Key Account Management: Decisions Sciences in Practice

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Abstract: ***Key Account Management (KAM) has been vastly misunderstood, in not just in Indian companies but in many western companies too. India has a slew of multinationals, but they have also fallen into the trap of classifying key accounts by just sorting their accounts in a descending order and drawing a line based just on the contribution of the account to the top line.***
This paper will examine an alternate method of identifying and categorizing accounts and not just in the form of labels like A, B, C or platinum, gold, silver etc.
Procedure:
It will be our effort to examine various factors that, in addition to the value contribution to the supplier, that can be consolidated under two main criteria viz: 1) Attractiveness of the account to the supplier and 2) how attractive is the supplier to the buyer(account) under consideration. For this, we will be using a 'modified' GE/Shell matrix.
An area, which will discuss en passant, is how do we evaluate the key accounts based on the above matrix and the way resources should be allocated for each category as a whole, and subsequently drill down to individual accounts.
Implication:
This paper should provide an insight to the students of management to understand an alternate way to classify their key accounts and also to the practitioners in industry to have a new look at how key accounts can be redefined.

Keywords: ***KAM, Key account management, classification, category, supplier and buyer, GE matrix***
JEL: M

I. INTRODUCTION

Key Account Management: Origins

The history of KAM began with industrial marketing. The relationships between customers and producers was first analysed by the then emerging concept of DMU- decision-making units. It established that selling is more than just bargaining and negotiating, which in turn led to the concept of analysing the drives, roles and motivations of the individuals involved with the choice of buying the product or service (Zolkiewski and Turnbull, 2000).

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Consequently, it almost became imperative that recognizing and persuading the individuals in the purchasing decision should be an obligatory activity of selling, and that selling is not restricted to just the salesperson's **persuasiveness**.
In the early 1990s, DMU had become inadequate in helping selling companies achieve their objectives, largely due to emergence of more players and different supply chain relationships (Christopher, 2005).
The Industrial Marketing and Purchasing Group propounded the analysis of supplier-customer association and called it 'interactionist' approach – underlining the process of interaction, actors, environment (Hancock, 1998).
Thus, relationship building with the clients became a process to highlight both resource and investment, to not only reduce uncertainty but also as a means to provide an effective and efficient channel of information which serves as a means to increase technological and economic efficiency.
As early as the 1980s, the influence of the Japanese 'keiretsu' model of supply chain relationships was being felt, but interdependence between suppliers and customers was still treated with considerable apprehension (Christopher, 2005). All the more, because analysts felt that most business cultures are adversarial and there is not enough trust between organizations (McDonald, Millman and Rogers, 1996).
Nevertheless, some motor parts manufacturers in the West were beginning to see advantages in the Japanese car companies conducted their business. This led to the advent of KAM.

Key Account Management: The Concept

KAM is defined as a business approach which is strategic and has an objective of warranting sustainable and long-term business collaborations with strategically relevant customers (Wilson, 1998; Woodburn, Holt and McDonald, 2004).
This meant that the two main stake holders viz. the buyer and the supplier should move from adversarial stance to a collaborative stance in order to ensure long term benefits that would accrue due to building a relationship through partnership (Zolkiewski and Turnbull, 2000).
Key customers are those which will make a substantial impact to the realization of the customers' strategic vision. They should in other words help in fulfilling the corporate strategy (McDonald and Woodburn, 1999).
They should be also providing superior returns. Those that don't respond to the KAM are bringing the initiative down.

This begs the question as how many key accounts should a company have since there's an upper limit to the capacity of the supplier while handling the number of key accounts and give them the time and attention that is generally required.
Key account management should mean delivering customized, ground-breaking strategies to specific customers. However, this maximum capacity is totally limited in most companies, be it large or medium or even small (McDonald and Woodburn, 1999).
In effect, identifying all those companies that fit the bill as against ending up with an assortment of the mistaken ones is vital for KAM's attainment.
Most companies believe that their largest customers are also at their best. Selecting key customers is not just sorting the list of the customers based on their contribution to the sales in descending order and drawing a line at some row to define the cut-off for key accounts. Large firms having large customer database most often highlights on their key account customers as being the "top 300" or "top 200", or may also be the "top 100" usually just on past sales volume. It is, therefore, safe to assume that they are incompetently served, positively beneath the level that is expected by the key account customers. More importantly, this closes all avenues in exploring those potential customers who can actually be more tuned strategically to the business of the supplier and incidentally have immense growth potential (Woodburn, Holt and McDonald, 2004; Woodburn and McDonald, 2001).
Every firm needs to bring a balance on the amount of key account customers they may handle with a count that signifies adequate professional capabilities to make the initiative and the work meaningful. Around fifty key account customers appeared to be the maximum for successful and efficacious KAM in most of the large businesses (McDonald, Rogers and Woodburn, 2000; Wilson, 1998).

II. METHODOLOGY AND RESULT ANALYSIS

SELECTING THE FACTORS FOR KEY ACCOUNTS

In this paper two factors are proposed that will form the primary axes for selecting and then categorizing of key accounts. The KA matrix will be drawn based on various parameters that will be clubbed under two factors namely "Customer Attractiveness" and "Relative Business strength of supplier" as perceived by the supplier and customer respectively. (McDonald, Rogers and Woodburn, 2000).
A modified GE Matrix will be used for the purposes of categorization. The two axes that we will be defining are very akin to the GE Matrix (TABLE I).

Table- I: Modified GE Matrix

	GE Matrix	**KA Matrix**
Y-Axis	Market Attractiveness	Customer Attractiveness
X-Axis	Business Unit Strength	Relative business strength

In the GE matrix, there are 3 levels viz. High, Medium and Low, while the KA Matrix uses 2 levels viz High and Low.

SELECTING THE FACTORS

<u>A. Choosing selection criteria for 'Customer Attractiveness'</u>
Ideally, a quantified approach of selecting the key customers would not only be more objective but help in clearly differentiating among the various customers (McDonald, Rogers and Woodburn, 2000).
The criteria for selecting should diagnose the customer's attractiveness w.r.t the potential for the supplier, not just on what it delivers today (McDonald, Millman and Rogers, 1996). If the current size or even the current profit is over emphasized, there will be a propensity to place lots of resource in those whose life cycle is getting matured, and under resource those who may develop and nurture themselves.
The selection criteria can be classified into 3 categories:
1. Customer Outcome Based:
Quantitative factors or Hard factors. They can be unambiguously defined and objectively measured using a suitable scale.
- purchases
- margin
- contribution
- Profit
- Turnover / customer size
- growing customer market segments
- spending with the supplier on products across the same category.

2. Customer Needs Based
• This would include factors that brings out whether the customer is being aligned to the firm's strategies or has the chance of the company retaining and securing the business opportunity.
• The criteria should also have factors that reflect the strategy, for example, commitment towards importance of low customer-churn in the corresponding business, compatibility towards various platforms available, global presence etc.
• This criterion is normally medium quantitative
3. Customer attributes Based –soft qualitative.
• The criteria on Customer attribute-based signifies the type of relationship that might be like. Maybe 'softer' in comparison to the other two categories, although can be measured quantitatively.
• This would include identification of determinants on how the customer performs in various relationships viz. right attitude to relationships, central decision-making structure, prepared to invest in relations, preparedness to pay for value (Zolkiewski and Turnbull, (2000).
For every criterion chosen from any category, 4 vital questions need to be addressed:
a) In what way does each seem important in the eyes of the company.

b) In what way should it be weighted to signify its relative importance?
c) How may one measure their customers as against the criterion set by the company?
d) What metrics should be collated?
The three criterions defined above would clearly bring out the attractiveness of the customer and therefore the eligibility to be included as a key account in the portfolio (Fiocca, 1982).
Hence, the weighted sum of this criteria analysis can be pivotal in determining on how relevant the customer can be and this now we can call it "**Customer Attractiveness**".

APPLYING SELECTION CRITERIA:

Scoring and rating customers allows suppliers to compare their customers (McDonald, Millman and Rogers, 1996). A customer can score healthy on potential size, but its attractiveness might see a reduction by its attitude to relationships, that may have an influence on the firm. The other customers may be smaller and is better to deal and work with, although their overall score might eventually be similar to the large customers (McDonald, Ryals, Dennison, Yallop and Rogers, 1994).
Getting each back to a numeric value allows valid comparisons to be made.
The aim should be to have no more than seven criterions. Senior Management should be the ones that chose and assign appropriate weights to each criterion. These criteria should then be rated by other staff for each customer. At an initial stage, a realism check should be run with some likely customers, to check whether their values are as those that were predicted. If the predictions don't match, instead of straightaway recalibrating the weights, it may be insightful to analyze the results.
The table below shows a typical score sheet for one respondent for 3 accounts (Table II).

Table-II: Account Attractiveness Criteria & Rating: A Sample

			Account A		**Account B**		**Account C**	
	Criteria for Account attractiveness	Relative importance weighting	Rating: (0 to 10)	Score/value: Rating X weight	Rating :(0 to 10)	Score/value: Rating X weight	Rating: (0 to 10)	Score/value: Rating X weight
1	Turnover	3	5	15	7	21	4	12
2	Gross profit	1	3	3	2	2	3	3
3	Coverage	1	7	7	4	4	8	8
4	B2G sales	2	3	6	1	2	6	12
5	Churn Rate	1	2	2	6	6	8	8
6	Risk Approach	2	4	8	4	8	6	12
			Total	41	Total	43	Total	55

B. Choosing selection criteria for the Relative Business strength of the supplier

Relative business strength indicates the customer's outlook of a firm as a supplier, comparative to the finest rival/competitor whom the customers finds in their opinion (Porter, 1980, 1985).
Suppliers regularly are mistaken by what customers prefer and care about and the degree to which they prefer and care about it. However, every key account customer of a firm might have varied set of norms', even compared with others in the similar sector (McDonald, Millman and Rogers, 1996).
Numerous suppliers levy criteria evidently on behalf of the customer's viewpoint, which typically characterize them as their own views of what meaningful performance looks like, which are applied to most of the key accounts. Additionally, they have eradicated the occasion to understand the customer's exclusive set of requests (Woodburn and McDonald, 2001).
Since it is almost impossible to list the criteria of several customers, it would be practical if the supplier tries and identifies the criteria, which they believe, based on interactions with the customer, that a particular customer would probably use to determine the relative business strength of the supplier (McDonald, Millman and Rogers, 1996).
The following steps would actually help the supplier in identifying the criteria a customer would use:

- Classify the set of criterions which every customer might use, by taking into account the strategies, markets, its pressures, its expectations of suppliers and its performance requirements.
- Give the criterion weights by keeping in purview that customers usually rate soft elements viz. 'the ease of doing business with' which is higher than the suppliers rating.

• Approximate the ratings of the supplier's company besides each criterion, which depends on the current perceptions and may not be what they should be.
• Estimate the rating of the finest competitor on the similar manner, and other competitors who have characteristically different approaches.
• If there is no direct competition for this customer, rate the best supplier of the goods and services that the customer is using (Porter, 1980, 1985).

The table below (Table III) shows a typical score sheet for evaluation of a supplier and the best competitor of the supplier for a particular customer.

Table-III: Relative Business Strength of Supplier: Criteria & Rating: A Sample

Sl. No	Suppliers' business strengths	Relative importance weighting	Your company		Best competitor – ABC Ltd.	
			Rating (0 to 10)	Score (weight * rating)	Rating (0 to 10)	Score (weight * rating)
1	Supply Management	20	6	120	8	160
2	Openness, Honesty	10	8	80	7	70
3	Quality Management	20	7	140	8	160
4	Competitive validation	15	6	90	6	90
5	Customer satisfaction	15	6	90	5	75
6	Product consistency	20	7	140	6	120
		100	Total	660	Total	675
				Difference	15	

Source: Author's Creation

Similarly, a table can be drawn up for the various customers of the supplier and the difference between the best competitor and the supplier for each customer can be scaled down to a 10-point scale.

KEY ACCOUNT MATRIX

The matrix on key account is, in fact, as mentioned earlier is a 4 quadrant matrix developed by GE, that is generally used and applied to market segments rather than individual customers.

KA Matrix proposes that varied customers, at various stages of their life cycle with the suppliers, may consequently necessitate and respond to varied approaches. The matrix recognizes four different segments, which are nonetheless key account customers, and merit complimentary titles (McDonald, Rogers and Woodburn, 2000).

Listing the customers that is identified by the supplier as the most attractive isn't the end of key account selection, but may be just the beginning. Customers responding to KAM would depend on their view of the supplier, and hence one can ignore it at one's peril.

To complete the picture, we can include the customer spend with the supplier which will better capture the importance of every customer visually.

A table indicating typically both the ratings is given below for a list of customers (Table IV).

Table-IV: Ratings of a List of Key Account Customers

	Rating 0-10, X-axis	Rating 0-10, Y-axis	In Crores
Key Accounts	Customer's perception of relative business strength of supplier	Customer Attractiveness of KA	KA business spend
A	9	2	40
B	4	7	25
C	7	8	34
D	7	4	17

E	2	3	34
F	2	9	24
G	9	7	8

Source: Author's Creation

A typical chart of the above values using a bubble chart would look as shown below (Figure 1).

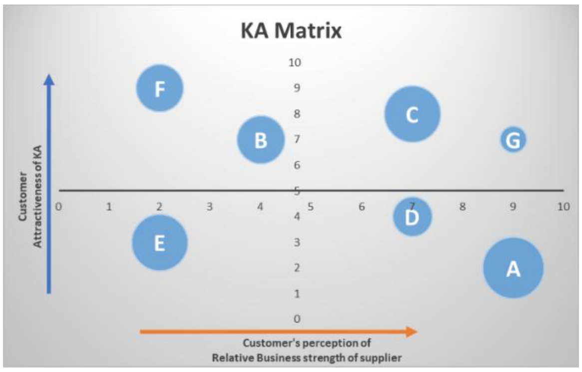

Fig.1. Key Account Matrix

III: CONCLUSION

CATEGORIZATION AND CLASSIFICATION

Looking at the above chart, the top right-hand quadrant(Quadrant1) is where there the supplier will find the 'strategic' key accounts (Woodburn, Holt and McDonald, 2004). While in the top left quadrant, while the customer is attractive, the feeling is obviously not being reciprocated. In the bottom left quadrant (Quadrant 3), the question that should be asked is whether the customers in the quadrant are desirable as key accounts. The last quadrant has customers who have been with the supplier for a while, but the supplier feels that they are not meeting the strategic requirement of the business and hence are less attractive (McDonald, Millman and Rogers, 1996).

If we were to assign some neutral and meaningful names to each of the quadrant, this would help in classifying the customers based on the quadrant they fall in. It would additionally help in planning the type and amount of resources that can be invested depending on the quadrant. (McDonald and Rogers, 1998; Woodburn, Holt and McDonald, 2004).

The paper brings out 4 characteristics about each of the quadrant.

Quadrant 1: Invest on these customers since they are strategic to the business.

Quadrant 2: Selectively invest on these customers and on those who may appreciate the Business Strength of the supplier over a period of time. They are stars and could become strategic if handled well.

Quadrant 3: These are slightly tricky. They are KAs but in both the axis they score less. 'Manage for cash' should be the way forward with these customers.

Quadrant 4: These customers have been in the radar for a while now, but they do not share the vision of the supplier in terms of strategy leading to them becoming less attractive to the supplier. They should be streamlined and maintained with least amount of investment.

A typical grid is as shown below (Figure 2):

Fig.2. A Typical Grid

Superimposing earlier table on this grid will actually help in understanding the various KA customers (Figure 3).

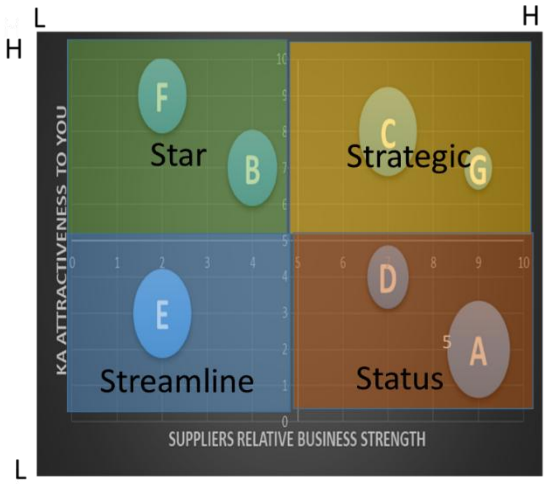

Fig.3. A Typical Grid of Key Account Customers

IV: FUTURE PLANS

This paper has limited itself to the selection and classifying the key accounts. In future, research scholars may look into the relationship stages of the customers from various quadrants.

The relationship could be:

- Exploratory
- Basic
- Cooperative
- Interdependent
- Integrated

These relationships could be irrespective of which quadrant the key account is in. Analyzing this will further assist the supplier in determining exactly the kind of attention and resources that needs to be allocated to each KA customer.

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Recent Publications:

Dr. Semila Fernandes, Dr. Rajesh Panda (2019), Product Conspicuousness & Reference group Influence among women: An Empirical Analysis, International Journal of Public Sector Performance Management (IJPSPM),(ABDC, Scopus)

Fernandes, S., & Panda, R. (April, 2019). Influence of Social Reference Groups on Consumer Buying Behavior: A Review. Journal of Management Research, 19(2), 131-142 (ABDC, C).

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Recent Publications

A.Vidyasagar, Semila Fernandes & Dr. Mallika Srivastava(01/2018) Brandwidth: An Influence of Brand Associations in Gift Giving Behavior.International Journal of Research in Computer Application & Management (IJRCM), Vol no.8, Issue no.01 pg no. 5-10(ISSN:2231-1009)

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