# KEY ACCOUNT PLANS

## THE PRACTITIONERS GUIDE TO PROFITABLE PLANNING

Lynette Ryals • Malcolm McDonald

BH

# Key Account Plans

## The practitioners' guide to profitable planning

Lynette Ryals
MA (Oxon), MBA, PhD, FSIP

Malcolm McDonald
MA (Oxon), MSc, PhD, DLitt, FCIM, FRSA

ELSEVIER

Amsterdam • Boston • Heidelberg • London • New York • Oxford
Paris • San Diego • San Francisco • Singapore • Sydney • Tokyo
Butterworth-Heinemann is an imprint of Elsevier

Butterworth-Heinemann is an imprint of Elsevier
Linacre House, Jordan Hill, Oxford OX2 8DP, UK
30 Corporate Drive, Suite 400, Burlington, MA 01803, USA

First edition 2008



**British Library Cataloguing in Publication Data**
A catalogue record for this book is available from the British Library

**Library of Congress Cataloging in Publication Data**
A catalog record for this book is available from the Library of Congress

ISBN: 978-0-7506-8367-8

For information on all Butterworth-Heinemann publications
visit our web site at books.elsevier.com

Typeset by Charon Tec Ltd (A Macmillan Company), Chennai, India
www.charontec.com

Printed and bound in Slovenia

08 09 10 11 10 9 8 7 6 5 4 3 2 1

# Contents

*This page intentionally left blank*

# Acknowledgements

This book is based on our experience in researching and teaching key account planning for a number of years. We owe a debt of gratitude to all the key account managers and leading companies that have shown an interest in our work and invited us to help them plan. In particular, our thanks go to the companies who are members of the Cranfield Key Account Management Best Practice Research Club and who have sponsored much of the research on which this book is based. We are also grateful to the enthusiasm and determination of the hundreds of key account managers who have attended our courses in key account planning at Cranfield and elsewhere.

Many people have been kind enough to contribute directly to this book. First, there are the companies that have provided case examples that we refer to. Some of them have asked not to be named for reasons of commercial sensitivity, but our thanks to them all. We would also like to mention the colleagues at Cranfield School of Management who have commented directly on portions of the manuscript; in particular, Dr Ruth Bender and Keith Parker, who assisted with the chapter relating to customer profitability analysis. We would also like to mention the support provided by Lindsay Bruce, Dr Iain Davies, Dr Sue Holt, Lynne Hudston, Peter Mouncey, Beth Rogers (now of Portsmouth Business School), and Diana Woodburn. All of them have contributed to our research into KAM.

On a personal note, we would like to thank Tim Goodfellow of Elsevier for the energy and enthusiasm to get this book under way, and for the effective and persistent chivvying that encouraged us to complete it. Our families, Joy, Roy, and Vincent Ryals, and Margaret McDonald, have been a great source of support. We are grateful to Anna McDonald for typing half the chapters and co-ordinating the first complete draft of the manuscript.

Professor Lynette Ryals
Professor Malcolm McDonald
September 2007

*This page intentionally left blank*

# Introduction

Key accounts are business-to-business customers that are of strategic importance to the supplier, and key account management (KAM) is an integrated process for managing these relationships profitably. Fuelled by the globalization of world markets and the unprecedented level of merger and acquisition activity that stock markets worldwide have witnessed in recent years, KAM has become a topic of major importance for suppliers in their dealings with these larger and larger customers.

Sadly, all too many KAM programmes come unstuck, leaving customers disappointed and suppliers out of pocket. Years of research and teaching in KAM have indicated to us that the main reason why KAM programmes fail is because there are no key account plans.

The key account plan is an essential part of world-class KAM. It is a strategic plan for an individual relationship with a specific key account. The plan sets out how the supplier intends to manage the relationship and is supported by a wealth of detail about the customer's markets, business, competitive position, and end markets. The plan also contains details of the strategies and approach that the supplier will use, as well as the team of people that will be involved in managing the relationship. Although this is a strategic plan, it should be accompanied by a detailed action plan showing how the key account plan will be implemented over the coming months.

Our aim with this book is to promote good practice in key account management. KAM is recognized as one of the most important developments in business-to-business markets to emerge in the past decade. Yet, too many organizations are paying lip service to KAM and too many key account managers are unsure how to develop the key account plans that are essential if they are to implement KAM successfully.

## About this book and who it is for

This book is for practising key account managers, for senior sales people, and for key account directors and commercial directors who manage KAM teams. The information it contains is also hugely relevant to major account managers who manage major (although not key) accounts, and to sales people who are involved in complex selling and relationship management.

The book is in two main sections. The first section (Chapters 1–8) is about how to develop world-class key account plans that will support and develop your company's most important relationship. This section provides detailed guidelines and a wealth of tools and techniques for analysing the customer and for developing powerful and effective customer management strategies. It is intended for practising key account managers but will also be of use to major account managers and to sales people who manage customer relationships.

The second section of the book (Chapters 9–13) deals with all the other issues that suppliers need to address to deliver world-class KAM. This includes information about organizing for KAM, KAM performance measurement, the key customer perspective, and the role and skills of a KAM manager and KAM team. This section is for experienced key account managers who want to further develop their understanding of the process; it is also for key account directors, sales directors, and commercial directors who are looking to implement KAM within their organizations or who want to improve an existing KAM programme.

The final chapter in this book (Chapter 14) sets out a step-by-step system for preparing a strategic plan for a key account. Effectively, this chapter provides all of the main frameworks and templates that a key account manager needs for the development of a key account plan. Checklists and reference notes are also provided, together with some worked examples. In addition, there is detailed hands-on information about how to prepare a 1-year action plan. This chapter draws together the most important tools and techniques described throughout the book into one convenient chapter.

## ■ How to use this book

Key Account Plans is intended as a guide for practitioners, for the people at the sharp end of customer management. It contains many tools and techniques plus a wealth of pro-formas and worksheets to show how the tools should be implemented. This is not a book to be kept in mint condition on your shelves. We hope that you will keep it on your desk and write on it as you go. Please feel free to adapt the tools and to annotate; we would love to hear from you about how you use the planning tools we have set out here, in your own company.

Good luck with your key account plans!

SECTION 1

# The Plan

CHAPTER 1

# Why you will lose your best key accounts if you don’t prepare a strategic plan for them

*This page intentionally left blank*

## Summary

Chapter 1 explains the need for preparing strategic plans for key accounts and positions it firmly within the broader domain of corporate planning and marketing planning. We strongly recommend that those who have bought this book read this chapter carefully.

## The need for strategic plans for key accounts

Managing powerful customers profitably is perhaps the biggest issue facing suppliers today as markets, particularly in Western Europe and America, mature and as inexpensive versions of goods which were hitherto only supplied by the West flood into their markets from lower cost countries such as China. One major response from most organizations is to put pressure on their suppliers because, as can be seen from Figure 1.1, the easiest and quickest way to increase margins which are under pressure is to cut the price paid for external goods and services.

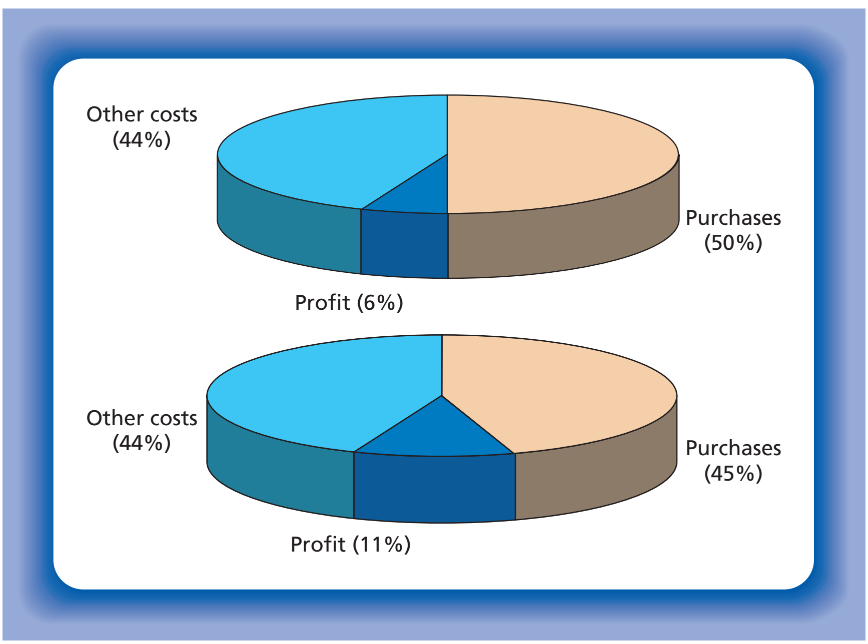


**Figure 1.1** Double your money: cut spending on purchases (Purchasing: adding value to your purchasing through effective supply management' Institute of Directors, September 2003).

The problem with this approach, however, is that price cutting is finite (how many pence can be cut from a pound, cents from a euro or a dollar, etc.), whereas value creation is infinite and is limited only by our creativity and imagination.

So increasingly, purchasing directors are beginning to take account of the potential benefits of fostering a small number of truly strategic relationships with a privileged group of suppliers. Such relationships, however, are few and far between, because no organization has the time or the resources to align their R & D, purchasing, manufacturing, logistics, information technology (IT), finance, service, and other functions with the equivalent functions in their customers' businesses in anything other than a few, special cases.

When it happens, however, our research at Cranfield has shown that such relationships are the wellspring of profitability for both parties and totally justify the effort.

Key account management (KAM), then, is without doubt the major challenge facing business today and is fraught with difficulties in conceiving, planning, and implementing it, involving, as it does, organizational change.

With over 10 years experience of researching buyer/seller global best practice at Cranfield, we know what are the requirements for successful KAM. Without doubt, one of the biggest barriers is the type of people who are asked to implement KAM programmes, for KAM is as different from selling and sales management as chalk is from cheese. Our experience over the years has shown us that key account managers must be experienced senior executives, fully trained in analytical techniques, financial analysis, strategic planning, political and interpersonal skills, and indeed, the very skills required by a successful general manager or chief executive officer.

The point we are making is that it is most definitely not a *sales* role and people who are trained to sell and who are rewarded accordingly rarely make good key account managers.

The purpose of this book is to set out in a no-nonsense way what a top-notch key account manager needs to know and do in order to build profitable relationships with powerful customers. This inevitably means spending time on analysing the customers' businesses and DNA prior to producing a strategic plan guaranteed to build profitable relationships for both parties. It will focus on putting together *strategic* plans for key accounts prior to implementing the first year's plan, for, as John Perton of Boston College said "The good thing about not having a strategy is that failure comes as a complete surprise and is not preceded by a long period of worry and depression". It is amazing to us how many major accounts are lost because the supplying company has little more than sales forecasts and budgets for 1 year only and how surprised they are when they are dropped in favour of another supplier who has taken the trouble to work out a longer term strategy for working together.

## ■ We are not talking about forecasts and budgets

Don't be fooled into thinking those words from John Perton about lack of strategy and failure represents just an academic trying to score points by

**Table 1.1** Britain's top companies (Management Today)

| Year | Company[1] | Market Value[2] (£m) | ROI[3] | Subsequent performance |
|---|---|---|---|---|
| 1979 | MFI | 57 | 50 | Collapsed |
| 1980 | Lasmo | 134 | 97 | Still profitable |
| 1981 | Bejam | 79 | 34 | Acquired |
| 1982 | Racal | 940 | 36 | Still profitable |
| 1983 | Polly Peck | 128 | 79 | Collapsed |
| 1984 | Atlantic Computers | 151 | 36 | Collapsed |
| 1985 | BSR | 197 | 32 | Still profitable |
| 1986 | Jaguar | 819 | 60 | Acquired |
| 1987 | Amstrad | 987 | 89 | Still profitable |
| 1988 | Body Shop | 225 | 89 | Still profitable |
| 1989 | Blue Arrow | 653 | 135 | Collapsed |

1. Where a company has been top for more than 1 year, the next best company has been chosen in the subsequent year, e.g. Poly Peck was rated top in 1983, 1984, and 1985
2. Market values as of 31 December of each year
3. Pre-tax profits as a percent of investment capital
*Source*: From Professor Peter Doyle, Warwick University

being clever, as hundreds of companies all over the world have found out to their cost. Indeed, up to 1990, every UK company with the highest return on investment either went bankrupt or got into serious trouble. Neither did the best performing companies in sectors up to 2000 fare much better, with the likes of Marks & Spencer, ICI, GEC, and others either going out of business or systematically destroying shareholder funds (for evidence, see Tables 1.1 and 1.2). Some of these companies have since recovered, such as M&S, BT, and BA. Some have been acquired and are now profitable, but the lessons to be learned in the historical context of those decades are still highly relevant for companies enjoying high growth in the 21st century.

Before going into further detail about the paramount importance of having a strategic plan for key accounts covering a period of up to 3 years, however, let us dismiss once and for all the mind-bogglingly puerile belief that all the directors and senior managers need to do is to write down some numbers that these become targets and eventually, budgets.

Apart from the fact that Mickey Mouse or Donald Duck could do this without any training, it only ever works in growth markets with little competition. For example, research into the banking sector in the UK threw up the following interesting observation:

> In Company X, value creation was merely a matter of protecting market share and managing costs.

**Table 1.2** Britain's top companies

| Year | Company[1] | Market Value[2] (£bn) | ROI[3] | Subsequent performance |
|---|---|---|---|---|
| 1990 | Maxwell Communications Plc | 1.0 | 5 | Collapsed |
| 1991 | Imperial Chemical Industries Plc | 8.6 | 13 | Collapsed |
| 1992 | Wellcome Plc | 8.3 | 40 | Acquired |
| 1993 | ASDA Group | 1.6 | 7 | Acquired |
| 1994 | TSB Group Plc | 3.7 | 20 | Acquired |
| 1995 | British Telecommunications Plc | 22.2 | 17 | Not Profitable |
| 1996 | British Steel Plc | 3.3 | 19 | Collapsed |
| 1997 | British Airways Plc | 6.1 | 7 | Not Profitable |
| 1998 | National Westminster Bank Plc | 19.6 | 14 | Acquired |
| 1999 | Marconi Plc | 29.8 | 22 | Acquired |
| 2000 | Marks & Spencer Plc | 5.3 | 7 | Not Profitable |

1. Each company was a FTSE 100 when selected
2. Market Values as of 31 December of each year
3. Pre-tax profit as a percent of Equity & Long Term Debt
*Source*: From Professor Malcolm McDonald

> The data show that the company X business model is in effect a "money printing" machine, therefore the challenge for strategists lies in how they can act as responsible stewards of a resilient business model.
>
> Cranfield Doctoral Thesis (2005)

There are, however, always consequences of such behaviour. It is interesting to note that, of Tom Peters' original 43 so-called excellent companies in 1982, very few survived because of a fixation with excellent tactics at the expense of strategy (Pascale, R.T. (1990). *Managing on the Edge*, Simon and Schuster).

Take, for example, the hypothetical example of InterTech given in Figures 1.2 and 1.3. (Based on a real example, but disguised for reasons of confidentiality). Figure 1.2 shows the kind of information typically discussed at board meetings, most of which are based on forecasts and budgets.

A glance at Figure 1.3, however, shows that on every market-based dimension, the company is losing ground dramatically and is likely to suffer serious consequences the moment the market stops growing.

Here are some recent quotes from well-known sources:

> Improvements in a short-term financial measure such as economic profit can be achieved through postponing capital investments, reducing marketing and training expenditures, or by divesting assets, each of which may have a positive effect on near-term performance but could adversely affect long-term value creation performance. Nevertheless, when incentivized with bonuses to 'manage for the measure' this is exactly what many managers will do irrespective of the consequences on shareholder value.
>
> (Simon Court (2002) "Why Value Based Management Goes Wrong", *Market Leader*).

| Performance (£ million) | Base year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Sales revenue | £254 | £293 | £318 | £387 | £431 | £454 |
| – Cost of goods sold | 135 | 152 | 167 | 201 | 224 | 236 |
| Gross contribution | £119 | £141 | £151 | £186 | £207 | £218 |
| – Manufacturing overhead | 48 | 58 | 63 | 82 | 90 | 95 |
| – Marketing and Sales | 18 | 23 | 24 | 26 | 27 | 28 |
| – Research and Development | 22 | 23 | 23 | 25 | 24 | 24 |
| Net profit | £16 | £22 | £26 | £37 | £50 | £55 |
| Return on sales (%) | 6.3% | 7.5% | 8.2% | 9.6% | 11.6% | 12.1% |
| Assets | £141 | £162 | £167 | £194 | £205 | £206 |
| Assets (% of sales) | 56% | 55% | 53% | 50% | 48% | 45% |
| Return on assets (%) | 11.3% | 13.5% | 15.6% | 19.1% | 24.4% | 26.7% |

**Figure 1.2**
InterTech's 5 year performance.

| Performance (£ million) | Base year (%) | 1 (%) | 2 (%) | 3 (%) | 4 (%) | 5 (%) |
|---|---|---|---|---|---|---|
| Market growth | 18.3 | 23.4 | 17.6 | 34.4 | 24.0 | 17.9 |
| InterTech sales growth (%) | 12.8 | 17.4 | 11.2 | 27.1 | 16.5 | 10.9 |
| Market share (%) | 20.3 | 19.1 | 18.4 | 17.1 | 16.3 | 14.9 |
| Customer retention (%) | 88.2 | 87.1 | 85.0 | 82.2 | 80.9 | 80.0 |
| New customers (%) | 11.7 | 12.9 | 14.9 | 24.1 | 22.5 | 29.2 |
| % Dissatisfied customers | 13.6 | 14.3 | 16.1 | 17.3 | 18.9 | 19.6 |
| Relative product quality | +10 | +8 | +5 | +3 | +1 | 0 |
| Relative service quality | +0 | +0 | −20 | −3 | −5 | −8 |
| Relative new product sales | +8 | +8 | +7 | +5 | +1 | −4 |

**Figure 1.3**
InterTech's 5 year market-based performance.

- Ninety per cent of US and European firms think that budgets are cumbersome and unreliable, providing neither predictability nor control.
- They are backward-looking and inflexible. Instead of focussing managers' time on the customers, the real source of income, they focus their attention on satisfying the boss, that is, the budget becomes the purpose.

- Cheating is endemic in all budget regimes. The result is fear, inefficiency, sub-optimization, and waste.
- In companies like Enron, the pressure to make the numbers was so great that managers didn't just doctor a few numbers, they *broke the law*.
- People with targets and jobs dependent on meeting them will probably meet the targets, even if they have to destroy the enterprise to do it (Simon Caulkin (January, 2005). "Escape from the Budget Straightjacket", *Management Today*, pp. 47–49).

Finally, on budgets, a major bank has been criticized for its contribution to personal debt of £1 trillion in the UK.

Employees are set tough targets for selling loans and double their low salaries, which encourages customer abuse and leaves many borrowers facing ruin.

Banks are no longer there to help customers find the most suitable solution.

> "We have a target-driven culture that staff must hit targets"
> (A major bank, 10 May 2005).

Consider also the often puerile and backward-looking process by which quantitative objectives are set.

Take the following hypothetical example, shown in Figure 1.4.

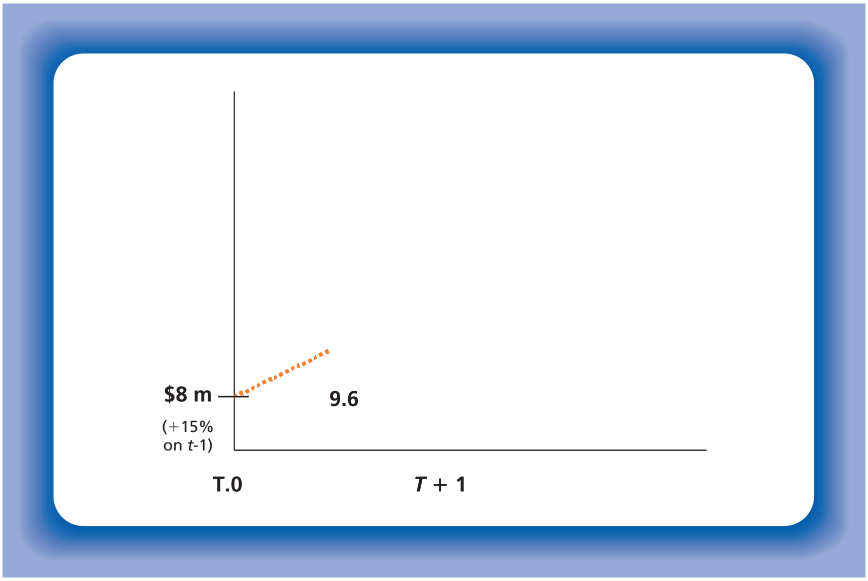


**Figure 1.4** How not to set targets

From Figure 1.4, it can be seen that in the current year, this company achieved a 15% increase in sales revenue over the previous year. But, being optimistic, the chief marketing officer set a so-called stretch target of plus 20% for next year, giving a target of 9.6 million which, if achieved, would satisfy the budget holder.

However, consider for a moment a different and more professional way of setting an objective for next year. If the market addressed was a growing market, a strategic objective might be "to be market leader in three years time". In order to achieve such an objective, the chief marketing officer would need an assessment of market size in 3 years time – say 100 million. Market leadership in this particular market would be, say, 25%. So, representing this in Figure 1.5 and extrapolating *backwards* from this target would give a target of 15 million next year, not the backward-looking historical target of 20% (9.6 million).

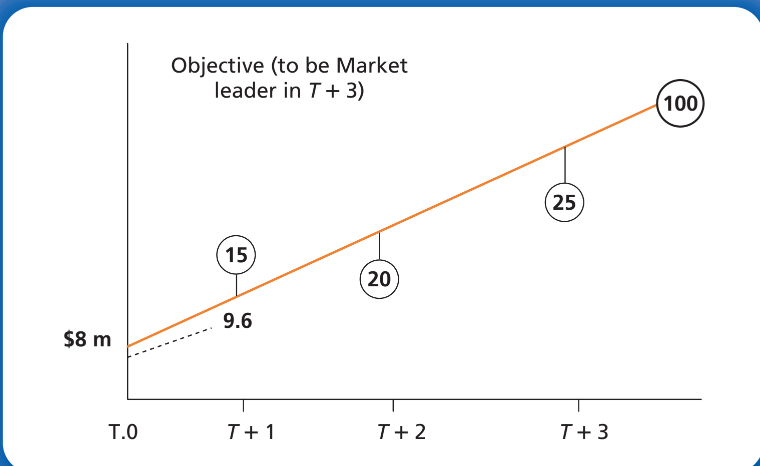


**Figure 1.5**
Using corporate objectives to set sales targets

Every single element of this company's resources including R&D, HR, IT, etc. would be totally different if the current budget had been 15 million as opposed to the backward-looking 9.6 million. Consider also where, in a typical tactically orientated company, the 8 million on which the original forecast was based came from. The answer, of course, is the company's own database.

Yet it has been consistently shown over the past 50 years that sales people sell the products they find easiest to sell, often at the maximum discount, to the customers who treat them nicest. Such sales go into the database, of course.

Consider also the kind of knee-jerk, macho management-by-objective targets that are often set by senior managers without considering the unintended consequences. A classic example of this is the desire to cut costs by reducing working capital, such as inventory. If the logistics manager is paid a bonus to make such reductions, then these reductions will be made. So the poor unfortunate customer asking for 100 widgets and 200 didgets, on being told they can only have 50 of each, decides to go to a more accommodating supplier. The consequence of the lost sale is lost in the system, because the logistics manager has achieved the objectives set and so has the finance director. But the database on which the next year's forecast