

# Is Your Business Strategy Shaping Your Strategic Account Program?

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*Is your Strategic Account Program an extension of your company's strategy?*

Many Strategic Account Programs are disconnected from the firm's strategic objectives and market place realities. If the Strategic Account Program is not central to your company's strategy formulation and implementation processes, it will have difficulty securing active senior management sponsorship and support. The Strategic Account Program then degenerates into a sales program and salespeople have difficulty getting alignment and commitment from other company functions. If your firm's strategy is both impacted by, and validated through, its relationship with core customers, the Strategic Account Program should be the fulcrum of strategy formulation and have the complete engagement of senior management.

Our objective in this article is to discuss how company strategy shapes Strategic Account Programs—and vice versa. We aim to highlight the *strategic* in Strategic Account Programs. Our definition of a strategic account is quite straightforward: *A strategic account affects your company's strategy either today or in the future.* This definition separates a *strategic account* from other accounts in your

firm's portfolio. Other accounts may be important but do not affect your strategy—even a *global account* (often with high geographic complexity) may not be a *strategic account*. Indeed, many *Strategic Account Programs* dilute their focus and effectiveness by including too many non-strategic accounts. Further, we believe there are several fundamentally different types of Strategic

Account Programs, each related to different environmental contingencies. Of course, this renders problematic a search for universal "best practices"!

As concentration increases in many industries, customer impact on company strategy is likely to become much more direct. As an example, in 1987 strategic accounts for one leading consumer goods company represented 10% of total company sales. Today, a similar number of accounts contributes 35% of sales. In a few years, as global retailing continues to concentrate, this company anticipates over 50% sales from strategic accounts. Global retailers believe effective supply chain management is a central driver of economic value creation for their own customers and shareholders. For consumer goods companies, the ability to build long-term profitable relationships with these retailers is a key element of their strategies.

If your firm does not actively manage its strategic customers, they will very likely manage you! The financial consequences for your company will probably be unfavorable. Your strategic customers will drive *your* strategy or they will look elsewhere for suppliers. If you are unwilling / unable to respond to their requests / demands they will go with alternatives. Just ask Visa about Citibank. Citibank wanted to shift the Visa logo to the back of its credit card—Visa said No! Now try getting a Citibank Visa—you'll have a much easier time getting a Citibank MasterCard! The message of a consolidating market place is clear. Impacting your customer's strategy is essential to maintaining your share of wallet. If you do not play an important role in your customer's strategy, your future share of wallet is at risk.

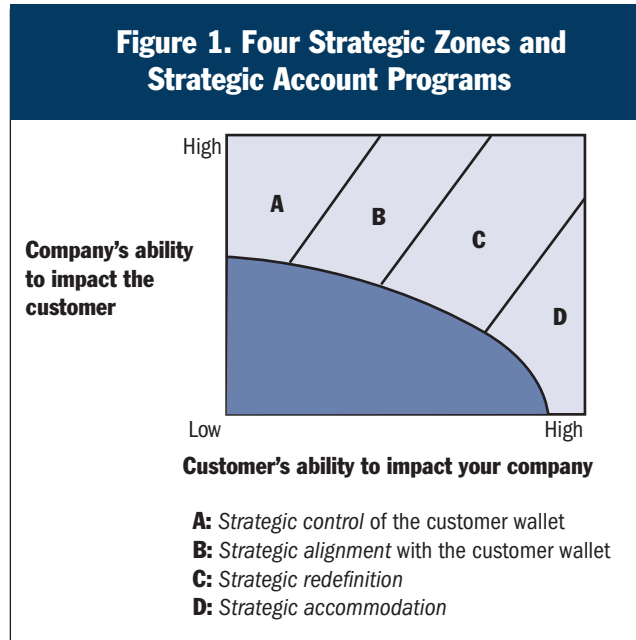
Senior Management should continuously ask itself several critical questions:



- How does our customer's strategy affect its future wallet and our wallet share? What does the customer's strategy suggest about our "product set" for the future?
- What investments can we make to impact our strategic account's strategy? How can we help our strategic account succeed in its market place? How can we enhance our share of its future wallet?
- To what extent can we control the customer's "future wallet"? To what extent are we dependent on our strategic customers?
- How does our relative ability to impact the customer's strategy affect the structure, scope and content of our Strategic Account Program and the profitability of our firm?

in its markets. Your financial strength may open customer options and intimate market knowledge may provide your customer with market opportunities. By

that fall into more than one zone. We suspect, however, that the firm's overall competitive position will largely define where the accounts fall. In other words, one of the four zones will define the firm's relationships with the vast majority of its strategic customers. The firm should develop its Strategic Account Program based on this modal group, then deal with exceptions on a case-by-case basis using the strategic zone framework.



**Zone A: Strategic Control of the Customer Wallet**

This situation typically occurs when the firm offers superior products that enhance the customer's operations and / or allow it to achieve competitive advantage in its markets.

**Strategic Account Management: Impacting the Customer's Strategy, Its Future Wallet and Your Wallet Share?**

Customer impact on your firm's strategy and financial performance is often quite powerful, but it can either be positive or negative. Customers may transfer technology to your firm (or to your competitors) and / or help design your product set. Their financial strength may create options for them that can enlarge / constrain your options. Their pricing power may have a powerful impact on your profits and they can provide / deny you access to their customers. There is always an implied threat of leaving you for other suppliers. Further, backward integration by customers may have a significant negative effect, but outsourcing an activity previously conducted in-house may offer an opportunity.

On the other hand, companies should seek to impact their customers' strategies. You may transfer technology to your customer and / or help design its product set so it secures competitive advantage

working together, firm and customer may be able to address opportunities that neither could attempt alone. Of course, you may decide not to supply a customer with the full level of support you provide its competitors, or you may decide not to supply the customer at all. All things being equal, the greater the dependence of the customer on your products and services, the more likely you will be to earn superior financial returns. In concentrated industries, a significant portion of corporate strategy is based on the relative power and influence the firm achieves with its largest customers.

From these considerations, we identify four distinct zones of strategic customer relationships. Each strategic zone represents a distinct approach to core customers (see Figure 1). The roles of senior management and the strategic account manager, involvement of the other firm functions and metrics of the management process are quite different for each type of Strategic Account Program.

Of course, all strategic customers are not alike, and the firm may have accounts

Typically, there are few viable substitutes and the firm's core strategy is continuing product dominance. The challenge for the Strategic Account Program is creating an environment in which the firm continues to maintain strategic control of the relevant customer wallet. Of course, the customer may not be totally satisfied with this type of relationship. Together with competitors, it may have a keen interest in actively reducing its dependence on your products. *Strategic control* allows the firm to use its Strategic Account Program to exercise pricing leverage and cross-sell products / services. The purpose of the Strategic Account Program is not to maximize customer satisfaction—rather, the firm should seek to manage / minimize customer dissatisfaction! The operational goal of the Strategic Account Program should be to facilitate customer acceptance of its strategic dependence. The danger in these relationships is that the supplier is insufficiently customer-sensitive and provokes the customer to actively seek substitutes. In the future, the firm's monopoly position will inevitably

wane. The firm should avoid training customers to seek retribution by taking their business elsewhere when product uniqueness declines. The Vice President, National Accounts of a large software firm with dominant market shares in its segments puts it this way: "Our clients recognize that their enterprises cannot function without our products. We have a relatively low share of their total IT wallet, but our margins and visibility are extremely high. Our main objective is to maintain these margins, enforce licensing agreements with active involvement of our legal department and ensure that the benefits of our platform are very obvious to all. Quite frankly, we do not do a good job selling additional services. Although these would increase our share of wallet, they are not as profitable. Quite recently, we were able to secure price enhancements in a market with declining IT budgets because product platforms like ours command a premium."

For a firm focusing on *Strategic Control*, its Strategic Account Program will be quite different from Strategic Account Programs in the other strategic zones. *Strategic Control* programs do not need expensive high-level relationship-building coverage and attention. Senior executives need not assume active customer-facing responsibility. Rather, strategic account management should be lean and mean. Strategic account managers should probably have traditional sales career paths and they need two critical qualities. First, they must use their selling skills to identify new buying centers – more opportunities for the customer to buy the firm's proprietary products – then close sales quickly. Essentially, the firm's strategy should recognize that product superiority, premium pricing and low distribution costs allow the company to invest heavily to maintain product dominance. Second, SAMs must be able to say "No!" with a smile. No! We cannot reduce our prices or change our standard terms. No! We cannot increase the level of service we are currently providing. Yes! We could improve the delivery schedule but there is a charge for this extra



service. Institutional relationships are not the name of the game—sales, high margins and building competitive advantage in products / services

is critical. The thrust of the Strategic Account Program is very clear—maximize sales and minimize selling costs.

### **Zone B: Strategic Alignment with the Customer Wallet**

The *partner* relationship makes economic sense when firms are equally important to each other. *Strategic Alignment* with the customer implies a high level of mutual dependence for both supplier and customer. A good example is the well-documented Wal-Mart / Procter & Gamble relationship that significantly benefits each organization. A second example is Boeing's relationship with major airline customers in which both parties recognize the mutual criticality of each other's strategy. A central strategic issue for Boeing has been whether or not to develop a super-jumbo aircraft. In part because of financial pressures on major customers, and in part because of route structures (dominated by domestic U.S. routes and using planes smaller than the 747 for point-to-point flights on International

routes), Boeing decided not to develop this aircraft. By contrast, Airbus customers are financially more secure and their long-haul route structures encouraged development of a super jumbo plane for a few critical hub-to-hub routes. Strategic Account Programs in the alignment zone should focus on multi-level integration—aligning strategic and operational systems at both companies through many supplier-customer interfaces. This customer can seriously affect the supplier's strategy. Equally, since the firm is a *strategic* supplier, its actions affect the customer's strategy. Each firm should recognize this mutual dependence

## **ALL THINGS BEING EQUAL, THE GREATER THE DEPENDENCE OF THE CUSTOMER ON YOUR PRODUCTS AND SERVICES, THE MORE LIKELY YOU WILL BE TO EARN SUPERIOR FINANCIAL RETURNS.**

and understand that the critical goal is for supplier and customer to move forward together. Each firm understands that its success depends upon the other. Of course, some customers may not want this degree of closeness, and identifying customers that are prepared to partner is not an easy task. Even when identified, the process of trust-building typically takes considerable time and effort.

In our previous article, *Managing Strategic Customer Relationships as Assets: Developing Customer Relationship Capital*<sup>1</sup>, we discussed six core processes for building relationship capital with strategic customers. The supplier must invest significantly in building the customer relationship. Continuous investment by all critical company and customer functions in the joint business proposition is essential for maintaining partnership vitality. The strategic account team's goal is to progressively enhance supplier / customer dependence so the firm becomes more important to the customer in the future and vice versa. The account manager should focus attention on the *wallet of the future*—the customer should create

## EACH FIRM SHOULD RECOGNIZE THIS MUTUAL DEPENDENCE AND UNDERSTAND THAT THE CRITICAL GOAL IS FOR SUPPLIER AND CUSTOMER TO MOVE FORWARD TOGETHER.

the product set of the future. By aligning firm and customer organizations, the strategic account manager and coverage team develop ways of influencing the customer's strategic decisions. Through active participation they shape customer-buying behavior so that the relevant wallet for the strategic supplier grows. Strategic alignment with customer strategy works best when the customer recognizes the supplier's role in its market place success. As the customer's wallet grows, the supplier is well positioned to earn a larger share.

### Zone C: Strategic Redefinition

This is the most difficult relationship zone for the supplier. The customer may exert greater impact on the supplier than the supplier on the customer. If the customer is not managed strategically, the firm's financial performance will be at risk. Unfortunately, most Strategic Account Programs we examine fall into this category. As competition in general, and global competition in particular, gets tougher, many once-leading companies are finding that customers perceive their products as commodities. Pricing deteriorates with consequent severe impact on profitability. The challenge for strategic account management is to bring about *Strategic Redefinition* of its value proposition for the customer. The goal is to expand the scope of the firm's offering so the overall impact on customer performance is enhanced. Successful redefinition shifts the supplier / customer relationship from *strategic dependence* (C) to *strategic alignment* (B), or even *strategic control* (A). The short and medium-term goal should be to secure some form of competitive

advantage to shield the firm from inexorable price pressures. When major customers exercise strategic control over your firm your CEO should take the lead, with customer management becoming a company-wide priority.

To shift from unprofitable strategic dependence on customers, the firm must invest significantly in its Strategic Account Program. Considerable human and financial resources must be applied to a carefully targeted group of strategic customers. Firm resources should be deployed to help each strategic customer implement its strategy more effectively, and so improve its financial performance. If the firm cannot demonstrate this ability, it will be difficult to secure sufficient "share of mind" to broaden its product / service offerings and effectively redefine the relationship. The customer must have a clearly defined reason for concentrating more business with the firm. The firm will disengage from strategic dependence only by rigorously focusing on the customer's strategy and adding unique value. It must address the customer's future wallet and develop the necessary skills and resources to supply that wallet with a new product / service mix. As the customer's strategy evolves, the supplier must be

ahead of the game by planning to be ready for what it requires.

### Zone D: Strategic Accommodation

For many companies, impacting their customer's strategy is simply not a realistic possibility. The product / service set is perceived as being too commoditized; customers have considerable buying power and a broad set of choices. The scale of investment required to build customer relationships that have "asset value" is far too high. The Strategic Account Program for firms in this zone is quite different from the other three zones. The focus should be fourfold. First, ensure the firm has a broad diversity of strategic accounts and that revenue concentration is managed effectively. The firm has little leverage over its customers—it must hedge customer exposure by developing a balanced strategic account portfolio for self-protection. Second, maintain profitability at its strategic accounts. Customers exercise significant leverage such that demands for service and extra investment may easily escalate. In these relationships, customers typically seek high degrees of transparency in supplier costs and margins, and sustaining profitability is a serious challenge.



**Figure 2. Differences in Strategic Account Programs**

|   | <b>A</b>          | <b>B</b>             | <b>C</b>               | <b>D</b>                |
|---|-------------------|----------------------|------------------------|-------------------------|
| <b>Strategic focus of customer relationships</b>    | Strategic control | Strategic alignment  | Strategic redefinition | Strategic accommodation |
| <b>Level of customer dependence</b>                 | Low               | Mutual dependence    | Moderate               | High                    |
| <b>Pricing leverage</b>                             | High              | Moderate to high     | Low to moderate        | Low to none             |
| <b>Metrics of program</b>                           | Sales revenues    | Customer asset value | Customer asset value   | Profitability           |
| <b>Focus on today's / future wallet</b>             | Today's wallet    | Future wallet        | Future wallet          | Today's wallet          |
| <b>Level of investment in customer relationship</b> | Very low          | High                 | Moderate               | Low                     |
| <b>Senior management involvement</b>                | Low               | Very high            | High                   | Low to moderate         |
| <b>Type of strategic account manager</b>            | Sales-driven      | Strategic skills     | Strategic skills       | Service delivery skills |


When profitability disappears, the firm should consider deselecting a strategic account. Third, the Strategic Account Program should emphasize responsiveness, high customer service levels and customer satisfaction. With difficult-to-differentiate commoditized products and services, execution ability may be the only enduring competitive advantage. Fourth, personal relationships with key decision-makers are crucial. Customer switching costs are generally low, so personal access, comfort and familiarity with key decision-makers often create the most formidable competitive barriers. Providing continuing cost and convenience advantages for the customer sustains these relationships.

**What Type of Strategic Account Program Should You Have?**

The type of Strategic Account Program your firm adopts is highly dependent on the type of relationships you have with customers and the extent to which your senior management wants to change these relationships (see Figure 2). For many firms, customer strategy anchors their business strategy—and their business strategy is shaped by how they manage their strategic customers. If a company wants to implement

changes to its strategy, one of the most effective tools available would be the Strategic Account Program. Many of the clients that we work with are seeking to reposition themselves strategically from "D" to "B." The challenge for these companies is to get their customers to give them a leading role in the "wallet of the future." This entails substantial investments in strategic customers and a Strategic Account Program that has the active involvement of key products, geographies and functions within the company in developing the products / services that will result in a redefined customer relationship.

A dilemma for senior management in today's competitive market place is that investors most often regard a company as a portfolio of products, not a portfolio of customers. The reporting structure, the asset allocation procedures and, indeed, the governance structure of most publicly-held companies are built around product or geographic business units. Hence, the ability to manage customers across "traditional" business lines has always been difficult. Changes in business strategy are most often manifested by re-allocating resources and investments among products and geographic units. Changes in strategy are most often communicated to investors as "we want to grow in Product

Business X or expand in China," not as "we want to grow our business with Wal-Mart." While senior management in many companies has long been actively involved in customer relationships, few companies have used their Strategic Customer Programs to communicate changes in company strategy to their investors. They have not been willing to subject their Strategic Customer Programs to rigorous external reporting with transparent financial metrics and return targets. If the future economic value of many companies is increasingly in their customer relationship assets, then senior management participation in the management and development of these assets will increasingly be viewed by the financial markets as one of its central responsibilities requiring external accountability. 

<sup>1</sup> Velocity™ Magazine, Volume 5, Number 2, pp. 45-49.

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