00764_01_001-023 r1.qxd 10/14/05 9:34 PM Page 1

CHAPTER 1

GLOBALIZATION AND GLOBAL CUSTOMERS

Prologue

In the set of prologues in this book we follow four characters, based on real-life encounters. Each character comes to global account management from a different perspective. Each character's organizational position has been strongly influenced by recognizing that increasing globalization has led to the emergence of a new type of customer—global accounts that make procurement decisions on a global versus domestic or multi-domestic basis. Each character accepts that global account management is the way for firms to address these accounts, but each has to deal with a different set of issues.

Global Accounts Managing in the Real World

Back Bay, Boston

***Todd** rushed to the apartment door, paused and looked around in a vain effort to see what he might have forgotten. Things always seemed to be rushed since **Todd** became a global account manager. As he flopped into the airport limousine he contemplated what faced him: four connecting flights to Japan and crappy coach class all the way. Cut-backs, huh! The company acts like they're doing me a favor just by letting me travel internationally, but then all of our global account managers are in the same rocky boat! No matter, this trip I will get the Japanese customers even more on board. Then, just maybe, my management will get the bean counters to stop giving me such a hard time. Sometimes I think management just doesn't get it. I wonder why we seem to be cutting back on the global account program when we're losing business to other firms.*

Prudential Center, Boston

*The intercom buzzed—"**Constance**, your car is waiting; whenever you're ready." Her assistant's voice on the intercom always caught her off guard. Since becoming CEO, **Constance** had so many things on her mind. She scanned her email for anything that couldn't wait until after the Board meeting, gathered her travel gear, and headed for the office door. Being tied up* *in meetings for the next couple of days doesn't give me time to think about strategic issues. But Jack Simpson has been trying to get me to focus on our global account management program. Better alert my assistant.*

If Jack Simpson calls, it's about our global account management program, but it will have to wait until I get back. In the elevator, ***Constance*** *remembered the phone call she received from a global customer. The message was all too clear. You're not a global company; you just do business internationally—but not very well or consistently. And your global account manager—he's a nice guy and understands our business but has no authority to make things happen outside the U.S. I just can't view him as a 'trusted advisor.' As she stepped into the limousine and headed for Logan,* ***Constance*** *shook her head. Nowadays everything seems to be global; running a company is so much more complex than it used to be! I really need Jack to bring me up to speed on our global account program.*

American Airlines Check-in, Logan Airport

Jace *took a small step forward; the check-in line was finally beginning to move. Normally, she wouldn't be checking luggage for such a short flight but her final consultant reports were too cumbersome for a carry-on bag. She could have sent them ahead but she wanted the satisfaction of putting her report in the CEO's hands. Her clients always liked that and she got a sense of satisfaction from delivering her recommendations in person. She mused, My job is all about observation. It sounds so simple before you have to write the report. They're having so much trouble building the internal values for global account management. They can decide what they want at the top, but you've got to get everyone on the same page or it just won't work.*

American Airlines Departure Lounge, Logan Airport, Boston

*"**George**, just listen to me." Bill, one of his more outspoken global account managers, seemed more upset than usual. "I'm spending a quarter of my time reconciling revenue with my team's compensation. Country management is not giving me the support I need to win deals. The company hired me to win and we both know I'm damn good at winning! Come this November, if things don't change, I'm going to have to think about moving on."*

George *held the cell phone close to his ear. If Bill screamed any louder his fellow travelers would be sure to hear him. Since* ***George*** *had been promoted to global account director it seemed there'd been nothing but pain and irritation. Bill doesn't mean it, he thought. He won't leave. I know things are a mess. Still, the thought of losing his best global account* *manager was scary. Good global account manager material was hard to find. "Bill, when I get back, let's talk . . . You know I back you all the way. I'll talk to the country managers and area heads and get this straightened out. Trust me. Going global is very important to top management. They really do want it to work effectively. Listen, I gotta go, they're calling my flight."*

Soul Mates!

George and *Todd*

As he leaned forward, ***George*** *noticed the wry smile from the man in the next seat. He recognized the smile—the "eavesdropping" smile. Although they hadn't met, something was oddly familiar about this man. "Sure it was just a white lie,"* ***George*** *said to the eavesdropping stranger, "But I had to get him off the phone so I could have some time to think. He really was uptight and I can't afford to lose him."*

Todd recognized the conversation. "I know where he's coming from. I had a similar conversation last week. You and I have a lot in common— ***Todd Jenkins****." George looked puzzled. "* ***George Marshall****—good to meet you. You're a global account program director?"* ***George*** *asked; perhaps he had found a soul mate. "No, I am a global account manager." So that's why he looked familiar, the knowing look of a global citizen.*

"I was a global account manager up until a few months ago. Then the executive team asked me to manage our global account program. Where are you off to ***Todd****?" "Japan,"* ***Todd*** *said almost braggingly, "but I have to take four connections." Four connections!* ***George*** *thought that was unusual. "They have direct flights from here. I know, I've taken them myself,"* ***George*** *offered.* ***George*** *should have guessed* ***Todd****'s response. "Well, the squeeze is on us these days. I'm used to flying coach but a 32-hour trip in coach is a lot, even for me."*

George *saw an opportunity to hear views on managing global accounts from someone outside his company. "What seat are you in* ***Todd****? Maybe we could chat on the flight. I would be interested in your views."*

Constance, George and *Todd*

As ***Constance*** *stood nearby, she couldn't believe the conversation she'd just heard. This global account stuff seemed more prevalent than she had thought. Maybe she better call Jack when the plane landed and get him on her calendar.*

Listening to these guys triggered some of the doubts she had on the value of a global account program. There were so many competing claims on her *time and valuable firm resources. **Constance** sometimes wondered if it was smart to set up the global program in the first place. Yeah, better call Jack. But, maybe I can get some insight from these guys?*

Jace, Constance, George and *Todd*

*The woman seated next to **George** seemed to be taking in all the conversation. **George** turned toward her and commented, "And are you getting all this?"*

*She responded coolly, "Well, I was listening, not sure if I really 'get it' either, but I am working on some answers related to managing global accounts." **Todd** laughed, "Are you a global account manager or global account director?"*

*"None of the above," **Jace** replied, "**Jace Cleardon**, I'm a consultant. I help design and fix companies' global account programs. Right now I'm headed to a client whose program really needs help – I think I've a few suggestions."*

***Constance** had remained silent up until now. She had to challenge this consultant. "And you have the magic five-minute answer?" said **Constance** sarcastically. "I'm very wary of consultants. It seems to me that global account management may mean different things to different companies." **Jace**'s reply was expected. "I couldn't offer firm recommendations without looking at your company. But, at the least, I believe there are some general principles to follow."*

***Constance** was impressed at the straightforward response. This could be another source from which to gain some insights. **Constance** introduced herself to the group. She pulled out business cards and offered one to **Jace**. "My name is **Constance Bennett**. I'm CEO of Bennett Industries International. Where are you seated? Maybe we could chat some more." Then there came an announcement.*

> We regret that American Airlines flight 147 to New York's La Guardia Airport has been delayed due to mechanical problems. We are hopeful that this will not take too long to fix. Please do not leave the terminal and listen for updated information.

*"Hey, let's go get a drink," said **Todd**, cheerily smiling at **George**, "My global account director is paying." With that invitation, the four new acquaintances headed for the bar. Each was thinking this could be an opportunity to gain greater insight into managing global accounts.*

Fundamentally, this book is about achieving corporate success and organizational survival in the 21st century. In particular, it focuses on developing and sustaining mutually beneficial relationships with your most important global customers. Not just the global customers you have today, but also those potential global customers that are right now developing their strategies for expanding into global markets.

That said, many firms now find they are deriving an increasing proportion of their revenues, and profits, from fewer and fewer customers. These fewer higher-value customers thus become increasingly critical to corporate health. Indeed, these customers are your "real" core assets, even though they do not figure explicitly on your balance sheet. Because they are more important than "average" customers, the firm must place increased emphasis and resources against them.

During the past 20 years, many firms have stepped up to the challenge of customer asset management by developing strategic (or key) account programs. These programs are an organizational response to increasing revenue and profit concentration. Many firms have secured great success in focusing their efforts on major customers (actual and potential) and developing the appropriate strategies, line organizations, systems and processes, and human resources to serve them. Typically, these efforts have been conducted within domestic country organizations. Strategic/key account management achieved great success so long as customers made their procurement decisions on a domestic basis.

But suppose these critical customers evolve their procurement decision-making into a different model. For example, the customer wants to place a single global order for the firm's products, to purchase similarly designed products, and to negotiate a single price, or at least a set of prices with high transparency and comparability. These products will be delivered to the customer's various sites in many countries around the world, and the customer desires equivalent service regardless of whether the delivery point is in an advanced Western country or less-developed country (LDC).

In this scenario, the domestic strategic account management model simply does not work. The supplier has no framework, strategy, organization or processes with which to negotiate an arrangement with this global customer. Who would conduct the negotiations? What process would the supplier use to assure equivalent service levels around the world? Who would negotiate-price? Indeed, does anyone have the authority to set a single global price? To put it bluntly, the multi-domestic (or multinational) supplier cannot satisfy this customer's need for conducting business globally, even though the supplier itself may operate in many countries around the world.

The supplier will lose this business to a competitor that has invested in addressing its customer on a global basis.

Consider the following illustration from Xerox. A "Print-for-Pay" customer wanted to expand internationally in an aggressive manner. The customer was very happy with the domestic U.S. Xerox relationship but was having trouble with Xerox's foreign operating companies. The customer wanted to leverage its global buying to secure better product prices in various countries. The trouble included being told by the managing director in Xerox, South Africa that there was no reason why it should get better pricing than the largest domestic customers (even though global billings were significantly greater). In addition, Xerox prices for servicing customers in Japan were three to four times higher than in the U.S.

Or consider the experience of a European firm with annual revenues of about €150 million. Top management decided to introduce a new management process focused on those accounts that were shifting from multidomestic-focused procurement to global procurement. The response from middle management was very clear: "We have 10-year contracts and excellent, long-term relationships with all of our major customers. There is absolutely no need for a costly program to address these global accounts. Our business is different and we know all about it." Seven months after top management's directive (not implemented), the firm's leading customer switched to a competitive supplier. Overnight, the firm faced a 26 percent loss of business in its core division and a 12 percent overall corporate revenue loss. The CEO was quite unhappy when he met with financial analysts and business journalists.[1]

The focus of this book is on developing and managing global customers. In the following chapters, we present a framework for developing a global account program in the form of nine critical success factors. To be successful in global account management, and deliver value both to your customers and to the firm, you must address each of these critical areas. We do not pretend that this will be easy. Senior management will have to be involved in matters that historically it has left to others. You will probably have to reformulate your line organization and accept all of the personnel dislocations that accompany such changes. Without question, your domestic or multinational systems and processes will not be adequate—you will need to make considerable investments in new systems and processes designed to serve global customers. And where will you secure your global account managers, the focal point of all global customer activities?—the complexity of the global account manager job is so enormous that the human resource implications are quite staggering.

[1] Personal communication from Professor Christoph Senn, University of St Gallen, St Gallen, Switzerland.

If you decide to seriously address your global customers, and we believe that a failure to do so may ring the death knell of your firm, much will have to change. But we believe that in the pages that follow, you will find the constituent elements that will allow you to construct your own road map to address what we believe is one of the critical managerial challenges of the 21st century. Quite simply, global customers are here to stay; to survive and grow, you must "get with the program!"

As we enter the 21st century, business organizations in all nations face many forces for change. Perhaps none is greater than globalization—"the inexorable integration of markets, nation-states and technologies to a degree never witnessed before in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before."[2] Notwithstanding the anti-globalization movement and the dangers of terrorism for global business, we expect the path of globalization to continue largely unchecked.[3]

So what does globalization mean for companies in the 21st century? Should we refocus completely and concentrate solely on international business? The answer, of course, is no! We do not suggest that meeting your client's "local" needs is dead. Rather, as Friedman points out, "The challenge in this era of globalization—for countries and individuals—is to find a healthy balance between preserving a sense of identity, home and community and doing what it takes to survive within the globalization system."[4]

The bottom line is that the globe is getting smaller and companies must learn to operate in this new environment. Many firms that, in earlier times, would never have contemplated moving out of their home markets are now forced to do so. On the one hand, they face increased competitive pressure domestically; on the other hand, new opportunities beckon abroad. Of course, operating overseas is not a new experience for many large U.S., Japanese, and European companies. They have traded abroad and operated overseas subsidiaries for many years. But, even for these old international business hands, they cannot manage today's global customers by yesterday's models.

Customer strategies are now increasingly global in scope, and demands placed on their suppliers are ever more complex. Many customers seek supplies and

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[2] Thomas L. Friedman, *The Lexus and the Olive Tree: Understanding Globalization*, New York: Anchor Books, 2000, p. 9. See, also, Friedman's follow-on book, *The World Is Flat: A Brief History of the Twenty-First Century*, New York: Farrah, Straus and Giroux, 2005.

[3] The more recent growth of the countervailing anti-globalization movement, most evidenced by demonstrations in Seattle, Genoa, and New York at the turn of the century, is of itself an affirmation of the strength of the globalization trend.

[4] p. 42.

suppliers worldwide and want to make global supply arrangements. As a result, managing global accounts is increasingly a requirement for suppliers. Customer pressures have risen to new levels and they demand ever-greater efficiency in field operations and work processes. Quite simply, the new environment of emerging global customers requires a very different approach from the past.

When corporations started to operate internationally, they developed organizational structures and processes to manage their increasingly far-flung organizations. Initially, many formed international divisions. When foreign operations increased in importance, geographic regions and global product divisions became very popular. Later, some of these morphed into complex matrix organizations. Depending on the circumstance, these structures were more or less viable for firms becoming increasingly multinational in scope. To a very large extent the *raison d'être* of these systems was to manage the firm's business in individual countries. In many cases, country management was the fundamental organizing unit and, regardless of the overarching structure, profit and loss (P&L) resided with the country manager. Indeed, in many firms, country managers are "kings," and geographic-area heads are powerful executives in the corporate pantheon.

Unfortunately, very few corporate organizations anticipated the transformation required to satisfy the needs of global customers. Rather, the evolving organizational approaches just discussed were largely concerned with addressing *differences* in customer needs across various geographic markets. For example, Brazil is different than France. Generally speaking, these approaches were not concerned with potential *commonalities* in customer needs across markets.

An underlying reality of globalization is that *individual customers wish to be treated similarly no matter where in the world they operate*. A few years ago, most customer headquarters had little information on supplier relationships in remote operations. That state of affairs has changed dramatically along with vast improvements in information technology (IT) infrastructure. Customers now have increased visibility to their own activities. They also know more not only about your products and services, but also about competitive alternatives. And, they have a much better handle on the prices of all offers globally. For these and other reasons, they increasingly want to make procurement decisions on a global basis.

As noted above, in recent years many companies have implemented some form of account management—variously described as key account management, national account management, or strategic account management—to address the needs of important customers. All of these programs share one common denominator. They focus on building relationships and placing selling effort at the account's headquarters location. These programs have generally brought suppliers and customers closer together by addressing a host of strategic, structural, human resource, and process issues. And, most of these programs operate domestically, within a given nation-state.

Globalization requires a new approach to strategic customer management. Generally speaking, programs for global customers "grafted onto" existing organizations bear bitter fruit. Rather, practices for operating globally must be melded with the developing practice of key/strategic account management to develop a new synthesis. Firms must develop strategies, structures, processes, and human resources that are responsive to the challenges presented by major customers as they increasingly make their procurement decisions on a global basis. In the pages that follow, we develop the meaning and methodology for managing global accounts. And, we present a blueprint for addressing global accounts by identifying the critical success factors for developing and operating a successful global account management program.

Some major changes occurring today that must be addressed by a global account management program are captured in Table 1.1.

Table 1.1 The Changing View

Old Way	New Way
Supplier focuses on client's local needs	Customer requires focus on global needs
Supplier offers differentiated products around the world	Customer demands identical products and services worldwide
Supplier discriminates price by geography	Customer demands price transparency worldwide
Supplier focuses on sales revenues and profits in current year	Customer treated as an asset with a lifetime value
Supplier has strong sales capabilities in local markets	Customer requires strong headquarters relationship
Supplier accountability for client is fragmented by geography	Customer demands single point of accountability
Supplier focuses on individual products locally	Customer requires value with solutions globally
Supplier differentiates on product and price	Customer evaluates differentiation via global relationship and worldwide business experience with supplier
Supplier utilizes transaction pricing and bid response to gain business	Customer pursues long-term global contracts to lock in preferred partner status
Supplier focuses complete attention on its direct customer	The direct customer is well served when the supplier helps grow the customer's relationship with its customers

The New Challenges of Globalization[5]

The growth in globalization has critical implications for suppliers.

- Customers are more demanding and more sophisticated.
- There is a new look to competition.
- Global business is more complex and fast changing.
- Highly competent global account managers are in short supply.
- When it comes to global account management, not everyone "gets it."

Customers are more demanding and more sophisticated

Your customers, particularly your strategic customers, are your firm's most critical assets. The complexity and change wrought by globalization have a major impact on your interface with these customers. Global customers place demands on suppliers that are qualitatively different, and much greater, than demands placed on domestic suppliers. The global customer wants to be treated exactly the same in every place it operates. It wants to purchase identical products regardless of destination country—the global customer has little patience with local variations. And it wants the same price, or at least high transparency of price differences. And it wants those products serviced with the same high standards wherever it chooses. If the global customer decides to do business in Paraguay or Benin, it expects the same level of service that you provide in France or Japan. What? You don't have an operation in Paraguay? Well, you'd better figure it out!

This increased pressure comes from significant change in your global customers' procurement processes. These changes lead inexorably to greater scope and power for procurement executives. In particular, customers are refocusing on core competence and seeking flexibility by reducing operating leverage. They may reduce fixed costs by vertical disintegration such as General Motors' and Ford's spin-off of parts suppliers Delco and

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[5] For other literature on global account management, see, Kevin Wilson and Nick Speare with Samuel J. Reese, *Successful Global Account Management*, London: Kogan Page, 2002 and H. David Hennessey and Jean-Pierre Jeannet, *Global Account Management*, Hoboken, NJ: Wiley, 2003. See, also, Julian Birkinshaw, Omar Toulan and David Arnold, "Global Account Management: Linking External Demands with Internal Abilities," in J. Birkinshaw and P. Hagstrom, eds, OUP, 2000; Julian Birkinshaw, Omar Toulan and David Arnold, "Global Account Management in Multinational Corporations: Theory and Evidence," *Journal of International Business Studies*, 32(2-2001), pp. 231–248 and Julian Birkinshaw, "Global Account Management: New Structures, New Tasks," *Financial Times Online*, © 2001.

Visteon respectively.[6] Alternatively, they may simply buy in parts or complete products—carrying their own brand names—that previously were produced in-house. Regardless, the proportion of total company costs controlled by procurement is increasing.

Two implications follow. First, customers implement centralized procurement to manage costs downward. For the global customer, this means global procurement and multi-year global contracts. Second, this is not a job for traditional purchasing agents operating in a backwater characterized by dull operating routines. With increased procurement dollars on the table, top management needs a new breed of procurement executive very different from the purchasing officers of old. Today's procurement executives are highly visible corporate superstars, charged with making critical strategic decisions having a major impact on their firms' bottom lines. None are more highly ranked in the corporate pantheon than *global* procurement executives. For global suppliers, the implication is very straightforward—the intellectual firepower across the table has greatly increased.

Global procurement executives want to deal with a global supplier organization that has the clout to commit to global contracts, yet can also make things happen at the local level. Sometimes they want a deep supplier relationship. Other times they use the Internet to conduct reverse auctions and/or join buying organizations to increase their firm's purchasing power. They want timely, accurate and comprehensive management reports on such agreed metrics as customer satisfaction, billed revenue by category, product populations, repair response time, and uptime. They also want product-design input so your offerings are customized for their unique requirements. On a global scale these technical demands can make life very difficult for suppliers. Not only have the procurement executives' demands become progressively more complex and comprehensive, but their ability to monitor your performance has become more sophisticated. Using the Internet, they can now secure real-time information about procurement and supplier performance around the globe.

These pressures are heightened by a secular shift of global customers to reduce their numbers of suppliers. The old purchasing rules of asking many potential suppliers to respond to a request for proposal (RFP) then selecting the lowest bid (or bidders) have been replaced. Under the new mantra, procurement executives know that closer relationships with fewer suppliers offer

[6] Unfortunately for General Motors and Ford, these spin-offs have been less successful than they anticipated.

greater benefits. In addition, prices (from scale economies) may also be lower, and they demand global price equivalence and transparency. Some global customers may even drive for sole-source agreements. As the global customer reduces its supplier base, the demands placed on those remaining increase, but so do the risks. The consequences of not making the cut can be devastating. As an illustration, in late 2000, prior to consolidating its public relations (PR) efforts, IBM reviewed relationships with 50 PR agencies worldwide. New York-based TSI Communications, an important incumbent agency, expected revenues to double. Rather, IBM chose British-based Text 100, an agency with offices in over 30 countries. TSI's revenues dropped by 65 percent and it laid off 70 percent of its employees.

Finally, figuring out how to deal with your customer is not enough. Increasingly, customers want your assistance in dealing with their customers, so that they can secure differential advantage over their competitors. For your global accounts, you must answer such questions as: Who are our customer's customers? What value proposition does our customer offer? How can we enhance this value proposition and help our customers deliver on it? Increasingly, your customers are looking for supplier partners to share the risks and rewards of competing in the evolving global environment.

There is a new look to competition

The competitive landscape is shifting. Depending upon your industry, competitors may range from new entrepreneurial start-ups to savvy global players. Global players present an especially significant threat. Many wish to increase global market share by gaining significant presence in major markets around the world. Where they have no presence, they may partner with local firms—the partner often remains in the background—giving customers the illusion of working with a single global supplier. Or, your competitor may be a channel intermediary—in high tech, it could be a systems integrator or consulting firm (for example, Electronic Data Systems Corp ([EDS] or Ernst & Young) that controls the project and places business with its favored supplier. Even traditional competitors join forces to facilitate large global deals. For example, to secure outsourcing contracts, IBM services non-IBM hardware and software. The client may operate primarily IBM equipment but use Hewlett-Packard (HP) in remote countries. IBM supports these products, and may procure new HP hardware when current hardware becomes obsolete.

Competitors may be based anywhere but they operate everywhere. As global customer demands increase across the board, suppliers are developing global account programs to better address their needs. But global customers are so complex and so demanding that a mere handful of global suppliers are doing this well. For most firms this is a new competitive dimension. Some suppliers will effectively manage demanding global customers—most will not, or will do so ineffectively. Firms that provide consistently positive customer experiences around the globe will be winners in the increasingly tough competitive conflict.

Global business is more complex and fast changing

What sort of a world are we operating in?—One full of change and complexity. For example, the economy shifts from the 1990s boom to the early 2000s bust and the 2003 rebound. Technological change is exponential and the Internet brings quantum leaps. Governments around the world embrace widely ranging perspectives—from a free-market focus and relaxed regulation on the one hand, to tighter control and regulation on the other. Privatization of state-owned enterprises is a continuing trend. Regional trading blocks such as the Association of Southeast Asian Nations (ASEAN), the European Union, Mersocur, the North American Free Trade Agreement (NAFTA), and supranational global entities like the World Trade Organization bind nations closer together. And China is emerging as a major global economic power.

In other times, domestic firms dealt with their external environments in more or less satisfactory manner. Today the game is played on a different field with a different set of rules or, perhaps in some cases, no rules other than Darwinian principles. Operating domestically has never been more difficult but to compete in a global market is something else again—domestic challenges pale in comparison. Forces in the global environment impact both suppliers and their customers. Global suppliers face an environment whose scope of change and complexity is so vast it is difficult to know where to start. And their survival is based on a relatively small set of global customers facing their own similar challenges. We highlight just a few critical complexities, some relating directly to customers (Figure 1.1), others more concerned with internal functioning (Figure 1.2).

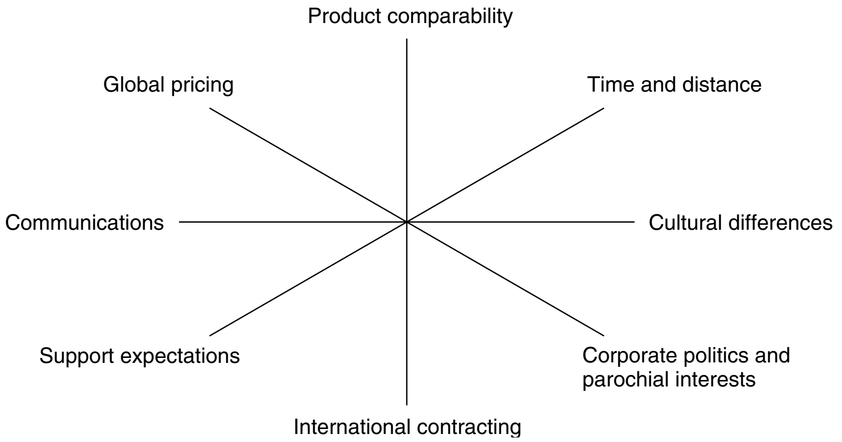

Figure 1.1 Customer-related Complexities

Customer-related complexities

Product comparability

Historically, many companies gave significant autonomy to geographic region and country heads. Customer firms offered products tailored for their domestic environments. Suppliers were happy to oblige with specially designed versions of their offerings. These offerings may have been localized versions of products developed centrally; or they may have been developed independently by individual geographic organizations.

Centralized global procurement organizations do not like multiple versions. In general they prefer standardization. Standardization can present suppliers with enormous problems. At a minimum, such requests cannot even be entertained unless the supplier has a centralized product database. For example, at Xerox, specifications of various versions of products produced in factories around the world are not centrally tracked. The situation is somewhat better at IBM's personal computer division (now Lenovo) where it frequently receives requests from global customers for a standardized *ThinkPad*. Some progress has been made in reducing models but, for example, a single byte design will not work with Japanese or Chinese alphabets. Meeting global customer requirements is a complex operation. For some global contracts, IBM configures total systems, installs software, and adds special features at a central location. The total tested system is "shrink wrapped" and shipped to destination countries ready to plug in.

In addition, global customers often demand concurrent global product availability. Historically, product-launch timetables were frequently sequential.

Now customers demand that new products be available on a global basis simultaneously. During the 1980s, Xerox typically launched products in Europe 9 to 12 months after launching them in the U.S. However, Xerox Turkey launched a recently introduced color copier within 90 days of the U.S. launch.

Global pricing

Traditionally, suppliers used geographic segmentation to set prices around the world. For example, a U.S. supplier might price low in its domestic market, higher in Europe and Organization for Economic Cooperation and Development (OECD) countries, and even higher in the Third World. Pricing methodologies involved cost mark-ups for transportation, duties and tariffs, and exchange rates. More often, they were driven by opportunism regarding what prices were acceptable in different countries. Where product was scarce and competition weak, companies would tend to increase prices. Alternatively, some companies priced high domestically but lower in foreign markets—especially if they sought a toehold. (The large number of anti-dumping cases is testament to this practice.)

Pricing is far less simple when the customer procures globally. Global procurement executives want identical or, at least, highly similar prices around the world. And they can do the math. They understand transportation costs, exchange rates and import tariffs. They wonder why, accounting for these matters, prices for similar products delivered in different countries are not the same or, at least, very similar. In general, the global customer is uninterested in the cost or location of manufacture. Quite simply, it wants similar prices for similar products, no matter where manufactured and delivered. Setting global prices is a tricky proposition. And lowering prices for large global customers, but keeping them high for local clients, will quickly sink your ship. Finding the right formulae and making sound business trade-offs in pricing is a critical customer-related global complexity.

Time and distance

Suppose one morning your national account manager in Boston, New York, or Atlanta wants to communicate with a colleague or customer in San Diego, Los Angeles, or San Francisco. He only has to wait until lunchtime to make a phone call. Or, he can be face-to-face with the manager after a 4- or 5-hour plane trip. For local personnel and their domestic colleagues in most other countries the situation is even simpler.

It is a very different story for global account managers. Assuming an 8-hour working day, two-thirds of the world is out of sync. Further, for countries on the other side of the world, night and day are in complete opposition. And to travel from New York to Hong Kong (or pick your own two cities) may require a 24-hour trip with all the attendant problems of jet lag and sleep deprivation.

Quite simply, communication within a global company and with global customers is just much more difficult than it is domestically. Of course, the Internet, e-mail, chat rooms, and videoconferencing have eased communication difficulties, but they still remain a formidable challenge. Quality customer relationships still demand the personal touch that "high tech" solutions cannot provide. This is just much harder in the global environment.

Communications

In addition to time and distance challenges, the world does not speak a single language, even though English is becoming the language most widely used. The global supplier must make special efforts to aid communications within the firm and across the supplier/customer boundary. It may be difficult to find personnel with the required language skills. And when translators are required, it may be difficult to secure technical fluency. With even the best translators, the possibilities for miscommunication are legion for both verbal and written communications.[7]

Cultural differences

We all know that cultural differences can cause tension or problems in international business transactions. Although there are increasing numbers of "internationally savvy" business people, most individuals remain tied to their native cultures. Some critical cultural factors comprising business etiquette such as tone of speech and social behaviors are very culture-specific. And they can "make or break" a deal. For example, a U.S. technology firm was well placed to win a major contract from a Chinese firm. However, at a banquet given by the Chinese company, a senior U.S. manager started eating before the host, a cultural no-no. A French firm won the contract: its technology was inferior, but the Chinese felt more comfortable.

[7] Consider, for example, the scene in the movie "Lost in Translation," when the Bill Murray character is taping a commercial.

Support expectations

As your relationship with global customers grows, they realize the increasing importance of their business to your revenue base. They may demand your "best people" for every task. They do not want to be covered by agents, dealers, or concessionaires. They expect easy access to your senior management and they want high-quality global account managers who can solve problems and meet their needs quickly and effectively. In short, they expect to be treated commensurate with their status as one of your most important accounts.

International contracting

Global customers increasingly want global contracts. The logistics of creating a global contract are often complex. Your firm must develop a legal and business practices system so that offering a global contract is a matter of course. In the mid-1990s, IBM had a major contracting problem. Its aggressive service strategy coupled with customer-requested changes in how to contract left it unable to quickly deliver executable contracts. When customers requested a single global contract, it could take the legal and business practices team several months to secure sign-off from local countries. Requested terms might conflict with local country laws—warranty liabilities often differed across country. Typically, the lead country received amended contracts from individual countries. The reams of paper stapled together were unintelligible. Customers were dissatisfied and opportunities were lost.

IBM dealt with the problem by forming a worldwide legal and business organization. Staffed by legal specialists, the team developed a single global contract. The language was simpler, and redundant language was reduced into a global set of terms and conditions. And the team responded quickly to specific country requests by adding the necessary terms and conditions in a country-by-country exceptions section.

Corporate politics and parochial interests

Despite the shift to global procurement, it may not be universally accepted within the global account. The global account manager may find himself or herself stuck in the middle of a power struggle between the customer's corporate procurement organization and local management. Headquarters expects him or her to "enforce" a global agreement. Local management resists, believing the global agreement is not in its interest.

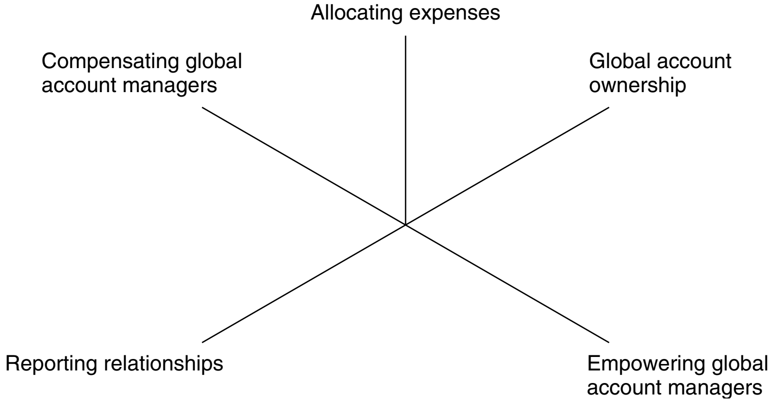

Figure 1.2 Supplier-related Complexities

The relationship is strained locally, and headquarters management is disappointed. The global account manager cannot win. Even a simple headquarters request to "keep us informed" of global business activity may cause local management to view the global account manager as a "corporate spy."

Internal supplier complexities

Allocating expenses

In the multinational firm, revenues and expenses are typically accrued at the country level. Sales activity and customer management is typically focused by country, and country managers develop plans and budgets for their geographic jurisdictions. Typically, these plans and budgets are aggregated to a geographic region. Budgets for global activities present a problem for companies managing customers on a global basis. In a typical case, the global account manager has worldwide customer responsibility but is based in an individual country and reports to the country head.

Suppose that the global account manager needs to visit the global account in another country, perhaps in a different geographic region. Who should pay? The firm may secure increased business but the revenues accrue to a different county manager. For the host country manager, measured by revenue and profitability, this trip is quite negative. She loses the global account manager's time and probably has to pay for the trip. Or, she refuses to pay and the needed trip does not occur. For example, Xerox's global accounts group planned a global account conference in Rochester, New York. European management decreed that Europe-based global account managers could not attend—corporate was not paying and they could not be spared from Europe.

To solve this issue conceptually is not difficult. The problem relates to the complexities of internal planning and budgeting systems, and in-place organizational structures and processes. These sorts of issues typically consume an inordinate amount of executive time and energy and may never be satisfactorily resolved.

Compensating global account managers

One of the more emotional managerial issues is compensation. Decisions around compensation levels typically relate to responsibility, culture, control and power, and may occur at many levels. A critical compensation problem in global account programs is under-valuation of the global account manager. Some firms simply take national account managers and shift their role to global. They do not recognize the considerably greater job complexity, and do not build this into the compensation package. The newly appointed global account manager is disillusioned and dissatisfied with his or her financial compensation.

Culture plays a major role in forming compensation attitudes. Highly leveraged commission and bonus plans typically motivate the average American salesperson. European representatives are less interested in leverage—they want predictability in salary and benefits. The Asian model is geared more toward loyalty and respect. Culture and money issues are not easily solved. Uniformity in compensation is not the answer, but neither are plans that vary widely from country to country. Finding the happy medium is an art form. Further, a $3000 bonus in New York may seem insignificant—in some countries this is enough to quit and start your own company.

Typically, a global account team supports the global account manager. Who should decide the compensation levels for global team members? Who decides on special recognition? And what is the size of the payment? An American-led team may wish to pay team member bonuses. In China, local managers may see this practice as infringing on their power, leading to a loss of face. And how do we compensate an executive whose home location shifts from a high-wage to low-wage country, and vice versa?

Global account ownership

A critical yet contentious issue in addressing global customers is: who controls the business relationship? More specifically, who sets the overall strategy, sales direction, pricing, contract-specifics, and relationship management activities around the world? Frequently, this issue is focused on disagreements between headquarters global account managers and local country representatives (and managers). Other times it concerns disputes between global account managers and business units over product positioning. The fundamental underlying problem is individual employee resistance to actions designed to serve the "greater good." Personal and/or parochial interests must be subordinated or they will interfere with your firm's ability to effectively satisfy customer needs. The challenge for senior management is to align goals and objectives and focus the enterprise on serving the global customer.

Reporting relationships

Many firms use some form of global account management to address global customers. A critical issue is the reporting relationship for global account managers. This comprises two sub-issues—reporting location and reporting level. One naturally reporting basis (for many firms) is geographic. This can cause several problems—a peer support network does not develop, creating a practice community is very difficult, and administrative problems with travel expenses and the like get in the way of serving the customer. Reporting level has a critical impact on getting things done. For example, at many firms, employees gauge a person's influence level by position on the organization chart. This is a critical issue for management to get right as it embraces both the ability to secure competent global account managers and their ability to function effectively.

Empowering global account managers

Closely coupled to the reporting relationship issue is the empowerment of global account managers. What authority should global account managers enjoy—how much and over what areas? This is not a simple question, for the answer differs depending on such issues as reporting structure, company culture, and support network. For example, if global account managers have senior management mentors their authority is on the high side—similarly if global account managers are senior executives. Regardless, you must develop a system such that the customer can be assured that commitments made by global account managers will be honored.

Highly competent global account managers are in short supply

As a managerial practice, in general, key account management evolved out of the sales force. Firms decided that some customers were sufficiently important that only higher-quality/better-trained executives should be given responsibility for such critical revenue streams. Key account manager positions were created, but firms found that good key account managers were difficult to secure.

Global account management *ups the ante*. Customer demands, time and distance, language, cultural hurdles, legal and contractual issues, and greater customer and firm complexity combine to narrow the talent pool. It is one thing to decide strategically to manage customers globally, and another to secure the human resources that will become good global account managers. Simple approaches such as taking key account managers and giving them global responsibility just does not work. Both Xerox and IBM discovered that newly promoted global account managers might not possess passports.

There are many challenges in securing high-performing global account managers. To start with, the firm must clarify the general criteria for effective global account managers, and the specific criteria required for individual global customers. Then it must figure out where to find these scarce human resources. Few executives have the knowledge, skills, abilities, and experience to hit the ground running as global account managers. Those that do may be found in many different organizational positions, or they may not be found at all (or in sufficient numbers). And that is just global account managers—many other organizational positions must be filled to support the global account effort, each with its own criteria for effective performance.

If these human resources cannot be found within the firm, where can they be found? At competitors, customers, or other firms with established/successful global account programs? And when we get them, how do we make them effective? And how do we hang on to those that make the grade? Our experience is that "outside" hires generally have a very difficult time "working the system" for their global accounts. Understanding the idiosyncrasies of company culture and the political power structure takes time. And "behind the scenes" efforts may not be successful in the absence of an "old friends" network.

When it comes to global account management, not everyone "gets it"

The essence of this chapter is that as globalization takes hold several things happen; customers are more demanding and sophisticated, competition gets tougher, business is more complex and fast changing, and highly competent global account managers are in short supply. The managerial challenges of competing in a global world are more difficult in orders of magnitude than competing domestically. Life is especially tough when the corporation is not centrally focused on the global customer—when corporate personnel across functions and around the world do not "get it." To "get it" means understanding at a visceral level that success or failure with global customers may be synonymous with success or failure of the entire enterprise.

In many industries, the competitive focus is shifting from products to services to experiences. In account management, the customer experience reflects the quality of the relationship between supplier and customer organizations. Unless all employees are focused on the firm's relationship with its global customers, competitors that do "get it" will surpass them. Indeed, competitive advantage based on building global supplier–customer relationships may be longer-lasting than competitive advantage based on products or services. Companies cancel products but they less easily cancel people, especially those that have served them well. Is building powerful relationships easy to do? No! It is very difficult. But its difficulty makes it tougher to emulate. Paradoxically, as globalization has vastly increased the challenge for global firms, it has provided the opportunity to build long-run sources of competitive advantage.

But the promise of long-run sustainable competitive advantage can be secured only if the firm truly focuses on serving the global customer. No matter where they are located, all firm employees must understand they are competing in a global world and that success with global customers is the Holy Grail. They must throw off the shackles of ethno-centrism and nationalism acquired in their youths, and embrace the global challenge. Not only should they defend their turf against global competitors but they must do what they can to make their global customers succeed. In pursuing this goal, they may develop a global account management system that in itself becomes a competitive advantage.

Essentially the firm must implement a global cultural realignment. All employees, as individuals and as members of cross-functional, cross-national teams, must align together in the common task. Achieving this alignment is a very difficult challenge.

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Key Messages

- The world is fast globalizing and the relationships with emerging global customers must be addressed in a different manner.
- The firm must be reoriented to serve the global customer.
- The firm must extend its customer focus to its customer's customer so as to secure advantage for both firms.
- Global customers are more complex to address than their domestic counterparts. They are also more demanding and sophisticated.
- Competition is increasingly nontraditional and tougher.
- Traditional sales and management models and processes are no longer sufficient.
- Globalization creates challenges that require innovative and flexible responses.
- A well-formulated global account management program is the means of addressing emerging global customers and the increasing challenges that this implies.