The Perilous World of an Incumbent

Real Clients Speak Out on Why They Changed Strategic Suppliers

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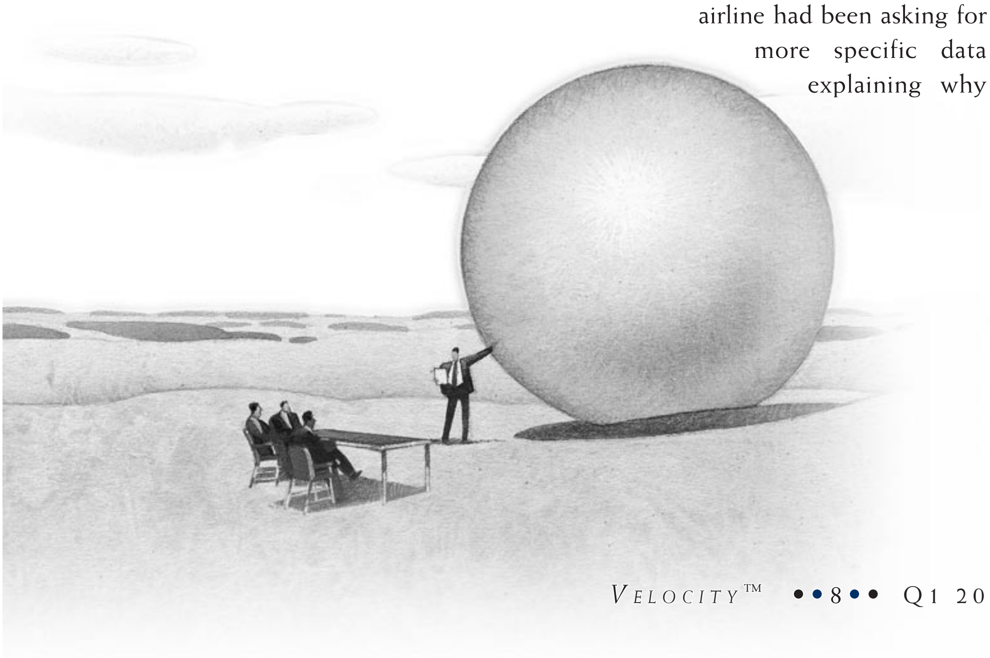
We aren't quite sure of the dates, but in three different cities across the U.S., three different key client managers at three solid companies received the phone call that any incumbent strategic supplier dreads. On the other end of the phone, a senior manager for their important customers delivered the news that they were going to put their business out to bid.

The circumstances differed slightly in each case. The partner at the prestigious audit firm had a feeling this call was coming. Somehow, there had been a mix-up at the firm and representatives from the company had managed to miss the annual shareholder meeting for their steel company client. They had realized their error too late, on the day of the meeting. Though they had offered to hurriedly arrive in force by airplane, their offer had been turned down with the unspoken message, "and don't worry too much about missing next year's meeting. It's unlikely you will be invited."

Leaders at the insurance provider were probably a little more surprised by the call from their airline client. They knew that the airline had been asking for more specific data explaining why its insurance costs had continued to rise over the previous two years, but they thought that their fundamental service offering was solid. Didn't the client know that costs were a problem across the industry?



Staff members at the food service outsourcer probably had an inkling that their business with the major medical products company would be examined this year. It was no secret that the client was going through extensive cost cutting. The call was still likely shocking. "We own this business," they probably thought. "Our people are a fixture across this client's business. How seriously would they consider switching suppliers?"

Anyone who has managed key client relationships can probably relate to these situations. Most of us would kill to be considered an "incumbent" at a strategic client, envisioning an environment of long-term security unique to that status. But incumbency carries significant risk. There are few challenges more difficult than fostering long-term, real-deal customer relationships with large, complex clients. Some pressures come from inside your own company. Your managers assume that they can rely on your team to produce consistent revenue and margins from the relationship, if not a steady growth curve. Your account team can begin to wear thin over time, getting caught up in the daily irritations and challenges of maintaining service levels for a client whose memory of past service achievements can be discouragingly short.

Our work with leaders of strategic client teams over the past 15 years, and our recent interviews of executive-level clients confirms this challenge. Many strategic account teams get sucked into the day-to-day activities of their firm's service delivery, sometimes leading to phone calls like the ones above. When focusing on the task list, the complaints and the mistakes, we can lose sight of what keeps these major customers on our client list: systems benefits that bring tangible business value to their business today. Absent those benefits, it is only a matter of time before the phone rings and you find out that the business – *your* business that you have cultivated diligently – is now the subject of a lovely new RFP the size of your briefcase.

If you are one of those rare people who enjoys responding to RFPs on business that you thought you had in the bag, feel free to peruse a different article in this magazine. For the rest of us, here is an insight from our research: none of the client executives we interviewed claimed to enjoy going through the RFP process to choose a new supplier. The RFP process is expensive, time-consuming and frustrating for the customer. They went to RFP because they had become convinced that their incumbent had fallen asleep at the wheel, becoming, as one of our interview subjects stated, "complacent." Not surprisingly, your competitors willingly help your customer come to this same point-of-view about you. They will fill your customer's head with promises of how they would do better if THEY were the chosen vendor. In today's business climate, where clients have no sense of humor for sleepy suppliers, "your customer" may well believe your competitor's claims of service grandeur.

So how did bright, capable client managers – the same people who won this business over all other contenders not so long ago – end up on the outside looking in at what used to be "their" business? Our client interviews suggest three oversights that disenchant even the best of clients:

Oversight #1: Out of Synch Expectations

Surprises are nice at birthdays, not in business relationships! A startling number of clients report major surprises in how their relationships with key suppliers actually play out after the contract is signed. One airline executive had contracted for health insurance with a reputable insurance provider. Throughout the bid process, the insurance firm and the airline team had worked carefully to craft a creative, constructive relationship between the companies. They had come up with several unusual ways to save the airline time and money, with special attention focused on the important unionized pilot organization. Not long after the contract was signed, the challenges began. First, the airline learned that the changeover in insurance providers was proceeding smoothly—with the exception of the top three pilots in the union, whose coverage had been disrupted in the changeover. Next, the insurance provider's implementation team began to complain to the client that the implementation team "wasn't doing its job." These events prompted a fairly intense breakfast meeting between the airline's head of HR and the insurance company's Regional Vice President. Several cups of coffee later, it became obvious to the airline executive that the supplier's implementation team had lost steam after the deal was signed. "They have a standard implementation process," he said, "even though there were unusual parts of the deal. This meant that we had to educate the supplier's implementation team and keep driving a sense of urgency." He sums it up like this, "The urgency was sold, but not delivered."

MANY STRATEGIC ACCOUNT TEAMS GET SUCKED INTO THE DAY-TO-DAY ACTIVITIES OF THEIR FIRM'S SERVICE DELIVERY.

This story is repeated many times when one talks with client executives. As much as both parties try to establish expectations throughout the bid process, there are almost always unpleasant surprises. And, of course, suppliers often hesitate to nail down specific expectations before they have a contract in fear of raising any red flags in the minds of the prospective client. Unfortunately, this can start off your prospective long-term relationship on a bad foot.

Instead, why not clarify expectations up front? Some of our most effective clients insist on creating a joint implementation plan with the client, often prior to the signing of a formal contract. Key members of the supplier's sales and implementation teams meet with the client's selection and implementation teams. Collaboratively, they list out all of the activities that must be done to successfully achieve the goals of the relationship. At this phase of the discussion no one talks about who is going to actually perform these activities. That's not the point yet. The parties are simply listing out what must be done for a successful implementation. After both the supplier and the client are satisfied with the overall plan, they begin to divide up the tasks and assign responsibilities. At this point, the supplier can attach a value to each task or group of tasks. The client can then decide how much of the implementation burden it wants to assume and how much it wants to pay for. When these decisions are made and agreed on by both parties, they can structure a final agreement and plan for their work. Then, they can refer back to this agreement to be sure that they stay in synch on their way to a long and mutually prosperous relationship.

Oversight #2: Suppliers Fail to Notice Major Changes in the Client's Business

You know you are caught in the day-to-day activity trap when you stop learning about your client's business. While client managers invest hours in background research and client interviews when bidding for the business, many fail to stay abreast of important changes in their client's direction and strategy when managing the business. To say the least, this unsettles and often annoys clients. As the medical products company leader said about its incumbent food service provider, "Our incumbent was complacent. They weren't working hard enough to cut costs, even though it was a well-known fact that we were in a major cost-cutting phase of our business." It was obvious to the client. Who knows if it was obvious to the incumbent? Maybe it was just focused on delivering on the old contract even though circumstances had changed dramatically.

It is incredibly easy to pass on ongoing exploratory work when you are an incumbent. Research consumes time and is rarely as urgent as resolving "issues" (or winning the next deal). Perhaps we also insidiously assume that we know what is happening with our clients. When embroiled in the day-to-day tasks of fulfilling the contract, we can assume that we have our finger on the pulse of what is most important to the customer. What more can we learn by periodically asking a few simple questions of the right people in the customer's organization?

The answer: a lot. One of our most successful colleagues demonstrated this by instituting a disciplined executive interviewing process at one of her key clients. Every six months, she made it a point to mobilize her core team to call on each senior executive at this large company. Positioning was crucial with these calls. It went like this: "You know that we are involved in a major initiative that significantly impacts how your company acquires and retains business from your most valuable customers. Knowing that organizational goals can change with the market conditions, we want to be sure that our work stays right in line with your company's strategic direction. Therefore, we want to gain (once again!) your unique perspective on what has changed for your function of the business. With this information, we can continue to align our delivery of this initiative to those issues most important to you." The team member would then conduct a very focused 30-minute call with the client executive to gather this information. The vast majority of the client's executives responded positively to this direct, efficient way of staying up to date on their business.

Other successful client managers regularly poll the dispersed members of their implementation team for changes or insights. These professionals have daily contact with the client as they manage the business relationship, but are often ignored because they don't play a strategic business development role. They may have important information about how the client's business is really faring at the ground-level, however. This data can be used to generate new ideas on how to continually improve your offering to the customer, and help to strengthen your competitive advantage over your "would-be" competitors.

SUPPLIERS OFTEN HESITATE TO NAIL DOWN SPECIFIC EXPECTATIONS BEFORE THEY HAVE A CONTRACT IN FEAR OF RAISING ANY RED FLAGS IN THE MINDS OF THE PROSPECTIVE CLIENT.

A word of caution about information-gathering: its value is only as high as the quality of analysis put into it. A lot of people responsible for managing clients suspect that doing ongoing discovery of the client's business situation could be a big time-waster. This is partially true. We offer three very important guidelines to follow to maximize the impact of time spent on discovery:

1) When a sales team is attempting to make the sale, it tends to focus on the people who are MAKING the decision. To provide ongoing value to your client, you must focus on a different question: "Who is most IMPACTED by this solution?" Focusing on this question will help you select the proper group of executives on whom to call.
2) Don't wait until your customer threatens an RFP to conduct executive interviews. Meeting with your client's key executives should be part of an ongoing customer service plan designed to help avoid a new RFP process.
3) Analyze the data you collect. You will only improve results if you regularly ask some important questions about the data:
   - Where do we see "key themes" in the data? Where are executives aligned? Where are they misaligned?
   - What changes have taken place in the client's business since this project began?
   - What do these themes / changes tell us about the business value we should be delivering to the client?
   - What should we stop / keep / start doing to deliver that business value to the client?
   - How can we measure and share that business value with them before they even ask for it?

Oversight #3: Suppliers Stop Educating Key Clients

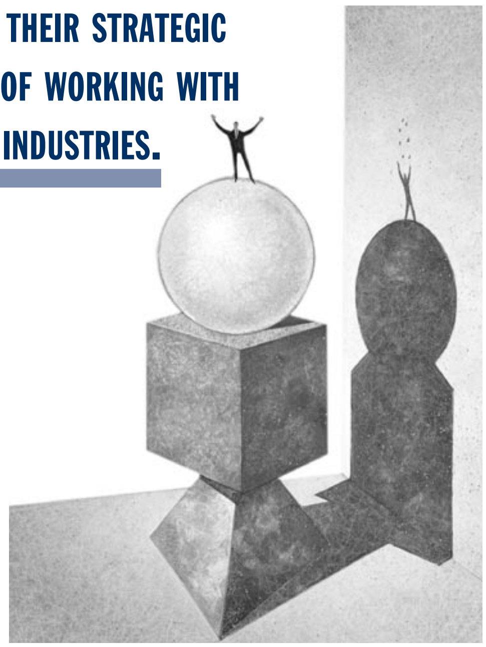
Client executives want to know about much more than your latest product or service, or their recent purchase levels with you. Smart executives (and we must always assume that our clients are smart!) realize that their strategic suppliers have the advantage of working with many clients across multiple industries. They know that this experience gives their suppliers insight into how to best deliver value within their chosen line of work. This leads them to assume that you just might have an idea that could be the difference between an average operation and a real breakthrough. As the head of a steel company's board said about its auditor, "Audit services are the 'Good Housekeeping seal of approval' on our business. But I expect that our firm proactively keeps us up-to-date on accounting trends so that we can plot our course better in the years to come."

Some strategic suppliers are nervous about educating customers because they worry that smarter clients are more prone to exploring a competitive bid for their business. Get over it. Clients are always open to a competitive bid, but they are less likely to entertain one if they believe that you bring business value to the table beyond your products and services.

SMART EXECUTIVES REALIZE THAT THEIR STRATEGIC SUPPLIERS HAVE THE ADVANTAGE OF WORKING WITH MANY CLIENTS ACROSS MULTIPLE INDUSTRIES.

Our clients handle this customer education opportunity in a number of ways. One company provides technology outsourcing to large corporations. It has noticed that clients "forget" how difficult it is to manage their own technology after having it managed for them for a couple of years. This can lead clients to question the value of the outsourcer's contribution. All they see is the big invoice every month. To counter-balance this, the outsourcer occasionally conducts a detailed review of the activities it is covering and the approximate savings it is providing its client through its service. On a regular basis, it shares this information with the client as a none-too-subtle reminder of its business value.

Others build on this by hosting a regular client summit with each key client. They aren't naïve enough to have this meeting when a new piece of business is on the table (the precisely *wrong* time to have a real client summit). Instead, they intentionally ask to meet with the relevant members of the client's executive and implementation teams when there is no deal clouding the atmosphere. They review their work together from top to bottom, celebrating successes and targeting challenges for improvement. When combined with the analyzed information gained from executive interviews, these meetings can be powerful ways to increase the inter-connectedness of the two businesses.



Conclusion

An incumbent position offers suppliers several advantages: visibility, access to information and proximity to the customer, to name a few. However, with these advantages come significant, if tacit, expectations. If you lead an incumbent team focused on a strategic client, you can easily assess your risk factors by answering the following questions:

1) Do you have a clear, documented joint operating plan for your work with this client?
2) Do you have joint reviews scheduled with the client to monitor your work together and make course corrections?
3) Is someone on your team in charge of keeping up to date on the latest changes in your client's market and organization?
4) Do you have a system to regularly get strategic updates from people in the client organization who are profoundly impacted by your work (as well as formal sponsors)?
5) Do you have a structured process to share information about the market, your joint work and best practices back with your client?

Every "no" answer above inhibits the natural strength of a client team. If you answered "no" or "maybe" to any of the above questions, it is time to spark a more client-focused discussion by simply bringing up the question(s) with your team. Discussing the issues raised by doing this will do more for your team's goals than days of fire-fighting discussions.

If you have several points to address, try starting with one that makes the most sense given your timing with the client. For instance, if you are still relatively new in your relationship or have just renewed a contract, focus on the joint operating plan. But if you are mid-way into a contract period, you might focus on doing a series of strategic client calls to update yourselves on their business and to position for any future contract or bid discussions. No matter what, let your timing in the client relationship be your guide.

No doubt, staying in a position of strength as an incumbent challenges the best strategic client manager. Large clients push us, stretch us, sometimes exasperate us and only occasionally thank us. But there is great satisfaction in shaping and living out "real deal" client relationships. It forces the best from us and our teams, and that makes it well worth the effort.

Noonday Ventures offers real-time performance coaching to strategic client teams, focusing on creating real deal customer relationships and exceptional business value. You can reach Ted Harro at ted.harro@noondayventures.com or by calling 847-202-4955. Contact Jane Blinde at janeblinde5@yahoo.com or by calling 407-443-0614.