Key Account Management – A Review

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Received: July 7, 2015   Accepted: August 11, 2015   Online Published: September 16, 2015

Abstract

Many companies attempt to obtain competitive advantage and achieve sustainability in their business by establishing strategic alliances with their customers. One of the most significant types of strategic alliance is Key Account Management (KAM). KAM is a systematic supplier initiated programme for managing strategically important customers in business-to-business (B2B) markets. However, the relationship-oriented perspective of KAM has limited empirical examination, and most of the studies were mainly conducted in developed countries such as United States of America, Europe, East Asia, Africa, and Oceania. The aim of this paper is to review KAM literature since 1950s, and to identify its drivers and research challenges. The review found that KAM is evolved from Relationship Marketing (RM) and it involves the adoption of collaborative ways of managing key account relationships as compared to traditional transactional practices to achieve an effective KAM relationship. The paper concludes that implementation of KAM could enhance performance of suppliers.

Keywords: key account management, business-to-business, relationship marketing

1. Introduction

KAM is a relationship oriented marketing management approach originating in the US to deal with key customers in Business-to-Business (B2B) markets (Wengler, Ehret, & Saab, 2006; Millman, 1996; McDonald, Millman, & Rogers, 1997; McDonald & Rogers, 1998; McDonald, 2000). However, this relationship-oriented perspective of KAM lacks appropriate empirical examination (Tzempelikos & Gounaris, 2013). This article reviews the literature of KAM, its evolution, drivers and research challenges. Lastly, conclusion is drawn at the end of the paper.

Key accounts are customers that selling companies in the business markets regard as strategically important and serviced by the selling company with dedicated resources (McDonald, Millman, & Rogers, 1997; Zupancic, 2008). Sellers may give key account status to some customers for their reference value or company reputation. KAM entails identifying and targeting key accounts by giving them special treatment in the areas of administration, marketing, and services.

KAM is a sales and marketing approach intended at establishing relationships with strategic or important customers in business markets (Mcdonald, Millman, & Rogers, 1997). Boles, Johnson and Gardner (1999)’s study found that selling companies cannot afford to lose key customers, relationships need to be managed in a special manner in order to serve them better and to develop long-term relationships with them.

Previous research has shown the use of limited empirical data to make statements about the KAM effectiveness. Collection of prior research on determinants of KAM effectiveness is shown in Table 1. Many studies are conducted in developed countries located in the United States of America, Europe, East Asia, Africa, and Oceania which limits the generalizability to other regions such as Asean. Second, all but three of the studies (Workman, Homburg, & Jensen, 2003; Tzempelikos & Gounaris, 2013; Davies & Ryals, 2014) have more than 200 respondents, while some works are based on surveys or interviews in a relatively small number of companies. Thirdly, only six studies have used statistical analysis more advanced than correlations and t-tests. Lastly, two of the studies have used single-item ratings of performance.

2. KAM Evolution

The discipline of marketing derived from economics. One of the most significant drivers motivating growth is

192
lack of interest among economists in the details of market behaviour, particularly those related to the functions of the middlemen (Bartels, 1988; Hunt & Goolsby, 1988; Houston, Gassenheimer, & Maskulka, 1992). In 1902, University of Michigan offered the first programme on the subject area of marketing, followed by University of Pennsylvania in 1905, and Ohio State University in 1906. These programmes focused on the inter-relationships among various divisions of the firm and marketing institutions in performing the distributive task (Bartels, 1988).

The basic principle of marketing management is the marketing mix theory, generally represented by the 4Ps. The theory was first published in a textbook by McCarthy (1960) and supported the scaffolding for future research. Initially, the philosophy of the marketing mix theory was invented by Neil Borden in his 1953 American Marketing Association presidential address. The theory was formalised and published in the Journal of Advertising Research in 1964. The original marketing mix was comprised of 12 parameters based on Culliton (1948)'s study. The study described the role of a marketing manager being an artist, decision maker or a mixer of ingredients, who sometimes prepares his or her own recipe, follows recipes made by others, adapts a recipe using available ingredients, and invents new ingredients. The mix retained elegance and simplicity after reduced to 4Ps, but lost in validity and substance. However, it is still an improvement compared with the single P of microeconomics: price.

In 1955, Brems from the Copenhagen School of Economics argued the parameter theory defining four factors of sales and competition: advertising, service, quality, and price. According to Michwitz (1959), the parameter theory is tied with the product life cycle curve and the importance of the parameters differ with the stages in the life cycle. Booms and Bitner (1982) added two Ps, physical evidence and process, and participants to turn service marketing into 7Ps. Subsequently, Kotler (1986) proposed people and place to form 6Ps in his Megamarketing concept. Additionally, Judd (1987) recognised marketing personnel as a fifth P as a major marketing parameter and lastly, Baumgartner (1991) suggested 15Ps to form a complete marketing mix.

Gummesson (1994) posited that the marketing mix approach is inappropriate because the approach does not consider the requirements of the customer and take into consideration industrial marketing. The applicability of RM has been improved and the philosophy of RM is transformed into 30 relationships, the 30Rs. According to the study, the main contributions of RM literature come from quality management, the network approach, services marketing, and indirectly from organisational theory. Additionally, Sheth and Parvatiyar (1995) argued that 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.

RM was intended to consolidate suppliers, customers and other infrastructural parties into a firm’s marketing and developmental activities (McKenna, 1991; Shani & Chalasani, 1991). Wengler, Ehret, and Saab (2006) cited that marketing has both a transactional and a relational dimension and scientific research had undergone several phases to reach the conclusion in the last 60 years. As RM is comprised of relationship selling and relationship buying, KAM has to be considered a specific relationship programme focusing on key customers.

One of the most important events of the past decade is that many industrial buying firms have been evolved through corporate mergers and acquisitions. These large firms are more demanding and powerful than before and have been observed in many industry sectors such as pharmaceuticals, automotive, retailing, and information technology. Previous studies have shown that these firms have reduced their base of suppliers to cooperate more closely with a limited number of preferred suppliers (Heide & Stump, 1995; Workman, Homburg, & Jensen, 2003; Tzempelikos & Gounaris, 2015). These developments have urged many suppliers to manage their limited resources effectively, particularly to these key customers. In this context, designing a global marketing mix programme to serve all customers has become meaningless (Pels, 1992). KAM approaches are frequently used since the selling process is beyond the capabilities of any one individual and may require a coordinated effort across products, sales regions, functional groups, and divisions. Consequently, KAM has emerged as a well known marketing management conception for managing business relationships in the marketing management literature (Wengler, Ehret, & Saab, 2006).
<table>
<thead>
<tr>
<th>Authors</th>
<th>KAM Effectiveness Dimension</th>
<th>Sample</th>
<th>Method Used to Test</th>
<th>Statistically Significant Findings</th>
<th>Contributions</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stevenson (1981)</td>
<td>Increased profits and share, improved communications internally and with buyer</td>
<td>23 firms, personal interviews</td>
<td>t-tests</td>
<td>KAM programme leads to increase profits, share of purchases, and communication</td>
<td>To address question of what leads to KAM programme success</td>
<td>Small sample size</td>
</tr>
<tr>
<td>Platzer (1984)</td>
<td>No specific measure, asks for rating of importance of 23 items for programme successes</td>
<td>Survey responses from 122 members of the NAMA</td>
<td>No statistical tests</td>
<td>No statistical tests done</td>
<td>Provides percentage importance of 23 aspects of a programme for programme success</td>
<td>No statistical tests, bias in data.</td>
</tr>
<tr>
<td>Shapiro and Moriarty (1984)</td>
<td>Support systems, top management involvement and direction</td>
<td>Interviews with 19 U.S. firms</td>
<td>Fields study of NAM</td>
<td>No statistical tests done</td>
<td>Explain the importance of support systems, in support of NAM</td>
<td>No statistical tests, small sample size in U.S.</td>
</tr>
<tr>
<td>Wotruba and Castleberry (1993)</td>
<td>Single 9-item scales: individual level</td>
<td>Survey responses from 107 members of NAMA.</td>
<td>Bivariate correlation and t-test.</td>
<td>Performance is better for firm with key account manager</td>
<td>Performance of KAM is affected by length of tenure age of programme and time devoted to KAs</td>
<td>Bivariate analysis single-item perceptual performance, small sample size.</td>
</tr>
<tr>
<td>Montgomery, Yip, and Villalonga (1998)</td>
<td>4 2-item scale: Manager/team, customer involvement, Performance evaluation, personnel evaluation</td>
<td>Survey responses from 191 firms with global customers (U.S.; Europe; East Asia; Africa; Oceania)</td>
<td>SEM</td>
<td>First KAM study to use SEM.</td>
<td>KEM positively affects performance</td>
<td>Only a single determinant of performance, convenience sample. SEM is not appropriate for &lt;3 item scales.</td>
</tr>
<tr>
<td>Birkinshaw, Toulan, and Arnold (2001)</td>
<td>5 multi-item formative scales: scope of account, communication</td>
<td>106 survey responses from 16 multinational firms (Sweden/US/U)</td>
<td>Ordinary least squares regression</td>
<td>Strongest effects from customer dependence, communication and scope of</td>
<td>6 models tested, all variables significant</td>
<td>Assuming KAM in a given firm are independent from each other</td>
</tr>
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<td>Authors</td>
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<td>Workman, Homburg and Jensen (2003)</td>
<td>Activity intensity and proactiveness, top mgmt involvement, use of teams, morale in a group, control over sales resources and KAM approach formalisation</td>
<td>264 and 121 survey responses from German firms and U.S. firms respectively</td>
<td>SEM LISREL VIII</td>
<td>Identify intra-organisation determinants of KAM effectiveness</td>
<td>Used quantitative data analysis to determine intraorganisation determinants of KAM effectiveness</td>
<td>Unmeasured factor may affect both IV and DV.</td>
</tr>
<tr>
<td>Salojarvi, Sainio and Tarjuainen (2010)</td>
<td>Top mgmt involvement, formalisation, CRM investment, Use of teams, customer relationship orientation</td>
<td>169 responses from 97 firms in Finland, Nordic countries</td>
<td>Hierarchic al Linear Model</td>
<td>Identify factors that positively affect customer knowledge utilization in KAM relationships</td>
<td>Customer Relationship Orientation uniquely affects utilisation</td>
<td>Only a key informant approach used in collecting data; Smaller firm size in Finland; single dimensionality scales</td>
</tr>
<tr>
<td>Gounaris and Tzempelikos (2013)</td>
<td>6 multi-item scales from KAMO</td>
<td>304 companies in Greece</td>
<td>SEM</td>
<td>KAMO influences financial and nonfinancial performance</td>
<td>First study to provide a comprehensive and empirically valid measure of a supplier’s KAMO</td>
<td>Single-informant design; lack of market and buyer characteristics factors; KAMO dimensions may develop as a consequences of KAM implementation</td>
</tr>
<tr>
<td>Davies and Ryals (2014)</td>
<td>22 KAM practices from previous studies</td>
<td>209 companies with formal KAM programme in UK</td>
<td>Multiple regression</td>
<td>Proposed non-financial and financial measures affect KAM effectiveness</td>
<td>Identify nine criteria for KAM effectiveness</td>
<td>Single item measures of effectiveness</td>
</tr>
</tbody>
</table>

Further study by Woodburn and Mcdonald (2011) found that the external context in which buyer-seller relationships exist is becoming increasingly extensive and complex. Change drivers include the rapid pace of change, the refinement of processes, market maturity, heightened customer power and the globalisation of business. At the same time, the internal, organisational context is also changing, such as removing traditional delineations of remit and responsibility. Conditions are more conducive to ‘partnering’ between suppliers and customers and,
thus, the nature of marketing has changed. Marketers are moving away from a traditional transaction focus towards a customer focus. Hence, there is a pressing need for finding ways of describing relationships as a basis from which to understand them better and build them stronger – and this has led to the ascendency of KAM. Development of KAM is shown in Table 2.

Table 2. Development of KAM

<table>
<thead>
<tr>
<th>Authors</th>
<th>Title</th>
<th>Significance of study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culliton (1948)</td>
<td>The Management of Marketing Costs</td>
<td>Introduce 12 marketing mix parameters based on the notion of a businessman being a decision maker</td>
</tr>
<tr>
<td>Brems (1955)</td>
<td>Price Theory or Parameter Theory</td>
<td>Present determinants of competition and sales: Price, Quality, Service and Advertising</td>
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<tr>
<td>Mickwitz (1959)</td>
<td>Marketing and Competition</td>
<td>Link the parameter theory to the product life cycle</td>
</tr>
<tr>
<td>Borden (1964)</td>
<td>The Concept of the Marketing Mix</td>
<td>Extend the parameters theory introduced by Culliton in 1948</td>
</tr>
<tr>
<td>Booms and Bitner (1982)</td>
<td>Marketing Strategies and Organization Structures for Service Firms</td>
<td>Turn services marketing into 7Ps by adding three service Ps: participants, physical evidence and process</td>
</tr>
<tr>
<td>Kotler (1986)</td>
<td>Megamarketing</td>
<td>Add two Ps: Political Power and Public Opinion Formation to form 6Ps in his Megamarketing concept.</td>
</tr>
<tr>
<td>Baumgartner (1991)</td>
<td>Nonmarketing Professionals Need More than 4Ps</td>
<td>Propose 15Ps: People, Politics, Public relations, Probe, Partition, Prioritize, Position, Profit, Plan, Performance, Positive implementations and 4Ps</td>
</tr>
<tr>
<td>Gummesson (1994)</td>
<td>Making RM Operational</td>
<td>The core of the outcome of his study is the specification of the 30 relationships.</td>
</tr>
<tr>
<td>McDonald, Millman and Rogers (1997)</td>
<td>KAM: Theory, Practise and Challenges</td>
<td>Describes a framework for understanding the development of key account relationships. KAM requires significant changes in the organization and management of business-to-business sales relationships.</td>
</tr>
<tr>
<td>Homburg, Workman and Jensen (2002)</td>
<td>A configurational Perspective on KAM</td>
<td>Build a bridge between marketing organisation research and RM research.</td>
</tr>
<tr>
<td>Wengle (2006)</td>
<td>KAM in Business-to-Business Markets</td>
<td>First uniform KAM conception from the RM perspective, including its strategic, functional and organizational dimensions.</td>
</tr>
<tr>
<td>Guesalaga and Johnston (2010)</td>
<td>What's next in KAM research? Building the bridge between the academic literature and the practitioners' priorities</td>
<td>Content analysis of 154 articles found that the role of senior management in KAM, and the importance of internal alignment in determining KAM success are identified very important to key account managers but still under-researched.</td>
</tr>
<tr>
<td>Woodburn and Mcdonald (2011)</td>
<td>Key Account Management: The Definitive Guide</td>
<td>Both internal and external contexts led to ascendency of KAM.</td>
</tr>
</tbody>
</table>
3. KAM Drivers

Henneberg, Pardo and Mouzas (2005) explored the origin of KAM from the point of view of suppliers. Suppliers often allocate resources to customers who contribute to the highest percentage of sales or profits, thus not all customers are treated equally. The study suggested KAM programmes are often formed to achieve mutual gains and to create incremental value within important relationships.

Homburg, Workman and Jensen (2002) found the increasing demands of value added services by key customers have driven the implementation of KAM. Firms organise limited resources around customers, develop customer focused business units, employs key account managers and build teams made up of people from various departments such as finance, sales, marketing, and logistics. The study also recognised the influence of purchasing centralisation, purchasing complexity, demand concentration and competitive intensity on KAM formation.

Weitz and Bradford (1999) and Bauer et al. (1998) have shown that many sales organisations are moving from individuals selling to teams selling. According to the study, successful firms are dismissing the hard-sell, short-term orientation of personal selling in favour of a customer-oriented, long-term selling model referred to as relationship selling. Transaction selling focuses on personal selling and secures an immediate sale, and limited attention has been given to the customer’s needs, particularly over the long-term. In contrast, relationship selling focuses on developing and enhancing a mutually beneficial bond between buyer and seller. The focus changes from making a sale in the short-term to getting and keeping the right customers over the long term.

KAM is not a new concept in marketing literature (Piercy & Lane, 2005), and drivers in the business environment such as increasing competition, market maturity, globalisation, increased customer sophistication and power, rapid change and process refinement (McDonald, Rogers, & Woodburn, 2000) have led to increased supplier rationalisation and the need to form closer relationships with customers in the activity of retaining customers, adding value and lowering costs (Millman & Wilson, 1999; McDonald, Millman, & Rogers, 1997; Pardo, 1997; McDonald, Rogers, & Woodburn, 2000; Ojasalo, 2001; Workman, Homburg, & Jensen, 2003; Piercy & Lane, 2005; Wengler, Ehret, & Saab, 2006).

Piercy and Lane (2005) presented a conceptual model of three types of value driven key account relationships. The choice of models is driven by the direction of the both selling and buying organisations. The orientation of the supplier and buying organisation decides a most appropriate KAM approach to be adopted. The three types of values are exchange KAM value, proprietary KAM value and relational KAM value. Exchange KAM value involves the supplier creating specific key account related values such as price reduction, priority ordering, and additional after-sales service which are dedicated to the key account. In the proprietary KAM value, the value is created and consumed by the supplier only. It is suggested that many key account programmes are aimed at gaining internal efficiency and effectiveness of the supplier and the customer is not even aware that they are a key account. Lastly, relational KAM value is co-produced and dedicated by both supplier and customer, so that the relationship itself becomes the resource that creates value (Piercy & Lane, 2005). It is implied that relational value cannot exist without the cooperation of both customer and supplier. The study proposed that it may be possible to add another proprietary exchange type called KAM proprietary buyer value whereby the benefits are dedicated by the purchases. This is in response to purchasing centralisation in buying organisation (Piercy & Lane, 2005).

In addition, Montgomery, Yip and Villalonga (1998) identified drivers affecting KAM development comprising globalisation of markets, the need for competitive preemption, and the increased recognition of customer focus as a critical success factor. Parvatiyar and Gruen (2002) presented four drivers of the shift to KAM. The drivers consist of the development of global economies, the increasing globalisation of customers, enhancements in technology and the emergence of global channels. When buying firms expand their business globally, it becomes of utmost importance to treat them as key accounts because of the additional requirements of global firms.
study also found that KAM programmes are the most complex sales approach, thus studying the effectiveness of KAM programmes brings equally complex challenges. Further work by Gosselin and Bauwen (2006) showed that KAM develops competitive advantage for companies which can acquire and develop the necessary organisational competencies to implement an integrative process through alignment with key customers.

It can be observed that developments in the field of globalisation have led to a renewed interest in KAM. Yip and Madsen (1996) claimed that globalisation has driven the adoption of KAM. This is due to the fact that multinational companies require their suppliers to provide homogeneous products and services around the world, play the role of global coordination as well as to respond with KAM. Industrial firms have used KAM approach to manage their key customers and these firms use a team approach to take overall responsibility for all aspects of a customer’s business (Shapiro & Moriarty, 1982). KAM approaches have been used correspondingly with RM and management (Tzempelikos & Gounaris, 2015). The KAM concept can be viewed as the new frontier in RM, extending NAM across countries for key customers.

In the globalisation framework proposed by Yip (1992), industry globalisation drivers such as underlying cost, market, competition, technological, and other industry conditions create the potential for an international firm to obtain the benefits of global strategy. To attain these benefits, the international firm requires establishing its global strategy relevant to the industry drivers. Global organisation factors determine the success of global strategy implementation.

The past decade has seen the rapid development of global customers in many industries. It can be observed that the existence of global customers represent the strongest driver for the use of KAM (Yip & Madsen, 1996; Birkinshaw, Toulan, & Arnold, 2001; Wilson & Weilbaker, 2000). Global customers refer to buying companies who select vendors centrally, buy on a centralised and coordinated basis. Additionally, these companies also look for suppliers who can provide consistent product and service across countries and treat them as a single business entity.

Corresponding to global customers, there are global distribution channels that allow buying companies to buy on a global basis. Global channels are crucial in exploiting differences in prices by conducting the arbitrage function of transhipment. A selling company uses the advantage of global purchase to consolidate and combine global quantity in order to improve their financial gain (Parvatiyar & Gruen, 2002). Existence of the global channels creates opportunity for a business to justify its global pricing and purchasing strategy (Yip & Madsen, 1996; Parvatiyar & Gruen, 2002).

4. KAM Research Challenges

The first challenge is that limited attention has been paid to the performance of team selling and most of the research on sales is very much focused on the performance of individual salespeople (Weitz, 1981; Churchill et al., 1985). KAM is important to practice in achieving organisation objectives and goals, however, it has received limited attention in the literature and there is lack of empirical research in this area (McDonald, 2000; Workman, Homburg, & Jensen, 2003; Piercy & Lane, 2005; Davies & Ryals, 2014).

The second challenge is the difficulty in researching B2B relationships (Homburg, Workman, &Jensen, 2002). It can be observed that the main reason is that the sample size is smaller in B2B markets, and in many cases, the organisation is the unit of analysis, hence data collection has become more challenging. In addition, protection of business respondents’ identities has made the research in B2B markets even more challenging.

The third challenge is lack of empirical evidence behind any models, typologies and taxonomies of KAM. Most of the studies are not context specific and based on one perspective of a buyer or seller relationships (Piercy & Lane, 2005; Homburg, Workman, & Jensen, 2002). It can be noticed that some research findings have imperfections in relation to relationship emphasis and supplier status. Therefore, the use of organisational structures and management systems in KAM research are better understood in terms of overall patterns.

In addition, there is the challenge of a lack of quantitative empirical studies on KAM literature (Workman, Homburg, & Jensen, 2003). Most KAM researches are conceptual and descriptive, based on interviews or surveys in a small number of companies (Shapiro & Moriarty, 1982). The research has presented descriptive data relating to various aspects of KAM programme, with limited theoretical development and few hypotheses tested.

The last challenge is most RM research focuses on inter-organisational issues from the customer perspective. In constrast, KAM research focuses on intra-organisational issues from the supplier perspective (Workman, Homburg, & Jensen, 2003; Salojarvi, Sainio, & Tarkiainen, 2010; Marcos-Cuevas, Natti, Palo, & Ryals, 2014) which causes a gap between RM research and KAM research. This challenge impedes the research of KAM, thus affecting future search on KAM.
5. Discussion and Conclusion

The importance of KAM in establishing long term business relationships between buyer and seller in B2B markets is extensively recognised in literature (Ojasalo, 2001; Homburg, Workman, & Jensen, 2002; Henneberg, Pardo, & Mouzas, 2005; Wengler, Ehret, & Saab, 2006; Ryals & Humphries, 2007; Davies & Ryals, 2014; Marcos-Cuevas, Nati, Palo, & Ryals, 2014). However, this long term perspective of KAM lacks of appropriate empirical examination (Gounaris & Tzempelikos, 2013). Most organisations are engaged in KAM whether the organisations officially acknowledge it or not as most organisations have some pool of strategic customers that are treated as more important than others. The Pareto effect paradigm, also known as 80-20 rule indicates that 80% of the returns come from 20% of key customers (Wengler, Ehret, & Saab, 2006). Hence, selling efforts should be focused on key customers who generate majority of return and a formal KAM programme with participation of many people is recommended to treat key customers differently.

In conclusion, the growth in KAM is expected to continue into the next decade. This study makes contributions to RM, sales effectiveness, KAM literature and sales team selling by examining the organizational factors involved in successfully managing the firm’s sales resources and marketing. The study can also be the reference material to KAM researchers. The result of the study can contribute to the body of knowledge which concerns the determinants of KAM effectiveness in B2B markets. It provides the basis for future research in Malaysia by contributing an integrative conceptualisation of KAM. It also fills a gap in knowledge about how firms design their approach to key accounts. Ultimately, it shows that actively managing key accounts leads to significantly better performance. Future study should identify the determinants of KAM effectiveness as well as its performance implications in the markets. Lastly, researchers can develop and test hypotheses of KAM relationships in future study.

References


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