Key Account Management: Critical Success Factors

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ABSTRACT

In the highly competitive market place, customer acquisition, retention and growth are turning out to be a big challenge for organisations. Product and service differentiations are fast emulated by competitors which are leading to commoditisation and in turn a price war. Significant budget commitments for product development and marketing are further stressing company’s financial performance. Information at a click is making customers more knowledgeable and they continue to demand more for same or less.

Key account management (KAM) is one relationship-driven approach leading organisations to successfully adopting to hold on to their important customers. In essence, KAM is about building cross functional relationships cutting across hierarchies with the objective of developing deeper understanding of customer’s stated and unstated needs and accordingly customizing solution. This special relationship is based on trust and paves way for co-creation – be it in technology domain, market and/or delivery end of business. It is this unique glue that is hard to copy and makes it difficult to break account

Although very effective and well-intended KAM is far from easy to implement, given associated complexities in organisational set-ups, product portfolios and above all market forces. It requires significant investment and commitment of management time, budgets, resource allocation, IT systems etc. While concept of KAM remains same, each case is distinct from other and calls for differential treatment. It therefore is understood that there is not fixed formulae for success. However a deeper research and study of organisation who have successfully harnessed KAM, throws up interesting patterns. This research article has captured these trends and presented them as Critical Success Factors in Key Account Management.

PRELUDE

Businesses today are faced with unprecedented challenge for fulfilling its growth ambitions from multiple directions. The term VUCA – vulnerable, uncertain, complex and ambiguous, aptly describes dynamic business environment we are experiencing today (Wikipedia).

Organisation’s ability to effectively deal with VUCA environment by constantly reinventing itself by unlearning obsolete skills and knowledge and relearning contemporary techniques will only decide whether they will prosper or perish.

In this context, importance of key account management (KAM) cannot be over emphasised. Just consider this - competition becoming fierce, extreme price pressure and commoditisation, product and service differentiations hard to create and sustain. In light of this, customers and suppliers seek opportunities to strengthen relationships and improve value creation.

KAM is business imperative and not an option anymore, it calls for significant commitment of time, resource and money. While there are success stories that lead and show the way KAM can help, there are enough or more failures in institutionalizing KAM. On this backdrop its important to focus on what are those things that are making KAM work. Invaluable lessons learnt from the field give us vital inputs (Lynette Ryals).

Problem statement: To arrive at critical success factors (CSFs) by analysing KAM programmes in different industries and geographies.

RESEARCH METHODOLOGY

Develop thorough understanding of KAM concepts, principles and practices using empirical study and interacting closely with business executives involved in KAM. As a part of study, extensive review of literature comprising of books, periodicals and scholarly papers was carried out. This helped in developing deep insights and importance of KAM. Extensive secondary research was done on specific industries and companies deploying KAM and studying results thereof.

DEFINING KEY ACCOUNT (Mike Schultz)

Key accounts are those customers having the following:

• Presence in markets of interest both - domestic and international.
• Large appetite to invest in business growth year on year
• Marquee accounts for reference.
• Sharing vision, passion, drive and commitment to grow the sector.
• Having presence in different segments e.g. consumer, contracting, financing.
• Investment drivers could be different based on client segment.
• Synergies and complimenting strengths exist between customer and supplier.

DEFINING KEY ACCOUNT MANAGEMENT (KAM)

KAM is a ‘differentiated’ approach to deal with select clients that result in building sustainable and deep relationships, repeat business and a positive referral and attaining a status of a ‘trusted advisor’. KAM approach needs to be customised for each customer segment. (Financial Times).

RELEVANCE OF KAM (Ashok Ranchhod, Ebi Marandi)

There are compelling reasons as to why organisations today are fast adapting to KAM. Some of these are listed as follows:

• Market is experiencing strong pareto effect i.e. where there are a few customers dominating market demand.
• Significant economies of scale available to the supplier from dealing selectively with “preferred” customers (production, distribution, promotion, training, packaging).
• There is perceived product/service differentiation by the customer and enough added-value leverage possible to keep competition out.
• There is a complex decision-making unit which transcends the supplier’s usual geographically based allocation of responsibilities (corporate headquarters and at local branch level or even in other countries).
• There are multi-function contacts between supplier and customer.
• There is a complex interactive product range with the possibility of different product salespeople being involved with the same customer, maybe offering different solutions to the same problem.
• There are strong creative opportunities to tailor products to specific customer requirements and the relationship depends upon continuous trawling inside the customer’s business for such opportunities.
• Major customers are centralising their operations.
• Where competition is organizing its activities along KAM lines.

CRITICAL SUCCESS FACTORS IN KAM

After having developed understanding of basic concepts of KAM and its imperatives, let us look at CSFs as below. These CSFs have been substantiated with few examples from the companies operating in a global industrial environment.

Selection Process of Key Customer Accounts

KAM calls for comprehensive and coherent process for selecting select partners. This process comprises firming up consistent criteria to establish a strategic/operational foundation for building effective key account relationships. The criteria should be flexible enough to accommodate companies with differing industry cycles and economic realities so as to provide a framework for an overall key account programme. Some criteria that have proven effective include:

• Potential partner’s size,
• Historical and forecasted growth rates,
• Market potential,
• Geographic locations,
• Key purchasing,
• Reputation, industry standing and
• Willingness to partner.

Underlying these criteria is, first, the need for the partner to be large enough to support the cost of a key account relationship, and, second, the willingness in interact in a way where additional value can be created, beyond just reduced pricing (John Staples, 2011). Here are some examples from that have embedded this criterion in their KAM:

• Xerox shortlists key accounts by establishing a threshold for current and potential Xerox business of a least $15 million a year. Subsequently other criteria such as global spread of business, have willingness to partner and share their business problems and by success factors.
• Marriott’s process for selecting key accounts requires a potential partner to spend over annual spend of $25 million with hotels, be organized globally, spend globally, operate in multiple continents, be a leader in their industry, and have a willingness to build strategic relationships and view travel and employees as strategic resources.
• Steelcase’s criteria for selecting key accounts requires potential partners to have a certain number of white collar workers, to not treat furniture as a commodity, to compete in global markets, multi-continents operations and willingness to build strategic relationships.
• De La Rue’s targets key accounts is based on evaluation of the potential account’s market maker/market leader status, strategic fit, opportunities within the potential account, and their industry sector, and judging if the potential account is likely to flourish in their business.
• Henkel’s shortlisting process is contingent on equilibrium between hard and soft values. The hard value
measures are turnover, per cent market share and profitability; soft values include qualitative aspects such as being market centric, innovation driven and cooperation minded.

Establishing Performance Measurement Metrics

(Diana Woodburn, Malcolm McDonald, 2012)

Establishing performance measurement metrics is required to determine the success of KAM programme within a defined period. It is an expensive programme, so it must yield results that provide a sufficient return on the cost. Each KAM programme should have the ability to accurately and objectively measure performance of each key account e.g. sales, revenue, growth potential, partnership participation, level of trust and information sharing. These measurement metrics should be periodically reviewed to ascertain progress of the key account manager, the KAM programme and individual key accounts.

Examples of leading companies that use this metric are as given:

• Marriott evaluates revenue growth, % share growth, the extent of strategic supplier designations, account sharing of confidential information, what the account is doing to promote Marriott and whether multiple touch points of relationship have been established.
• Xerox monitors YoY revenue growth, gross profit, customer satisfaction, and penetration of accounts with its new technologies and also account's level of engagement in partnership.
• Steelcase measures by sales volume, the nature of agreements, e.g., if they are exclusive or if they are a preferred supplier, and an account’s continued commitment to the relationship.
• IBM measures YoY revenue growth, the rate of closing identified opportunities, % of the account's wallet share spend on IT, how effevely the account team is managed, how well the relationship with the account is being managed and customer satisfaction.
• Citibank's KAM programme used a shadow P&L system. Every transaction Citibank's KAM programme performs has a specific key customer identified with it. The shadow P&L system checks revenues and, using product costs, establishes the contribution associated with those revenues, for every single client and then aggregate that up for a market view.

Conceive and Drive at the Top Management Level

KAM needs to be initiated and managed at the top management level in an organisation. KAM programmes are expensive and time consuming to implement and top management involvement is critical to ensure that necessary resources will be provided during the political and cultural turmoil inherent in implementation. Top management involvement in the long-term management process demonstrates to the company's KAM programme is taken seriously and thus facilitates the building of trust. Examples of companies that have demonstrated strong top level commitment to KAM are as follows:

• At Maersk Sealand, each key account has an assigned executive sponsor. Everyone from the vice president level on up is assigned to be an executive sponsor of a key account.
• All of IBM’s key account managers, called client executives, are at the executive level. The client executive in charge of a key account team, is made accountable for the account’s key revenue, and is responsible for understanding the account’s needs and opportunities.
• Steelcase's key account managers are no more than two reporting levels below the VP of key accounts.
• At Grey Key Group, the key account manager answers to either the Chairman or the President of the company.
• Reuter’s KAM programme initiative was driven by and had the commitment of senior management from the start. All team members involved in the KAM programme report directly to the SVP who manages the entire programme.

Leveraging Information Technology (IT)

It is critical to have leverage IT system that supports and promotes information transparency and sharing within a KAM team and with the key account partner. Information sharing by speeding up the account learning process shortens the decision making process and facilities knowledge transfer. The internal IT communications systems should be both consistent and accessible throughout the entire KAM team. This enables globally dispersed account teams to communicate and share documents and relevant information in real-time and with a consistent format. A company’s external IT systems should be strategically connected with its key accounts in such a way as to maximise knowledge transfer, information sharing and transparency (Joel Le Bon and Carl Herman).

Some noteworthy examples from industry that leverage this criterion are as listed:

• Hewlett-Packard has used its new tool called Electronic Sales Partner (ESP) to increase sales productivity. This tool contains in excess of 40,000 documents, anticipates the informational needs of HP’s sales representatives. It provides the Key sales force access to any information they need to do their job, including field training, product literature, press releases, data sheets and conference guides all in one place and whenever they need it. ESP has increased sales productivity and saved HP $125 million annually as more than 5,000 sales representatives actively use it.
Xerox has developed training programmes to key account team members at steel case use Lotus.

At Citibank, most experienced relationship managers become Parent Account Managers (PAMs), equivalent to key account managers. Importantly, 95% PAMs are internal recruits. The critical skill for becoming PAM are: team player, networker, international experience, customer needs sensitivity analysis, a list of action items for all involved to follow; these will be reviewed and changed as appropriate at the subsequent quarterly meeting.

Competent Key Account Managers

KAM requires highly competent key account managers who have the ability to understand key issues and to act quickly in a multitude of cultures, economic environments and business situations. The selection, development and continual improvement of key account managers are core elements in building and maintaining trusted relationships across diverging cultures, geography and economies. A key account manager must be able to fully integrate and constantly improve business and negotiating skills with working knowledge of cultural complexities, international economics and political awareness. Key account managers required the political and relationship management skills to influence and manage stakeholders from their own organisation as well as the key account’s organisation without having direct authority.

Here are some examples of companies that have embedded from this criterion in their KAM:

- Marriott uses 3rd party consultants and agencies to create programmes for developing and training existing and potential key account managers. So as to help them improve constantly, tailored personal development plans are created for account managers (Investor CDP 2014 Information Request Marriott International, Inc.).
- Xerox has developed training programmes to enhance key account managers' cross-cultural abilities, financial report reading skills, executive communication skills, ability to manage cross-cultural and functional teams without direct reporting authority, understanding of major international economic trends and the influences of currency fluctuations on business. Objective is key account managers should be trusted advisors for their customers. This is done through collaborating with educational institutions and development centres.
- Marriott aligned its IT organisation to reflect the transformation of its sales and marketing functions. This involved providing every business and functional division in Marriott a representative from the IT division, consolidating databases, enhancing data warehousing capabilities, and developing customer profiling capabilities. The IT representatives reported directly to their appointed business or functional division. The Strategic Accounts division had its own IT representative.
- Key account team members at steel case use Lotus, the Web and databases to find and store information, monitor projects and build information on assigned key accounts.
- Marriott aligned its IT organisation to reflect the transformation of its sales and marketing functions.

Customer Engagement at the Account Planning Stage

So as to align expectations and build trust, engaging the customer while drawing up and managing an account plan for an existing or new key account is vital. Key members handling and interacting with the account should come together to develop a coordinated plan while updating existing plans or developing a new key account. Each key account plan should detail the objectives, goals, strategies and measurements to be used. During the planning stage and periodic assessments, the customer's participation should be encouraged to ensure that the strategy of the account team and the key account are aligned to create maximum value.

Few examples of leading companies around the world engaging customers in KAM process are:

- Maersk Sealand holds an annual key sales meeting to bring together all individuals involved with all the key accounts from around the world to plan strategy for the following year and to work individual account action plans using attending customer input. (Annual Report 2014 - Maersk).

- Grey key maintains very close relationships with its accounts by communicating daily through its account managers and building individual account plans in response to each account’s needs and objectives.

- After Guinness UDV identifies a customer with key account potential, they sit down with them and together establish clear strategic, financial and replenishment goals.

- Fritz account teams hold quarterly meetings in which key account team members meet with representatives from the account and together analyse the last quarter’s performance, evaluating problems, determining what is and what is not working, and making necessary changes. After the meeting, they had written out a list of action items for all involved to follow; these will be reviewed and changed as appropriate at the subsequent quarterly meeting.
counselor, strategic advisor, problem solver, influence skills, diversity of industry and market knowledge, capable of originating structured corporate finance solutions and cross-selling of solutions based on product knowledge.

**Value Creation through Cross-cultural Synergies**

Multi-level cross-cultural collaboration is required in a KAM programme to unlock and create value for companies both internally and externally. Key companies typically create influential corporate cultures. Within one corporate culture, there are many variations of subcultures. KAM can create the most value through by cutting through internal cultural silos and the derive synergies from internal cross-cultural strengths.

Here are some examples of companies that have harnessed diverse cultures effectively:

- Xerox created a print-on-demand solution for one automotive key account. The solution and learning from this project was then communicated throughout Xerox and successfully developed into a common offering template for many customers.
- Citibank has focused on providing key account solutions that transcend traditional geography and product boundaries, requiring a high degree of internal coordination and alignment between product and geographic divisions.
- Grey Key Group is able to spread best practices around the world, coordinate, and communicate on behalf of an account quickly. When an advertising campaign on behalf of an account quickly. When an advertising campaign is working in one country they often expand to many countries, saving the account money and achieving marketing efficiencies for themselves and the account. (Grey Company Profile).
- Del La Rue experiences (Del La Rue, Annual reports 2014) significant uplift in revenue derived from an account when they address the account’s business strategies and needs by leveraging opportunities that are cross divisional and that require cross divisional resources.

**Customer Centricity in Key Account Teams**

The key account team members should have experience and skills directly relevant to the needs of the key account. Team members should have broad experience in multiple functions, including operations, management, sales, marketing and relationship management, with specific knowledge of the key account company and the industry in which they operate. Team members should be well versed in how the account operates as a company, understand the account’s culture, know what to expect and know how to synthesise this information to ensure value creation (Lynette Ryals).

Examples of companies that have demonstrated strong top level commitment to KAM are as follows:

- Henkel (Henkel) used its positioning analysis of its accounts to select a multi-functional team for managing each account. Depending upon the results of the positioning analysis some account teams may comprise people strong in marketing, promotion and category management while other teams will focus on accountants, accounting and finance.
- A majority of Fritz’s key account teams has a background in operations, a primary concern of their accounts. This operation background gives key account managers the ability to change processes, directly answer questions and immediately review issues that arise.
- Citibank’s key account managers are experts on their account companies, usually having a proprietary understanding of the account’s needs and using this information to create and identify opportunities for the account.
- At Xerox (David Potter, 2000) it is the responsibility of the industry specific SBUs to develop solutions for their particular industries. Within these SBUs are employees knowledgeable in specific industries, some of whom were hired out of those industries. Xerox KAM teams leverage this internal industry specific knowledge to better serve their key accounts.

**CONCLUSION**

KAM is not anymore another option for organisations on a growth trajectory but a business imperative, especially those operating in a global environment. KAM does not replace conventional sales process but only compliments it. Boundary conditions and conflicting situations between KAM and conventional sales set-up should be thought of and addressed as far as possible. A lot of time effort and commitment is required right from the top management level in an organisation to institutionalise KAM. Effective review mechanism including role and scope clarity is very important. KAM can succeed only and only if it is totally customer centric for which involving customer and building KAM team around his requirement is critical to success. Because KAM teams are spread out in multiple locations, information sharing transparency and speed become vital for which IT systems can come in handy.

Organisations can take due cognizance of critical success factors mentioned in this article while deploying KAM programme to maximise value creation for itself as well as for the key customers.

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