Different Forms and Elements of Key Account Management and Trade Marketing

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Abstract

The paper discusses the central elements of the key account management and trade marketing concepts. The need for new definitions of forms and elements, a framework has been developed, combining key account management and trade marketing. The framework is presented and the central elements defined, including a presentation of different forms of the concepts.

1. Introduction

Statements related to key account management and trade marketing used to be quite clear and simple. The concepts of key account management and trade marketing were introduced in the Fast Moving Consumer Goods (FMCG) sector during the 1970’s in USA and during the 1980’s in Europe (Randall, 1994). The majority of ideas and tools were, at that point of time, developed and refined in other business-to-business sectors such as the computer hardware and software industry (Langdon, 1995).

The decreasing number of retailers and their growth in size and market share has lead to recognition among suppliers of the need for individual handling of these customers. Thus, many suppliers face the 80/20 axiom (Barret, 1986) 80 % of the turnover comes from 20 % of the customers, some a 50/5 axiom (Miller & Heimann, 1991), and some even a 90/10 axiom. The consulting company AC Nielsen published a survey in 1993, indicating that if the turnover of the top 10 retailers in any of the European markets were added they accounted for more than 50 % of the total turnover in the FMCG-sector.

Retailers’ growing application of marketing positioning strategies have made many suppliers recognize that the traditional marketing decision variables, often referred to as the 4 P’s – price, product, promotion, and place (McCarthy, 1960) are no longer solely controlled by the supplier. The control is often shared with the retailer or is managed solely by the retailer.

For example, the retailer will decide the price towards end-user although the supplier may suggest one. The retailer will decide the product - in terms of assortment although

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2 The abstract is expected to form the base for an article, derived from my Ph.D. dissertation that was handed in on December 22nd 1998.

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the supplier may have preferences in terms. The retailer further decides timing and content of promotion activities the supplier may have suggestions, preferences, and might even pay for them. Finally, the retailer will decide where to place the product and in which category context – although the supplier may have preferences.

As a consequence of the increased focus on position strategies among retailers, their acceptance of suppliers’ national brand campaigns has been decreasing. The rejection of campaigns is particularly related to suppliers retail store activities (also referred to as in-store activities). The reason being that a generic activity can not support a retailer’s positioning strategy and may thus compromise the retailer’s positioning strategy. To handle the adaptation of the supplier’s in-store marketing activities to the retailer’s individual needs, FMCG-suppliers have introduced trade marketing.

A number of different approaches to key account management and trade marketing have been developed by various researchers and implemented by different suppliers. Furthermore, the existing literature concerned with key account management and trade marketing is limited (Davies, 1995). Having examined the existing literature, there does not seem to be a common definition of the two concepts.

Although key accounts are the basic element of key account management, they are given different labels and there is not a common list of criteria to identify key accounts. Thus, this type of customers is identified as international accounts (Langdon, 1995), key customers (Lawrence, 1983), large accounts (Lawrence, 1983), large customers (Moore, 1994), national accounts (Bjerre, 1995), special accounts (Randall, 1995), and so forth.

The overall result of these different levels is, therefore that the term key account management carries a number of labels with varying contents. Typically, existing definitions claim to be “the” definition, applicable to all situations and to all types of business. However, my initial studies of practical cases and my own experience in the field showed considerable differences between what different suppliers considered to be key account management.

2. A Framework combining Key Account Management and Trade Marketing

I have chosen to introduce a framework combining key account management and trade marketing, and to discuss the framework on the following pages. Furthermore the discussion will lead to the development of definitions of the central concepts related to key account management and trade marketing. The framework is illustrated in figure 1.

The framework aims at combining the activities directed at end-users and key accounts and to illustrate the interrelations between the elements of key account management and trade marketing. To pursue this aim, the central elements have to be discussed and defined, as they will be in the following text.
Figure 1: Combining Key Account Management and Trade Marketing

Source: Inspired from Lawrence, 1983, p. 12, and combined with the definitions above.

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3. Defining Key Accounts

Although key accounts are the basic element in key account management, they are given different labels. Some call these customers for key customers, large accounts, national accounts, special accounts etc. (Barett, 1986, Corstjens & Corstjens, 1995; Lawrence, 1983; Moriarty and Shapiro, 1980, 1981, 1984; Randall, 1994; Rottenburger-Murtha, 1992; Stevenson, 1980, 1981).

Key accounts are customers recognized by the supplier as the most important customers. The importance may stem from a number of different characteristics, among which Lawrence (1983, p. 35) comments that: "... a key account is not just a large customer with many branches and a wide geographical coverage. ... But the important thing is that they are all coordinated into one "account", which pays the bills, combines the buying power, and conducts the negotiation".

Barett (1986) also points to size as important and mentions that this can be measured in terms of sales volume. According to Bjerre (1995) a key account is not just characterized by size and/or sales volume, but adds that they also should be characterized by having a centralized decision making process, and/or possessing future potential, and/or good image - seen from a supplier's point of view.

In other words, certain criteria has to be fulfilled if the customer is to be regarded as a key account and these criteria’s are defined by the supplier. Thus, these customers are offered special attention, as pointed out by Stevenson (1981, p. 119) "... when very large and/or important customers are afforded special treatment and special status.

Rottenberger-Murtha (1992) takes this further by adding that the demands of the key account is important (p. 40) as "... certain major accounts that have unique demands and expectations requiring similar specific solutions and special attention."

As the dyadic perspective has been used as a platform for analyzing key account management, it has become quite apparent, that existing literature concerned with key account management neglects the strategies and interests of the key account completely.

Thus, existing literature on key account management appears to be dominated by sales oriented "supplier perspective" in which suppliers need to make adjustments according to individual customers, if these customers fulfill certain criteria, such as the one mentioned above. This perspective can historically be linked to the understanding of the FMCG-sector as a sector focusing on the distribution of goods to end-users.

Although key accounts are recognized as important customers it is often difficult to describe their value to the supplier. Lawrence (1983, p. 36) states the importance of key accounts to the supplier should be compared to the importance of brands to a supplier of branded goods and states that: "The immediate consequence is that each major account
assumes an importance to the supplier, in terms of contribution to total sales volume and to profit, probably equal to or even greater than any one of his product lines. Obviously the large account therefore merits the same degree of planning, nurturing and monitoring as any product - in other words the same degree of marketing attention."

This statement marks an important change within most sales and marketing organizations, as strategies, planning, and monitoring traditionally have been a marketing domain. Developing strategies, plans and monitoring individual key accounts will therefore imply that marketing techniques are implemented in relation to the management of key accounts. Miller and Heiman (1991, p. 4) presents importance as "... if you consider it important, it's by definition a Key Account".

The documentation of the supplier’s knowledge about the single key account often labeled customer information typically contains elements such as a description of the customer’s profile, i.e., customer characteristics, the customer’s strategy, i.e., customer positioning, the customer’s budget, i.e., trading terms, and the customer’s contracts, i.e., documentation of yearly negotiation.

The sources to the information recorded in a key account profile may be the key account manager, members of the key account’s organization and/or members of the supplier’s organization handling various tasks. The knowledge of the key account typically grows as the alignment becomes closer and as the cooperation develops over time. The key account profile is often used as a tool to record knowledge about the specific key account and typically used as a planning base when the key account manager sets the future targets in relation to the key account.

Based on the key account profile a SWOT-analysis is often completed in order to take the competitors of the customer into account. This type of analysis may give the supplier an indication of the customer’s future performance and future challenges, thus providing the key account manager with an opportunity to develop strategies, plans, and initiatives that may improve the customer’s performance and profitability.

The customer specific strategies, plans, and activities are then budgeted in a yearly customer budget, which also contains the customer specific trading terms. Customer specific trading terms are increasingly based on open and general elements that in principle are open to all customers, and are based on the notion of mutual benefits, i.e., that specific rebates or allowances to the customer reflect actual performances by the customer vis-à-vis the supplier.

Miller and Heiman (1991) further introduces key accounts as “external assets”, and makes the point, that they should be managed as all other important assets, such as the supplier’s brands. Thus, based on the discussions above, the first elements of the definition of a key account used throughout this article will be:

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A key account is a customer that the supplier handles as a market per se, and has decided to invest in, in the same way as the supplier invests in other markets.

The criteria for identifying key accounts are equal to the criteria used to identify other markets.

4. Defining Key Account Management

Treating key accounts as assets could indicate that suppliers regard key accounts as something that “belongs” to a supplier - they do not, the fact is that it may be exactly the opposite. The implications of this are that the supplier can not control the key account and that the key account can not and should not be managed. Thus the supplier does not manage the key accounts as distribution channels to the end-user, but may be able to manage the supplier-customer alignment and the relation with key accounts. This may prove to be quite difficult as retail customers pursue different strategies, including some of non-integration with suppliers. This does not exclude the possibility of the supplier managing the relationship and the alignment between the supplier and the customer, but gives restraints to these. Organizational relations between a supplier and a customer described in 5 levels of alignment, ranging from “spectator” to “partner” (Kurzrock, 1996, p. 121). The five levels are presented below. Their inclination to the supplier to develop a specialized transaction structure is commented in relation to each alignment level.

**Spectator** - there is no sales relationship with the customer. The customer deals with the competitors, does not see a need for the suppliers products and services, or the supplier chooses not to work with the customer. This level of alignment does not incline the supplier to develop a specialized transaction structure.

**Vendor** - the supplier is on relatively equal terms as competitors are, supplying products and services to the customer. This level of alignment may incline the supplier to develop a specialized transaction structure.

**Preferred Provider** - one supplier has been chosen by the customer and has the largest share (or total share) of the customers business. The supplier advises the customer on products and services. This level of alignment does incline the supplier to develop a specialized transaction structure.

**Business Consultant** - the supplier helps the customer manage part of the business. The supplier consults the customer to meet the customer’s long-term business goals. This level of alignment does incline the supplier to develop a specialized transaction structure.

**Partner (Ally)** - the supplier manage the customers business in the suppliers area of expertise providing bottom line value that cannot be provided without the supplier. The supplier is considered an integrated part of the customer’s organization. The supplier provides completely integrated systems to run the operation, and the product mix is often

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composed of the suppliers products and services as well as the competitors products and services. This level of alignment does incline the supplier to develop a specialized transaction structure.

It is important to note that only four of the five steps actually identify a relation between the supplier and customer. Hence just four levels are of interest in relation to key account management. Kurzrock (1996) notes that there are three indicators related to the five steps of alignment, namely the relationship (as described above), the access to different levels in the customers organization, and the resources invested by the supplier. This is presented in figure 2 below.

Moore (1994) provides an extensive definition of key account management focusing on the elements of the relation as: "... the managerial role in relation to objectives, strategies, standards, monitoring, the coordinating role in relation to distribution department, financial department, sales, consumer marketing, trade research, trade promotion, customer buying, customer stock control, customer merchandising, customer distribution department, customer finance department, the informative role internally and externally and finally as responsible for customer negotiations."

<table>
<thead>
<tr>
<th>Key indicator</th>
<th>Tasks handled for the customer</th>
<th>Access to customer</th>
<th>Resources provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spectator</td>
<td>Providing neither products nor services</td>
<td>Limited, usually to gatekeepers</td>
<td>Few or none</td>
</tr>
<tr>
<td>Vendor</td>
<td>Providing products and/or services</td>
<td>Limited, usually to lower levels, and to gatekeepers</td>
<td>Product is most important resource - value-added services often provided</td>
</tr>
<tr>
<td>Preferred Provider</td>
<td>Providing products and/or services</td>
<td>To low and middle levels</td>
<td>Products and value-added services</td>
</tr>
<tr>
<td>Business Consultant</td>
<td>Providing consulting to help customer meet business goals</td>
<td>To all or most levels</td>
<td>Products, value-added services, and consulting beyond products</td>
</tr>
<tr>
<td>Partner/Ally</td>
<td>Managing a function of customer’s business: often contractual</td>
<td>To all or most levels</td>
<td>Sharing and managing resources from both organizations</td>
</tr>
</tbody>
</table>

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It is difficult to identify elements and responsibilities in relation to a key account, which are not covered by this definition. Thus Moore appears to view key account management as a total concept, implying that the key account manager is totally responsible for all aspects relating to the key account. Implementing a concept like this would be a radical change for many FMCG-suppliers. McDonald (1998, p.3) points to the reluctance among retailers to enter mutual exclusive relations with suppliers and explains this by the notion that retailers possess a powerful position in the supply chain as owners of the interface with end-users.

Regarding key accounts as assets has been carried even further by Moore (1994) who introduced the concept of “account equity” which would be structured along the principles of brand equity. This has not been taken further. Thus, based on the discussions above, the first elements of the definition of key account management used throughout this dissertation will be:

- Key account management is the investment and integration of business processes from supplier to end-user aiming at adding value to the key account.
- As there are four different alignment levels, four different levels of key account management exist.

5. Marketing towards Key Accounts – Trade Marketing

The concept of trade marketing has gradually developed over the years and there are a number of different definitions and/or descriptions presented by different authors. As was the case for key account management, it has not been possible to identify a gradual development of concepts, nor has it been possible to identify accumulation of insights. The first definition of trade marketing was presented by Lawrence (1983, p. 11): "What the manufacturer must do therefore is to cultivate the development of his marketing policies through the trade by equal attention both to the needs of the consumer and the needs of the distributive trade.”

According to Lawrence (1983) this requires development of an effective appeal to the distributive trade. Supplier involvement can be one of two, as Lawrence makes the distinction between “active” retailers in which the supplier is involved (either by a franchise set-up, approving the retailer, authorizing the dealership etc.) and “passive” retailers in which the suppliers have no involvement.

Lawrence (1983, pp. 11-18) further introduces the notion of the “Twin Marketing Strategies”, one aiming at the consumer and one aiming at the distributive trade. The basic thoughts related to these two strategies regard the retailers as channel members, and the supplier’s reaction is one of adaptation of the selling strategy to the individual retailers. Therefore the retailer interface to the supplier may the management of the retail organization, a buyer and a marketing manager or by a category manager that is
responsible for buying and marketing, or the individual store manager. Thus trade marketing has two primary focuses (Bjerre, 1995), one focus is the retail organization including the retail buyer and marketing manager, and the individual store manager, and the other focus is the end-user(s) shopping-pattern in the store(s).

This split can also indicate the how differences in definitions – presented earlier – have developed, and at the same time underline that key account management precedes trade marketing, as key account management identifies the “focus object” for trade marketing. Trade marketing focusing on marketing to the retailer and will often encompass generally applicable elements such as general trade developments (trends), retailer trends from other (and perhaps more developed markets), the positioning of the specific supplier vs. other suppliers, trade promotions. This is then supplemented by key account specific elements such as the monitoring of the key account’s performance, developing key account presentations and simulations, and the ongoing training/education of the key account staff. This type of documentation is often based on a common structure, and then adapted according to the specific key account.

Retailers goals are (apart from realizing their overall strategies) often centered on increasing their share of consumers’ total shopping expenditure, on increasing the average size of shopping baskets. This often implies that more than one supplier needs to be involved and this may lead to a situation where the retailer combines the forces of more than one supplier. Trade marketing focusing on marketing to the end-user(s) consists of the following parts – this is sometimes labeled the in-store part of trade marketing and encompass elements such as end-user promotions (price, competitions, etc.), signs, pallet-wrappings, and displays, the ongoing monitoring results.

Lawrence (1983, p. 11) explicates the twin marketing strategies by claiming, that the business mission: “... sub-divides itself into the two complementary strategies, one for the marketing of the product range to its consumers, and simultaneously one for achieving this marketing through the distributive trade.”

Lawrence indicates that the retailers take care of the distributive function within the supply chain, however as the retailers are developing the own marketing positioning they do no longer regard themselves as distributors. Thus it may still be relevant to distinguish between consumer and trade marketing, but it is important to recognize the need for a change in content of trade marketing. Moore (1994) has pointed to some of the key elements in a change of the trade marketing concepts, that is defined in the following way: “A recognition of trade customers needs and the translation of this recognition into positive, pro-active thinking in the application of sales, marketing, production, distribution and support functions; on a customer-specific basis, to bring about enhanced profitability for customer and manufacturer without compromising brand integrity.”

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3 Underlined by Moore.

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Thus, Moore comments on the necessity of changing the managerial mode from reactive to pro-active combined with an internal and external profitability focus. The difficult element of the definition is to avoid compromising brand integrity, as Moore also stresses the need for customer-specificity. The differences in the definitions presented above is also noted by Randall (1994, p. 118), who defines trade marketing as: “Trade marketing tries to meet the new demands from an increasingly powerful retail trade. The term is so imprecise, and practice so varied, that there is no consensus on what tasks should be included.”

And he continues (Randall, 1994, p. 120); “In practice this can vary from a small group whose job is mainly to collate information for the sales force to a major new department with a board director.” As mentioned earlier Randall introduces a number of different organizational structures. However they are introduced without any comments whatsoever. Davies (1993, p. 198) introduces the trade marketing mix, as the traditional 4 P's are supplemented by the 2 S's:

- Promotion, balance resources between consumer and trade promotions
- Product, continued development of the brand franchise
- Price, avoid focus on this
- Place, possible switching of resources between markets (channels)
- Service, is a key non-price factor
- Sales, changing the role from sales to trade marketers

Davies uses the terms trade marketer and national account manager, and gives only hints to the distinctions between these. However the national account manager is responsible for strategic and tactical negotiations, whereas the trade marketer is responsible for the day-to-day business (Davies, 1993, p. 196). The growing importance of trade marketing is also mentioned by Corstjens and Corstjens (1995, p. 8), as they introduce the strategic perspective, as they claim that: “Trade marketing has grown in importance and must change in nature. Trade marketing means managing a strategy triangle: balancing customer value with customer profitability while avoiding customer dependence.”

However, Corstjens and Corstjens (1995, p. 222) also points to a central difference between trade marketing and consumer marketing as they underline that: “Trade marketing is industrial marketing business-to-business marketing. In essence, trade marketing is a balancing act involving three issues. First, maximizing the value offered to retailers. Second, ensuring the profitability of individual accounts. Third, since the client base is much more concentrated in industrial markets, the danger of dependence is much more dramatic.”

As can be seen from the above, there has not been developed any model or listing of arguments, presenting the reasons why one should choose one solution and not the other. Nor has there been developed any form of normative statements indicating when different
elements of trade marketing may be appropriate or not. Thus, the definition of trade marketing that will be used throughout the article is divided into the following elements:

- Trade Marketing is the supplier’s marketing towards customers (key accounts).
- Trade Account Marketing is the integration of supplier’s and Customer’s (key account’s) marketing towards end-users.
- Trade Management is the management of the customer portfolio, i.e., the key accounts.

6. Conclusion and Perspectives

The development over time shows a gradual change from focus on sales to a more holistic approach in which all functions in the suppliers organization are involved in the sales and marketing process. Sales and marketing is no longer left in the hands of a department, but is in principle influenced by all functions.

Regarding the definitions introduced above it may be difficult to identify what key account management does not cover! Secondly time is not taken into account as a possible factor, but is referred to as something, which happens to there. Thirdly key account management is presented as a "standard or market" solution without customization and without discussions of the need for customization. Fourthly the decision of introducing key account management is based on market considerations, not on a notion of portfolios of customers. Fifthly none of the definitions above are concerned with the international aspects of key accounts, which often makes existing nationally sales and marketing structures obsolete. Finally there is no discussion of how key account management co-exists with field sales or how different types of key account management may co-exist within the same organization.

In other words - the need for customized solutions is recognized at a conceptual level, but it has been difficult to identify normative implications and suppliers that have implemented customized solutions. Based on the earlier presentation of key account management the definitions put forward are summed up as follows:

- A key account is a customer that the supplier handles as a market per se, and has decided to invest in, in the same way as the supplier invests in other markets
- The criteria for identifying key accounts are equal to the criteria used to identify other markets.
- Trade Marketing is the supplier’s marketing towards customers.
- Trade Account Marketing is the integration of supplier’s and customer’s marketing towards end-users.
- Trade Management is the management of the customer portfolio, i.e., the key accounts.
Thus a new understanding of the inter-relations between concepts such as key account management and trade marketing may be developed in the future, as well as identifying different types and/or steps in key account management and trade marketing.

An empirical analysis of the perspectives mentioned above could provide increased understanding of the elements and the relations between them. The Ph.D.-project that this paper has been based upon includes three case studies in order to challenge the framework introduced earlier. The results from here will be available at a later stage.

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