

Analysis

Customer value and key account management

Most businesses serve a substantial number of customers of varying size and importance. Some are easy to please others more demanding. Some are long-standing customers; others are new or relatively recent accounts. In many industrial and business-to-business markets, 80% of sales revenue or even 80% of the profit is generated from 20% of the customer base.

Are all your customers equally important or are some more important than others? This is quite a difficult question. If we take a snapshot of today's business, in many cases an analysis of the customer turnover and profit will show that a relatively small proportion of all the customers represents a very high proportion of total revenue or profit. These are normally seen as key accounts and merit special attention and treatment.

While absolute size or a relative share of total sales/profits is a basis for determining key accounts, it is not the only criterion. Other criteria might include: the size of the total potential business revenue or profit represented by that account; whether there is a greater potential when we take into account sales by other business units; and, if that is

company a market leader.

Even when we have identified key accounts we should consider whether we need to, or want to, treat some customers differently to others.

A simple tool to help define our customer is the customer pyramid. This attempts to divide the world into:

- suspected potential customers;
- identified or qualified prospective customers;
- lapsed accounts;
- active accounts of varying size; and,
- some key accounts.

All our customers and potential customers fit onto one of these levels.

Fine, but what does that mean? Should we focus on key accounts? No: ignoring or treating non-key accounts with less emphasis potentially can be dangerous. There may be significant pieces of profitable business hidden in non-key accounts. A more enlightened approach is to

Key account	E-business services	R&D partnership programme	Favoured nation service	Advanced key account management
Large customer	E-commerce	Joint R&D programme	Tailored service package	Customer service package
Medium customer	Contract pricing	Product develop programme	Preferential response and delivery	Named contacts programme
Small customer	Spot pricing	Distributor product offer	Distributor service offer	Distributor key account
Inactive customer	Explore reasons for inactivity; develop potentials, de-emphasis non-potentials			
Prospect	Reactive quote	Sampling	Develop meaningful offering	
Suspect		Investigate customer needs		
Rest of the world		Reactive qualification of customer		
	Price buyer	Performance valuer	Service valuer	Relationship Valuer

Customer strategies according to customer segment and class

develop a set of service standards and rules, for treating and dealing with each class of customer. So, back to the pyramid.

For some companies or business units, further refining customer classifications may be helpful; this could be by introducing customer segmentation. In this example, customer needs-based segments are combined with the customer classification pyramid to produce a fine-tuned business model as the basis for customer service standards.

This kind of grid can lead to clearer and more differentiated offerings to identified target groups. Customers value such offerings highly, because they are tailored to their needs and are clearly communicated by the cus-

tomers-facing representative. This person could be an account manager, field seller, office-based seller or other contact.

These grids can also help internal staff to better understand what they should and should not offer to different customers. It also helps them to understand why there are different offerings for different customers.

Key accounts clearly are important, but they should not get all the attention or resources of your business unit or company. There has to be a balance, so non-key accounts receive an appropriate level of service.

Remember lost customers cost between five and 20 times as much to replace as continuing to serve existing customers.

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, international business writer Juan Senor praised MarketAbil-

ity for its unique and practical approach to business value creation.

Phil is the founder of the customer value management circle of excellence (see 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 coauthor, 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 www.pentadigm.com and find out more about MarketAbility at: www.marketability.org.

