

# Defining the Strategic Relationship

## Situation

Perhaps our vision of the ultimate Strategic Account Relationship is one with extensive cooperation in which the customer considers us a valued, trusted member of their most important strategic initiative teams. But as exciting as these kinds of complex, interdependent relationships are, we need to keep our feet on the ground, and define the relationship that is mutually profitable and appropriate. This chapter defines different levels of strategic relationships and presents a tools for determining where you are and where you can go in the strategic account relationship.

**Solution:** Strategic Relationships involve large amounts of revenue

In order to be **strategic** a relationship must either be large (lots of revenue) or have the potential for being large (more revenue—somewhere—in the future).

Even when large relationships don't have the potential for getting much bigger, they can be strategic if there is danger that you may lose revenue through competition or eroding margins. You may decide to invest to protect revenue or margins.

If the relationship is small now, but could be big, you may decide to treat it as strategic and invest to grow it.

And even though a marquis customer will never be large or profitable, it may provide your firm with credibility ("We serve FedEx," or "we were selected by P&G, " etc.) You may decide to invest in these relationships so you can win smaller customers at full prices.

Serving customers like Wal Mart, may not generate high margins, but may provide you with large volume with which to cover fixed costs as well as with strategically important information.

And serving customers like Toyota that require dramatic cost reductions year over year may be a source of innovation in your internal processes that pay off in greater margins with smaller clients.

And serving customers like Toyota that require dramatic cost reductions year over year may be a source of innovation in your internal processes that pay off in greater margins with smaller clients.

The common denominator is ROI: If you are going to invest in a strategic relationship, there needs to be a return—somewhere—to justify the investment.

In order to optimize you investment in a strategic relationship, you need to assess where that relationship is today and where it might be able to go in the future.

### Example:

10 criteria were used to select strategic accounts

Put an X next to the three criteria below that were rejected as screeners:

#### Hard-quantitative criteria

Contribution

Customer lifetime value

Size-Annual revenue over \$1 million

Contribution to capacity

Potential for growth

Utilization of 25% of technology

#### Soft (qualitative) criteria

Potential to introduce new products

Potential to create business w other accour

Vulnerability

Ability to use Sabert assets & capabilities

Oppy to learn from customer

#### Relationship criteria

Relationship improvement potential

Strength of relationship

There are four types of strategic relationships along a continuum of simple to complex, arm's length to interdependent.

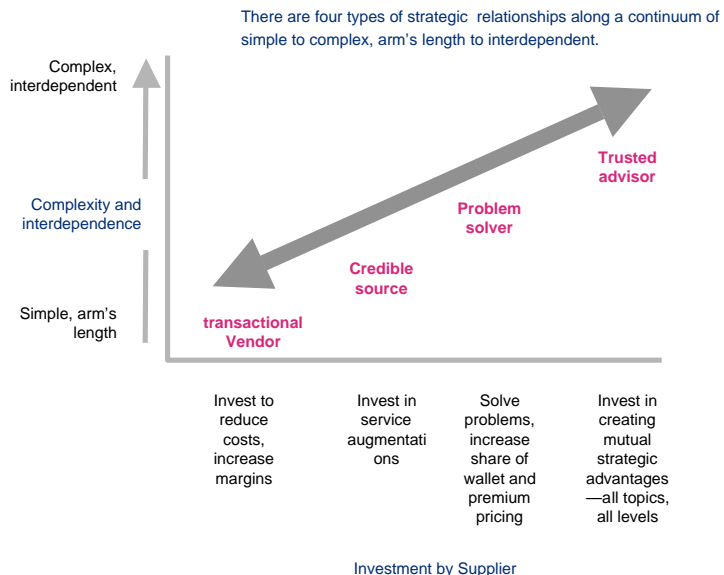
# There are four types of strategic relationships along a continuum of simple to complex, arm's length to interdependent.

The simplest relationship is that of a **Transactional Vendor**.

You know you're a transactional vendor when you deal exclusively with purchasing and must be careful not to "go around them." You are one of many suppliers each of which can deliver the benefits sought by the customer. All your attempts to sell value and total cost of ownership are to no avail, and contracts are granted on the basis of price alone. You must respond to rfps, and sign the customer's contracts with the customer-specified terms.

You might ask how a relationship like this can be considered strategic, and a caselet will illustrate how:

A vendor was one of many suppliers of a component part to Caterpillar, but they weren't even in the top three for this component. They decided to invest in the relationship to see if they could increase their share of wallet. They assigned a salesman to call frequently. They created a special newsletter and webinars. They invited Caterpillar operations managers and engineers to social outings—all to no avail.



The second level of complexity is that of a **Credible Source**.

You know you've become a credible source when the customer believes your total cost of ownership (TCO) pitch and justifies paying a small premium for your product in order to benefit from your lower TCO. They give you a heads-up to prepare for an rfp that's coming up, and they listen to your requests for non-standard terms and contacts. They let you talk directly to operations, engineering, and other functional areas. They accept your invitations for business lunches and dinners. You're pretty sure you are one of their top 10 vendors.

The third level of complexity in strategic relationship is that of a **Problem Solver**.

You know you're a problem solver when the customer asks for your help in solving a problem in your field. You are asked for your input when the customer is writing their rfp. They ask for your innovative ideas and are even willing to share the costs and risks of development. You work regularly with middle management across any of their functions. They invite you to their social occasions. You are one of their top three vendors.

The fourth level of complexity in strategic relationship is that of a **Trusted Advisor**.

You know you're a trusted advisor, when your top management meet regularly with the customer's top management and discuss general business issues, beyond the scope of your specific product areas. You jointly define the parameters of vendor performance, and meet regularly to review progress. You often are asked for solutions outside the rfp process. The customer seeks your innovative ideas and bears more than half the costs and risks of development. The customer's r&d team travels to your locations to meet and work on their problems. You and your customer jointly plan social and business development meetings.

# The Relationship Assessment tool.

The Center for Business and Industrial Marketing at Georgia State University uses a Relationship Assessment Survey to help clients diagnose their current status and uncover opportunities for improved performance. The survey consists of 32 questions for members of the client's internal account team to answer about their relationship with the Strategic Account.

All questions have four possible answers, lettered a through d. An answer of a corresponds to a **transactional** relationship. An answer of b corresponds to a **credible source** relationship. An answer of c corresponds to **problem solver**. And d corresponds to **trusted advisor**.

The survey's 32 questions break down into three sections:

Section One: Fifteen questions that assess the **Customer's View** (how the team members think their customer views their company.) Two example questions illustrate how the survey helps you assess and label your strategic relationships:

#### 4 When you introduce new ideas or unsolicited proposals...

- transactional**  A. The customer will often share your ideas and proposals with other suppliers to get the best price.
- credible source**  B. The customer will occasionally act on your ideas, but will protect your contribution.
- Problem solver.**  C. The customer often acts on your ideas and proposals and will publicly recognize your contribution.
- trusted advisor.**  D. The customer seeks out your ideas, publicly recognizes your contribution, and ensures that you receive all related business.

#### 11 When it comes to the customer's planning for the future...

- transactional**  A. You read about it in a publicly available forum.
- credible source**  B. The customer often shares the plan with you before it is final so that you can validate information directly related to your products/services.
- problem solver.**  C. The customer includes you in the planning process for projects in those areas related to your products/services.
- trusted advisor.**  D. The customer includes you in their strategic planning process.

Section Two: Eleven questions that measure the vendor's **Investment** in the relationship. (What the vendor is or is not doing, affect the relationship.) An example question illustrate how the survey helps you assess your investment:

#### 17 How broadly have you penetrated the customer?

- transactional**  A. You are restricted to the Purchasing Department.
- credible source**  B. You focus all of your time in a single function, department, or location.
- problem solver.**  C. You regularly cross multiple functions or departments in the customer's business.
- trusted advisor.**  D. You cover the entire enterprise and have provided solutions at multiple locations.

Section Three: Six questions that measure the **Potential for Improvement**. (How open the team thinks the customer is to advancing the relationship.) Here's an example question:

#### 28 What is the customer's attitude towards suppliers?

- transactional**  A. The customer wants many suppliers and those that can be easily replaced.
- credible source**  B. The customer has a broad range of suppliers and evaluates each on a project basis.
- problem solver.**  C. The customer has a few "preferred" suppliers who are chosen based on the overall business value provided.
- trusted advisor.**  D. The customer has formed relationships with suppliers so close that they have become interdependent.

In compiling their answers, teams give themselves 1 point if they answer a, 2 for b, 3 for c, and four for d. They then calculate their average score for each section.

Then they plot their average score for each section on the graph below:

The team plots an (x,y) point as follows:

their average score for Section One—**Customer's View** is the vertical (y-) value.

their average score for Section Two—**Your Investment** is the horizontal (x-) value.

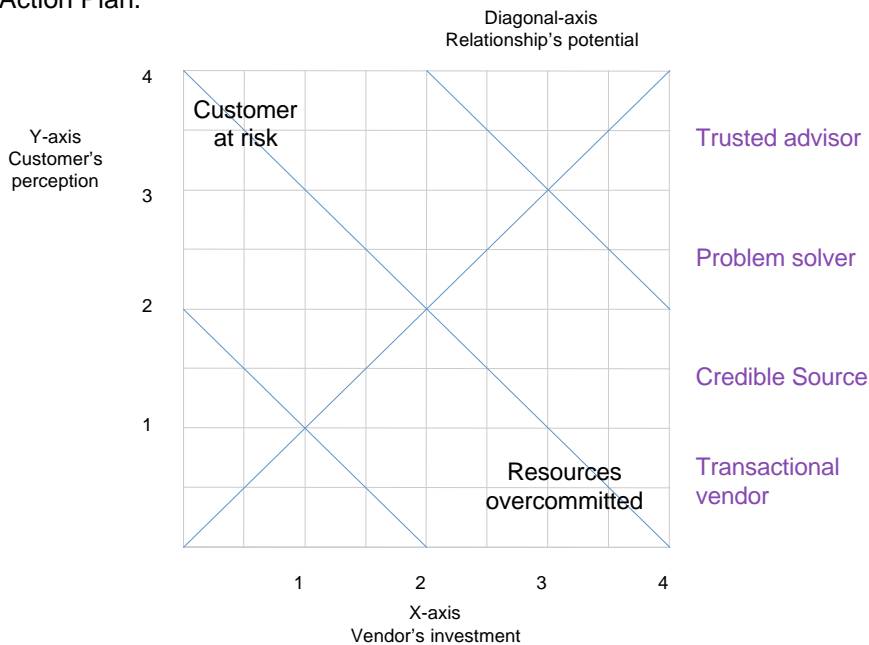
A second point is posted along the diagonal as follows:

their average score for Section Three—**Potential** is the value along the diagonal.

Note that if your point is above (to the left of) the diagonal, the account is at risk because the customer's perception of your company is higher than the reality of your investment in the relationship. If your point is below (or to the right) of the diagonal, you are over investing resources in the relationship.

If your Section Three—Potential average is higher than your (x,y) point, your relationship has room to grow. If the Section Three—Potential value is lower than the (x,y) point, you are already overachieving.

Account. Have each member of your account team answer the questions, compile the results (use pages 9 and 10 of this handout), then discuss your answers. Differences in answers among team members are instructive and give you a better picture of the realities of your relationship. If possible, have individuals in the customer organization complete the survey. Differences between how the Longview Fibre team view the relationship and how the customer views it will uncover issues and opportunities to address in your Key Account Action Plan.



**The Customer's decision process**

Assess the Problem / Opportunity    Define objectives    Initiate a project    Evaluate products    Prove the concept    Negotiate and sign contract    Implement    Measure results

