UNIT-15

Sales Key Account Management

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Describe the three features of key account management
- ✓ Understand the concept of global account management
- ✓ Discuss how key account management can be advantageous and disadvantageous for sellers

Unit 15

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What is Key Account Management?

The term 'key account management' refers to a strategy many suppliers use to attract, engaging and serve customers with complex needs and high potential. Additional efforts are made to provide such customers with special treatment in the areas of service, administration and value. Customers must be considered to have high sales potential to be granted key account status.

Complex buying behaviour is another characteristic, as is the likelihood of the customer agreeing to a long-term collaboration or alliance with the supplier. When buyers agree to long-term contractual deals with suppliers, both parties may benefit from the advantages of exclusivity, or partial exclusivity. Examples of which include high levels of service, better communication, risk reduction and reliability of supply.

Key Account Management Features

Key account management has three primary features:

Firstly, the special treatment provided for customers afforded key account status is not offered to the supplier's other customers. Examples of preferential treatment may include access to exclusive products, more competitive pricing, additional customer support, dynamic distribution options, product customisation, information exchange, joint development of new products/services, additional consultancy and so on. Essentially, enhanced and improved services not available to regular customers.

Secondly, key accounts are typically managed by one or more appointed personnel, who will be responsible for building, managing and maintaining such accounts. The account manager (or managers) may be located/based on the premises of the supplier or the key account customer, in accordance with requirements.

Thirdly, key account management activities are multifunctional and expand to a variety of departments, including but not limited to logistics, information technology, marketing, engineering and sales.

Key account managers and management teams handle the process of ensuring the most valuable customers are provided with services that go beyond the capacity of the supplier's normal capabilities/offerings. Those who work in key account management are expected to identify opportunities for developing relationships, attract and engage potential customers, assess ways to secure their loyalty with additional services and co-ordinate these additional services with various departments across the company.

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

1. integration of the key account programme into the company's overall sales effort;
2. senior management's understanding of, and support for, the key account unit's role;
3. clear and practical lines of communication between outlying sales and service units;
4. establishment of objectives and missions;
5. compatible working relationships between sales management and field salespeople;
6. 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 10.1.

	Transactional selling	Key Account Management
Overall Objective	Sales	Preferred supplier status
Sales Skills	Asking questions, handling objection, 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 terms

Advantages and Disadvantages of Key Account Management to Sellers

Key account management can be advantageous to sellers in many ways, including but not limited to the following:

1. **Close working relationships with the customer** – Key account management enables the supplier to build a much closer and more amicable relationship with the customer, communicating at a deeper level and establishing a mutually-beneficial partnership.
2. **Better follow-up on sales and service** – Additional resources are allocated to ensure the customer is provided with the best possible service and support following every sale.
3. **Higher sales** – Evidence suggests that organisations which invest in sales key account management initiatives make more sales and generate stronger revenues than those that do not.

4. **The opportunity for advancement for career salespeople** – The creation and implementation of a key account management strategy could open up a variety of senior sales positions within your organisation, benefiting both your workforce and your business.
5. **Lower costs** – Achievable through joint agreement of optimum production and delivery schedules, and demand forecasting.
6. **Co-operation** – By developing a closer working relationship with the customer, you're able to tap into their specialist knowledge and expertise. Perhaps even collaborating on joint projects and initiatives.
7. **Integrated systems** – Information communication technology (ICT) integration can benefit suppliers in the areas of delivery and billing.

Nevertheless, it is also possible for key account management to be disadvantageous to the seller/supplier in certain ways. Examples of which include the following:

1. The greater the extent to which you invest in one or more key accounts, the greater your dependence on them. Hence, the bigger risk if the relationship deteriorates, or if the customer walks away from the deal.
2. There is also the risk of key account customers taking advantage of their status, becoming increasingly demanding and ultimately leading to a difficult and unprofitable relationship.
3. If the requirements of a key account customer change at any time, the deal may become significantly less profitable than before, perhaps even unviable.
4. Investing heavily in a relatively modest number of key accounts can lead to the neglecting of smaller accounts, which may have proved profitable long-term.
5. Introducing a key account management strategy for the first time often means reorganising and redeploying members of the workforce, which can be costly and time consuming.

Given all of the above, it is important to be careful and strategic when creating and implementing a key account management strategy. This is particularly so when key account salespeople need to be recruited specifically for the project.

The extent to which key account management could benefit your business will be determined by the size, nature, objectives and general business model of your organisation. While key account management can bring enormous benefits to some businesses, it is neither necessary nor suitable for others.

Advantages and Dangers of Key Account Management to Customers

An effective key account management strategy can also be beneficial for customers. Examples of potential key account management benefits include the following:

1. **Improved service:** One of the core aspects of a key account management strategy is the provision of prioritised customer support and more responsive service in general.
2. **Improved communication and co-ordination**: The account will typically be overseen and managed by one individual with the seller's organization, which provides a single point of contact who is familiar with the customer and understands their requirements. All of which makes for a much easier working relationship.
3. **Exclusive prices:** Another benefit from the customer's perspective is access to lower prices and preferential credit terms, typically by way of negotiation on the basis of a strong bargaining position.
4. **Avoidance of switching**: Entering into a long-term agreement with a supplier means eliminating the costs and complications of regularly (or occasionally) finding and switching to new suppliers.
5. **Integrated systems**: Customers can gain by the integration of information communication technology (ICT) for delivery and billing.
6. **Better communication:** As with the seller, the buyer has the potential to benefit significantly from the knowledge, expertise and consultancy of the seller as part of the relationship.

As for the downsides of key account management for the customer, potential dangers include:

1. The greater the extent to which the customer relies on a limited number of sellers, the bigger the problems encountered if the seller faces delivery or production difficulties.
2. Some sellers gradually slip into a false sense of security with key account customers, ultimately taking them for granted and allowing their quality standards and service levels to slip.
3. Staying loyal to one or more suppliers over a long period of eliminates the prospect of finding better or more cost effective deals with other suppliers.

Deciding Whether to use Key Account Management

Again, it is up to each organisation individually to determine the suitability or otherwise of key account management. It is a case of evaluating whether the costs and resources necessary for the implementation of such a strategy will justify the outcome.

There are, however, certain factors that are indicative of a supplier's likeliness to benefit from a key account management initiative. Several important examples of which include the following, which may indicate that a key account management strategy should be considered:

1. A high proportion of your sales are attributed to a small number of customers.
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. Your organisation's profits could be increased and costs reduced through selective dealings with a smaller number of bigger customers.
4. 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.
5. There is a chance working with one or more customers more closely could create the opportunity to offer bespoke products and services to satisfy their requirements.
6. Multifunction contacts between supplier and customer are required.
7. 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.
8. Customers are centralising their operations.
9. Your closest competitors are formulating and implementing (or already using) key account management strategies.
10. Competition is growing and you need to find a way to outperform your closest competitors, while still remaining profitable and maintaining the quality of the products and/or or services you provide.

Criteria for Selecting Key Accounts

If you believe key account management could work for your business, it's then a case of determining which accounts to focus your time, effort and resources on. Traditionally, it's been a case of simply selecting customers for key account status based on how much of a product or service they buy. However, experience has demonstrated how various additional criteria should be taken into account, which focus more on the long-term strategic importance of the customer in question to the supplier.

Examples of which include the following:

1. Customers that are likely to experience growth and expand their market share within their existing markets.
2. Smaller to medium sized businesses that have the potential to grow and expand significantly, in accordance with predicted market demand.
3. Customers that could be collaborated with on the development of new and improved products and services, capitalising on their experience and expertise.

4. Prestigious and high-profile customers which naturally boost the reputation and image of the supplier, simply by being a key the partner of the customer in question.
5. Customers that are early adopters of new products and so aid the diffusion of such products in the marketplace.
6. Any customers that are currently doing business with your primary competitors, which you could bid for the business of and perhaps gain a competitive edge.
7. Customers that make a significant contribution to your profits, which should be shown a certain level of priority and provided with additional support/service.

The Tasks and Skills of Key Account Management

Upon deciding to go ahead and implement a key account management initiative, the next important task is to appoint a person to manage and co-ordinate the programme. Contrary to popular belief, it isn't quite as simple as selecting whichever salesperson within the organization has the most experience and seniority. Key account management demands specialist knowledge and skills, which go far beyond the basics of sales.

An extensive survey of key account management personnel was carried out by Wotruba and Castleberry, in order to identify the most important tasks and skills at the heart of the role. Each of which is listed below, and can help form a basis for the criteria used to select, assess and appoint primary personnel for a key account management initiative:

	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

As can be seen, key account management personnel require skills and competencies go far beyond simple sales. Irrespective of the seniority and experience of the individual (or individuals) selected, extensive training and additional education may be required to ensure their adequate performance.

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. GAM is an effective way for suppliers to manage customers of recognized strategic importance on a global basis.

Businesses of all sizes are becoming more globalised than ever before, as are the activities they undertake. This is increasing the extent to which GAM is becoming a major consideration for organizations that do business internationally. Customers granted key account status in a GAM framework expect the same kind of preferential service and general consistency as those doing businesses with suppliers on a domestic basis. For obvious reasons, GAM can be significantly more challenging to coordinate.

Building Relationships with Key Accounts

Effective key account management is all about the development and maintenance of good working relationships. The five most effective ways of building relationships with key accounts being as follows:

1. **Personal trust.**
   The objective here is to build a sense of trust with the customer.
   Methods:
   - ensure promises are kept;
   - reply promptly to all queries and complaints;
   - contact key account holders on a regular basis;
   - visit key account customers in person;
   - arrange factory/site visits;
   - get to know them at a social level;
   - be honest when you encounter (or expect) any problems.

2. **Technical support**
   The objective here is to provide invaluable support and consultancy.
   Methods:
   - research and development co-operation;

- before- and after-sales service;
- provide training;
- dual selling (supplier helps key account to sell).

3. **Resource support**
   This means finding viable means to cut costs for the customer.
   Methods:
   - provide credit facilities;
   - offer low interest loans;
   - engage in co-operative promotions to share costs;
   - engage in counter-trade (consider non-cash payments, like goods or commodities).

4. **Service levels**
   The objective here is to continuously improve the service you provide.
   Methods:
   - reliable delivery;
   - fast/just-in-time delivery;
   - computerised ordering systems;
   - give fast accurate quotes;
   - defect reduction.

5. **Risk reduction**
   The objective here is to reduce as many potential risks as possible for the customer.
   Methods:
   - free demonstrations;
   - free/low-cost trial period;
   - product warranties;
   - delivery guarantees;
   - preventative maintenance contracts;
   - proactive follow-ups;
   - reference selling.

From the supplier's perspective, it's important to remember that each of the steps and initiatives listed above will constitute some kind of cost or an allocation of resources. Hence, careful consideration is needed in terms of the cost-benefit payoff. Key account management personnel should focus heavily on the methods and options that bring the most mutual benefit, as opposed to those that bring little by way of measurable rewards.

Detailed below are a selection of key account management dos and don'ts, which can help form the basis of an effective strategy:

Key account do's:

- Do only ever make promises you can keep.
- Do ensure you deliver on your word at all times.
- Do ensure all agreements are formalised in writing.
- Do whatever it takes to resolve issues promptly.
- Do communicate clearly, consistently and regularly.
- Do let customers know if you anticipate problems.
- Do treat every customer as an important partner for your business.
- Do encourage customers to share their feedback and recommendations.
- Do take every opportunity to capitalise on customers' expertise.
- Do ask as many questions as necessary, whenever necessary.

Key account don'ts:

- Don't allow minor issues to sour or spoil relationships.
- Don't forget the bigger picture when a customer becomes difficult.
- Don't promise to deliver something beyond your capacity.
- Don't ever view the relationship as one sided - it's a partnership.
- Don't be afraid to say no, or be assertive when necessary.
- Don't lose sight of the importance of flexibility.
- Don't pretend to know something you don't.
- Don't expect every customer to demonstrate loyalty.

Key Account Management Plan Template

There are four primary components every key account management plan should contain:

1. Your relationship within the customer
2. The customer's current business plan, objectives, and financial health
3. Your objectives for the account/relationship
4. How you intend to achieve these objectives

We'll now take a look at each of these a little closer:

Relationships

Carefully consider the personnel on the customer's side of the equation, along with your current relationship with them. Think about how likely they are to support the initiative, the extent to which you've already built ties with them and whether there is anyone that the organization who could stand in the way of establishing a deeper relationship.

The Customer's Business

This means carrying out an in-depth investigation and analysis of the customer's business, in order to pinpoint and present mutually beneficial opportunities accordingly. This involves analysing their business goals, their current performance, their financial health and any similar initiatives they already have in place. Regular SWOT analysis should also be carried out.

Account Objectives

For obvious reasons, you also need to think carefully about your own objectives for investing in such a relationship with the customer. Think about the current value of the account, the extent to which you believe this value could be increased and the kinds of KPIs you will use to measure the performance and financial viability of the initiative. Your immediate goal may be to simply organise an in-person meeting with the customer's CFO to discuss your ideas.

Account Strategy

After which, it's a case of developing a strategy that will enable you to achieve these objectives. Your strategy should be broken down into several component stages, covering a variety of short, medium and long-term objectives. Every step and objective should be actionable and measurable, while allowing sufficient scope for flexibility and strategy modification along the way.

Further Reading: