Leveraging Synergies Between R&D and Key Account Management to Drive Value Creation

A closer collaboration between R&D and key account management unlocks synergies and value creation potential at Altana.

Georg F. L. Wießmeier, Axel Thoma, and Christoph Senn

OVERVIEW: Customer integration into the innovation process, including the fuzzy front end, is increasingly being adopted by firms in search of new innovation and value-creation opportunities. Through a case study of Altana, a specialty chemicals company with worldwide R&D and sales operations, we find that a closer collaboration between R&D and key account management (KAM) unlocks synergies and value creation potential while avoiding the negative side effects of customer integration. Specifically, we describe the motivation for leveraging synergies between R&D and KAM, the location of potential synergies in the innovation process, and ways to foster meaningful alignment and engagement. Following an explanation of observed outcomes of the collaboration, we derive managerial implications.

KEYWORDS: Collaborative innovation, Key account management, Customer integration

Innovating successfully and repeatedly in modern, high-velocity environments—marked as they are by tighter R&D budgets, shorter innovation cycles, and growing costs and risks—can be a daunting task. Where do new ideas come from, and how can they be effectively commercialized? To resolve this challenge, companies increasingly adopt a market- and customer-centric posture (Lukas and Ferrell 2000) and consider open innovation (Enkel, Gassmann, and Chesbrough 2009), defined as "the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively" (Chesbrough, Vanhaverbeke, and West 2006, 1).

Georg F.L. Wießmeier is Chief Technology Officer and member of the executive management team of Altana AG in Wesel, Germany. He received his PhD in chemical engineering from the Karlsruhe Institute of Technology (KIT) after obtaining his Master's degree in chemical engineering there. Georg.Wiessmeier@Altana.com

Axel Thoma is research fellow at the Research Institute for International Management of the University of St. Gallen and vice president of R&D at the AMC Account Management Center AG, Zurich, Switzerland. He received his doctorate in international management from the University of St. Gallen. Axel.Thoma@unisg.ch

Christoph Senn is an adjunct professor at the Graduate School of Business at Columbia University, director of the Center for Global Account Management at the Research Institute for International Management of the University of St. Gallen, and chairman of the AMC Account Management Center AG, Zurich, Switzerland. He received his doctorate in marketing from the University of St. Gallen. cs2210@columbia.edu

DOI: 10.5437/08956308X5503020

Although a broad set of instruments are at the disposal of those charged with innovation, Cooper and Dreher (2010) suggest that "voice of the customer" methods are far more effective sources of new ideas than are other open innovation sources, such as external scientific communities, start-ups, or idea contests. Lead-user analysis (von Hippel 2005), ethnography, customer visit teams, or customer advisory boards are traditional market research activities. Accessing the voice of a particular customer and integrating these customer insights at different stages of the innovation process requires new methods (Witell et al. 2011), as well as closer collaboration, both internally across functions and externally with customers (Cash, Earl, and Morison 2008; Cotterman et al. 2009).

One way of accomplishing this closer collaboration is to connect R&D more closely to key account management (KAM) to link customer needs and ideas to innovation competencies, thus creating new value for and with strategic customers. Specialty chemical company Altana has created a framework for this collaboration, aligning and engaging R&D and KAM to facilitate value creation synergies. In a case study examining Altana's practices, we describe the motivation and location of the synergies between R&D and KAM and emphasize measures that can help align these two functions and their outcomes. Our analysis is based on our shared experiences and reflect one author's role as Chief Technology Officer (CTO) and member of the executive team of Altana, and the other authors' roles as external advisors for the KAM program.

The Motivation for Leveraging Synergies between R&D and KAM

Altana is a German specialty chemicals company with a portfolio of additives, coatings, effect pigments, sealants, and testing center instruments. The company had sales of approximately €1.5 billion in 2010, 84 percent of which were outside its home market. To meet a multiyear growth target of 10 percent and sustain above-industry average earnings of 18–20 percent, the company invests more than 5 percent of annual sales in R&D, pursuing approximately 350 projects in 46 application and research labs with a 763-person R&D team.

Although innovation has always been on Altana's agenda, the company's previous efforts were not as integrated or collaborative as they are today. Organic growth and multiple acquisitions over the previous two decades led to 42 operating companies in four divisions. Not only were the operating companies' R&D strategies different, but divergent aspirations and cultures were manifest across these acquired firms. Furthermore, no consolidated view described all existing R&D competencies or their commercial viability, which made it difficult to identify and realize potential R&D synergies. The resultant functional and geographical silos resisted efforts to foster collaboration within R&D and across functions, in line with the conventional adage that "R&D produces new products; the task of the sales force is to sell these products."

Key account management at Altana involves the systematic expansion of business relationships with key customers. Key accounts—those with substantial sales within one division—and group accounts—customers with sales in multiple divisions—are selected based on current revenues, future revenue potentials, and strategic fit as partners with whom the firm pursues sustainable and profitable growth through collaboration. Since the inception of KAM at Altana in 2005, it has grown to feature more than 30 key and group accounts that contribute approximately 22 percent of total revenues.

Both R&D and KAM faced challenges that they could not resolve on their own. For example, R&D aimed to increase the percentage of revenue earned from new products (those less than five years old) to 15 percent of the total, with 30 percent earned on products less than ten years old. However, it was unable to identify promising new product opportunities and ensure their commercialization. At the same time, the introduction of the KAM function, and the costs attendant on serving these key accounts, raised expectations among top management for additional value; the management team expected a premium return on those increased costs to the firm. Thus, KAM had to find a way to close the gap between market-level growth rates and the superior growth key accounts were expected to generate.

Locating Synergies Between R&D and KAM

In his quest for realizing synergies across the four operating divisions, the CEO created two new positions in 2008: Chief Technology Officer and head of key account management. During the first few months, the focus of these managers was set on aligning their functions, but it soon became obvious that a collaboration between R&D and KAM would help resolve key challenges and foster firmwide innovation and customer centricity. The company faced these challenges from the perspective of a shared understanding between the CEO and functional leaders: R&D and KAM should collaborate to leverage synergies, reduce uncertainty and risk, and accelerate value creation. A clear message from the CEO, delivered at Altana's October 2009 General Management Meeting, initiated the search for synergies: "Innovation does not only concern R&D—it is an essential activity of our entire organization. Exploiting synergies is not an option; it is an obligation for everyone in our organization."

The search for potential synergies between R&D and KAM started with the question of what unique strengths distinguished each function. At Altana, the R&D function manages the core technological competencies and pursues value creation by turning know-how into new products, processes, and solutions. Therefore, the firm's successful innovation depends on an in-depth understanding of what customers value and will pay for, as well as the influence of new innovations on customers' business drivers and market success. Simultaneously, the KAM function builds long-term, multilevel business relationships with customers that have strategic importance for the firm, gathering deep insights into customers' businesses with the intent of accelerating sustainable and profitable growth and becoming a trusted, preferred partner for those customers. This effort depends on a steady flow of value-creating projects that deploy the core competencies and resources of the firm effectively, in response to specific customer business drivers.

Given the strengths and needs of each function, it became apparent that R&D and KAM together constitute the inside-out supplier and outside-in strategic customer perspectives that are necessary to identify, design, and commercialize joint value creation projects across the innovation stages (Figure 1). For example, in the idea generation and development stage, the R&D function can equip KAM with knowledge about proprietary technical competencies, applied research project opportunities, and insights into topics with boardroom relevance, such as green production. The key account managers then use this know-how, combined with their own deep understanding of the customer's business drivers and value propositions, to initiate a strategic dialogue with the customer to identify new business opportunities and latent customer needs. In this way, connecting KAM's superior customer access and intelligence with R&D's technical and commercial innovation competencies helped overcome the traditional voice-of-customer dilemma that Henry Ford described so vividly: "If I'd asked people what they wanted, they would have said a faster horse." That is, the customer has needs but not solutions and thus may benefit from a supplier contribution to the strategic discussion.

The ideas developed during the design and testing phase can then become the basis for a joint business case, which would include a detailed definition of the opportunity and

solution from technical and commercial viewpoints, as well as specification of team members and governance, co-investments, and expected value for both the customer and the supplier. While R&D teams work closely with their peers on the customer's side, the key account managers ensure the customer's commitment and define, with the input of the customer's procurement function, the commercial terms and strategies for market launch, in the case of end-use products. In this way, the collaboration between R&D and KAM ensures that the customer's strategies and market drivers inform the supplier company's innovation strategy and project funnel, so that all core competencies and resources focus on customer business drivers in joint projects. This coordination creates value for both the supplier and the customer. In the words of Altana CTO Georg F. L. Wieβmeier, speaking at the company's KAM Forum in September 2008, "Innovation is key for competitive advantage; the customer is key for innovation; KAM is key for bringing the customer's voice and strategy into the organization and orchestrat[ing] together with R&D tailored value-creation projects with customers."

It soon became obvious that a collaboration between R&D and KAM would help resolve key challenges and foster firmwide innovation and customer centricity.

Alignment and Engagement Measures that Foster Synergies

Although the spectrum of potential synergies was identified relatively quickly, it was less obvious how a fruitful R&D/KAM collaboration could be fostered, considering the decentralized and diverse organizational context of the company. Collaboration rarely happens naturally, especially across decentralized structures or functional silos. Thus, continuously nurturing and rewarding collaborative behavior is important.

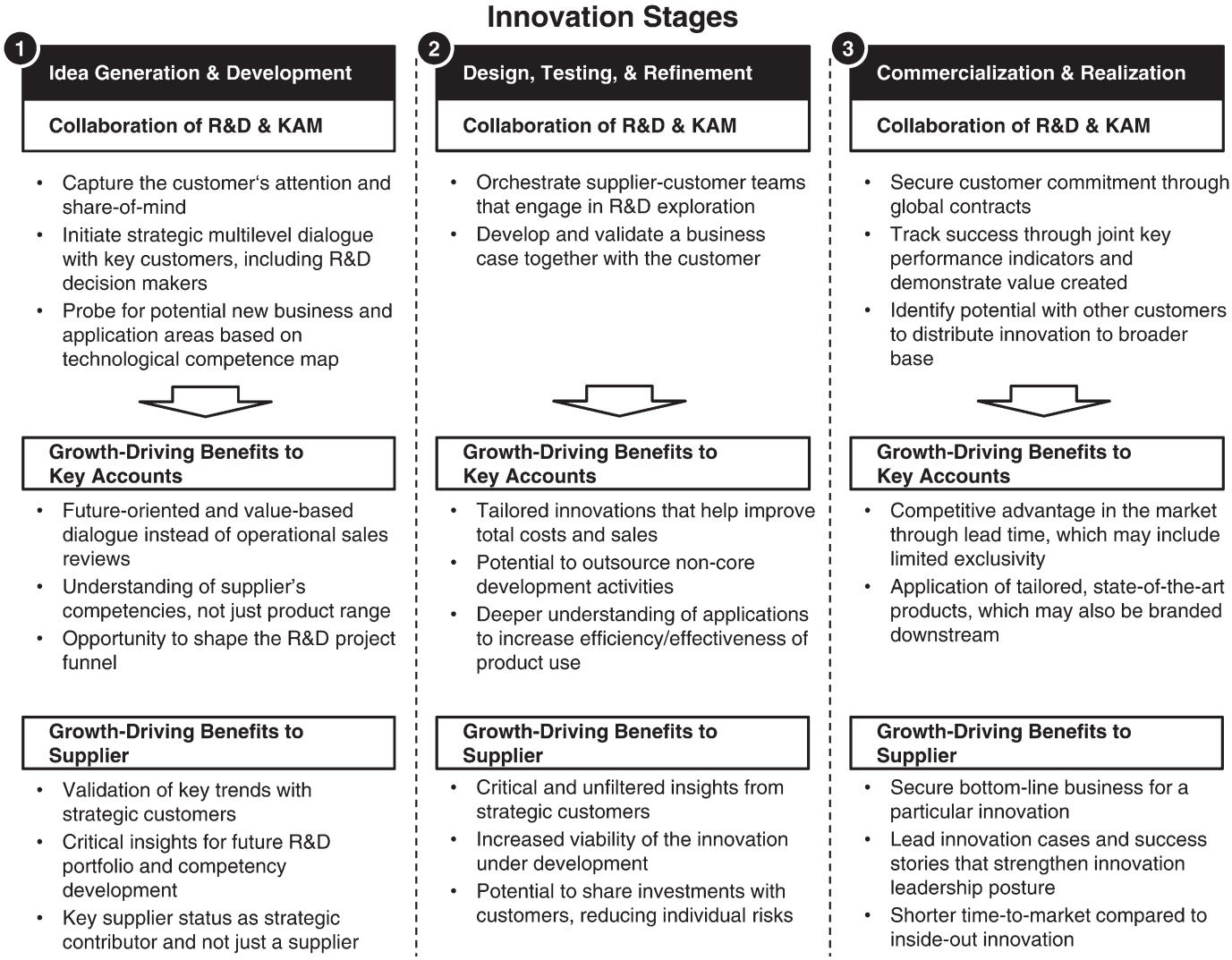

FIGURE 1. Collaboration between R&D and KAM accelerates growth across the various stages of the innovation process

Over the past two years, the company has undertaken several alignment and engagement measures for its R&D and KAM functions in an attempt to spur collaboration for joint value creation with customers of strategic importance.

Empowering mandates

An important first step in launching the collaboration involved the development, communication, and regular reiteration of a clear vision by management. The corporate strategy defines both R&D and KAM as essential contributors to profitable and sustainable growth, as well as enablers of the "One Altana" organization that aims for firmwide collaboration. Backed by the CEO, the midrange vision allocates half of the firm's R&D and service resources to its 50 most important customers. Such a focus reflects the core understanding that some customers are more important than others for growth.

That mandate is also reflected in structural changes. To push R&D and KAM beyond an institutional perspective, the firm has created two new positions: a group-level Chief Technology Officer (CTO) and a Head of Key Account Management. These functions work closely together, orchestrating activities through their teams of divisional CTOs and divisional KAM heads. At the operational level, the firm defined the key account manager profile more sharply and introduced the role of group key account manager. Group and divisional key account managers now have mandates to orchestrate activities at the supplier-customer interface and explore new business. They work closely with their peers from R&D and other functions to develop a joint vision and strategy with key customers based on the firm's competencies, capabilities, and innovation potential.

Over the past two years, the company has undertaken several alignment and engagement measures for its R&D and KAM functions in an attempt to spur collaboration for joint value creation with customers.

Establishing collaboration platforms

To connect R&D and KAM more closely, the company established specific collaboration platforms at multiple organizational levels. At the management level, the Innovation Council and KAM Steering Committee ensure that groupwide innovation and KAM objectives are synchronized with project portfolios. The group CTO and head of KAM participate in both platforms, and both R&D and KAM topics appear regularly on each officer's meeting agenda. At the team level, "collaboration rooms" on the company intranet enable crossfunctional teams to share relevant technical and commercial information and manage projects virtually. These user-driven spaces are more than knowledge repositories; they serve as virtual homes for key account and R&D project teams, hosting team member profiles and a wiki tool to facilitate presentation, linkage, and discussion of projects as well as providing centralized document storage.

The annual Altana Innovation Conference and KAM Forum offer networking platforms for exploring value creation from a dyadic perspective. The 2010 KAM Forum featured workshops to identify new value projects that matched the company's technological competency map. Workshops during the 2010 Innovation Conference explored ways to shorten the time to market by integrating key accounts at specific steps in the innovation process.

Creating winning mind-sets

The company has taken two measures to foster a collaborative mind-set across the organization. First, senior management is clearly engaged in the effort. Group key accounts are sponsored by members of the management team, who actively engage in top-level dialogues with customer firms. The CTO regularly participates in customer meetings to discuss long-term partnership strategies. The CEO reviews group account business plans with key account managers, focusing on growth potential and value-driven projects to harness this potential.

Second, the annual innovation award sends a strong signal in support of collaboration. Every year, the Innovation Council confers a distinguished award to a project that exemplifies collaborative, customer-centered innovation. Teams submit projects for consideration, to be judged on multiple criteria, including concept originality, customer value, management of the innovation process, economic benefit to the company, and ecological contribution. Nominated projects also must include at least two divisions and crossfunctional team members. Thus, the award fosters esprit de corps among innovators within the company, encourages projects that break through silos, and makes innovation more accessible to non-R&D employees. Most important, to be eligible, a project must have achieved some sales.

Providing useful tools

Those charged with collaborative value creation benefit from a clear mandate, but they can do little without pragmatic tools that, for example, help to surface new project opportunities. At Altana, the key tool is an enterprisewide competency map that provides in-depth analysis and documentation of all core technical competencies that exist across the company's diverse divisions. The map includes hard facts like product properties, chemistry, and employed technologies; soft facts, such as knowledge holders and value-chain visuals; and critical evaluations of the proficiency and commercial relevance of each competency.

The competency map serves multiple purposes, facilitating R&D portfolio management, aiding in the evaluation of acquisition targets, and shaping the education of new

R&D staff. Most important, it provides key account managers with valuable information they can use in strategic business dialogues with customers to propose tailored value-creation projects based on documented firm competencies. For example, a key account manager approaching a packaging customer might look up "crown corks" and find detailed information about which elements (e.g., adhesion primer, compounds, lacquers, finish) would be supplied by which operating unit, what customer advantages a new solution offers, and what other services the company could provide in that specific value chain (Figure 2). In this way, the competency map drives alignment and engagement between innovation and KAM by helping key account managers and innovators match customer needs to firm competencies.

In addition, the company has adapted some existing tools to the effort. For example, group key account plans now specify value-driven innovation projects and related R&D resources and key performance indicators include R&D investments, which enables the firm to track the implementation of its vision and demonstrate its efforts to key accounts in concrete terms (e.g., application lab time spent).

Building growth-related competencies

At the heart of successful collaborative innovations are employees who must be equipped with the appropriate competencies. Under the auspices of the executive management team, and in addition to its existing general management development program, the company established a tailored program to develop and harness the potential of crossdepartmental innovation. Each participant in the program assumes responsibility for one overarching innovation project, as well as three to four divisional innovation projects. The goal is to foster thinking and networking at multiple levels and across functional and cultural boundaries. Participants, who are recruited from within the company and nominated by the Altana CTO, have backgrounds in either research or a commercial function such as sales. For example, a recent program participant has explored the field of photovoltaics, identifying technical solutions to replace solar panel laminate with casting, working closely with lab teams and end-use managers to establish commercial viability. Another participant has been responsible for translating the technical competency map into a KAM competency map that can be used externally. The program also helps create standard bearers

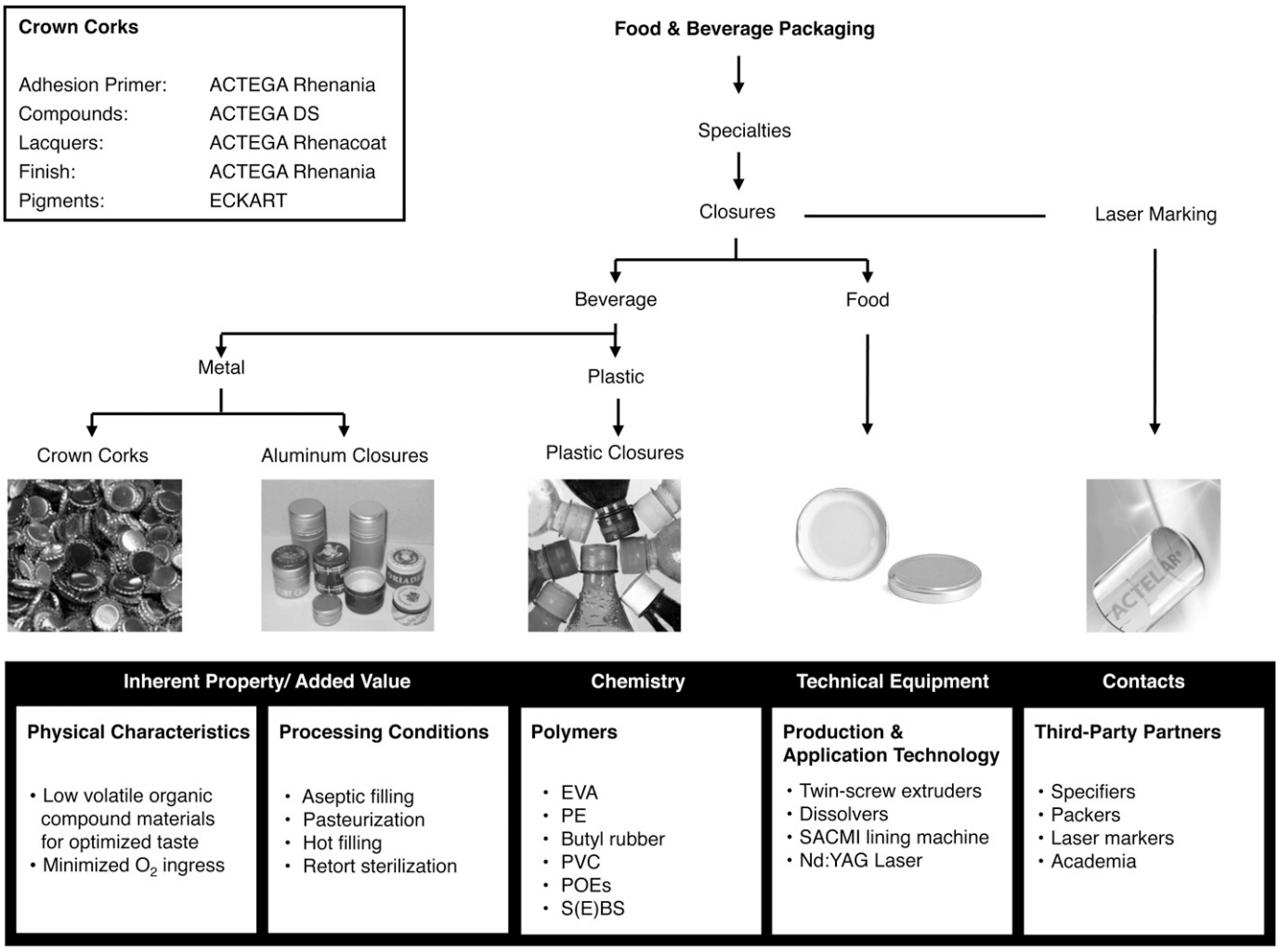

FIGURE 2. The competency map helps identify potential value-creation projects

At the heart of successful collaborative innovations are employees who must be equipped with the appropriate competencies.

and change agents who will support collaborative innovation, positions innovation as an attractive career option within the company, and ensures the careful incubation of projects within divisions.

Key account managers run through a progressive development track, in which innovation is an essential step in the transition from a "selling price" approach to a "creating value" mode with key accounts. For example, KAM training includes business-planning exercises that focus on the identification of new value projects with the help of the KAM competency map. Quarterly group account manager workshops and the annual KAM community meeting support the exchange of successful practices and learning. For select group account managers, the company also provides certification training delivered by external education institutions, which may cover topics such as strategic intuition, virtual team leadership, and corporate entrepreneurship, among others.

Successful Cases of Collaboration and Value Cocreation

Aligning and engaging the organization in collaboration across functions to create value with strategic customers takes time and effort, but it has produced results. What may appear at first sight as a minor achievement reflects a fundamental cultural shift resulting from the development of a deeper understanding of, interest in, and trust among R&D and KAM managers. Since 2008, an increasing number of customer interactions, such as innovation days or technical workshops, have been jointly conducted by R&D and KAM. Key account managers now perceive themselves as orchestrators who build organizational bridges and foster dialogue between experts around new value projects. Likewise, new-product development projects triggered by the innovation community include much deeper commercial analyses that are often created with the help of key account managers. Three concrete examples illustrate how the collaboration produces added value.

The first case pertains to a key customer that manufactures colors, lacquers, and coatings for industrial use; this customer procures effect pigments for coil coatings (which are used on flat steel and aluminum panels primarily for building construction) from one of Altana's divisions. Until this point, manufacturing custom metallic coil pastes was a painstaking manual process for this customer— a process that could require up to 15 steps even for a seasoned colorist and result in pastes that were not always color stable. Such custom color mixing accounted for up to 80 percent of the customer's laboratory budget. Although the customer had an established operational relationship with Altana, conversations about new growth opportunities had stalled because the customer was not aware of the supplier's crossdivisional technical competencies. That is, the supplier company's full innovation potential was not accessible to the customer.

About 18 months ago, the customer faced an internal initiative to consolidate production of coil coating from multiple locations into a single site. The consolidation raised operational concerns, because the chosen site was located in a residential area with limited room for expansion. Given these space limitations and the complexity involved in manual mixing of custom coil pastes, the customer firm wondered how it would cope with additional production demands while also deepening its expertise.

Altana heard about these developments, not from the local team, but from a newly installed group account manager, who learned about the initiative in discussions with the customer's technical leader for Europe. Instead of acting as a lone ranger, the group account manager assembled a team of divisional key account and R&D managers, all working locally with the key account to assess both the technical situation and the existing relationship network. The team identified an issue—making the custom color mixing process more efficient and effective—that could create value for the customer by addressing challenges related to manufacturing space, process complexity, and product quality. The prospect of automating the custom mixing process raised several questions with regard to feasibility, largely related to the stabilization of the pastes and the need to maintain a consistent quality standard. Addressing these questions would require the technical competency of multiple supplier divisions. Intense and transparent dialogues with the customer and end users along with internal discussions across divisions helped the team arrive at a tailored solution that leveraged firmwide technical competencies: One division produces a specific set of metallic effect pigments, which are enhanced with additives from another division to stabilize the pigment concentrates. Quality control during production is a joint responsibility of all parties involved, and the final coil coating is checked by a measuring tool created by another division, coupled with third-party software that improves measurement accuracy.

This project benefited from a collaborative approach that had been instilled through alignment and engagement measures: regular meetings with key stakeholders from R&D, end users, and KAM enabled the identification of both technical and commercial obstacles and means to overcome them. Target values for such key criteria as the number of pigments used, the stability of the concentrates, and color accuracy were formulated jointly with the customer to guide the development process. The involvement of management and the dedication of R&D and service resources to key accounts also helped, for example by enabling the allocation of several hundred hours of testing in the coil coating laboratory to reduce the number of pigments.

The result: The customer's laboratory spending fell by 30 percent, because a new fully automated mixing system reduced custom color mixing steps from about 15 to just 8 and produced a significant reduction in color differences as now measured by a software-enabled instrument. Because it could now rely on 7 as opposed to more than 20 metallic pigments, the customer could manage space more efficiently and increase its flexibility to produce smaller batches more quickly. Altana in turn has benefited from additional crossdivisional sales of additives, effect pigments, and measurement instruments; it also has improved its reputation as a value contributor and strategic partner for the key account.

Other projects, at earlier stages of commercialization, are also benefiting from the close collaboration between R&D and KAM. In one division, the key account manager learned that the customer, an automotive original equipment manufacturer, was having difficulty testing its products and thus suffered partial halts to its production lines. An open dialogue between R&D and KAM resulted in an offer to do the testing in one of the supplier's application laboratories. What started as a service for an important customer has become a joint innovation project, in which researchers from both companies have identified new ways to improve product properties.

In another division, key account managers used the competency map to identify opportunities related to sustainability for the printing market. In the past, the needs of ink producers, as buyers, were the locus of commercial development. Equipped with a better understanding of the company's technical competencies, the key account managers have created additional market pull by approaching end users directly, including packaging producers and retailers with a strong interest in developing green products to meet widespread consumer trends and regulatory concerns around food safety. Packaging manufacturers are now seeking more environmentally friendly and health-conscious ink solutions from ink producers, which can be created in collaboration with Altana.

In addition to the value created and explored in these specific supplier-customer situations, the company has observed a broader positive impact of the increased focus on collaboration and alignment. Growth with key accounts in the past two years has been greater than growth in the market and among non-key accounts, and key accounts have rebounded more quickly from the financial crisis than did other accounts. The dialogue with key accounts is generally more strategic and solutions oriented than that with other accounts; support from R&D managers makes innovation more accessible to customers. The quality of account business plans has improved as well, reflecting the validated value creation potential from both supplier and customer perspectives. Although the retention of key accounts was not the primary intent of this collaboration, recent voice-of-customer commentaries from procurement and R&D suggest that key accounts increasingly are aware of and appreciate the value creation approach.

In addition to the value created and explored in specific supplier-customer situations, the company has observed a broader positive impact of the increased focus on collaboration and alignment.

Managerial Implications

The most important lesson from Altana's experience has been that collaboration does not happen naturally; creating a structure that fosters collaboration, with customers and across functions, is a transformative journey that contributes to a firm's innovation capability in the long run (Johnson and Filippini 2009). The joint creation of value cannot be mandated; it needs to be nurtured over time by a collaborative mind-set and behavior. It took considerable time for key account and R&D managers to leave their comfort zones and what they regarded as their "knowledge turf," especially when more R&D and service resources were allocated to key accounts. In particular, key account managers initially felt uncomfortable about acting in an entrepreneurial fashion, developing business cases to validate a value-creation potential that would justify the investment. Nor were R&D managers accustomed to this level of resource transparency. Management had to recognize that mandates and goodwill were not sufficient; individual incentives were necessary to foster collaboration extrinsically, and dialogue between R&D and key account managers had to be regularly encouraged, through such mechanisms as joint innovation days.

The key to success was establishing a culture of trust with room for failure. Alignment and engagement measures, such as empowered mandates, shared collaboration spaces, and training programs can help to foster an organizational openness to collaboration. Combined with tools, such as the competency map, these elements can be deployed in virtually any setting to foster interaction between R&D and KAM and encourage collaboration with customers to identify high-potential innovation opportunities.

Conclusion

Amidst the frequent discussions about creating new markets and accessing new customer segments, it's easy to lose sight of the potential of a company's current customer base as an important source for innovation—perhaps unsurprisingly, since R&D personnel may have limited direct access to customers. Creating differential value for customers through innovation requires deep insight into customer needs, insight that may not be readily available to R&D personnel who have limited direct access to customers.

As Altana's experience shows, a proactive, customer-centric approach to innovation can enable a firm to shape co-innovation in a way that creates mutual value and avoids the possible negative side effects of customer integration into the innovation process, some of which have been described by Gassmann, Kausch, and Enkel (2010). Established relationships with and knowledge of key accounts can help the supplier firm manage customer expectations, foresee actions and reactions, and control for interaction costs. In the case of Altana, the collaboration between R&D and KAM has not only increased the visibility and accessibility of the company's innovation competency, but has also provided both checks and balances at the supplier-customer interface, ensuring that neither technical nor commercial desires impede overall value creation.

References

Cash, J. I. Jr., Earl, M. J., and Morison, R. 2008. Teaming up to crack the innovation and enterprise integration. *Harvard Business Review* 86(11): 90–100.

Chesbrough, H. W., Vanhaverbeke, W., and West, J. 2006. *Open Innovation: Researching a New Paradigm*. Oxford: Oxford University Press.

Cooper, R. G., and Dreher, A. 2010. Voice-of-customer methods: What is the best source of new-product ideas? *Marketing Management* 19(4): 38–48.

Cotterman, R., Fusfeld, A., Henderson, P., Leder, J., Loweth, C., and Metoyer, A. 2009. Aligning marketing and technology to drive innovation. *Research-Technology Management* 52(5): 14–20.

Enkel, E., Gassmann, O., and Chesbrough, H. W. 2009. Open R&D and open innovation: Exploring the phenomenon. *R&D Management* 39(4): 311–316.

Gassmann, O., Kausch, C., and Enkel, E. 2010. Negative side effects of customer integration. *International Journal of Technology Management* 50(1): 43–62.

Johnson, W. H. A., and Filippini, R. 2009. Internal vs. external collaboration: What works. *Research-Technology Management* 52(3): 15–17.

Lukas, B. A., and Ferrell, O. C. 2000. The effect of market orientation on product innovation. *Journal of the Academy of Marketing Science* 28(2): 239–247.

von Hippel, E. 2005. *Democratizing Innovation*. Cambridge, MA: MIT Press.

Witell, L., Kristensson, P., Gustafsson, A., and Löfgren, M. 2011. Idea generation: Customer co-creation versus traditional market research techniques. *Journal of Service Management* 22(2): 140–159.

