Categorising Key Accounts Intelligently

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In this article on key account management, Professor Malcolm McDonald looks at the strategic implications of changing relationships between suppliers, their key accounts and the key account manager.

A little thought will expose the inadequacies of systems that classify key accounts into simple categories such as A, B and C. Most companies are judged by profit, so clearly key accounts should be classified according to the potential of each for growth in profits over, say, a three year period. Cranfield research shows that the four most popular criteria used to do this are:

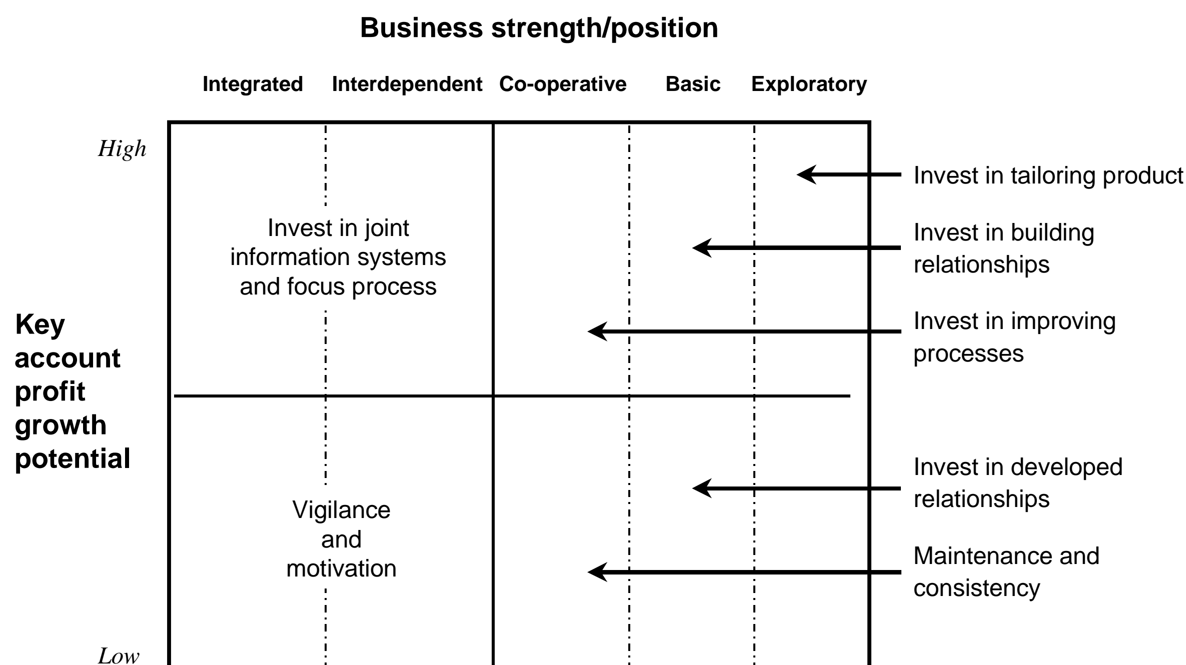
- available size of spend,
- margins available,
- growth rate,
- purchasing criteria and processes.

Each of these is weighted and scored, so that each key account appears on a kind of thermometer, which ranges from low to high, according to each account's profit growth potential.

But companies also have a range of relationships with their key accounts, namely: Exploratory, Basic, Co-operative, Interdependent and Integrated.

- Basic is transactional,
- Co-operative is preferred supplier status,
- Interdependent is a high level of interdependence (but exit is possible) and
- Integrated is a relationship of mutual dependency and trust, from which exit would be extremely difficult.

The figure below shows how these two dimensions can be combined in a graphical format, so that objectives and strategies can be set for each account.❶



Taking each box in turn it is possible to work out sensible objectives and strategies for each key account.

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Starting with the ***bottom left boxes (low potential/high strengths)***, common sense would dictate retention strategies, as these accounts are likely to continue to deliver excellent revenues for some considerable time even though some of them may be in static or declining markets. This is especially possible because the company is already enjoying good relationships with the account, which should be preserved. So prudence, vigilance and motivation are essential here. Crucially, companies should be seeking a good return on their previous investments, and any financial investment should be mainly of the maintenance kind. This way, it should free up cash and resources for investing in key accounts with greater growth potential.

The ***top left boxes (high potential/high strengths)*** are where companies will derive most of their profit and sales growth. Here an aggressive investment approach is called for, providing the returns justify it. It is probably appropriate to use net present value (NPV) calculations as a basis for evaluating these returns, using a discount rate higher than the cost of capital to reflect the additional risks involved. Any investment here will probably go on developing joint information systems and relationships.

The ***top right boxes (high potential/low strengths)*** pose a problem, for few organisations have sufficient resources to invest in building better relationships with all accounts falling in these boxes. Therefore, for each account, net revenue streams should be forecast for three years and discounted at the cost of capital (plus a considerable percentage to reflect the high risk involved) in order to evaluate which ones justify investment. Having done this, and selected those to invest in, under no circumstances should financial account measures such as NPV be used to control them – it would be like pulling up a new plant every few weeks to see if it had grown! Measures such as sales volume, value, 'share of wallet' and the quality of the relationship should be set as objectives. Selected accounts then move gradually towards interdependent and integrated relationships – when it will be appropriate to measure profitability as a control procedure.

Accounts in the ***bottom right boxes (low potential/low strengths)***, and those not invested in from the top right, should not occupy too much of a company's resources. Some can be handed over to distributors, while some can be handled by an organisation's own personnel, providing all transactions are profitable and deliver net free cash flow. If some of these accounts are big and demand low prices, it is probably worth giving them discounts for the volume, but service levels should be commensurate with the low margins enjoyed.

All other company functions and activities should be consistent with the goals set for key accounts according to this broad categorisation. For example, some key account managers will be extremely good at managing accounts in the Exploratory, Basic and Co-operative KAM stages, where selling and negotiating skills are paramount. Others, meanwhile, will be better suited to managing the more complex business and managerial issues surrounding interdependent and integrated relationships.

All companies in the Cranfield research rated selling and negotiating skills as a prime requirement for key account managers, whereas all buying companies rated trust and the ability to make strategic decisions as most important. Indeed, many will not even allow a salesperson to lead the key account team. The key task in key account management is matching the person to the key account. At the Interdependent and Integrated stages general management skills will be required of the key account manager.

➊ There is a software program that automatically categorises key accounts. The **Key Account Selection Matrix (KASM)** is an ideal, easy to use tool for rapidly categorising your key accounts. For further details, visit *http://www.TheMarketingProcessCo.com/kam.htm*

About the author.
Malcolm McDonald is Professor of Marketing Strategy at Cranfield University School of Management. He is also Chairman of The Marketing Process Company.

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