TRUE SALES AND MARKETING SPECIALISTS

Malcolm McDonald has done a remarkable job capturing all his KAM research and practical experience!

Martin Lamb

Former CEO, IMI plc.

All facts and figures in this publication are presented in good faith and on the basis of information before us at the time of writing.

Viewpoint: Why Companies Get KAM Hopelessly Wrong

By Professor Malcolm McDonald, Chairman of Malcolm McDonald Consulting Ltd and Contributor to www.malcolm-mcodnald.com

We have enjoyed Activity Based Costing (ABC) for over twenty five years, yet most companies still haven't learned the lesson that it is the cost of dealing with the customer after the "product has left the factory" that causes either profit or loss. Even today, most companies still do product profitability and marmalade their fixed costs to customers based on turnover, so penalising customers who are inexpensive to service and rewarding customers who are expensive to serve.

Ask any director of any company what their biggest challenges is and the answer is always how to deal profitably with big, powerful customers. Our research at Cranfield reveals that about 85 per cent of Western European companies do not know whether they make or lose money from their biggest customers. They think they know, but most don't. The evidence (figure below) points to a consistent lack of knowledge about key account profitability, having first explained that it is not just product profitability that counts, but also the cost to serve.

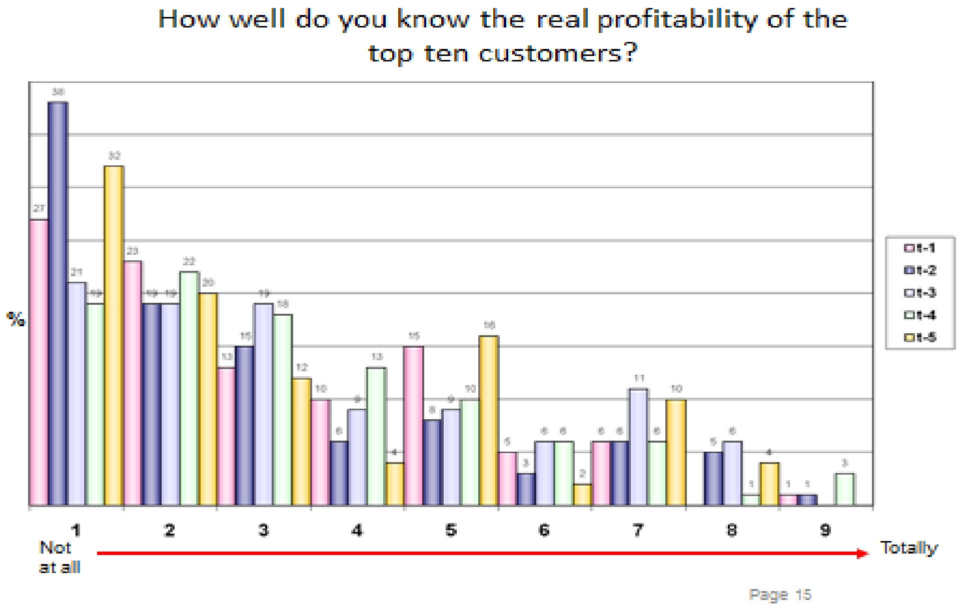

Figure: Lack of knowledge about KA profitability (McDonald "KAM: the definitive guide" Wiley 2014)

There are only 10 car companies in the world; in the United Kingdom, most FMCG go through five mega supermarket groups and so on. Power is being increasingly concentrated in a few large customers. Yet, in spite of this, KAM is rarely taught at Business Schools in the UK. Exceptions are Cranfield and Portsmouth (where an ex Cranfield lecturer is in charge). The result? MBA and MSc students in the main leave their advanced, expensive programmes ill-equipped to deal with the realities of the modern world.

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Why Companies Get KAM Hopelessly Wrong (continued)

Most companies think that KAM is “selling with knobs on”. Consequently, most have completely the wrong kind of people dealing with large firms, have sales people who are paid to sell. But, unless they’re paid to analyse in detail the business of their customers in order to prepare solutions that create advantage for them, they will continue to just sell, must to the annoyance of their would-be customers. Yet, our research at Cranfield proves clearly that important customers HATE being sold to.

KAM requires a deep understanding of the business of major customers. This requires KAM managers who are fully trained to MBA level. Buyers demand senior, business-trained ‘general manager’ type executives, who thoroughly understand finance, their processes, their organisation and their culture, who can offer solutions that create advantage for them rather than solutions that merely help them. We really need to grow up and listen to these people. Nothing less than a root and branch re-organisation of KAM in most firms is called for.

One of the quickest ways to go bankrupt is to ‘delight’ your customers! Most companies fail to classify their major customer according to the potential of each to grow the supplier’s profits over a three year period and according to the supplier’s competitive strengths with each major customer. Such a classification would lead to the correct setting of objectives and allocation of scarce resources.

Unless this is done, you frequently come across companies with ridiculous and self-destroying policies based on maximising profit from every customer, even though some should be managed for net free cash flows, some for net present value and others should be invested in to build future competitive positions.

Action Points

Do not maximise profits from every customer.

- ✓ Ask your accountant to carry out a proper activity –based costing exercise on your top 5 customers to establish whether they are as profitable as you think they are.
- ✓ Invest in some customers in order to build the relationship; the profits will come later.
- ✓ For customers who do not like you and who offer little prospect of growth in future, consider a cost-cutting programme.

Viewpoint: Marketing Due Diligence and the Marketer’s Dilemma

Marketers are torn between two groups whose wants are contradictory:

i. Customers who want the most value and utility for the least cost;

ii. Shareholders who want the biggest return on the lowest investment and risk.

Neither group is loyal if they can do better elsewhere.

The skill shareholders pay us for is the ability to use their funds better than other marketers. These skills manifest themselves when customers see our offers as meeting their shifting needs better than competing offers. The trick is to do this continuously.

Marketing Due Diligence has important implications for four groups:

1. Investors and their proxies
   - ✓ A way to see through the smoke and mirrors of “investor relations”
2. For boards and equivalents.
   - ✓ A way to prove your value creation to financiers.
3. For strategy makers
   - ✓ A way to prove your value to the board.
4. For strategy implementers
   - ✓ A way to prove your value to your boss!

What CEOs and the board need is a way of measuring the risk associated with a marketing strategy and hence its likely shareholder value creation. This is the aim of Marketing Due Diligence, as spelled out in our book, *Marketing and Finance: creating shareholder value,* Wiley 2013.

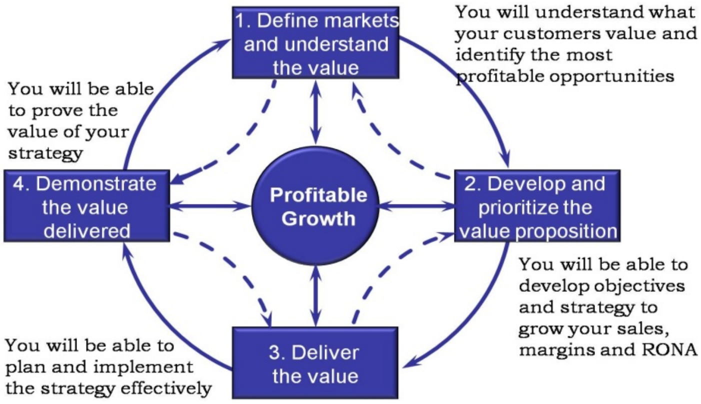
Action Points

Research has found that most estimates of business risk were unreliable because they grouped lots of different sources of risk under one heading.

- ✓ Action: Marketing due diligence begins by looking for the risk associated with a strategy: market risk, share risk and profit risk.
- ✓ Action: It may be challenging, but need to accurately assess these risks and their implications for shareholder value creation.

About Malcolm McDonald Consulting

Malcolm McDonald Consulting Ltd. is a strategic sales and marketing consulting business.



With our end-to-end interactions, from Board level to internal project team, we help companies create value through getting the fundamentals right in strategic sales and marketing, all within budget and the agreed deadline.

Professor McDonald and his team of consultants work with the Boards and internal teams of executives from a number of the world's leading multi-nationals on all continents.

Malcolm McDonald is Emeritus Professor of Marketing at Cranfield University, and Visiting Professor at Henley, Warwick, Aston and Bradford Business Schools. He authored over 40 books on marketing and key account management.

Coming from a background in business which included a number of years as Marketing Director of Canada Dry, Malcolm has successfully maintained a close link between academic rigour and commercial application. He has consulted to major companies from the UK, Europe, USA, Far East, South-East Asia, and Africa, in the areas of strategic marketing and marketing planning, market segmentation, key account management, international marketing and marketing accountability.

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