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Key account management in financial services: Poised between desire and fulfilment

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Abstract

Key account management (KAM) requires a more extensive engagement by suppliers than many of them originally envisaged. As a result, service providers are now reducing the numbers of customers that they consider to be key, and selecting them more carefully and on the basis of their potential rather than their past. In order to make that selection, and to manage and develop the business, a deeper understanding of the customer and its markets is required than key account managers have ever had before. In fact, financial services is not one market but several, and they are generally rather poorly understood by the people at the forefront of KAM. This paper suggests that understanding markets and market structure could be improved by using techniques such as market mapping.

Changes taking place in these markets all tend to drive the need for KAM, particularly consolidation, which means fewer, larger customers demanding more serious investments in their businesses from their suppliers. Providers must follow up these investments with the relationships that will secure the payback from them. While the growth of KAM recognises this need, there are still major issues of delivery on the promises of individual treatment that KAM makes to customers.

What is key account management?

A key account has been defined as ‘a customer deemed to be of strategic importance to the selling company’.[1] As a result, key customers are overwhelmingly businesses rather than individuals (although some seriously rich individuals would qualify in financial services, especially in banking). Key account management (KAM) is therefore generally a business-to-business activity, described by McDonald and Woodburn as ‘an integrated approach to the profitable development of individual customers of strategic importance to a supplier’.[2]

From this definition it is clear that KAM is mainly concerned with the retention of these important customers at the least, and even more with their development. While a good deal of the philosophy can be used to support the process of identifying and capturing new key customers, customer acquisition is not core to KAM, so the focus is somewhat different from many customer relationship management (CRM) pipeline models.

Tailored benefits for specific business models

Research has confirmed that customers which are prepared to put their time and effort into a strategic relationship with a supplier are seeking distinctive benefits that are valuable to them in terms of cost savings, as a minimum, and also, ideally, competitive advantage in their marketplace.[3] They therefore expect much more than the supplier's standard offer plus a slice of friendship on top. They are looking for benefits tailored to support their specific business models, and different from those offered to other customers.

Key account managers, even sales departments, cannot meet such expectations by operating on their own. To deliver to this kind of agenda for each of a number of strategic customers requires cross-functional, cross-regional and cross-divisional engagement from the supplier. In other words, KAM becomes an organisation-wide approach to key customers. Here lie most of the issues surrounding KAM: they are not with the customer, which is keen to have such relationships with its key suppliers, but with the internal organisation of the supplier and its willingness to align itself with its selected customers.

Supplier and customer alignment

Alignment between supplier and customer is arguably the fundamental concept of KAM.[4] If KAM is to deliver any benefits to participants in the relationship, over and above normal transactional trading, they will accrue through collaboratively working together. Collaboration cannot be achieved without considerable effort, nor where mistrust and mismatched strategies exist. Companies which regard KAM as just the latest sales initiative tend to see a limited return on their limited effort, and eventually revert to previous selling practices.

Successful KAM may be distinguished from traditional selling by the presence of three characteristics:

— a broader, deeper understanding of the customer and its markets
— individual strategic business plans covering more than one year
— relationships managed by account teams rather than solo individuals.[5]

This paper looks at the adoption of KAM to date among financial services providers, and some of the issues that affect its operation. A majority of the examples are drawn from pensions and savings, with which the author has been most involved.

How do service providers select key customers?

In the past, key customers in financial services have been selected on the volume of business already given to the supplier. The list has usually been worked out as the 'top 100', 'top 200' or the 'top X per cent' of customers. Product providers are just beginning to be more realistic about how many key customers they can handle, as they have begun to appreciate the true nature of KAM. Jonathan White, Director of Provider Management at Bankhall Group, among the UK's largest service providers, recently wrote:

> 'Determining the number of relationships that can be treated as key accounts is critical. One UK provider has recently slashed its focus from the top 200 IFAs (independent financial advisers) to just 20 groups. They are not alone.'[6]

The key customer portfolio

Furthermore, some product providers are beginning to view their key customers as a portfolio, rather than just a list, recognising that it is inappropriate to approach even key customers in the same way in each case. Figure 1 shows the kind of criteria-based matrix they are now using, which enables them to make more objective choices based on a view of the customer's medium- or longer-term potential (over at least three years) rather than its past or present. This approach to the selection and categorisation of key customers has been advocated for some time,[7,8] and its practical application was described in detail in research reported by McDonald and Woodburn.[9]

Major providers should be aiming to build strategic relationships (top left box in Figure 1) with leading intermediaries. New, IT-savvy companies with good financial backing might appear in the top right (attractive, but real alignment has yet to be achieved), while the more traditional, technology-averse companies could appear in the bottom left box (still good cash producers, but limited potential). The bottom right box usually contains the kind of very large customer which is only focused on price, and leaves no opportunity even to discuss value.

Operationalising customer portfolio management

Having a view of key customers as a portfolio is a start, but only a start. If they are to be managed as a portfolio, an 'owner' of the portfolio must be identified and given the authority to make appropriate decisions, which may mean trading off the needs of one customer against another in resource-constrained situations. Not only must there be such a decision-making process, but it has to be backed by operational processes that implement those decisions. Three levels of decision making may be

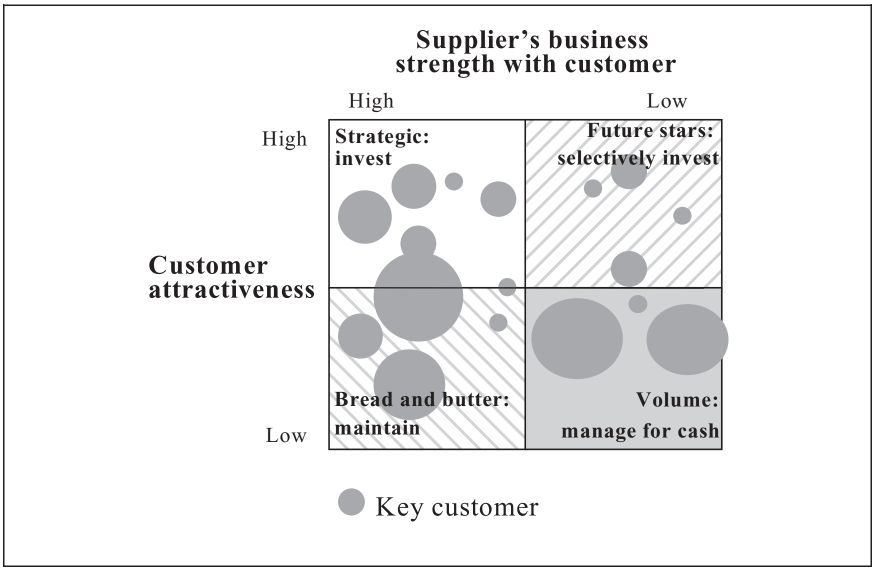
Supplier's business strength with customer
High
Low
High
Low
Customer attractiveness
Strategic: invest
Future stars: selectively invest
Bread and butter: maintain
Volume: manage for cash
Key customer

Figure 1: Key customer categorisation matrix

identified,[10] together with the extent to which they appear to have been operationalised in financial services:

— portfolio level: rarely in operation
— individual customer level: beginning to appear, but still unresolved cross-functional issues
— project/contract level: normally adequate.

Unfulfilled promise

To date, many companies involved with KAM, including financial services companies, have not yet carried through their KAM strategy effectively, leaving other functions still to respond according to their own objectives, or according to whichever key account manager has used his/her powers of persuasion to best effect, or according to the default option of 'first come, first served'. As a result, KAM in much of financial services is still more of a promise than a reality.

Need for market understanding like never before

Selecting customers by historical business volume has been popular because it is easy: selecting them by their potential requires a great deal more knowledge of their markets, their capabilities and their strategies. Understanding customers' strategies is made additionally difficult in many IFAs, even large businesses, whose strategic and management competencies have been stretched beyond their limit by the changes in the sector. Often they have yet to develop structures appropriate to their size, and even senior directors are still dealing with clients rather than directing their efforts into strategy development that addresses issues like the consolidation and lower margins driven by new regulation.

Understanding the customer's marketplaces

In any case, key account managers now need a real, usable and practical understanding of the customer's marketplaces in order to fulfil the far wider-ranging needs of their new role, such as:

— evaluating the customer's position in the market
— creating value-adding propositions for key customers
— developing specific business plans for individual key customers
— forecasting revenue and margin
— owning and managing customer risk
— making business cases for investment in key customers and customer projects, especially in IT/back-office projects
— managing the resource requirement
— conveying the customer's needs and opportunities to internal functions
— developing and supporting marketing with their customers.

To quote Jonathan White again, 'Providers are used to producing product development plans but in most cases distribution plans have been badged less important',[11] so generating development plans for individual customers is new. Most providers, however, are still rather a long way from putting into place the foundation of market knowledge for key account managers that must underpin these strategic customer plans.

Such plans occur much more widely than before, but many key account managers are still on the learning curve, and there is room for improvement in their quality and scope.

Segmentation and mapping in financial services markets

The financial services bundle of markets

In effect, financial services is not one market, but several. A market is defined by the needs of the decision-making people and companies which participate in it, especially the consumers who ultimately provide the money in it. So, while 'financial services' might describe a supplier-focused sector, it has little meaning as a market. Suppliers talk about financial services: consumers talk about their bank transactions, buying a house, claiming for stolen belongings, having something to live on when they finish work. Just as consumers see such activities as separate from each other, they do not necessarily see any links between their banking and credit services; insurance for their homes, cars and other goods; and provision for their retirement. These are, in effect, different markets. What links exist across these markets are derived more from providers' cross-selling drives than from offers that genuinely join up and address connected consumer needs.

Consumer segments should be defined in terms that explain how they drive the market. Segmentation based on size/volume is commonly used in financial services merely because the data are easy to get, but it is rarely successful in illuminating needs and behaviour. However, the rudimentary segmentation of 'high net worth' individuals versus 'others' is still popular in financial services. A bank in the Middle East that dealt exclusively with extremely rich people employed a more intelligent segmentation. It discovered that there was no correlation between behaviour and size of fortune, so it conducted research into the real influences on the customer's activity, which were particularly the level of education of the customer and whether the fortune had been earned or inherited. These attributes formed the basis of a powerful segmentation.

Demystifying the marketplace

Curiously, while financial services companies refer constantly to the complexity of their marketplace, they do not seem to be doing a great

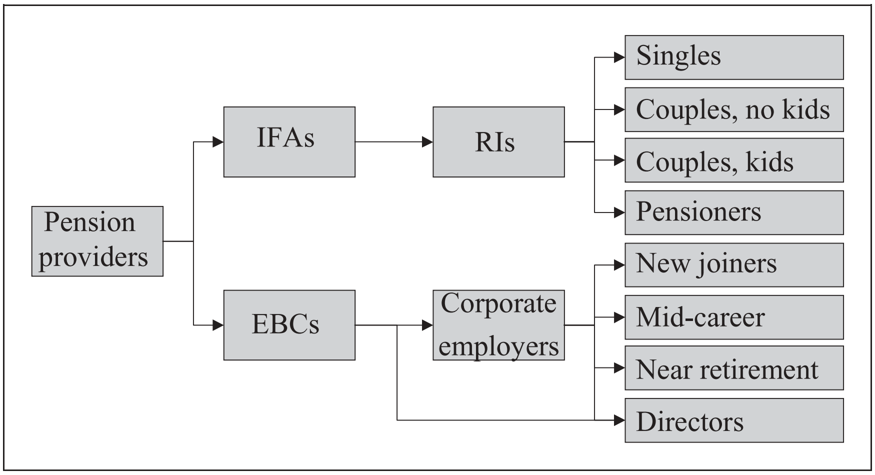

Figure 2: Outline market map for provision of pension retirement income

deal to demystify it, like using techniques such as that shown in Figure 2. This picture is a greatly simplified map of the provision of retirement income (through pensions). This map shows that products are sold through IFAs and their registered individuals (RIs), who give face-to-face advice to consumers, and employee benefit consultants (EBCs) dealing with corporates. Pictures like this help to highlight important issues in the market, for example:

Surfacing issues through market mapping

- RIs are generally self-employed and IFAs have limited control over them
- IFA networks consider their RI members as customers (and much of their activity is directed at these customers)
- large IFAs often play at several levels in the market, eg IFA network, IFA/RI and EBC (plotting each of their divisions in the market map clarifies their roles)
- employees are the customers of corporate employers
- for simplicity, the overlap between market segments accessed through different channels is not shown here, but it could be that a ‘single’ may also be a ‘new joiner’, and may indeed have access to offers made by RIs and employers simultaneously
- adding the volume of business transacted now and anticipated in the next few years clarifies the changes expected in the market in the future.

Generally, key account managers dealing with financial services intermediated value chains, such as that in Figure 2, have a poor understanding of market structure, particularly segmentation at the consumer level. Without this kind of knowledge, their range of value-adding propositions is severely curtailed (which leads inevitably to a focus on price concessions rather than business development).

Distributors’ thirst for market knowledge

Since margins have fallen and distributors feel less in control of their businesses, they have become eager for the market knowledge that big providers should be able to offer. Indeed, customers in many sectors see sharing of market knowledge as a significant benefit,[12] and this is particularly true in the world of financial services, where the current rate of change makes it harder than ever for intermediaries to keep up. Many distributor businesses, and financial services distributors are no exception, do little real marketing and do not understand market segmentation. They have segmented their databases poorly, if at all, on inappropriate criteria, and would welcome well-informed assistance from their key account managers.

Where does KAM fit into the market?

KAM, as a customer- and market-based approach, plays a different role in each of the different financial services marketplaces, and has emerged at different times in each. It appeared first in corporate banking, driven by boundary-spanning customers with a need for globally joined-up banking, where the suppliers (banks) were dealing direct with these customers.

Mapping the participants in a marketplace helps a great deal to identify where KAM fits in and where it probably does not. Where segments contain entities (companies or individuals) responsible for large amounts of business, suppliers should be evaluating a KAM approach to them. Just glancing at Figure 2, it is not difficult to guess that KAM should be considered by EBCs as well as pension providers, but much more rarely by IFAs/RIs (except where they act as EBCs) since few, if any, individual policyholders are likely to be of longer-term strategic significance to the company.

Banking and credit services

Citibank was one of the pioneers of KAM nearly 20 years ago, responding to its global customers' needs.[13] Indeed, KAM is often driven by customers rather than suppliers,[14] and it may be because end-user customers were in direct contact with providers that KAM emerged here before it appeared in the longer, highly intermediated chains in pensions and savings. But banks deal direct with millions of individual customers and businesses, which counterbalances the importance of even very large corporates and seriously rich individuals. Management of these customers really needs to be split off into a unit separated from the rest of the customer base in order to preserve any focus on these as key customers.

Numbers as a best practice indicator

Recent research,[15] which involved several banks, found a mix of excellent and less good practice in KAM, probably because the numbers of customers considered key was far greater than the number the research shows to be viable — up to about 70.[16–18] Beyond this kind of number, organisations have more of a 'premium group' offer than genuinely individually differentiated offers.

In corporate banking the key account manager is often the client's principal adviser as well, so the customer manager is also part of the product. While this is quite common in professional services, it undoubtedly complicates organisational structure, rewards and other important elements of the KAM mix.

Retirement

A very high proportion of this business is sold through intermediaries, because of the need for face-to-face advice to consumers. Unfortunately, suppliers inside and outside financial services can regard their distributors with deep suspicion, almost as enemies rather than valued partners, and have difficulty in accepting that distributors can be considered as key accounts at all. That may explain why KAM has only recently appeared in this market, in which most KAM relationships are with the distribution chain — with large distributors and now retailers as well.

Working as an extended enterprise

Financial services distributor businesses often lack the management strength of the big providers, and should be able to look to these providers as leaders in the marketplace who will work with them as an 'extended enterprise' rather than a customer held at arm's length. Providers have only just started on the task of putting themselves and their staff in that position, however.

Insurance

Providers deal direct and through intermediaries. KAM is appropriate for major brokers and also very large and global 'end-user' corporations where risk management is core to their business, such as companies in food, energy, chemicals and transport. The research discussed here has only touched slightly on this market but, with its mix of direct and distributor customers, it is likely to show characteristics of both of the others discussed.

What is driving KAM from the customer's side?

A limited capacity for intimacy

If a customer could achieve all it wanted from its suppliers through low engagement with them, it would be most efficient for them to stick to simple relationships. Under certain circumstances it makes sense to work more closely together, but customers have to be just as selective as suppliers in terms of the number of key relationships they can handle, for very much the same reason: all businesses have a limited capacity for intimacy.

Close relationships are reciprocal, and they do not exist if they are not wanted by both parties, provider and customer. The matrix shown in Figure 3 explains why customers like IFAs are increasingly interested in collaboration with providers. It is widely used in procurement. In effect, the matrix suggests that customers should seek to have relationships with suppliers in situations of high 'market risk', eg a limited number of suppliers, uncertain market conditions, unreliable quality, changing technology etc, where they also have substantial purchases.

Conditions in financial services

To what extent do such conditions prevail in financial services? In pensions and investments, certainly, the current focus on provision for the

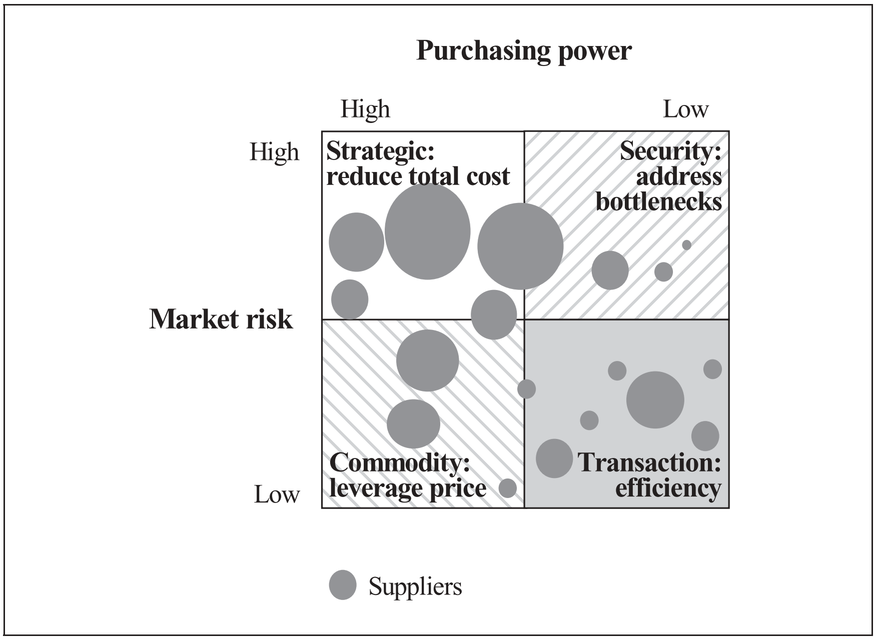
Purchasing power
High
Low
High
Low
Market risk
Strategic: reduce total cost
Security: address bottlenecks
Commodity: leverage price
Transaction: efficiency
Suppliers

Figure 3: Purchasing strategy matrix

growing population of elderly people is causing considerable turbulence among participants in this market. The government is desperate to oblige more people to provide for their old age themselves, rather than through the state pension, and to oblige pension providers to offer products that will achieve their objective. At the same time, serious concerns around past mis-selling and mismanagement is forcing the government to introduce ever more stringent measures designed to address these issues, in order to shore up public confidence. However cheap the products, the public will not give its money to companies it does not trust.

A turbulent and tough marketplace

At the same time, IT has developed to the point where many people expect a product such as financial services, where there is no tangible product or need for physical movement, to be instantly and seamlessly handled electronically. While this is true in theory and in areas like banking, in other areas this nirvana is still some way off. For example, passing time and multiple mergers have left pension providers with dozens of legacy systems, which makes seamless processing extraordinarily difficult. Furthermore, many of the people and even some of the intermediary businesses in this part of the sector have totally failed to embrace IT. Manual processing and consequently high error rates mean high costs and poor service, a major contributor of perceived product quality.

In the pensions sector, these factors plus decreasing prices, new low-end government-designed products, rising compliance costs and poor RI productivity, among others, all result in shrinking margins. Consolidation among providers, and intermediaries as well, is expected to lead to only a handful of providers in the future big enough to achieve sufficient economies of scale to take on the increasing cost burden of compliance and investment in IT systems, hold the confidence of consumers and still make a profit.

Increasing relevance in financial services

In summary, from the customers' side, as well as from the providers' side, KAM is the right approach in the market conditions that will prevail for the foreseeable future. In the new, concentrated market structure KAM relationships will become even more relevant than now. Even in the other less pressurised financial services markets, consolidation continues apace, and that always means that supply chains are more vulnerable and in need of protection.

Delivery issues

Having agreed an intent to develop a close relationship, and worked out the plans that support and justify that approach, the next stage is delivery. Sales departments in financial services have previously had a suitcase of items they had a remit to offer, mostly focused on training, marketing campaigns, small customer support funds and price, if necessary. Now, customers want something different from these well-trodden paths: they may need assistance in the reconfiguration of their back offices, help with database mining, white-label products and even management training. However, many providers cannot yet 'play all the notes on the piano'.

Obviously, they have to maintain service to the rest of the business while giving differentiated benefits to key customers. Suppliers need rapidly to take stock of their capabilities and identify what they can and cannot or will not offer, before they promise things that will not be delivered. If there are no concrete, differentiated benefits for key customers, there is no reason for them to stay in the relationship, so opportunities for customisation must be found. The good news is that the range can be so much wider than before.

Key questions for providers

To achieve robust delivery, providers need to consider some key questions.

— Has the KAM strategy been communicated to the whole organisation, and has it been accepted, including the new culture of calculated elitism it involves?
— Has it been clearly prioritised alongside the other initiatives the organisation is also working on?
— Have the implications of reorganising resources been identified and clarified to those affected?
— Does the whole organisation know who these customers are, so that they can treat them as key customers however they interface with the provider? (One insurer baulked at identifying these customers to anyone outside its KAM team and, as a consequence, after three years nothing had changed.)
— Are systems designed for mass processing capable of even recognising when they are dealing with a key customer?
— Can the organisation deliver customised products and processes as well as sales and marketing offers?
— How can flexibility be reconciled with efficiency?
— How can initiatives agreed between two head offices be effectively communicated to branch/field staff in both organisations?

Communication, communication, communication

Even if the answers to all these questions are positive, key account managers still have an important job to do in keeping everyone involved with his/her key customer properly informed in the most efficient manner possible, and this is clearly a much larger number now. Other functions

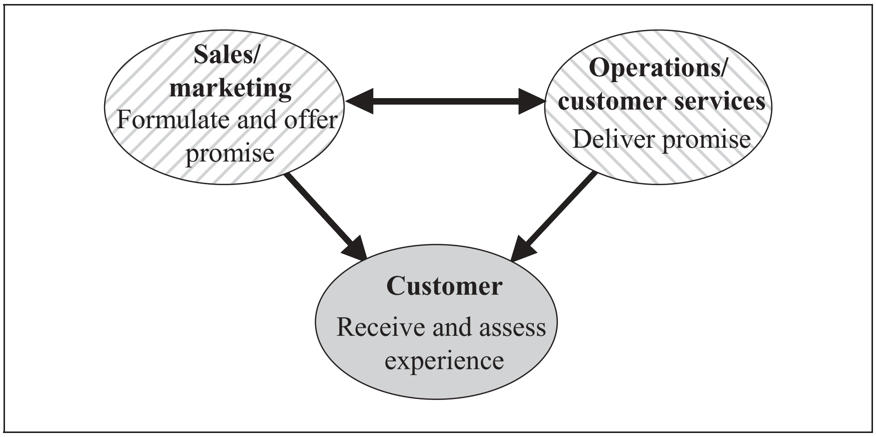

Figure 4: Promises and fulfilment

frequently complain that they have failed in communicating appropriately in the past. Figure 4 highlights the point that, if communication between sales/marketing and operations fails, not only will the supplier fail to deliver its promises, but also only the customer, and not the supplier, will be in a position to know what was promised and what was received. This must surely be a vulnerable and uncomfortable position for suppliers.

Customer obligation to return investment

Delivery is a two-way matter. If the supplier invests in the customer, then the customer must expect to deliver a return on that investment. To quote Jonathan White of Bankhall, writing as a key customer, once more:

> 'Providers now expect to receive real distribution assistance and promotion. After all, business acquisition costs are the single biggest cost to a manufacturer. Every pound spent is a strategic investment that requires return on capital and rightly so.'[19]

Conclusions

KAM has been around in some parts of the financial services sector for a very long time, but others have only recently embraced the approach, driven by major changes in the marketplace. Even those organisations which have been involved with KAM for a long time do not seem to be operating what one would consider best practice across the board.

The financial services sector has adopted KAM for excellent reasons, and has begun to address the need to understand the customer and its marketplace better and to develop strategic business plans. These plans have helped to identify the challenges facing providers. Recognition of these challenges has led providers to reduce the numbers of customers they now consider to be key, and to use more forward-looking criteria in their selection.

Providers still face major issues in implementation, and the other pressures in the market, not least reducing margins in some areas, will add to the difficulty of resolving them. There will undoubtedly be constant clashes between the needs of thousands of small customers and the relatively few key customers. But these are not the customers to play with and, having once embarked on KAM and made welcome commitments to them, service providers must maintain a consistent intent, even if the form of its expression changes.

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