Account management for purchasing management: a way to manage relationships with key suppliers

Citation for published version (APA):

Document status and date:
Published: 01/01/1996

Publisher Version:
Publisher’s PDF, also known as Version of Record (includes final page, issue and volume numbers)

Please check the document version of this publication:
• A submitted manuscript is the version of the article upon submission and before peer-review. There can be important differences between the submitted version and the official published version of record. People interested in the research are advised to contact the author for the final version of the publication, or visit the DOI to the publisher’s website.
• The final author version and the galley proof are versions of the publication after peer review.
• The final published version features the final layout of the paper including the volume, issue and page numbers.

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Download date: 22. Apr. 2019
Account Management for Purchasing Management

A way to manage relationships with key suppliers

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Abstract

The importance of long term relationships is increasing for many suppliers and buyers. Many organizations implement account management in their sales organizations, a structural sales approach towards the most important customers. If account management is implemented successfully, this form of approaching customers has considerable effects and is thereby proving to be one of the tools for future's success. In our opinion account management for the purchasing function can have the same successes as it has for sales function. Account management for purchasing is a proactive way to approach key suppliers. The main difference between the account manager and the purchasing manager is the focus on the key supplier which the former has. The account manager has in-depth knowledge of the supplier, pays attention to long term relationships, and coordinate communication with the supplier.

Key words: External strategy; Supplier strategies - power or partnerships; Theory

1. Introduction

While there is a clear tendency at the sales side towards a professionalization of the marketing and sales function, the purchasing function is still running behind these developments. Since several years many organizations implement account management in their sales organizations, a structural sales approach towards the most important customers. If account management is implemented successfully, this form of approaching customers has considerable effects and is thereby proving to be one of the tools for future's success. Notwithstanding the improvements of the purchasing function and although there are in some cases purchasers that fulfil the role of account manager, there is little proof of formalised account management structures at the purchasing side. That is a missed opportunity, because in our opinion account management in the purchasing function will have the same benefits as it has for the marketing and sales function. This paper is not based on empirical research, but we present some of our own observations of the sales and purchasing approaches towards customers and suppliers respectively, and describe how account management is an appropriate tool for purchasing. The case of a producer of turbines show several changes in the purchasing function. This organisation uses the Kratje's portfolio as a way to organize the purchasing department. Although this organisation is not using a formal form of account management, it is a good example of a company that makes efforts to improve the approach towards suppliers.

The author thanks Finn Wynstra for his contribution to this article.

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2. Changes in purchasing and marketing attitudes

2.1 The IMP Group

Relationships have always been at the basis for interaction between buyers and sellers. However, the importance that was given to these relationships has differed during this century. Before the hype of mass production and mass communication with its emphasis on efficiency, products and services were mainly sold through a personal approach tailored to individual customers. During this time of efficiency relationships between industrial companies have been neglected also in research. In literature the importance of relationships was recognised in the early eighties. Especially the Northern European IMP Group was one of the first that described the importance of interpersonal relationships in their trendsetting work 'International Marketing and Purchasing of Industrial Goods' (Håkansson, ed.)). They developed the interaction approach, built on a number of factors which are indicated as important in industrial markets, which appear to have been largely neglected in previous research. Now the IMP Group is adopting the network approach. According to Håkansson and Snehota (ed.) (1995, p. 3) this approach is 'viewing relationships as part of a broader network structure, rather than as isolated entities'. The interaction model is represented in Figure 1, on the following page. The IMP Group (Håkansson (ed.), 1982, p. 14) emphasized that:

- "both buyer and seller are active participants in the market,
- the relationship between buyer and seller is characterized by long term, close and frequent personal communication, and
- the links between buyer and seller often become institutionalized into a set of rules that each party expects the other to perform.

Today, both academics and practitioners are well disposed toward interfirm relationships. Håkansson stated in 1982 (p. 4-5) that 'Researchers in marketing have, however, no systematic and comprehensive knowledge about these relationships'. In today's research much attention is paid to buyer-seller relationships judging by the considerable amount of research in this area.
2.2 From transactions to relationships

Long-term relationships and partnerships are seen as valuable means both by suppliers and buyers, compared to several years ago when there was more emphasis on transactions. In today’s business environment, it is recognized that the firm’s performance depends not only upon its own efforts, skills and resources, but also on the efforts, skills and resources of other supplying and buying firms (Wilkinson and Young, 1994). The relationships between the firm and its counterparts affect both the short and the long term performance of the company, its economic and financial results, as well as its development potential (Fiocca and Snehota, 1994). According to Webster (1992), different types of relationships can be described by a continuum from pure transactions at one end to fully integrated hierarchical firms at the other end. A shift is noticeable in the range of business relationships from transactions to long term relationships and buyer-seller partnerships. (cf. Christopher, Payne and Ballantyne, 1991; Cooper and Gardner, 1993, Evans and Laskin, 1994; Kalwani and Narayandas, 1995)

According to Matthyssens and Van den Bulte (1994) two groups of factors contribute to the changing attitudes of marketing and purchasing towards close relationships. Primarily it is the change in buying attitudes and behaviour that leads to adoptions in marketing, but also external factors like the increased international competitive pressure and technological developments change the interaction between suppliers and buyers. The change in buying attitudes and behaviour is very clear. Purchasing is moving from an antagonistic model that is characterized by though negotiations, price orientation, short term contracts and multiple sourcing to a cooperative model with features like interaction, communication and long term, close relationships. Figure 2 shows some features of the transactional and the relational approach (based on Brand and Biemans, 1993; Ian Stuart, 1993; Macbeth, 1994; Matthyssens and Van den Bulte, 1994).

Figure 2. Some features of the transactional and the relational approach.

For buyers, supplier relationships are becoming more significant due to three developments that have become more prevalent in the early nineties:

- Fewer suppliers take care of more volume of business because of supplier reduction, single sourcing, and cross buying. Quality improvement and uncertainty reduction are the most important factors for using fewer suppliers. (Gadde and Håkansson, 1994; Han, Wilson and Dant, 1993)
- A strong trend in augmentation of outsourcing, i.e. the transferring of activities or the hiring of experts for specific activities. Recent research of Moret, Ernst & Young (1995) shows that 94% of all Dutch companies outsource one or more activities. Motives for outsourcing are for instance the focus on core competencies, the reduction of total costs of ownership, flexibility and quality, risk reduction, and the concentration of specialised know-how in a few suppliers.
- Increasing involvement of suppliers in (technical) innovation processes. Owing to increased specialization, it is not possible for one company to cover all these areas. Also suppliers are willing to improve products or to invent new ones. For instance, car manufacturers involve suppliers early in the development process of their new products. Another reason for activating suppliers is to shorten lead times. (Gadde and Håkansson, 1994)

In addition to these developments, there are some other developments in the purchasing function (Gadde and Håkansson, 1994):

- Purchasing strategy is becoming an issue for top management. This strategy is directed towards finding efficient supplier structures, forming alliances with key suppliers, developing training programmes with suppliers and activating suppliers in technological development projects. This is a considerable change from the earlier emphasis on purchasing efficiency, such as the number of bids that had to be asked for.
- The organization of purchasing shifts from centralized purchasing departments towards a decentralization of purchasing activities. There are two reasons for this change. The first is that purchasing decisions must be made by people who are close to the problems to be solved. The second reason is that decentralization of purchasing has been well in accord with general organizational trends towards
independent profit centres with decentralized responsibility. Decentralization makes it generally easier to develop close relationships, while also making it more difficult to coordinate the relationships of the whole company.

- The changing role of purchasing will call for a shift away from functional specialization towards more integrated problem-solving. Highly specialized purchasers will be replaced by more general problem solvers. Today, a purchaser must be a member of a team working together with specialists from other functions.

Consequently, relationships are becoming of more interest. Strong relationships with counterparts can have considerable advantages, like satisfied partners and reduction of costs (Gadde and Hakansson, 1994; Thomassen, in 't Veld and Winthorst, 1994). Empirical research shows that, as a rule, a limited number of relationships have a profound effect on a company's performance. Suppliers that are involved in long-term relationships are able to achieve a higher level of sales growth, cost reductions, and higher profitability compared to suppliers that use a transactional approach, although not all suppliers in long-term relationships are able to succeed (Kalwani and Narayandas 1995). Possibly, this is also true for purchasers. Generally speaking, close relationships are more important for suppliers. Today, the power-balance is tipped more to the side of purchasing. An indication of this is the average number of years the relationship is expected to last. Suppliers expect that a relationship will last twice as long as buyers. (Ellram 1995)

3. Account management in the sales function

As we have seen, market performance of companies is dependent on the functioning of its relationships to others. Volumes, market share, profits and growth depend on how the company handles its relationships. According to Hakansson and Snehota (ed.) (1995) most of the company's costs and revenues stem from its main business relationships. As a rule, two out of every three companies are in a situation where the 10 major customers (suppliers) represent more than two thirds of the total sales (purchases) (Fiocca and Snehota, 1994). Companies have all kinds of customers, varying from very small, unimportant customers to very important customers. Campbell and Cunningham (1983) distinguish four groups of customers:

- Tomorrow's customers
  Tomorrow's customers are customers that companies try to gain. Sales to these customers are low, but strategic resources are allocated to improve the current sales position and to develop the relationship.

- Today's special customers
  Today's special customers usually purchase large quantities. The relationships are old and the company is continually engaged in development work with them.

- Today's regular customers
  Today's regular customers also purchase large quantities and the relationships are established, but the exchanges are less intimate. The customers are less loyal, more price sensitive and development work tends to be intermittent.

- Yesterday's customers
  Yesterday's customers are often numerous, but, although the relationships are old, each contributes only to small sales volume and they receive little or no technical development work. They provide useful additional volume for little effort.

Especially for today's special customers and usually for tomorrow's customers it is necessary to establish and maintain a high quality relationship (Kempeners 1995). Many companies use account management to make sure that relationships with the so-called (key) accounts are managed properly. Account management is a structural buying approach in which is aimed at long-term relationships with selected customers with the final purpose of maximizing the company's objectives (based on De Roos, Sueerman and De Koning, 1990; De Roos, 1994; Verra, 1994a). Account management often shows considerable improvements in the approach towards customers, like improved two-way communication, shorter communication lines, better understanding of the supplier, increased involvement of personnel and continuity in the relationship. Furthermore, account management can lead to a better position in the market, increased share in turnover, increased profits and better marketing plans (Barrett, 1986; De Roos, Sueerman and De Koning, 1990; De Roos, 1994; Stevenson, 1981). The main responsibility of the account manager is the coordination of the communication with the customer. Especially in very complex situations in which many people, functions, and hierarchical levels are involved in both the supplier's and the buyer's organizations, account management can be a very helpful tool to make sure that there is 'one face to the customer' (Verra 1993). The role of the account manager is shown in Figure 3.

![Figure 3. Role of the account manager (based on Cespedes 1993).](image)

4. Account management in the purchasing function

In more and more firms, purchasing is becoming proactive and strategically important. In 1998, Leenders and Blenkholm introduce the term reverse marketing. Reverse marketing is an aggressive and imaginative approach to achieving supply objectives. The purchaser takes the initiative in making the proposal. The goal is to satisfy both short- and long-term supply objectives (Leenders and Blenkholm, 1988, p. 2). A way to shape reverse marketing is to implement account management. While account management in sales shows considerable success, there is little proof of formalised account management structures at the purchasing side. In our opinion, account management for purchasing is a proactive way in the approach towards suppliers, that can have the same successes as it has for sales function.
4.1 Purchasing portfolio
According to Kraljic (1983), management must learn to make things happen to its own advantage, instead of simply monitoring current developments. Therefore purchasing (an operational function) must become supply management (a strategic one). He argues that whenever a manufacturer must procure a volume of critical items competitively under complex conditions, supply management is relevant. The greater the uncertainty of supplier relationships, technological developments, and/or physical availability of those items, the more important supply management is. Top management and senior purchasing executives can determine the type of supply strategy and the company needs by assessing the company's situation in terms of the two following variables:

- the strategic importance of purchasing in terms of the value added by the product line, the percentage of raw materials in total costs and their impact on profitability, etc.;
- the complexity of the supply market gauged by supply scarcity, pace of technology and/or material substitution, entry barriers, logistics cost or complexity, and monopoly or oligopoly conditions.

![Figure 4. Kraljic's (1983) purchasing portfolio](image)

The features of the four quadrants (Figure 4) are displayed in Table 1 on the following page.

### Table 1. Features of the portfolio quadrants (based on Kraljic, 1983)

<table>
<thead>
<tr>
<th>Quadrant</th>
<th>I: Noncritical Items</th>
<th>II: Leverage Items</th>
<th>III: Bottleneck Items</th>
<th>IV: Strategic Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Items purchased</td>
<td>Commodities, some specified materials</td>
<td>Mix of commodities and specified materials</td>
<td>Mainly specified materials</td>
<td>Scarce and/or high value materials</td>
</tr>
<tr>
<td>Supply</td>
<td>Abundant</td>
<td>Abundant</td>
<td>Production-based scarcity</td>
<td>Natural scarcity</td>
</tr>
<tr>
<td>Typical sources</td>
<td>Established local suppliers</td>
<td>Multiple suppliers, chiefly local</td>
<td>Global, predominantly new suppliers with new technology</td>
<td>Established global suppliers</td>
</tr>
<tr>
<td>Time horizon</td>
<td>Limited, normally 12 months or less</td>
<td>Varied, typically 12 to 24 months</td>
<td>Variable, depending on availability vs. short-term flexibility trade-offs</td>
<td>Up to ten years; governed by long-term strategic impact (risk and contract mix)</td>
</tr>
<tr>
<td>Decision authority</td>
<td>Decentralized; lower level (e.g. buyer)</td>
<td>Mainly decentralized; medium level (e.g. chief buyer)</td>
<td>Decentralized, but centrally coordinated; higher level (e.g. department heads)</td>
<td>Centralized; top level (e.g. vice president purchasing)</td>
</tr>
<tr>
<td>Key performance criteria</td>
<td>Functional efficiency</td>
<td>Cost and materials flow management</td>
<td>Cost management and reliable short-term sourcing</td>
<td>Long-term availability</td>
</tr>
<tr>
<td>Type of purchaser</td>
<td>Negotiator</td>
<td>All round purchaser</td>
<td>Relationship builder</td>
<td>Relationship keeper - account manager</td>
</tr>
</tbody>
</table>

4.2 Key Suppliers
The approach of Kraljic is clearly product focused. According to his view, products have to be classified in order to determine the appropriate purchasing approach. Account management focuses on suppliers, the supplier is the basis for classification. A purchasing strategy purely based on product classification, is in our opinion limited.

As we take Kraljic's classification of purchasing items into account, it shows clearly that the group of strategic items is so important for the buying company that it has to establish long-term relationships to ensure delivery. Primarily for this group of items account management is a very helpful tool. According to Verra (1994b) supply management and account management are in fact the same. One of the Dutch Business Units of Philips use the purchasing portfolio as displayed in figure 5. Below the line, one can speak of catalogue products, the price is the most important selection criteria and suppliers can change every minute. Above the line the relationship with supplier is much more important and buyers aim at long lasting relationships. For this group of products account management is used. However, suppliers do not only deliver products, in many case they are added value for customers. For instance, suppliers can be a source for new ideas, leading to product and process development. Also it possible that a supplier has several business units for which it is beneficial to coordinate the communication with these business units in order to obtain the same purchasing conditions and contracts. Thus, the sort of products is just one criteria in order to identify key suppliers. Other criteria are: substantial volume of business (20/80 rule), profit, turnover potential, strategic importance, innovativeness, position
in the market and the location in different geographical areas; also more intangible factors - like image, importance in the market or 'fit together' - are reasons to mark suppliers as accounts.

4.3 The role of the purchasing account manager

The main difference between the account manager and the purchasing manager is the focus on the key supplier which the former has. Not the technical knowledge of products is important, but the ability to establish long-term relationships with suppliers is the key skill of an account manager. The account manager has in-depth knowledge of the supplier, pays attention to long-term relationships and account planning, and communicate substantial not only with the account but also with different specialties within the company. Actually, the account manager is a people's manager. Table 2 shows the differences between the purchaser and the account manager.

Table 2. Differences between purchasers and account managers (based on De Roos, Sweerman and De Koning, 1990)

<table>
<thead>
<tr>
<th>Regular purchaser</th>
<th>Purchasing account manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction focus</td>
<td>Relationship issue</td>
</tr>
<tr>
<td>Short term focus</td>
<td>Long term focus</td>
</tr>
<tr>
<td>Specialist: knowledge of own products package</td>
<td>Generalist: broad knowledge about markets, own company and products. In depth knowledge about account(s).</td>
</tr>
<tr>
<td>Individualist: operational tasks</td>
<td>Team work: tactical and strategic tasks</td>
</tr>
<tr>
<td>Emphasis on buying activities</td>
<td>Emphasis on account related activities</td>
</tr>
<tr>
<td>Negotiations</td>
<td>Cooperation and mutual problem-solving</td>
</tr>
<tr>
<td>Communication mainly with own purchasing department</td>
<td>Regular communication with various disciplines</td>
</tr>
<tr>
<td>Only responsible for buying tasks</td>
<td>Responsible for pre-buying, buying, and after-buying tasks</td>
</tr>
</tbody>
</table>

Especially in complex buying situations, account management can be a very helpful tool to make sure that there is 'one face to the supplier' (Verra, 1993). In the case of outsourcing of very complex, strategic items it is likely that a purchasing team with different specialties is involved in the buying process. The main responsibility of the account manager is the coordination of the purchasing team and the communication with the supplier. Figure 6 shows the role of the account manager in the interaction between both organizations.

Figure 6. The role of account managers

5. The case of a turbine producer

The case of a North-European producer of turbines illustrates some of the changes in purchasing management as mentioned above. This company uses Kraljic's portfolio as a way to organize its purchasing department. Although it is not using a very formalized form of account management, it is a good example of a company that has different purchasers taking care of different suppliers, in different ways.

The company delivers complete plants and components for power and heat production to industry and utilities. Products include advanced steam and gas turbines, combined power and heat plants (co-generation), gas handling equipments and large heat pumps. Industrial turbines form the most important segment. Purchased goods as percentage of turnover has increased steadily at the company; from 40-45% in the early '80s, to some 70% now. Until the mid '80s, the company had a classically central purchasing organization. The function was mostly transaction oriented, focused on buying and administrating.

In the early nineties, top management made plans to implement a new approach to purchasing management. The new approach should be more aimed at interaction with suppliers, and this was put down in a purchasing strategy document. The new procurement department employs 70 people, divided into five groups. Purchased goods are placed in the Kraljic matrix, and the groups are organized around them, and should carry out the corresponding procurement strategies (figure 7).

One group (LI) is responsible for buying expensive goods, like electricity plant components, heat pumps and governing and control equipment. This department is situated in Kraljic's upper left quadrant, and focuses on 'playing the market'. The second group (SI) deals with the turbine package, the core of the company's products. This group operates in the upper right quadrant and is constantly aiming at intensive cooperation with key suppliers. A third group (NCI) is situated in the bottom left quadrant, and should focus on administrative procedures. It has to deal with a lot of small suppliers ('suppliers tails'), which have to be rationalized. IO deals with in-/outsourcing, and procures goods with important production processes. QE, finally, does quality engineering, and works for all other groups.
Figure 7. Organization of the purchasing department

In staffing these purchasing groups, management has been careful to select people with appropriate skills and characters for each group. In their view, purchasers operating in the upper right quadrant need entirely different skills than those who are active in the bottom left quadrant (see also table 1). The company has spent a lot of efforts on human resource development and management. This has been done to increase the overall level of professional skills within the purchasing department, in order to enable the purchasing organization to become more involved throughout the whole business process.

6. Conclusions

The importance of long term relationships is increasing for many suppliers and buyers. Account management is a structural approach aimed at establishing long-term relationships with key counterparts. Account management for purchasing can have the same advantages as account management for sales has. Especially in case of relative powerful suppliers and a certain dependence on the supplier or when there is a need for one face to the supplier, account management can be very meaningful. In times in which more attention is paid to the role of the company within networks and where there is a continuous search for ways to respond adequately to rapid external developments, long-term relationships and partnerships can be very helpful to contribute to the corporate strategy. As Ellram (1991) pointed out: 'Purchasing partnership involvement also represents a way for the purchasing function to improve its support of the firm’s overall strategy. Thus, it seems unlikely that purchasing partnerships are a passing fad.' Account management for purchasing can be very helpful to establish these long-term relationships and partnerships with suppliers.

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