ACCOUNT MANAGEMENT BEST PRACTICES

Integrating Science into the Strategic Account Management Process

A Chapman Group White Paper

THE CHAPMAN GROUP
SOLVING SALES AND ACCOUNT MANAGEMENT CHALLENGES

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As businesses move into another era of the global economy – one driven by proven supplier ROI – measurements that provide immediate direction and correction are required. We have already adopted such metrics in various areas of our personal and business lives. One example is the business impact of Global Positioning Systems (GPS) in the transportation industry. Managers of fleets of trucks can change routes, drivers and even individual truck performance on a moment's notice based on dynamic data being received and analyzed by a central GPS system. They could even turn a vehicle off if they thought it was going to be used for an inappropriate purpose (i.e. if there was a security issue, or if a driver was consistently breaking all of the local highway rules, putting himself, the company and others in harm's way).

In our personal lives we live and operate by metrics—the balance of carbohydrates, levels of cholesterol, fluctuations in interest rates and evaluation of a years-old and years-worked formula for retirement. These situations highlight how *metrics, performance measurements against prescribed and recognized standards,* solicit response and dictate action.

Metrics are the science side of strategic account management and will be the focus of this article. We will share approaches and insights into the following seven common questions about metrics and their application in strategic account management:

1. What's driving the use of metrics?
2. How can my organization begin to employ metrics?
3. Which metrics should we employ?
4. What will metrics do both internally (i.e., for our organization) and externally (i.e., the customer)? What will the ROI be?
5. Will my company be able to adopt, and deploy metrics?
6. What challenges can we expect?
7. Are your current metrics working for you?

What's Driving the Use of Metrics?

Strategic account management has been going through a metamorphous for the past 40 years. This metamorphous primarily began with the advent of two big technology players: IBM and Xerox. Many sales professionals and experts recognized these organizations as the epitome of sales excellence, primarily in the art of selling. Many other organizations, in different industries at a very similar point in time, also recognized the importance of the art of selling. The sales world was, and continues to be, saturated with programs on selling excellence. During this evolution, two key contributors to the focus and development of strategic account management were born—the 80 / 20 rule and the cost-of-sale metric.

METRICS PROVIDE KEY CALIBRATIONS TO A CROSS-FUNCTIONAL TEAM ON HOW TO FUNCTION, ADAPT AND STRATEGIZE. METRICS ENABLE AN ORGANIZATION TO INSTITUTIONALIZE EXCELLENCE, IMPLEMENT AND UTILIZE BEST PRACTICES ACROSS THE ORGANIZATION, AND DELIVER RESULTS!

Wages increased during the seventies and eighties, as did the overall cost of sale. It became financially prudent to focus more valuable and often expensive resources on those accounts that represented significant present or future value, revenue and profitability. The goal was to optimize the ROI on sales expenditures and create an alignment of skilled resources to those 20% of accounts that represented 80% of the revenue (80 / 20 rule). Numerous versions of strategic account management programs were launched. Many were successful and many went unheralded. The basic ingredient for success was still primarily hinged on the expertise of the sales representative.

The art of selling and individual excellence were driving the success of a strategic account management program.

It has now been recognized that strategic account management is a team process. *Therefore, the first answer to "Why Metrics?" is that it is necessary to institutionalize excellence through the sharing of best practices across an entire cross-functional account team.*

The business use of metrics was initiated with the advent of quality manufacturing. Quality manufacturing is the predecessor of "Six Sigma." The way W. Edwards Deming (a leader and innovator in re-engineering the manufacturing process during the '70s) positively impacted manufacturing and how "Six Sigma" impacts process engineering, metrics impact strategic account management practices. *The second answer to "Why Metrics?" is that we live in a business world that understands, has experience with, and has bought into the value and use of process measurements.*

The term process measurement is an important phrase in strategic account management. In general, there have been only four key indicators for the past 40 years to denote whether or not an account management process was effective, including:

- Increased account revenue
- Increased account profitability
- The addition of a new strategic account
- Reduced account attrition

All four of these are positive outcomes; they are also "after-the-fact" quantitative sales outcomes (i.e. lagging indicators), not predictors of future activity. In a global business world of escalating costs, reduced loyalty, competitive disadvantage, and similar selling skills (art of selling), businesses need predictors. New metrics are the predictive measurements that provide immediate direction to adapt to change, ultimately leading to a competitive edge.

METRICS ARE PREDICTORS! THEY PROVIDE ON DEMAND INDICATORS FOR CHANGE.

They are counter strategy tools to global competition, escalating costs, reduced loyalty and the neutralization of advanced selling skills—the art of solution selling and account management.

How Can My Organization Begin to Employ Metrics?

Probably more appropriately stated, "My organization needs to employ metrics in its strategic account management practice. What's the best way to make this happen?"

There are three recommended actions you may first want to take:

1. Determine what you currently measure
2. Determine what your systems will allow you to measure
3. Determine what your accounts are expecting you to measure

All organizations can employ metrics. They already do. Sales history, inventory, customer satisfaction results, and seasonal trends are all examples of metrics used in today's businesses. It is recommended that organizations think more strategically about the future of their account relationships and the integrated value proposition between them and their accounts.

This thought process, often formalized in a think-tank, and a metric-oriented process workshop of cross-functional corporate team members, will be the first breakthrough to help determine how your organization can benefit from metrics.

Which Metrics Should We Employ?

Experience has demonstrated that the most valuable metrics, in addition to traditional sales and financial data views, include predictable analytics around:

1. Relationship Management - 3x3x3 (High-Wide-Deep) Contact Penetration
2. Account team performance - High-value activity management
3. Account loyalty / Voice of the Customer (VoC) - Account retention, growth, and overall commitment
4. Opportunity Management - Improvement of close vs. opportunity ratios
5. Competition - Competitive counter-strategies
6. Economic value propositioning - Delivering ROI
7. Joint and balanced scorecards - Alignment of account / supplier expectations

These seven metrics help predict the future!

The following represent a snap-shot of each of these key metrics:

- **Relationship Metric -** Assessing the situation surrounding account relationships and overall penetration involves measuring primary indicators that include: management level, alignment, influence, internal decision-making roles and degrees of trust and dependability.

- **Account Team Performance Metric -** An ongoing metric that depicts account team performance includes assessing the following key indicators: accomplishment against tasks, sales, profitability, growth trends, activity performance, market indicators, serviceability cost and the account's own growth trends.

- **Loyalty / Voice of the Customer Metric -** Measuring loyalty should not be confused with measuring customer satisfaction. Customer satisfaction is an assessment of the account relationship based on a moment in time; loyalty is an ongoing assimilation of data that provides dynamic assessments of ongoing shifts in the account relationship.

  There are significant differences in the contributing factors that measure satisfaction versus loyalty. While many of the same factors of account satisfaction may be part of a loyalty assessment, loyalty addresses two key elements / dependencies of the relationship:
  - *Performance* – including people and relationships, product, solutions and services, and organizational alignment and fit
  - *Commitment* – including importance of the relationship and likelihood to recommend.

  In developing a metric that assess all elements of the account / supplier relationship we are able to classify this measurement as an indicator of loyalty rather than merely satisfaction.

- **Opportunity Metric -** Opportunities need to be quantitatively measured to assess the probability of winning. There are several indicators in the opportunity management process that, if measured, accomplish the following:
  - Eliminate forecasting issues such as accuracy and timing
  - Focus the team on key actions that lead to winning opportunities
  - Enable an organization to make more intelligent product and market decisions

Some of the most common measurements about an opportunity that dictate winning, and when winning will occur, include:

- Timing
- Alignment of decision-makers and influencers
- Competitive situation
- Budgets
- Buying cycle and history
- Need / solution match
- ROI and value proposition

- **Competitive Metric -** Competition in a global world is more challenging than ever. It is common to find "knock-off" products being built and launched into the market within weeks if not days of the initial product launch. This can have tremendous implications to manufacturers. Metrics that properly assess competitive advantage can add significant lifecycle value to new product launches, including metrics that assess dependence, business integration and EVA (economic value-add).

- **Economic Value Metric -** organizations need to develop and utilize this metric more than ever. In recent years, most suppliers have been challenged by buyers to communicate their economic value proposition, or in other words, the ROI they are providing to buyers for every dollar of spend. Determining economic value, or one's value proposition, is no easy task. It is however a task that is expected to be accomplished. A recommended formula in determining the economic value quotient is (*See Figure 1—Sample Economic Value Calculation*):

  = *Dollars spent for hard goods or services delivered*
  Dollars gained or risk cost avoided

Figure 1 – Sample Economic Value Calculation

= $1,000 (Cost of goods / services delivered)
$2,000 (Gained from a new process improvement)

Economic Value Quotient = .5 (an ROI is positive if it is less than 1)

The ideal outcome is when the quotient is < 1, which documents and validates that gains exceed the cost of expenditures, hence a favorable ROI. This should be a key focus for cross-functional strategic account teams as part of their ongoing performance measurement system. Creating, delivering and validating the accuracy of this calculation is an important expectation of today's account.

- **Joint and Balanced Scorecard –** One of the most common buyer practices is the practice of "scorecarding" suppliers according to the buyer's internally defined list of expectations. It is inevitable that most, if not all suppliers, will move to this practice if they have not done so already. Buyers for industry giants like Walmart, Lowes and Home Depot have been employing this practice for years. While this previously was a practice found only in consumer products, scorecards have already emerged as a staple in the B2B environment.

  It is recommended that suppliers take the initiative and develop their own set of relationship metrics (benchmarks) that when assessed, provide a performance rating (i.e. a scorecard). One application of this is developing a Collaborative Action Plan (CAP) with the account, and embedding select metrics into the plan as mutual accountabilities and responsibilities, often referred to as KPIs (Key Performance Indicators).

Experience and analysis show that the following represent some of the most common scorecard elements:

- Service response
- Issue resolution
- Inventory control, availability and delivery metrics
- Quality to performance specification, a Six Sigma approach
- Cost performance ratios and ROI
- Performance pricing ratios and volume commitment programs
- Collaboration and innovation (or co-innovation)

These seven metrics are the most common being employed today. There may be many variations on the precise data within each metric based on the uniqueness of the organization, market, product, services and account portfolio. The take-away is that these metrics provide three important insights into one's business:

- Quantitative measurements of important business criteria
- Forward decision-making capabilities and increased predictability of outcomes
- Simplicity (numbers tell simple tales that dictate action)

What Will Metrics do for our Account and for us as a Supplier? What Will the ROI Be?

Metrics provide three important on-demand outcomes:

1. Simple and accessible measurements on the status of the relationship. From these measurements suppliers can build, optimize and connect their value proposition to those senior-level account influencers who are most interested in ROI
2. Facilitate the team's, and in some situations the account's, key next actions
3. The ability to coach the team in the absence of skilled and / or available coaching resources

Metrics are also available on-demand 24 x 7. They are like the gauges in our car. Any time we view our gauges, they are providing us intelligence about our speed, fuel, oil level and distance traveled. Based on this data, we can take immediate and appropriate corrective action if required.

ADOPTING METRICS CAN BE A RELATIVELY SIMPLE MATTER. BY DEFINITION, METRICS ARE SIMPLE, NUMERICAL ALGORITHMS AND CALCULATIONS THAT ARE USER-FRIENDLY. METRICS ARE A BY-PRODUCT OF THE NORMAL EXECUTION OF SALES BEST PRACTICES.

Will My Company Be Able to Adopt, and Deploy Metrics?

When employed properly, i.e., tailored to the environment, driven by system controls and supported by application training, the answer is yes. To achieve this success, an organization must first explore what is already defined as its account management process, and assess what is currently intuitive, versus a designated best practice, within the process.

Adopting metrics can be a relatively simple matter. Metrics should be simple outputs from the execution of recognized best practices. This is an important fact because, if employed properly, implementing account management metrics should not cause a lot of additional efforts. The challenge occurs when an organization has not yet institutionalized best practices (but this is also a significant opportunity for the organization to improve though the use of metrics!).

Much like the very popular practices of Six Sigma, strategic account management metrics are also an input and output process. The account team and account generate the input, the metric provides an output that requires an associated strategy with action plan.

What Challenges Can We Expect?

Upon introducing metrics into a strategic account management practice, expect to encounter at least five key challenges. These include:

1. **Access to and availability of data**: Some corporate systems are not yet integrated enough to allow for some of the necessary data required for analysis, i.e., data is managed in multiple, non-integrated systems.
2. **Buy-in from all members of the organization, top-to-bottom:** Many business leaders are very familiar with traditional skills and practices in account management. The use of metrics, and more specifically predicative analytics, is a breakthrough strategy. Acceptance and buy-in may take some internal selling.
3. **Alignment of metrics to an organization's own unique culture, business and account portfolio:** The eventual content for measurements will need to be adapted. This will take some effort and a company should solicit some outside expertise.
4. **Funding of the efforts required to enter this new era of metrics:** Most metrics may need to be customized and integrated into existing technology platforms. Once integrated, they will need to be deployed and users will require training. These efforts take time and money and may not always have been planned for in the existing budget.
5. **Utilization:** In a hectic, reactive work environment, many companies revert to their previous, most "comfortable" practices. Staying the course of positive and valuable changes using new metrics is not always easy.

Are Your Current Metrics Working for You?

Answer the following questions (Y/N) to help determine if your metric strategy is successfully supplying you with the data you need, or if there are gaps in your approach.

- Do you know which strategic accounts are loyal to you?
- Do your strategic account teams know their direction for action?
- Do you always know if or when you will lose significant revenue from a strategic account?
- Do you have measurements, besides sales, that indicate if your account team is effective?
- Do your strategic accounts provide you monthly performance scorecards?
- Do you know enough senior level influencers in your strategic accounts?
- Do you currently have documented economic value propositions?
- Is the forecasting of opportunities within a 10% level of accuracy?
- Can you predict which accounts will be in your top 25 next year?
- Do your account team and the account collaborate on a defined performance rating?

7 Tips for Implementing Metrics

1. Conduct process workshops to analyze your needs
2. Identify three key metrics for your business besides sales results
3. Meet with an account and ask what they would want you to measure and improve
4. If in doubt solicit the help of an outside resource (experience in metrics is a must)
5. Ensure that you have top-down support in your organization for this initiative

6. Select a short list of immediate wins
7. Have patience; significant return on investment takes time

One final and very important thought: ***metrics serve as an invisible strategic account management coach.*** In the absence of a daily review process, or an interactive sales leader, metrics continue to assess and suggest critical strategies and tactics to employ to ensure critical account revenue retention, acquisition and development.

ABOUT THE CHAPMAN GROUP

The Chapman Group partners with B2B sales and account management organizations to identify and solve sales and account management challenges resulting in stronger relationships, increased revenues, and higher margins for suppliers as well as our customers.

Our LoyaltyProfessional™ Voice of Customer (VoC) solution is designed to support a client's need to gain and then act on critical field-level customer facts and insights. Our solution includes:

- *Measuring feedback of B2B customer relationships*
- *Capturing important data (customer facts / insights) through a unique electronic survey approach*
- *Ensuring customer data integrity utilizing our Loyalty Index methodology and expert consulting provided by our LoyaltyProfessional™ team*
- *Mining of data to highlight trends and key discoveries*
- *Analytical intelligence (reporting) on next actions for organizational success; The Chapman Group's Prescription for Success*

As part of our end-to-end solutions approach, we also support and drive the final and most important element of "optimizing the customer relationship" – how to connect with and implement field-level action planning to create more loyal and committed customers. Our metric-based Strategic Account Management (SAM) process and best practices integrates the art with the science of managing strategic customers, enabling our clients to grow accounts by becoming more knowledgeable, efficient, effective and collaborative. We offer unique methods and software platforms to document and collaborate with customers on "account planning" and the "economic value" being delivered by the supplier and appreciated by the customer.

Our clients, national and global, Fortune 1000 and mid-tier, think of us as not only a solution provider, but also as a thought leader, a business partner, and as their "go-to" resource for strategic account management expertise and guidance.

Learn more on how we can help your organization champion improved customer relationships, increased revenue and margins in today's highly competitive, global and economically focused business community by visiting our website at ***www.ChapmanHQ.com****.*