Unpicking the Meaning of Value in Key Account Management

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Abstract

In this conceptual paper we explore the meaning of value within the context of Key Account Management (KAM). We briefly present the emergence of Key Account Programs, identifying that they have not traditionally been linked to the notion of value. We go on to present value as it is currently explored in the marketing literature, emphasizing the fact that value is usually seen from *either* the customer's *or* the supplier's perspective. However, as Key Account Management Programs are often formed between companies in order to achieve *mutual* gains, the current view of value (from either the customer's or the supplier's viewpoint) is insufficient to take into account this mutual perspective. We explore different 'types' of value that may be achieved in such programs, and propose a model that may be used in order to facilitate our understanding of how these vary. Some initial strategic implications are derived for key account managers. The paper allows us to build on the existing literature on value, by adding a new definition of relational value. It also allows us to propose a new understanding of key account management based upon value.

Key Words

Key Account Management - Relational Value – Exchange Value – Proprietary Value - Key Account Value Strategy

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Introduction

This paper explores the meaning of value within Key Account Management (KAM). We briefly outline the development of KAM programs, noting that they have not traditionally been linked to the notion of value. We go on to present value as it is currently explored in the marketing literature, emphasizing the fact that value is usually seen from either the customer's or the supplier's perspective. However, KAM programs are often formed between companies in order to achieve *mutual* gains, the current view of value (from either the customer's or the supplier's viewpoint) is insufficient to take into account this mutual perspective. We explore different 'types' of value that may be achieved in such programs, and propose a model that may be used in order to facilitate our understanding of how these vary. Some initial strategic implications are derived for KAM. This conceptual paper allows us to build on the existing literature on value, by adding a new definition of relational value. It also allows us to propose a new understanding of KAM based upon value.

Key Account Management (KAM)

Suppliers increasingly pay attention to the maintenance and enhancement of specific relationships with selected customers (Napolitano, 1997; Pardo, 1999), which is often manifested in the establishment of Key Account Programs (Homburg et al.; 2002; Kempeners and van der Hart, 1999; Stevenson and Page, 1979; Workman et al., 2003;). The origin of KAM can be found in the suppliers' realization that not all customers are equal, with some typically representing an extremely high percentage of sales or profits (Hakansson and Snehota, 1995). As a natural consequence, suppliers often dedicate most of their resources to that core portfolio of clients representing the highest stakes: their key accounts (Pardo, 1997). It is nevertheless important to note that it is not just turnover or profitability that is used to identify such customers, but variables as diverse as company image, geographic proximity, technological competencies, and organizational complexity may all influence the decision (Shapiro and Moriarty, 1980; Stevenson, 1980; Walter et al., 2001). However, the traditional approach in the literature tends to regard key accounts from the perspective of the supplier, i.e. the entity where KAM is pervasive. We will take a rather less traditional route and examine key accounts from the perspective of value, examining what the *sources* and *destinations* of value may be within the KAM phenomenon. As such, we will add to the understanding of the relatively new concept of KAM which is still perceived to be under-researched (Millman, 1996; Homburg et al., 2002). In taking this perspective we firmly anchor our approach in the dyadic view of business-to-business relationships (Wilson, 1978; Håkansson, 1982) where the focus is on the relationship between two interacting parties in addition to a view on each actor. However, we are recognizant of the fact that taking this dyadic orientation may in turn be oversimplifying those interorganisational exchanges that are charactersied by influences other than simply the buying or selling parties, i.e. those typified by other parties within a broader network (Ford et al., 2003).

Traditional Perspectives on Value and Value in KAM Contexts

Value as a fundamental for business exchanges

Value as the basis for the exchange process between customers and suppliers underlies most marketing thinking. As Holbrook (1994) states, value can be considered as "*the fundamental basis for all marketing activities"* (p. 22). This view is repeatedly expressed, for example in Walter et al. (2001): "*…the basic notion is that business markets can only be understood applying the concept of value*" (p. 365). In the specific context of collaborative exchanges, Anderson (1995) even considers that value is the 'raison d'être' of that kind of relationships. However, except the work from Georges and Eggert (2003) the very specific context of KAM has not been investigated from the value point of view. Georges and Eggert (2003) analyze value but only as observed from the customer's point of view. This is problematic in so far as collaboration implies *mutual* actions and benefits. The problem is that none of the current views of value in the business-to-business and KAM literature introduces a perspective of mutual creation and/or claiming of value.

Traditional perspectives on value: Benefits and sacrifices to the customer

Value is usually seen in the marketing literature from the point of view of a supplier creating value and a customer benefiting from it. In this perspective, value is traditionally defined as a bi-partite construct consisting of benefits and sacrifices (Zeithaml, 1988; Blois, 1999; Blois, 2003). According to Anderson and Narus, value can, in this perspective, be defined as "*the perceived worth in monetary units of the set of economic, technical, service, and social benefits received by a customer firm in exchange for the price paid for a product offering*" (p. 5). Benefits are then embedded in the offering's characteristics and are 'released' by the customer through consumption or use. From this perspective, benefits are 'created' by the supplier. However, while they may be created by the supplier, what counts as a benefit is defined through the customer's perceptions, i.e. by linking offering characteristics to the satisfaction of underlying needs and wants (embedded in expectations) (Spreng et al., 1996; Fournier and Mick, 1999). Sacrifices in turn are the material and/or non-material valuables that customers need to 'invest' in order to gain access to the benefits of an offering.

Other alternative views have been proposed, e.g. a value ratio (i.e. benefits divided by sacrifices) (Christopher, 1996), although it can be argued that this can lead to counterintuitive results (De Sarbo et al., 2001; Brennan, 2004). Furthermore, Anderson and Narus (1999) and Anderson et al. (1993) add the notion of relative value of competitive offerings, rather than just benefits and sacrifices. Similarly, Wilson and Jantrania (1995) provide an analysis of the dimensions of value, utilizing the idea of economic, strategic and behavioral value. In addition, regarding the aspect of the content of both sacrifices and benefits, Grönroos (1997) proposes to define (customer-perceived) value as "*core solution plus additional services divided by price and relationship costs*" (p. 412). Ravald and Grönroos (1996) provide further details of the dimensions of sacrifices and benefits and also develop the value concept within a relationship perspective (as opposed to a transaction or episode orientation). As Ulaga (2003) underlines, "*trade-off between benefits and sacrifices [...] is not restricted to the single episode level*" (p. 678).

However, whatever the focus of the authors (dimensions of value, relational perspective of value, competitive/relative view of value, etc.), it must be emphasized that the perspective is always linked to an *active* supplier, creating value, and a *passive* customer, consuming/using that value, as shown in Figure 1.

FIGURE 1 ABOUT HERE

A traditional key account value perspective

What we have called the traditional value perspective (as presented in the preceding paragraph) determines also a traditional understanding of the specific situation of KAM. Starting with the assumption that key accounts are of strategic importance to the supplier, this implies that specific managerial activities are used to acquire, retain and develop these accounts. Because of their importance, this may mean providing offering and exchange facilities that are not available to 'ordinary' customers. Our discussion around the value in such KAM contexts will therefore focus on those elements of benefit and sacrifice that are germane to key account exchanges and are absent from other exchanges (Homburg et al., 2002). In this scenario – and following a traditional perspective - the supplier *creates* specific key account-related value, which is *appropriated* by the key account customer. Such value could focus on aspects such as price reduction, priority ordering, additional after-sales service, etc. (Dishman and Nitse, 1998; Workman et al., 2003). For the purpose of this discussion, it is not necessary to introduce a differentiation between company-level benefits and buying-agent benefits (Kortge and Okonkwo, 1993; Ojasalo, 2001). As shown in Figure 2, this value is based upon exchange. We consequently call it *exchange KAM value*.

FIGURE 2 ABOUT HERE

Toward a multi-faceted key account value perspective

Such a traditional conceptualization of value in KAM raises an important issue. The cost of key account management programs is supported by the supplier: hiring, training and compensating key account managers; modifying its organizational structure to create key account departments divisions; modifying its offerings to suit the key account customers' demands (Kempeners and van der Hart, 1999; Pardo, 1999; Homburg et al., 2003). At first sight the most obvious benefits are captured by the customer benefiting from a more adapted, stream-lined and customized offering and relationship with its supplier. However, do benefits exist for the supplier? What about potential sacrifices for the customer? Is there any possibility that the trade-off between benefits and sacrifices on which the value concept is built can take into account relationships which are described as highly co-operative, collaborative, and interdependent (Lambe and Spekman, 1997)? From the supplier's point of view the increase in the cost (sacrifices) to serve a particular key account customer ought to be more than offset by the compensating increase in revenue, profit, or some other form of benefit. However, in order to conceptually meet the challenges of the KAM context, we need to move toward a more complex, multi-faceted understanding of value. The focus on customers and suppliers as distinct actors has certain shortcomings on this context. The dyadic relationship itself (Bonoma and Johnston, 1978; Wilson, 1978) is therefore incorporated into our derivation of KAM value. More precisely, the interactive view of the dyad (Hakansson, 1982; Hakansson et al., 2004), with suppliers and customers both active in the value creation and appropriation process will be considered. Furthermore, value creation and value appropriation are directly linked with the functions of the supplier and the customer respectively. Or, to put it succinctly, the traditional perspective holds that value is produced *by* the supplier *for* the customer. This paper conceptually explores additionally the conditions under which value is produced *and* also appropriated by the supplier. Furthermore, it also incorporates conditions into the KAM value definition where value is not produced by one party for the other, but by the *relationship* itself.

Our multi-faceted perspective of KAM value is influenced by Biggart and Delbridge (2004) who, using conceptual tools from network analysis, economics and cultural sociology, developed a classification scheme that differentiates systems of exchange on the basis of actors' logic of action and the structure of social relationships among actors. We utilise a similar perspective and thus posit that value in Key Account Management interactions needs to be disaggregated into three levels: *exchange* value, *proprietary* value, and *relational* value:

- *Exchange Value*: The notion of *exchange value* has been introduced in the discussion of the traditional perspective above. It remains one element of the multi-faceted viewpoint, based upon the value originating in activities by the supplier and being consumed by the customer.

- *Proprietary Value:* In the specific case of KAM, we define *proprietary value* as being created and consumed (in the sense of being appropriated) by the supplier only. In extreme cases, the customer may not even be aware that it is part of a KAM program: the supplier creates and operates its key account activities for its own efficiency or effectiveness benefit exclusively.

- *Relational Value*: We use the notion of *relational value* to describe a co-produced value that emanates from the specifics of being party to a dyadic key account program, i.e. a relational constellation embedded in collaborative and co-operative activities. *Relational value* is defined as being appropriated by both supplier and customer.

A Model of Key Account Management (KAM) Value

Having developed a multi-faceted view of KAM value, we will use this concept to derive a new model of KAM value. This will show how the value in key account interactions can be disaggregated into several facets: benefits and sacrifices (the *essence* of value); creation and appropriation (the value *processes*); and the customer, the supplier, or the relationship (the *parties* of value). While these three sources of value have been noted before (e.g. Ulaga, 2001), our model as shown in Figure 3 will allow us to clarify the three facets of KAM value presented above.

FIGURE 3 ABOUT HERE

Exchange customer KAM value

This aspect of KAM value is created by the efforts of the supplier and is appropriated by the customer. This represents the value that is most often communicated as the essence of KAM, although this must be seen (in the long-run) as a self-serving exercise to retain and develop strategically important selling relationships by providing superior perceived value in the eyes of the customer. It is linked to a marketing perspective of (key account) value. It comprises value elements like simplified and coordinated communication (single point of contact on supplier side); international integration of exchange activities; adjusted and customized core offering; individualized interaction approaches and services; better responsiveness and reliability; unified pricing; matching 'sales-style'; ICT integration for delivery, fulfillment, and billing; or access to key decision makers on supplier side (Sharma, 1997; Weilbaker and Weeks, 1997; Abratt and Kelly, 2002; Georges and Eggert, 2003).

Proprietary supplier KAM value

Much of the KAM literature, and certainly much of key account practice, is derived from a sales management and personal selling perspective (Homburg et al., 2002). Shapiro and Wyman (1981) have called KAM "…*an extension, improvement, and outgrowth of personal selling*" (p. 104). Many KAM programs have traditionally been linked to the internal efficiency and effectiveness objectives of the supplier (see, for example, Wilson et al., 2002). In this case, KAM is perceived primarily as an activity aimed at internal efficiency and effectiveness of the supplier. The emphasis is on efficient processes that provide certain interaction results at reduced costs (i.e. improved sales productivity) (McDonald et al., 1997). Examples are the emphasis on aspects of concentrating sales teams; improving account team communication; improving dissemination of key customer information; focusing selling resources and processes; inventory utilization improvements (Weilbaker and Weeks, 1997). However, Kalwani and Narayandas (1995) have shown that many of these supplier cost effects are bargained away by the customers in long-term relationships through price reductions. However, in the short term, the resultant cost reductions implied by *proprietary supplier KAM value* tend to provide the supplier with net benefits that are not necessarily shared with the customer. Consider for instance the case where a key account manager is considered by the supplier organization as a key informant about the key account customer (its organization, its strategy, its needs,...). The information provided by the key account manager is directly used by the supplier in its day-to-day business with the customer. However, there is no direct value creation for the customer necessary in this constellation. The supplier may know the customer better through the information provided by the key account manager and is going to serve it consequently better (a customer benefit). However, this is a side-effect if the information provided by the key account manager to the supplier is a matter of granting it with more power in the relationship with its customer. In such a situation, the customer does not necessarily know that it is a key account in the eyes of its supplier.

Relational KAM value

While *exchange value* describes value that comes into existence because ***of*** a key account exchange relationship (i.e. because a supplier-created offering is transferred to a value-consuming customer), it does not capture any value that is created ***by*** the exchange relationship. In this case, the relationship itself becomes the resource that creates value (Ritter and Ford, 2004). This aspect of value, organized around cross-company teams, is often linked to joint New Product Development activities or quality initiatives (often resulting in ISO certification) (Napolitano, 1997). One example in which a customer and a supplier use its relationships is Honda of America Manufacturing (HoAM): a drive towards tier-one supplier quality and cost structure improvement caused HoAM to co-locate some of its experts on the supplier side (i.e. embedded within their KAM) to identify process opportunities in the relationship. Resulting benefits were shared between the parties, usually resulting in reduced manufacturing costs for the supplier/manufacturer and reduced prices for the customer HoAM (SAMA, 1998). The separation of actors into customer and suppliers is less important in such cases, as value is essentially linked to both partners in the interaction. Of course, this does not imply that both sides either contribute to or gain equally from the value creation process. Nevertheless, *relational value* cannot, *qua definitione*, exist without the cooperation of both customer and supplier. In he same way that value creation is shared, so too is the process of value appropriation. Again, this does not imply that value appropriation is equally shared or that it is even linked to the ratio of the relative degrees of value creation. The extent of value appropriation is independent of the degree of value creation, and is driven by other facets of the relationship (power, negotiation skills, etc.) that characterize the relationship.

We do not suggest that these three perspectives are mutually exclusive. In fact, in most cases, key account relationships are based on and exploit several value aspects at the same time. However, it can be argued that individual players in a dyadic key account relationship put specific emphasis on one value perspective which is used as the rationale, i.e. the guiding principle for the key account relationship management. This rationale can be understood as the underlying key account value strategy.

Key Account Value Strategies (KAVS)

Both customer and supplier in a key account relationship should be aware of all the different value perspectives that may be embedded within KAM. However, suppliers need to be clear about their specific value focus in the relationship in order to optimize activities, processes, and resource allocation related with this focus. On the flip-side, customers that are key accounts should have an understanding of the value strategy that is pursued by the supplier in order to optimize its own position vis-a-vis. In effect, this means that as part of any key account relationship, the dyadic actors need to take into account the specific focus of the KAM and align their own value strategies with that of their counterpart. This results in a bi-partite character of key account value strategies (KAVS):

Static dimensions of KAVS

Three distinct KAVS exist, linked to the different value foci of the value model. One viable strategy for suppliers is to create key account structures primarily for internal efficiency and effectiveness reasons. If the structure of the exchange with other organizations shows specific characteristics (e.g. many single orders, internationally dispersed locations, potential for bundling activities), the internal organization around key account divisions provides cost reductions in managing this exchange. This *proprietary KAVS* is characterized by direct and immediate value appropriation.

An alternative orientation focuses on *exchange customer KAVS* . This strategy is based on the 'marketing concept' of satisfying customer needs (i.e. delivering value) in order to achieve certain exchange characteristics that are profitable for the supplier, e.g. customer loyalty, cross- or up-selling, or strategic information gathering (Weilbaker and Weeks, 1997). Therefore, the (monetary) results of this value strategy can be indirect and deferred. Although this strategy is based on an appreciation of the key account characteristics by both exchange parties, the value can still be delivered in a long-term 'transactional' mode, i.e. a real relationship, based on trust and commitment, may not exist.

A *Relational KAVS*, on the other hand, presuppose such a relationship between the dyadic exchange partners. This strategy is based on the realization that there are values that cannot be managed or created by individual organizational entities alone. These values 'over and above' any possible exchange value are intrinsically linked to the *cooperative* activities and the *commitment* of both parties. By definition, this strategy cannot be decided on and implemented by one exchange partner alone, it is fundamentally linked to a coordinated value strategy approach (and therefore presupposes what will be called below 'strategy matching').

Dynamic dimensions of KAVS

While companies can choose to focus on one of these value strategies (or on a portfolio thereof), their decision is not independent of the orientation of their dyadic partner, in this case the customer. The value orientation chosen by the customer may be conditional or influential for its own KAVS positioning. This approach is isomorphic with the dyadic interaction approach as suggested by Campbell (1985). Part of the strategic decision of a supplier regarding its KAM value orientation must therefore also be a 'matching' with the customer which can be determined through negotiations. Pardo (1997) has noted previously that the importance of the degree of knowledge that a customer has about the existence and meaning of a KAM program is pivotal for its success. Building on this, it can be hypothesized that dyadic key account relationships progress through value development paths, in line with findings by Lambe and Spekman (1997) and McDonald et al. (1997), e.g. starting with proprietary KAVS and adding elements of exchange and relational KAVS. This development is characterized by increasing degrees of involvement, trust and commitment, collaboration, and interdependence within the dyad (Ganesan, 1994).

Conclusions and Implications

We posit that most KAM literature focuses on only part of the value aspects as exemplified in our model, and hence tends to the myopic. In the traditional sales and organizational model, the primary emphasis is on the management of Proprietary Supplier Value, while the traditional marketing model focuses mainly on Exchange Value for Customers. However, as our multi-faceted model makes clear, this leaves considerable aspects of the KAM spectrum as ‘unmanaged.’ As such, potential new avenues for the strategic management KAM have been opened. Our research implies that managers have a variety of KAVS open to them, depending on the specific value focus of the selling organization and the corresponding orientation of the buying organisation. The specifics of these different value strategies need to be analyzed and compared in more contextual detail. Consequently, research in this area needs to take into account a more holistic understanding of value in order to understand the activities of suppliers and customers in a strategically important exchange relationship. Furthermore, issues around KAM organization and operations need to be understood in relation to their impact on different aspects of key account value creation and appropriation.

However, our key account value model remains a customer-oriented model which takes into account some aspects of the KAM dyad. One of the limitations of such a perspective is the fact that neither all aspects of the dyad (e.g. key buying centre value approaches) have not been included nor are network considerations taken into account. The impact of wider exchange relationships, i.e. value-crating systems (Parolini, 1999) provides a further aspect of complexity that needs to be investigated in future research on value in key account relationships. To posit only one challenge, relational KAM value can also be utilized in exchange interactions other than the focal (dyadic) key account relationship. For example, if two companies create value via developing a new NPD process, this knowledge can be used (by the selling company as well as by the customer) in interactions with other players. In this case, the creation of value (within a key account relationship) is disjointed from the appropriation of it (within another relationship). Research within the tradition of the International Marketing & Purchasing Group (IMP) is well placed to incorporate these value aspects and strategies into their research agenda (Ford et al., 2003; Håkansson et al., 2004; Ritter and Ford, 2004), e.g. by utilizing the concept of Key Network Management for an understanding of value exchanges (Ojasalo, 2004).

Considering KAM value from the perspective we have been using in this paper, new perspectives are opened on the role played by customers in the management of key relationships and value processes. Key account relationships are not necessarily linked only to suppliers' management of exchange relationships. Recently, scholars have noted the growing interest of firms for key supplier management programs or key buying centres (Missirilian and Calvi, 2004). Our value rationale can be applied *mutatis mutandis* to these situations as well. Furthermore, mirroring the idea of a proprietary supplier value, we may also find situations where the customer organizes itself, or manages its side of the exchange process, in a specific and one-sided (proprietary value) approach. We see such a 'key buying centre' approach as the opposite kind of creation and appropriation of value where, because of some facet that gives it greater power (typically perhaps the large percentage of the supplier's production capacity accounted for), the supplier is able to demand, create and get all the benefit from the partnership. This represents the flip-side of the *proprietary supplier KAM value* and is linked to effectiveness and efficiency gains within the customer by organizing its activities around a key buying centre and has been discussed in the Supply Chain Management literature (McDonald, 2000). The corresponding process and organizational value gains are also independent of the 'relationship' itself, i.e. they are possible without the supplier contributing or even knowing about the specific 'key buying centre' characteristics that are applied. Cost reduction via organizational efficiency gains, reduced transaction costs, and resource concentration as well as risk reduction and long-term planning security fall under this category (Napolitano, 1997; McDonald, 2000).

Similarly, and mirroring this time the concept of *exchange customer KAM value*, one may think about the meaning of an *exchange supplier KAM value*. The specific value elements that the customer creates within a key account relationship for the supplier are not widely discussed or conceptualized. They comprise of, for example, privileged customer information access; bundled order procedures that minimize integration efforts, single point of contact on customer side.

These unresolved aspects of our multi-faceted model of KAM value and the associated KAVS point towards necessary future research, especially in the area of conceptualizing KAM and supply chain management in an integrated approach, taking into account the complex dyadic and network situations in which value considerations are embedded.

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Figure 1: Traditional Value Perspective

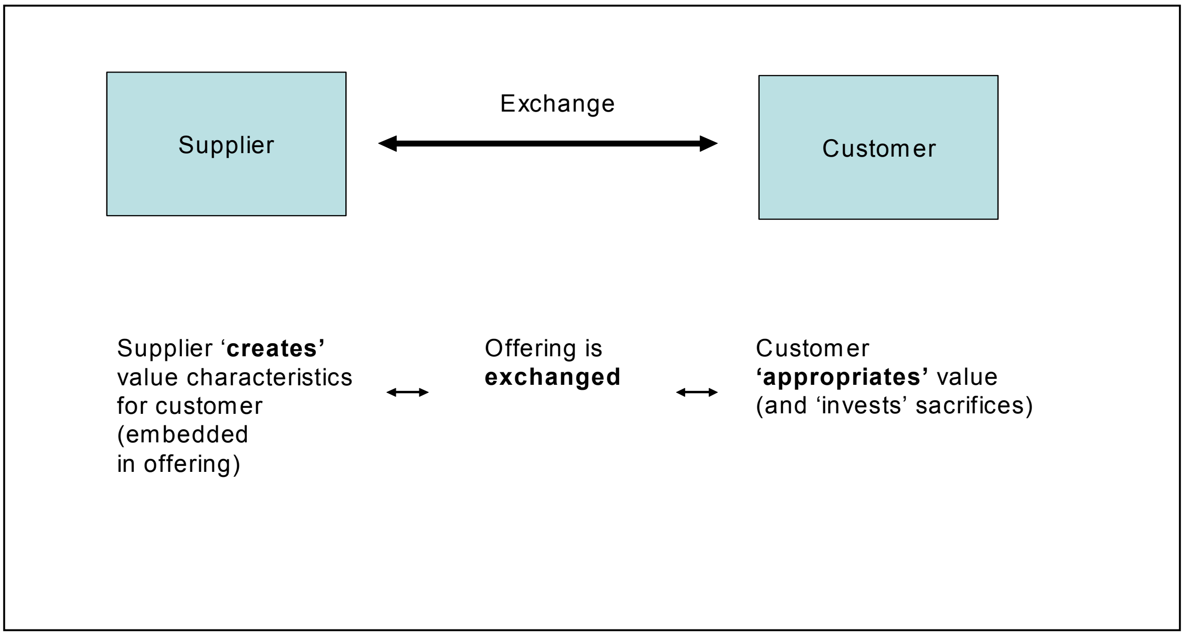


Figure 2: Traditional Key Account Value Perspective

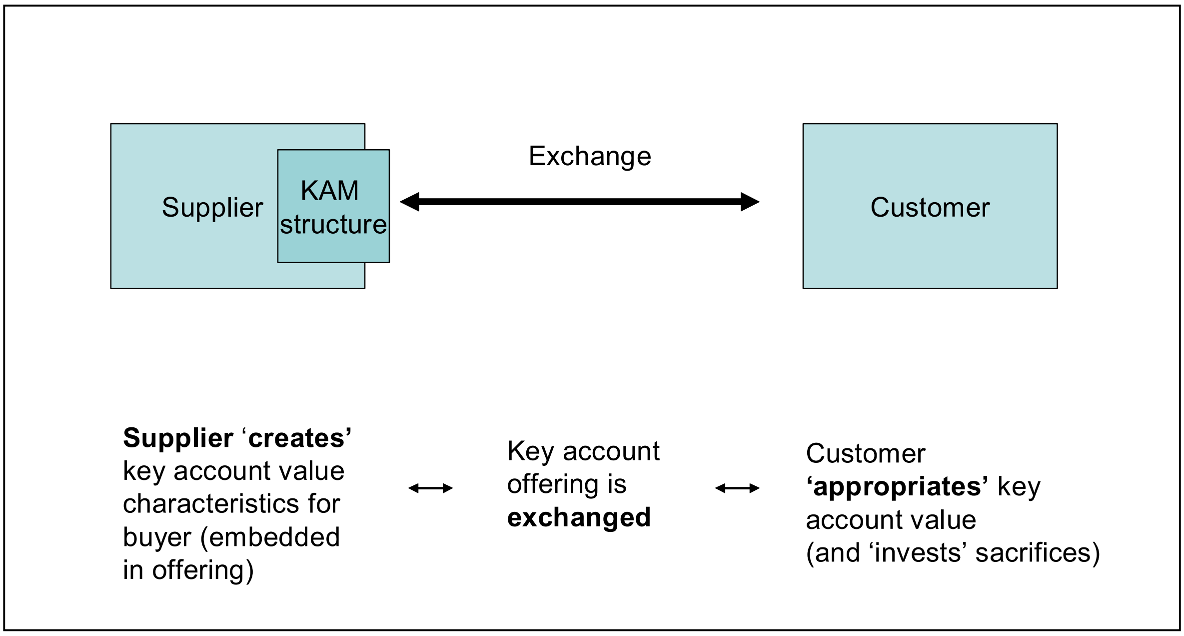
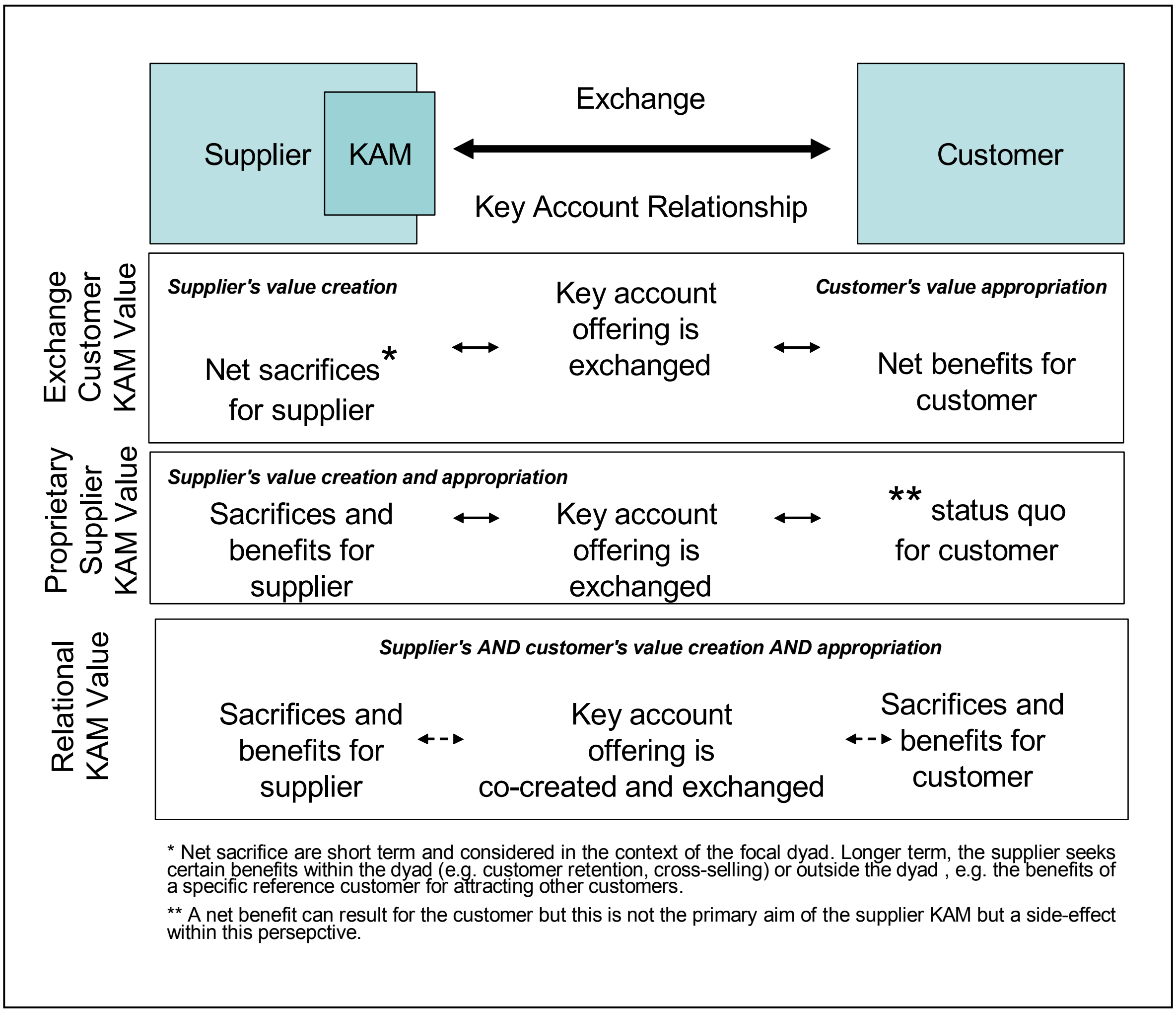


Figure 3: Key Account Value Model



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