

HOW TO HANDLE YOUR MOST IMPORTANT CUSTOMERS: THE ST.GALLEN KAM CONCEPT

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Synopsis:

- Key Account Management (KAM) is important for almost every supplier. As a management concept KAM offers immense opportunities for achieving competitive advantages in business-to-business markets.
- Despite a lot of existing empirical and conceptual work, an integrated framework is still missing. The St.Gallen KAM Concept offers such a systematic framework.
- The concept and its elements "strategy", "solutions", "skills", "structure", and "screening" offer valuable tools and methods for those responsible for key accounts, the key account managers.
- Moreover the concept offers important insights and structural aids for those who implement a KAM programme (sales directors, managing directors).

Johnston & Mayer Inc.: A situation that may occur in every company

Peter Levers enters the meeting room just in time. Again traffic jams on the way from a customer to his office caused some delays. While he is glad that he has made it in time the faces of the other participants of the meeting are signalling bad news. Ted Johnston, co-founder and CEO of Johnston & Mayer Inc., a full service provider of IT-network and telephone systems, opens the meeting with the first item on the agenda: Termination of contract by Ovelman & Partners, the most important customer. Ted started his explanation while waving a letter of Ovelman & Partner where they explain why they gave notice. Products and services seem to be good but not outstanding. The relationship in general and especially the daily cooperation is less than suboptimal from their point of view. Peter Levers, Head of Sales and

at the same time responsible for Ovelman & Partner himself, cannot explain how that could have happened. Whenever he has visited the customer (not too often in the last month he must admit) everything seemed to be in order. There were no complaints next to minor problems of the daily business. The meeting goes on and after several controversial discussions Peter gets the job of analysing Johnston & Mayer's way to handle their most important customers. In addition he is asked to come up with some substantial suggestions how to optimise it. Hours later back in his office Peter takes a file out of the shelf: "Key Account Management: How to handle your most important customers successfully". It is a conference binder of an event that he has visited a view month ago. At that time he had the impression that he and his team of sales reps were doing well. Now he spends some more time and tries to find

out what's really behind the label of KAM. What are the elements of a successful KAM programme within a company? Who is in charge of that and who is involved? What are the tasks of a professional key account manager? And what are necessary prerequisites on a corporate level? What are potential good practices at Johnston & Mayer Inc. and where do they have potential for improvements? How should an entire KAM programme for the company look like? "Questions, questions...", Peter says to himself. He grasps slowly that it is not an easy task if he really wants to do it right.

KAM: Long tradition, but no integrated framework

Key accounts are the most valuable customers for a company, due to size, turnover volume, strategic fit, reference potential, etc. In times of exchangeable products and services it is more than ever crucial to build up excellent relations with these important customers. Therefore, key account management (KAM) is far more than only a specialised channel to important customers. Professional KAM is a strategic concept of the entire company. It is not surprising, that KAM has become one of the most significant trends in business-to-business markets over the past decades (e.g. Abratt/Kelly 2001). Nevertheless an integrated framework to help people like Peter Levers is still missing. The major problem is, that KAM, if not implemented professionally, becomes a process of trial and error that creates additional costs and offers no opportunity for a corporation's progress and success.

This surprises even more regarding the fact that companies have been treated strategic important customers differently from the very beginning of their existence. Almost every supplier in the business-to-business field realises some kind of KAM, even without using the term (Boles/Pilling/Goodwyn 1994, p. 25). Also Peter Levers, as Head of Sales, certainly handled Ovelman & Partner differently to other customers. KAM opens a lot of opportunities for companies. Over 65% of the participants of an European KAM survey estimate the KAM contribution both in revenues and profit up to 25% and more to the total result (Zupancic/Bussmann 2004). Although KAM has a long tradition both in research (e.g. Pegram 1972, Shapiro/Moriarty 1982) and practice, companies still struggle in realizing successful KAM programmes (Homburg/Workman/Jensen 2002).

The intention of this article is to introduce the St.Gallen KAM Concept. It offer substantial support to answer the questions that Peter Levers has asked himself in the beginning. It integrates the existing knowledge of key account management from a research as well as from a practical perspective (Zupancic 2004). At the University of St.Gallen key account management is an important research topic for over 10 years. During that time a number of research projects were realised in close cooperation with companies that wanted to implement or optimise their KAM approaches. Each of these projects was based on the existing literature on KAM. In addition about 100 interviews with key account managers and directors were conducted over the entire period of 10 years to complete the

theoretical fundament with insides from practitioners. Next to that the authors accompanied about 25 projects that have implemented or optimised their approaches of KAM. Hence, our approach combined qualitative and quantitative research methods to conceptualise the framework.

Drivers for a systematic KAM approach

A professional KAM approach is nowadays more important than ever. From our point of view four mega trends push the topic:

Concentration: Mergers and acquisitions lead to bigger and more powerful companies in markets that try to centralise their purchasing in order to achieve economies of scale and scope in buying processes.

Professionalism in purchasing: During the last years a rising number of concepts for professional purchasers, like supply chain management, single sourcing, modular sourcing etc., were developed. The more professional the supply side the more professional the key account management side should be.

Internationalisation and globalisation: Purchasing processes and sales processes are carried out more and more on a global basis. Harmonised prices are just one element among others. Companies need new concepts and special solutions to react to this development.

Customer expectations: Key customers expect an extraordinary way how to deal with them. Rising expectations are an upcoming phenomenon in B2C as well as in B2B-relations. The more important a customer the higher the expectations.

The St. Gallen Key Account Management Concept

The focal point of a KAM programme is the individual relationship between a supplier and its defined key accounts. There is a wide range of existing knowledge about relationship marketing that contributes to this aspect (Homburg/Workman/Jensen 2002, p. 39). In fact KAM is the only real "one-to-one marketing" because it should dedicate exclusive resources to individual customer relations. Therefore the knowledge base of this topic builds the centre of our concept, titled "Key Account & Supplier".

Another aspect of the concept is addressed to individual key account managers and their tasks. This is strongly connected to the topic of "personal selling". Key account management starts with an analysis of the customer, the supplier's own situation and also the competitive situation. These activities can be named "Analyse" the relationship. Starting from there a plan has to be developed and put into practice, i.e. the management of the key account. This can be described as "Realise" KAM. Analysing and realising are activities that should be handled by the key account manager and a team. Content and knowledge of this area is named "Operational KAM" in our concept.

Most of the existing research is focused on the KAM programme from a company's point of view. KAM in this respect requires specific conditions on corporate level. First, key account management is not a stand-alone activity in a company. Instead it has to be integrated into the organisation ("Integrate").

Second, it is necessary to consider a company's strategy, structure and culture that often can only be changed in the long run ("Align" Corporate Strategy, Structure and Culture). Content and knowledge of these two areas is named "Corporate KAM" in our concept.

To cover all the mentioned aspects we suggest the following definition of KAM:

Key account management means systematic selection, analysis and management of the most important current (and potential) customers of a company. In addition it means the systematic set up and maintenance of the necessary infrastructure.

Dimensions of KAM

We determine different dimensions to conceptualise the entire model of KAM. According to the existing literature and our own experience a successful KAM programme can be structured in five

dimensions that we call the 5 "S"-approach: strategy, solutions, skills, structure, and screening.

First, "Strategy" is of importance. It covers the strategic focus on KAM within the overall corporate strategy (Spencer 1999, p. 308) as well as specific strategies for the selected key accounts (Ojasalo 2001, p. 204). Second, a basic explanation about the needs of key accounts indicates that "Solution" plays an important role. Katzen, former Xerox-manager, stated: "More and more customers require business solutions that can be implemented and managed consistently across their worldwide locations. They want that consistency to apply in all areas of their supplier relationship, from programmes and support services to contracts and pricing.". This citation is also true for national account management programmes. Third, tasks and processes are relevant in satisfy a key

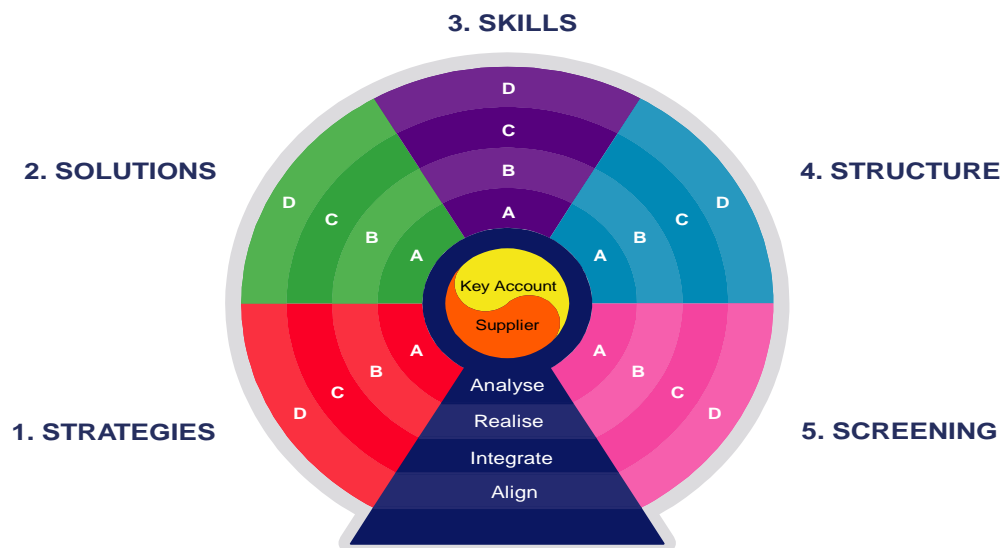


Figure 1: Overview of the St.Gallen KAM Concept

account's needs. Thus, "Skills" of people are undoubtedly key factors for the success of KAM-programmes (e.g. Weeks/Stevens 1997). Under "Structure", we subsume coordination aspects like team approaches and organizational structures (e.g. Colletti/Tubritty 1987, Millman/Wilson 1999) as the fourth dimension. The last dimension deals with information and success management. We call it "Screening". For an overview of the basic structure St. Gallen KAM Concept see figure 1.

Operational Key Account Management

This part of the concept addresses the key account manager and his or her team. The elements which are not described here in detail provide them with a lot of tools for analysing the relationship. Moreover it offers a complete process to plan and realise strategies for dedicated key accounts. The analysis contains content concerning the key account & competitors, customer needs & competitors

solutions, resources & competencies, processes & ways of working and gathering information & management. All elements are located in the inner circle of the St.Gallen KAM-Concept as shown in the following figure. Realisation should follow a specific logic. Therefore the second inner circle offers a systematic management process starting with objectives and strategies and ending with success measurement. Both circles should be understood as a continuous management and learning process. It is called the "St.Gallen KAM-Cycle" (see figure 2).

Corporate Key Account Management

Companies often do not give enough attention to the necessary organisational prerequisites of KAM. *Pardo* stated that this may be the most important area for improvements (1999, p. 286): "Today, key account experts on both sides of the Atlantic agree on [...] the problem of key account

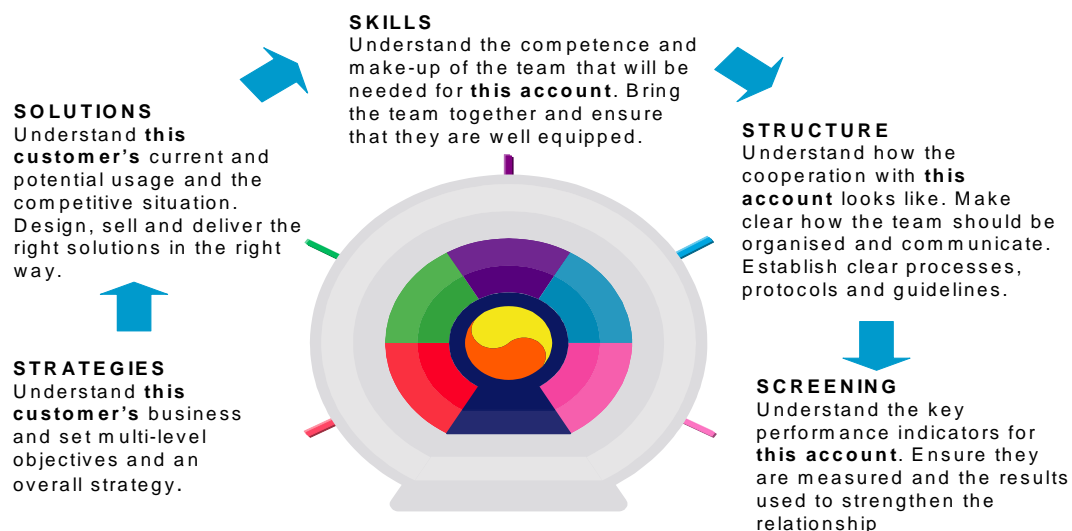


Figure 2: Operational KAM - The St.Gallen KAM Cycle

management is being an organisational one.” Therefore we've clearly addressed that topic in another part of the St.Gallen KAM concept that is linked to the key account managers' and team members' tasks which are explained above. The important elements are located in the two outer circles of the concept. They are called the "St.Gallen KAM-Support Elements". First, in the dimension "Strategy" the professional definition and selection of key accounts is the pre-requisite for the success of the whole programme. It is not enough just to pinpoint the biggest customer according to their turnover. A combination of qualitative (e.g. reference effect, co-operation potential) and quantitative criteria should be combined in various stages or within a scoring model. Moreover it needs permission and commitment from top management. If KAM is understood as a strategic concept for the entire company it should therefore be integrated in the corporate strategy. Second, "Solution" plays an important role also on the corporate KAM level. The entire company should be willing to customise products and services for key accounts individually. This generally contradicts intentions towards effective and efficient production planning. Whenever possible a company should ensure to benefit as much as possible from special treatments or innovations for key accounts, e.g. by multiplying them to other customer segments. Next "Skills" is a very crucial topic on the corporate KAM level. Key account management is a job that needs professional staff with a lot of different competencies. Therefore a company has to respect the human resources carefully and provide key

account managers and team-mates with specific training modules and carrier paths. The bigger the company the more important it becomes to set up a suited KAM "Structure". This covers primary as well as secondary organisational structures (e.g. matrix, team etc.) and working processes that guide cross functional co-operation. The last dimension on corporate level, "Screening", does not only cover controlling aspects like a balanced scorecard for KAM but also the necessary IT-infrastructure and procedures for knowledge management.

Managerial Implications

A very common first reaction from managers concerning the St.Gallen KAM Concept is that for them it seems to be very complex. In fact key account management is after all we know a very complex topic. This is not a result of the model, but a characteristic of KAM. Our concept just describes and structures what we've researched. But the good message is that it is not necessary to touch all aspects. Instead, we recommend to build on the existing strengths that we usually found in companies. These strengths are the base for further developing a company's individual KAM concept. From our experience, it is necessary, that there are no substantial competitive disadvantage in any of the five dimensions and that there is at least one out of the five dimensions where the company has a clear competitive advantage.

Coming back to the needs of Peter Levers from Johnston & Mayer we recommend two directions of how he could use the model to answer his questions:

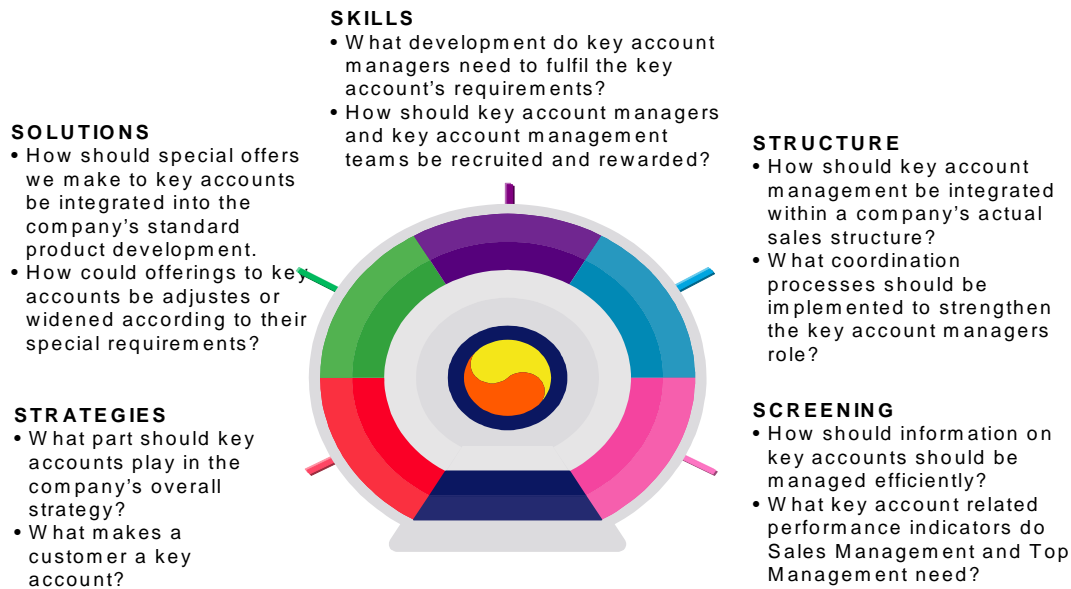


Figure 3: Organisational KAM – The St.Gallen KAM Support Elements

Firstly, he could use the St.Gallen KAM Concept to assess Johnston & Mayer's internal and external ways of working with the most important customers. As mentioned above, it is not our intention to change everything or to reinvent the wheel. Moreover, we want to support companies fundamentally in achieving excellent practices and results with their KAM. Therefore, our concept offers a full overview on the relevant aspects.

Secondly, Peter could use the St.Gallen KAM Concept to structure an individual KAM approach for Johnston & Mayer. Here, we strongly recommend to differentiate the operational from the corporate KAM because different target groups are responsible for each. The St.Gallen KAM Cycle (operational KAM) should be used to set up or optimise Peter's activities and those of his sales force. Tools and instruments, that we could not

describe here in detail, are at hand for analysing and realising. By using them Peter and his sales force will work more systematically and professionally and achieve better results. Peter is also in charge for suggesting solutions for Corporate KAM. From our experience we recommend to delegate these tasks to a special project manager when KAM has to be implemented from scratch. Otherwise there is a risk that Peter Levers could not do that job properly because of his existing work load as Head of Sales. Nevertheless, Peter or a project manager could use the St.Gallen Support Elements to design an own KAM approach for Johnston & Mayer. The critical questions can be answered systematically and the programme can be developed individually. Existing KAM programmes can be assessed and evaluated.

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