

Under the Buzz

Commentary on Strategy & Management Issues for Executives & Professionals in Enterprise Systems & Software Companies

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Reviving the Lost Art of Managing Major Accounts

"Palmisano's strategy is straight out of IBM's history book—it builds on IBM's decades-old ties with the world's biggest companies and cements them even further. A mere 100 customers—mostly global corporations—represent a full 20% of IBM's revenues. Several, like American Express, Procter & Gamble, and Wal-Mart, spend as much as \$1 billion a year."

- David Kirkpatrick, Fortune magazine article, June 14, 2004

As readers of this publication must know by now, I write frequently about critical business opportunities that tend to be neglected by enterprise software and systems organizations, and that can contribute great value if they are appropriately institutionalized. At any given time the topics I write about have arisen in a representative number of software or systems companies. This month's topic is no exception.

Ever since I learned how to deal with major enterprise customers at IBM in the dim-and-distant seventies, managing major account relationships has been a key focus of mine in businesses I have managed as well as in my strategy consulting practice. Today, it is alarming to see how such a fundamental customer-focused activity has been mismanaged and even neglected by the majority of major vendors, not to mention medium-sized companies and start-ups, in the intervening 20 years or so. This, despite assertions by many vendors who claim that a relatively small number of major accounts – say, as few as five percent of their customer base – contributes 50 percent or more of their revenue, that this share has a tendency to increase, and that they consequently have a major account program in place.

In a survey conducted in the mid-nineties by the National Account Management Association, Georgia State University, and Target Marketing Systems (now part of Siebel Systems), respondents from 200 companies out of a total of 220 surveyed claimed to have a strategic account program in place. Of these 200 organizations, only 13% stated that their programs were 'very successful,' while 32% answered 'moderately successful' (a somewhat flaky answer that I take to mean 'not successful at all'), 36% answered 'neutral,' 14% answered 'moderately unsuccessful,' and 5% stated 'very unsuccessful.' Something is clearly wrong here, and I'm not sure much has really changed in the intervening decade or so, despite the sharp wake-up call received by vendors in the current four-years-and-counting IT spending downturn.

What continues to mystify me is that, with so much consolidation taking place in the tech industry as a result of customer organizations demanding more from their vendors, so few companies have yet got their acts together to solidify their relationships with their most important customers.

Facts of Life for Enterprise Software and Systems Companies

First and foremost, there is a basic 'design principle' that defines those companies that call themselves 'enterprise software' (e.g., Oracle or SAP) or 'enterprise systems' (e.g., IBM or HP)

companies; quite simply it is the reality that *the center of gravity of their businesses resides outside their own organizations*. In other words, they define themselves by building their businesses – and determining their most important resource allocation priorities – around the requirements of a relatively small number of organizations that award them their business in exchange for having an opportunity to influence the vendor’s development of critical features, products, and even services.

Suffice it to say, as the opening quote states, IBM – the one vendor that has always set the bar for major-account management in the high-tech industry – recognizes the enormous contribution of its top 100 customers to its revenue: i.e., a full 20%, close to \$20B in annual revenue, equivalent to an astounding average of \$200M annually per customer.

When you dig deeper into IBM’s newfound enthusiasm for its most important customers, I think you soon register the principal reasons for instituting and – more critically – maintaining a formal major account management program:

1. Recognize the commitment made by your most important customers to your business;
2. Encourage those customers to continue investing and even increase their investment in your products and services;
3. Strengthen the virtuous, self-reinforcing cycle in which customer requirements drive delivery of new vendor solutions, resulting in business benefits for one side and increased revenues and profits for the other;
4. Leverage the additional benefit of positive references from major customers on the buying decisions of other companies.

In other words, major-account management programs help in a critical way to foster powerful self-reinforcing effects resulting when ‘visible’ organizations increase their own investments – and tell the world about the results of those investments – as well as those influencing those of peer companies and other organizations.

Let’s Get Names and Definitions Out of the Way

Firstly, it’s worth discussing briefly the three main names used to describe groupings of key customers served by a company: ‘strategic,’ ‘major,’ and ‘global.’ The least precise of these words is ‘strategic,’ because it is used to mean so many things, from just ‘large,’ to ‘difficult to deal with,’ to ‘strategically important.’ ‘Major’ is a relatively neutral adjective, and generally signifies ‘of major importance,’ which can be quite subjective. However, this subjectivity can be tempered by more objective measures of input and output – as in ‘requiring ‘x’% of our overall investment and generating ‘y’% of our annual revenue and/or profits.’

When account management is not working from the vendor’s point of view, it can mean ‘major pain in the ass,’ or ‘major resource sink.’ More often than not, however, negative outcomes between vendors and their ‘larger’ customers are the result of incorrect identification of the account’s intrinsic importance or value to the vendor, or – perhaps more prevalent – of inadequate or inappropriate responses by the vendor to requests made by the customer.

‘Global’ is an especially appropriate name if the customers in the group are globally dispersed and require service from the vendor in the three main ‘theaters’ where enterprise software and systems companies are expected to operate, i.e, North America, Europe, Middle East and Africa (EMEA), and AsiaPac. If not, the term ‘global’ can also be a bit misleading.

In the end, the target group should be referred to by the name that most matches their main characteristics and requirements. The classic, more general, name is 'major accounts,' which can include globally-dispersed customer organizations as well as, for example, large customers that are located in one or two countries or regions. Thus, my guideline to any company that has yet to implement a program to serve its most important and demanding customers is to start with the name 'major accounts.' Later, you can add another group (and appropriate program) called 'global accounts,' assuming this group requires to be served in several different parts of the world.

Yet another group can be appropriately classified as 'strategic accounts' if for example it includes a relatively small number of significant target customers with whom the vendor has yet to develop a close relationship, and/or who have not previously invested significant sums in acquiring the vendor's product and service offerings. Furthermore, if these target companies can be expected to influence buying decisions of other target customers, their 'strategic' importance is justified.

At the end of the day, less is more in terms of the number of target-customer programs a vendor tries to implement. Among other considerations, each program entails a specific and conscious investment of resources by the vendor if it is to be successful in the eyes of customers. Even more importantly, such investments need to be sustainable over time, because when vendors 'suspend' or lose interest in their major account programs because of sudden cost-containment or other situations, customers quickly become skeptical of their real intentions.

Logically, any software or systems company could actually use all three classifications above to serve 'major,' 'global,' and 'strategic' customers at the same time, with correspondingly differentiated programs. But given that most IT vendors today find it hard to organize one coherent and value-adding effort around a single group of key customers, I think it can be foolish to commit to more than one initiative at least until one program has been made successful.

Key Criteria for Classifying Major Accounts

Experts such as Robert Miller, Stephen Heiman and Tad Tuleja in their 1991 book, *Successful Large Account Management*, have defined major accounts subjectively as 'those accounts that you cannot do without,' and objectively as 'the 5 percent of your customers that bring in over 50% of your business.' Other authors, such as Neil Rackham in his 1989 book, *Major Account Sales Strategy*, focus more on the sales portion, as in how to close major sales, as opposed to how to manage relationships with major customers over time.

My preference is to look at significant *aspirational* criteria for deciding which customers warrant special attention as major accounts, then forming a close-knit 'club' to serve them in a differentiated way. After all, 'equality' may be an acceptable myth in the world of one man, one vote, but it doesn't hold water in the real world of business. Everyone knows that all customers are not created equal, particularly in their value to their community as important reference points.

Among the various quantitative and qualitative aspirational criteria one can identify, below are four that have become my particular favorites:

Quantitative criteria:

1. **Business impact** – the positive impact that the vendor can bring to bear on the customer's business by their adoption of the vendor's products and services. Should be measurable in terms of value realized from eliminating or reducing critical business problems (broken processes, poor productivity, high expenditures, etc.) or from enabling gains in market share and/or revenue or profit.

2. **Revenue and Profit potential** – the potential value they bring to the vendor measured up to five years back into the past and anticipated five years into the future. Should be measurable in terms of total realized and anticipated investment by the customer in vendor's products and services during a ten-year (or so) timeframe.

Qualitative criteria:

3. **Relationship value** – the degree to which they regard the vendor's representatives as trusted advisors and to which they reciprocate. Should be approximately measurable in terms of the favorable impact on sales cycles and close ratios related to relevant projects that the customer invests in over time. Key indicators might include access enjoyed by the vendor's executives and sales staff to key customer executives and other personnel, the frequency with which the customer consults the vendor for their opinion before making decisions, and the predictability of those decisions in terms of successfully closed (shorter) sales cycles.
4. **Influence value** – the value of the customer to the vendor as a reference to other companies both inside and outside their industry segment. Should be measurable in terms of buying decisions by other customers that are (a) directly and (b) indirectly attributable to the first customer's testimonial.

How Many Accounts Should be Included in a Major-Account Program?

In the same mid-nineties survey on 'strategic accounts' cited earlier in this article, respondents stated that they maintain an average of 11 key accounts; another way of slicing the data revealed that over half of the respondents had fewer than 20 strategic accounts.

My sense is that, as with any program aimed at being selective, the number should never be more than 20-30 for a medium-sized software company. For systems companies, such as IBM, HP, or Sun, that are required to run significant operations in 50+ countries the number should be no more than 75-100 major (or global) accounts around the world.

In general, less is more with such programs, because by definition the group should be a select 'club,' and the resources required to provide meaningful value are not inconsiderable, just in terms of account teams and executive sponsorship, not to mention other investments, such as R&D, events, and so on.

In my view the best way of kicking off such a program is to start with a handful of major accounts, say, as few as five or ten – in the case of a start-up or new public company, perhaps as few as one or two -- to get going.

Setting the Bar for Entry to the Exclusive Club

Using the four vectors above you should set the bar high for entry, especially to begin with. It is critical to make the program truly customer-focused, i.e., involve the customer in assessing the commitments and activities that will provide most value to each 'founding' member of this exclusive club before launching the program. It's also worth bearing in mind Groucho Marx's famous maxim "I wouldn't join any club that would have me as a member" before establishing rules that no desired potential member would find attractive or acceptable.

At the end of the day, membership of a major-account program is a relative, rather than an absolute, thing. Companies are free to adjust the rules of admission when they want to, within the bounds of common sense.

With this in mind, I believe that preference should be given to those customer organizations that demonstrate their openness and interest in having a formalized but frank dialogue with the vendor about their business priorities, their preferences and their restrictions, and their willingness to dedicate time and energy to the program in accordance with the vendor's commitment of suitable resources. Just being large and willing to spend large sums of money on the vendor's offerings is not, in my view sufficient.

High-Value Programs for Major Accounts

Depending on which specialized source you consult, you will find that as many as 90% of established software companies claim to have a major-account program in place, or as few as 40% of companies claiming the same. Unfortunately, most of these programs are defined and managed to serve mainly the vendor's interests. Of course, such programs eventually become perceived by customers as thinly veiled sales campaigns. It follows that those vendors that think more deeply about the mutual benefits of these programs are likely to reap special benefits in the end, both in terms of customer responsiveness and appreciation and actual business results.

My recommendation is to begin by dividing major-account programs into four main categories: (a) consultative forums, (b) periodic checkups, (c) special offers, and (d) one-time events.

- (a) Consultative forums: This category may include a Business Advisory Board alongside a Technology Advisory Board, one to focus on the business-related issues and benefits and the other to focus on technology-related issues and solutions. This approach provides an opportunity to engage both line-of-business executives and IT management in the collaborative dialogue on related but distinct business-problem and technology solution issues.
- (b) Periodic 'checkups': In the spirit of the 'annual physical', business planning sessions, capacity planning meetings, business process audits (or application, or network audits, as the case may be) or similar checkup activities can provide significant early-warning value to both the customer and the vendor regarding risks or potential system overloading or breakdown, enabling both to take preventative action before something serious blows up. Such activities should be targeted more at helping your customers to transform their business effectiveness than at helping you to sell one more product or service to them. If you take care of them, they will eventually take care of you, because they will see how crucial you are to their business over time.
- (c) Special 'offers': These may include services such as business-problem diagnosis, business process audits, advanced training offerings, special promotions for 'club members', high-response support commitments, or early access to new products or upgrades (assuming this is a desirable thing!). Such offers may or may not be chargeable (at the discretion of the vendor), but they must provide differentiated value to the customer. They act as critical business-facilitation enablers as well as relationship-reinforcers.
- (d) One-time events: Speaking opportunities at key industry conferences can be attractive to customer executives and managers; other opportunities for providing testimonials to their success in using technology creatively and achieving industry-leading results. These activities act as an important way of recognizing your customer's merit, as well as saying 'thank you' for your continued business, and they also reinforce the relationship at a personalized level.

As the program progresses, you can add other programs, including customer-funded development, or co-development, initiatives and the like. But don't forget the basics: major customers usually want access to the best skilled resources that the vendor can deploy, they

want visible signs of coordination across national boundaries where appropriate, and they often want early knowledge of and influence in your product or solution development plans.

Resource Commitments

Of course, the key to every successful program is the actual commitment of resources – by both parties, naturally.

The two most significant resource commitments by the vendor are: (i) the *account team* (often comprising an account manager, a business consultant who has domain expertise of relevance to the customer's business, and a systems engineer, or permutations thereof); and (ii) one or more *executive 'sponsors'* who will match up with one or more customer executives to maintain periodic proactive contacts as required. Incidentally, this is quite a different concept from the largely symbolic 'executive sponsorship' commitments made today by most IT vendors, where executives are supposedly mapped to their appropriate counterparts in the customer organization, but have little time to do more than return emails or phone calls and rush out to appease an angry, frustrated customer executive after problems have simmered, then finally escalated to them.

On the customer's side, basic resource commitments should include: (i) a *'tag team'* comprised of an executive-level 'sponsor' and a project or implementation coordinator (or permutations thereof) to interface with the vendor's account team and executive sponsor on a continuing basis; (ii) *one executive or manager to serve on the customer advisory board* (this may require more than one if the vendor has instituted more than one board).

In certain cases, such as some of IBM's top accounts, account teams can number as many as 20 or more people in a single country, or a couple of hundred people around the world, with similar 'matching' resources invested by customers. Not to mention the ad hoc teams assigned to specific projects being implemented at various customer's sites around the world. Other large systems (integration) companies or major software vendors deal with similar dynamics, usually with less success than IBM experiences.

When mutual commitments go beyond the management of implementation projects and into joint development, R&D and engineering resources may be committed to specific customers. And, of course, in consulting or systems integration firms there may often be many different functional members in a variety of teams dispersed around different parts of the world.

Summary

To summarize this 'recipe' for a successful major-account program, here are the five principles I consider critical:

1. Design a good, basic major-accounts program: Confirm that you can commit to it on a long-term basis – customers are tired of seeing flash-in-the-pan initiatives not accompanied by valuable follow-through.
2. Form an exclusive club that Groucho Marx would want to join: Don't just call it exclusive, or 'strategic,' and then open it to any customer just because they spend large sums with you and complain a lot, or because they could do both of only we could sell them something!
3. Establish clear, firm, and demanding rules: Every good club has rules; make sure you establish three or four principles and stick to them. Your customers will thank for doing so, and even the ones 'left out' will understand, as long as you are firm and clear in your communication.

4. Make sure the programs is truly customer-focused: It is paramount to retain the enthusiasm and interest of your target customers in the program, so make sure the activities they care about are the ones you deliver on. That means placing a representative number of customers on your advisory board(s); be sure to challenge them to define a few stretch goals for the program to achieve, and to help you manage the program.
5. Remember, less is more: Less customers in the club, less activities committed to (but make them good!), and so on, makes for a program that your organization can deliver on.

If you follow this set of principles, I can easily imagine that you will avoid the problems experienced by so many tech vendors today, where their largest customers often consider themselves to be captives to high switching costs (think of database, ERP, CRM, data warehouse, storage, and networking customers, among others). The only problem with captives is that they are always scheming how to escape – and that is no way to run a business that strives for sustained growth and profits!

Beyond this outcome, companies that serve their more important customers with a coherent, value-adding major-accounts program can expect to add 10%-30% to their revenue growth and even more to their profitability on a sustainable basis. So, if executive teams in enterprise systems and software companies can't see the value of doing this, why aren't boards demanding it of them? I give up – you tell me. Perhaps that's why the tech business is so frustrating and at the same time appealing – sound business sense is so rarely the guiding force behind management decisions.

Under the Buzz offers commentary on enterprise software and systems business and management issues. The goal is to provide provocative and accurate insights into the latest events and thinking shaping this continually evolving technology sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuation.

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