Organising your Front Line around your Customers: Adopting Total Customer Management at an International Instruments Manufacturer

Edmund Bradford
Managing Director, Market2win Ltd

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Edmund Bradford *is founder and Managing Director of Market2win Ltd, a research, training and consultancy business focused on the challenges of strategic marketing and account management. In addition to supporting client programmes he is also a regular writer and conference speaker on the subject.*

Before setting up Market2win, Edmund spent over 10 years as a consultant and practitioner helping organizations implement customer and supplier management change programmes. He spent a number of years managing the Global Account Management Programme for a major aerospace business and was also the Global Account Manager for their British Airways account. Prior to this Edmund spent two years lecturing in universities in China. He holds an MBA from Warwick University

Introduction

In the February 1999 edition of this Journal, Edmund Bradford described the concept of Total Customer Management (TCM) and how it can lead to significant changes in profitability for key account relationships. It was also stated that a foundation for effective Key Account Management is an effective Channel Strategy. “Within a market segment, ownership of the relationship with each and every customer should be well understood. This means that everyone knows which customers are owned by telesales, which by the salesforce and which by the key account managers. Distributors, value-added resellers or dealers may be owned by any of the above or by a separate team. Interactions and conflicts between accounts are understood and mitigated in the channel strategy.”

This article explains the necessity of clearly establishing ownership of all the customer relationships and explains the implications for revolutionary front line change in many organisations. It is based on the experience of the author with an international instruments manufacturer.

The Company

The company is one of Europe’s leading manufacturers of instruments to measure the pressure, level and flow of solids and liquids. Typical customers include chemical plants, manufacturing plants and water companies. The total market is estimated to be about £1bn worldwide.

The work described follows on from a major project to analyse the market, segment it and agree a strategy of where to refocus the companies total resources within certain product/market segments (and away from others).

Who owns the customer relationship?

Many companies have a variety of channels for reaching the customer. It is not uncommon to find salesforces, call centres, stockists/distributors and, of course, the internet all being deployed in the sales effort. However, go in to the contact management system of many of today's organizations and there is often no definition of who *owns* each customer. Even in the simple example of a UK business unit serving a UK customer it is not uncommon to find the decision-making lost between the salesman, the technical engineer and the call-centre operator. Even a simple enquiry about price and delivery for a non-standard part can get lost between the front-line functions. This problem is compounded when there are international boundaries being crossed and European-based call centres or sales forces. Databases will share information but they don't make decisions.

There is also a huge cost in operating this way. If each front line team thinks it's his/her job to manage the relationship then resources become spread very thinly across the customer base and because of the inability to serve all the demands, work becomes reactive to the issue rather than proactive to the opportunity. Yet the cost per transaction of a salesman is much greater than that of a call-centre operator, which in turn is much greater than that of an internet transaction. I have seen many situations where the entire customer base is arbitarilly allocated to the salesforce based on personal preferences and territory "horse-trading." This simply designs-in waste and inefficiency to the salesman's activity if he believes he is responsible for every account in his territory.

Then, when we start talking about Key Account Management, we add yet another layer of confusion and cost into the organization.

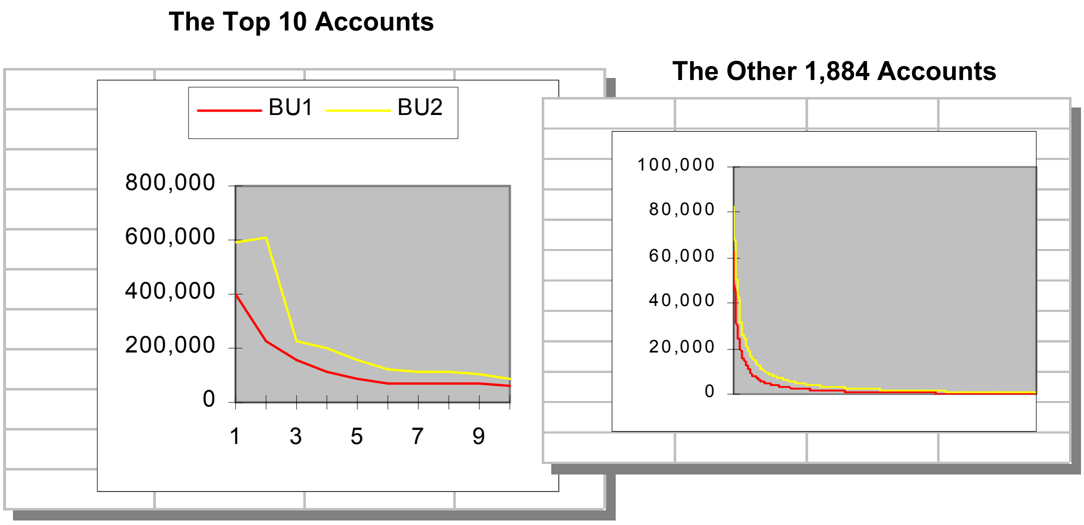
What is needed is some simple mechanism for determining who should be *accountable* for which customer relationship.

All customers are not created equal

However you segment your customers (and most companies appear not to have moved much beyond industry groupings) you should recognise that some appear to take up a lot of organisational effort and some none at all. Furthermore, there are usually some that deliver large amounts of revenue and profit and some that deliver very little commercial gain at all.

In essence the Pareto (80:20) principle is alive and kicking in most customer bases today. However, what many companies have not analysed is how strong their customer Pareto is or put it to any use. Exhibit 1 shows how the customer base of this company was spread (based on total product sales per customer).

Example - Pareto of Customer Turnover



25% of turnover comes from one half of one percent of the customer base

Exhibit 1

The Pareto is for two Business Units (within the company) that serve the same customer base. Here, the Pareto was so strong for both BUs that the graph had to be split in two to avoid the curve running down the vertical axis and along the horizontal axis. Clearly, the top 10 customers were of more strategic importance to the business than the hundreds of tail-end customers.

The Sales Director then needed some rule of thumb to logically allocate the (near) 2,000 current customers effectively within his sales teams. The Pareto analysis of spend per account over a two year period was the starting point. The salesforce were then asked to identify those accounts with the highest potential sales. The customer decision process and mix of products/services being bought was analysed to determine the complexity of the relationship. Also, the results of a major survey into purchasing behaviour of 50 customers was analysed to determine the key buying factors of different customer types. This showed the relative importance or relationship management to some accounts and the extreme price sensitivity of other accounts. The accounting systems could not identify profit per customer (to a reasonable degree) so the mix of standards and specials was used to estimate the potential profitability. This then produced a refined Pareto of accounts as shown in Exhibit 2.

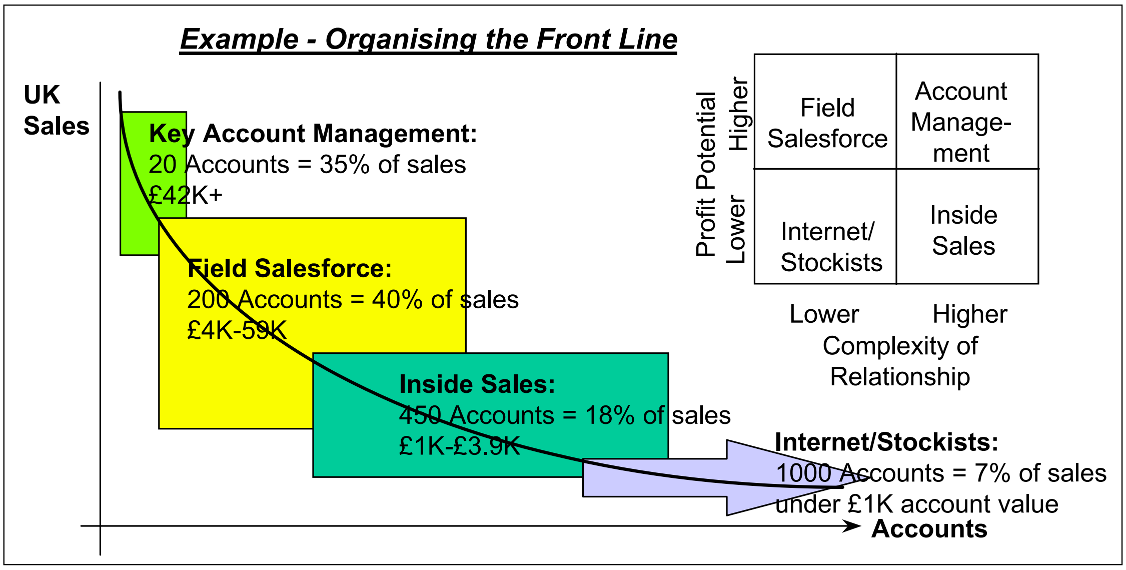


Exhibit 2

The two-by-two matrix in Exhibit 2 (top right) provides a guide as to how to allocate different customers to different sales groups.

The more complex account relationships which have potential for high profits should be owned by the Key Account Group. These will be tasked with building long-term relationships and will be the source of much of the innovation for the rest of the account base (see Francis Rome and my article on DHL in the Autumn edition of this Journal). The simpler relationships (e.g where there are no partnership contracts in place and where little innovation is required but which still value personal visits) and which also have sizable profit potential should be managed by the field-based Salesforce. The less profitable accounts should be handled by an efficient inside call centre which minimises the transaction costs but which still provide an opportunity for personal contact. The simplest and least profitable of all the accounts (over half of the base) should be handled either by an internet-based ordering system or subcontracted out to stockists.
With this particular company, a new Key Account Management group was established to manage the top 20 Accounts (representing 35% of total sales). The field salesforce were re-focused to look after 200 accounts, instead of the 1,894 they had previously (representing 40% of sales). The inside call-centre was strengthened to manage 450 accounts (18% of sales) and an exercise was initiated to examine the best way of sourcing and handing over to a stockist the management of 1000 small accounts.
It should be noted that the boxes in Exhibit 2 overlap deliberately. There will be some accounts that the Pareto analysis suggest should be owned by one group but which experience/research dictate that they prefer to be owned differently. For example, a large account that does not want to be account managed or a large distributor account that may use simple call-off mechanisms but is large enough to warrant account management.

Implications for the Company

In this particular case, the company reorganised itself into four customer facing groups (see Exhibit 3). It is important to note that although an account team may own a particular account he acts as the single point of coordination not necessarily the single point of contact. For example, the Ministry of Defence is a key account to this business and the overall relationship is owned by a Key Account Manager. However, they are sufficiently diverse for *both* the technical sales managers *and* the inside sales force to deal with them. However, the Key Account Manager in the Account Manager Group is accountable for the overall relationship and must co-ordinate all activity with the customer. Therefore, ownership does not restrict the customer's choice of how he wants to deal with the supplier.

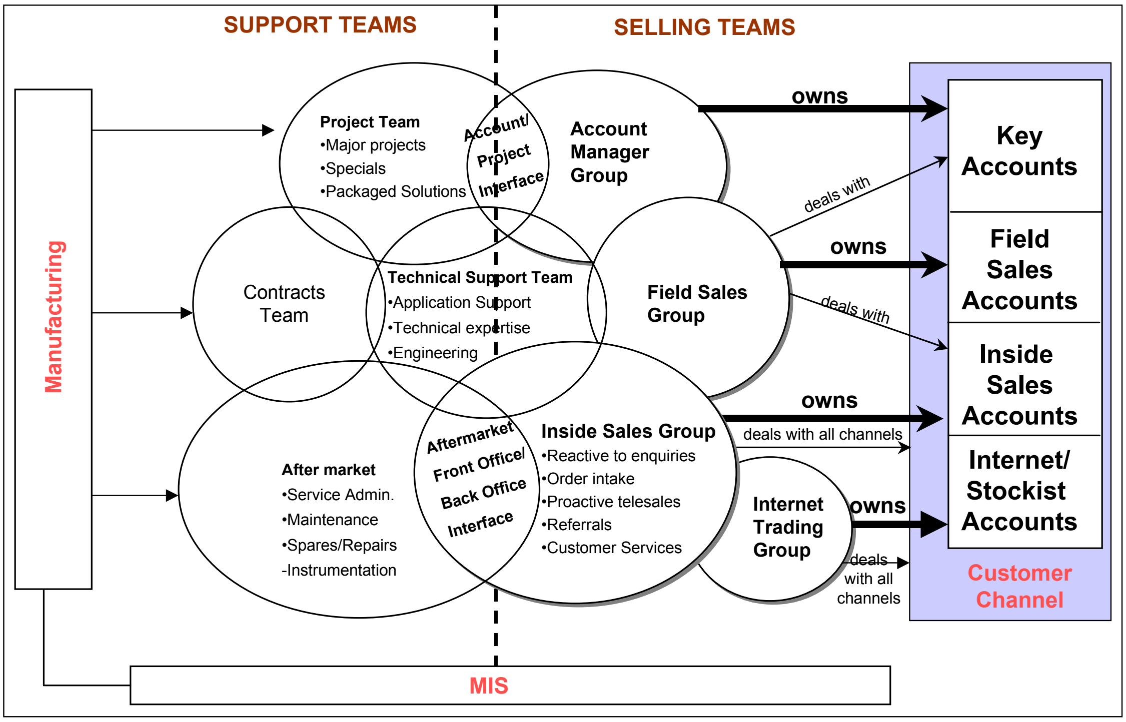


Exhibit 3

Also, it is worth noting that there is still a need for tight liaison between the teams. The Field sales Manager for Thames Water needs to know what the ordering pattern is like from his main contacts, any technical queries, request for quotations and he needs to know about the status of current installation projects. He therefore needs to liaise with the Inside Sales Group, the Project Team and the Internet Trading Group. This is where IT-based work flow tools and contact management systems are crucial.

Further interfaces had to be designed. For example, the Account/Project Interface. Within a key account like GEC there would be many different installation, repair and design projects underway at any point in time. As part of the Key Account Plan, key metrics need to be adopted that track the status of projects and their impact on the relationship.

Within each group the customers were then segmented further. Within the Key Account Group, accounts were subdivided into those that needed to be managed and those that were ripe for development. Within the Field Sales Accounts they were further divided into those that wanted a one-stop integrated solution provider versus those that wanted to purchase "best of breed" and integrate the package themselves.

Within the Inside Sales Group, careful analysis of past ordering patterns was undertaken. Those accounts that tied up a lot of effort with "special" enquiries, or whom would frequently request a quotation, but would seldom place an order were isolated so that a decision on whether to re-route these to a Stockist could be made on a case by case basis.

Further implications rapidly became apparent. For example, the need to establish improved processes for:

- customer definition (should BP Exploration be a separate account to BP Chemicals? What about subsidiary accounts of parent companies?)
- assessing customer potential and customer profitability
- documenting complex decision-making processes

- defining the rules of engagement for different teams
- defining the roles, responsibilities and interfaces of each of the teams and the team members
- establishing different performance metrics for each team

Benefits of Grouping around Customer Channels

Customers want to be managed differently. Some want to be account management and welcome the opportunity to jointly plan future activities. Others want a hassle-free and reliable service and see sales people and account managers as non value-added. At the same time, supplier companies are finding that there is little focus to the way their front line team is directed to specific accounts. Grouping around the complexity of the desired relationship and the potential opportunity provides a simple theme for better Total Customer Management.

The key to serving small accounts profitably is *efficient* handling. This is largely database driven and has essentially a very low selling cost per account. This is often the domain of today's CRM projects. Key to serving the core of customers that often deliver most of today's profits is an *effective* salesforce. This is dependent on establishing strong metrics that ensures the salesforce sells more of the right sort of business (high margin) at relatively little cost to the company, faster than anyone else. Critical to serving the key accounts is enhanced organisational capability. This is the fundamental development of processes, people and information to reward long-term relationships that deliver tomorrow's profits and is driven by long-term development strategies.

Each of these groups have very different cultures, career paths, technologies, performance metrics and processes. Getting the fit right between the account base and the selling group, and between the group and its design architecture is a fundamental foundation stone. Moreover, matching selling channels to customer needs both enhances the service being provided *and* improves the profitability of providing that service.

Only when the basic ownership of accounts has been defined should we then commence the CRM, Sales Force Effectiveness and Key Account Management Programmes in earnest.

Edmund can be reached on +44 (0) 1527 542530
or by email at e.bradford@market2win.com