COVER STORY

Managing Your Strategic Accounts Strategically: An Enterprise Solution

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Your strategy is not what you say it is – it is what your customers pay you for.

Over the past two decades, large corporations have restructured themselves to deliver significantly higher returns to their shareholders. They have grown their revenues substantially faster than their total costs to deliver these rising returns. This has been accomplished by managing the largest component of their costs – their purchases of products and services – much more rigorously. Recent changes in the technology of Supply Chain Management have accelerated these trends towards building strategic relationships with core suppliers of both products and services that are then integrated into their own value proposition to their customers.

In analyzing the patterns of how customers purchase products and services, we find that their "wallet" falls into these distinct buckets (see Figure 1, next page), each with very different dynamics and economics.

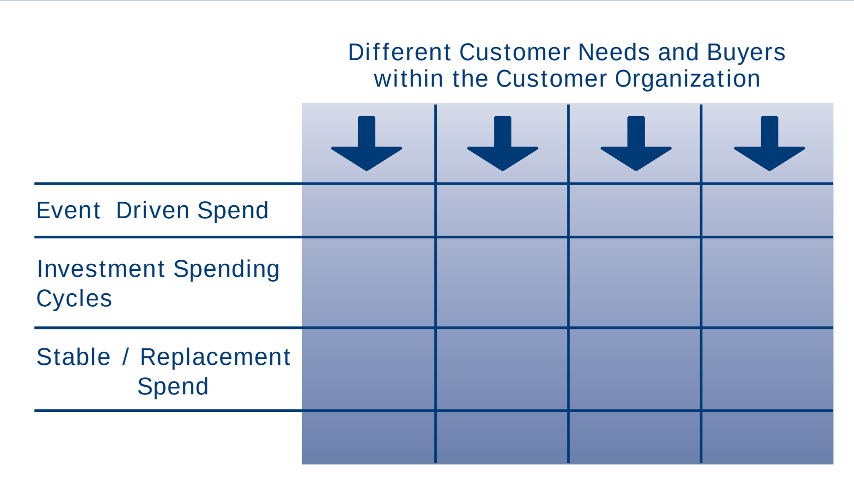
- Stable/Replacement Spend: In most cases, the bulk of what the company purchases is spent on predictable items. With the dramatic decline in inflation over the past decade, clients expect *real* price declines in this area of spend. Their ability to pass on price increases is very limited in large parts of their product line.
- Investment Spending: Companies need to invest if they are to have a future in an increasingly differentiated marketplace. Investment cycles typically last 2 to 3 years, and investment spending has risen steadily over the past decade.
- Event Driven Spend: Increasing marketplace volatility driven by factors such as globalization and rising levels of mergers cause firms to spend under time pressure.

In addition to a more systematic management of their suppliers, the buying process within large organizations has changed dramatically in response to shifting organizational paradigms. Today's organizations are much flatter, have horizontal multi-functional teams that result in a *convergence* of buyers and decision-makers in an organization. Most strategic purchases today are multi-functional, multi-level, and in many cases multi-geographic. As the buyers and buying patterns within a customer organization have converged, people whom you do not normally think of as your competitor become key players in your marketplace.

This changing landscape has major implications for all companies that sell products and services to large corporations:

- As the largest part of a company's wallet does not show appreciable revenue growth, companies that serve this segment of the customer's wallet face a future of consolidation. In order to achieve higher returns in

Figure 1. "Buckets" Containing Customers' Wallet Share



a non-inflationary marketplace, capacity has to consolidate and productivity must increase dramatically. Hence, we have witnessed very significant consolidation in many old economy industries.

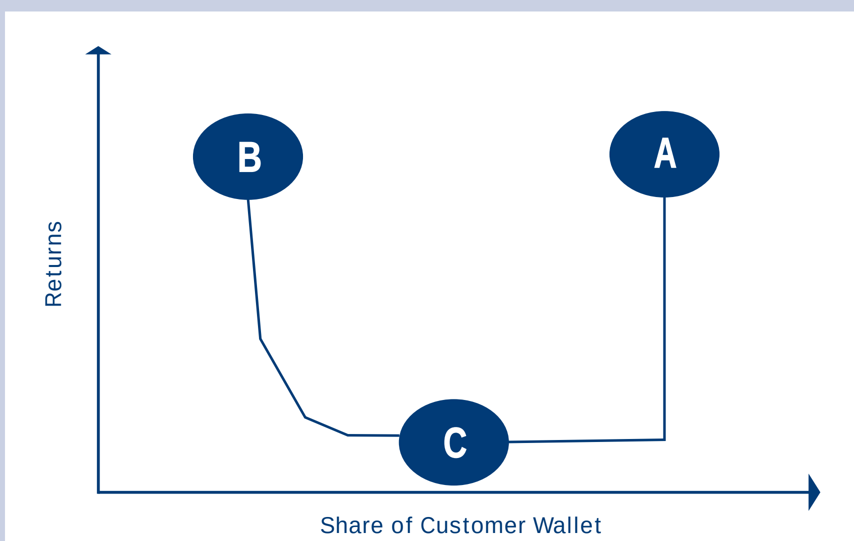
- As the suppliers consolidate, they have to cross-sell into other parts of the client wallet. If they do not cross-sell into the investment cycles and if the event-driven spend drains parts of the client wallet, they are condemned to a no-growth market. Hence, *without cross-selling into other parts of the client wallet and to related buying centers, a supplier cannot achieve growth and high returns*.
- As customers consolidate and become substantially larger, their ability to extract further value from their suppliers increases. The suppliers are now faced with fewer choices. Each industry has a set of "defining customers" – these are the customers that are essential for you to do well with if you want to be a factor in that industry. Without success with these customers, it is hard to envision a scenario where you will be a market leader.

These changes make it imperative for companies that manage a key account program to move away from a sales orientation (e.g. asking how important is this customer to you?) towards a *Customer Management mindset* – how important are you to the customer?

From Market Strategy to Customer Strategy

As markets have consolidated, customer strategy on your defining clients becomes essential to continued success. Companies have three broad choices when it comes to effective customer strategies that are likely to deliver premium returns to their shareholders (see Figure 2):

Figure 2: Customer Strategies vs. Returns



a) The full service suppliers: Companies that cross-sell across all segments of the client's wallet and to multiple buyers, levels and geographies. While they have higher customer coverage costs, they expect a higher share of their wallet.

b) The focused supplier: A company that has a narrowly defined area of expertise, high share in a well-defined segment of the wallet, lower cost of coverage and makes little attempt to cross-sell outside the core buyer within a customer. The value proposition to the customer consists of an expertise or product advantage and often, also a cost advantage.

c) The suppliers that are neither full service, nor focused: They will find it difficult to deliver high returns to their shareholders. These suppliers have a *full service cost base* and will attempt to cross-sell to the customers, but the customers are not ready to cross-buy from them – hence, will not have the *full service share of wallet*. Instead, these suppliers will have a mismatch of their cost base with their position in the customer wallets. Their long-term survival in a world of high return expectations is questionable.

Your Defining Customers Will Pick the Winners and Losers

As customers manage their suppliers more rigorously, they have a natural tendency to segment their suppliers and to concentrate more business with fewer, stronger suppliers that are likely to provide them a cost, capital and competitive advantage in their own marketplace. For suppliers, the implications are clear and compelling.

a) If *you do not invest in your customers, it is unlikely you will be one of the winners* as they consolidate their suppliers. Investing in your customers entails understanding their unique needs and developing ideas and product solutions that give the customer an edge in the marketplace. How *much* to invest in a customer and how to invest are the central responsibilities of the Key Account Program.

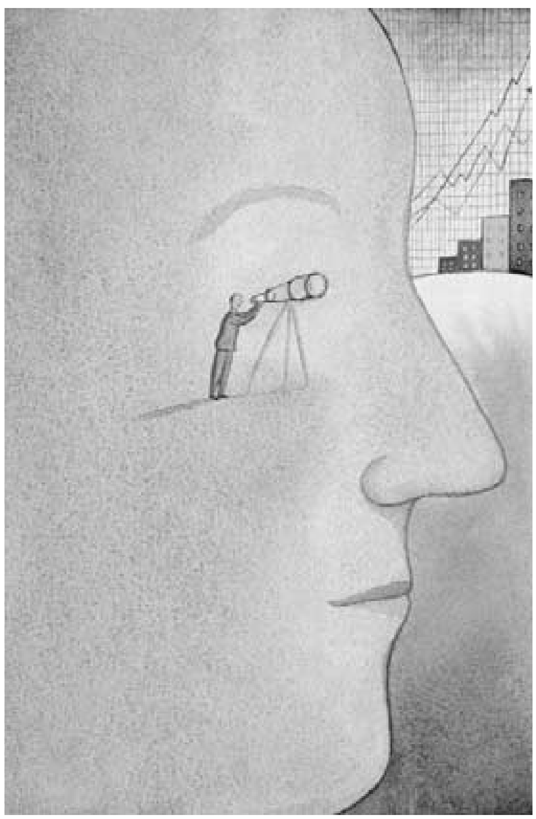
b) Without investment in and ideas given to customers, you will not have "share of mind" with your clients. Share of mind entails getting the customer to define his future needs in a manner that is consistent with your strengths as a supplier. If the customer thinks like you, he will buy what you are selling. *Share of Mind today leads to Share of Wallet in the future.*

c) As customers decide on selecting the winners and losers of tomorrow, a critical factor will be the extent to which the supplier has been able to build both Individual *and* Institutional Relationships. Most salespeople focus on the Individual Relationship while customers are increasingly focused on Institutional Relationships, i.e. the alignment of product/service delivery across geographic boundaries, the integration and coordination of mutual plans at all levels within the two organizations for investment and future growth.

If You Don't Manage Your Customers, They Will Manage You

Each of your defining customers should be considered as a Market. Your customer plan should be to address the key issues of your company's performance in this customer-defined marketplace:

- What is the *potential* for future growth? When should you invest in this customer?
- What is your *position* versus other competitors? With key buyers? Are you gaining or losing share of mind or share of wallet?
- How do you *penetrate* the minds of key decision-makers?
- What is the *profitability* of this customer? What can be done to enhance this?
- What are the *products* and geographies that will drive the future of this customer relationship?
- What are the key *priorities* and *people* that are essential to realize returns and market share on this customer?



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Key Account Management *is a process, not just a job*. It is about developing the answers to these questions and aligning the resources across the Institution to deliver to the customers. Effective customer management is about institutionalizing the mindset and the processes in place to get key business units to recognize the economic imperative of measuring their success by how well they serve the defining customers.

Key Account Management (KAM): The Role of IT in Institutionalizing the Process

The KAM process requires the involvement and cooperation of multiple functional areas within both the organization and at the customer. Now more then ever, institutionalizing this process in a large multi-product, multi-geographic environment requires leveraging technology. Our experience suggests that there are four main IT related drivers to the delivery of a successful KAM program (see Figure 3, next page):

1. Customer Identification
   - Have you identified your defining customers? Do your systems know who they are?
   - Do you know your buying centers?
   - Do your systems uniquely identify the main individuals at the customer?

2. Connectivity: Knowledge Management and Collaboration
   - Do you capture both qualitative data as well as quantitative data on your customers? Are employees sharing this information? Is there a "universal

language" across business units?
- Are you engaging your customers over the Internet? Does your IT Platform help you to build and strengthen relationships with them?

3. "One Team" Coverage Model
- Do you have a defined coverage model for your defining customers with clear roles and responsibilities?
- Are you maximizing your use of technology to deliver increasing levels of service to your customers from this team approach?

4. Strategic Relevance: Customer Economics and Share of Mind
- Can you effectively link revenues and costs to your defining customers? Do you understand the profitability of these customers?
- Are you investing in your customers? Are you building Share of Mind? Are you using technology to strengthen your customer experience?

Identifying Customers Across Your Organization

Many organizations struggle with the identification of all the legal entities (subsidiaries, JV's, etc.) of their customers when trying to link common customers across internal IT systems. This problem can be very expensive and time-consuming to solve. One easy way around this problem is to realize that for customer management purposes the 80/20 rule applies in terms of capturing quantitative data on defining clients. When dealing with say, the Ford Motor Co., while it may have 500 legal entities that your systems might identify, 80% of your revenues are probably being derived from 20 Ford entities. These entities are likely to closely resemble the main buying centers at Ford with respect to your organization. *For customer management purposes, focusing on the key buying centers is quite sufficient*. The task of mapping your quantitative systems with your qualitative systems across these 20 buying centers is much simpler than trying to solve the legal entity problem. Most organizations have avoided having to deal with the legal entity problem because they have historically measured quantitative information, not on a client basis, but on a product or geographic basis.

Many customer-mapping exercises fail to identify the key individuals at the customer and map these across systems. Customers do not take long to realize that activities and communication with them remain trapped in "silos". For KAM purposes, the identification and tracking of relationships between employees and the key individuals at the customer is critical to establishing a strategic institutional relationship.

Connectivity: The Quantitative Challenge

Most of the business intelligence around defining customers is a direct by-product of the daily workflow going on between your employees and the customer. *In most organizations today, knowledge management has failed to deliver the expected benefits.* This is primarily because the capture and sharing of this knowledge needs to be part of a workflow process, not a centralized attempt at getting employees to proactively share their

TODAY'S ORGANIZATIONS ARE UNIQUELY POSITIONED TO HARNESS THE EFFICIENCIES AND CONNECTIVITY ASSOCIATED WITH THE INTERNET INTO "GREATER SHARE OF MIND" CUSTOMER RELATIONSHIPS.

Figure 3. Key Account Management Information Technology Drivers

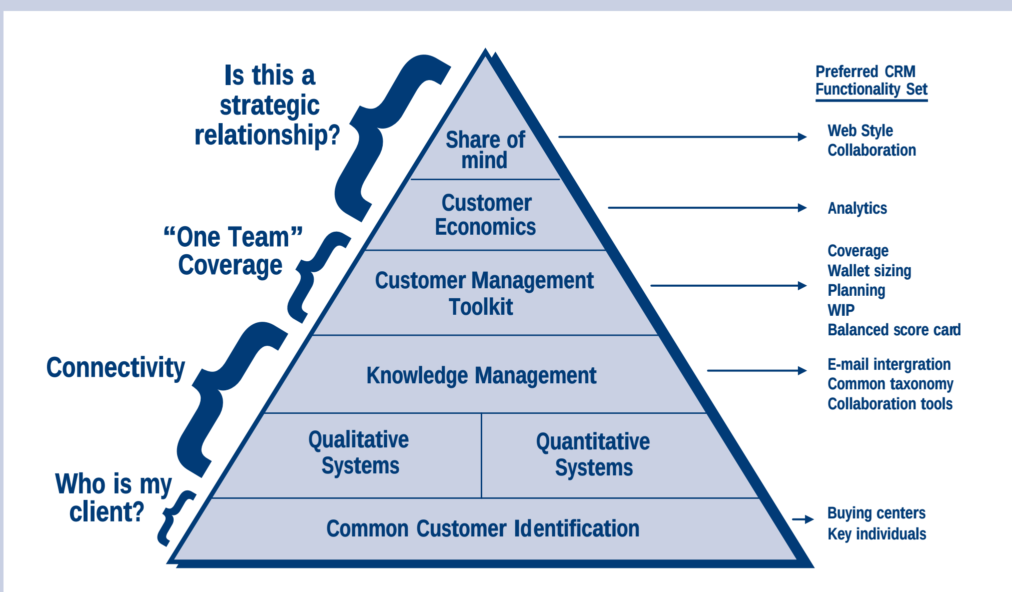
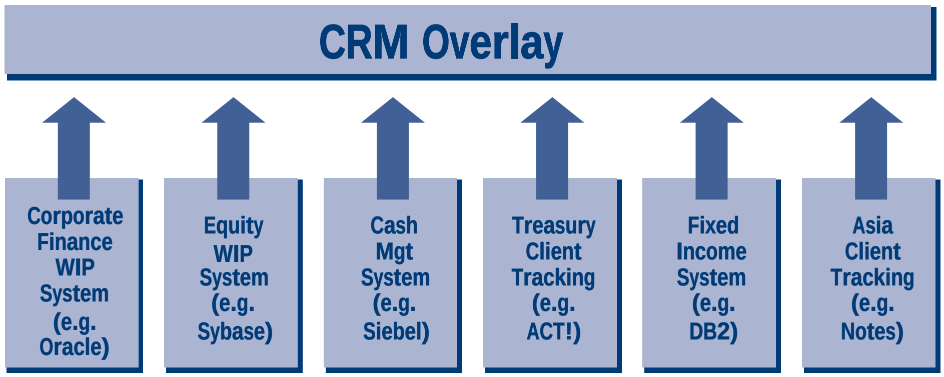


Figure 4. Key Account Management Connectivity



Traditionally, systems in organizations are built in "silos", either to cover a Line of Business or a geographic location.

The CRM solution should overlay each "silo" and become the universal client platform.

knowledge. A key factor for success is the ability to integrate these initiatives with existing e-mail systems. *E-mail integration is the killer application of knowledge management.* Without enterprise-wide qualitative information on your defining clients, it is very difficult to try to begin a "share of mind" relationship.

The IT infrastructure of most organizations today does not facilitate easy integration of qualitative and quantitative data. When qualitative systems are not linked to quantitative systems, customer management and account planning lack the necessary grounding for effective resource allocation. Usually, the information necessary for effective customer management is trapped in the many separate IT silos of the company's product and geographic organizations. The challenge facing most Key Account Management programs is to provide linkage and connectivity between these disparate systems in a cost effective way, so that the organization develops an integrated view of the customer relationships.

Many CRM implementations attempt to replace existing systems with one solution, leaving other systems behind. A critical factor for the success of any customer management information system is to leverage the existing organization and its IT investments. This connectivity must share not only the content of the information between systems but also its context, inherited security models, business logic and the relevant functionality necessary so that business processes across the organization can be shared, providing a full view of the customer relationship and its nature. Without connectivity, cross-selling becomes very difficult in multi-product, multi-geographic organizations that have historically operated within "silos". For today's global organizations, a KAM program without technology-enabled cross-selling has very few chances of succeeding.

Maximizing Profitability: Optimal Coverage Models and Efficient Business Processes

Many attempts by large organizations today to institutionalize a balanced scorecard around customer relationships have failed to deliver the desired results. In many of these cases, the attempts did not have the full backing of the customer-facing part of the organization and were isolated attempts by particular units to measure employees. Essential to a successful customer management strategy is the clear definition of roles and responsibilities around the customer and across the organization. Only once these have been established can you look at the different business processes that are in place, or should be in place, in order to leverage the strengths of the organization around the customer. This is all part of establishing a "universal language" around customer management.

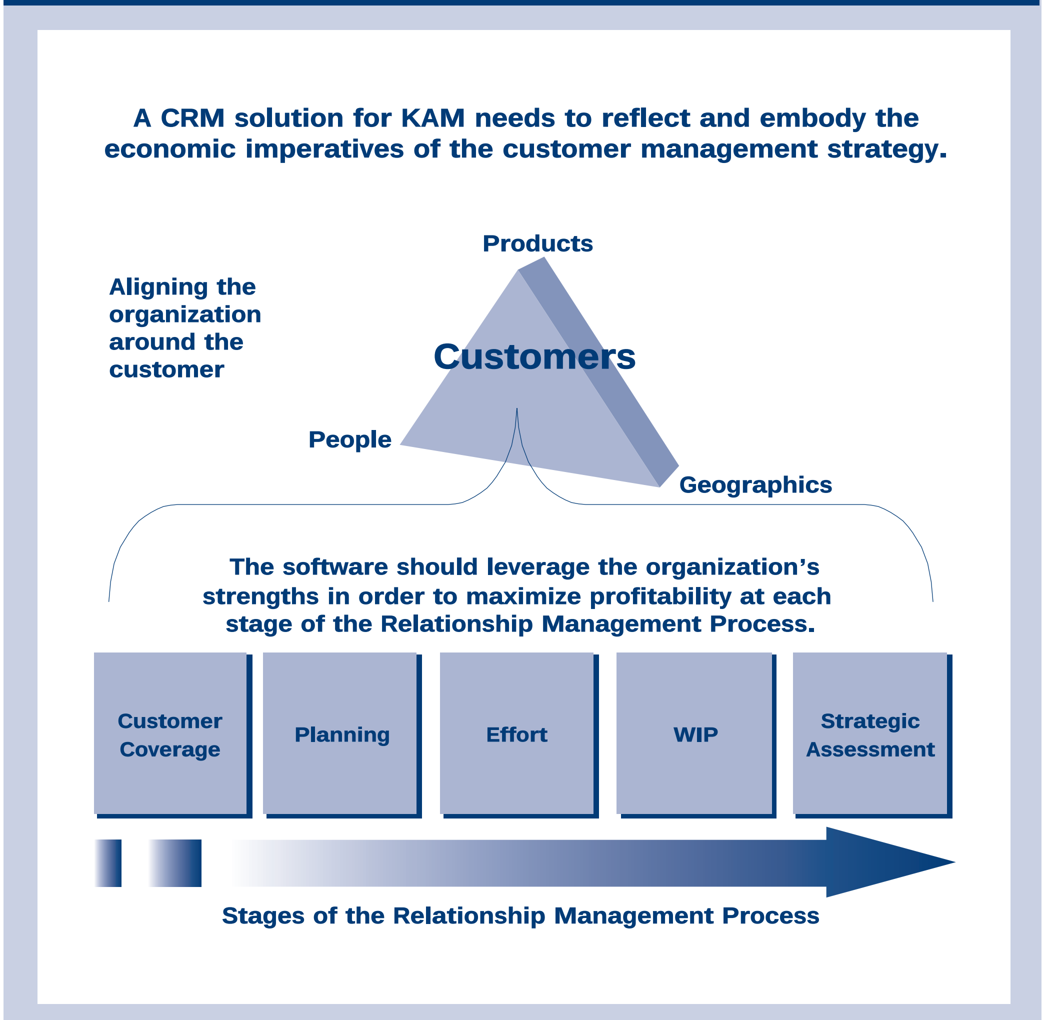
Once you have a universal language in place (e.g. customer ID´s, common product definitions, coverage models and defined business processes), then you can begin to measure and compensate employees around common customer objectives. Customer profitability is very much a function of the associated coverage costs and implementation of efficient business processes around each client. An effective CRM software implementation should play a critical role in helping manage the overall cost of coverage as well as in efficiently re-engineering the right business processes around customer relationships. Key account coverage requires the right business processes with efficient customer coverage structure.

In far too many organizations today CRM is associated with contact management. *CRM, as KAM, is a process, not an "off the shelf" solution.* For a CRM software solution to succeed it requires a very clearly defined customer strategy.

Share of Mind: CRM Technology and the Internet Will Change the Rules of the Game

A share of mind approach to customers requires investing in aligning your organization with your customer's.

Figure 6. Leverage the Power of Technology to Reflect Customer Strategies



Aligning employees around the organization's customer objectives is about leveraging both institutional access as well as institutional knowledge of customers. This is about turning individual contacts into institutional contacts and turning individual expertise into an institutional share of mind dialogue with your customers. *Today's organizations are uniquely positioned to harness the efficiencies and connectivity associated with the Internet into "greater share of mind" customer relationships.* By increasing your level of collaboration with your customers, you are better positioned to increase your "level of permissioning". With increasing levels of permissioning, you are being given a greater opportunity to cross-sell and become part of your customer's overall value proposition. Customers are demanding the greater level of transparency and efficiency associated with the Web style of work. Only technology can deliver an enterprise KAM program with the tools necessary to deliver this level of customer service. The Internet is an extension of your firm. Only those organizations that can leverage technology and change their internal mindset will succeed in institution-alizing this process.

Certain clients today must be managed strategically. With the greater levels of transparency and efficiency associated with the Internet, your KAM program becomes your strategy.

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