Cranfield
UNIVERSITY
School of Management

REWARDING KEY ACCOUNT MANAGEMENT

Issues and Pitfalls in Rewarding the Performance of Key Account Managers

KAM Performance and Rewards Syndicate
Key Account Management Best Practice Research Club
Cranfield School of Management

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This report is based on the work of the syndicate exploring Performance and Rewards in Key Account Management, from Cranfield School of Management's KAM Best Practice Research Club.

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1. Introduction

Over a period of years, Cranfield has built up a picture of what key account management (KAM) looks like and how it works, through research, through the activities of its KAM Best Practice Research Club, through conference speakers, and through its development and consultancy engagements with national, European and global organisations. Even in its earliest research, it was clear that changing the reward system was one of the adaptations to KAM that organisations were most reluctant to change.

It was not clear, however, whether their reluctance to change was owing to a deep-seated conviction in the efficacy of the approaches they had, which were largely traditional sales incentives, or whether they did not know what changes to make. Over the years, more and more companies have come to realise that KAM is not a sales job and, therefore, that incentivisation designed to push immediate/imminent sales may not be the best approach for key account managers.

A group of practitioners from blue-chip members of the KAM Best Practice Research Club who shared this concern decided to explore the challenge. Their interest was far from academic: they all felt that they were not getting quite what they wanted from their key account managers, and thought that the right rewards might be the best way to bring about the changes they sought. The group did not tackle whether a reward programme would indeed be the best way to achieve their objectives, compared with alternative approaches, but it did address a wide range of issues in whether and how reward schemes might - or might not - achieve the desired effect.

The group was entitled the Performance and Rewards Syndicate, but it soon became apparent that neither of these terms was clear or simple. In particular, 'performance' was used in at least two ways: either to describe the results or outcomes achieved i.e. sales value, margin etc on key customers' purchases; or the key account manager's whole activity, from how he/she went about the job to the pipeline generated and the financial outcomes. As the idea of 'performance' covered such a wide range, discussions about its constituent elements were much more useful and so, ironically perhaps, the word performance does not appear much in this report.

The work of the group, facilitated by the author, has been developed and summarised in this document, in order that other companies can better (and sooner) understand how to design a scheme that will deliver their objectives. However, complex issues are involved, which impact not only the key account manager but also others with whom he/she works. There are no unequivocal answers, but this document should help organisations to decide how they want to operate within a better understanding of what the outcomes might be.

2. Rewarding KAM Performance

2.1 Drivers of Change

Why Change?
Most people equate what they are rewarded for with what the company really wants from them – it is 'putting its money where its mouth is' – and they often see the rest as 'just words'. So, poorly-focused reward schemes are not merely an unfortunate detail that will need to be sorted out at some stage – they can be a major driver in the wrong direction and actually frustrate the KAM development that companies hope to establish.

If current reward schemes were working well for KAM, there would be no need to change them. Examination of the problems with schemes as they are, and why these problems exist, should yield useful indications of the changes that companies should seek in order to achieve a reward scheme that effectively promotes KAM.

Several broad issues with current reward schemes emerge:

A. Lack of alignment
B. Over-emphasis on financial results
C. Inappropriate expectations
D. Inappropriate behaviour

A. <u>Lack of Alignment</u>

- **With the business model**
  Companies moving to a new KAM business model often retain rewards still aligned with the old model, which results in mixed messages and the likelihood that the success of the new model is compromised.

- **With KAM's complexity**
  KAM situations are intrinsically complex, but companies often fail to recognise and take account of it. Simple schemes could be very 'blunt instruments' with unexpected and unfortunate side-effects.

- **With new skill sets**
  If rewards are designed to incentivise the behaviour suppliers want in their key account managers, then it would be useful if they were aligned with that behaviour and the skill set it requires. Suppliers may have defined the behaviour they seek, but they generally have not defined the skill set to deliver it or aligned rewards with it.

- **Between key account managers, account team members and members' internal functions**
  KAM is not a solo activity, and key account managers need effective collaboration with the account team, which will be more easily achieved if their rewards are aligned with each other and with account objectives.

- **Between local and regional issues**
  Key accounts are often large and involve suppliers at multi-local and regional levels, but issues of overlap and conflict have not always been resolved. Some of them impact on the rewards owed to different people and exacerbate the conflicts.

B. Over-Emphasis on Financial Results

- **Apparent objectivity**
  Financial results seem to be objective and therefore apparently easier to apply. In fact, they may not be as objective or even as 'true' as they may look, and a degree of judiciously-applied subjectivity may deliver a fairer and more appropriate evaluation.

- **Non-financial measures**
  Some companies have tried other, non-financial measures and found that they could be very successful in achieving their purpose: but quite often the non-financial measures were not really trusted in the way that 'hard' financial ones were.

- **Short-termism**
  KAM is a longer-term strategy that, when up and running, should deliver continuously as well. Companies struggle to commit genuinely to long-term objectives: they may talk long-term, but often behave and reward short-term, which confuses and frustrates key account managers.

- **Language**
  The language of finance can be at odds with the language of customers, and language forms our ideas and approaches more than we realise. Changing the language would probably promote more of the behaviour suppliers seek in KAM.

C. Inappropriate Expectations

- **Salespeople's expectations**
  Key account managers are often drawn from a supplier's salesforce, generally from successful rather than unsuccessful people. Successful salespeople probably like selling and sales-based rewards, which do not always sit well with customers' longer-term needs.

- **Sales culture**
  Sales culture is often defined by a focus on winning and on immediate or imminent results, within management as well as salespeople. People coming from such a culture of one-sided winning and quick results may find it difficult to adjust to a deeper approach that has a longer pay-off period, and requires more patience and stamina, and more work to implement it.

- **Recruitment**
  Suppliers find it difficult to get enough good people to manage their key customers. If the recruitment marketplace is seen as senior salespeople, then suppliers may feel they need to offer a package that attracts good performers, even if it is not really appropriate in KAM. 'Good performers' may be looking for high bonus potential and, indeed, earnings for a 'simple' salesperson may be significantly higher than for a key account manager.

- **External benchmarks**
  Companies like to check what they are offering against external positions. The problem is that those that are readily available are often not applicable to KAM, and using them can drive the wrong approach.

D. <u>Inappropriate Behaviour</u>

- **Conflict**
  Rewards schemes add a personal edge to conflict situations. Since KAM generally crosses boundaries, the potential for conflict, especially internally, is always high. Squabbling over the sharing of rewards or manoeuvring to optimise personal rewards can become visible to customers. They will not be pleased to see the personal interests of supplier's employees taking precedence over theirs.

- **Short-termism**
  Just as companies need to balance their short-term and long-term activities, so do key account managers. If they are only rewarded for behaviour that has a short-term pay-off, they are unlikely to put much effort into activity that has a longer-term return.

- **Closing deals**
  Traditional sales bonus schemes are designed to close deals as early as possible, but this behaviour irritates and even enrages key customers with a tranche of issues to explore and solve before they are ready to buy.

- **Pre-sales promises**
  Pressure to close deals also leads people to make pre-sales promises that the supplier cannot keep. While never a good idea, it may be possible for such a company to survive for a while in a marketplace with a large number of customers; but not in the many consolidated marketplaces where companies are intrinsically committed to the sector, customers are small in number and memories are long.

2.2 The Purpose of Rewards

The Purpose of KAM
Clearly, the reward scheme should support the desired outcomes of the KAM programme, and therefore, as a first step, companies should articulate what they want and expect KAM to do for them. Sometimes, the purpose of KAM has not been clearly stated, or not clearly enough. If it had been made explicit, companies might have seen the mismatch between their stated aim – often for deeper relationships with customers and longer-term security – and their reward scheme – incentivising short-term sales results. Some companies had introduced KAM in order to retain their most important customers but had then rewarded business development and acquisition rather than retention.

Such inconsistencies will frustrate the achievement of the company's purpose for KAM, and hence potentially endanger the whole initiative. Managers may misunderstand the reasons behind a poor performance that is being undermined by an inappropriate reward system, and abandon KAM instead of fixing the rewards. However, while companies will make substantial changes for KAM, they seem reluctant to move away from traditional sales-orientated reward schemes.

Are Rewards Necessary?
Before embarking on a rewards scheme, with all its intended and unintended effects, companies ought to ask themselves, 'Should we offer additional rewards to key account managers at all?' i.e. outside their fixed remuneration.
As this report shows, fair and appropriate reward schemes are very difficult to design, and it might be easier not to have one at all. Most other people in a company do not receive additional job-specific incentives, so why should key account managers?

The answer seems to depend on whether the company appoints salespeople to fulfil KAM positions. If it puts salespeople into KAM jobs, the reward scheme design is likely to hinge on what will keep them happy and motivated, and since they have generally been schooled to expect cash bonuses for sales results, the company feels obliged to continue those elements of the scheme.

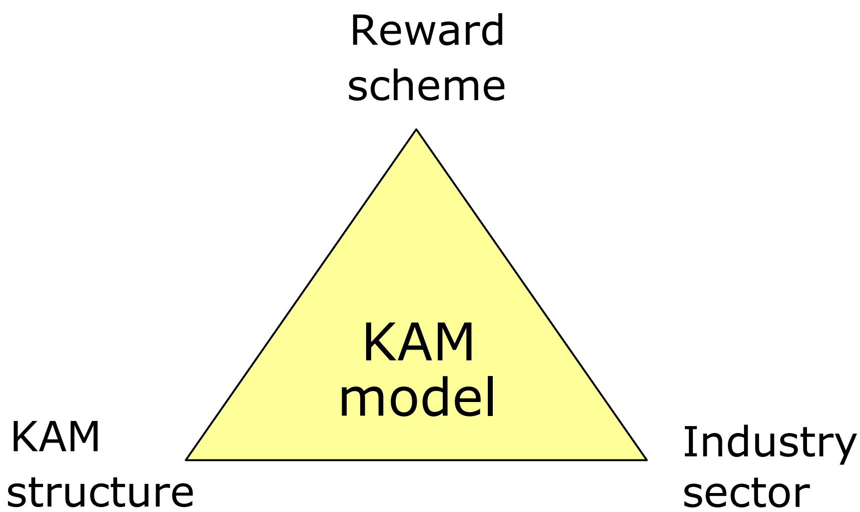
Some companies have started KAM without any special reward scheme for key account managers beyond normal career progression in the company. However, where this has been the case, it often turns out to be unsatisfactory. Their desire to introduce a specific reward scheme was driven by the need to change behaviour, possibly towards more pro-active and strategic approaches. These companies tend to have key account managers with a broader range of backgrounds outside sales, so they should find it easier to base their scheme design on an alternative model rather than the traditional sales model.

Nevertheless, there was general agreement that the bonus element should represent less of the total earnings of key account managers than of salespeople. And suppliers thought that every company should at least go through the process of considering whether or not it should offer extra rewards or not. In a few cases the answer could be 'no', but most seemed to expect that the answer would be 'yes'

Supporting the KAM Model

Rewards are seen an important contributor to and outcome of each company's KAM model. Companies may hold different positions on rewards according to their purpose for KAM, how they have positioned it in the company, and the industry in which they operate. In fact, the effect that withdrawing sales-based cash bonuses might have on recruitment of future key account managers from the surrounding sector was one of the greatest concerns about such a change. Figure 1 represents the linkages between these important factors.

Figure 1: Factors Linked to KAM Model



What Change?
The companies involved in this project all sought 'something different' from their approach to KAM so far. They sought changes in their current reward schemes in order to gain a variety of outcomes:

- Develop relationships with key customers
- Keep the best key account managers
- Align individual and account team behaviours
- Differentiate the company for customers
- Achieve a customer focus
- Add value to customers and to the supplier
- Achieve changes in behaviour

It seems that the approaches at both of the opposite ends of the spectrum – **either** no individual or specific reward at all **or** heavy bonus on short-term sales revenue – did not achieve what was sought by companies trying to implement KAM, and they sought a more balanced approach to fill the gaps.

2.3 Performance

What is Performance?
Performance can be interpreted in several different ways, but two views dominate:

- Performance equates to the whole fulfilment of the job: what people do and how they do it (behaviour-based).
- Performance equals results/outcomes (sales revenue, margin or profit: results-based)

Obviously, one of the first questions to be asked in developing a reward scheme is 'What kind of performance do you want?' Presumably, companies seeking behaviour change were talking about performance in terms of fulfilment of the job. Indeed, since discussions about performance covered a wide range of aspects of the job, it seemed that the broader concept of performance as behaviour was more commonly used than the simpler, results-based definition.
Performance in the broad sense includes a large amount of 'lead' indicators, i.e. inputs to achieving the results. Outcomes or results are 'lag' indicators, i.e. things that occur following a series of inputs (Table 1).

Table 1: Differences Between Performance as Behaviour-Based and Results-Based Performance

Behaviour-Based	**Results-Based**
Input to situation that produces results	Outcome from situation
Lead indicator	Lag indicator
Qualitative measurement, requires more judgement	Easy to measure, provided by management information system
Involves manager	Minimal management required
Business case more difficult to make, more uncertainty	Easier to fund, 'pays for itself'
Not critically time dependent	Pre-set, precise timing, usually company business reporting timelines
No specific effect on trading patterns	Can cause distortion in trading patterns (push to reach targets by deadline)
Positive for customer	Potentially damaging to customer relationship

Behaviour-Based vs Results-Based Performance
There are advantages and disadvantages on both sides, but take note of the potential negative effect of results-based performance approach on the customer when key account managers incentivised to meet targets aim to *maximise* rather than *optimise* sales. Indeed, the issues arising from using a results-based performance approach may be less about the nature of the performance parameter itself and more driven by the use of targets (see Section 3.2), which are generally associated with it.

The choice of interpretation of performance should come back to the company's purpose for KAM and its purpose for the reward scheme. Nevertheless, companies still like results-orientated rewards:

- Results are more easily and unequivocally measured, which makes life easier for managers
- Companies are more comfortable with paying people a share of business that they have already received, so the reward is seen as 'paying for itself'
- Companies are reluctant to reward for behaviours that might or might not, for all kinds of reasons, materialise into sales

However, the work of Professor Nigel Piercy (Enhancing salespeople's effectiveness, Piercy, Cravens and Lane in Marketing Management, 2007) showed that suppliers gained more control and better outcomes from focusing their attention on salesforce behaviour (inputs), rather than results (outputs), but such best practice has not yet become common practice.

In fact, companies are already paying for behaviour that does not necessarily feed through to sales, since they still pay salaries to salespeople/key account managers. Indeed, as salary almost always exceeds any bonus, the larger part of what they spend is in advance of results and not directly linked to them anyway: but, in general, it is not linked to specific behaviour changes either.

Constituents of Performance
Behaviour is a complex concept, driven by a number of contributing elements, as listed in Table 2. It should be considered in the context of the role of the key account manager, since behaviour appropriate to one role is not necessarily appropriate to another role.

Table 2: Elements of Performance

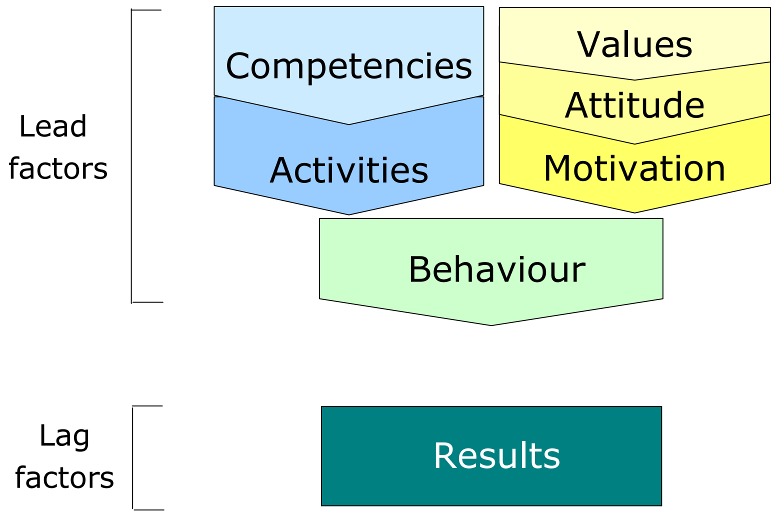
Elements of performance	Description
Role	External context to individual performance, including relationship with team.
Values	As held by individuals, but fit with business values important. Emphasis can change over time. Accessible by observable behaviours over longer time than competencies.
Attitude	State of mind founded on personal values.
Motivation	A state of mind which companies believe to be positively driven by incentives.
Competencies	Learnable capabilities to input to implementing tasks. Can be tested and minimum standard set.
Activity	Series of actions or operations. Being active, energetic, diligent.
Behaviour	Combination of what can be done and how it is done. Something seen, observable.
Results/Outcomes	Relevant outcomes are normally sales revenue, margin, contribution or other financial benefit to the company. Lag between input and outcome can be months or years.

Drivers of Behaviour
Clearly, these elements are linked together, and Figure 2 suggests one way of depicting these linkages. Companies choose their point of impact in this diagram when they develop their reward scheme.

If they opt for a results-based scheme, they are placing the reward on a non-specific lag factor. They may set a high results target, which would drive key account managers to deliver more; but, probably, more of the same, not 'different'. If the company placed the reward on behaviour, it would probably be aimed at 'different' rather than 'more'. In this project, the majority of companies said they wanted 'different', and that desire should be driving their reward decisions.

In is worth noting that competency development can be one of the most powerful levers to pull if behaviour change is the requirement: values and attitude are harder to access. However, Figure 2 shows that there is a range of input or 'lead' factors on which the company might hope to have an impact.

Figure 2: Elements in the Role and Performance of Key Account Managers

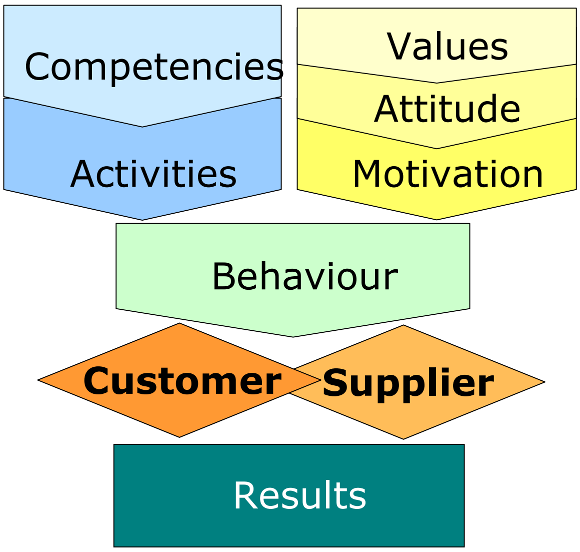


The elements of performance become more observable and more measurable as they progress from inputs towards outcomes, values being the most difficult to observe, probably, and results the easiest. However, there is a danger that rewards are given for what is most readily visible and measurable, which is not necessarily what is wanted.

The Gap Between Behaviour and Results
Figure 2 also shows a gap between the input elements of performance and the results, which in many sectors can be over a year, or even several years. Where cycle times are long, the time lag should represent a major stumbling block in the practice of rewarding by results, since the person who reaps the reward may easily not be the same person who made the inputs that achieved the result, given the job turnover in many companies. Neither is incentivised to greater effort by the reward, because the former will receive it without making any effort, while the other will not receive it in spite of making an effort.

In fact, the gap is not simply about time: it is about risk as well, which is the source of uncertainty that concerns companies considering rewarding behaviours rather than results. There is no guarantee or simple ratio that can be used to convert behaviour into results. As Figure 3 shows, there is an additional factor in between behaviour and result: i.e. the customer. Customer factors which have very little to do with the key account manager – like mergers and acquisitions, change of strategy, market trends - can have a major impact on the results, whatever the key account manager does.

Figure 3: The Customer Element in Performance



Aiming for a Balanced Performance
Taking the merits and demerits of results-based and behaviour-based approaches into consideration, most companies operating KAM sought a balanced performance by rewarding more than one kind of performance. The project group identified four main approaches, of which the first two have already been discussed:

- Results
- Behaviour
- Account objectives
- Business objectives

Account Objectives
This approach implies that the company looks at the account or accounts managed by the key account manager and identifies the performance it requires around each account. It will include a mix of outcomes from the account, milestones for significant tasks or activities, customer satisfaction evaluation and account team management. It means that performance is very clearly defined around real, specific needs.

While most companies see the wisdom of this approach, in practice very few are able to operate it. It depends on a good quality strategic account plan, built on a strong foundation of analysis and understanding of the account and the business and, unfortunately, not many companies have reached this stage.

If they have some plans of this quality, they do not have all of them at the same level, which means they would still have to devise a scheme to cover the others. Furthermore, while it might work for key account managers wholly dedicated to a single account, overall performance assessment will become more complex for those who have more than one account, i.e. the majority. In addition, this approach calls on more and better line management understanding and capability, which, as already mentioned, is not in abundant supply.

Basing performance on account objectives remains the ideal for relevance for everyone concerned, but regular usage is still some way in the future. Some companies now include the quality of the strategic account plan as one of their performance measures, so there is hope of improvement at some point.

Business Objectives
Rewarding key account managers on performance against the business objectives of the company as a whole, like senior managers, is possible. However, it seems too remote from the key account manager's sphere of influence and therefore not motivational for them.

Companies perceived a need for promoting some kind of collective performance for key account managers, which they did not feel appropriate for salespeople. They wanted to reward co-operative behaviour at a meaningful level, somewhere between the individual and the whole company. Since, as discussed above, rewarding most account teams was agreed to be impractical, the KAM unit or group of key account managers was seen as a positive alternative. Performance would then be focused on the key account portfolio as a whole, and probably on results rather than behaviour.

Rewarding at KAM unit level has the virtues of:

- Balancing anomalies and protecting key account managers from exceptional customer risk
- Linking to corporate goals better than individual customer objectives
- Key account managers sharing best practice and learning from each other
- Accommodating accounts at different stages of their life cycle, including maintenance
- Supporting resource allocation rather than resource appropriation
- Allowing more mobility of key account managers v customer and recruits from the rest of the company
- Fostering better corporate citizenship.

As a collective performance/reward scheme, it does not reflect the differences between personal contributions. Therefore it was felt that, while it is a good and valuable part of a reward scheme, 'business/KAM group objectives' should not represent the whole of the reward scheme.

2.4 Rewards

A reward is defined as something valued by the recipient, given retrospectively for something valued by the giver. This definition introduces the idea of value to the recipient, which implies that different recipients might value any particular reward to different degrees. Companies use a working assumption that everyone values money, although psychology has shown that is not always the case. However, companies tend to adopt this assumption because it makes the application of rewards simpler.

Rewards and incentives are often considered to be much the same thing, but an incentive is the promise of a reward in the future, while a reward may be given without advance notice. Normally, of course, companies use rewards as incentives and announce the level and basis on which they will be given in advance, in the belief that exposing the prospect of extra gain drives extra effort.

Rewards fell into three main types:

- Cash bonus
- Salary increase
- Recognition/ non-financial rewards.

Cash Bonus
Cash bonuses may be offered for any period beyond a quarter, but in KAM they would usually be for a year, with the shorter periods considered more applicable to sales jobs. Companies like cash bonuses because they can pay them out of current earnings, without having to worry about sustainability or longer-term parity. And certainly, the money has immediacy when received, albeit earned over the course of a year, but is immediacy needed in KAM?

Cash does have its limitations. There was a view that a lower salary, albeit with higher total earnings potential, equates to lower value in the company and less influence. People with higher salaries are perceived as having more 'clout' and more importance in the organisation, so cash may be valued less by an ambitious employee, or by someone wanting to buy a bigger house and persuade the bank to increase their mortgage on the basis of secure, sustainable earnings.

Salary Increase
A key account manager having done a good job one year might expect to see that effort rewarded by a salary increase, which is the normal mechanism for rewarding good performance in companies. It therefore encourages a wider range of candidates, internal and external, to apply for key account manager jobs, since they might otherwise shy away from the risk of taking a lower salary, even if there is more potential upside.

Companies can be concerned about this approach, because salary increases are not seen as reversible, and they worry about:

- Affordability, if the company does less well in subsequent years
- Sustainability of performance: will recipients take the increase and relax their efforts?
- Long-term career/salary management: will salary increases on top of salary increases mean that the rewards of long-stay key account managers are out of line with other positions?

Recognition/Non-Financial Rewards
This involves a wide range of rewards including things that might still cost the company a substantial sum of money, through to things that are more or less cost-free. Below are just a few examples:

- Holidays
- Sporting events/entertainment/dinners
- Invitations to special company events
- Trophies/publicity/profile
- Knowledge development/seminars
- Training
- Education/educational support
- Mentoring
- Special title/special projects
- Experience/fast-track group

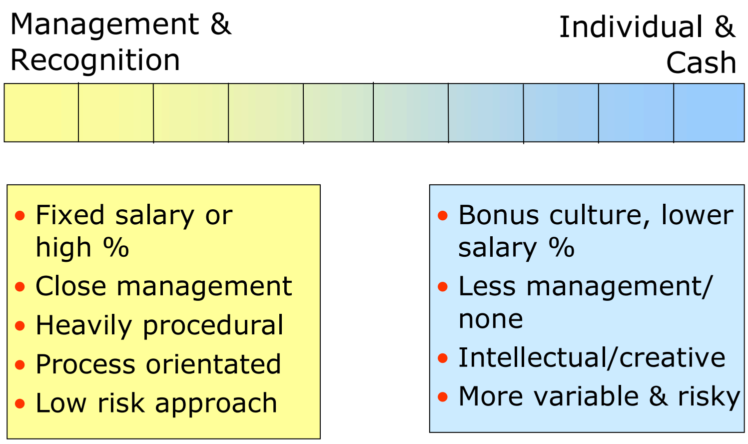
These can be given to the key account manager as an individual with or without his/her family, making it a very personal reward; or to the key account manager and members of the account team, making it a more business-based reward. A substantial industry has emerged to help companies, especially with the more expensive items. Some are not far from a cash bonus, in that they have a quantifiable value, and are probably taxable. Others cost very little (publicity, mentoring), but can still have great value to the individual.

However, some individuals will value some of these and not others, and other people will feel the opposite way about them. For example, a young ambitious key account manager might value opportunities leading to career development, like education or mentoring, while someone later in his/her career may prefer sporting events or trophies. That means more management empathy and ability to get it right; more management time to create the right package; and more chance of getting it wrong anyway. So while these rewards do have plenty of potential, management enthusiasm for them may be subdued.

2.5 Reward Management Issues

Management Culture and Capability
There is a spectrum of approaches to rewarding performance that seemed to depend partly on company culture and partly on management capability (Figure 4). At one end of the spectrum is simple 'cash on results' as the incentivisation mechanism and, at the other end, significant management involvement and forms of recognition other than cash. In the pure money approach, key account managers are shown where the 'pot of gold' lies, and are left to their own devices about how they get to it. In contrast, management involvement means line managers interact with key account managers in various ways; developing their understanding of the customer situation, coaching, mentoring, developing people and generally supporting them.

Figure 4: Spectrum of Approaches to Incentivisation



The ability of line managers to manage performance and rewards schemes is very important in the design of reward schemes. Sometimes, adapting to line managers' limitations appears to outweigh the purpose of the reward scheme: compromises would be employed if line managers could cope with them more easily. Schemes that take up more management time are unpopular with suppliers, who also admit that the quality of their line managers is questionable. So schemes that require the exercise of management coaching and judgement are likely to be rejected in favour of those that depend on minimal management and simple measurements, i.e. results.

'Management by Results'
Is 'management by results' really management at all? The 'less management, more cash' approach drives a focus on individual freedom and responsibility, while the higher management involvement, often backed by recognition rather than cash, could imply more joint responsibility. But perhaps this is what the management job is supposed to be.

From the supplier's perspective, the cash-based approach leaves the company open to individual variation and the effects of a heavy engagement of self-interest, which may be to the potential detriment of the customer relationships. If the supplier sees these customer relationships as important to the company, they should be owned corporately, and the scope for individual idiosyncrasy should be limited. The company has to ensure relationship longevity and engage people across the company, in which excessive individualism can cause problems.

At the beginning of a KAM programme, the choice of approach appears to be owing to management style and culture, but as suppliers mature in their approach to KAM, most will aim for a balance between the two approaches which captures the virtues of both. Indeed, companies were able to identify their position on the spectrum in Figure 4 without much difficulty and, in most cases, they were trying to move towards the mid-point of the spectrum, regardless of the end to which they were currently nearest.

Do KAM Rewards Control Results?
Suppliers appear to hold key account managers responsible for results, and often talk about their accountability. Indeed, they target them and reward them on results in the expectation that they will produce more/better results. However, Figure 3 shows that there is a gap between key account manager behaviour and results. This gap is occupied by the customer, and also by other functions inside the supplier.

So, for example, a key account manager might win the business for a service line from the customer, and then the customer loses the contract that required that product, and actual sales are considerably less than expected. Or, again, part of the sales expected may depend on a new product that is launched six months late, or availability is inadequate, so those sales do not materialise. The key account manager is not responsible for either of these events, and is not in a position to control them. Apparently, the key account manager does not have full control over sales.

It seems that suppliers recognise this because, in such circumstances, many would compensate for the consequent low bonus, calculated according to the rules of the scheme. They consider the lack of bonus as unfair punishment for things the key account manager does not control.

However, if the key account manager is not responsible for this kind of downside, then he/she is presumably not responsible for the upside either: he/she did not win the customer's contract or develop the new product. If it is considered unreasonable to pay key account managers less when things they do not control fail, then it is equally unreasonable to pay them more when things they do not control succeed. Indeed, several examples have been cited where a key account manager's customer had made an acquisition and applied the existing supplier base to the new business. The extra rewards received by the key account manager on the basis of this additional volume were seen by other key account managers as undeserved and 'unfair'.

What do KAMs Control?

The logical view would be that people should be rewarded for what they do control, i.e. their behaviour, rather than what they do not control, i.e. the outcomes of a mix of their behaviour, that of others, and external events. Although the principle of rewarding close to the point of control looks logical, it is not often what companies practise. Below is a list of what key account managers do control, consisting largely of activities to fulfil their role. It might be more valid, and even more effective, to measure and reward such as these, rather than results, but as has already been said, companies are often uncomfortable with this kind of reward basis.

Table 3: Performance Elements Controlled by Key Account Managers

• Client relationships	• Selling
• Industry knowledge/understanding	• Manage risk
• Developing strategy/planning	• Opportunity
• Understanding company capability	• Manage resource/deal alignment
• Promoting brand	• Implementing deals
• Training and education	• Problem-solving
• Team management	• Reporting information

In any case, the rules of the scheme should be clear and unambiguous, not only from the point of fairness, but also because if the rules do not make clear what needs to be done to gain the reward, individuals will do what they have always done, and the scheme will simply be rewarding what the company would have received anyway.

Rewarding Account Teams

Teams are usually cross-functional or cross-geography and operate as a virtual team with only 'dotted line reporting' to the key account manager. The account team is defined as a group of people with shared customer objectives, but members of these teams are rarely fully dedicated to a single customer. They may be involved with other account teams and/or have a 'day' job as well within their home function, which could be Supply Chain, Customer Service, Marketing etc.; or North, South etc.

Clearly, members of this team can have a very powerful impact on the business with the customer. They may be involved in winning bids, in smoothing and expediting deliveries, in handling complaints and claims, in providing information and a whole host of other business-building or business–losing activities. They see that key account managers are rewarded for their activity for key customers while they are not, and they may, not unreasonably, consider that is unfair. Potentially, the rewards that key account managers get to incentivise and motivate them run the risk of demotivating the team with which they must work.

'Fairness' is seen as the idea needed to underpin any reward scheme. The principle of rewarding team members finds favour with all in the project group, but the idea founders on the practicalities and mechanisms for implementing it. Fairness needs to be closely related to 'cause and effect', but linking cause and effect to part-time team members is difficult. They might be involved with several teams; sometimes, colleagues in the same function are not involved in account teams and do not have access to such rewards. Improving fairness for some areas seemed to damage the perception of fairness in other areas. Accuracy and certainty diminished, and administrative complexity escalated at the same time.

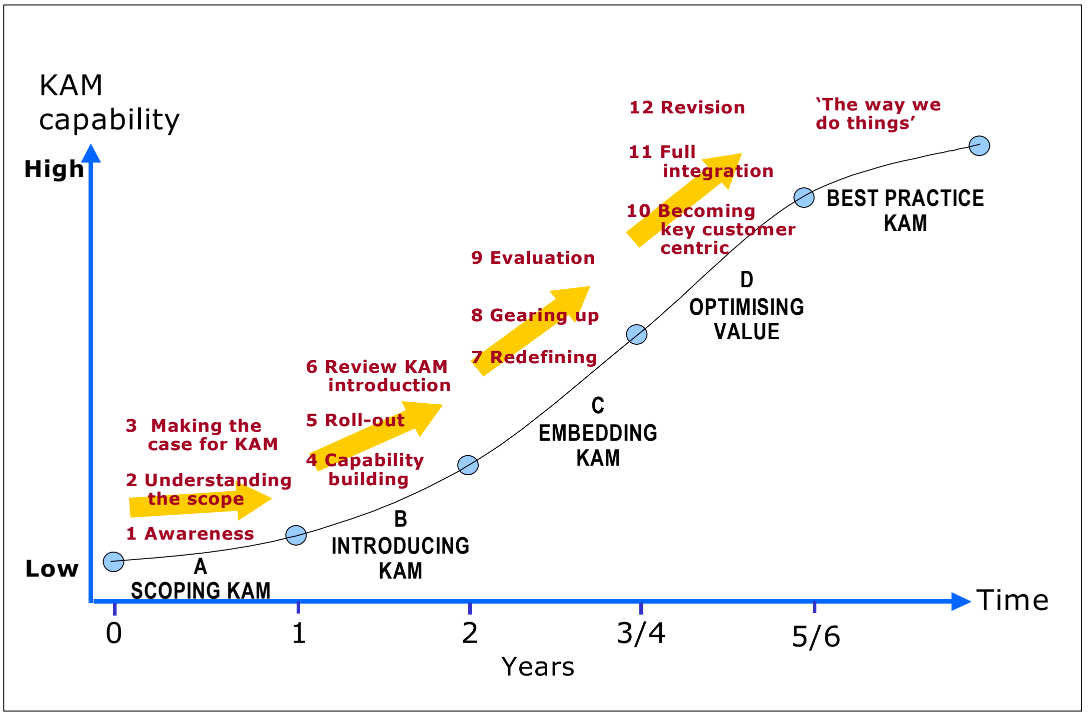
Eventually, it was generally agreed that, if rewards for individual team members are to mean significant money, schemes need clear and unambiguous reward bases and proper administration, and that this is unattainable in practice for partially-dedicated teams. Team members who are wholly dedicated to an account could, and probably should, be rewarded for their individual contributions, but not those with other responsibilities. However, rewarding teams with a dinner, weekend away or similar event is not uncommon, and is less contentious, less expensive and therefore more viable.

2.6 The Influence of KAM Maturity

Transitioning to KAM
Organisations have a different attitude and strategy to rewards as they mature their KAM initiative. In the early stages, they are often hesitant about moving away from traditional sales incentives, but later they should be comfortable with more KAM-orientated approaches to rewards. However, if they do not move on soon enough, they risk undermining the KAM programme. Indeed, suppliers have found themselves perpetuating traditional sales behaviours long after they had hoped to change, partly because they have failed to change their reward system.

Figure 5 shows the evolution of companies transitioning to KAM. It was derived from the work of a similar group of Cranfield KAM Club members, which was published as a report 'Transitioning to Key Account Management' in August 2006. The report included a checklist that helps companies to assess which phase of KAM they have reached.

Figure 5: Phases in Transitioning to KAM



As companies develop their KAM programmes, they develop their expectations of performance and their reward schemes. It could also be appropriate to have different reward schemes according to the phase of development of the individual account, because some may be in a growth phase while others are in a 'maintain and reduce cost' phase, whilst still keeping the clarity and transparency that underpin good schemes. However, while the principle of reward variation by account is good, in practice most companies are not sophisticated enough to manage such flexibility. Good-quality strategic account plans would be needed to provide the foundation but, sadly, they are not often in place at a satisfactory level.

Reward Strategy and KAM Maturity
Some typical differences in reward strategy that might be expected at each stage of the KAM programme are shown in Table 4.

Table 4: Reward Strategy by Phase

Phase	Reward Strategy
A.Scoping	• Status quo • Bonus on sales • Non-financial: peer/public recognition of success with important customers
B. Introducing	• Similar form of bonus, re-focused on specific KAM KPIs (targets plus behaviours) for individual • Develop rewards linked to appraisal process based on KAM goals
C. Embedding	• Likely still to be some 'traditional' form of reward • Institute less individual, more group rewards • Possibly increase basic salary (total may/may not increase) ♦ to value role, also for new recruits ♦ to increase certainty of remuneration • Switch funds rather than increase overall payout: package parity to enable the change • Review system requirements to collect measures (often metrics driven by practical availability rather than ideal) • Increase other recognition: treated as more senior/wider remit internally • More public encouragement
D. Optimising	• Reward/incentivise future/lead indicators • Senior management recognises good behaviours • Ad hoc rewards • Become more sophisticated: processes, measurements • Danger of complexity – less clear, less compelling • More difficult to compare accounts (maybe a good thing) • Bring KAMs along with development • Management control difficult, danger of disproportionate resource and complexity • Reward dedicated teams, designated virtual teams unlikely

Some changes need to be made as KAM is introduced, not least to indicate that something different is going to happen. During Phase C 'Embedding KAM', part of the redefining KAM stage should look at rewards and make more changes:

- Offer less reward on results and more on behaviours
- Increase basic salary to reward activity now that will pay back in the long term
- Increase non-financial rewards like senior management recognition, 'public' awareness
- Shift from individuals towards rewarding account team members, where account-dedicated teams exist
- Shift from individuals towards rewarding the group of key account managers, recognizing the need for them to work co-operatively rather than competitively.

As the programme develops, so too does recognition of the need to be more sophisticated; although that realisation is accompanied by concerns about the quality of performance measurement information and the rising level of complexity.

3. Reward Scheme Architecture

3.1 Designing a Reward Scheme

Having considered everything in Section 2, the time comes to design the scheme. Reward schemes have at least nine principal elements:

1. Objectives
2. Participants
3. Compensation balance
4. Performance
5. Reward
6. Rates
7. Measurement
8. Timeframe
9. Budget

1. Objectives
The first question is 'why'? A decision must be made about what the reward scheme is designed to achieve. Is it aimed at maintaining the business or growing the business, retaining people, developing people, or what? Will changing behaviour achieve the objective, or sharing the profits? These decisions are fundamental in determining the parameters of the scheme and evaluating if it is successful. If success has not been defined, how will the company know whether the scheme is working or not?

It is easy to skip over the question of 'why' and assume that rewards must be offered. At least, answering the question will provide a valuable steer on the shape and scope of the scheme. For example, schemes based on short-term revenue results are unlikely to achieve an objective like 'To promote longer term thinking and behaviour'.

2. Participants
The second question is 'who'? The answer will mostly be: key account managers, but are account team members also included? Account team members who are wholly dedicated to the account may be included in the reward package, which will normally be tailored to their contribution. For part-time members of account teams, the project group reluctantly rejected financial rewards as impractical, but recognition rewards were considered feasible and desirable.

Are key account managers' line managers also part of the scheme? If they are not, their reward package still needs to be aligned with the KAM scheme to ensure that everyone is driving in the same direction.

3. Compensation balance
Suppliers need to decide what they believe to be an appropriate balance between base salary, variable cash bonus, salary flexibility and recognition. Fixed salary varies from 100% to 50% of total earnings, but high cash bonuses like 50% are judged by most companies as indicative of sales job rather than a KAM approach, and actually counter-productive to KAM. For key account managers, about 85% of total package as fixed salary is fairly common.

4. Performance

The basic structure of a reward scheme depends on what performance is to be rewarded and what will be offered as a reward, so the company needs to decide what performance it seeks, which should obviously be based on the objective of the scheme.

• Results	Sales volume in terms of revenue or margin, a lag indicator not entirely controlled by the key account manager
• Behaviour	Personal competencies and activities, controlled by the key account manager, representing inputs to the situation and therefore a lead indicator of potential success
• Account objectives	Inputs, milestones or result/outcomes as identified in the account plan, therefore depending on the quality of the plan
• Business objectives	Overall performance (probably results) of a relevant group or unit, like the account portfolio/key account manager group, to which the key account manager contributes

See Section 2.3 for more about performance, and for use of targets in performance, see Section 3.2.

5. Reward

The nature of the reward is also an important decision, whether financial (bonus, salary) or non-financial (recognition). Of course, a combination of all three types can be employed. The culture of the company and what senior management finds acceptable often determines the choices made: see Section 2.4 for more about rewards and 2.5 for a discussion on ‘management versus money’.

• Bonus	Cash at end of fixed period: month, quarter or year
• Salary	Permanent increase, not retractable
• Recognition	Variety of forms of non-financial reward, e.g. promotion, status, representing company at public forums, mentoring from senior person, training, development

Companies may be concerned about offering salary increases for good performance, since they cannot be withdrawn in later years. They feel they can afford cash bonuses where they are awarded against sales results and paid out of gross margin. This kind of cash bonus is effectively a profit share, limited to the current year, so that managers do not feel worried about whether it can be repeated in subsequent years.

Some companies take reward by recognition very seriously, particularly those in professional services, but for others it is ‘the icing on the cake’, but definitely not on a scale to make it the cake itself. Views may be correlated with the key account managers’ backgrounds: those with a history in sales have been schooled to expect cash rewards.

6. Rates

Having set the main parameters for performance and reward, the rate of reward needs to be decided. This is where things can go wrong, when unforeseen circumstances push the performance or the rewards outside anticipated limits, so very careful calculations and modelling should be applied. The company needs to consider:

- Ratio of reward to performance
- Targets and trigger points, where higher or lower rates apply
- Capping and underpinning.

Sales targets are in common use as benchmark for performance, so bonus may be paid only on results that fall beyond or within a specified range of the target: companies are mostly averse to paying bonus on ‘what we would have got anyway’. However, it is very difficult to set them at the right level and they can promote all kinds of inappropriate behaviour, which is often counter to the interests of the customer. For example, they may be pressured to buy more than they need so the key account manager can reach target.

There is a view that the key account manager can influence results within a ‘bell curve’ of expected levels of business. Beyond those limits results are considered to be outside their control, whether they represent an upside windfall, or a downside disaster. Schemes are often capped at the top, therefore, and compensated at the bottom (though the latter may not be published). Companies should decide in advance the upside and downside levels that trigger their contingency plan.

7. Measurement
Robust and accurate measurement is essential, especially where cash bonuses are paid. Companies may want to reward against customer profitability, but if their measurement of it does not stand up to scrutiny, they should pick a measurement that does.

Quantitative results-based metrics are not the only measurements that can be used. Qualitative measurements, or quantified judgements, have also been used very successfully by companies: agreeing such scores is less contentious than managers fear. For example, some companies pay rewards against the quality of strategic account plans, scoring them on a scale of 1 – 10.

See Section 3.2 for more about measurement.

8. Timeframe
Clarity around timing is always important. Companies need to specify:

- The performance reference period
- Point of assessment/review
- Delivery of rewards

The performance reference period is less critical for qualitative measurements which do not change greatly over short periods of time, compared with sales results, which are much more time-dependent. The company also needs to be clear about whether bonuses are awarded against orders received in the period, goods/services delivered, or invoices paid, since there can be significant differences between them. Rule ambiguity will be seen as unfair.

9. Budget
The cost of the reward scheme has to be worked out, and the source or sources of funds required. They will probably come from different sources according to their nature:

- Cash bonus: paid from product/service or, better, customer gross margins
- Salaries: paid over a longer span in to the future, from the salary/establishment budget, not against product/service sales
- Non-financial rewards: can still have significant costs (ceremonies, dinners, weekends away etc) that must be found from somewhere.

The financial justification for the scheme will depend on whether it is seen as an investment in people, an operational cost, an overhead, or a profit share. However, it should be justified and justifiable financially.

These decisions constitute the design of the scheme. Clearly, there are many permutations and combinations of these parameters that companies can apply. See Section 3.3 for an approach to assessing the scheme.

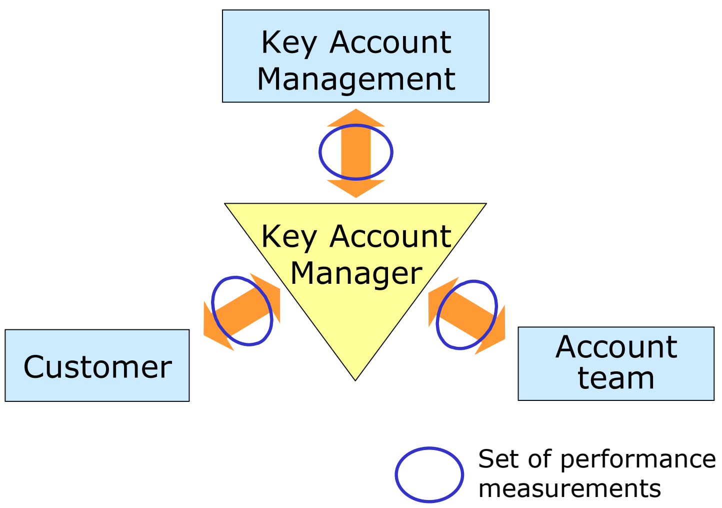
3.2 Measurement

Achieving a Balanced Set of Metrics
Rewards in KAM may involve serious sums of money or very personal and career issues, or both. As a result, managers feel the pressure to obtain objective measurement against which they can allocate rewards, as automatically as possible. However, objectivity is not as readily obtainable as managers hope, since results can be subject to a range of manipulations and excuses even when measured accurately. Furthermore, additional means of measurement and assessment need to be found if the reward is based on something other than results.

Taking the broader view of performance favoured by the group (see Section 2.3), Figure 6 shows how a balanced set of performance measurements might be constructed around the principal roles of the key account manager, reflecting their performance:

- Of KAM's functional activities
- Internally, in relation to the account team
- Externally, in relation to the customer.

Figure 6: Performance Measurement Sets



Specific measurements should be focused on something in each area that the organisation wants to achieve. Some companies were indeed using this kind of balanced approach in appraising key account managers. For example, one evaluation set was based on:

- KAM/key account manager measure: Profitability
- Customer/key account manager measure: Service to customers
- Account team/key account manager measure: Morale.

Usually, there is a mix of quantifiably-measurable elements relating to business objectives and other, more qualitative, elements which are systematized to varying degrees, e.g. internal elements like performance on corporate citizenship, values and leadership integrity. Some companies use appraisal discussions with the line manager, but others conduct annual 360^{o} feedback surveys with a specific number of colleagues giving a measurable response, which they carry out by themselves or with external experts. Using third parties for measurement can be very worthwhile, to gain advice on what and how to measure, and to reduce challenges to the outputs.

Targets

The quantified element relating to business results is often attached to a target, which is defined by:

- Nature of target: e.g. sales revenue, margin, cost to serve, contribution
- Level of target: e.g. £ million revenue for good delivered in the financial year
- Linkage with rewards: e.g. payment for below target as well as above, capping.

Targets are a big issue. In fact, most of the unfortunate consequences of rewarding on sales results are probably not due the nature of the measure itself, i.e. sales revenue or margin, but actually owing to the target that has been set for it. Measurement implies a benchmark, and targets might work if they were used as a reference point, but there is more to it than that. As Professor Mike Bourne and Dr Monica Franco-Santos (Cranfield Centre for Business Performance) noted after two years' research into targets:

> *"Targets are goals to strive for and the idea is that striving increases performance. The problem then comes when we use them inappropriately for other purposes, such as paying bonuses. … Setting targets as 'high but achievable' is the prescription that comes out of the last fifty years of motivation research. … It works if the individuals' performance is delivered personally with minimal interaction with the rest of the organisation, but if the individual forms part of a process, the system may well fail to deliver. Fifty years of motivation research suggests targets are useful, whilst a similar period of well-documented practice from the quality movement suggest that targets don't work in this way."*

These observations encapsulate the differences between Sales (largely an individual effort) and KAM (an organisational effort) and pinpoint the reason for uneasiness in the use of sales revenue or margin as a performance measure for key account managers. The key account manager spends a good deal of time inside his/her own company, developing concepts and projects and communicating and organising people on behalf of the key account, so they are clearly part of an organisational process and their performance should be judged accordingly.

Consequences of Targets
Measuring sales results seems appropriate if the consequent reward is seen as a profit share of an outcome to which the individual has contributed, but if it is expected to induce activity directly focused on achieving the target, it may be counter-productive in KAM:

- Pressure may be applied to customers to take more than is right for them in a period of time
- Customers do not trust their account manager to uphold their interests
- Longer-term relationship-building activity may be neglected
- Individuals try to secure more resources for their customers than they warrant
- Resources are applied according to the persuasiveness of the account manager, at the expense of others
- Prices are sacrificed to volume.

This assumes that the target has been carefully and realistically set without outside pressure, and that there are no major changes affecting them during the relevant period: but often targets are set quite arbitrarily and changes do occur. It is considered important that reward schemes are seen as fair, and yet targets themselves are the element most likely to cause problems with setting up a fair scheme, in practice as well as in theory.

3.3 Reward Scheme Assessment Criteria

Defining Expectations
Reward schemes have a difficult job to fulfil. They need to be effective in promoting KAM and, at the same time, fit into the corporate culture, be aligned with customer needs, manageable and fair and answer, to a number of other requirements too.

The project group developed a list of expectations of a reward scheme, and weighted them to reflect how important they thought each would be. Table 5 shows this set of desirable characteristics, so that companies can use it to assess any scheme that they have used or formulated.

The weightings of the characteristics can be adjusted to reflect the views of each company on what is most important in its situation. For example, for some companies the scheme needs to be acceptable in the wider industry as well as inside the company, in order to recognise the key account manager’s market value and attract and retain the right people; others have long-term employees and recruit from within, so this issue is less important for them.

If the company has more than one proposal in front of it, this is a useful way of comparing them. Otherwise, companies should look for a high score from any scheme that they plan to introduce, or they should think again.

Table 5: Assessing a reward scheme

Desired characteristics of reward scheme	**Weight**	**Scheme rating 0 - 10**	**Score = Weight x rating**
Alignment with company culture & strategy	15		
Alignment between required, rewarded & measured activities	15		
Alignment with customer needs & market	15		
Alignment with individual expectations	10		
Strength of impact on key account managers	10		
Match with management time & ability	10		
Objectivity & fairness	10		
Perceived cost	10		
Impact on others	5		
Total	100		

Companies should not just think about how reward schemes will work for key account managers. They need to consider their impact on all concerned:

- The individual key account manager
- The customer
- The account team
- Colleagues
- The rest of the company.

Thought should be given to what kind of effect the reward scheme will have on the customer, alongside the wider impact inside the company. As one customer remarked in another of Cranfield's research projects, "You can see their comp plans showing!" Generally, the greatest danger of promoting inappropriate behaviour lies in those schemes heavily biased towards cash bonus based on targeted short-term sales results.

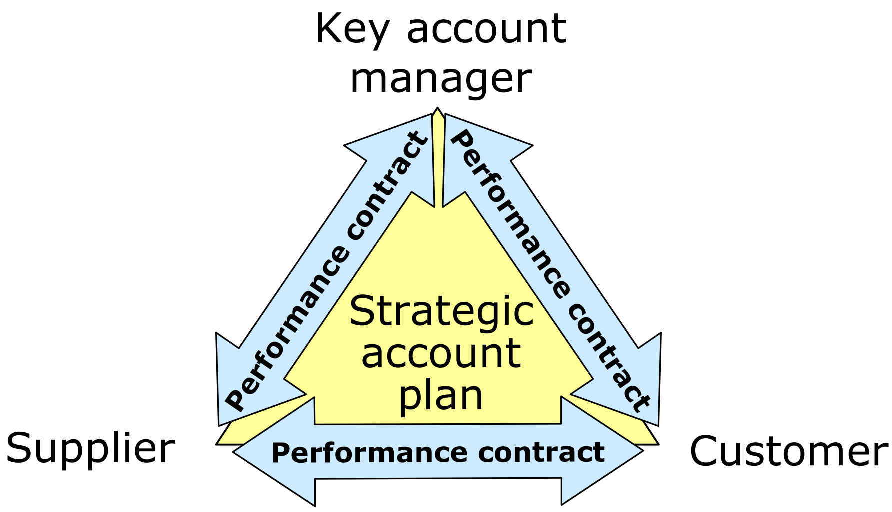
Using the Strategic Account Plan

As with KAM itself, 'one size does *not* fit all', and ideally schemes should recognise the different kinds of performance that might be expected from key accounts in different positions in their life cycle with the supplier. Where there are variations of the reward scheme around different customers, and therefore also different key account managers and teams, the rationale and rules behind the variations should be clear and transparent. Key account plans should be the source of understanding and cater for these differences, but that depends on three things:

- Good quality, rigorous strategic account plans
- Robust and flexible measurement systems
- Good quality line management to judge plans and respond appropriately.

The plan then equates to a contract between the individual key account manager and his/her organisation: it encapsulates the expectations the supplier has for the key account manager, and also to the key account manager and, indeed, to the customer as well, as Figure 7 suggests.

Figure 7: The Strategic Account Plan as a Three-Way Contract



The strategic account plan should capture what the organisation will put into the situation (resources, products, projects) as well as what the key account manager should input and what outcomes should be achieved. Sadly, not many companies succeed against all three of these parameters. When they do, they can develop the best possible and most powerful fit of rewards to situation.

3.4 Application Effects

Reward schemes are notorious for having both positive and negative effects, and it is difficult for companies to avoid all the pitfalls and achieve a fair, transparent and motivating approach. It is especially difficult for companies embarking on a KAM programme for the first time, and having to move on from their existing schemes, whose workings and effects are familiar to them.

In order to help companies identify both valuable and unfortunate consequences of their reward schemes in advance of launching them, the project group pooled its experience and observations to offer suppliers a checklist, which forms the Appendix to this report. The possible permutations of performance and rewards are represented in terms of what kind of performance base could be used and what reward might be given, as in the outline Table 6.

Table 6: Checklist of rewards scheme application effects

Performance	Reward					
	Cash bonus		Salary increase		Non financial recognition	
	Positive	Negative	Positive	Negative	Positive	Negative
Results: sales volume, revenue or margin						
Behaviour: personal objectives						
Account objectives						
Business objectives						

Companies considering the adoption of a scheme giving, say, salary increases based on performance on behaviour (personal objectives) can see what advantages and disadvantages it might have from the issues that the project team had encountered, and potentially make amendments to negate any unintended and unfortunate consequences. The checklist could also help to find those combinations of performance and reward that could offset the disadvantages in the proposed scheme.

The project team's observations have been arranged according to the criteria shown in Section 3.3 to help organise and make readily visible the issues across different types of scheme, although their comments were not originally noted in this format.

The checklist is presented in the Appendix.

4. Conclusions

Focus on the Purpose
Designing effective reward schemes is not easy, and companies should think carefully before they start. They should focus clearly on the purpose of KAM and therefore of the scheme, and make sure that whatever is proposed delivers to that purpose, rather than to expectations that fit other business models, but not the KAM business model.

Timeliness
Obviously, companies devise reward schemes which they think will have a powerful effect on the recipients. So they should be aware that if the scheme is not very well aligned with the whole KAM initiative, and is also powerful, then they are undermining their purpose. That means that new reward schemes need to be introduced at the right time when establishing KAM in the company, sooner rather than later. However, some companies seem content to 'see how it goes', which seems unwise. At the least, it gives mixed signals to the key account managers.

Quality of Line Management
In a surprising number of cases, companies do not feel that the quality of their line managers is sufficient to cope with schemes requiring much management input. While this has serious consequences for the range of schemes that companies can use, it is much more serious than that. If line managers cannot afford the time and management capability to administer the scheme, they will not be able to coach and support key account managers and should not be in those positions. It probably means that KAM and key account managers are wrongly placed in the organisation.

Inputs and Outcomes
The two main elements of any scheme are the performance sought and the type of reward to be given. Performance mostly means results (sales revenue, margin or profit) or behaviour. Results are an outcome of an account, and behaviour is an input to the account situation. If a company/manager is to make any difference to what happens, then the time to make it must be at the inputs rather than the outcomes. So 'managing by results' is something of an oxymoron.

Results-Based Performance
Suppliers are more comfortable with rewarding on results than on behaviours, for a number of reasons. They feel that rewards against results 'pay for themselves', because they can use some of the profit from the sale, whereas there is a risk that good behaviour may, for all kinds of reasons, never turn into sales, and they do not wish to take that risk. In addition, results are more simply measured and are almost automatically awarded, so ambiguity and management input are avoided.

Results-Based Rewards as Profit Share
Suppliers seem to feel that they are directly incentivising immediate activity to gain more sales in the short term. In fact, in key accounts new sales are not made quickly and there may be little a key account manager can or should do to expedite sales. The job is different from sales: it is more about creating opportunities than taking orders. However, a results-based reward is very appropriate if it is seen as a profit share for the key account manager's contribution to the outcome.

Behaviour-Based Performance
All the companies in this project wanted to introduce schemes to achieve a change in behaviour, so behavioural performance should not be abandoned. Usually, that means a change in approach from the supplier, which may be culturally difficult. Rather than handing out the money they would have given in bonuses, it might be better spent on training to develop competencies so the key account managers can change their behaviour. Management development for their line managers might not go amiss.

Rewards
Rewards can be financial, mostly cash bonuses or salary increases (both in addition to base salary), or non-financial or recognition. There is a vast range of things that can be done to recognise a key account manager's work, but they take time and are not as easy to handle as financial rewards. Some come virtually free, but many have an actual cost and a heavy call on management time, so they are not used as much as they could be. Cash bonuses are easy, but companies are concerned about rewarding with salary increases, in case they are not sustainable by company or account results in the future.

Balance
It is important that suppliers acknowledge that the KAM job is different from Sales, and that means changing the reward scheme. Most companies opt for a balance between the various performance parameters discussed in this report, and of rewards as well. There is general agreement that the variable element of key account managers' remuneration and rewards should be less than for a salesperson, reflecting the complexity and longer-term nature of the job they should be doing. The scheme will be successful if it is clearly aligned with the purpose of KAM, well-balanced, and fairly applied.

DJ Woodburn, November 2008

Appendix: Application Effects of Reward Scheme Variables

See Sections 2.3, 2.4 and 3.1 for more details on definitions of performance and rewards.

- Rewards schemes are designed around performance wanted and reward to be given.
- The following tables show positive and negative aspects of possible permutations of performance and rewards.
- Companies should check what advantages and disadvantages their proposed scheme might have.
- They can also find combinations of performance and reward to offset disadvantages in the proposed scheme.

Performance bases

- Results: sales volume, revenue or margin
- Behaviour: personal objectives
- Account objectives
- Business objectives

Reward types

- Bonus (cash)
- Salary increase
- Non-financial recognition

Performance		Reward					
		Bonus (cash)		Salary Increase		Non Financial Recognition	
	Criteria	Positive	Negative	Positive	Negative	Positive	Negative
Results: Sales Volume, Revenue or Margin	Alignment with company culture & strategy	• Rewards short-term, short-term is still important • Also rewards behaviour, in effect, pays on outcome later • Low risk from management perspective • Company can reduce risk by applying margin but loses transparency & requires greater sophistication	• Rewards short-term, contra to long-term • May have unintended & unfortunate consequences	• Salary focuses on long-term view • Reflects how much company values individual • No/low bonus cultures: more closely managed and supported, more people management	• Hard to defend. • Fixed cost too high and risky	• Promotes long-term objectives • Good way of embedding corporate and team culture	• Some types of recognition challenge good corporate citizenship
	Alignment between required, rewarded & measured activities	• Generally good for existing products • Potentially good for new products, with massive over-incentivisation • 'Raises temperature' in companies where growth and cross-selling not the norm: must include other lines of business to succeed	• Can lead to unprofitable/ 'valueless' business • KAMs only do bonused/ rewarded things/ activities • Drive to say 'yes' when not appropriate	• Delivers job better than getting bonus • Aligned effort • OK for one year	• 'Lumpy' sales volumes create extra problems • Salary should reflect potential for future more than past: but sales = past	• Creates opportunities to share best practice	• Creates internal competitiveness – is that good or bad?

Performance		Reward					
		Bonus (cash)		**Salary Increase**		**Non Financial Recognition**	
	Characteristic	**Positive**	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Results: Sales Volume, Revenue or Margin	Alignment with customer needs & market	• Responds to customer need to understand breadth of supplier offer • Drives role of ambassador for customer	• Breeds mistrust • Masks and loosens links with customer • Conflicts with 'trusted advisor' role • Potential non-alignment with customer objectives, demotivates customer • Incentivising sales can damage customer • May contradict elements of key account plan (agreed with customer) • Difficult to reflect individual account without overriding scheme • 'Best' performer is least customer-friendly KAM	• Customer has increasingly high value contact point with supplier	• Effectively permanently rewarded for past achievements, less incentive to succeed with customer in future		
	Alignment with individual expectations	• Focus on individual objectives and performance to deliver • Effectively selects people: winners on scheme stay • Popular in marketplace • 'Salesforce' expectation	• Customer objective may be maintenance, KAM may try to drive growth • Does not recognise complex job requiring experience and effort • Not aligned with rewards for other managers who might become KAMs	• Salary plus deferred bonus good for: o Retention (but also portable sign of status) o <u>Consistent</u> performance • Different in different sectors	• Contribution diluted, feel remote from outcome • Recruitment and retention because salary v salary plus bonus is less appealing to high performers • Salary including reward: expected in excess of normal, embeds idea of constant increase	• Visible status – encourages competitiveness, winning	• Saleable in finding new job (positive for individual, not for organisation)
	Strength of impact on key account managers	• Very strong – has immediacy, pays off in current year • Concentrates the mind of the KAM	• Can disincentivise as much as incentivise	• More appreciated by many people: gives status, certainty • Likely to vary according to age and stage of life • Attracts people to stay longer	• Depends on past performance, may not be repeated • Weaker motivationally, especially for sales-background KAMs	• Can be very powerful, especially public recognition	• 'Icing on the cake', not 'the cake'

Performance		Reward					
		Bonus (cash)		Salary Increase		Non Financial Recognition	
	Characteristic	**Positive**	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Results: Sales Volume, Revenue or Margin	Match with management time & ability	• Easy to administer – low on management time • Usually includes some management discretion for exceptional circumstances	• Bonus = money instead of management • Poor management control • Increases importance of getting objectives right (often not SMART).	• Easy to administer	• Can impact on trust with employer • How can it be managed year on year? • Ends up with indefensible variations	• Opportunity to shine in KAM's eyes as a line manager	• Time-consuming • Easy to get wrong • Management capability and capacity questionable
	Objectivity & fairness	• Results clear and transparent • Margin base better, but can be problematic	• Large differentials do not reflect contribution fairlyNot all team members equal, didn't contribute the same (guilt, free-wheelers) • May reward unearned 'windfalls'		• Salary can't be taken away, reduces flexibility • 'One size fits all' creates dissatisfaction • Hard to weed people out	• Visibility of public recognition demands fairness	• Opportunities are not limitless, difficult to always provide the same or equivalent • Same recognition not equally appreciated by all: lower perception may seem unfair reward.
	Perceived cost	• Low cost, variable, low risk • Reversible • Seen as acceptable cost of sale • Hard to fund over-incentivisation of new products	• May be wasting money, on unearned windfallsIf based on revenue, not related to what company makes, company takes risk	• Probably costs less initially, if salary % is lower than bonus	• If all reward is salary, fixed costs become untenable. High level, puts company at risk, low level is unappealing, keep bad staff, lose good staff	• Quick and cheap to result	• Can it be switched on & off?
	Impact on others		• Recognition of individual, divisive v teams • Bonus breeds resentment • Demotivates team	• Shows value to others, get taken more seriously	• May or may not align with others' views of value of job • Very anti team work	• Can be applied to wider range of people, e.g. team • Good role models	• Visibility can be negative

Performance		Reward					
		Bonus (cash)		Salary Increase		Non Financial Recognition	
	Characteristic	**Positive**	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Behaviour: Personal Objectives	Alignment with company culture & strategy	• Incentives linked to degree of flexibility, freedom cf simple transparent process • Creates optimum, three–way alignment: company, customer & individual	• Could be very long term: company (LT) and individual (more ST) timeframes may not match • Requires receptive business culture, not just 'management by results'	• Rewards effort • Rewards success • Reinforces required behaviour changes	• Inappropriate balance of risk between KAM and employer • Harder to get approval than for bonus – not popular with senior management • Reluctance to offer high salaries, which compromises view of position • Can breed mistrust with company	• Protects company from transitory approach, but companies drive turnover through limited progression to senior levels • Depends on making KAM the route to career development	
	Alignment between required, rewarded & measured activities	• Rewarding inputs, behaviour: must be set between individual and company • Rewards lead behaviours • More precise focusing on objectives than sales-based rewards	• Very dependent on correctly set objectives	• Can run for more than one year • Potential for excellent fit with requirements	• Longer-term effect, not short-term response • Ceiling: cannot continue year after year		• Some types suit better than others: need to choose carefully
	Alignment with customer needs & market	• Creates optimum, three–way alignment: company, customer & individual	• Very dependent on correctly set objectives, in line with customer's needs • More difficult to reflect customer's requirements		• Easy to lose sight of increase, customer alignment does not necessarily continue		• May be diverted from customer activities
	Alignment with individual expectations	• Motivates/ incentivises individual • Should link to personal development track • Opportunity to align with role, profile regularly • Develops capabilities	• No certainty • Less attractive to salespeople, but importance depends on stage of KAM transition	• Appropriate level of salary (with deferred bonus for retention): reflects level of position • Encourages wider range and internal candidates	• May not attract salespeople in competitive marketplace • Upside is not so great as sales = less valued position • Rewards people at their best – may not recur		• Has to replace positions in structural flattening o But how? o Office area? • Encourages territory building

Performance		Reward					
		Bonus (cash)		Salary Increase		Non Financial Recognition	
	Characteristic	**Positive**	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Personal Objectives	Strength of impact on key account managers	• Even stronger than sales base • Can really personalise recognition (treating people differently)		• Reinforcing good behaviours • Feels well rewarded and well regarded	• Linkage with performance weak: not motivating?	• Can reflect different personal values, potentially • Potentially high impact	• Works with some individuals, not all
	Match with management time & ability	• Obligation to differentiate meaningfully	• Takes more management time and expertise to tailor rewards (including knock-on effects) • Needs clarity and well-set thresholds • Difficult to get right, not simple	• Same as bonus	• Same as bonus	• Implementation of talent management	• Highly dependent on quality of line management • Needs worked out career progression plan
	Objectivity & fairness	• Works with dedicated real team, with element of collective objectives, allows comparison with other team members	• Subject to line manager's perspective: generally 'objective' assessments are still processed through line manager • Appraisal needs - agreement (both sides) - comparison with others for consistency	• Can check parity with similar sectors	• Likely to be seen as unfair by some of peer group • More dependent on perception of line manager than bonus on sales: has persistent effect, therefore grates more, for longer	• Probably less concern about fairness where money not involved	• Difficult to be consistent across very different objectives
	Perceived cost	• Reward = investment	• Link to result less direct, therefore internal PR is critical • Need to show link to results, especially at early stages	• Short-term, pay lower % = initially cheaper • Better for cash flow	• Has on-costs for companies • Seen as overhead during transition • Increases risk of redundancy • Irreversible • Dependent on available salary 'pot'	• Cheap on cash	• Costly on time
	Impact on others	• Good for account dedicated teams	• Can't tailor to part-time account teams as well: would seem very subjective	• Makes job attractive to others	• High risk, because of longevity		• Not in line manager's interests

Performance		Reward					
		Bonus (cash)		Salary Increase		Non Financial Recognition	
	Characteristic	Positive	Negative	Positive	Negative	Positive	Negative
Account Objectives	Alignment with company culture & strategy	• Reflects value of job to organisation • Depends on quality strategic account plans • Identifies what company can expect in terms of achievement of strategy • Allows all levels of business to assess on target to meet objectives	• Major change in business culture • Depends on quality strategic account plans • Doesn't work if not used and valued by company • Hard in non-planning cultures	• Better reflects value of job to organisation?	• Danger of KAM's complacency	• Depends on company culture – may be very well aligned	• Not effective in heavy bonus cultures
	Alignment between required, rewarded & measured activities	• Reflects what KAM is and does • Fresher, more rigorously reviewed • Forces people to reprioritise what they do and restructure their approach • Stand-alone, potentially more accurate		• Must relate to sustainable performance • Sends message to individual and rest of company • Matches lead as well as lag indicators		• Leads to more success • More important than personal objectives, and has created value for company	
	Alignment with customer needs & market	• Much more customer centric • Allows for maintenance accounts	• If warped by corporate objectives, puts pressure on account relationship	• Might ensure retention of KAM on relatively unattractive accounts	• Doesn't reflect suppliers' 'pretence' of long-term interest in the client		
	Alignment with individual expectations	• Should be good alignment		• Good for KAMgr retention	• Always more difficult for part-time KAMs	• Can be exactly tailored to individual	• Tailoring takes time and capability that most line managers don't have
	Strength of impact on key account managers	• Makes their life much easier if plan is good	• Plan often written to please line manager, therefore fiction and not credible even to individual	• Strong, reinforces planned activity • Reinforces differentiation from rest of business		• More visible than cash, motivates individual	

Performance		Reward					
		Bonus (cash)		Salary Increase		Non Financial Recognition	
	Characteristic	**Positive**	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Account Objectives	Match with management time & ability	• Easy if plans are good	• Managers often poor at supporting planning • Encourage unrealistic plans	• More sophisticated approach, requires more sophisticated managers, not wise early in transition • Needs peer group review of objectives (compensates for limited understanding of line management, e.g. where line management might be in other function) • Could work by refining levels of KAMs	• Most reward packages not sophisticated	• Quicker • Can be done individually at relevant time, and not for everyone simultaneously • Requires additional resource?	• Quality of line management required
	Objectivity & fairness	• Depends on account plan • May be more easily measurable – smarter • Plan needs to be 'live' document: should be based on rolling approach rather than pre-set time base	• Consistency difficult • Ambiguity problematic • Good plans take time, quality of plans often poor	• Requires quality account plan (what does 'good' look like) • Objectives like access, getting right people to meet – need to be meaningful (from account plan)	• Not as objective as might be supposed: difficult to separate personal objectives and account objectives • Needs to allow 1-2 years to check sustainability		• Easier to get wrong
	Perceived cost	• Efficiency savings • Regard as investment, especially in transition stage	• Not necessarily matched by short-term result	• OK if KAM made cost centre		• Cheaper? Maybe not cheaper than cash	• Needs to be warranted by account
	Impact on others	• Clear, transparent, shows others what is expected • Buys preparation time		• Seen as good for account • KAM rewarded for continuity, positive for team members confidence and continuity	• Is the KAM benefiting from their efforts?	• Means rest of company engaged in KA • Involves accounts and senior management • Encourages and focuses account teams. Thinking – asking – involving	• More visible than cash, may be seen negatively by non-recipients

Performance		Reward					
		Bonus (cash)		Salary Increase		Non Financial Recognition	
	Characteristic	**Positive**	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Business Objectives (i.e. Portfolio of Accounts)	Alignment with company culture & strategy	• Better link to corporate goals • At early stages, encourages team working • Helps take portfolio view rather than individual account		• Rewards good corporate behaviour	• No reason for correlation with how company is doing	• Encourages companies to take KAM more seriously • Indicates importance of KAs to rest of company if linked with others' contribution • Identifies KAMs • Valuable in culture change	
	Alignment between required, rewarded & measured activities	• Sharing best practice, learn from each other • Allows mobility of KAMs v customers and succession planning	• Limited range of business objectives – revenue, profit, market share		• No link between past performance and pot for salaries - budget		
	Alignment with customer needs & market	• Allows for maintenance accounts and healthy lifecycle • Portfolio management o Supports resource allocation o Balance anomalies • Protection v exceptional risk from customers • Gets more team support					
	Alignment with individual expectations	• Better reward for people with experience (via salary?) v skill set	• Needs some individual element • Can mask individual good and bad performance	• Attracts different type of person from 'bonus/ volume': also good • Keeps people tied in (especially as final salary schemes disappear)			
	Strength of impact on key account managers	• Encourages mutual support • Suits team players, not lone wolves	• Feel remote?	• Responds to multiple personal drivers			• Rather too generalised to have much impact

Performance		**Reward**					
		Bonus (cash)		**Salary Increase**		**Non Financial Recognition**	
	Characteristic	**Positive**	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Business Objectives	Match with management time & ability	• Easy to administer	• More difficult to manage relative performance				• Needs careful handling to get buy-in
	Objectivity & fairness	• Fair – all get the same	• Unfair – personal contributions different • Objectives less likely to be reviewed				
	Perceived cost	• Seen as paid out of 'management pot' of profit			• Shares can fulfil rather than salary		
	Impact on others	• More open to other people in co. to join • Team bonus aligns team's effort and performance • Fosters better corporate citizenship in rest of co.	• Needs to stack up v other managers in company			• Creates aspiration for others	• May give negative impression to contributors in rest of company • Keep private

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