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How to unlock growth in the largest accounts

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Large companies have become increasingly sophisticated negotiators. In response, smart selling organizations are upgrading how they manage their largest accounts.

For a B2B company, the largest, most strategic accounts can be double-edged swords. These key accounts can represent 30 to 50 percent of revenue and margin for many companies. On the other hand losing an important customer or making a bad deal can have a devastating impact on a company's growth.

Given the importance of key accounts in an increasingly competitive landscape, the best B2B companies are reassessing their approaches to top customers. This development is increasingly important, as large buyers are increasing their sophistication in making purchases, e.g. centralizing the purchase process, implementing competitive bid processes and auctions, and preparing rigorously for negotiations.

Improving how B2B companies sell starts with understanding buying patterns and preferences, so we surveyed more than 1,000 large buyers across industries as a follow-up to our recent survey of small and medium-sized business (SMB) buyers.

The sales experience matters more than you think

When we asked large buyers what drives purchasing decisions (their "stated importance"), they named price and product features and reliability as the most important factors. These factors were all well ahead of sales and service experience in stated importance.

However, when we compared those responses to actual purchasing decisions (their "derived importance"), we found two important insights—and what they mean (exhibit):

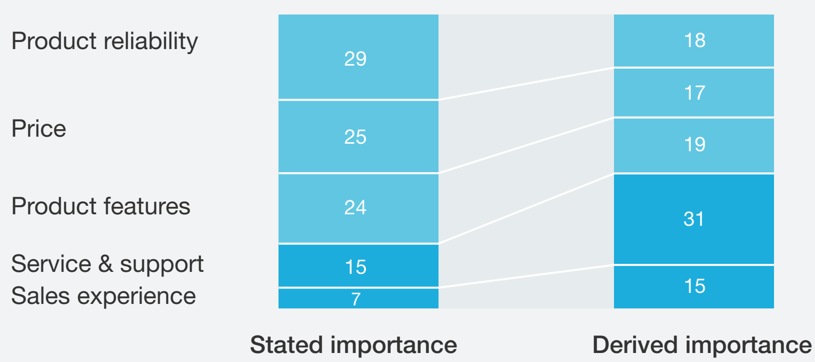
1. *The sales experience is twice as important as buyers report, ranking near price in importance.* Note that in serving key accounts, sales teams typically interact with senior members of the customer teams. This fact raises the stakes and the need for first-rate management skills.

2. *Service and support is the most important buying factor—twice as important as price.* Large businesses have complex supply chains, specific production needs, and demanding downstream customers. For this reason, finding the right supplier partners is often even more important than getting the lowest price.

Exhibit

Large customers say they buy based on product and price. But analysis shows that value-added services and the sales experience matter as much or more.

2016 Large-buyer survey, average importance of purchasing factors, in percents



Derived importance links customer responses with their purchases by supplier to show what actually drives the purchasing decision.

McKinsey&Company | Source: 2015 Key Account survey

These findings clearly highlight that one of the most important roles for the key large-account team is to manage the full customer experience, from the front-end sales process to ongoing service and support. When done well, this focus helps companies improve key-account revenue by 5 to 10 percent or more, while maintaining margins.

Here are the four things the best organizations do to fuel that growth:

1. Quantify the full customer experience

While our research shows that service and support are twice as important as product features in driving the decisions of large buyers, most large selling organizations define those values, if they do so at all, in terms of product features and benefits. Even those that highlight their service don't generally attach a clear value to it. But we've found that defining and communicating a credible quantified value proposition (QVP) for the products and services provided is a key to success.

One global distributor that faced declining win rates and margins with key accounts realized that it had a relatively commoditized product offering and was relying on price to win large customer opportunities.

In fact, however, the company had several service offerings that differentiated it from its competition, such as index-based pricing options, on-site inventory management, and custom product bundles. These offerings had average bottom-line impact on customers that amounted to 5 percent of total sales, which created a huge advantage in this low-margin industry.

By quantifying this value, the sales reps could shift the discussion away from price and engage business leaders who cared about the overall P&L. With this approach, the company grew key-account margins 10 percent, and the segment became the growth engine for the business.

Some vendors are taking the quantified value proposition a step further by tying some or all of their fees to value delivery. This increasingly common "fees at risk" approach hinges on the ability to quantify the value proposition for each customer. Since few companies do this well, it can be a key differentiator in the sales process.

2. Build 'value selling' muscle

Great key-account managers have historically relied on strong relationships, but value selling—or the ability to sell based on a shared understanding of the value of the product or service—is now a critical capability. In our large-buyer survey, we found that companies are 25 percent more likely to be the primary suppliers of large accounts if they can sell on value. However, only 14 percent of sales executives believe their reps are effective at value selling, according to our 2015 Sales Executive survey.

While it can take years to build the right team of value sellers, companies can make significant progress with existing teams by:

- Arming sales teams with “plug & play” QVPs: After creating QVPs, companies need to keep them up to date by automating templates and data collection. Along with this capability, the best companies invest in teaching sales teams how to use the QVPs effectively, which usually includes providing them with coaching in the field. This is the only way to make this a regular course of business, rather than a one-time event.

- Building up cross-functional teams: Sales teams alone will face significant difficulties in identifying all the value-selling potential in an account. The best companies involve subject-matter experts, R&D, marketing, and even senior executives in the selling process for high-potential accounts to create a complete picture of the value. They also formalize their cross-functional teams by setting expectations for the frequency of their engagement, monitoring their activity, and measuring the effectiveness of the different roles and interaction models.

- Assigning the best reps to the highest-potential accounts: Many teams are reluctant to realign key-account coverage for fear of disrupting existing relationships, but in our experience, the risks are minimal and the upside is significant. Matching the best value sellers with the biggest opportunities can yield quick dividends.

3. Make it easy

According to our research, large buyers’ biggest pain point is disjointed relationships marked by forgotten follow-ups, multiple points of contact, conflicting messages, and opaque processes, to name a few factors.

Poor coordination across business units or geography is often the culprit, especially as large accounts are becoming more global and complex. For example, a rep in one region may propose a significant price increase without coordinating with other regions, frustrating the customer. Many suppliers also lose multiregion, multibusiness-unit deals because they can’t align resources across silos.

Addressing this pain point requires a set of common steps:

- Put in place a clear account leader, who leads a cross-functional sales team with representatives in each of the customer’s core geographies and/or business units.

- Maintain a shared account plan with clear owners and deadlines, and establish a consistent cadence of team communication, e.g. monthly team calls.

- Provide transparency on performance across BUs and geographies.

- Design incentives that ensure team members are aligned for the greater good of the account.

Fortunately, digital collaboration tools (often enabled by CRM) are making it easier to coordinate teams. For example, a leading industrial manufacturer struggling to manage its cross-region, cross-BU accounts developed formal account teams and established shared account plans on Salesforce.com. This helped the company grow its opportunity pipeline by more than 10 percent and raised win rates in the first six months. Customer satisfaction also grew markedly.

4. Prepare for negotiations the way customers do

While sales and service are critical for large buyers, price still matters, and buyers are way ahead of most sellers in negotiation sophistication.

Our survey revealed that three-quarters of large buyers spend at least ten days preparing for every large contract negotiation, and nearly half spend 30 days or more. About 40 percent believe they now have better insight into supplier costs to improve their negotiating leverage. Buyers are also changing their approaches to large deals to gain advantages: relying more on RFPs, using sourcing consultants, and demanding cost transparency from their suppliers (e.g. “clean sheeting”).

In our experience, few suppliers exhibit the same rigor in their negotiation preparations. Many have no standardized deal processes, especially when individual sales reps lead negotiations. As a result, large deals place heavy burdens on the organization, and companies risk getting into bad deals because of suboptimal preparation and a “win at all costs” mentality.

One basic-materials manufacturer faced declining margins in its top accounts because it was winning “bad” deals and failing to identify opportunities for improved pricing, new products, etc.

In response, the company established a “big-deal team” to develop negotiation strategies and standard tools for its most important deals. Before negotiations begin, the team analyzes industry cost curves, gathers market intelligence, and models scenarios to understand and quantify the buyer’s best alternatives. The company now goes toe-to-toe with sophisticated procurement organizations, pricing deals with confidence instead of fear. In total, the company has raised margins on large deals by 500 basis points without affecting win rates.

We have seen similar successes across industries including manufacturing, distribution, IT, and telecom.

The best big-deal teams follow a consistent set of principles:

- Be selective about which deals to support. Large deals are costly to pursue, so the big-deal teams can go after only so many. Companies consider a variety of factors to target the most important deals, including margin thresholds, likelihood of winning, and customer willingness to partner.
- Use standardized process, including stage gates with go/no go points. The best companies are willing to walk away from deals that are unattractive or that they are unlikely to win, and invest their valuable resources in more attractive deals instead.
- Rely on facts, not emotions. Consistent analytics, including price and margin sensitivities, competitive insights, and historical account performance are crucial in removing emotion from big-deal decisions.
- Conduct rigorous postmortems. Companies consistently learn the most about their customers and themselves in the aftermath of deals. The best set up quarterly sessions to review the most important deals—won or lost—and then codify and share the insights with deal teams.

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Our large-buyer survey suggests that procurement sophistication will only continue to increase as buyers look to cut costs and gain the upper hand in negotiations. But suppliers can turn the tables by developing best-in-class key-account programs that focus on sales and service—and turn the largest customers into growth engines. □

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