1 Why manage accounts strategically?

If you are not already managing accounts strategically, you have just one question: Why bother?

Researching for this book involved interviewing several global company executives. Unsurprisingly, industry change was the primary trigger for companies to implement Strategic Account Management (SAM). Industry change that meant customers were buying differently and competitors were competing differently.

The surprise was that every company except one insisted their name be kept secret. Their case study could be presented, but not who the company was. They didn't want their SAM success shared with their competitors. So, for these global companies, SAM is an important competitive advantage. A competitive advantage that creates barriers to entry against competitors and barriers to exit for strategic accounts. A secret to their success that is not easily copied. The first case study, Cisco, follows this chapter and shows a sophisticated and mature Strategic Account Management system.

Knowing SAM is a competitive advantage to some companies is interesting. However, the key question for you is, can SAM help my business compete and deliver better results? So to help you decide if SAM can help you, the first part of the book explores the changes that mean Strategic Account Management is becoming critical. Examining the symptoms of change, the drivers of change, the barriers to change and the benefits of change.

Symptoms of change

In a recent report about how business can survive and thrive in turbulent times, the Economist Intelligence Unit identified the top four leading business challenges as:

1. Pressure to drive down operating costs
2. Price competition
3. Rising customer demands
4. Commoditisation of products

These challenges were identified in a survey of 349 executives around the world. Respondents worked in organisations with revenues in the range US$500 million or less to more than US$10 billion. For large and mid-size organisations, the biggest challenge is price competition; for mid-size organisations, the biggest challenge is to reduce costs.

> When the rate of change in the marketplace exceeds the rate of change in your business, the end is in sight.
>
> *Jack Welch*

In Asia and around the world, across industries—financial services, pharmaceutical, medical products and manufacturing—these same challenges exist for your customers and your customer's customers.

The four leading business challenges are simply symptoms of change. These symptoms are the results of drivers of change and the consequences of barriers to change. Before examining the drivers of change and barriers to change, there is one more finding from the survey to highlight.

The Economist intelligence unit survey also asked: What are your organisation's leading business priorities over the next three years?

1. Creating superior customer value
2. Retaining high—value customers
3. Accelerating innovation in new products, services and/or sales channels
4. Streamlining, automating and standardising business processes

So, businesses must focus on these four priorities while managing the four leading business challenges. Some businesses simply focus on driving down costs and reducing their prices. Yet, as they continually reduce costs and reduce prices, there is less margin to invest in: creating superior customer value, retaining high-value customers, accelerating innovation and streamlining business processes. This is what some have called the 'Doom Loop': less margin means less to invest which means falling sales which means less margin.

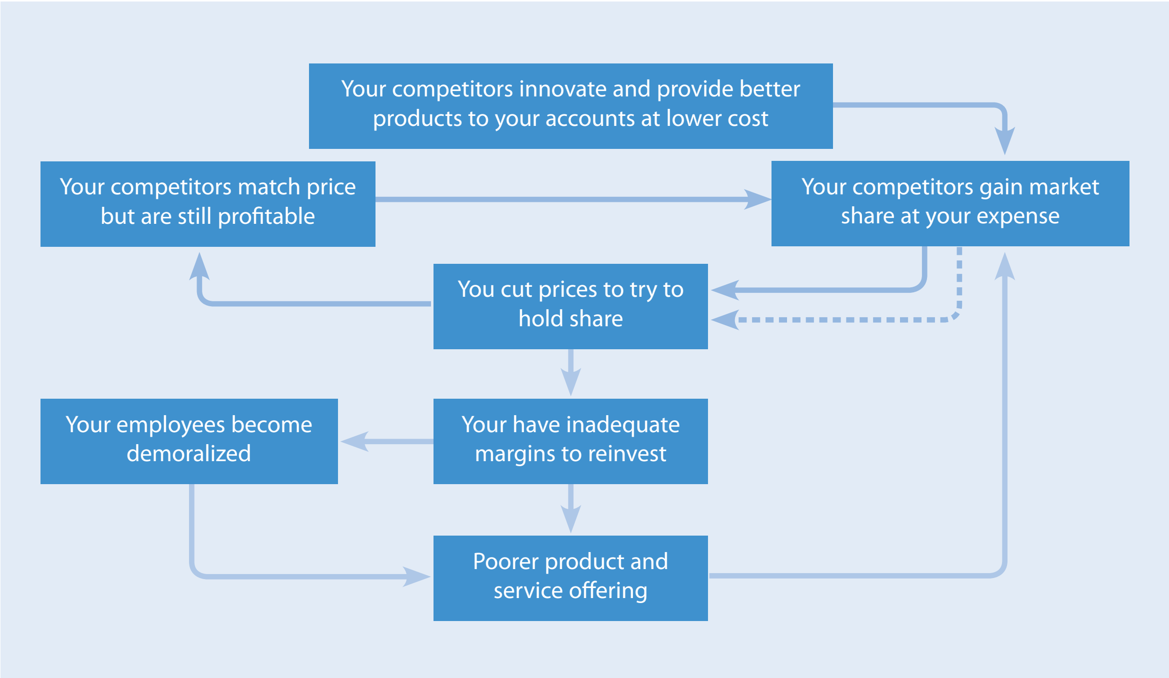


Figure 2: The Doom Loop

Source: *The Financial Times: Guide To Strategy* by Richard Koch (Adapted)

There is a better alternative to just competing on lower costs and lower prices and the risks of the doom loop. But first, examine the drivers of change. These drivers of change keep continually increasing the challenges. So, for sustained profits and growth it is critical to meet these challenges with something more than reducing costs and reducing prices.

Drivers of change

The three main drivers of change are:

1. changes in markets
2. changes in competitors
3. changes in technology

When a market or a part of the market consolidates it means fewer customers, fewer suppliers and fewer distributors. This concentration increases the market power of customers because there are fewer, larger customers. Similarly, this concentration reduces the number of distributors, meaning you have less choice and your distributors have more power. Fewer, larger customers means they can wield more power in the market. All four of the leading business challenges are consequences of increasing customer power from a smaller number of large customers.

If you believe that your organisation is immune from these changes in customers, then try this simple exercise. What percentage of last year's revenue was generated by your top ten customers? Compare this with the percentage of revenue five years ago that was generated by your top ten customers.

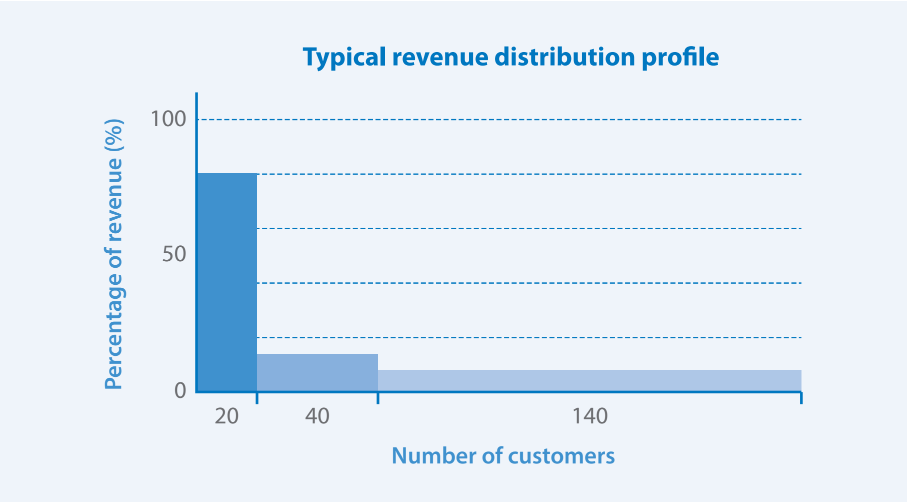
What percentage of your revenue came from your top 10 customers?	
Last Year	Five Years Ago

Over the last ten years, this exercise has been completed with many customers. For example: in one manufacturing organisation, five customers generated 95% of their revenue and another 400 customers generated 5% of their revenue; in another company, five customers generated 65% of their revenue. Many executives admitted they were unaware that so few customers generated so much revenue.

How can so many executives be unaware of how concentrated their revenue is in so few customers? The answer is: this has been a gradual change over decades rather than a sudden jump between financial years. If one of their top customers left, many executives are unaware of the scale of the impact to their profits (most often it is not a possibility they want to contemplate).

Another common change in some markets is how much 'share of wallet' companies have of their top accounts' business. In some categories, to leverage economies of scale and secure price reductions, buyers have consolidated their spend. Many successful suppliers discover they have 100% of many of their top accounts' business. This means there is little room for growth with these accounts. Instead there is enormous downside risk if they lose any of these accounts because the business they currently have with them is so significant.

The chart below is a typical representation of the revenue profile of a B2B organisation. In this example, 80% of revenue comes from 20 accounts, and the other 20% from another 180 accounts. Often companies try to service all 200 accounts the same. Instead they must focus their resources on those accounts that represent the greatest risk and will generate the greatest profit growth.



When markets consolidate, there are fewer customers and larger customers. However, there is another result from this driver of change. Competition increases for two reasons. First, as a market consolidates this creates fewer and larger competitors, which obviously increases the competitiveness of the marketplace. Second, as markets consolidate, parts of the large market fragment. Fragmenting markets produce new but small, agile companies who will aggressively compete for some parts of the customer's business.

For example, in professional services, in accounting there is the big four: Ernst and Young (EY), PwC, Deloitte and KPMG. Yet, members of a specialist tax practice in one of the big four could leave and set up a small business to compete with their former employer. In legal services in Australia, there are similar examples with Mallesons and Freehills getting larger by merger. Yet regularly, groups of partners leave to go to smaller law firms.

In another sector, large pharmaceutical companies are losing staff to smaller generic companies. While medicines are on patent, large pharmaceutical companies have a competitive advantage. So, their large stocks of people, offices and intellectual property support their competitive advantage. But, when medicines come off patent, generic medicines are produced by small companies with less people, less offices and less intellectual property. So the large companies face more small agile and more aggressive competitors.

> One of the true tests of leadership is the ability to recognise a problem before it becomes an emergency.
>
> *Arnold H. Glasgow*

These changes to competitors are all driving the four leading business challenges: Pressure to drive down operating costs and price competition and commoditisation of products because of strong competitors. Also, these changes drive rising customer demands because your competitors will meet their demands if you will not.

The final driver of change is technology. The information revolution continues. Computing power doubles every five years. The Internet continues to grow, connecting people around the globe. Every day, customers and competitors are sharing information faster.

Technology also creates new competitors. US aircraft manufacturers can have designs completed in Russia by high-quality aircraft engineers at much lower costs. Organisations can pass work around the world to low-cost suppliers. Organisations can work on projects for every one of the 24 hours in a day, shortening lead times dramatically.

These changes in technology magnify three of the four leading business challenges. Sharing information faster and easier increases the pressure to drive down operating costs, increases price competition and commoditisation of products.

It is true that technology also offers some opportunities to support leading business opportunities. For example, sharing information helps collaborate on ideas faster to accelerate innovation in new products, services or sales channels. Sharing information also offers opportunities for streamlining, automating and standardising business processes.

Yet, the intensity of competition ensures that technology has a bigger impact on business challenges than business opportunities. Technology increases business challenges because organisations are slow to change their internal processes, but fast to change their external processes to get more business. So, your competitors will use technology to more aggressively compete for your customers.

Barriers to change

> Most people have a bias towards the status quo, so when faced with a destructive opportunity or threat, they see it as a virus they want to kill.
>
> *J Stewart Black & Hal Gregerson,* Leading Strategic Change: Breaking Through the Brain Barrier

A fundamental barrier to change is most people don't like change; they tend to stick with what they know and stick with what worked before. However, change is happening: like it or not.

A second barrier is in mature markets; organisations can only grow by winning share from competitors. Mature markets are not themselves barriers to change, but they drive behaviour which is a barrier to change. Because companies and industries have been successful over many years, they believe that this will be repeated in the future. There is no incentive to make major changes and there is often high personal risk. So, people and companies focus on incremental and low-risk improvements only.

A third barrier is depending only on price to compete. Many organisations rely on price to compete and continually reduce their prices. Reducing prices will reduce margins, so they struggle to innovate and add value to their customers. This is a vicious cycle that encourages them to lower prices further to win more business. So, competing only on price is unsustainable, and a barrier to change.

Relying on price to sell often means organisations stop investing the time to understand what adds value to customers. As they become more dependent on selling on price, the organisation tells itself the customer does not value anything except price. They don't test if this assumption is true for fear of losing business. So they stop trying to understand how to add value to customers. Often not understanding how to add value to customers leads to another problem: the organisation incurs costs and delivers no value to the customer. These unnecessary costs reduce margins and lead to increased pressure on price.

The final barrier to change is the pressure for short term results: pressure to produce revenue or profit, this day, this week, this month or this quarter.

In a $2 Billion revenue organisation, a CEO has phoned salespeople asking about this week's orders against budget. Faced with a choice between trying to get an order this week or trying to invest time in delivering 200 orders next financial year, they always choose the short term and chased this week's order. The tragedy is that by chasing this week's order, the salesperson ensures that in a year's time, the situation will be no better. It will probably be worse because of increased competition. (The senior management below the CEO wanted their people to be more strategic, but could not understand what was stopping their staff being more strategic.)

This continuous pressure for short-term results drives out strategic behaviour. Strategic behaviour is behaviour that will produce results beyond this financial year and will strengthen the organisation's competitive position. Whilst understanding the need to produce short-term results, you need a balance between action for short-term results and strategic action for long-term results. Compared with their Asian and U.S. neighbours, corporations in Australia and New Zealand are some of the most risk averse. This risk aversion leads to less reinvestment in growth strategies, and adopting a defensive rather than offensive mindset.

To consider your organisation's behaviour, take a moment to identify where your organisation is on this scale.

1. Where is your organisation on the scale O to S?

O		S
Only short term results	Both short term and long term results	Only long term results
(Operational)	(Balanced)	(Strategic)

2. To be successful beyond this financial year, where does your organisation need to be on the scale?
3. How can you close the gap or organise your team so that some people are being strategic and some being operational?

In summary, the barriers to change are:

1. People don't like change
2. In mature markets, organisations can only grow by winning share
3. Relying only on price to sell
4. Pressure for short-term results

Benefits of change

You have examined the symptoms of change, the drivers of change and the barriers to change. Obviously, recognising and addressing the challenges is essential to deal with change. So change will continue to make it harder to sustainably deliver good results unless you can continually adapt.

Managing accounts strategically is a proven way to systematically monitor changes in your customers and competitors and make strategic choices for the future. Companies across industry sectors: pharmaceutical, medical products, financial services and manufacturing have successfully applied the SAM framework to drive relentless positive change in their business. And the Strategic Account Management Association agrees. In their 2012 Executive Briefing paper, Getting It Right With Key Accounts, they say SAM will deliver "good results in tough times".

The SAMA Executive Briefing Paper includes some colourful quotes showing how customers want a more strategic approach:

> I tell them, 'We need to improve our margin';
> They hear, 'I want a discount'. These guys just don't get it!
>
> *Senior Buyer, US Global Retail Group*

So what are the benefits of working more strategically? The table below summarises the benefits.

The benefits of managing accounts strategically		
1	Improving your customers' business results	Creating superior customer value: helping your best customers respond to change and build better business results Working closely with your best customers to accelerate innovation in new products, services and/or sales channels.
2	Improving your competitive advantage	Competing on more than just price Reducing product commoditisation Reducing the risk of losing your most important customers; retaining high value customers
3	Improving your business results	Growing business with your most important customers Reducing costs by eliminating the costs your most important customers don't value Reducing costs by working with your best customers: streamlining, automating and standardising business processes

You might be puzzled that one of the benefits of managing accounts strategically is to improve your customers' business results. However, this is one of the fundamental insights that can transform a business relationship. Adding value to your customers' business can be done not only from products and services, but beyond products and services. So, don't focus on your products and services; focus on your customers' business results: bringing ideas and actions to improve customers' business results, specifically where these ideas and actions do NOT involve products and services. This also enables your customers to see how your products and services fit into a broader strategic context.

Not mentioning your products and services to executives may seem counter-intuitive. However, this approach can transform relationships between organisations. If customer executives realise you are serious about trying to find ways of improving their business results (not involving selling more products), they will recognise the value you can bring and will treat you differently. They will treat you differently to a supplier who talks to executives just to try and sell more products.

> Too many people think only of their own profit. But business opportunity seldom knocks on the door of self-centered people.
>
> No customer ever goes to a store merely to please the storekeeper.
>
> *Kazuo Inamori*

The conversations with your customer's executives will be truly strategic exploring ideas that will have an impact beyond this financial year. They will treat you differently to a supplier who talks to executives just to try and sell more products. All of this begins with being interested in delivering better business results for them!

So, become interested in delivering better results for your best customers. You will discover many ways to improve their business results that do not include reducing the price of your products and services; they are 'buying' a relationship with your organisation. This is covered in more detail later. In brief, every department in your organisation—finance, HR, operations, legal and sales—potentially has ideas, contacts and information to improve the business results of your customers independently of your products and services.

> You are not a preferred supplier, you are a partner.
>
> What is the difference?
>
> Oh, we just take the product rebates from preferred suppliers; you give us ideas to grow our business!
>
> *Chief Operations Officer, Global Company*

As you find more ways to increase business results of your best customers beyond your products and services, you will improve your competitive advantage. The customer is now 'buying' more than your products. So the more you improve their business results, the less price competition you will see and the less commoditisation of your products you will see.

Once you are delivering better business results for your customer, beyond your products and services, you will start to improve your business results. The most obvious benefit will be increasing sales. Because the customer wants to reward you for bringing them better business results and because they see you as a strategic supplier who can help them improve their business results. More strategic discussions will also allow you to identify opportunities to reduce your costs and your customer's costs by working together differently.

In summary, if you help deliver better results for your customer, then you will improve your competitive advantage and improve your business results. Managing accounts strategically will help you manage your business challenges and help you deliver your business priorities; managing accounts strategically will deliver you growth in revenue and growth in profits.

So what are you waiting for? The journey is not easy and the journey is not quick, but this book will give you practical tools and insights to help you.

Below is a summary of the chapters ahead and the focus of each:

Section		Chapter		Focus
A	**Why bother managing accounts strategically?**	Case study: Cisco		Global growth using best practice
B	**What are the operational Foundations of Strategic Account Management?**	2	Treating strategic accounts differently	Why you must segment accounts How to segment and select strategic accounts What different accounts types value
		3	Implementing Strategic Account Management (SAM)	How to start SAM Account Planning Competitors and influencers in Account Planning
		4	Implementing SAM: practical tips and common mistakes	What can go wrong? What needs to change? Managing people, processes, rewards and incentives
		Case study: PharmaCo		Leadership is essential for SAM success
		5	Understanding the role of the Account Manager	What should account managers do? How do I select a good account manager? Why Account Managers need to think like a CEO
		6	Monitoring Strategic Account Relationships	Tools for monitoring strategic relationships: • Internal Account Reviews • Executive Interviews • Strategic Account audits

Section		Chapter		Focus
C	**What are the Strategic Foundations of SAM?**	7	Improving your customers' business results	Apart from using your products and services, how can you improve your customer's business results? Total value proposition = Added Value + Strategic Value Creating joint value through partnerships
		8	Influencing organisations: use buying styles	How to identify and influence different buying styles Why selling to a decision maker is wrong
		Case study: Medico		Changes in buying process
		9	Creating value: solve your strategic accounts' impossible problems	Why bother solving your accounts' impossible problems? How can you discover your Strategic Account's impossible problems?
D	**What can you do about Procurement?**	10	Understanding: procurement isn't always the enemy	Procurement: should you avoid them? What changes in Procurement mean for you.
		Case study: SKF Group		Engaging procurement using value
E	**What difference will SAM make to your results?**	11	What should you do now?	Do you need to take action? If you need to take action, where do you start?
		Case study: Varian Medical Systems Australasia		A leadership journey implementing SAM

At the end of each chapter there is a 'rapid recall' section, highlighting the problem, research and evidence related to the problem and recommendations for the future. There is also a series of questions to get you thinking about the relevance of the chapter topic to your business.

Rapid Recall — Why manage accounts strategically?

The problem	The research and evidence	The future
The business environment is constantly changing. These changes in markets, competition and technology are hurting the results of many companies. The priorities for companies are to create superior customer value, retain high-value customers, be more innovative and be more efficient. However, there is immense pressure to drive down operating costs, compete increasingly on price, and respond to rising customer demands. Most companies find it impossible to respond to change and simultaneously pursue strategic priorities. So they end up mainly reacting to change.	The top accounts of most B2B companies represent around 60–80% of revenue and profit. An Accenture study shows that 78% of executives voted as very important: "developing collaborative relationships in supply chain planning and execution operations with your trading partners". This is an increase from 54% in the last four years. Most companies are not equipped to deeply understand their top customers' strategic issues or build joint value-creating relationships.	To pursue strategic priorities, companies must generate adequate financial returns to fund reinvestment. If your top accounts represent most of your revenue and profit, then maintaining and growing profits must start with your top accounts. To retain and grow profits with your top accounts your company must change. It must change to create more value for top accounts by helping improve their business results. You must differentiate through value not price and create barriers against competitors who will sell on price.

EXERCISE: In the table, tick the drivers of SAM in your organisation. Are there enough drivers to compel you to act?

The table on the next page highlights many drivers of why companies need SAM. Change drivers can be internal or external, and be positive or negative drivers. Typically, a combination of drivers compels companies to change how they manage their strategic customers.

	Internal	External
Positive	☐ Desire for growth ☐ Capitalise on broad offerings ☐ Central view of strategic customers ☐ Create competitive differentiation	☐ Customer demand for strategic partnerships and innovation ☐ Customer demand for more centralised relationship management ☐ Global accounts: Customer demand to be managed across borders
Negative	☐ Over-reliance on a small group of customers for revenue and profit ☐ Pressure on margins and profits ☐ Pressure on resources ☐ Need to break down internal silos ☐ Multiple people calling on the same account creating internal confusion	☐ Mature market ☐ Risk of or loss of a major account ☐ Price focused competition ☐ Low cost and online competitors ☐ Increasing influence of procurement ☐ Generic alternatives to your products and services

Adapted from Figure 1: Drivers of SAM. *Implementing Strategic Account Management* by Diana Woodburn and Lynette Ryals.

Questions to challenge you

1. What changes are occurring in your marketplace affecting your customers and your competitors?
2. Is your organisation changing fast enough to respond to these changes?
3. Are you managing your most important accounts strategically or operationally?
4. Are you focused only on short-term results or long-term results too? (How would your staff answer?)
5. Are you focused only on improving your business results, or your accounts' business results?

Case study: Cisco

Across industries and regions, a company with a most successful SAM program is Cisco. Cisco Systems is a $46 Billion information technology company employing 66,000 people in 475 offices in 165 countries.

Drivers of change: Why did Cisco introduce SAM?

In its early days Cisco could deliver a consistently good customer experience. Focusing on Customer Satisfaction was driven by the senior leadership's personal attention. However, as the company expanded Cisco recognised they had to share responsibility to grow and expand the customer relationships. Other people in the organisation, Account Managers, had to do this more, with more customers. Then the Account Managers had to plan the appropriate time to bring in the CEO and executive sponsors. In Cisco's case this was a significant challenge as the customer base continued to grow and became increasingly global.

Cisco found that their market place was also changing as the technology industry became more mature. Their products were becoming increasingly vulnerable to being copied and globalisation was increasing customer choice. Solutions were becoming more sophisticated meaning the engagement with accounts and channel partners needed to be more collaborative. So, customers were becoming increasingly demanding and it was becoming increasingly difficult to differentiate through their products and services. Cisco identified they had to deliver the best overall experience to the account and do so consistently across the globe.

Segmenting customers

Facing this challenge, Cisco listened carefully to their strategic accounts' challenges. They concluded that they could most effectively address the needs of their strategic accounts only by selecting some accounts and then empowering their teams to serve these accounts. This was developed as the Cisco 3.0 company-wide initiative and enterprise director program.

Cisco has a distinctive account engagement model for their most strategic accounts, including an extensive, sophisticated channel partner program. They provide solutions to multiple industry sectors and are structured and resourced to ensure the service delivery model fits the needs and opportunity for a wide variety of customers. Cisco's account segmentation model is presented below.

Account Status	Number of Accounts
Global Accounts	107 Accounts
Multinational Accounts	250 Accounts
Emerging Multinationals	4000 customers
Domestic Only	25,000 customers without international bookings

Tips for implementing SAM

Cisco found the role of Account Manager is critical to the success of their SAM program. Having Account Managers who can understand and collaborate with different cultures is essential. They found an effective diverse team outperforms other teams. So the Account Manager's challenge is to be able to work effectively with a diverse team regardless of where they are in the world.

In the world post the global financial crisis, Cisco's accounts were in one of two states. Some were polarised by survival, with delayed capital spending and reduced operational expenses. At the other end of the spectrum were those focused on taking market share and making acquisitions to capitalise on the economic conditions for the expected rebound.

The key to a successful relationship was aligning the sales proposition with customer's boardroom imperatives. Cisco needed Account Managers who could take charge of the current situation with each of their strategic accounts and deal with the world the way it is. They had to focus on the here and now, listen carefully to their customers and change their approach to match changes in emphasis on key performance indicators. Importantly, it was time for action: to refocus resources as necessary, tailor the approach to the account's situation and above all not procrastinate.

Cisco identified some key areas of focus for their Strategic Account Management program:

- Get closer to key customers
- Engage with your customers in your decision making
- Personalise and customise your service model to match your customer needs
- Focus on key strategic initiatives
- Invest the time, money and resources to expand key relationships and pull away from competitors
- Make full use of your entire organisation — work together for the greatest impact. Include all stakeholders in developing ideas and to improve and expand the relationship.

Adding value beyond products and services

Cisco recognised strategic accounts are looking for far more than value from their relationship than just Cisco's products and services. So, Cisco set up the Internet Business Solutions Group (ISBG). The Cisco Internet Business Solutions Group comprises industry influencers and business strategists who have deep experience across multiple sectors and regions. This group draws on Cisco's successful business approach, top talent, customer engagements, and technology expertise to sense market trends and identify current and future opportunities. From there, they develop innovative business and technology solutions that accelerate business transformation. The Cisco Internet Business Solutions Group helps CEOs, CFOs, COOs, CIOs, CTOs and public-sector leaders solve their most critical business challenges by developing strategic solutions based on business-process transformation and innovative technology.

Managing influencers

Cisco makes 95% of its sales through channel partners. Cisco understood they needed to engage, support and listen to their supply chain. In a tough environment it was essential to understand channel partners' challenges and play an active role in avoiding any issue that could jeopardise a project with a strategic account.

Monitoring relationships

At Cisco, Customer Satisfaction is central. Every manager's compensation is tied to yearly survey results. They have been formally tracking customer satisfaction for more than ten years, with a rating exceeding 4.4 out of 5 over the past five years. Cisco management review each element of the survey responses and managers are required to take swift action, even where there is the slightest drop in customer satisfaction.

Cisco employs a layered approach to measure and deliver superior customer experience:

Listen	**Relationship survey** Annual satisfaction survey Broad representative of all end-users Partner served customers All people
Understand	**Understanding** Selected customers Particular subjects Could be deep and long
Measure Externally	**Transaction** Every user Every time Small and quick
Measure Internally	**Performance** Measure process and performance Leading and lagging measures

Cisco annually surveys end accounts on Cisco's partner performance and scores compare very favourably with the best organisations in the world and Cisco's own direct sales force.

Results from SAM

Cisco's results speak for themselves. Revenue has grown from $36.1 billion in 2009 to $46 billion in 2012. To support this growth they have grown the number of global offices from 300 to 475 and entered five new countries. Based on their 2009 survey results, 74% of their customers are categorised as 'truly loyal'. From their partner management strategies, Cisco metrics show partners are investing more in training and partners are selling more advanced technology. Also, partners are delivering high customer satisfaction to end accounts and this satisfaction is increasing.

Cisco's customer needs remain at the forefront of everything they do and in every key segment where it competes, it is the market leader.