Cracking Target Accounts

Regular readers of our commentaries, users of our "high performance distribution" video and readers of our "strategy paper" (free via e-mail request from karen@merrifield.com), know that I recommend special management focus on several different types of "key accounts". My taxonomy of special accounts includes:

- "core accounts" (most profitable in #1 best, historical niche)
- "target accounts" (most likely upside profit growers in #1 niche two levels: company-wide and sales territory)
- "gazelles" (core or targets that are top 3% innovative, fastest growers)
- "lead-into-gold accounts" (biggest losing accounts within #1 niche)
- "living edge/advisory accounts" (most progressive, core customers who help to co-create new total procurement value propositions on an experimental basis and then serve as testimonial case studies for the rest of the niche).

From my experience, sales reps who have been historically assigned to any of these key accounts will generally not be comfortable taking any of these accounts to the next level, even though they will be quite reassuring (and possessive) that they will. All sales reps can certainly have their own, territory-level, target accounts, but the most important company-wide "target" accounts (5 or so in total per location) are the focus of this slide show.

The following slides will address the following questions:

- How do you choose the right target accounts? What criteria should be used?
- Who should be assigned to these accounts ("ACCOUNT CRACKERS") and is there an account development process that these special agents should follow?
- What role should the rest of the team play in helping to take these targets to the next level?
- What should we tell the rest of the sales force, especially the ones who have big potential accounts assigned away from them?

ZEROING IN ON BEST TARGET ACCOUNTS

1. **Profit ranking → top 10 + → top 3 customer niches**
2. **Co-create a refined win-win, value proposition with #1-niche, top 5 most profitable accounts**
3. **Identify 5 best target accounts in #1 niche**
4. **Apply "hard matrix" total-team effort to top 5**

Cracking Target Accts. # 2

"Target accounts are difficult to identify and settle upon because it is tough to assess their lifetime, expected profit stream when we initially don't know much about them because we aren't selling them much to begin with. We can know that their present potential purchasing volume is large, but we don't know how much of that we can capture, how fast, how profitably and then how will the account grow (or shrink) over the next 10 years ("gazelles" are an exception, they will surely grow).

We will have to make a lot of guesses to come up with an initial, rough, expected value ranking. We should plan on reassessing the estimates, rankings and adding and subtracting from the group on a quarterly basis. This dynamic list will substantially settle out within 6 months and then additions and subtractions may happen every 6 to 9 months after that.

Here are some comments on the slide points above:

1. From the profit ranking report we can sort the top 10 or so accounts into one or more customer niches. Then, we can identify perhaps the top 20+ accounts within each niche for each location and decide how to prioritize those niches based on our assessment of our chances to become a dominant #1 value provider and share owner. 50 to 80%+ share of a customer niche per a location is my preferential goal. Our strategy paper goes into detail about how to sub-divide a niche by A-D accounts and by purchasing value (loyalty, total value, pure-price) groups.

2. We want to experiment towards developing and offering each target niche the most compelling total value proposition by carefully analyzing and interviewing our 5 best core customers. Database analysis will help us to identify what common items our core customers buy. Service insights will come from interviews that ask:

- what other types of miscellaneous suppliers do they have in common?
- why do they buy so much from us?
- what do we and other suppliers do that bothers them the most? (The solutions will be service innovation opportunities.)
- What are the ways that we can work together to lower their total procurement cost (TPC) and boost internal productivity opportunities?
- Are they willing to work with us to experiment towards a better defined, tuned, best, distinctive value proposition with which we can lower both their buying and our total selling/servicing costs?

3. Once we <u>have improved our total offering to our core customers</u>, then we can then <u>take it to</u> what <u>five or so best target accounts</u> in the niche?

4. Because we will continue to sell most of our accounts through territories and decentralized branch operations, <u>we will have to change how we go after these target accounts in a way that will persist.</u> We don't want our old ways to resist next-level, super-focused target account capabilities like a corporate immune system going after a new foreign agent. More on the "hard matrix" in slide 8.

TARGET ACCOUNT CRITERIA

1. **Fit our #1 niche**
2. **Bigger**
3. **Have foot in the door**
4. **Easy access to lots of influencers**
5. **They have partnering track record**
6. **New honcho (x) new program(s); degree**
7. **(+) advantages over current suppliers**
8. **Highest expected volume score**

Cracking Target Accts. # 3

Comments on points above:

1 and 2 – self-explanatory

3. It is usually a lot easier to go from being an accepted supplier, albeit a minor one, to a big one than it is to crack a stone-cold account. Super account cracker reps love the stone cold ones, however, because they can take bolder, more creative risks knowing there is no downside retaliation losses possible if they should upset the customer. High risk, high reward, little total downside.

4. The more people we can see within a company that interface with our products, services and/or buy-sell processes, the more opportunities we can find to cultivate supporters through all kinds of favors and to see ways for how we can deliver a more perfect one-stop commodity bundle with perfectly tuned services. Accounts that are strict about limiting multiple contacts cut down both the discovery and development rates for upside, creative possibilities.

5. We are looking for accounts that do make occasional supplier shifts based on rational, articulated, value judgements. They may rarely have a stated policy of finding the best suppliers and partnering with them on a win-win basis. If this is truly the case, they should be glad to give references of other types of suppliers with whom they have partnered. We don't want, on the other hand, to target accounts that haven't had a change in key procurement personnel or suppliers for years with no retirements imminent. Nor do we want to bother with accounts that buy from whomever has the lowest price each week; we can't co-create win-win, buy-sell supply systems with them.

6. If a new (turn-around) CEO or VP of purchasing, especially from the outside, has just arrived, this will put the static buying and price-buying accounts back into consideration. Top-down, new ambition will cause lots of internal motivation to find new best total value solutions, especially in purchasing. Entrenched suppliers become vulnerable to proving their worth all over again.

7. The number one incumbent supplier is rapidly weakening. In tough times, over-extended competitors get put on credit hold by suppliers, their fill rates then plunge and their best sales people and accounts can be poached. Skimming the failing competitor's best accounts and few, good people is far better economics than buying the dying competitor's entire portfolio of mostly losing – customers, people and inventory – for a "low, net asset value price".

8. Weighing all of the factors above make a best, initial guesstimate of expected value and be prepared to change them monthly, than quarterly and eventually every 6 to 9 months.

WHO CAN CRACK THEM?

1. **“Dome sell” a sustainable, win-win system?**
2. **Be a “10” to all contract people**
3. **Intra-preneur who leads/uses total team support**
4. **Mono-maniac on a mission passion/creativity**
5. **Capable of corporate espionage**
6. **Makes/seizes “lucky” porthole opportunity**

Cracking Target Accts. # 4

1. “Dome selling” is covered in the next slide; “a win-win system” is covered in slide 6.

2. “Be a 10” is slide 7

3. “intra-preneur” is a term for someone with entrepreneurial capabilities who works within a company. They can identify unmet, new needs and figure out how to invent a solution that can be sold for a price that exceeds the cost so a profit is assured. The invention process involves failing forward experimentation (see slides 10 and 11 in at this slide show link: http://min.isisit.com/merrifield/articles/Knowing_Doing_Gap_slides.pdf

Entrenched people and systems don’t like intrapreneurs because they cause change headaches and their successes embarrass the old order who were not seeing or seizing opportunities.

4. This type of person has to love making new value creation happen as well as blowing up the old, outdated order. This competitive spirit to show up the old order is one reason why they rub the old order the wrong way. But it is also the source of the persistence and creativity to make things happen.

5. When shaking down new accounts that have purchasing people who are controlling, paranoid (getting kick-backs of some sort) defenders of the past, our star will find other way(s) around these walls of resistance even if it involves what some might consider acts of deceit. Will the value-benefit ends for the customer justify the unethical means? It depends upon the judge; this is a gray area.

6. Lucky portholes are covered in slide 9.

DOME SELLING PROCESS

1. **Term**
2. **Bottom-up, cultivate spies, blockers, sponsors**
3. **Document TPC (x) specialization by dept.**
4. **Propose a deal that P. A.'s can't sign**
5. **Set-up summit meeting; protocol effect**
6. **Follow-up summit; liquidate P.A.'s job?**

Cracking Target Accts. # 5

1. Dome selling is a metaphor that I have used for years to suggest putting a customer's total payroll inside a class jar to carefully study, map and connect with in order to find supply/service needs that we can sell for less than they cost.

2. We will eventually want to build relationships between our top people and the customer's as high up as is necessary to create customized (to a degree) total supply-chain or total procurement cost (TPC) solutions that are long-term, win-win and evolving systems/relationships. Because we can't waste VITO's (very important top officers) time, we have to start at the bottom and through the back door to find out first hand what isn't working with current suppliers and what new value solutions can be co-created. As we follow product, related paper-flow and productivity effectiveness through the plant, we must try to endear ourselves through personal value/favor delivery to as many people as possible. These new sponsors and spies will then, in turn, give us more information about what is and isn't working; what is politically likely and unlikely to work; and who else to involve in making the new TPC reduction, bottom-line building solutions work.

3. By using the TPC model (http://min.isisit.com/merrifield/articles/4_2.asp), we can identify what the true hidden costs of the current purchasing practices are.

4. Because purchasing agents are not "lowest TPC solution creators and buyers", they tend to be able to only buy defined products in defined ways at lower prices/terms for maybe the same or better defined service levels. They can't authorize process re-engineering that typically crosses departmental lines and involves new paperwork flow and information technology support. These re-engineering, re-evaluation decisions can only be made by people higher up who can see and be politically (and financially) rewarded for successful total process re-engineering changes. <u>If we want to make next level results happen for – the customer's total savings; our potential net profits; and, barriers to entry for our competitors who will always say "me-too, for less" – then, we have to do some process re-engineering.</u> When we make a proposal to a (defender-of-the-past?) purchasing person, we have to design it in a way that the true savings are documented, and, the PA will be either a hero or a goat depending upon their decision. Will they become a (passive resisting?) sponsor and push it to the next level or will they reject the proposal and know that too many of their fellow employees will know that they made a bad, (self-serving?) decision?

5. When the decision on the new value proposition goes to the next level, <u>it is important to bring in our next level managers for two reasons:</u>

a) Customer honchos are more open and friendly to other honchos that they perceive are their status or higher (they don't normally deign to talk to sales reps);

b) Customer honchos are apt to ask for variations on the proposal to which the other honcho can immediately answer yes or no instead of a sales rep saying: "Gee, I don't have the authority to do that, let me get back to you on that." Customer honchos don't like creating and negotiating new solutions through messenger and the communication delays.

6. Once a deal is struck, <u>change doesn't usually happen unless there are two champions for the new project: our account cracker and whom from the other side?</u> (see steps 6-9 in slide 6.) New solutions will not only change old job definition activities, but they will liquidate job activity through streamlining, outsourcing and/or automation. <u>Job activity incumbents will fight their own liquidation of both activity and authority. The two champions have to be prepared for these battles, and the seller's champion will have to be the tough cop.</u>

NINE STEPS TO A SYSTEM

MCG

1. Qualify - a large potential partner
2. Cultivate & penetrate
3. Sell total economic feasibility study
4. Analysis
5. Proposal; summit; pre-install requests
6. Install
7. Measure economics; document equity
8. Maintain & expand
9. Secure & promote internal/external testimonials

Cracking Target Accts. # 6

This process slide is fully discussed in our "high performance" video module numbered 4.13. The first 5 steps are covered in the preceding slide (5).

Step six: For "installation", our account cracker has to be good with both project and change management skills that start with these potential planning efforts:
a) flow charting what currently is going on and the plan for what will go on;
b) a list of the before and after benefits that will accrue to both parties;
c) a list of what needs to be done by each and both parties with estimated costs and manpower allocations;
d) an agreement on how the costs and benefits will be dynamically scored and shared;
e) a schedule with PERT chart for getting it all done; and
f) mutual agreement on what the customer's key, new metrics for success will be.
Because the installation will cause transition management problems, account crackers might want to look at all of the slides in the "Closing the Knowing Doing Gap" show at this url:
http://min.isisit.com/merrifield/articles/Knowing_Doing_Gap_slides.pdf
Step 7: Metrics for success should be designed so that any shortfalls will serve as a constant goad for working on the new buy-sell system until maximum results have been achieved. The process of measuring results and the cost of implementing them should be documented so that everyone on both sides knows just how expensive it would be to switch to a new supplier that would have to come in and develop the same new, higher value delivery interface.
Step 8: Assuming we can be successful on a pilot project, then we can scale the new relationship to embrace all past purchasing that might fit into the new process as well as all new needs that come along.
Step 9: Problem: because TPC-reduction system solutions are complex intangibles that optimize a lot of hidden and inter-departmental costs that individuals don't readily see or appreciate, individuals will focus more on the inconvenience of their changes instead of the bigger holistic gain. Next generation, departmental employees who don't receive sufficient big picture economics education will regress to focusing on what is easiest for them individually. Other suppliers will promise to take their personal pain away for a lower price (but at unseen much higher TPC), and the old, better system will be thrown out for a "new, greater price savings, less personal hassle system".
Solution: as we measure and document total system savings, we must get as many different individuals to bear witness to the new benefits in writing about the positive economic trade-offs between personal needs today and everyone's bigger, longer-term benefits. These testimonials will help us educate the next generation of employees on both sides of the buy-sell fence, so that the system economics don't decay and get brittle with age. Testimonials from top honchos can also be used to sell other potential accounts on our company's ability to create breakthrough TPC savings through new co-created purchasing systems.

BE A "10"

1. **Big buyers: "90% of salespeople waste my time"***

2. **The Best?** | **The Worst?**

Know my business
Make me think
Solve my problems
"Now" follow-up
Make things happen
Grow me and my profits

***NAPM Big Buyer Survey result** Cracking Target Accts. # 7

1. The National Association of Purchasing Managers (NAPM) has a sub-group of the membership called "big buyers". Don't ask me what the qualification numbers are for such status. But, I have noticed that since 1970, the importance of, value of and access to "outside sales reps" has dropped dramatically while the value of inside sales reps has steadily increased. The underlying reasons for the big trend are probably:

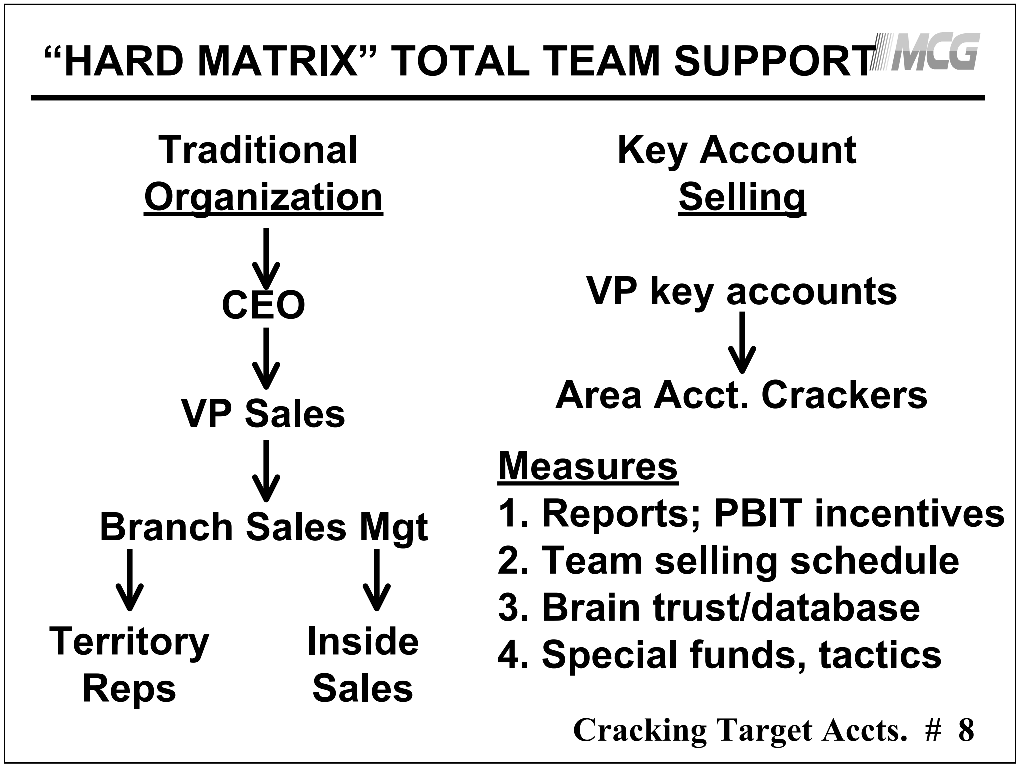
a. Inside reps are easily called whenever needed;

b. Inside reps have ever more instant information/answer power from the terminals on their desks

c. Outside sales reps had been introducing a lot of new, significant products to customers from WW2 to 1970 and fighting for extra allotments of product for customers during the chronic manufacturing shortages during that same period earning big loyalty. As an ever greater percent of a PA's purchases become equally excellent commodities in a chronically over- supplied world, their needs shifted from new products and allocation protection to co-creating the lowest total procurement cost buy-sell system solutions.

d. Even though the relative value of outside reps has dropped while their cost has risen, <u>the key point is that "10% of the sales reps are still worth seeing".</u>

2. So, <u>what should distributors do to make sure that all of their reps are in the top decile for their industry?</u> Define what 10's and non-10's do, then insist and enable all reps to get on one of two paths: one to become a 10, the other to someone else's payroll.



Thanks to the movie and TV series, "matrix" is becoming an over used, misunderstood word. In management theory, matrix organizational charts came into vogue in the mid-'60's. The idea is that every employee would have two bosses, a P & L boss and a process, project, and/or professional-expertise group leader. The goal was to knock down departmental silo's and promote bottom-up economic creativity. Most turned into big power struggles with the new, cross-departmental leaders almost always losing to the P & L and product management bosses.

In this slide, the diagram on the left shows a typical distribution chain's organization chart with its biases towards decentralized P& L cost control and geographic territory management. The right side suggests that a chain will have to establish a small, elite team of people measured and paid by new tracking reports that cut across all branches aimed at growing profits in all categories of key accounts. The account crackers may be regionally located overseeing 5 to 10 accounts at a time that may cut across a number of territories and a few contiguous branches.

A chronological agenda for the intra-preneur, change-master, account crackers might be:a) Turning lead into gold accounts with the regular outside sales rep tagging along. Once the customer has been transformed into a profitable one, often with the customer's TPC dropping too, the regular rep can back to maintenance mode.

b) The intra-preneurs might then start to focus more on redefining the total value proposition with core accounts.

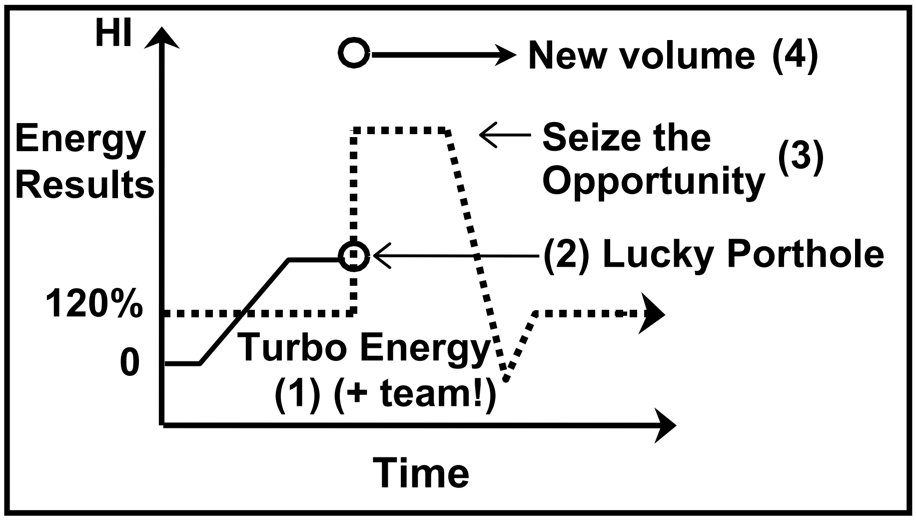
c) Then, work on target accounts until cracked and locked up on a win-win system basis ready to be turned back over to a maintenance rep.

d) Then do it all again for a second niche or a second wave of target accounts.

("Braintrust/database") The regional account crackers would convene regularly with top and local managers to share information on key accounts and to the work up the next round of open-ended survey questions for target contact people within target accounts. This process is best illustrated by case studies that are out of the scope of this slide show.

Other pre-requisites for getting big results are: new tracking reports with incentives based on change in operating profitability for the total key account pool and special funding to make things happen for target customers. The existing organization chart will not like playing second fiddle to the key account folks, but when breakthrough results start hitting local results, they will all jump into the parade.

LUCKY PORTHOLE CAPABILITIES



Cracking Target Accts. # 9

This diagram charts two factors on the vertical axis – the customer's perception of the account cracker's energy level and the volume we get with a target account. The horizontal axis marks time going by. If our account cracker is good at dome selling (slide #5) and has good team planing and calling support, they can break loose new chunks of business within 3 to 9 months.

What happens in the first three + months? Our cracker: finds out lots of new little opportunities; does lots of favors for new best friends under the dome; spends a lot of background time doing research and following up on odd little requests all to accelerate making things happen.

Then, about three months out a "lucky porthole" in the wall of customer resistance to new suppliers and ideas opens up for one or more reasons.

♦ Perhaps the customer has a new product need that appears, because of a new contract that they have won from one of their target accounts, and our hard-work has earned the chance to supply the new need.

♦ There is turnover in the decision ranks, and a new neophyte is looking for education whereever they can find it.

♦ Perhaps the entrenched supplier suffers a "that's it" final, service failure. This can happen in tough times especially to the weakest competitor in a market. Perhaps we accelerated the competitor's demise, by executing a successful small order/un-profitable customer program that has driven lots of new, empty activity orders to the competition which in turn causes a deterioration in service to their best accounts that we are targeting.

Whatever the reasons for whatever the lucky porthole opportunity, our agent must also be ready to see and seize the chance with extra-ordinary (team) effort. To strike comprehensively while the iron is hot may take 300% effort for a short period of time. Once we have totally secured the new business, then a bit of rest and recharging might be OK before continuing on at the 120%+ unrelenting effort.

This type of selling doesn't increase volume gradually over the years through competitive attrition or both growing up with the economy, but rather in significant, new system-sell chunks.

<u>How can a competitor's sales rep on the account compete with a monomaniac on a mission who has extra research, team support, funding and ultimately a better basic and extra service proposition with potential buy-sell re-engineering capability? They can't. Will you do this total strategy before your biggest head-to-head competitor for your number one customer niche does it to you?</u>

RAIN MAKER REALITIES

1. **"Luck" is the residue of design and work**

2. **Transformations take time, energy and creativity - a monomaniac on a mission**

3. **Downsize, upgrade territories (?)**

1. How do we explain the idea of making our own Luck? If we target:
    - the right accounts with:
    - the right agent
    - the right total team effort
    - strategic extra resources as needed

to ultimately deliver the best total value proposition that builds on our core capability that local competitors can't match, we will earn the right to be offered new or replacement opportunities by the customer. If we have far fewer service miscues than the competition then more customers are inclined to defect from the competitors to us than the other way. <u>Aren't we making or waking up our luck?</u>

2. Next-level, co-created value propositions will require breaking some eggs to make omelets on both sides of the buy-sell fence. If we don't have a great champion with good change management skills, it can't happen.

3. At the territory level, all sales reps can upgrade their skill sets to focus strategically on the 10% of their customers who together are the majority of the historic profitable volume and/or the future growth volume. Most of them don't "have the time" to work 120% hard on key accounts with bursts to 200%, because they are caught up in mindsets emphasizing activity, efficiency and a hope that too many smaller accounts will grow and be profitable. They are wasting too many calls on accounts that can never be profitable with the full cost of the outside sales rep factored in. (See the next slide, #11, for more.)

SALES TERRITORY MICROCOSM

Customers		Volume	Your Time	ROIT*
Top	10%	50%	30%	High
Next	40%	40%	40%	Avg.
Bottom	50%	10%	30%	Low

*ROIT = return on invested time

Cracking Target Accts. #11

This slide has numbers based on gross margin $ from accounts. If we used estimated operating profit #s from accounts, the numbers would be far more skewed with much greater sales time and cost mis-allocations.

The simple idea here is for each sales rep to give back the bottom 50% of their least profitable and least promising accounts to the house for reassignment to telesales or direct mail/house status to either turn into profitable accounts or price them away to the unwitting competition. Then, the reps could reinvest their freed 30% of their time back into target accounts with coaching and assistance from key account managers. The company could buy the bottom 50% of the accounts from the reps by giving them a check up-front for the 10% of annual compensation they might lose by not having the accounts. Then, <u>the gamble is that if the reps invest their extra 30% of their time into 5 key accounts with big upside with team selling help, can they make up their 10% loss and then some by year two. If they are on the path to becoming “10”s who can sell TPC reduction solutions – for sure!</u>

SUMMARY POINTS

1. Every distribution location can grow profits strategically with a few accounts

2. It will take new:
   - Thinking
   - Talent
   - Organizational methods

3. What's your next best alternative plan?

Cracking Target Accts. #12

1. Every distribution location should determine their #1 historic customer (profit) niche to then:

♦ defend and learn from the core accounts;

♦ re-tune their total value propositions (TVP) for the entire niche;

♦ sell the continuing improving TVP to target accounts that are super-focused on by: new account crackers, strategic funding; and total team selling.

80% of a locations future profit growth can only come from a hand full of accounts in a mature industry; who are they? What are we doing much better than the competition to lock them up on a win-win basis?

2. If we don't change a number of things within our orgranization – mindsets, information analysis and reports, skills, political power, incentives, etc. – resistance from the total constitution of our old organizational body will keep results from happening.

3. If you don't do what this slide show suggests, what will happen to your best accounts that are being maintained by a nice person sales rep playing by the rules if your best, direct competitor sees this slide show and decides to act?

4. What other ideas do you have for growing profits better and faster than they have been growing?

DISCUSSION QUESTIONS

1. For estimating customer profitability, what are the current levels of sophistication for both thinking & software?
2. For estimating life-time, expected value profits for target accounts?
3. For “10” sales reps, describe in detail & with case studies the 6 points under “the best?”
4. Can you convert price-buying culture accounts into strategic value partners? How?