Key Accounts – How to Maximize Opportunities and Minimize Disappointments

RS CONSULTING

- Key accounts represent a larger and larger share of the market and are becoming more demanding
- Many companies create some form of a key account program in response to demands of large customers rather than proactively
- This approach is inadequate and risky for most companies given vendor consolidation (by key accounts), increased demands (usually for a lower price), and more intense competition
- Read on to find out about RS Consulting USA's ideas on how to develop key account programs that enable companies to "win" in today's marketplace...

Introduction

When asked why he robbed banks, Willie Sutton, a notorious bank robber, answered "because that is where the money is." Something similar could be said about key accounts, which are large customers that represent 5% or less of the account base but 30%, 40%, 50% or more of sales. Targeting, winning, and controlling key accounts are great for driving sales in tough economic times (or at any time for that matter). Most companies have some sort of key account program, but as many marketers know, a successful key account program is easier said than done.

There are three major issues for marketing programs that apply to all types of key accounts, i.e., large end users, OEMs, and industrial or retail channel partners:

- Nearly every company in the industry knows who the key accounts are, and so how does a company differentiate itself from the competition? A successful key account program has become even more critical given large customers' move towards supplier consolidation.
- Can a company make a profit from key accounts, and if so, how? – Many companies complain about the demands of their largest customers and the resulting profit losses but feel almost powerless to do anything about it. Can companies afford (or afford not) to serve key accounts?
- How does a company successfully implement a key account program? Given all of the complexities and challenges, a well thought-out implementation plan is critical, or else the company will end up in a reactive position and selling largely on price.

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RS Consulting has worked with numerous clients to evaluate key account opportunities and develop tactics and programs to success-fully pursue those opportunities. Based upon this experience we have identified four important principles of a key account program:

1. Adopt the Market-of-One concept – the foundation of successful marketing programs is always in-depth information and understanding of customer
2. Be Aligned with Your Company's Objectives – make sure what you plan to do is really what you want to do and makes sense strategically
3. Account Executives are Marketing Managers–put the right person in place and then train and empower the person to manage the key account like a Market of One
4. Communicate, Communicate, Communicate – both externally to the key account and internally to all of the relevant functions and departments

Adoption of these principles will help your company strengthen its key account relationships, create brand loyalty, and increase revenue profitably. Over the following pages RS Consulting will further explain these principles and give examples of how they have been successfully applied.

ELEMENTS OF KEY ACCOUNT PROFILE

Estimates of total sales potential for existing and new/future products (and services) on both a domestic and global basis

Description of the major segments within an account

The company's coverage and share within each segment

Account profitability

Identification of the decision-makers(s) and influencers for each segment

An understanding of each segment's needs and expectations of a supplier

Account perspective and satisfaction with the company and direct competitors

Factors that drive the success of each segment and how a company's products can contribute to that success

Identification/understanding of indirect competitors and relevant trends

Factors that would indicate the account may switch its supplier preferences

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Adopt the Market-of-One Concept

Given the size and complexity of key accounts the first step is to view each key account as a market in and of itself versus one account of many in a market.

While seemingly simple, this change in perspective has several major implications for a company's key account programs:

- Fundamentally each key account should be profiled and analyzed like it is a market, using the same marketing concepts and techniques to do so (see box above)
- A company must gain an in-depth under-standing of the account's supplier needs, its marketplace, and relevant trends
- Key accounts may consist of multiple levels of decision-makers and influencers for a particular application
  - There are many examples of where a company has inked a big deal with corporate but fails to do the necessary work at the local level and thereby does not realize the promised sales of the deal.
  - This is particularly true for large end users (e.g., national account deals) or indirect channel partners with multiple distribution centers and/or branches/ outlets. Approval by corporate marketing does not necessarily equate to "getting on the shelf" and local push.
- Key accounts may consist of different decision-makers and applications, i.e., different market segments
  - Does the company "see" and compete in all of those segments, and further-more how does the account's needs and expectations differ by segment?

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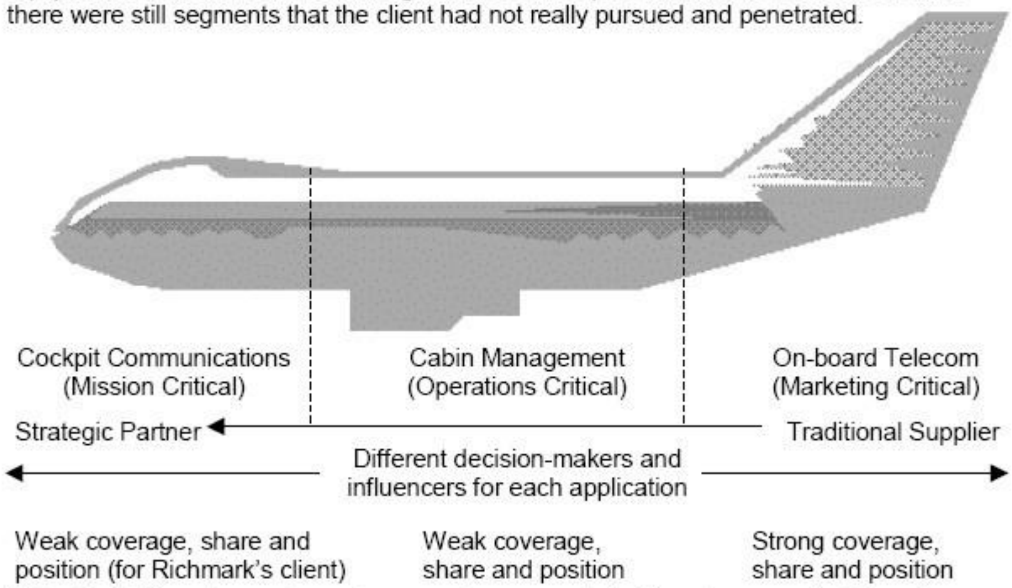
Adopt the Market-of-One Concept

SEGMENTATION - AND OPPORTUNITIES - WITHIN A KEY ACCOUNT

Richmark conducted an in-depth study of one key account for a supplier of telecom equipment to the airlines. Even though the account represented millions of sales dollars there were still segments that the client had not really pursued and penetrated.



Not only did these two, untapped segments represent significant revenue, but they also represented an opportunity for Richmark's client to transform itself into a strategic partner and thereby strengthen its relationship with this key account. We worked with the client to develop a more effective key account program and to train its account executives to think and act like marketing managers.

- A company must identify, understand, and assess both direct and indirect competitors for their key account

As mentioned previously a key account could mean a large end user, OEM, or indirect channel partner. A supplier means different things to these different types of accounts and has a different impact on their businesses. But the key account principles, and particularly the Market-of-One concept, are still applicable to any one of the three types of accounts, although these principles must be adjusted accordingly.

The Market-of-One profile and analysis is the foundation of any successful key account program. It provides a company proprietary information and an unique understanding of the key account and hence a competitive advantage. To be relevant it must be continually updated.

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Be Aligned With Your Company's Objectives

The development and implementation of a key account program should align with a company's business objectives, but often this is not the case. Many companies create some form of key account program in response to the demands of large customers rather than proactively on their own. They typically offer a whole range of value-added services and a lower price to avoid losing or insure at all costs that they win the account. Thus they end up with numerous high-cost-to-serve, marginally profitable (or unprofitable) accounts, and inevitably begin questioning the rationale for serving these accounts.

Given the recent trends of vendor consolidation and price pressure, account profitability has become more discussed and more critical than ever. Despite what we have seen and heard, RS Consulting does not believe all key accounts simply want the lowest price and place little/no value on the other parts of a supplier's offering. Based upon our experience some key accounts do see benefits in value-added products, services, and support and are willing to pay for this assuming that there is a business case and price is competitive. Typically this difference is driven by an account's business and operational strategies, but sometimes it can be attributed to management philosophy.

Obviously any company would prefer to sell to those key accounts that value their products, service, and support and are willing to pay a fair (yet competitive) price, and the Market-of-One profile and analysis will, among other things, identify and qualify these accounts that see benefit in a value-added offering.

But sometimes a company has no choice but to sell to price-centric key accounts. There are many situations where low-priced business contributes to a company's success (e.g., overhead absorption, lower costs due to purchasing volume) and makes sense strategically. Thus a company needs to decide how price-centric accounts fit into the overall business strategy and if and how the company should serve these accounts.

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Be Aligned With Your Company's Objectives

However there may be times when enough is enough. One of RS Consulting's clients that manufactures construction materials and sells through home centers recently pushed back and won. A major home center chain approached the client and demanded significant funding for advertising and promotion. This funding amounted to nearly 20% of the client's sales to this account (and the client was one of the top 2 suppliers). The client thought about it and said no to this demand, and the account warned that they would shift the client's business to the other top supplier, who supposedly would meet their demand. Sometime later the account came back and admitted that the other supplier also said no, and the client retained the business at the same margin.

RS Consulting is not advocating that companies get tough and reject every customer demand in the interest of profitability nor would we advocate acquiescing to every customer demand because "the customer is always right". Rather we work with companies to make a rationale decision on what is best for the company. This may mean saying no sometimes and yes other times.

In addition to profitability there may other company goals: introduction of new products and services; maintenance of high share and loyalty; competitor conversion; etc. All of these should be considered, if relevant, when developing a program for a key account.

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Most account executives or sales reps, even good ones, are transaction-oriented and focus on historical results. In other words the account executive learns how to sell the company's products (and services), develops and maintains customer relationships, seeks opportunities for those products, and works hard to close the deal when an opportunity is created or arises. They often judge their success by what they have done in the past or with other similar accounts versus what the actual potential is. While this might be good enough for a typical account it is not for a key account. Account executives for key accounts must be trained to be (or hired as) marketing managers.

The following example illustrates the impact of thinking like a marketing manager. RS Consulting was working with a client's regional sales branch to develop a program for its key accounts. In discussing the branch's performance and opportunities the sales manager stated that the branch was turning around and cited its 33% sales growth over the past 2 years. While impressive we pointed out that the branch still had less than 10% market share, implying the opportunity to grow much faster than 15% per year. With this broader perspective the sales manager and his team started to think about how they could really grow the business in that region.

The graphic on the next page illustrates the role and responsibilities of an account executive that is truly a marketing manager for their key account.

An account executive for key accounts needs to think more holistically and be more broad-minded, i.e., like a marketing manager, if they are going to approach a key account as if it were a Market of One.

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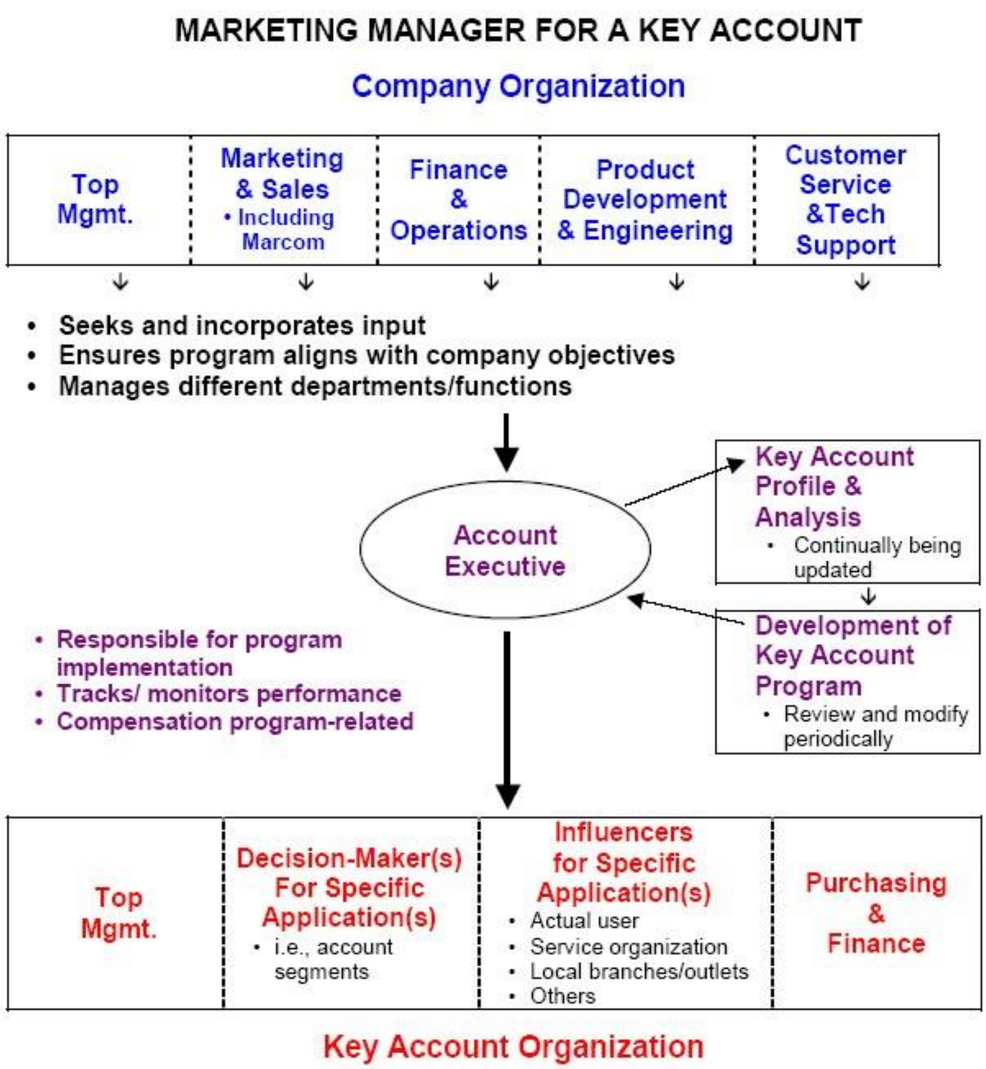
This is a fairly obvious and simple principle, but sadly one that is often not followed. RS Consulting attributes this neglect to the fact that many companies focus so strongly on the immediate transaction or deal (i.e., sales, sales, sales). Certainly nothing is wrong about closing the deal and getting sales but companies often forget to communicate both externally and internally, resulting in lost opportunities and inefficiencies.

Nearly all companies spend money on advertising, collateral, trade shows, etc., but key accounts demand something more:

- A message tailored to the key account's situation and needs but aligned with the company's overall message
- Communication to all decision-makers and influencers within the account
- Frequent and consistent communication across all touch points to ensure the company gains the account's mindshare.



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An interesting story. RS Consulting conducted a key account study for a major distributor of industrial products. We interviewed one of the client's key accounts whose preferred supplier was actually a competitor. When asked why they preferred a competitor, the decision-maker stated that the competitor's product availability was better, mentioning that the competitor had a 98% fill rate.

When asked how he knew that, the decision-maker stated that the competitor's phone message told him so when he was on-hold. Do you think that this key account actually measured the fill rates of their different suppliers? No, but they did believe that their preferred supplier had better fill rates, and it certainly affected their supplier choice.

With key accounts, again because of their size and complexity, the account executive must work with top management and the marketing department to develop a communications strategy and manage the implementation of that strategy.

An account executive has responsibility but limited authority over all of the different functions and departments within their company. Effective internal communication is important for the account executive to get everyone to work in harmony.

From RS Consulting's experience it is difficult, and sometimes detrimental, for all communication to flow through the account executive, especially for larger companies and their key accounts. There will be many situations where someone other than the account executive will have – and should have – direct communication with the key account.

Thus there should be a system and procedure that communicates the goals and details of the program to all appropriate functions and departments, captures and disseminates the important information from each customer interaction, and tracks/monitors performance of the appropriate functions and departments.

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Reality Check on Key Account Marketing

Now it's time for a reality check on your company's key account marketing. How effective are your company's programs? How well does your company adhere to the principles discussed in this article? Do you feel that you company's program with existing key accounts make the relationship stronger, create brand loyalty, increase revenue and share, and meet your profitability goals? Do you feel that your company has the marketing and sales capabilities and resources to identify and convert competitors' key accounts?

If "no" or "maybe" to any or all of these questions, then RS Consulting can help. Having no key account program or a reactive or ad hoc program is a significant risk for any company in today's markets. Key accounts are representing a larger and larger share of the market and are becoming more demanding, and we all know that competition is not getting any easier.

Please feel free to contact Richard Barnes, Principal, at 847 951 7548 or rbarnes@rsconsultingusa.com to discuss key account marketing and how we can help your company create opportunities, avoid problems with key accounts.