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Preeti H Vyas

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AHMEDABAD-380 015
INDIA

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Preeti H Vyas

Assistant Professor, Adani Institute of Infrastructure Management

Visiting Faculty, Indian Institute of Management Ahmedabad

Email: preeta@iimahd.ernet.in

Abstract

This note tries to explain concept of key account management (KAM), factors leading to importance of this emerging concept, criteria to determine key accounts from customer base, benefits to both buyers and sellers agreeing to practice it, stages of KAM relationship, conditions under which power lies with buyer or seller, outlines risks faced by both the parties, key success factors, challenges faced in implementing this concept and relevance to infrastructure sector.

Key Account Management

Preeta H Vyas

In 21st century, customer focused businesses attempt to identify few customers from the portfolio of their customer base and try to establish and nurture long term fruitful relationships. Many companies have created positions of key account managers for this.

This note tries to explain concept of key account management(KAM), factors leading to importance of this emerging concept, criteria to determine key accounts from customer base, benefits to both buyers and sellers agreeing to practice it, stages of KAM relationship, power dynamics in KAM relationship, risks faced by both the parties, key success factors, challenges faced in implementing this concept and relevance to infrastructure sector.

KAM is considered as a management approach adopted by selling company. It builds portfolio of loyal key accounts (also termed as major accounts as they form substantial portion of selling company's business/sales). Such accounts are offered on a continuous basis by adding value to standard product &/or service package. Appropriate technical, social and process links get established once this concept is accepted to be practiced by both; a buyer and a seller. The focus is on building relations rather than on transactions. The following Table-1 compares characteristics of both transactional and relational approaches.

Table-1
Comparison of characteristics of transactional and relational Focus

Transactional Focus	Relational Focus
Single sale	Lifetime value of a customer
Product Features	Customer satisfaction
Tactical promotional campaign	Strategic marketing
Short term reward structure	Varied reward structure
Contact with customer only during sale	Continuous customer contact
Limited point of contact/influence	Contact & influence from board room to shop floor
Salesperson guards his access to customer	Team approach to inter company communication
Limited commitment	Extensive commitment
Quality policed by QC(quality control)	Quality –by whole team/organisation

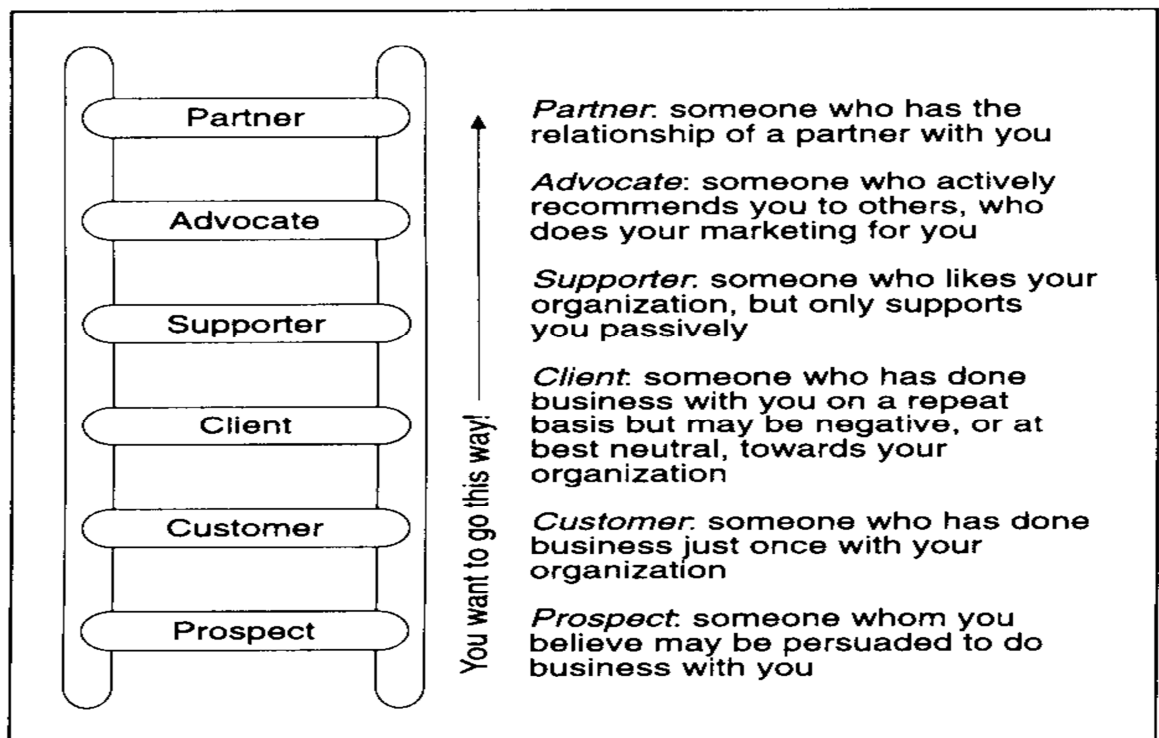
Source:Adapted from: Malcolm Macdonald;Beth Rogers; Diana Woodburn," Key Customers: How to manage them profitably" ButterWorth Heinemann (2000)

Loyalty Ladder:

As the customer makes repeat purchases, the seller shifts the focus from transactional state to relational state and the customer starts climbing loyalty ladder as depicted in the Table-2 below. With the first order, the buyer becomes a customer from a prospect ; with repeat orders moves to a status of a regular customer. The relations over time make the buyer a

supporter. The mutually beneficial relations between buyer and seller turns a buyer to be an advocate for the seller. Over time, buyer seller become partners in good as well as bad times. The seller devices strategies to make the loyalty stronger and help buyer climb the loyalty ladder.

Table-2
Ladder of customer Loyalty



Source: http://www.emeraldinsight.com/content_images/fig/1080040607002.png
accessed on 1st March, 2012.

Identifying Key Accounts:

The company explores those candidates for a 'key/major account' (i) who has potential to be a life time customer if nurtured, (ii) has high switching costs once he has bought from the company, (iii) values high service levels and is willing to pay for it, (iv) values brand and long term relationship with a seller. Once identified, the company devices strategies to enhance customer value for key customers in the following ways:

- By adding financial benefits such as loyalty discounts, better credit terms and financial services
- By adding social benefits such as club membership, theatre trips, sports, events.
- By adding structural ties as special delivery arrangement and EDI-electronic data interchange

The identification is not only based on current volume/value but the life time value of a customer. It can be determined by multiplying annual customer profitability(revenue-costs of servicing) by number of years customer is likely to need product/service e.g. US car dealership chain has a customer life time value of \$300,000 for car purchases & servicing over his/her lifetime.(James Heskett et.al.HBR March-April 1994)It is believed that when both buyers and sellers agree to build long term relations with each other and willing to share the data and invest in systems and processes, it culminates into integrated KAM(Key account management).

Key accounts by definition are few in number.(Applying 80/20 rule , these few accounts typically contribute substantial portion of seller's revenues. Both the parties agree to share information on sensitive subjects.e.g. Transparent costing system. The seller eventually tries to become a sole supplier. Also as a service, seller may handle secondary supplies on behalf of a buyer to offer one stop solution to needs.e.g. Wesco Distribution Inc. supplies electrical equipment and supplies (EES)needed for channeling and using electricity to its key customers and offers the convenience of one stop access to all their EES needs. Over time mutual trust gets developed among two parties, wherein there is no room for opportunism. Jointly, senior management from both sides develop long term strategic plan for better profits for both.

Steps to determine KAM portfolio:

In order to build KAM portfolio, supplier/seller needs to pursue the steps mentioned below (Ryal & Rogers2007):

- Define key accounts which are to be used during analysis
- Define criteria for key account attractiveness & assign weight for each criteria
- Score relevant key accounts out of 10 on attractiveness factors
- Define critical success factors (from customer point of view) for each & assign weights
- Score your organisation's performance out of ten on each critical success factor relative to competition
- Produce the position of key accounts in portfolio
- set out strategies to be implemented to achieve the objectives
- Check financial outcomes resulting from strategies

Factors to determine account attractiveness:

In order to find out attractiveness of key accounts following parameters for each key account should be measured. Rating based on importance of each parameter can be assigned and weighted average for each account will help determine overall attractiveness of each key account.

- Stability and Regularity of order flow
- Strategy fit of supplier and buyer leading to ease of doing business
- Low risk of bad debts or business not on credit
- Buyer looking for a single source of supplies:one stop solution

- Opportunity for cross selling either products or value added services or potential to get future business
- Status/reference value : the prospective key account is viewed as a focal company in a network/ perceived as industry leader
- Important to a sister company or in a network of a supplier
- If the prospective account has future plans to reach out globally
- Opportunity for strategic alliances; Move away from product/brand management system e.g. Walmart & P&G have a strategic alliance. They share technology, thereby saving costs and increase profitability.
- Client requirement for working only with a listed company
- Supplier looking for innovative work and client requiring such suppliers providing innovative solutions for repetitive work
- Prospective account with a financial stability
- Relationship between two organisations at senior mgt./top mgt. level

Financial Ratios:

In order to determine financial health of a potential key account following ratios over few years(3-5 years) should be seen.

- Current ratio: current assets/current liabilities
- Net profit margin
- Return on assets: net income/total assets
- Collection period: average collection period= days* accounts receivables/credit sales
- Stock turnover: sales/inventory

KAMPortfolio:

Based on the above ratios, key accounts can be ranked and prioritized. Out of total portfolio of clients, once key accounts are identified, dedicated team should be assigned to such accounts which will drive the key account relationship towards integrated key account management relationships. Lynnette Ryall(2007) proposed a framework to suggest strategies a supplier would design to allocate resources to key accounts based on their attractiveness and supplier's strengths dealing with the key accounts.

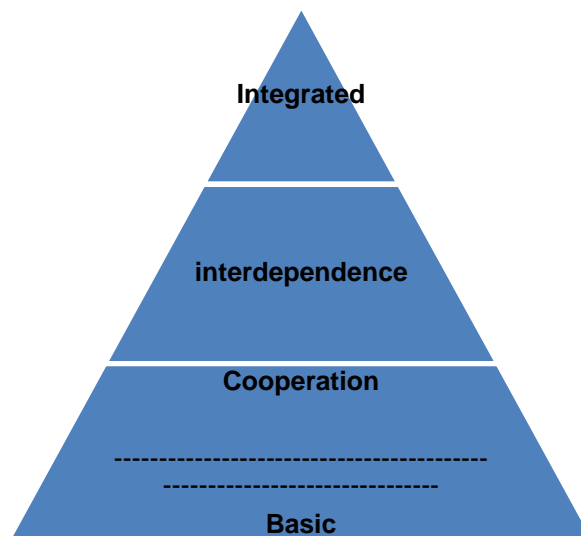
Figure-1
KAM Portfolio Matrix
Supplier's Business Strength with Customer

	High	Low
High	Strategic : Invest	Future Stars: Selectively Invest
Customer Attractiveness		
Low	Bread & Butter: Maintain	Volume: Manage for Cash

Hierarchy of key relationships:

Over time, the key relationship gets converted from basic to integrated KAM as depicted in figure (Figure-2) below.

Figure-2
Key relationship phases



- **Basic-** At the time of new customer acquisition, operational relationship gets developed wherein transactions are handled efficiently.
- **Co-operation-** Over time with repeat orders, cooperation is sought by both the parties for reduction of risk and enhancing ability to forecast, reduction in ordering costs, inventory carrying cost by JIT(Just in time delivery)
- **Interdependence:** During this stage, trust & recognition of mutual dependency is developed. High collaboration and interdependence get developed over time. Once confidence is established in the relationship, it culminates into stable & valuable relationship.
- **Integrated-**In this phase, both the parties realise fullest potential. The seller develops and builds long term relationships with each of their customer accounts. The characteristics of integrated key account management are; i) buying and selling processes/systems and strategies are integrated by both the key account buyer and seller, ii) there exists complementary and mutually dependent relationship between buyer and seller, iii) dedicated cross boundary, functional/project team is setup on both sides which are socially bonded. iv)There are high exit barriers for both the parties. v) Even if there is an exit by either party , the exit is traumatic, as substantial time, energy and resources are invested by both the parties. For a buyer, in order to change a supplier several types of costs are involved such as psychological, physical, and economic costs which may act as a barrier for switching.

Cost savings available with trusted trading partners:

With the development of ongoing relationship with key accounts following cost savings accrue to both the parties.

- **Better information & reduced uncertainty:** As both partners invest jointly in information systems and freely exchange information ;this helps reducing uncertainties, better forecasting, smooth production and supply flow hence reduced cost in serving needs of key customers.
- **Reduction of protective measures:** Once the relations with key customers is developed and nurtured, trust is built up which reduces need for protective measures.
- **Better flow of supplies:** Due to proper information sharing systems and ordering systems in place, supplies flow smoothly without over investment on the part of buyer in inventories and less stock out situations resulting in lost opportunities.
- **Tighter quality control:** As stakes are high, supplier adopts tighter quality control which in turn leads quality end products for key buyers.
- **Improved supply chain efficiency:** Unnecessary processes are removed which helps improve supply chain efficiency. Elimination of duplicated processes & routinised transactions, once processes are mapped and agreed by both the parties, unnecessary time and resources are saved by eliminating duplicate processes.
- **Reduced production costs:** Because of optimal inventory levels due to agreed smooth flow of supplies, production changeovers, shutdowns are avoided and with quality supplies overall production costs of a key buyer reduces.
- **Better cost effective design of new products:** Because of the integrated relationships and stronger ties over the period, a key buyer involves supplier right

from the design stage for a new product and this helps pooling in expertise of both to arrive at cost effective design for new products.

- **Cost sharing on R&D:** As ties get stronger both the partners may get involved in collaborative R&D efforts.
- **Lower sourcing/business development costs :** Both the parties join hands and leverage their contacts to make new project successful as stakes of both are involved.

Risks & risk reduction mechanism:

In spite of the above benefits, there are risks involved. Table-3 describes nature of both external and internal risks faced and mechanism to mitigate the risks.

Table-3
Risks and risk reduction mechanism

External risk	Mechanism for risk reduction
<ul style="list-style-type: none"> • General • Down turn in demand • Price pressure • New technology 	<ul style="list-style-type: none"> • Sharing of information about market. • Assetsharing(lower breakeven costs) • Volume commitment • Supply-chain integration
Internal risk	Mechanism for risk reduction
<ul style="list-style-type: none"> • Opportunism of partner- price increases • Opportunism of partner- withdrawal • Commitment to inappropriate assets • Inappropriate strategy 	<ul style="list-style-type: none"> • Trust • Interdependence • Flexible vs. vertical integration • Future orientation with joint planning • Strategic investment

Source: Malcolm Macdonald;Beth Rogers; Diana Woodburn," Key Customers: How to manage them profitably" ButterWorth Heinemann (2000)

Power: In key account management relationships, automatically due to certain conditions, one of the parties gets power which may lead to conflicts. In the following circumstances the power rests with the buyer;

Sources of Buyer's power:

- **Size of a buyer** if big, may dictate terms with the seller and exercise power to make terms in their favour.

- **Consolidation:** In an industry when through mergers and acquisitions consolidation takes place, the new entity yields power.
- **Globalisation :** When borders across countries disappear and single big market emerges, players in a globalised world become powerful.
- **Share of total supplier's business:** If share of suppliers business becomes huge, the power rests with the buyer.
- **Commodity markets:** In such markets buyer can easily switch their suppliers for cost effective deals which may weild power in the hands of a buyer.
- **Access to information:** A party which has an access to information becomes powerful as they can leverage market knowledge to their advantage.
- **Higher expectations:** If buyer has high expectations from suppliers they keep suppliers on their toes and become demanding.
- **Competent buyers** who adopt a very formal and professional approach in buying practices deem to be powerful than their counterparts.

Sources of Seller's power: In following situations the supplier wields power.

- **Criticality to buyers:** If the supplier provides a critical product to a buyer then the power rests with the supplier.
- **Capacity to meet demand:** If seller has a capacity to meet fluctuating demand then the power rest with the supplier.
- **Share of purchases:** If a buyer is fully or largely dependent on a single supplier, then the supplier is in a powerful position.
- **Supply shortage:** In situations where the supplier supplies items to a buyer which are in short supply, he enjoys the power.
- **Key differentiation:** The supplier provides items which are differentiated from its competitors and provides a greater value to the buyer.
- **Access to innovation:** The supplier has an access to innovation or has registered patents which is likely to benefit the buyer.
- **Erect barriers to new competitors:** If supplier is able to erect barriers to new competition by reducing prices when new competitor enters or is able to bring innovative products which is difficult for competition to copy, the supplier enjoys a monopoly power.
- **Access to information:** If the supplier proactively scans environment, leverages market information and identifies opportunities for a buyer and has an access to latest market information then he enjoys powerful position.
- **Competent key account managers:** If the supplier has competent key account managers and provides better services to key accounts thereby creating switching barriers for a key account yielding power to a supplier.

Following strategies are employed by a supplier to develop key account management and continue ongoing relationships.

- Supply chain management capabilities: Just in time delivery to help reduce inventory carrying costs of key accounts.
- Supplier rationalisation : Supplier tiering. Consolidation and offering one stop solution to the needs of key accounts.

- Globalisation : Global competence: Track record & reputation
- E-commerce: Online ordering facility and payment mechanism.
- Flexibility:

Implementation of KAM :

Once a supplier and buyer agrees to key account status, supplier is expected to implement KA programme. This may require a coordination if supplies are to be made at multi location of key accounts. For this, the supplier needs to visit local units of key accounts, understand the requirements, draw up a plan to set order-fulfillment cycle. The process requires support from both the organizations.

Elements of successful Implementation/KSF(key success factors)

- Support and Active involvement of top management in KAM
- Companywide knowledge and appreciation of KAM
- A leader who acts as a KAM Champion
- Developing and nurturing an organisational culture that supports KAM
- Individual key account plans
- Two way/interactive process with key customers
- Joint activities with key accounts
- Joint investment with key accounts
- Setting targets and timelines for achievement for key accounts
- Learning from benchmarking practices of other organisations following KAM
- Regular evaluation of the performance of the KAM programme
- Appointing Key Account Managers and impart KAM training
- Developing KAM teams
- Reward schemes for Key Account Managers for motivation
- Adaptable organisational structure to accommodate KAM
- Providing an access to internal resources to Key Account Managers
- IT support for KAM

Benefits:

- Increased share of customer spend
- Faster growth in revenues from key customers compared to that of non-key customers
- Faster decline in costs to serve for key customers than for non-key customers leading to improvements in profit margins
- Bonding/Improvements in relations with key customers
- Improvement in satisfaction ratings with key customers
- Loyalty strength
- Increased advocacy
- Increase in amount of shared investment
- More value from customised services

The other non financial benefits of KAM include:

- Good knowledge about customer requirements
- Fosters innovations
- Customer involvement and acceptance
- Smooth flow of information
- Ease in joint formulation of strategy
- Hassle free implementation and help from clients
- Learning leading to comfort in dealing
- Better customer portfolio management leading to favourable orientation and support of top management

Table- 4 below gives various direct benefits to key customers.

Table-4
Benefits to Key accounts

Direct Benefit to Customers	Description
Customization	Exact fulfilment of customer needs with differentiated products or services.
Consultancy	Counselling customer on aspects like total costs of ownership, supply chain, market opportunities. dedicated and capable key account manager or team is required
Smooth working relations	complex relationships such as supply chain management; dealing quickly with complex, sometimes cross-border issues in a seamless way
Consistency	Harmonization of products, prices, processes across multiple geographies or customer divisions.
Continuity and Trust	Long-term relationships with people, continuity of service and product availability. Secured feeling on the part of customer leading to trust – openness in information sharing - shared performance evaluation. risk-reward sharing.

Managerial skills:

- Integrity- Key account manager should be able to build trust.
- Thorough product/service knowledge
- Good Communication skills
- Thorough understanding buying co.'s business and business environment
- Good negotiating skills

KA manager is responsible to service client, to coordinate with internal departments/across geographical boundaries and to build relationships/across buyers' geographic divisions/departments.

Challenges:

- Organisational issues of key account management: Particularly managing Global key accounts poses lot of challenges to designing a suitable organisation. In order to meet a challenge, a steering committee needs to be formed at Board level, together with a key account team, and functional teams to troubleshoot implementation. Global key account management requires close attention to co-ordination, and sensitivity to the trade-off between global integration and local flexibility.
- Complex processes leading to delays: In order to resolve the complexity in processes, teams on both sides strive to reduce time in operations and improve accuracy and financial performance and simplify the processes.
- Development of key account managers: Key account managers should be trained in enhancing commercial acumen, interpreting business performance, advanced marketing techniques, building business cases and following specific trends in key accounts' business sectors for opportunity identification for growing business.
- Development of key account teams: Clear delineation of authority and responsibility of sales team and key account management team helps reducing internal conflict, improves reporting relationships and helps attaining internal and external coordination.

Key Success factors in Relationship Effectiveness:

In order to build successful relationships among supplier and key accounts, both the parties should strive to build mutual trust, show commitment, cooperate with each other, develop a mechanism for speedy conflict resolution and share information.

Many firms are forming customer teams from sales, marketing, finance, logistics, quality, and other functional groups to manage key accounts bringing expertise in the areas such as pricing, products, services, distribution, and information sharing.

It is frequently stressed that key account managers need special compensation arrangements and skills, which has implications for their selection, training, and career paths.

Based on the characteristics of buyers and of the market environment, such as purchasing centralization, purchasing complexity, demand concentration, and competitive intensity, key account programs are formed.

Organising for implementation of KAM programme:

KAM programs require the definition of reporting lines and formal linkages between departments, the establishment of formal expense budgets, the documentation of

processes, and the development of formal guidelines for how to handle the accounts (Boles, Pilling, and Goodwyn 1994). In essence, the design decision of installing a key account program revolves around the extent to which KAM should be formalized.

Study by (Lynnett 2007) on best key account management practices show, how best-practice companies manage pricing, costs to serve, and customer risk in their key account portfolios. First and foremost effective measurement of the value of the customer to the company is essential. Then forecasting the lifetime value of their customers companies is the next step. Then investment in systems should be followed to help accurately ascribe costs to customers by using activity-based costing. In choosing a pricing strategy, view of the customer should be central rather than pricing purely from a product or project focus. Companies following successful KAM activities are able to offer some degree of price harmonization to customers. Best-practice suppliers develop a range of initiatives to reduce the costs of serving key customers, ranging from the relatively mundane (staff reduction, target cost reduction) to the sophisticated (supply chain redesign, outsourcing customer service) etc.

Eight-stage process used by good practice companies when they implement KAM planning:

1. Identify the KAM team
2. Train on analysis, objectives and strategy setting and developing plans
3. Identify responsibility for production of plan document (usually key account manager)
4. Seek agreement of customer involvement
5. Communicate internally and externally
6. Communicate on outcome of the plan (expectations of results from the plan)

Table-5 below gives contents of key account plan (adapted from Lynnet 2007)

Table-5
Contents of a key account plan

Contents	Description
1. Relationship overview/Executive summary	Current performance analysis, Current initiatives with the key account, Financial targets, Planning assumptions, summary
2. Key account overview	Key account's business environment (sector analysis, competitive situation, major challenges, key account's SWOT analysis), Identify opportunities
3. Objectives and strategy	Set the quantitative objectives with timelines and prioritise
4. Customer alignment	Customer's critical success factors, Supplier relative performance
5. Relationship management	Customer's decision-making unit, Contact mapping (who talks to whom; level of formality in the

	relationship)
6. Implementation plan	Detailed tactics ,Budget, Risks and contingencies

Internal training, good project supervision, benchmarking studies with the competition and commensurate authority with total responsibility are necessary for successful implementation of KAM program.

Relevance to Infrastructure Sector:

Indian infrastructure sector is poised for growth. With the special thrust given by Government to develop physical infrastructure and encouragement of public private partnership has resulted in many infrastructure projects. Most of such projects such as airport development, railways, port development, power generation and transmission have B2B relationships wherein there is a lot of scope to develop key accounts and thereby managing customers. Infrastructure projects have long gestation period, need variety of supplies/material for execution of project. One stop solution would be preferred to simplify the procurement which provides avenue for developing KA relationships for mutual gains.

Conclusion:

With increasing advances in information technology, it may be observed that companies are following key account management practices as it is beneficial to both the parties. Strategic account relationships are very complex. It is very essential to understand the creation and capturing of value in KAM relationships. Understanding value for each key account should enable managers to see where there are opportunities to develop a mutual beneficial approach to the generation and sharing of financial value.

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