IVEY | Publishing

W25578

JOHNSON CONTROLS INTERNATIONAL PLC: MANAGING STRATEGIC ACCOUNTS

R. Chandrasekhar wrote this case under the supervision of Michael Taylor solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In April 2020, Brian Young was in his office in Neuhausen, Switzerland, reviewing a new request for quotation (RFQ) from Boreal-Pacific Corporation (B-P).[1] Young was the global chief commercial officer for Johnson Controls International (JCI). He was also the executive sponsor of the B-P account at JCI. The RFQ specified a basic access-control security system using swipe-card technology, which was far narrower security protection than the standard requirements outlined in the strategic account agreement initiated three years prior between JCI and B-P. The original agreement had identified specific business outcomes, defined by B-P, including improved facility security. It had stipulated not only central-and-remote monitoring, but also proximity-card-sensing functionality, designed to track not just the person who swiped their card but also every person who entered every door.

The email suggesting the scaled-down version of B-P security arrived when Young was conducting his quarterly review of the company's list of high revenue-generating customers. Some customers on the list were considered strategic accounts—entitled, thereby, to receive extra attention and support. Many on the list were global customers, generating revenue for JCI in many countries around the world.

B-P was a global consumer goods manufacturer, representing US$15 million[2] in global revenue for JCI in 2019 and meriting a place on JCI's strategic accounts list. JCI worked closely with all levels of B-P management to collaborate for the companies' mutual benefit. As its executive sponsor, Young communicated regularly with his counterparts at B-P. Of late, he had noticed that B-P was showing increasing signs of more local-level buying decisions, involving more base-level building management systems. The transactions seemed more like "bid-and-buy" than the original agreement between JCI and B-P had intended. JCI was happy to compete for every order. After all, the strategic agreement was not a guarantee of continued business. However, the strategic agreement did specify B-P's desired enterprise standards, which JCI had agreed to provide.

Young had to decide how to rectify this new trend. He was considering two alternatives. Should he collaborate with B-P's top management to help align B-P's front-line operating managers with the strategic agreement? Or should JCI downgrade B-P from its strategic accounts list? Strategic accounts received

[1] Boreal-Pacific Corporation is a disguised customer name.
[2] All dollar amounts in the case are in US dollars.

multi-level collaborative support. If B-P remained a strategic account, Young would need to justify the extra costs and efforts offered to it as a strategic account. If he effectively demoted B-P to a non-strategic, albeit still important customer, he would have to determine how to communicate the lower status to the customer without risking any loss in revenue. Both alternatives could impact JCI's objective to not only increase revenues and gross margin but also contain account management costs.

JOHNSON CONTROLS INTERNATIONAL—COMPANY BACKGROUND

JCI was founded in 1885 in Milwaukee, Wisconsin, in the United States, by Warren Johnson. Johnson had toiled for years to invent a device to regulate room temperature and in 1883 finally received a patent for an electric room thermostat. The company went on to become a world leader in integrated building technologies used in developing safer, smarter buildings and cities.[3] In 2016, the company merged with Tyco International, an Irish fire detection, fire suppression, and security systems company, to form JCI (see Exhibit 1 for a summary of company facts). JCI's products incorporated heating, ventilation, and air conditioning (HVAC) systems; fire protection and life safety systems; building security systems; energy storage; and building management systems. Its offerings included technology, equipment, systems, and services together providing a wide range of building-environment solutions (see Exhibits 2 and 3 for summary pictorials of the company's offerings and Exhibit 4 for its consolidated statement of income).

JCI customers ranged from the world's largest multinational firms to the smallest independent business owners and residential households. At the basic level in the market, JCI products were sold as components, installed by local contractors. At the other end of the spectrum, JCI supplied, installed, and operated turn-key building environment solutions. The company provided enterprise-wide system integration that resulted in "smarter, connected facilities that provide a better environment for occupants, improved business outcomes, operational savings, and sustainable performance."[4]

The company was organized into four strategic business units (BUs). One was Global Products, comprising 13 product BUs that developed and manufactured fire, life safety, security, HVAC, and controls products that were sold through the JCI direct channel as well as independent channels and integrators globally. The other three were geographic Building Solutions businesses: North America (NA); Europe, Middle, East Africa, and Latin America (EMEALA); and Asia Pacific (APAC)—collectively referred to as the JCI Direct Channel, which applied engineering, systems, and integration to build solutions for customers that leveraged JCI products as well as third-party products. JCI had employees in over 2,000 locations, serving customers in over 150 countries. Local technology specialists, sales teams, channel management teams, and account management teams were located around the world. Each regional and local country company had profit-and-loss responsibility, as did the BUs' manufacturing and technology groups. There were 900 sales offices in 100 countries—54 countries with direct sales and delivery, and 46 countries with business partners.[5]

ACCOUNT MANAGEMENT AT JCI

Selling technology products required a high degree of technical knowledge. Over many years, JCI had developed a technically capable and knowledgeable account management sales force. Within a customer's organization, buying decisions were often made by local plant management, and JCI's local account managers provided the company a competitive advantage. The JCI sales teams collaborated with JCI

[3] "Our Founder," Johnson Controls, accessed July 27, 2021, https://www.johnsoncontrols.com/about-us/history/our-founder.
[4] Company files.
[5] Young, "How Strategic Accounts Is Accelerating Growth."

technical specialists in team selling activities. Account managers developed strong long-term relationships with many customers and business channel partners to grow the business. The growth of JCI was a testament not only to the success of its leading-edge offerings but also to its marketing and sales expertise, as well as its customer service and support functions. JCI listed customer relationships as an intangible asset in its annual report; it was valued at $2.7 billion in 2019.[6]

In 2017, the newly merged firm appointed Young to lead a new strategic account management initiative. JCI felt it was uniquely positioned—with its best-in-class technologies; broad geographic coverage; and dedicated design, engineering, and service support—to serve strategic enterprise customers.[7] Thus, the company's Strategic Account Management program was born. JCI was well positioned to create value for customers, who needed standardized designs or solutions across multiple countries, to enable better enterprise-wide security, safety, energy management, operating efficiencies, and reduced costs (see Exhibit 5 for a description of JCI's Strategic Account Promise).

Reflecting on the creation of the strategic account program, Young commented:

> We collected the top twenty-five strategic customers from each business group and from over 300 cut it down to 100. This 100 is a multi-billion-dollar base of sales. We analyzed this group of customers to understand the white space opportunity and segmented [the group] into the following: strategic global enterprise; regional enterprise; national enterprise; and BU global, regional, [and] national [customers]. In parallel, we understood the current support structure for these customers within each BU. Remember that strategic account management is not a pure sales function; it encompasses operations/delivery. The strategic account team will provide a recommendation on the support structure required to accelerate growth and create a more aligned team around these customers. This is an opportunity for a strategic relationship with selected customers, for enterprise-wide solutions, for multi-year projects deploying product technologies around the world and creating a subscription model yielding recurring revenue.[8]

The company's dedicated account managers were located around the world, assigned to manage the relationship with the company's 25 designated strategic accounts.

BOREAL-PACIFIC CORPORATION

B-P was one of the customers identified as a JCI strategic account. It received a high level of collaboration, attention, and resources, including a co-created collaborative business plan, enterprise-level single-point-of-contact and problem resolution, new technology exploration resources, cross-enterprise project management, quarterly business reviews, key performance indicator (KPI) reporting, multi-lingual commercial and engineering support, a cross-enterprise facility management portal, and more.

The assigned account manager led the co-development of an account plan, collaboratively with a team of people from B-P. The plan identified mutually beneficial opportunities to improve B-P's business outcomes, and included KPIs, contract terms and conditions, and reporting and communication benchmarks. One of JCI's top executives sponsored each strategic account. Young was the executive sponsor of the B-P account.

---

[6] Johnson Controls International Plc, *Annual Report 2019*, 72, November 2019, https://otp.tools.investis.com/clients/us/johnson_controls/SEC/sec-outline.aspx?FilingId=13755403&Cik=0000833444&PaperOnly=0&HasOriginal=1.
[7] Company files.
[8] From an interview with Brian Young on January 29, 2021.

B-P had been a JCI customer for decades. For many years, the relationship had been a traditional customer–supplier product relationship, and it had grown to $15 million in annual revenue by 2019. This was a significant volume of business in a product category that largely consisted of long-life-cycle, infrequently purchased infrastructure products.

B-P was a very successful global firm with operating facilities in many countries and multiple operating groups. Even though B-P and JCI did a great deal of business together, B-P recognized there was more value in JCI's broad, leading technology offering and global delivery capability. Consequently, B-P management welcomed the opportunity to co-create a mutually beneficial plan in 2017. But collaboration was not a simple task. Both companies had complex, decentralized multi-BU organizations, necessitating coordination with many groups, at many levels, to identify mutual opportunities and convert them to tangible outcomes.

In April 2020, three years after B-P had been identified as a strategic account, Young noticed there were increasing signs of more local-level, competitive-bid purchasing decisions on the part of B-P's local plant managers. These signs were contrary to the intentions of the original global agreement between B-P and JCI. Recently, B-P had undergone a change in ownership, resulting in new emphasis on cost controls and productivity improvements. Local plant managers were given considerable autonomy to find and deliver savings and improvements.

The current RFQ was a good example: The JCI account manager overseeing the B-P account was working with a local account manager in JCI's security group in the United States to quote a project for one of B-P's facilities. The security account manager received the RFQ from the local procurement group in one of B-P's manufacturing faculties. The inquiry specified the requirements for an access control solution, which was routine business for the security group. The local account manager notified the dedicated JCI strategic account manager because B-P was a designated strategic account—implying a dotted-line responsibility between the local account manager and the JCI strategic account manager in charge of the B-P global account.

The RFQ specified a basic access control system using swipe-card technology. This was a fairly mature technology and could be supplied by several competitors. One of the initiatives in the strategic account agreement between JCI and B-P was the improvement of facility security, and stipulated the inclusion of central monitoring and proximity card sensing, to track every person who entered every door when it was opened, not just the person who swiped their card. In the current RFQ, adding the superior technology to the security group's quotation would significantly increase the price.

B-P's specification and local procurement people were clear. This was a competitive tender, seeking the most competitive price to purchase this system. If JCI's local team included the technology and features stipulated in the strategic agreement, the price would be uncompetitively high, and the team would likely lose the job. The local account manager had her own sales objectives to consider and was motivated to win the order for her BU. Each firm viewed the benefits of the strategic agreement from an enterprise-wide perspective. However, in this case, the local organizations of both firms were motivated—and had the autonomy—to meet their local needs, despite the strategic agreement. If the local account manager included the unwanted extra features at the price of a basic system, it would likely make the project unprofitable and set a dangerous pricing precedent.

DECISION AND POTENTIAL FALLOUT

B-P was an important global customer for JCI, and the business potential with B-P looked bright. However, the change in B-P's buying behaviour posed a dilemma for Young. He had to find a way to rectify the hollowing-out of the strategic customer agreement or reconsider the status of B-P as a strategic account. Serving strategic accounts was expensive. Considerable time investment was required for each strategic account to not only find collaborative opportunities but also enable both JCI and the customer organization to turn those opportunities into tangible benefits.

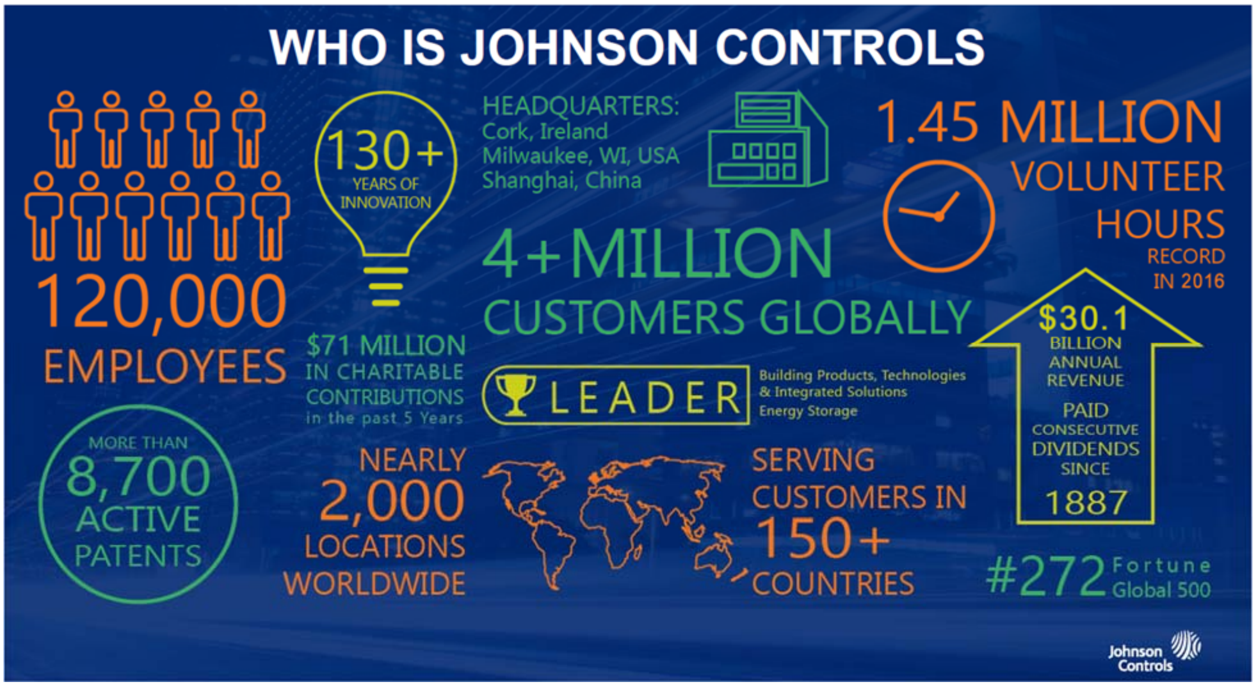
Young's dilemma was exacerbated by the fact that some of JCI's new offerings provided distinct and unique value for firms like B-P. The new offerings included a variety of healthy building concepts, back-to-work safety (post COVID-19 pandemic), indoor air quality solutions, and end-to-end lifecycle management solutions. JCI's offering incorporated some very innovative technology, and consequently was often high-value but frequently not the lowest-priced. Young wondered if B-P's new cost-saving initiatives might threaten JCI's existing business with B-P. A top-level strategic relationship should help solidify the business.

Should Young collaborate with B-P's top management to help align B-P's front-line operating managers with the strategic agreement? He wondered if he could use JCI's strategic relationship with B-P to influence, or offset, the local buying autonomy of B-P's plant managers.

If B-P remained a strategic account, Young would need to justify the extra costs and efforts offered to the client as a strategic account. Alternatively, JCI could downgrade B-P off the strategic account list. If he effectively demoted B-P to a non-strategic, albeit still important customer, he would have to determine how to communicate the lower status to his executive counterpart at B-P without risking any loss in revenue.

Both alternatives had a potential impact that was counter to JCI's broad objectives of increasing both the revenue and gross margin percentage, while also containing selling, general, and administrative account management costs.

EXHIBIT 1: JOHNSON CONTROLS INTERNATIONAL—COMPANY FACTS SUMMARY

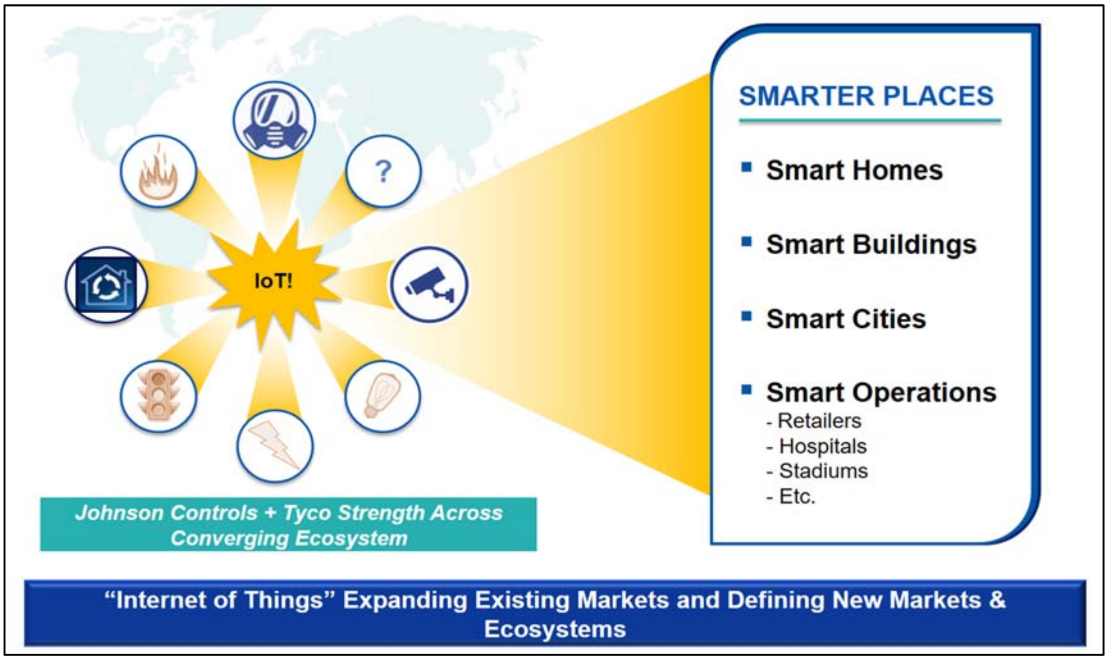


Source: Brian Young, "How Strategic Accounts Is Accelerating Growth at Johnson Controls," 4, investor presentation deck, Johnson Controls.

EXHIBIT 2: JOHNSON CONTROLS INTERNATIONAL—SUMMARY OF OFFERINGS (PICTORIAL)

Note: HVAC = heating, ventilation, and air conditioning.
Source: Company files.

EXHIBIT 3: JOHNSON CONTROLS INTERNATIONAL—SUMMARY OF OFFERINGS (PICTORIAL)



Source: "Johnson Controls and Tyco: Creating a Multi-Industrial Leader," 17, investor presentation deck, Johnson Controls, January 25, 2016, https://www.johnsoncontrols.com/-/media/jci/corp/merger/jci--tyco-investor-presentation---final.pptx.

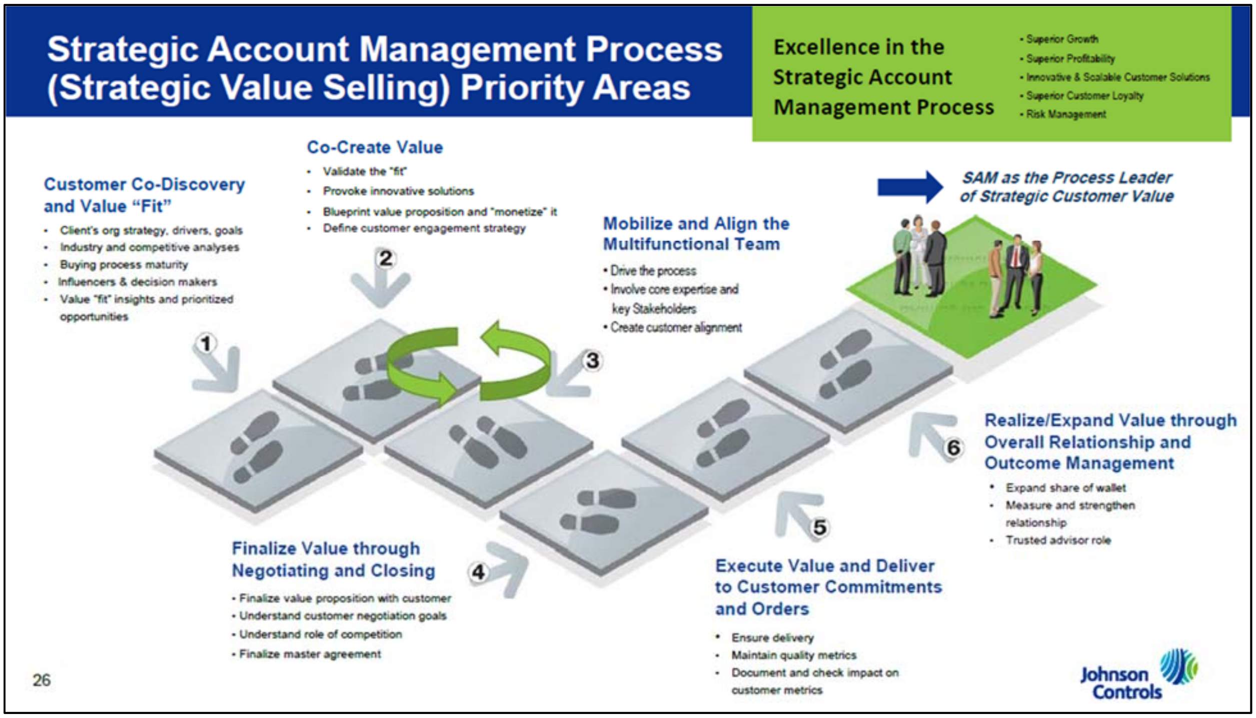
EXHIBIT 4: JOHNSON CONTROLS INTERNATIONAL—CONSOLIDATED STATEMENT OF INCOME

	Year Ended September 30,		
(in millions, except per share data)	**2019**	**2018**	**2017**
Net sales			
Products and systems	$ 17,711	$ 17,332	$ 16,762
Services	6,257	6,068	6,073
	23,968	23,400	22,835
Cost of sales			
Products and systems	12,577	12,315	11,692
Services	3,698	3,418	3,613
	16,275	15,733	15,305
Gross profit	7,693	7,667	7,530
Selling, general and administrative expenses	(6,244)	(5,642)	(5,723)
Restructuring and impairment costs	(235)	(255)	(347)
Net financing charges	(350)	(401)	(466)
Equity income	192	177	157
Income from continuing operations before income taxes	1,056	1,546	1,151
Income tax provision (benefit)	(233)	197	322
Income from continuing operations	1,289	1,349	829
Income from discontinued operations, net of tax (Note 3)	4,598	1,034	990
Net income	5,887	2,383	1,819
Income from continuing operations attributable to noncontrolling interests	189	174	157
Income from discontinued operations attributable to noncontrolling interests	24	47	51
Net income attributable to Johnson Controls	$ 5,674	$ 2,162	$ 1,611
Amounts attributable to Johnson Controls ordinary shareholders:			
Income from continuing operations	$ 1,100	$ 1,175	$ 672
Income from discontinued operations	4,574	987	939
Net income	$ 5,674	$ 2,162	$ 1,611
Basic earnings per share attributable to Johnson Controls			
Continuing operations	$ 1.26	$ 1.27	$ 0.72
Discontinued operations	5.26	1.07	1.00
Net income	$ 6.52	$ 2.34	$ 1.72
Diluted earnings per share attributable to Johnson Controls			
Continuing operations	$ 1.26	$ 1.26	$ 0.71
Discontinued operations	5.23	1.06	0.99
Net income *	$ 6.49	$ 2.32	$ 1.71

* Certain items do not sum due to rounding.

Source: Johnson Controls International Plc, *Annual Report 2019*, 52, November 2019, https://otp.tools.investis.com/clients/us/johnson_controls/SEC/sec-show.aspx?Type=page&FilingId=13755403-363163-711419&CIK=0000833444&Index=12500.

EXHIBIT 5: JOHNSON CONTROLS INTERNATIONAL—STRATEGIC ACCOUNT PROMISE



Source: Company files.