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Beyond Key Account Management: The Value Revolution

How pharmaceutical companies transform the way they interact with key customers, develop mutually beneficial relationships and unlock new growth opportunities

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Today, few in the pharmaceutical industry need to be convinced that key account management (KAM) will be a cornerstone strategy in selling pharmaceuticals.

But is KAM living up to the great expectations? Some pharmaceutical executives believe that much more must be done…and start pushing the boundaries.

This is how they do it.

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Most pharmaceutical companies have embarked on key account management (KAM) initiatives in one way or another.

But building a true KAM competency can be a costly proposition. And in an environment in which so many organizations are cutting costs, pharmaceutical executives need to ask some tough questions: How exactly do we create new value through KAM? Are we there yet?

The reasoning for a KAM strategy is straightforward. As payers gain ever more power and control over pricing and access decisions worldwide, their designation as "key" accounts deserving more dedicated attention from manufacturers is obvious. The same holds true for large hospital groups and health care provider networks, the other increasingly sophisticated "big buyers" of pharmaceuticals.

Getting much closer to these powerful customers to understand and address their needs better is the survival strategy to contain the squeeze on prices and margins. And KAM is the vehicle to achieve this "customer-centric" approach. So it is not surprising that KAM was declared "mission critical" for pharma in recent years (for example, in January 2008 by EyeforPharma), and that it has been the subject of innumerable conferences, articles and blogs. Everybody is talking about it. Everybody is doing it.

But will KAM save the day? How, precisely, will it lead to a brighter future for the pharmaceutical industry? Is it creating good returns already, or is it still "something we are trying to figure out how to do well?"

Is KAM Already "the Old Model"?

Most pharmaceutical companies embrace the concept of KAM, and have taken steps to ensure the role builds loyalty with important customers. But in spite of all the logic that speaks for KAM, and the enthusiasm to implement it, we also hear more and more often that account management initiatives are not living up to their promise.

As one executive at a conference recently shared: "We have created these new KAM positions. We have all run the account management training. We give our people account planning templates. We have spent millions on new, improved account and customer data management systems...and more. But are our people truly selling differently now? Or have we just shuffled some people around and given them fancy new titles? Where exactly is the additional value our KAMs create? It's not clear. Do we really understand in detail what they are doing or *what they should* be doing?"

Pharmaceutical companies experiencing slow results from their KAM initiatives typically have hit one or more of these barriers:

- **Going KAM but neglecting "key."**
  Some pharmaceutical companies have fallen in love with the concept of KAM to the extent that they want to use it with all customers. "If it is the better approach, we should use it everywhere" is an unfortunate misunderstanding. When each account is a key account and every account manager a KAM, none is. Lack of differentiation spreads valuable resources too thin and causes confusion in the field. Ultimately, it leads us straight back to one-size-fits-all thinking, and one-size-fits-all execution.
- **Going KAM but overemphasizing "management."**
  You know you have hit this wall when account plans start to look more and more similar. Account reps may copy and paste whole sections from other plans simply to reduce the burden. Or copy from last year's plan. Managers may neglect even to read the plans because they are perceived to be a check-the-box exercise for leadership. When account planning becomes a template-filling exercise, creativity is already out the door. Building cumbersome and exhaustive systems to make account planning more and more complete is the first step towards this fallacy—and towards throwing millions of dollars out of the window on systems projects that don't significantly improve results. An account plan should fit on a piece of paper or a flipchart. And perhaps sometimes that's where it should stay.
- **Mistaking bundling and "free stuff" for value.**
  Faced with a powerful and demanding buyer, a KAM's first response may be to offer favorable terms and conditions, a.k.a. rebates. Having exhausted that option, our gut reaction is to throw in something else to "cut the deal." But first of all, in pharma we have next to no flexibility as to what we can offer within guidelines

(options are limited!), making our dance around how to express the "value" of a customer relationship awkward, to say the least. Secondly, this is not even the main problem—even in situations where it is deemed appropriate to provide a program or service, KAMs often fail to communicate the value in a persuasive way, or to prove it after the fact. Once materials have been delivered, or an event held, for example, how did it go? What happened as a result of it? What metrics were tracked to show that it worked as promised (for the account, for our company)?

- **Focus on positioning and message instead of customer value.** Sometimes we confuse customer value with customer valuation. Some account management initiatives focus almost exclusively on estimating the business potential of individual accounts and departments, and on identifying who in the account is influential, what their interests and motivations are, etc. We do this to improve resource allocation and to find more effective ways to articulate our value proposition. Granted, understanding stakeholders within a complex account is very important to be able to prioritize resources and position products. But it is not enough. Otherwise, account management is really not much different from a targeting exercise (in particular, if the account profiling results in some sort of call plan). Customers are perceptive. If we use their time just to find out how valuable they are and then present them with our messages—instead of trying to understand what is valuable for them and then work with them to help achieve it—this just reinforces the adversarial view: nothing is really changing, pharmaceutical companies are just going about their "old ways" in a new cloak, albeit one that is a bit more flattering. But still it is the old way, not a true change in the relationship.
- **Underestimating effort and time to develop skills and behaviors.** Introducing account management is not a quick initiative that yields prompt results. Many pharmaceutical companies have found out the hard way that a KAM training program alone, especially if borrowed "off the shelf" from other B2B industries without much adaptation to pharma, does not do it. Let's not forget that most pharmaceutical salespeople were hired with very different expectations, and had very different profiles and skills, versus what is in demand from KAMs today. This takes time and a lot of effort to change.

- **Selling customer-based but marketing product-based.**
  Most pharmaceutical companies have traditionally organized their marketing functions around products or franchises. And this remains true today. Even in companies that have begun to create customer marketing functions, these roles are usually in addition to product marketing and can create somewhat of a confusing matrix. Successful account selling, however, must look at the whole relationship between a pharmaceutical company and a customer, and therefore immediately requires a portfolio view emphasizing *everything* a pharmaceutical company has to offer. And customers within an account who are the main decision makers often will only engage with someone who they feel has similar authority to deal with all the cards on the table and to make decisions. Without changing the nature of the responsibility and the focus within marketing to emphasize this, and to align support systems and processes around it for the KAMs, real change is difficult to achieve.

Partnerships for Healthcare Value—the New KAM

So is there no hope? Actually, we think there *is* hope, and that KAM can be an important part of a shift away from merely "driving sales" to "creating value" in the pharmaceutical industry, *provided* we take the concept a few steps further to reach the ambition KAM represented all along—but rarely realized, because on the whole most KAM efforts have been too timid.

Many pharmaceutical executives are pondering how the industry's selling approaches need to change to sustain the growth and profit levels the industry has enjoyed for so long.

Some have found an answer, maybe best described as: *Partnerships for Healthcare Value (PHV)*—a new style of KAM that is already proving to be highly effective at combating declining prices and shrinking margins. Its practitioners reach a new level of collaboration and joint innovation between pharmaceutical companies and their customers, allowing them to create tangible win-wins and unlock new growth opportunities. In the future, this may well be the way that pharmaceuticals are most successfully brought to market.

Increasing price pressure on all parts of the health care system, powerful and sophisticated buyers, intense competition and significant rebating, margin erosion—the dilemma that the pharmaceutical industry is facing today may indeed look dramatic. But it is not unique. Long before pharma, other industries dealt with such problems.

And solved them: Leaders in industries as varied as high tech, building products and transportation, to name but a few, have effectively managed to change the game, and play for *value* rather than for *product features* and *price,* through implementing a KAM model focused on "win-win" collaborations with selected customers.

They have been able to reap substantial benefits from this value-oriented approach to KAM, including:

- Sustained or even increased prices
- Accelerated product adoption following launch
- Increased share of wallet with top customers
- Significant growth in revenues and profits
- Increased operating margins

Early evidence indicates that pharmaceutical manufacturers can garner *many of these same benefits* by switching to a value-based KAM model from the prevalent old-style model that emphasizes the hallmarks of account-based selling but lacks the crucial value orientation.

Given the strong push to reform health care in so many markets (not just the United States), with customers frustrated over the value-for-money they experience today in exchange for their health care investments, can the industry really afford not to address the value question head on? The time for thinking out of the box about KAM and trying something new, something focused on value, is clearly now.

Challenges to Overcome

A shift to a value-based version of KAM has consequences. In other industries it has fundamentally changed how companies are structured and function.

Take IBM, for example. Over the last 20 years, IBM has transformed itself from a hardware and software manufacturer to a de facto consulting business (ironically, it had been a service business before, but decided that it would be better off selling *only* computer products rather than total solutions). Today, IBM has far fewer sales representatives, and they do very different things—and have vastly different skills—than IBM representatives of the past.

The pharmaceutical industry may someday look very different as well. This is not an easy path to follow, especially for an industry as risk-averse and slow to change as pharmaceuticals.

But some pharmaceutical executives believe such a transition is worthwhile, perhaps the only way to go. Consider that companies that have tried this value-based approach have increased sales growth as much as 50% and have achieved ROIs of 500% on their value-based programs. Reason enough for others to strive to become "fast followers."

But can this really be done on a large scale in the pharmaceutical industry? In a market in which relationships between payers, health care providers and pharmaceutical companies are at best distant and frequently adversarial, it's fair for a pharmaceutical executive to ask, "How can I find 'on the other side' a partner who is willing to work with us on joint solutions and share the risks as well as the benefits? And even if we manage to create win-win partnerships, won't authorities and the public frown upon such 'cozy' relationships?"

A Lot of Reasons to Be Optimistic

The experiences of the first pharmaceutical companies that have ventured into this space show that while such concerns are understandable, they can be resolved to the ultimate benefit of both parties.

Key customers in the United States have responded like this CEO from a major hospital group we spoke with: "We're very open to working together as partners. No pharmaceutical company had ever approached us this way—what took them so long? The old way of 'we know how to do everything' is gone. We are looking for things like this."

In the UK, typically more a "pharma-skeptical" market, the Department of Health recently endorsed and encouraged "joint working" between the NHS and the pharmaceutical industry as "a realistic option for the delivery of high-quality health care."

These recent experiences with a value-based style of KAM have been eye-opening.

Perhaps most telling, though, is what one key account manager told us: "I used to get one meeting per quarter with the pharmacy director, and never [met] with senior leadership. But since we started this, I've had 12 meetings in two months with senior players across this account. They want this solution. We are working with their people now to make it happen. We even have a seat at the table when they have their annual planning meeting."

This reflects a relationship for the KAM that is a far cry from the annual dog-and-pony show presentation and haggling about rebates that characterized his work before his company introduced a value-based model.

Initial skepticism has been replaced first by pleasant surprise and then optimistic expectations about how Partnerships for Healthcare Value resonate with key customers, are supported by authorities, and improve business results. The desire is strong to approach more customers in this way.

Secrets of Success

So what does it take to pull it off? Pharmaceutical companies have approached value-based selling in different ways, and some best practices are emerging:

- **Position KAM/PHV as beginning a fundamental change in doing business.** PHV are *not* easy. In our experience, they cannot be achieved through sending a group of representatives to account management training courses and then turning them loose. Downplaying the importance of the required change slows momentum and sets salespeople up for failure. The sales organization will not achieve a real transformation because the sales force believes that "we are basically doing this already" or that creating these partnerships will be easy.

- **Expect some skepticism at the beginning.**
  This is a logical consequence of positioning the value-based approach as a fundamental change. No presentation or training program *alone* will compel adoption of the required behaviors. PHV are so different that people need to experience them firsthand and see the benefits. This is necessary to make the hard work required seem worthwhile, instead of "just a lot of administration and hassle" (a prime killer of KAM initiatives). The best way to create a firsthand experience is to *start with only a few KAMs and customers,* then expand to other members of the account team as the early adopters become advocates for the new approach and mentor peers.
- **Anticipate and allow time for change.**
  Evolving to a value-based KAM model is not a quick initiative. Thoughtful and comprehensive change management is critical. Providing mentorship for the best, to let them experience and then endorse it, and providing a clear timeframe for the rest to follow in others' footsteps produces the best results. Hold the line on role and performance expectations—the new KAM job is very different than the old KAM job, and not everybody will succeed.
- **Manage customer expectations carefully.**
  Share the vision, journey and uncertainty with customers. Build innovative programs and experiment together looking for win-wins. Agree from day one that if it is not a win for both, you stop doing it. Don't promise too much. We have seen companies get into trouble with PHV when they could not live up to the expectations they had created: The rest of the organization was overwhelmed or was not ready for PHV, or the KAMs were not careful in their interactions and were not taught how to manage expectations appropriately. This is another reason to start with a *small* team, and expand only when your organization is ready.
- **Don't wait for technology before you try it.**
  It is too easy to fall into the technology trap. "We will have this new CRM system and then we will be able to do all these wonderful things" is something we hear far too often. Systems may be helpful to track valuable customer information or new metrics, but they will not create win-win solutions or build strategic partnerships. They will not of themselves change behaviors or belief. Low tech is faster, more flexible and less expensive in the beginning. Bring the technology along as Step 2. Don't let it be the first step in your journey!

A Future Focused on Value

The experience of a few forward-thinking companies, committed to finding new solutions to the old problem of escalating health care costs, shows that Partnerships for Healthcare Value could be key to a brighter future for the pharmaceutical industry. Yet there are still remarkably few pharmaceutical companies willing to take on the challenges and embark on the path to implement a value-based KAM model. The old KAM is still dominant.

Will this change? Looking at the paths other industries have taken, and lacking better solutions, we think the value-based KAM approach is likely to take hold in the pharmaceutical industry…and grow. And we expect that years from now, we may all look back and think the solution was obvious—why didn't we think of this earlier? Hindsight is always 20/20.

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