ZS ASSOCIATES

SALES & MARKETING INSIGHTS

Navigating the Minefield: Implementing Key Account Management in Pharmaceuticals

Chris Morgan

A successful key account management program has become an important—if not imperative—goal for pharmaceutical companies. But although executives are eager to embrace KAM initiatives, getting such initiatives to work is fraught with challenges. Understanding and anticipating these issues is an important first step on the path to success.

In this article, we explore the challenges that pharmaceutical companies have encountered on this journey, and how they change as their ambitions for KAM grow.

Table of Contents

Introduction

Paul, the primary-care business unit director of a U.K. pharmaceutical company, was delighted by his team's creative ideas to redesign his company's sales model. The company would reorganize itself in a key account management (KAM) structure, with locally empowered teams managing local markets.

A year later, Paul was pleased with the sales outcomes with KAM. But he admitted that he had been unprepared for some of the challenges.

"The idea [is] so elegant and simple, but has taken a lot of work to get it functioning," he said. "We had no idea when we started how much this would require change throughout the fabric of the organization. I wish that I could rewind the clock and start again."

Paul's experience is not unique to business—Thomas Edison expressed similar thoughts when he said that genius was 1% inspiration and 99% perspiration.

In "The Journey to Key Account Management for Pharmaceuticals," an earlier ZS Insights paper, we described the journey for pharmaceutical companies to KAM and the differences between drug firms and other industries. This paper will examine the challenges that pharmaceutical managers can expect when implementing a KAM program.

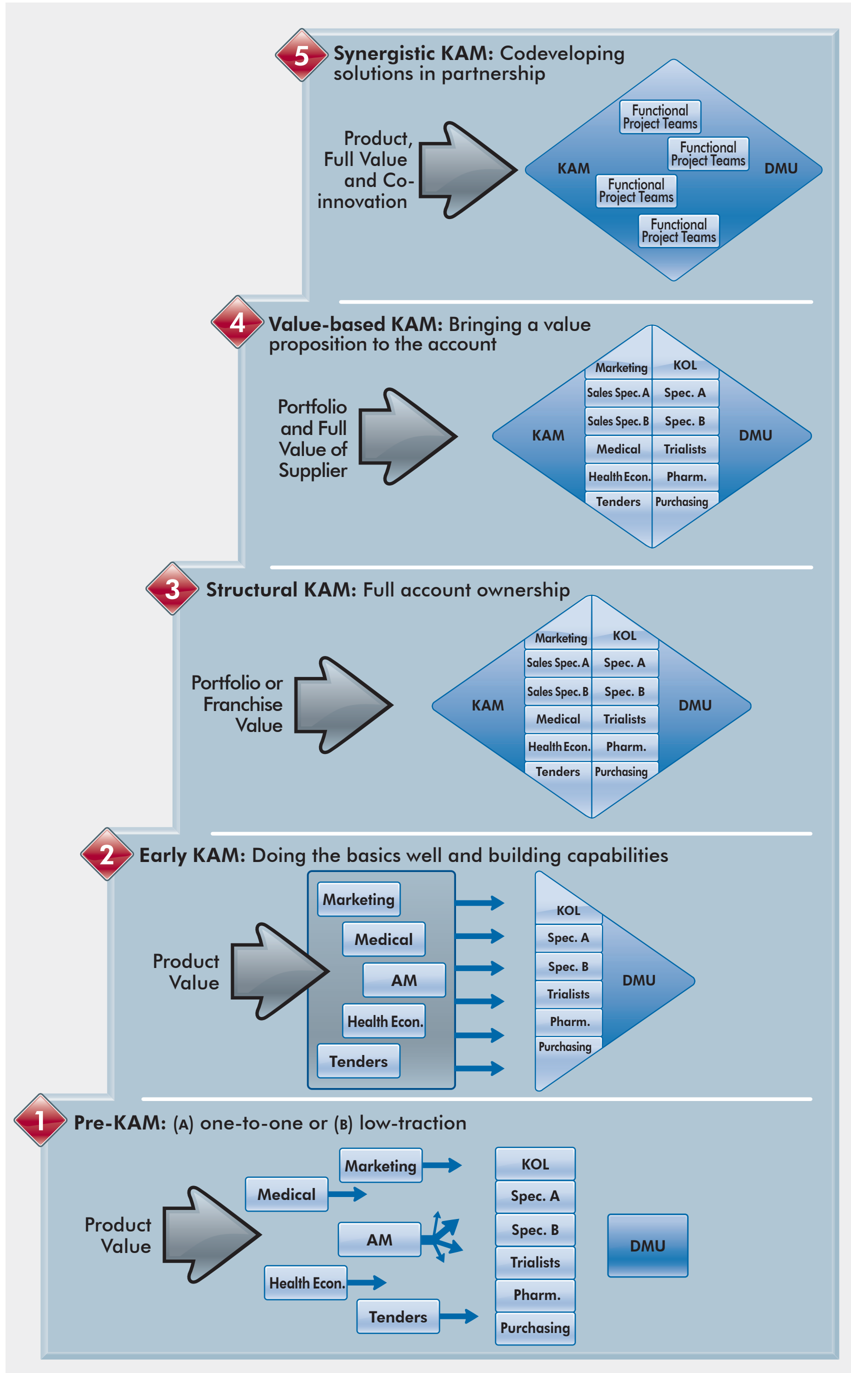
Instituting KAM within the sales force is not easy, making it important to manage expectations before starting. It is good to be ambitious, but it is dangerous to stretch beyond the company's organization, people, skills, culture and tools. Along the same lines, most pharmaceutical companies are in the embryonic stages of KAM, and basic disciplines need to be second nature before progressing.

Understanding the Challenges

Key to the KAM journey is understanding the route and challenges along the way. When considering the high-level view of the journey (see Figure 1), each step merits elaboration:

1. **Pre-KAM:** At this stage, there is contact between multiple roles within the pharmaceutical company and the account. However, the pharmaceutical company has been unsuccessful in connecting effectively with the group ultimately responsible for making account decisions (the decision-making unit or DMU). The promotional emphasis is on product features and benefits, although price may ultimately govern the customer's decision. This stage has two potential substages: one-on-one selling, in which the sales force is only intended to detail products to individual customers, and "low-traction" account management, in which only a handful of sales representatives grasp and effectively employ KAM concepts.
2. **Early KAM:** Actions and outcomes with individual customers are aligned with the needs and outcomes of the DMU. Visiting individual customers has become a means to an end rather than an end in itself. The different roles in the sales force are now informally directed toward a common purpose.
3. **Structural KAM:** The pharmaceutical company brings the value of a group of products—either a business unit, therapy area or broad portfolio—to the account. The KAM becomes the account "business manager," coordinating the pharmaceutical company's different roles (for example, representatives, health economists and medical science liaisons). Product or therapy area specialists may operate as part of the KAM team to bring detailed product knowledge to individual customers.
4. **Value-based KAM:** The pharmaceutical company sells on the basis of the full value it brings to the account. The "product" becomes more than a box of pills—instead, it is the pharmaceutical company's complete range of services, programs, physical products and financial measures.
5. **Synergistic KAM:** The pharmaceutical company and the account work in partnership to deliver value to an account's customers. Solutions are developed in tandem to everyone's mutual benefit.

Figure 1. The progression of a KAM selling model in pharmaceuticals has several stages.



The aspirations and objectives of each step are clear, but what are the practical issues that organisations typically encounter along the way?

Pre-KAM to Early KAM—Doing the Basics Well

Defining the language of KAM

Companies must first overcome preconceived corporate notions about KAM. Language plays an important role: For instance, one company at which upper managers wholeheartedly agreed they should pursue "account management" took over a month to decide what "account management" actually meant.

Another common hurdle is that many pharmaceutical employees may already have the title of "Key Account Manager." These positions typically fall into two groups: those who negotiate tenders and rebates with hospitals, and hospital representatives who have been given a more impressive-sounding title without a commensurate change in responsibilities or expectations. Companies may wrongly believe they have key account management because they have key account managers.

Sometimes, stakeholders have different ideas about what constitutes KAM. Some executives have said KAM needs to be cross-portfolio, that KAMs must have profit-and-loss responsibility and that KAM means sharing a business plan with key customers. Each of these features may be a valuable part of a KAM strategy, but none of these is a prerequisite.

Pharmaceutical executives tend to think within fairly rigid structures. Their immediate instinct is to create an "account manager" who will "do account management." There is nothing inherently wrong with creating a new position, but KAM is a discipline, not a role. (By way of comparison, every customer-facing employee in Procter & Gamble's consumer products operations is trained in account management, regardless of title.)

In addition, organizations are bound to history. It is inevitable that some words come with baggage due to previous initiatives; "account management" and "KAM" may bear a heavy load of representative skepticism.

Achieving deep-rooted change in capabilities

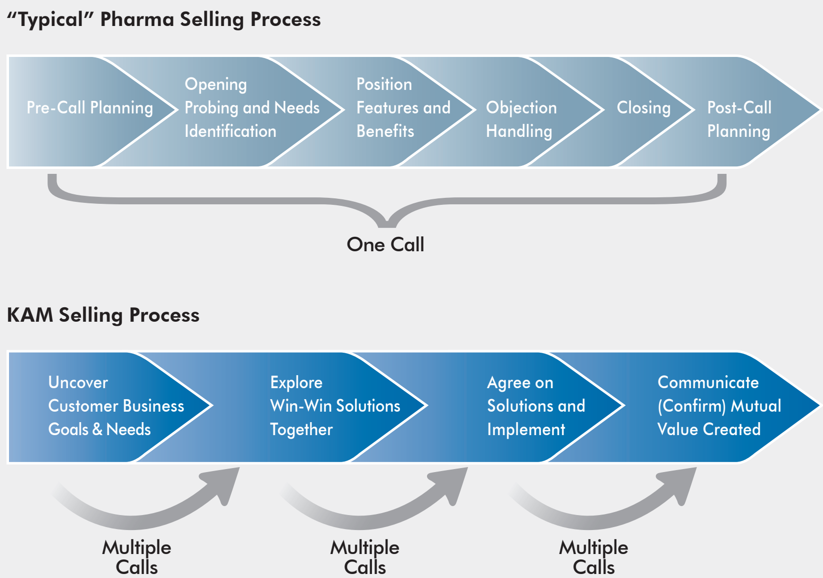
Many companies underestimate the challenge of changing employee capabilities. KAM is a difficult skill to develop, and for most individuals, the KAM journey will be long and hard. It is not sufficient to conduct training, issue a template and leave the sales force to do the rest—it would be like showing a novice tennis player a video of Roger Federer in action, explaining the range of Federer's shots and then expecting that person to win Wimbledon.

In order for KAM to be successful, the pharmaceutical company must engage in ongoing reinforcement, coaching and support over several years. Like many steps along the KAM journey, this is not necessarily simple. Sales managers are usually as new as their reports to the KAM concept, and need to be coached on how to coach the sales force. KAM is an apprenticed skill, not a taught one, and salespeople cannot negotiate a multicustomer, multi-issue, multichannel world on their own.

For the particular challenge of creating account plans, off-the-shelf account-planning software seems like a viable tool, but it often employs language unfamiliar to pharmaceutical sales representatives, who may simply not do the extra work to "translate" the template. And, of course, creating an account plan is not, in itself, account management.

An insightful sales process—rather than having salespeople improvise—can also greatly benefit the sales force. A KAM sales process is extremely different than a primary-care sales process (see Figure 2). A process generates its greatest value when it is tailored to fit specific customers. Such a process is invaluable to align marketing, KAM and sales.

Figure 2. A "typical" pharmaceutical selling process is much different than a KAM selling process.



PROCESS	FREQUENCY	ATTENDEES	CONTENT	GOAL	PREPARATION
Typical	Frequent	Individual	Often repetitive	Closing each call	Minimal (~30 mins)
KAM	Less frequent meetings	Wider audience of stakeholders	Varies from meeting to meeting	"Advance" for stake-holders	Significant (4-8 hours for 1-hour meeting)

The legacy of previous sales models can also be an obstacle. Because pharmaceutical companies have hired and promoted people to execute the established (and, until recently, successful) sales model, it has resulted in discrepancies in talent for implementing KAM:

TRADITIONAL PHARMACEUTICAL PERSONNEL STRENGTHS	KEY ACCOUNT MANAGEMENT PERSONNEL STRENGTHS
Individual achievers	Team players
Short-term focus	Long-term focus
Execution-focused	Strategy-focused
Product expertise	Customer business expertise
Technical selling skills	Business selling skills
Knowledge	Insight
Strong line management	Matrix management
Focus on volume	Focus on quality

The lack of KAM sales force expertise in the pharmaceutical industry has several consequences: Competition for talent will drive costs upward; companies will have to invest heavily in developing competencies internally; or sales executives will need to look outside the industry for talent. While the last option may appear to be the most attractive, it causes tension with the traditional pharmaceutical touchstone of technical expertise (a tension exacerbated in the second stage of KAM).

Early to Structural KAM—Bringing the Whole Company to the Account

Only after an organization embeds the core skills of account management can it empower one role to manage relationships with a single account across a set of products and customer-facing roles. Creating KAM positions to manage and promote everything that a pharmaceutical company offers can add tremendous value to the customer, but it also brings a host of new challenges.

Moving beyond the product

A pharmaceutical company is organized around its products, but if the key account manager is to span an entire portfolio, to whom does he or she report? And how is the position reconciled with the rest of the business management structure? If key account managers determine strategy for key accounts (which can represent a majority of the company's revenue), then what is the role of the marketing team and brand plan?

Resolving these questions requires that brand planning and account planning are aligned. National marketing plans must explicitly reflect the needs of key accounts; account plans need to be aligned with national strategy on positioning, pricing and other key strategic decisions.

In addition, most pharmaceutical companies employ sales managers aligned with products or therapeutic areas. The objectives of a cross-portfolio KAM must be reconciled with those of a therapeutically aligned sales manager.

Coping with empowerment

Most pharmaceutical organizations have a top-down operating model: Marketing develops strategy and sales implements it. However, the key account manager model upsets the traditional way of doing things.

The conventional relationship between brand managers and sales force area managers is divided between plan and execution, which minimizes overlap and conflict. But under a KAM structure, a portfolio KAM's decisions will ultimately encroach upon the brand and sales area managers' responsibilities. Synchronizing the plans, budgets and objectives of these three different stakeholders is a challenge (see below).

CASE STUDY

Synchronizing KAM, Sales and Marketing

When a major pharmaceutical company introduced key account management that spanned its oncology franchise, it quickly discovered two major budgeting issues. First, when it consolidated its key account plans (covering 80% of its business), sales executives found that the KAMs' planned budget bore no resemblance to the brand teams' budgets. The marketing plans had budgeted for one health economist; KAMs wanted four. The marketing team wanted to spend a certain amount of money on a symposium; the KAMs' symposium budget was half as much.

Second, the KAMs' portfolio decisions resulted in account objectives that differed from the objectives of the brand-focused sales managers. This caused friction between the KAMs and the sales managers, who perceived that KAM decisions were undermining them.

Both these problems required a purposeful effort to synchronize stakeholders. The company established an efficient top-down, bottom-up planning process that provided a common budgeting basis for all participants.

Increased empowerment of KAMs also requires some responsibility for the bottom line—the P&L implications of KAMs' decisions at the account level need to be transparent, but producing this kind of information can be extremely challenging; many of the required metrics are produced only nationally.

Finding (and retaining) the right level of people

Portfolio KAMs must cope with both workload and bandwidth (the number of different projects or how much information the KAM has to understand), which if managed incorrectly, can result in a role of Herculean proportions. The key account manager's workload increases with additional accounts, customers, reports and projects; bandwidth depends on the number of products for which the KAM must command expertise, how many accounts he or she needs to understand, the number of internal and external relationships the KAM must manage and how many projects are on the KAM's plate.

Some of these workload and bandwidth issues may intrinsically be in conflict. For example, a key account manager may be unable to be an expert on six products, so he or she requires the support of product specialists (i.e., representatives). This in turn might require the KAM to manage an additional three to six employees, increasing workload. A product-focused sales manager may be slotted in above the product specialists to reduce the workload, but this introduces an additional relationship for the KAM to manage. Indeed, one of the most important objectives in designing a KAM sales strategy should be to minimize the number of internal relationships a KAM must handle.

In examining the balance between workload and bandwidth, it is obvious that the KAM position demands individuals with strong management skills. One large U.K. pharmaceutical company recently transitioned to a portfolio-KAM strategy, creating 25 new account manager positions in the process. But after a rigorous search, the company discovered only eight people in its entire organization who fit the new competency profile for a key account manager.

And once a KAM position is filled, the employee may wonder where it will lead—unless the job can be integrated into an attractive career progression, retention will be difficult. On the other hand, key account management provides an excellent opportunity for reinvigorating careers in the pharmaceutical industry, as the position straddles marketing and sales.

Finally, to extract the maximum value out of the shift to KAM, it is important to develop a value proposition beyond the benefits of individual products (after all, this is what the structure is designed to achieve).

This requires pharmaceutical companies to develop a deeper understanding of their customers' businesses and, beyond that, of their customers' customers.

It requires that customers are willing to engage with the pharmaceutical industry on such a basis, which requires significant trust. The KAM structure also entails navigating considerable ethical and regulatory issues that vary by country and company (but exist in all).

To Value-Based KAM and Beyond

For companies able to complete the portfolio-KAM stage, the next step is to move to full value-based selling. A number of pharmaceutical companies have started piloting initiatives in this area, and the results are promising, but hard-won (see below).

CASE STUDY

Pushing the value-based frontier in pharmaceuticals

A major pharmaceutical company with a focus on primary-care business had seen its market share eroded by managed-care reimbursement decisions. Executives believed that this resulted from a narrow focus on the price of their products and decided to try to sell instead on the basis of the total value that their company could bring to managed-care customers. A small pilot team was given the task of exploring this possibility. Team members had to work hard on two fronts: developing a compelling value proposition and changing the nature of their interaction with their customers.

One key to generating mutual value was to identify ways in which the pharmaceutical company could add value to patients of the managed care organization. By demonstrating that certain patient programs could generate clear health benefits, the company was able to make a compelling case for overall health care savings for the managed-care company. Mutual value was created by lowering managed-care costs while increasing drug usage. One managed-care executive even offered to share the costs of the program.

The radically different customers, interactions and sales process required massive shifts in salespeople's capabilities. The initiative was supported by intensive coaching and support, with as many people in the support team as in the field.

The experience from such pilots, and from efforts in other industries, makes two things abundantly clear:

1. **Value capture is harder than value creation.** Developing a new value proposition and an associated suite of market offerings is relatively straightforward. Customers are normally happy to tell a pharmaceutical company how it can do more for them. The real challenge is generating mutual value for both customer and company. Often the key to creating mutual value comes from focusing on patients and their outcomes as both the customer and product of the health care provider (see above).
2. **Good value propositions need to be implemented.** In addition, good sales organizations are required to implement good value propositions. Companies should generally devote only one third of their employees' time and energy to developing a new strategy—the rest should be spent implementing it. All the conditions described in Stages 1 to 3 above are necessary preconditions before reaching full key account management status. If value-based selling is the final destination, companies have a substantial job of capability building first.

As it is an enormous organizational change, moving from a conventional pharmaceutical sales model to KAM cannot be undertaken lightly. Simply creating a new role and training will not work, and companies that take this shortcut rapidly find themselves putting out one fire after another.

But make no mistake—despite all the obstacles along the way, the journey to key account management is worth taking. By anticipating the challenges, pharmaceutical companies can ensure that the road will be a smooth one.

About the Author

Chris Morgan is a Principal with ZS Associates based in London and Frankfurt. He has worked on a wide range of sales and marketing strategy issues, including go-to-market strategy, sales force effectiveness, sales organisation design, portfolio strategy, opportunity assessment and targeting. In addition, Chris has worked on numerous global and regional initiatives with pharmaceutical companies to achieve results through account management. He holds a B.A. in natural science and a Ph.D. in materials science from Cambridge University.

About ZS Associates

ZS Associates is a global management consulting firm specializing in sales and marketing consulting, capability building and outsourcing. The firm has more than 1,300 professionals in 19 offices around the world, and has assisted more than 700 clients in 70 countries. ZS consultants combine deep expertise in sales and marketing with rigorous, fact-based analysis to help business leaders develop and implement effective sales and marketing strategies that measurably improve performance.

As the largest global consulting firm focused on sales and marketing, ZS Associates has experience across a broad range of industries, including medical products and services, pharmaceuticals, biotechnology, high tech, telecommunications, transportation, consumer products and financial services.

For more information on ZS Associates, call +1 847.492.3602 or visit www.zsassociates.com.

ZS Associates
www.zsassociates.com
inquiry@zsassociates.com
+1 847.492.3602