ability to build sales and market share in their existing markets.
- Accounts with growth prospects through their position as major players in small or medium-sized but expanding markets.
- Customers that are willing to be partners in innovation by allowing joint new product development with a supplier and/or will allow a supplier to test new products in their production processes.
- Customers that are early adopters of new products and so aid the diffusion of such products in the marketplace.
- Highly prestigious accounts that improve the image and reputation of the supplier and can be used in reference selling by the salesforce.
- Accounts that are important to and currently served by competitors that the supplier has decided to attack.
- Accounts that provide a high contribution to the supplier's profits.

9.6 THE TASKS AND SKILLS OF KEY ACCOUNT MANAGEMENT

A study by the Bureau of Business Practice reported that choosing the best person to manage and co-ordinate key account programmes is second only in importance to obtaining support from top management.[17] Selecting the best person requires a full understanding of the tasks and skills required of the job. Simply choosing the company's top salesperson to handle the management of a key account is not recommended because the jobs are so different,[18] with the latter requiring a higher level of managerial ability (e.g. leadership, co-ordination, development of account strategies and communication). This is because powerful buyers in key accounts carry high expectations and are very demanding of suppliers. For example, they expect key account salespeople to act as partners in creating strategic solutions to their problems or to be experts who provide specialised category or product application knowledge.[19]

Wotruba and Castleberry surveyed key account salespeople to identify the tasks performed and skills required of the job.[20] The top ten of each are listed in Table 9.2. This list can be used to choose criteria for the recruitment, selection and evaluation of key account managers. It is not surprising that relationship building skills are

Table 9.2 Tasks performed and skills required by key account management

Tasks	Skills
1. Develop long-term relationships	Relationship building
2. Engage in direct contact with key customers	Co-ordination
3. Maintain key account records and background information	Negotiation
4. Identify selling opportunities and sales potential of existing key accounts	Human relations
5. Monitor competitive developments affecting key accounts	Focus on specific objectives
6. Report results to upper management	Diagnosing customer problems
7. Monitor and/or control key account contracts	Presentation skills
8. Make high-level presentations to key accounts	Generating visibility, reputation
9. Co-ordinate and expedite service to key accounts	Communication
10. Co-ordinate communications among company units servicing key accounts	Working in a team

paramount, and this topic will be explored later in this chapter. Next, though, we consider the special selling skills required to sell to key accounts.

As can be seen in Table 9.2, an important responsibility of a key account manager is to establish and maintain a harmonious and mutually beneficial relationship between supplier and customer. Traditionally, buyer–seller relationships were managed as illustrated in Figure 9.1, with interfirm contact being almost exclusively between the supplier's salesperson and the customer's purchasing manager.[21] This is called the 'bow-tie' relationship. Key account management requires a more sophisticated approach whereby the relationship is in the form of a diamond, as shown in Figure 9.2. The key account manager co-ordinates and encourages multifunctional levels of interaction involving various relevant functions of both organisations such as marketing, engineering, research and development and finance.

For this to occur, key account managers must have the skills and/or power to encourage functional specialists within their own company to interact with their

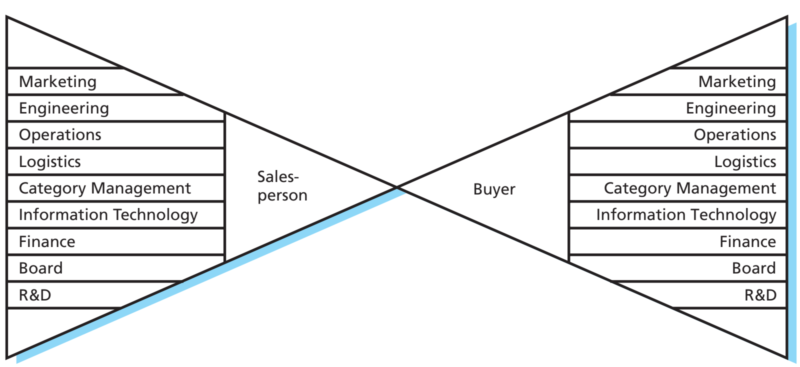

Figure 9.1 Traditional (bow-tie) buyer–seller relationship: communication is between salesperson and buyer

Source: Adapted from Shipley, D. and Palmer, R. (1997) 'Selling to and managing key accounts' in Jobber, D. (1997) *The CIM Handbook of Selling and Sales Strategy*, Butterworth-Heinemann, Oxford, p. 95. Copyright © 1997, reprinted with permission from Elsevier.

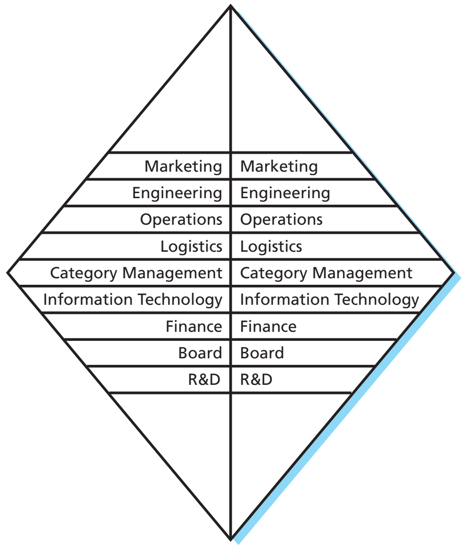

Figure 9.2 Key account (diamond) based relationship: key account manager co-ordinates communication which is direct between functions

Source: Adapted from Shipley, D. and Palmer, R. (1997) 'Selling to and managing key accounts' in Jobber, D. (1997) *The CIM Handbook of Selling and Sales Strategy*, Butterworth-Heinemann, Oxford, p. 95. Copyright © 1997, reprinted with permission from Elsevier.

counterparts in customer organisations. The problem for many key account managers is that their colleagues in other functions do not recognise the need or do not believe they have the time to meet customer personnel. They perceive this task to be the responsibility of sales and marketing and resist involvement with customers. Thus, key account managers require considerable persuasive skills, internal credibility and the authority that comes with top management support to convince colleagues outside the sales and marketing function that customer contact is an essential part of their job. Functional specialists themselves may require training to communicate effectively with specialist managers in customer organisations.

9.7 KEY ACCOUNT MANAGEMENT RELATIONAL DEVELOPMENT MODEL

The development and management of a key account can be understood as a process between buyers and sellers. The key account management (KAM) **relational development model** plots the typical progression of a buyer–seller relationship based upon the nature of the customer relationship (transactional or collaborative) and the level of involvement with customers (simple or complex). It shows five of the six stages identified by Millman and Wilson:[22] pre-KAM, early-KAM, mid-KAM, partnership-KAM and synergistic-KAM (see Figure 9.3). A sixth stage (uncoupling-KAM) represents the breakdown of the relationship which can happen at any point during the process.

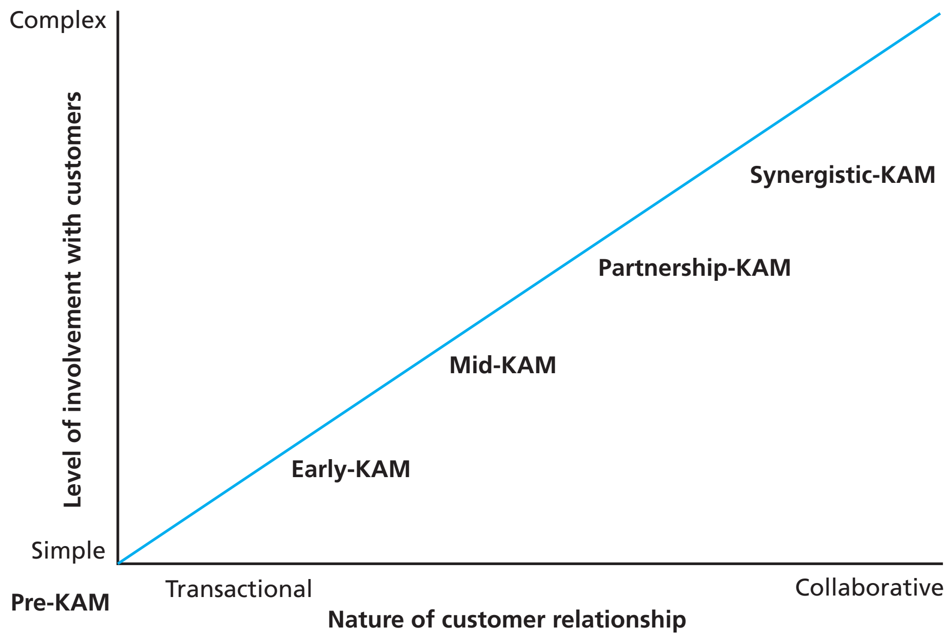

Figure 9.3 Key account relational development model

Pre-KAM

Pre-KAM describes preparation for KAM, or 'prospecting'. The task is to identify those accounts with the potential for moving towards key account status and to avoid wasting investment on those accounts that lack the potential. Pre-KAM selling strategies involve making products and services available while attempting to gather information about customers so that their key account potential can be assessed. Where an account is thought to have potential but breaking into the account is proving difficult, patience and persistence are required. A breakthrough may result from the 'in' supplier doing something wrong, e.g. refusing to quote for a low-profit order or failing to repair equipment promptly.

Early-KAM

Early-KAM involves the exploration of opportunities for closer collaboration by identifying the motives, culture and concerns of the customer. The selling company needs to convince the customer of the benefits of being a 'preferred customer'. It will seek to understand the customer's decision-making unit and processes, and the problems and opportunities that relate to the value adding processes. Product and service adaptations may be made to fit customer needs better. An objective of the sales effort will be to build trust based on consistent performance and open communications.

Most communication is channelled through one salesperson (the key account manager) and a single contact at the buying organisation. This makes for a fragile relationship, particularly as it is likely that the seller is one of many supplying the account. The customer will be monitoring the supplier's performance to assess competence and to identify quickly any problems that might arise. The account manager will be seeking to create a more attractive offering, establish credibility and deepen personal relationships.

Mid-KAM

By now trust has been established and the supplier is one of a small number of preferred sources of the product. The number and range of contacts increases. These may include social events which help to deepen relationships across the two organisations.

The account review process carried out at the selling organisation will tend to move upwards to involve senior management because of the importance of the customer and the level of resource allocation. Since the account is not yet exclusive the activities of competitors will require constant monitoring.

Partnership-KAM

This is the stage where the buying organisation regards the supplier as an important strategic resource. The level of trust will be sufficient for both parties to be willing to share sensitive information. The focus of activities moves to joint problem-solving, collaborative product development and mutual training of the other firm's staff. For example, Fiat and the technology-driven car component supplier, Bosch collaborate on brake systems research, hold join training courses for employees and even engage in common communication campaigns.[23]

The buying company is now channelling nearly all of its business in the relevant product group(s) to the one supplier. The arrangement is formalised in a partnership agreement of at least three years' duration. Performance will be monitored and contacts between departments of the two organisations will be extensive. The buying organisation will expect guaranteed continuity of supply, excellent service and top quality products. A key task of the account manager is to reinforce the high levels of trust to exclude potential competitors.

Synergistic-KAM

Synergistic-KAM is the ultimate stage of the relational development model. Buyer and seller see one another not as two separate organisations, but as part of a larger entity. Top management commitment manifests itself in joint board meetings and joint business planning, research and development, and market research take place. Costing systems become transparent, unnecessary costs are removed and process improvements are mutually achieved. For example, a logistics company together with one of its retail key accounts has six cross-boundary teams working on process improvements at any one time.[24]

Uncoupling-KAM

This is where transactions and interactions cease. The causes of uncoupling need to be understood so that it can be avoided. Breakdowns are more often attributable to changes in key personnel and relationship problems than price conflicts. The danger of uncoupling is particularly acute in early-KAM when the single point of contact prevails. If, for example, the key account manager leaves to be replaced by someone who in the buyer's eyes is less skilled, or there is a personality clash, the relationship may end.

A second cause of uncoupling is a breach of trust. For example, the breaking of a promise over a delivery deadline, product improvement or equipment repair can weaken or kill a business relationship. The key to handling such problems is to reduce the impact of surprise. The supplier should let the buying organisation know immediately a problem becomes apparent. It should also show humility when discussing the problem with the customer.

Companies also uncouple through neglect. Long-term relationships can foster complacency and customers can perceive themselves as being taken for granted. Cultural mismatches can occur, for example, when the customer stresses price whereas the supplier focuses on life-cycle costs. Difficulties can also occur between bureaucratic and entrepreneurial styles of management.

Product or service quality problems can also provoke uncoupling. Any kind of performance problem, or perceptions that rivals now offer superior performance, can trigger a breakdown in relations. 'In' suppliers must build entry barriers by ensuring that product and service quality are constantly improved and that any problems are dealt with speedily and professionally.

Not all uncoupling is instigated by the buying company. A key account may be derated or terminated because of loss of market share or the onset of financial problems that impair the attractiveness of the account.

9.8 GLOBAL ACCOUNT MANAGEMENT

Global account management (GAM) is the process of co-ordinating and developing mutually beneficial long-term relationships with a select group of strategically important customers (accounts) operating in globalising industries.[25] It has arisen as a way of managing global customers that are of strategic importance to suppliers. The growth in globalisation of business activities is making GAM an increasingly important issue for many multinational organisations.

Global key accounts are also usually multinational customers that have an expectation of being supplied and serviced world-wide in a consistent and co-ordinated way.[26] Multinational customers are increasingly buying on a centralised or co-ordinated basis and seek suppliers that are able to provide consistent and seamless service across countries.[27] Consequently, suppliers are developing and implementing GAM and are creating global account managers to manage the interface between seller and buyer on a global basis. At first sight GAM might be regarded as simply an extension of KAM, but there are some key differences that make the job fundamentally more complex:[28]

- cross-cultural issues (e.g. concerning people, systems and processes);
- management of globally dispersed and cross-cultural teams;
- management of conflict that can stem from the issues of global versus local approaches to sales and marketing;
- managing global logistics;
- management of global communication;
- location of global account managers.

This complexity makes the job of the global account manager very demanding. Research has shown a range of roles and competences necessary to carry out the job.[29] These are displayed in Table 9.3. These competencies are required because global account managers perform a boundary-spanning role across two important organisational areas. First, they span the *internal* interface between global and national account management, which is often part of a headquarters/subsidiary relationship. Second, they span the *external* interface between the supplier and the dispersed activities of its global accounts. In recognition of the need to navigate sensitive commercial and political issues while managing these interfaces, Wilson and Millman (2002) consider the global account manager to perform the role of political entrepreneur.[30]

Organisationally, a lead global account manager (sometimes called global client director, global relationship manager or global account team manager) normally manages a team of account managers. Although there is no one best way to organise for GAM, there are a number of principles that act as a guide when designing organisation structure and systems.[31]

Involvement of a senior corporate level manager as programme champion provides the political muscle to move the programme forward. The lead global account manager should be focused exclusively on managing the global relationship in order

Table 9.3 Roles and competencies required of a global account manager

Roles	Competences
Global account strategist	Communication skills
Co-ordinator of the account's centralised	Global team leadership and management and skills dispersed requirements
Global account team manager/leader	Business and financial acumen
Information broker	Relationship management skills
Relationship facilitator/builder	Strategic vision and planning capabilities
Negotiator	Problem-solving capabilities
'Voice of the customer' (customer's advocate)	Cultural empathy
Corporate 'culture carrier'	Selling skills (internal and external)
	Industry and market knowledge
	Product service knowledge

Sources: Based on Millman, T. (1999) 'From national account management to global account management in business-to-business markets', *Fachzeitschrift für Marketing THEXIS*, 16 (4), pp. 2–9; Millman, T. and Wilson, K. (1999) 'Developing global account management competencies', *Proceedings of the 15th Annual IMP Conference*, University College Dublin, September.

to avoid becoming embroiled in local politics with local country and national account managers assigned to local customer organisations.

The global account manager should have authority over the global team and the resources allocated to them and have sufficient status within the company hierarchy for this authority to be reinforced. Ideally, the global account manager should be located near the customer headquarters and supported by local account managers positioned near the customer's remote facilities. Further support should be provided by local dedicated staff and the expertise of corporate specialists.[32]

9.9 BUILDING RELATIONSHIPS WITH KEY ACCOUNTS

The importance of **relationship building** with customers is discussed in Chapter 10. However, there are certain ways in which suppliers can build relationships with key accounts. Five ways of building strong customer relationships will now be described.

1. **Personal trust**
   The objective is build confidence and reassurance.
   Methods:
   - ensure promises are kept;
   - reply swiftly to queries, problems and complaints;
   - establish high (but not intrusive) frequency of contact with key account;
   - arrange factory/site visits;
   - engage in social activities with customer;
   - give advance warning of problems.
2. **Technical support**
   The objective is to provide know-how and improve the productivity of the key account.
   Methods:
   - research and development co-operation;
   - before- and after-sales service;
   - provide training;
   - dual selling (supplier helps key account to sell).
3. **Resource support**
   The objective is to reduce the key account's financial burden.
   Methods:
   - provide credit facilities;
   - create low interest loans;
   - engage in co-operative promotions to share costs;
   - engage in counter-trade (accept payment by means of goods or services rather than cash).
4. **Service levels**
   The objective is to improve the quality of service provision.
   Methods:
   - reliable delivery;
   - fast/just-in-time delivery;

- install computerised reorder systems;
- give fast accurate quotes;
- defect reduction (right first time).

5. **Risk reduction**
   The objective is to lower uncertainty in the customer's mind regarding the supplier and the products/services provided.

   Methods:
   - free demonstrations;
   - free/low-cost trial period;
   - product guarantees;
   - delivery guarantees;
   - preventative maintenance contracts;
   - proactive follow-ups;
   - reference selling.

Suppliers should consult the above checklist to evaluate the cost/benefit of using each of the methods of building strong relationships with each account. A judgement needs to be made regarding the value each key account places on each method and the cost (including executive and management time) of providing the item.

Managing relationships involves taking care in day-to-day meetings with customers. Table 9.4 gives a list of some key dos and dont's of key account management.

Table 9.4 Handling relationships with key accounts

Key account do's
Do work with the account to agree an actionable account plan.
Do understand key account decision-making: • key choice criteria • roles of decision-making unit • how decisions are made.
Do only ever agree to what can be delivered.
Do resolve issues quickly.
Do confirm agreements in writing.
Do communicate internally to identify unresolved problems (e.g. late delivery).
Do treat customers as 'experts' to encourage them to reveal information.
Do view issues from the customer's (as well as your own) perspective.
Do ask questions: knowledge is power.
Key account dont's
Don't let a small issue spoil a relationship.
Don't expect to win everything, giving a concession may improve the relationship.
Don't divulge confidential information from other accounts.
Don't view negotiations as win–lose scenarios. Try to create win–win situations.
Don't be afraid to say 'No' when the circumstances demand it.
Don't deceive: if you do not know the answer, say so.

9.10 KEY ACCOUNT INFORMATION AND PLANNING SYSTEM

The importance of key accounts means that suppliers need to consider the information which needs to be collected and stored for each account, and the objectives, strategies and control systems required to manage the accounts. This can be accomplished by a **key account information and planning system**. The benefits of planning systems include consistency, change monitoring, resource allocation and competitive advantage.

Consistency

The plan provides a focal point for decisions and action leading to better consistency and co-ordination between managers.

Monitoring of change

The planning process forces managers to review the impact of change on the account and to consider the actions required to meet the new challenges.

Resource allocation

The planning process asks fundamental questions about resource allocation. Some of the questions that require addressing are: Should the account receive more, the same or fewer resources? How should those resources be deployed? How should resources be allocated between accounts?

Competitive advantage

Planning promotes the search for better ways of servicing the account in order to keep out competing firms. The building block for the planning system is the account audit, which is based on the creation of an information system that collects, stores and disseminates essential account data. Table 9.5 shows the kind of data that may form such a system. Hard data record the facts and figures of the account such as the products sold and markets served and the sales volume (units), revenue and profits generated by the customer. Such general data provide the fundamental background information to the account.

Specific hard data cover issues that focus on the transactions between seller and customer such as the seller's sales and profits by product, supplier and competitor's price levels, competitor's products sold to the customer, their volume and revenue, details of discounts and contract expiry dates. Absolute levels, trends and variations from targets will be recorded.

Soft data complement hard data by providing qualitative (and sometimes more subjective) assessments of the account situation. A key requirement is the holding of

Table 9.5 A key account information system

	Type of data	
	Hard	**Soft**
General	Addresses, telephone, fax and telex numbers, email addresses Customer products sold and markets served (size and growth rates) Sales volume and revenue Profits Capital employed Operating ratios (e.g. return on capital employed, profit margin)	Decision-making unit members Choice criteria Perceptions and attitudes Buying processes Assessment of relationships Problems and threats Opportunities Supplier's strengths and weaknesses Competitors' strengths and weaknesses Environmental changes affecting account now and in the future
Specific	Supplier's sales to account by product Supplier's price levels and profitability by product Details of discounts and allowances Competitors' products, price levels and sales Contract expiry dates	

buyer behaviour data such as the names, positions and roles of decision-making unit members, their choice criteria/perceptions/attitudes and buying processes. An assessment of the ongoing relationships should be made and any problems, threats and opportunities defined. The suppliers' and competitors' strengths and weaknesses should be analysed in both absolute and relative terms. Finally, external changes (such as declining markets, changes in technology and potential new competition) should be monitored as they may affect future business with the account.

The outcome of this account audit can be summarised in a strengths, weaknesses, opportunities and threats (SWOT) analysis (see Figure 9.4). The internal strengths and weaknesses of the supplier are summarised as they relate to the opportunities and threats relevant to the account. SWOT analysis provides a convenient framework for making decisions to improve the effectiveness of key account management and provides insights to develop the account plan. For example, action can be taken to exploit opportunities by building on strengths, and to minimise the impact of threats.

An account plan comprises objectives, strategies and control procedures.

Objectives

The account plan should set out clear objectives for the planning period. Typically objectives will be stated in terms of sales and profit-by-product for each account for the planning period. Pricing objectives will state target price changes for the period. Where more than one supplier services the account, share-of-business objectives may be set. For example, the SWOT analysis may identify an opportunity resulting from

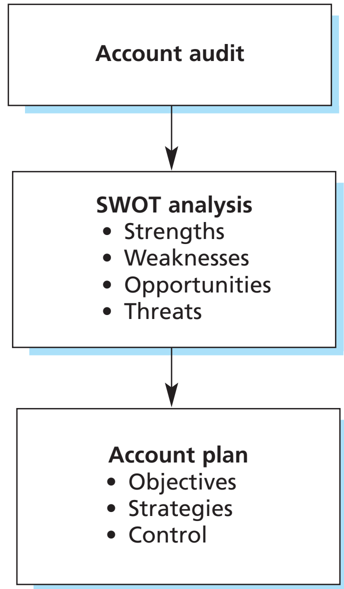

Figure 9.4 Key account planning system

service problems associated with a competitor. This may encourage the development of an objective to raise the share of business from 40 to 55 per cent.

A long sales cycle is characteristic of many key account sales. It is, therefore, often sensible to couch objectives in terms of gaining customer commitment rather than of achieving a sales close, particularly if the account planning period is relatively short. Such objectives must be set in terms of customer responses, not seller actions. For example, suitable objectives may be to persuade the customer to visit the seller's site, agree to a product demonstration, or give the seller's new product an extended trial.

Strategies

Strategies are the means by which objectives are achieved. For example, the objective of persuading the customer to visit the seller's site would require a statement of who in the decision-making unit should be targeted, the identities of the people in the account management team responsible for reaching these people, what action they need to take to persuade the customer to make the visit, and activity completion deadlines. Obviously not every detail can be planned: scope should be provided for individual initiative and enterprise, but without a guiding framework, the activities may become unco-ordinated or, worse still, the task neglected.

Control

An account planning control system checks progress on the achievement of objectives so that corrective action can be taken when needed. Computerised sales and profitability analysis can evaluate actual performance against objectives. Review meetings may be required to compare both quantitative and qualitative performance against expectations. The frequency, coverage and composition of review meetings should be agreed. The agenda for these meetings should be decided upon in time to gather, analyse and present information relevant to topics under discussion.

An important issue is the profitability of each key account. A check should be made on account costs as well as sales revenue. Account costs may be broken down as follows:

1. *Sales staff costs*. These would include the costs of all sales staff working on the account, e.g. the account manager, account executives and any field salesforce activity related to the account. For example, for a multiple retailer account, the account manager would reach an agreement with the field salesforce manager to provide a certain level of support (perhaps two visits per store per week). The costs of these visits would be included in the calculation of sales staff costs.
2. *Support staff costs*. In a technical environment such as telecommunications or information technology, this would comprise people such as systems engineers who might undertake pre-bid analysis and planning, and also any dedicated maintenance people.
3. *Other sales and marketing costs*. These might include account-specific promotions, special packaging and special payment terms such as discounts. Special distribution arrangements, e.g. to individual stores rather than one central warehouse, would also fall into this category of account costs.

The above is an example of how a company may break down account costs, but organisations have the choice of how best to categorise account costs given their own circumstances and requirements. By itemising costs, results can be compared against budget and areas that require investigation will be revealed.

9.11 KEY SUCCESS FACTORS FOR KEY ACCOUNT MANAGEMENT

A study by Abratt and Kelly (2002) investigated the perceptions of suppliers and key account customers regarding the success factors of key account relationships.[33] They identified six critical issues that can assist management in the creation of enhanced and sustainable relationships (see Table 9.6).

Table 9.6 KAM key success factors

1. Suitability of the key account manager
2. In-depth knowledge and understanding of the key account customer's business
3. Commitment to the partnership
4. Delivering value
5. Trust
6. Proper implementation and understanding of the KAM concept

Source: Reprinted from Abratt, R. and Kelly, P.M. (2002) 'Customer–supplier partnerships: perceptions of a successful key account management program', *Industrial Marketing Management*, 31, pp. 467–76. Copyright © 2002 with permission from Elsevier.

Important issues relating to the suitability of the key account manager are their integrity, interpersonal skills, personality, general competence and ability to relate to the culture of the key account. An in-depth knowledge and understanding of the key account customer's business was identified as the second key success factor. The primary reason for this was to anticipate their future needs. The third success factor was commitment to the key account programme. This involves giving sufficient time and resources to establish and build the relationship and to properly train key account managers. Suppliers should also have an effective system of evaluating the key account programme's core strengths and to apply them in ways that deliver the greatest value to their customers. In order to achieve this, the supplier requires an effective process for understanding the key account customer's needs. Cross-functional project teams can help by allowing both parties to develop a 'feel' for the value that each contributes to the relationship.

Trust is considered a key success factor, with suppliers regarding trust as the sharing of confidential information between the partners while key account customers view trust as neither party breaching the contract. Finally, proper implementation and understanding of the KAM programme was seen to be a key success factor. Implementation requires an in-depth understanding, not only by key account managers but also by people in other functional areas. Such functions as operations, logistics, purchasing and marketing need to understand the reason for and the implications of the KAM programme. In addition, the key account customer needs to be informed and trained about the KAM programme. In particular, the customer should understand what the supplier is trying to achieve in establishing a KAM programme.

9.12 CONCLUSIONS

This chapter has examined the crucial task of selling to and managing key accounts. Selling skills tend to differ between low-cost and key sale situations. The additional skills and techniques necessary to sell to key customers have been examined.

An important ingredient in managing key accounts is the ability to manage relationships over a long period of time. We have discussed ways to build trust, provide technical and resource support, improve service levels and reduce risk for the customer. Additionally this chapter has examined ways of deciding whether a key account system is appropriate and, if it is, how to create a key account information and planning system.

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PRACTICAL EXERCISE

Cloverleaf plc

Cloverleaf plc was a UK-based supplier of bottling machinery used in production lines to transport and fill bottles. Two years ago it opened an overseas sales office targeting Germany, France and the Benelux countries. It estimated that there were over 1,000 organisations in those countries with bottling facilities and that a key sales push in northern Europe was therefore warranted. Sales so far had been disappointing with only three units having been sold. Expectations had been much higher than this, given the advantages of their product over that produced by their competitors.

Technological breakthroughs at Cloverleaf meant that their bottling lines had a 10 per cent speed advantage over the nearest competition with equal filling accuracy. A key problem with competitor products was unreliability. Down-time due to a line breakdown was extremely costly to bottlers. Tests by Cloverleaf engineers at their research and development establishment in the United Kingdom had shown their system to be the most reliable on the market.

Cloverleaf's marketing strategy was based around high quality, high price competitive positioning. They believed that the superior performance of their product justified a 10 per cent price premium over their key competitors who were all priced at around £1 million for a standard production line. Salespeople were told to stress the higher speed and enhanced reliability when talking to customers. The sales organisation in northern Europe consisted of a sales manager with three salespeople assigned to Germany, France and the Benelux countries respectively. A technical specialist was also available when required. When a sales call required specialist technical assistance, a salesperson would contact the sales office to arrange for the technical specialist to visit the prospect, usually together with the salesperson.

Typically, four groups of people inside buying organisations were involved in the purchase of bottling equipment, namely the production manager, production engineer, purchasing officer and, where large sums of money were involved (over £0.5 million), the technical director. Production managers were mainly interested in smooth production flows and cost savings. Production engineers were charged with drawing up specifications for new equipment and in large firms they were usually asked to draw up state-of-the-art specifications. The purchasing officers, who were often quite powerful, were interested in the financial aspects of any purchase, and technical directors, while interested in technical issues, also appreciated the prestige associated with having state-of-the-art technology.

John Goodman was the sales executive covering France. While in the sales office in Paris, he received a call from Dr Leblanc, the technical director of Commercial SA, a large Marseille-based bottling company that bottled under licence a number of key soft drink brands. They had a reputation for technical excellence and innovation. Goodman made an appointment to see Dr Leblanc on 7 March. He was looking forward to making his first visit to this company. The following extracts are taken from his record of his sales calls.

March 7

Called on Dr Leblanc who told me that Commercial SA had decided to purchase a new bottling line as a result of expansion, and asked for details of what we could provide. I described our system and gave him our sales literature. He told me that three of our competitors had already discussed their systems with him. As I was leaving, he suggested that I might like to talk to M. Artois, their production engineer, to check specifications.

March 8

Visited M. Artois who showed me the specifications that he had drawn up. I was delighted to see that our specifications easily exceeded them but was concerned that his specifications seemed to match those of one of our competitors, Hofstead Gm, almost exactly. I showed M. Artois some of our technical manuals. He did not seem impressed.

March 11

Visited Dr Leblanc who appeared very pleased to see me. He asked me to give him three reasons why they should buy from us. I told him that our system was more technologically advanced than the competition, was more reliable and had a faster bottling speed. He asked me if I was sure it was the most technologically advanced. I said that there was no doubt about it. He suggested I contact M. Bernard, the purchasing manager. I made an appointment to see him in two days' time.

March 13

Called on M. Bernard. I discussed the technical features of the system with him. He asked me about price. I told him I would get back to him on that.

March 15

Visited Dr Leblanc who said a decision was being made within a month. I repeated our operational advantages and he asked me about price. I told him I would give him a quote as soon as possible.

March 20

Saw M. Bernard. I told him our price was £1.1 million. He replied that a key competitor had quoted less than £1 million. I replied that the greater reliability and bottling speed meant that our higher price was more than justified. He remained unimpressed.

March 21

Had a meeting with Mike Bull, my sales manager, to discuss tactics. I told him that there were problems. He suggested that all purchasing managers liked to believe they were saving their company money. He told me to reduce my price by £50,000 to satisfy M. Bernard's ego.

March 25

Told M. Bernard of our new quotation. He said he still did not understand why we could not match the competition on price. I repeated our technical advantages over the competition and told him that our 10 per cent faster speed and higher reliability had been proven by our research and development engineers.

March 30

Visited Dr Leblanc who said a meeting had been arranged for 13 April to make the final decision but that our price of £1.05 million was too high for the likes of M. Bernard.

April 4

Hastily arranged a meeting with Mike Bull to discuss the situation. Told him about Dr Leblanc's concern that M. Bernard thought our price was too high. He said that £1 million was as low as we could go.

April 5

Took our final offer to M. Bernard. He said he would let me know as soon as a decision was made. He stressed that the decision was not his alone; several other people were involved.

April 16

Received a letter from M. Bernard stating that the order had been placed with Hofstead Gm. He thanked me for the work I had put into the bid made by Cloverleaf plc.

Discussion question

Analyse the reasons for the failure to secure the order and discuss the lessons to be learnt for key account management.

Examination questions

1. Discuss the differences between the characteristics of low- and high-value sales.
2. What are the key skills required of a key account manager?
3. What is global account management? What competencies are required and do they differ from those required of the key account manager?