The Key Account Management Practices and Effectiveness

H F Wong[1]**, A C Thoo**[1]**, L C Tan**[2]**, H T Huam**[3]**, Z Sulaiman**[1]
[1] Faculty of Management, Universiti Teknologi Malaysia, Malaysia
[2] Faculty of Geoinformation and Real Estate, Universiti Teknologi Malaysia, Malaysia
[3] Faculty of Business & Management, Southern University College, Malaysia

*E-mail: tlchoon@utm.my

Abstract. Key Account Management (KAM) is marketing management approach to support companies to achieve sustainable competitive advantages and excellent market performance. This study reviews the influence of KAM practices on KAM effectiveness. Furthermore, research framework and hypothesis are developed based on resource-based view and market orientation. In overall, the relationship between practices and KAM effectiveness is found significant and positive based on literature review. Lastly, the findings are useful for companies to develop the skills necessary for a customer-oriented KAM approach.

1. Introduction

Business-to-business (B2B) marketing is not new in academic research and has become a prevalent topic since the beginning of organisational history.[1] Nevertheless, through history of business research, most research has been focused on personnel selling and consumer markets.[2] With the challenging business market, and increasing influence on the economy, the research on B2B field has not obtained as much attention, and its contributions to B2B marketing theory has only been introduced since the early 1980s.[3] In B2B markets, the customers are more powerful and fewer than business-to-consumer markets (B2C), thus the relationships between companies are more independent and complicated within markets.[4]

Many companies have reduced their base of suppliers and worked closely with a limited number of preferred suppliers.[5] Given this trend, suppliers face the challenge of becoming the preferred suppliers and defend that position.[3] Consequently, academic researchers are starting to focus on B2B research which initially predominant on larger companies and expanded to small and medium sized enterprises during the last couple of decades. To handle this model shift, the concept of relationship marketing (RM) was emerged as a competitor to traditional marketing in the early 1990s. RM is a rejuvenation of the marketing theory of the pre-industrial era in which consumers and producers contacted each other directly and established structural and emotional bonds in their economic market behaviours.[6] RM was intended to consolidate suppliers, customers and other infrastructural parties into a company's marketing and developmental activities.[7]

Over the years, RM has been expanded into different subsets, namely customer relationship management (CRM) and KAM.[3] CRM is a cross-functional concept with the purpose to develop and maintain long-term customer relationship with suppliers. Furthermore, business customers' behaviour has become more dynamic in today's hypercompetitive marketplace, this leads to increasing pressure on suppliers. Therefore, the suppliers have been forced to take specific customer behaviours and needs into consideration. This situation is consistent with the 80/20 rule, where 20% of the customers often are contributed to 80% of the sales.[8] These strategically important customers are called as key accounts and serviced by suppliers with dedicated resources. KAM as a subset of RM has been developed to handle these key accounts successfully. KAM is a systematic supplier initiated approach for managing strategically important customers in B2B markets and the approach is considered as one of the most significant marketing developments in the next decade.[3] Since the introduction of KAM, it has been widely used as a marketing strategy targeting to achieve higher growth and revenues through better managing of key accounts. It has developed to be one of the most significant changes in the way companies manage sales and marketing activities.[5]

2. Theoretical Background

The proposed framework is derived from the review of theoretical and empirical studies of previous KAM research.[5][9][10] These studies adopted the perspective that the relationship between KAM practices and market performance is direct. The finding of these studies also indicated that there is a direct relationship between KAM effectiveness and market performance. Two prominent theoretical foundations of KAM have been identified for the development of the proposed framework. The first theoretical foundation is based on the RBV, and the second is related market orientation. Each of the theoretical foundations is reviewed in the next section.

2.1. Resource Based View of the Firm (RBV)

Sustained competitive advantage derives from organisational resources and capabilities that are valuable, rare, imperfectly imitable and not substitutable. Since 1980, RBV has become one of the major research areas in strategic management.[11] The RBV is based on the assumption that firms have heterogeneous resources within an industry to achieve superior performance and competitive advantage. In addition, these heterogeneous resources may not be completely mobile across firms. Thus, firms have to allocate most of the company limited resources to strategically important customers.

Previous studies indicate that the KAM values including top management involvement, inter-functional coordination, customer orientation, customisation, and formalisation have positive impact on effectiveness.[10] In the RBV context, the firm resources are valuable, rare, imperfectly imitable, and have no equivalent substitutes, thus the resource can be used to explain the KAM values where firms use limited resources and superior capabilities to achieve superior effectiveness in KAM relationship. The RBV is applied when a firm can integrate employees' knowledge and skills with its resources, it can expand the KAM practices that cannot be imitated by others to obtain competitive advantage.[5]

Subsequently, the RBV focuses on the deployment and combination of specific inputs to achieve competitive advantage, and it is fundamental for the development of strategic management.[11] KAM involves managing firm's human capital resources, and organisational capital resources for key customers strategically to improve KAM effectiveness. The RBV can serve as a basis to support the development and implementation of KAM. KAM demands suppliers to develop values contributing to KAM effectiveness.[5] Importantly, the suppliers have to strategize and manage the available firm resources in order to develop the values.

In this study, the RBV is selected as the underlying theory to examine the effect of human capital resources and organisational capital resources, top management involvement, inter-functional coordination, customer orientation, ability to customise, and KAM approach formalisation on KAM effectiveness.

2.2. Market Orientation

Market orientation is the organisational culture that most effectively and efficiently creates necessary values for the creation of superior value for customers, and achieves superior performance in the market.[10][12] Moreover, orientation plays an important role for organisations to compete to create sustainable competitive advantage.[15]

Market orientation is driven by both executive decisions and corporate culture. Employee having shared culture that delivers superior value to customers is identified as one of the keys for business success and sustainable competitive advantage. Evidence has shown that market orientation is a culture based concept that explains strategy and strategy-performance relationship.[12] Market orientation is a corporate culture that is characterised by a firm's disposition to continuously deliver superior value to customers. The culture-based dimensions of market orientation encompass the focus on competitors, the focus on customers, and inter-functional coordination.[14] The marketing concept is related to organisation's culture, whereas market orientation is the development of the marketing concept. Based on this logic, market orientation is at the core of the organisation. Fundamentally, market orientation bridges the linkage between a business strategy and corporate effectiveness.

Although the principle of market orientation paradigm is that suppliers must focus on their customers and meet their needs, it does not make the distinction between key customers and normal customers. In fact, market orientation has included environmental factors to evaluate the effect on market performance. In particular, market orientation is proposed to lead to greater organisational commitment and customer satisfaction.

Market orientation can be used as a basis for the development of KAM and identifying factors that lead to effective KAM relationships.[12] Market orientation proposed that organisational resources such as top management, inter-functional dynamics, and organisational systems are the factors required to meet customer satisfaction. In this study, market orientation is selected as one of the background theories to examine organisational KAM practices and KAM effectiveness.

3. Conceptual Framework

Based on the theoretical framework discussion, the conceptual framework of this study is developed to cover one key relationship: KAM practices' influence on KAM effectiveness. The conceptual framework is shown in Figure 1.

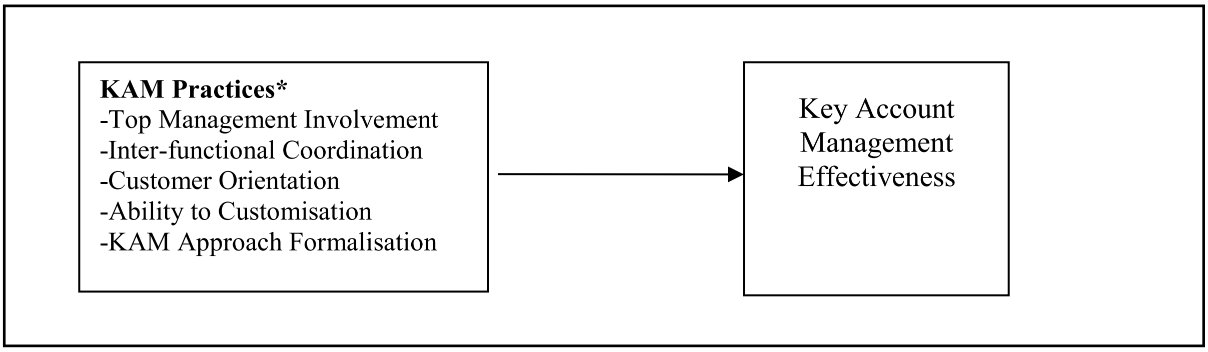

Figure 1. Conceptual Framework

4. Research Hypothesis (Practices and KAM Effectiveness)

Conceptual papers and managerial papers on KAM have continuously named top management as one of the most critical measures of success. The organisation is a reflection of the top managers, therefore top manager must commit the resources required to obtain KAM effectiveness.[5][9][12] Top management involvement is important since KAM involves participation of people from different functional groups. Top managers encourage cross-organisational responsiveness and minimise inter-functional conflicts. Top management commitment has a significant positive effect on the KAM effectiveness in manufacturing industry.

Inter-functional coordination is one of the core market orientation components. Market orientation is beyond the scope of the marketing department, thus various functional groups have to be integrated towards common goal, hence enhancing the problem solving capabilities and organisational effectiveness.[12] Practitioners recognised that marketing department alone is not sufficient to achieve customer satisfaction, and the coordinated effort among various functions is crucial in meeting customer needs.[16] Evidence supports that openness in communication across functions promotes responsiveness to customers which promotes inter-functional coordination. An effective KAM requires cooperation from across the organisation through the use of cross-functional teams to obtain commitment and resources. [9][10] In essence, coherence in sales activities affects performance. KAM team spirit is related to inter-functional collaboration which is positively related to organisation effectiveness.

KAM inter-functional coordination is related to the development of an organisational culture that supports customers' needs. The RBV of the firm indicated that a firm's culture can be a source of sustainable competitive advantage if that culture is valuable, rare, imperfectly imitable, and non-substitutable.[11] Superior inter-functional support allows organisation to obtain latest market information. Inter-functional coordination helps organisations to break down functional and departmental boundaries. Therefore, the relationship between inter-functional coordination and KAM effectiveness can be strengthened and lead to the enhancement of an effective KAM programme. There may be a lack of commitment to common goals for key customers when firms are unable to obtain effective inter-functional coordination. Additionally, organisational information about key customers may be lost when the information is not shared across different functional groups.[5]

Previous studies found that there is a positive correlation between customer orientation and KAM effectiveness. These studies indicated that customer orientated culture captures the supplier's focus on the overall customer basis. Therefore, adopting customer orientation in KAM means giving extra attention in fulfilling key customer's needs.[10][12] Some researchers found customer orientation as the fundamental aspect of a corporate culture and it is as important as inter-functional coordination and top management commitment. This is due to the fact that customer orientation gives the highest priority to provide superior customer value. Thus, an increased commitment to customer orientation can result in "increased boundary-spanning activity" beyond the status quo. Customer orientation promotes a continuous, proactive disposition toward meeting customers' demands. A focus on total customer satisfaction enhances KAM effectiveness.[13][14]

Customisation helps firm to improve competitiveness by offering unique products that differentiate them from competitors which ultimately develops a sustainable long-term effectiveness. Customisation required investments in resources such as personnel, money, and time. This implies that the ability to customise enables firms to focus on their resource allocation that supports KAM effectiveness. Formalisation is the central construct in the organisation theory and it has a negative effect on KAM effectiveness.[9] In addition, some studies have found that formalisation is positively related to the generation of market knowledge, and enhances the utilisation of customer knowledge in the management of key customers.[17] Furthermore, proper designed rules and policies may facilitate market orientation. This implies that a formalised KAM enables firms to focus on their resource allocation that supports KAM effectiveness.

5. Conclusion

Based on the above review, it is proposed that there will be a significant positive relationship between KAM practices and KAM effectiveness as stated: KAM practices positively influence KAM effectiveness. The relationship between KAM practices and KAM effectiveness is grounded by the RBV and market orientation. The theories explain how KAM practices affect KAM effectiveness.

Acknowledgments

This work was funded by Ministry of Higher Education Malaysia (MOHE) and Universiti Teknologi Malaysia GUP Tier 1 (PY/2016/06368 – Vot Number 15H61).

6. References

[1] Hadjikhani A and Laplaca P 2013 Development of B2B marketing theory *Industrial Marketing Management* IMM**42**(3) pp 294-305

[2] Shapiro B P and Wyman J 1981 New ways to reach your customers *Harvard Business Review* HBR**59**(4) pp 103-110
[3] Johansson S and Gedda D 2016 *Management of Key Account Relationships in SMEs A Resource-Based View* (Halmstad)
[4] Heide J B and John G 2013 Do norms matter in marketing relationships *The Journal of Marketing* TJOM**04**(2013) pp 32-44
[5] Davies I A and Ryals L J 2014 The effectiveness of key account management practices *Industrial Marketing Management* IMM**43**(7) pp 1182-94
[6] Sheth J N and Parvatiyar 1995 A The evolution of relationship marketing *International business Review*. IBR**4**(4) pp 397-418
[7] Shani D and Chalasani S Exploiting niches using relationship marketing *Journal of consumer marketing* JOCM9(3) pp 33-42
[8] Zboja J J and Hartline M D 2010 Using internal relationship marketing activities to enhance cross-selling performance in services *Journal of Relationship Marketing* JORM**9**(3) pp 117-31
[9] Workman Jr J P Homburg C and Jensen O 2003 Intraorganizational determinants of key account management effectiveness *Journal of the Academy of Marketing Science* JAMS**31**(1) PP 3-21
[10] Tzempelikos N and Gounaris S 2015 Linking key account management practices to performance outcomes Industrial Marketing Management IMM**45**(2) pp 22-34.
[11] Barney J Wright M Ketchen Jr D J 2001 The resource-based view of the firm: Ten years after 1991 *Journal of management* JO**27**(6) pp 625-41.
[12] Gounaris S and Tzempelikos N 2012 Conceptualization and measurement of key account management orientation *Journal of Business Market Management* JBMM**5**(3) PP173-94
[13] Dobni C B and Luffman G 2000 Market orientation and market strategy profiling: an empirical test of environment-behaviour-action coalignment and its performance implications *Management Decision* MD**38**(8) pp 503-22
[14] Slater S F and Narver J C 1994 Market orientation, customer value, and superior performance. *Business horizons* BH**37**(2) pp 22-8
[15] Chin C H Lo M C and Ramayah T Market orientation and organizational performance: The moderating role of service quality *Sage Open* SO**3**(4)
[16] Kohli A K and Jaworski B J Market orientation: the construct, research propositions, and managerial implications *The Journal of Marketing* JM**1990**(4) pp 1-8
[17] Low G S and Mohr J J 2001 Factors affecting the use of information in the evaluation of marketing communications productivity *Journal of the Academy of Marketing Science* JAM**29**(1) pp 70-88.