

## Creating Value-Adding Relationships Between Key Account Managers and Purchasing

### Traditional Adversaries

Traditionally the success of a key account manager has often been determined by how effectively he or she is able to avoid the influence of their customer's purchasing department. Both the key account manager and the customer have rightly viewed the purchasing function as the cost-reducing arm of Finance, focused solely on extracting maximum discounts from suppliers. Purchasing was often not permitted to look beyond short-term, year-to-year spending and the idea of creating value-adding relationships with key suppliers was very far from its mission.

For key account managers, the most common strategies for limiting the influence of purchasing involved developing relationships with the purchasing department's 'internal customers'. Sales calls, plant visits and customer presentations were often aimed at isolating purchasing by providing information on the value-added of the supplier's solution to end users, department heads, knowledgeable influencers, key evaluators and, of course all of the major decision makers. The objective for key account managers was to convince as many key influencers as possible of the premium value of the supplier's product or service before the ultimate price negotiation with purchasing.

The strategy of Purchasing, on the other hand was the exact opposite. Their objective was to commoditize the supplier's product or service, so that it could be easily sourced to multiple suppliers, ideally from some low cost countries.

### The Changing Role of Purchasing

While this picture is still accurate for many large organizations, there are significant indications that the role of purchasing is changing from strictly cost and price management to collaborating with key suppliers to create value for both the customer and the supplier.

Research conducted by the European Institute for Purchasing Managers (EIPM) with 130 companies in Europe corroborated our own experience that, indeed industry leading companies are shifting the focus of their purchasing staffs from managing costs to creating value.

What is driving this shift in thinking? EIPM has identified the following key factors:

- Search for efficiencies - companies are searching for efficiencies by concentrating their resources in their core business and relying more and more on their suppliers to take care of all 'non-core' activities.
- Dependence on suppliers to help customers to improve their own performance and results is ever increasing. Competition and performance is no longer between competing companies but between competing supply chains.
- Search for higher performance – companies are facing increasing pressure from customers to improve lead times, quality, cost and flexibility. As companies are relying more and more on their suppliers, their own performance is dependant on the performance of its supply chain.
- Search for growth – it has been largely accepted that growth is a survival issue today and that growth depends on the company's capacity for innovation and differentiation. Most companies today build on innovations coming from their suppliers. Companies which ignore this source of competitive advantage will not survive!

On the other hand, suppliers themselves are addressing the same challenges, i.e. resources (engineering resources for R&D, production capacity, quality staff) available for allocating to a specific customer are becoming scares. In addition, suppliers are segmenting their customer base to better serve those key accounts which are creating value for their own organizations.

According to the EIPM, the first significant change has been the creation of a new function within the purchasing organization called the Key Supplier Manager (16% of the companies in the EIPM research identified Key Supplier Manager as a full time job). Some of the responsibilities identified for a Key Supplier Managers included:

- Consolidate and share supplier information: (64 % of researched companies)
- Provide a feedback on vendor performance and manage progress plans: (62 % of researched companies)
- Coordinate, internally and externally, projects in which supplier is involved: (61 % of researched companies)
- Consolidate company's needs towards the Key Supplier: (61 % of researched companies)
- Facilitate cross functional teamwork with suppliers: (58 % of researched companies)
- Negotiate global agreements: 58 %
- Improve the implementation of defined strategies on the commodity involving the Key Supplier: (57 % of researched companies)

EIPM also identified a number of value-adding activities that best practice companies have instituted as part of their strategy to change the role of purchasing. These include:

- Mutual company strategy sharing
- Top management meetings to align expectations
- Cross functional team meetings
- Early supplier integration and co-development
- Formalized performance improvement plans and technical support
- Joint process re-designing and cost reduction initiatives

## **Implications for Key Account Managers**

First of all, do not assume that the purchasing function you are facing is only a tactical force of administrative and financial adversaries, focused solely on attacking your bottom line. For some companies times have really changed and purchasing managers are being asked to step up to a much more strategic role. For key account managers this offers new opportunities to create value for customers – especially for purchasing.

In some companies, purchasing managers are now being trained to become supplier experts, capable of giving insightful advice to their internal customers. They are being used as analysts and internal consultants to evaluate the cost structure of their industry. They may be using sophisticated models and techniques to classify and predict supplier behavior so as to provide advice on performance based contract design, alternative approaches to structuring supply solution and evaluating new suppliers. Key account managers also possess deep knowledge and insights into the customer's business which could be shared with purchasing staff to improve the understanding of the customer's cost structure and alternatives for supply contracts.

As they take on these new strategic responsibilities, many purchasing managers are having trouble keeping up with their traditional transaction-based such as RFQs, Vendor Visits, bid evaluations and negotiations. This is compounded by the likelihood that their staffs are probably smaller, yet are required to do more. Here key account managers can add value for purchasing by working with their customers to streamline and standardize purchasing processes. One capital equipment client we worked with redesigned the bidding and acquisition processes in collaboration with their key customers. The result was a reduction in time to complete the process from 4-6 months to 6 weeks and the elimination of substantial amounts of non value-added activities.

Another crucial shift in purchasing's role is in the area of quantifying the value that vendors "bring to the table". Typically the internal department requesting the product or service has had to struggle with financial justification and payback considerations, but now Purchasing is in the middle of it. Again, this creates an opportunity for supplier to provide guidance in quantifying the value of all of the offers being considered (including those of the supplier).

### **Next Steps for Account Managers**

This situation is clearly an opportunity for key account managers to be proactive with their contacts in purchasing. Account managers can start by identifying all of the ways that they could provide value to the purchasing department. Even if the customer has not yet moved to this new more strategic role, purchasing staff are more likely to respond positively to offers of help and support than to the traditional reactive and adversarial approaches.

If approaching a purchasing contact within the customer organization seems like a risky approach with a low possibility of payoff, account managers can go first to the purchasing departments within their own organizations. Chances are these people can provide a lot of insights into how their counterparts in other organizations are likely to respond to offers to build collaborative, value-adding relationships.

The essential thing is not to wait for a competitor to step up and establish this more consultative role with purchasing. First-movers will definitely capture the greatest opportunities and set the rules for the suppliers that follow.

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