

# Key Account Management: Performance, Measurement and Rewards

Research Summary by Dr. Iain A. Davies, Senior Lecturer in Marketing





## Background

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A big thank you to Richard Ilesley and everyone at *Key Account Manager (KAM) Best Practice Knowledge Share* for taking part in this research! Over 650 of you provided at least some information and nearly 250 completed every question. Participating companies ranged from small Indian businesses turning over €0.67m per year, to the World's biggest companies with over €100bn turnover per year. In this report I will outline the key findings from the study and outline ways in which this could help you and your organisation.

Despite the prevalence of Key Account Management (KAM) in today's business environment, there is a dearth of quality research investigating the mechanisms through which companies' implement KAM and the likely success of the program. This is especially highlighted by many of the common posts found on *KAM Best Practice Knowledge Share* asking seemingly simple questions, which appear to have no concrete answers. In the last two months we have seen questions on account planning templates (I would advise checking out Prof. Lynette Ryals book "[Key Account Plans](#)" as a start point for this, and see [Richard Ilesley's](#) Webinar), the differences between KA Managers and Sales People (Chapter 10 of Diana Woodburn and Prof. Malcolm McDonald's book "[Key Account Management](#)" is good – or you could check out Davies and Ryals "[Attitudes and behaviours of key account managers: are they really any different from senior sales professionals?](#)" for an academic view-point), criteria for selecting Key Accounts (again see either of the above books on this) and what I am dealing with in this report – How do you measure KAM success and appropriately reward Key Account Managers.

Such a simple question should have a simple answer – but doesn't. Having undertaken a thorough review of literature on KAM I can confirm that, at best, our current knowledge on both measurement and rewards is anecdotal. Authors say it is really important to get measurement and rewards right. They even suggest what should be measured; in particular Chapter 11 of Woodburn and McDonald (2011) lists potential measures and rewards for KAM, which influenced the design of this study, but we have no idea if any of this works. This research paper aims to provide a starting point for this missing link. However, first we need to discuss performance.

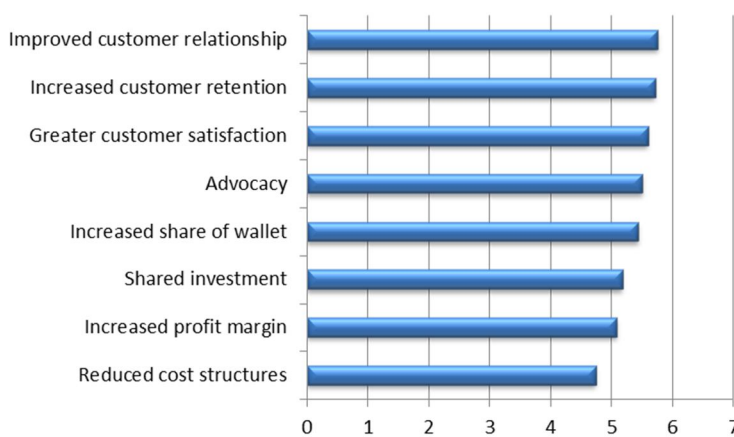
# KAM Performance

It's easy to say KAM is a good strategy for improving business performance – but what performance is KAM good at improving? Does it pay back the investment? Most consultants will tell you “everything” and “yes”, but what is this assessment based on. The evidence in the academic literature is mixed about performance. There is clear evidence of KAM leading to large benefits for customers with up to 100% greater value from supplier relationships (Hughes & Weiss, 2007) and much higher levels of customer satisfaction (Davies and Ryals, 2014), but benefits to suppliers can be more unpredictable. Although evidence shows a strong link between KAM implementation and increased revenue; impacts on profitability, costs and customer retention are less predictable (Davies and Ryals, 2014, Homburg et al., 2002). The problem is compounded by research and often used case studies being predominantly based on success stories (NB: often in global IT firms). The failures often don't feed into the research.

In this research I focus on three different areas of potential performance improvement: Financial performance vs. competitors, Key Account customers vs. Non-Key Account customers and a range of KAM program effectiveness measures suggested in previous literature.

The data suggests KAM can be a winning competitive formula. 70% or more of companies Agree or Strongly Agree that KAM helps them to outperform competitors on a range of measures including sales, profitability, market share, share price, return on assets and return on investment. Oddly however KAMs are not especially satisfied with the programs performance (75% are partial satisfied or less), suggesting KAM is often over-hyped as a game changing strategy and only partially meets pre-implementation expectations.

When Key Account performance is compared against Non-Key Accounts there is strong evidence that KAM improves customer relationships. Between 80-85% of companies answered positively (at least 5 out of a maximum score of 7) that KAM leads to better performance in delivering mutual trust, shared information, and shared investment with customers, as well as maintenance of long term relationships, reducing conflicts and meeting sales objectives.



However when we look at the KAM program effectiveness measures (see graph) there is a noticeably higher benefit for customers (shown through improved customer relationships, retention, customer satisfaction and advocacy), but lower scores

for supplier orientated benefits (share of wallet, shared investment, profit margins and reduced costs). More complex analysis<sup>i</sup> (which I won't bore you with the technical details of) shows that although these financial returns do eventually accrue to our respondents firms, there can be a distinct time lag between implementing KAM and seeing financial returns.

## Supporting KAM

KAM Performance hinges on the organization's structure, culture and policies. A body of existing research investigates these factors in driving KAM performance (see Salojärvi, Sainio & Tarkiainen 2010, Tzempelikos & Gounaris, 2013, and Workman, Homburg & Jensen, 2003). These all find very much the same thing – everything is important. But I have never been very satisfied with this answer. Surely some things are more important than others? In this study I focus particularly on soft, people related issues of Teamwork, Targets, Training, Culture and Leadership – and my findings diverge substantially from previous studies.

**Teamwork** – In previous studies teamwork has always been linked to KAM performance. In this study I found more than 80% of companies use teams when working with Key Accounts, showing that Key Account Management has become a general management (leadership, team management, project management, planning etc.) rather than a sales management job. However, I actually found no competitive advantage for using teams on either the performance measures related to competition or the KAM Effectiveness measures due to its high prevalence amongst competitors<sup>ii</sup> (i.e. there is no differentiation). The only performance measures for which teams led to higher performance scores was against non-key accounts – showing that teams are a differentiating factor between Key Accounts and non-key accounts, but not a competitive differentiator between firms.

**Targets** – Setting specific targets for KAM has rarely been studied. I found good evidence of KAM targets being set for individual account separately (see table). However there is a worrying sign that sales volume is still favoured over revenue, profitability and market share targets. Research strongly suggests companies which focus on sales volume targets are most prone to low profit margins and poor market performance as they “bargain away” profitability in favour of selling volume. Target setting should therefore be more targeted to other corporate performance measures, rather than fairly arbitrary (and often short-term) volume targets.

	<b>% Agreeing or Strongly Agreeing:</b>
<b>Each KAM Team has specified targets</b>	78.30%
<b>Each KAM Team collects information about KA success on an individual customer basis</b>	81.10%
<b>Target setting encourages KAM Employees to perform</b>	77.70%
<b>KAM Teams have specified sales volume targets for each account</b>	74.40%
<b>KAM Teams have specified profitability targets for each account</b>	61.40%
<b>KAM Teams have specified revenue targets for each account</b>	62.50%
<b>KAM Teams have specified market share targets for each account</b>	62.50%

This concern of target misalignment is confirmed when I test for the influence of target setting on KAM performance<sup>i</sup>. I find little relationship between target setting and corporate performance, performance vs. non-key accounts or the effectiveness of the KAM programs. However I do find that companies which focus on targets for profitability and market share / share of wallet outperform other firms on return-on-investment and return-on-assets. This is a very substantial finding, suggesting profitability and market share /share of wallet are considerably better targets for KAM teams than volume or revenue targets.

**Training** – The influence of KAM training is another area ignored in current research. Rather startlingly, although 80% of companies do provide KAM training for employees, and most consider it to improve customer relationships, only 45% of companies provide KAM training which differs substantially from training given to sales or marketing employees.

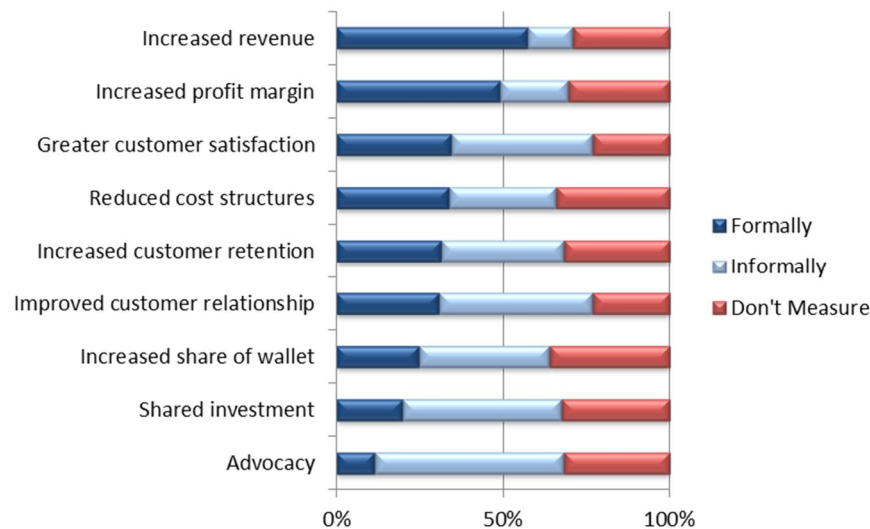
Evidence clearly shows the Key Account Managers’ job is distinct from either sales or marketing, and is more akin to a general management role. It brings to mind the Halcrow quote used by Diana Woodburn that the job specification for the Global Account Manager was “*so broad and high that anyone with that profile could have run the whole company*”. It is hard to believe standard sales and marketing training can prepare someone for this level of responsibility. It is hardly surprising therefore to find that 60% of our respondents did not believe training was having a positive effect on KAM performance. However I do find that specialist KAM training (i.e. not the same as sales and marketing) was significantly and positively related<sup>ii</sup> to financial performance on Sales, Profitability, Share of Wallet and Return on Assets at both the KAM program and corporate level. It is therefore of vital importance that companies recognise the unique status of Key Account Management from its traditions in sales and marketing and train their employees appropriately on this basis.

**Culture and Leadership** – This and previous studies categorically find that having a supportive culture for KAM and active involvement and support from top management are essential in distinguishing good from bad KAM programs. The likes of Tzempelikos & Gounaris, (2013) and Workman, Homburg & Jensen, (2003) investigate these topics in great depth and I don’t wish to replicate their work. Instead, below is a table explaining what these studies mean by “a culture for KAM” and some suggested approaches you can take to achieve them.

<b>A KAM Culture?</b>	<b>Approach to take</b>
<b>Cross-functional collaborative working</b>	KAM is a cross functional activity. Without the support of operations department, designers, delivery, finance, servicing etc. KAM has already failed. You can’t re-invent a marketplace in isolation, so involve these departments in KAM program design.
<b>Feeling part of a big KAM family</b>	KAM is full of frustration and can be isolating. However there are other KAM teams with similar problems, and hopefully some solutions, so meet and talk regularly with other KAM teams.
<b>Concern about the needs and problems of each other</b>	Teams need to work in harmony and lack of empathy, communication and understanding makes this impossible. Take time to build strong relations between team members.
<b>Having shared goals</b>	Directors must align the goals of every department to meet the demands of Key customers. Key customers are the future of the business and no department can be isolated from that.
<b>Feeling in it together</b>	Not every account will succeed at the same rate (or at all) therefore it is important companies take a “portfolio approach”.
<b>Having a team spirit which pervades all ranks involved</b>	You can’t run KAM teams from an ivory tower, or in an authoritarian way. Each team member brings unique knowledge and skill and failing to nurture that undermines the team.

# Measuring KAM

A persistent problem I have identified in previous work but never fully studied has been a lack of measuring KAM performance. The graph below shows the problem in graphic detail. Hardly any companies are measuring Key Account performance on any meaningful level. Only 58% formally measure revenue on an account- by-account basis. When you look beyond this at what the literature suggests are more meaningful measures of KAM performance such as individual account



profitability, share of wallet, satisfaction and shared investment we see anywhere from 49% to only 20% formally utilizing these metrics. Some companies are measuring these items on an informal / ad-hoc basis which probably does not feed into top management decision-making, or target and reward programs. The most worrying aspect however is the 23% of companies that don't

measure anything at a Key Account level. It is hardly a surprise that the costs of KAM can escalate out of control when no effort is expended on measuring KAM performance. Lisa Napolitano discussed this with SAMA delegates in 1997 and 27 years on those lessons have not been learned.

I am sure it will be of no surprise to hear that companies that measure KAM performance at an individual account level consistently outperform those that do not on a corporate, KAM program and customer level<sup>ii</sup>. In particular we see a strong positive relationships between measurement and overall sales, profitability, share of wallet and reduced cost measures, as well as soft measures such as customer satisfaction, retention, advocacy and improved relationships. Overall the suggestion is that failure to measure KAM programs on an individual account basis increases the risk of an underperforming KAM program.

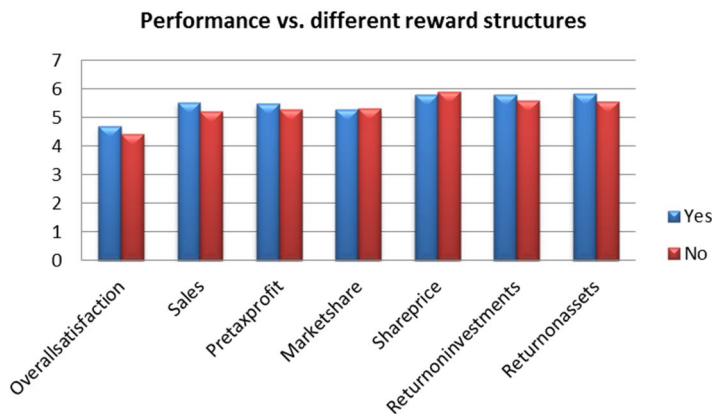
One final issue with measurement also arises. Although 70% of companies claim to measure the success of their key account managers on key account performance– only 58% formally measure anything on an account-by-account basis (and then only revenue). The assumption (based on the target setting section where 74.4% of companies set volume related targets) is that sales volume is still a primary rewards measure for many KAM programs. This is an issue that needs to be addressed by companies. If KAM is about creating new ideas, concepts, ways of working and unique value creation; selling widgets is the anti-thesis of this. A KAM program should be strategic, future-thinking and long-term orientated; whereas sales volumes are the epitome of un-strategic, backward-looking, short-termism. KAM is too expensive and too complicated to administer to waste on transactional sales. That's what channel management is for!



# Rewarding KAM

The final topic I address in this research is that of rewarding Key Account Managers. As mentioned in the introduction, although many people have suggested the importance of reward structures in KAM, no-one has presented any substantial research exploring approaches used and the impact of these on company success. Hopefully I can address this below:

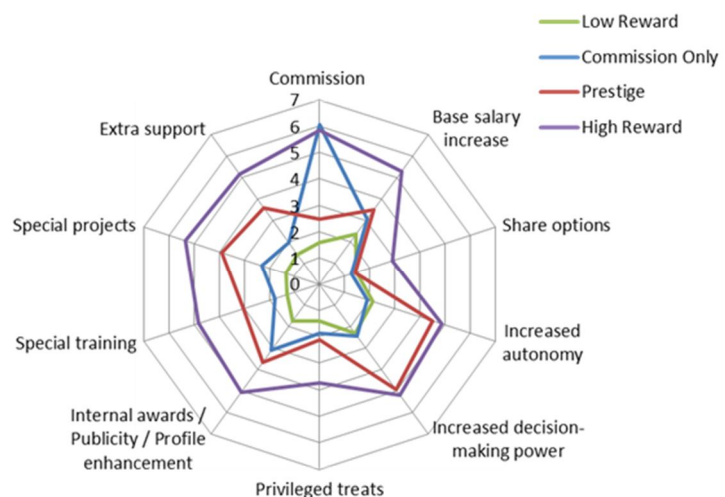
Only 46% of companies have a different reward structure for KAMs from that for sales personnel.



Thus compounding issues raised earlier on targets, training and measurement. In terms of company performance this only appears to have a small impact, with companies that have a unique KAM reward structure showing relatively small increase in performance measures. The graph only shows the corporate level measures but findings were similar for both program level and account level comparisons.

Unlike sales jobs, which my report "Building an Effective Sales Force 2012" shows earn an average of 40% commission, 60% of companies pay less than 25% commission to KAM employees with an average maximum commission rate of 30%. I find high performing KAMs are as often rewarded with greater autonomy, increases in base salary and promotion rather than cash bonuses.

Whilst investigating reward structures an interesting grouping emerged. There were 4 broad groups of reward packages offered to Key Account Managers (see radar for types of packages). Although some groups showed higher prevalence of certain size and nationality of organisation the groups do transcended these cultural boundaries with representatives from every continent and size in every group<sup>iii</sup>:



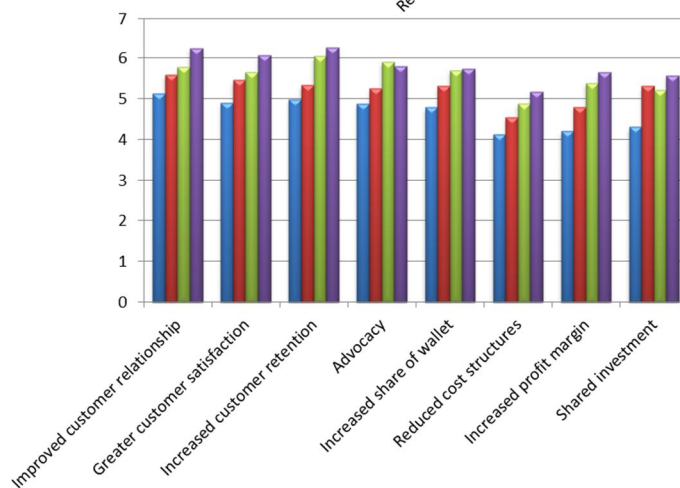
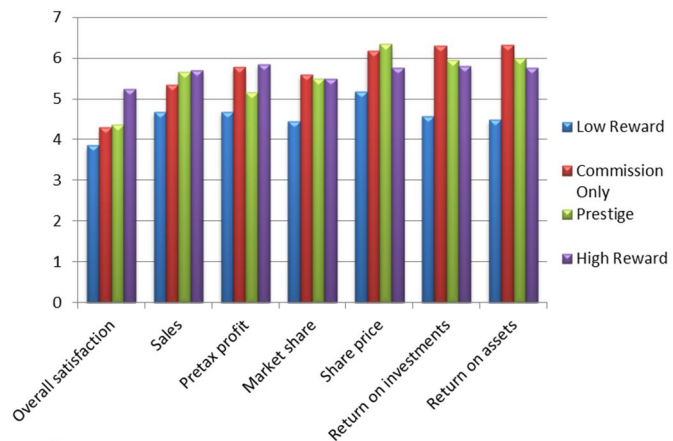
**Low Rewards** – this group had the highest level of base salary at nearly 80% and made up 19% of our sample. They utilized virtually no rewards structure at all beyond the basic salary shunning most financial and non-financial incentive packages. However they were on average the biggest companies by revenue and often European in origin.

**Commission Only** – the Commission Only group, which made up 27% of the sample, includes many smaller North American companies. They often only utilize cash bonuses (as often done in sales organisations) to reward good performance. They had the highest average commission level at 35%, but could, on occasion, also present awards or give publicity to top performers.

**Prestige** – the Prestige Group offered the second highest base salary increases but largely shunned commission. They were far more likely to reward good performance with promotions, increased autonomy and more decision-making power. Making up 22% of the sample they were on average smaller companies, and although representing companies from the whole world there were higher than average numbers of Asian and Australasian companies.

**High Rewards** – The final group encompasses a mix of companies from all over the world, and represent larger organisations on average (although not so large as in the Low Rewards group). These companies used a wide array of all types of rewards

As the graphs to the right show, the type of reward structure does significantly affect the performance of the KAM program. The top graph shows performance against competitors and the lower graph shows program effectiveness measurement. Universally the Low Rewards group underperform and the high rewards group are the most satisfied and best performers on most metrics. Although on corporate performance the Prestige group occasionally underperforms the Commission group, on program related measures they always outperform. What this indicates is; although there is a place for commission based pay, prestige based rewards can have just as significant an impact on overall performance, if not more so.



Where the best results are to be found is where there is a balance of both financial and non-financial rewards. I also find that the High Rewards group are also the ones with the most sophisticated program performance measurement. On every scale for measuring individual account performance discussed in the “Measuring KAM” section of this report the High Reward group score significantly higher<sup>iv</sup>. So not only do they have the most rewarded Key Account Managers, but the best data on which to make these awards. These companies therefore ensure fair compensation and as such have the highest employee satisfaction with rewards packages and overall program satisfaction from KAM employees.



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<sup>i</sup> Using hierarchical regression

<sup>ii</sup> Using correlations, hierarchical regression and ANOVAs

<sup>iii</sup> Defined using the Cubic Clustering Criterion, Pseudo-F statistic followed by K-Means cluster analysis on the reward packages offered.

<sup>iv</sup> Based on Games-Howell post-hoc ANOVA's