Creating Value in Key Accounts

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Key account management (KAM) is falling short of its potential because of four common mistakes. One, the right accounts—those with the highest upside—are not designated as “key.” Two, relative to the resources deployed to serve them, too many accounts are designated key. Three, key account relationships are too often transactional rather than strategic. And four, as a result of the first three mistakes, the accounts that are considered key receive price discounts, but opportunities for joint value creation are lost.

Addressing these challenges requires a concerted effort that starts with understanding both customers’ needs for products and services and how customers want to be served. Frequently, major customers—whether they are called key, strategic, or global—are underserved. One global company with a sprawling and historically successful sales force found that 70 percent of its key accounts were dissatisfied with the relationship. It should be no surprise that sales to those accounts fell short of their potential.

Through effective KAM, we have observed that companies can generally lift revenues by 5 to 10 percent, improve margins by three to five percentage points, and lower the cost to serve by 10 to 20 percent. Companies achieve these results by enhancing account penetration and retention and by allocating resources more effectively.

The steps toward achieving these results are easy to understand but difficult to implement. Several barriers stand in the way. By overcoming them, companies can successfully capture financial upside opportunities and enjoy a deeper relationship with their most important customers.

Defining Key Account Management

One of the difficulties associated with KAM is the lack of a common vocabulary. It is more—much more—than just servicing big accounts. KAM can best be defined as an enterprise-wide initiative (involving not just the sales force) to develop strategic relationships (not transactional relationships) with a limited number of customers in order to achieve long-term, sustained, significant, and measurable business value for both customers and the provider.

Patience is necessary. Deep, trusting key account relationships need time to develop and cannot be managed simply by setting quarterly quotas. It is important to focus on share of wallet, rather than just revenues, and to develop ways to measure progress as the supplier builds a special relationship with the customer.

Creating excellence in KAM, as defined, is not easy. It requires the synchronization of five levers—KAM strategy and objectives, structure, deployment, customer engagement, and enabling capabilities. (See Exhibit 1.)

Customizing Key Account Management to Industry Context

Although there are many common themes, each industry faces its own set of KAM priorities. For example, in the technology sector, KAM has been in place for a long time. Companies in this sector are more likely to be optimizing, rather than creating, programs. In order to present a coherent view of an increasingly complex portfolio of products and services, account teams frequently need specialists, whose involvement, in turn, increases the complexity of managing the account. Moreover, frequent acquisition activity in the industry increases the challenges of coordination across business units and
On the positive side, technology products generally require extensive service and implementation follow-up, opening a natural opportunity to develop sustained relationships. Key account managers can play a critical role in helping major customers buy business value rather than “piece parts.”

The core themes of KAM, however, apply across all industries—especially the need to impose discipline in the management of customer relationships.

**Caring About Key Account Management**

Most management teams already have too many priorities. Why add KAM as a major agenda item? In addition to the financial benefits mentioned earlier, companies with well-developed KAM programs reported 43 percent higher customer satisfaction than those without these initiatives, according to a 2009 survey by the Strategic Account Management Association (http://www.strategicaccounts.org/). Satisfied customers are long-term customers and are more likely to buy additional goods and services.

Frequently, however, the share of wallet—even of customers designated as key accounts—can be as low as 15 to 25 percent. In other words, top customers are buying 75 to 85 percent of products and services from competitors in an addressable market. One of the best ways to recognize the upside value of KAM is to estimate share of wallet for key accounts. It can provide a humbling but motivating perspective.
KAM is especially relevant in today’s “two-speed world,” with developed markets remaining sluggish while emerging markets resume rapid expansion. In stagnant markets, companies will need to gain share in order to achieve acceptable levels of growth. Customers become more risk averse in difficult times and many want to consolidate their business with trusted vendors. This flight to quality represents an opportunity for a vendor to become a trusted partner and increase share of wallet. Meanwhile, in emerging markets, high-growth companies may reward their most reliable suppliers with attractive contracts as they look to expand.

**Visualizing Success**

The relationship between Procter & Gamble and Wal-Mart Stores exemplifies KAM’s challenges and potential. Before 1987, P&G’s interactions with Wal-Mart were mostly adversarial and fragmented, as sales teams of multiple P&G brands pushed inventory and promotions. As the story goes, this all changed when a P&G sales executive took a canoe trip with Sam Walton. During their extended conversation, the P&G executive gained deeper insight into Wal-Mart’s dissatisfaction with P&G’s approach. Subsequently, he convinced other P&G executives that they needed to start viewing Wal-Mart as a partner. Over the course of several years, the two companies developed a successful strategic collaboration, built around several tenets:

- Recognizing the value of collaboration
- Jointly identifying and addressing major opportunities
- Ensuring interaction and execution at all levels of management, not just the most senior levels
- Trusting one another

With a better understanding of the needs of key accounts such as Wal-Mart, P&G launched several specific multiyear KAM initiatives. P&G created tools to support deeper interaction with key accounts and to prioritize them. It assembled multifunctional teams to serve those accounts and sharpened focus on their profitability by instituting new incentives and metrics. P&G also adjusted its supply chain and trade terms in order to serve those key accounts profitably.

P&G’s Wal-Mart business has grown from less than $400 million in the late 1980s to $11 billion today; the retailer is P&G’s biggest customer. The two companies monitor their progress using common scorecards, and they frequently collaborate on initiatives. For example, P&G and Wal-Mart were instrumental in the adoption of radio-frequency identification technology to track inventory. Together, they also conducted research to understand “prime customers” and how to increase their shopping trips and the size of their purchases.

KAM succeeds best when this partnership philosophy is embedded throughout the company. Speaking at a conference of financial analysts, John Chambers, chairman and chief executive officer of Cisco, commented on the increasingly intertwining relationship of technology and business strategy. “So,” he asserted, “when you deal with customers, you don’t talk about one or the other. And you sure as heck don’t talk about routers. You talk about how this collaboration changes the way you interface with your customers, changes your time to market, changes your speed and scale.”

A company does not have to be a P&G or a Cisco to achieve similar results with KAM. (See Exhibit 2 for recent examples from the technology, financial services, and industrial goods sectors.) A client of The Boston Consulting Group developed $100 million in new sales through joint problem solving with its largest account. Another tripled sales at select large customers by creating processes that encouraged flexibility in meeting customer needs.

It is necessary, however, to dig deep to understand account relationships. Uneven sales coverage was a prime cause of dissatisfaction among customers of the global company mentioned earlier. Some accounts were underserved, while others were overserved. By redeploying its sales force, the company expects—in
the first year alone—to as much as triple coverage of key accounts and increase revenues by 4 percent of total sales in the relevant markets.

**Overcoming Barriers**

Many companies have established KAM in name but not in practice. Their efforts generally fall short for several important reasons.

**Emphasis on the Wrong Accounts.** The primary focus should be on those customers with the greatest potential. Some of these may be small accounts today. Others may be relatively large but represent low share of wallet. Too often, key accounts are simply a collection of the largest customers within regions or business units. Some companies select key accounts on the basis of their historical revenue. It is essential to conduct a fact-based analysis of the potential of accounts. This is not easy, but it is critical to success.

**Improper Resource Allocation.** Key accounts need to have the right resources deployed against them. What is “right” for one customer, based on needs and potential, may be “wrong” for another. In addition, we often find major misalignments between actual and ideal resource deployment. Sales coverage based on geography or historical revenues can frequently distort the amount of time and attention a sales executive dedicates to individual key accounts.

**Weak Processes.** Strong processes, especially for account planning and coordination across business units, need to be in place. Planning horizons are frequently too short for truly strategic initiatives. It can take 12 to 18 months to design and implement supplier-customer initiatives that cut across business units, functions, and geographic regions.

**Organizational Limitations.** Truly innovative customer solutions require multiunit cooperation and collaboration across the organization matrix. It is essential to create roles and accountabilities that enable
KAM teams to work with the regional field-sales force, country and regional general managers, and supply chain and brand teams. For example, customers of a global technology client wanted to learn about best practices from other customers in different parts of the world. But because each geographic region was being run as an independent business, it was difficult to create a platform for sharing.

**Improper Sequencing.** Companies frequently fall into the “form over function” trap. They reorganize or restructure as a way to focus key accounts. Although these moves appear decisive, they can backfire. Initially, the best structure may not be apparent, or it may not be accompanied by enabling processes. The effort stumbles and the organization loses commitment. It is better to experiment until the concept is right before moving lines and boxes around.

**Creating an Effective Program: Key Questions to Get Started**

Management teams that want to enhance their KAM programs should ask themselves the following questions:

- **Which companies should be our key accounts?** If we want to “win with the winners,” who are they? What is our current share of wallet with these accounts? Do we have access to major decision makers and influencers at these accounts?

- **How much upside exists?** What will make a certain investment pay back? Why is it worth disrupting the status quo?

- **Do we really understand what our key accounts need?** Do we know the top priorities at key accounts and targets? How often does each of our key accounts want to be visited? What type of approach do our key accounts want?

- **How well are we meeting those needs?** Do we understand whether and how we deliver value, as well as how we can add value to the relationship? How would our key accounts evaluate us against competitors?

- **Have we focused the right resources on our key accounts?** What level of support should we dedicate to them? What mix of generalists and specialists should we deploy? Do we understand the ideal profile for each role and do we have the right talent?

- **Do we have the right KAM and execution plans in place?** How should we deploy our sales and service resources? Are we developing for each key account prospective plans that will create value for both the account and us? Are we delivering on those plans?

- **Do we have a sustainable approach?** Do we have the right leadership for the KAM program? Do we reward the right long-term behaviors? Do we have the right mechanisms to recruit and retain the best key account managers? Do we have the right tools to track and measure the effectiveness of our KAM program?

The list of questions is long. Where to start? Have in-depth discussions with three to five large accounts for which sales performance is subpar. Identify the patterns of discontent and missed opportunities. Understand the financial details of serving those accounts—everything from price realization to growth and cost to serve. Define root causes and develop approaches to address them. Once a draft working model is defined, collaborate with customers to refine the approach. Secure the support of senior executives sooner rather than later by building a business case for investing in KAM.

**Believing in Key Account Management**

Key accounts—the closest and most committed customers—are those that have already expressed their faith in a company’s products and services. If a supplier focuses on serving these accounts—not just
through transactions but in true collaboration—both sides will benefit.

Take the first step. Meet with your key accounts and really listen to what they have to say. Then, act with a sense of urgency.
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