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Customer Value and Key Account Management

Much is talked about key account management – what is it and what are the key elements of success?

Most companies or businesses serve a substantial number of customers of varying size and importance. Some customers are easy to please, some more demanding. Some are long-standing customers, where a relationship has evolved over time, others are new or relatively recent accounts. In many industrial and business-to-business markets the time-served *80:20 rule* still applies and is relevant (i.e. 80% of the sales revenue or even 80% of the profit is generated from 20% of the customer base). In some cases, it can even be 90:10.

This begs the question: are ALL customers important or are some more important than others? Not such an easy question to answer as it may seem to be on the surface. If we take a snapshot picture of today's business at any company, in many cases an analysis of the customer turnover and profit will show that a relatively small proportion of the total number of customers do indeed represent a very high proportion of total revenues or profit. Such customers would normally be regarded as Key Accounts and would merit special attention and treatment.

Challenge number one: *is absolute size or relative share of total sales/profits a meaningful basis for determining key accounts.* Answer, yes.....BUT.

But... It is certainly not the only meaningful basis for identifying or classifying an account as key. Other criteria for determining whether an account is a key account might include:

- what is the size of the total potential business revenue or profit represented by that account?
- is there a greater potential when we take into account sales by other business units?
- is the company a leader in its market?

Figure. 1: A Customer Pyramid.



Practical Marketing for Value Growth

WE DO while others only talk

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Even when we have identified our Key Accounts, the open question still remains – so what and what are we going to do about it? This should lead us to consider whether we need to or want to treat some classes of customer differently from others. But before we tackle that question, perhaps we can examine a simple tool to help with the customer classification: the customer pyramid, which essentially starts with the premise that there are lots of entities in the World, some of whom might be suspected to be potential customers, some of whom might have been identified or even qualified as prospective customers, yet others might be lapsed accounts, some may be active accounts (amongst whom there might be small, medium and large in size) and some who merit special attention as key accounts. This pyramid can help us to identify and classify all customers and potential customers in the market into one of these levels.

Fine, but what does that mean?

Challenge number two: *do we just focus on the key accounts?* Answer: no.....BUT.

Ignoring or de-emphasizing accounts not classified as key can be potentially very dangerous, as there may be significant pieces of potentially very profitable business lying hidden at those “non-key” accounts. A more enlightened approach would be to develop a set of service standards and rules for treating and dealing with each class of customer.

To this end, we might use our pyramid again

Figure. 2: Customer Service Standards (Example).





For some companies or business units, it may even be meaningful and helpful to refine this customer classification further, for instance by introducing a customer segmentation. In this example, customer needs-based segments are combined with the customer classification pyramid to define a fine-tuned business model as a basis for the customer service standards.

Figure 3. Customer Strategies According to Customer Segment and Class

KEY ACCOUNT	<i>E-Business Services</i>	<i>R&D Partnership Program</i>	<i>Favoured Nation Service Program</i>	<i>Advanced Key Account Management</i>
LARGE CUSTOMER	<i>E-Commerce</i>	<i>Joint R&D Program</i>	<i>Tailored Service Package</i>	<i>Customer Service Package</i>
MEDIUM CUSTOMER	<i>Contract pricing</i>	<i>Product Develop Program</i>	<i>Preferential response and delivery</i>	<i>Named Contacts Program</i>
SMALL CUSTOMER	<i>Spot pricing</i>	<i>Distributor Product Offer</i>	<i>Distributor Service Offer</i>	<i>Distributor Key Account</i>
INACTIVE CUSTOMER	<i>Explore reasons for inactivity; develop potentials, de-emphasize non-potentials</i>			
PROSPECT	<i>Reactive quote</i>	<i>Sampling</i>	<i>Develop meaningful offering</i>	
SUSPECT		<i>Investigate customer needs</i>		
REST OF THE WORLD		<i>Reactive qualification of customer</i>		
	PRICE BUYER	PERFORMANCE VALUER	SERVICE VALUER	RELATIONSHIP VALUER

Applying a customer segmentation/classification grid can lead to clearer and more differentiated offerings being made to identified target customer groups. Customers value the offering more highly, because it is tailored to their needs and is clearly communicated by the customer facing representative (whether account manager, field seller, office-based seller or other contact person).

Such a grid can also help your internal staff to understand better what they should and should not offer to different customers and also helps them to understand WHY there are different offerings for different customers.

Key accounts clearly are important, but they should not consume all the attention or resources of your business unit or company. There has to be a balance, such that non-key accounts do not become neglected, but also receive an appropriate level of service.

Remember lost customers cost between five and twenty times as much to replace in comparison to continuing to serve existing customers.



About the Author

Phil Allen runs the Marketing Excellence Practice, MarketAbility, serving a broad base of clients in the construction, chemicals and energy sectors covering all aspects of improving business profitability through applied practical marketing, customer value management and key account management. He counts more than 30 years of practical experience in marketing and sales.

MarketAbility operates both at global and local levels around the world.

In a recent profile of MarketAbility on EuroNews, Juan Senor, International Business Writer, praised MarketAbility for its unique and practical approach to business value creation.

Phil is the founder of the Customer Value Management Circle of Excellence (www.customer-value.org), a learning and sharing organisation for all involved and/or interested in managing customer value and building customer loyalty.

He is co-author, with J. Nicholas de Bonis and Eric Balinski, of the book "Value-Based Marketing for Bottom-Line Success", to be published by McGraw Hill in November 2002. Visit <http://www.pentadigm.com>

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