Industrial Marketing Management 43 (2014) 1172–1181

Contents lists available at ScienceDirect

Industrial Marketing Management

A framework for key account management and revenue management integration

Xuan Lorna Wang [a], Ross Brennan [b,*]

[a] London School of Hospitality and Tourism, University of West London, London W5 5RF, UK
[b] Hertfordshire Business School, University of Hertfordshire, Hertfordshire AL10 9AB, UK

ARTICLE INFO

Article history:
Received 28 March 2013
Received in revised form 1 October 2013
Accepted 4 March 2014
Available online 4 July 2014

Keywords:
Key account management
Revenue management
Customer relationship management
Customer value
Service industries

ABSTRACT

Key Account Management (KAM) and Revenue Management (RevM) have been widely practiced in the service industries for more than three decades, but the effects of RevM on KAM remain largely unknown. This paper addresses this neglected area of study in the marketing field by presenting a framework for KAM and RevM integration that aligns the potentially conflicting management priorities of the two. The study uses an international hotel company as a research context to investigate, first, how a long-term relational approach to KAM may have been affected by RevM short-term revenue maximization goals, and, second, how KAM could be facilitated by RevM through an integrated approach to yield optimization from perishable products and from key accounts. The proposed framework is the first attempt of its kind to amalgamate KAM and RevM, involving critical analysis to assess comprehensively the revenue and the relationship value of a key account.

1. Introduction

The principal contention of this paper is that there are important interactions between revenue management (RevM), a widespread practice in business-to-business service industries, and key account management (KAM). These interactions have been neglected in prior research, and yet the practice of RevM is clearly likely to affect the practice of KAM, possibly with damaging results for key account relationships. In extreme cases RevM policies, which seek to maximize short-term revenue using a market segmentation approach, could adversely affect the development of effective KAM relationships, contradict a carefully designed relationship portfolio strategy, and prevent the alignment of a supplier's strategic objectives with those of a key account. For researchers, the interaction between RevM and KAM is an interesting theoretical question, and the neglect of RevM by KAM researchers is an important lacuna in prior work. For practitioners it is imperative to avoid a situation in which KAM strategies are unintentionally frustrated by RevM policies; guidance is needed on the integration of KAM with RevM. This paper examines the theoretical questions about interactions between KAM and RevM in the research context of the hotel industry, presenting a case study of an international hotel group based in the UK.

KAM and RevM are two popular research areas in marketing and operations management. KAM primarily focuses on the management and development of profitable relationships with strategically important business-to-business (B2B) clients (Anton, 1996; Buttle, 2004; Ryals, Knox, & Maklan, 2000). RevM originated from the airline industry and is one of the most implemented operations management concepts in the service sector (Cross, 1997; Kimes & Wirtz, 2003), aiming to maximize revenue by increasing operating efficiency through effective management of pricing, perishable capacity and customer mix (Anderson & Xie, 2010; Siguaw, Kimes, & Gassenheimer, 2003). Recently it has been recognized that RevM could have adverse effects on customer relationships (Hendler & Hendler, 2004; Kimes, 1994; Mathies & Gudergan, 2007; McCaskey, 1998; Milla & Shoemaker, 2008; Noone, Kimes, & Renaghan, 2003; Wirtz, Kimes, Ho, & Patterson, 2003), but few studies have investigated the interaction between RevM and KAM specifically (Wang, 2012a, 2012b; Wang & Bowie, 2009).

This paper has three objectives. First, to bridge the gap between marketing and operations management literature by presenting a framework for KAM and RevM integration that harmonizes the latently conflicting areas between the two concepts. Second, to understand better how RevM can contribute to KAM decisions that have a long-term perspective. Third, to argue for a change of focus of RevM away from *maximizing* daily revenue to *optimizing profit yield* from a company's relatively fixed capacity, while sustaining valuable long-term client relationships.

This article is organized as follows. A review of relevant literature in KAM and RevM is presented to support the argument that this is an important and neglected research topic. The case study research design used to investigate KAM and RevM at an international hotel company is described, and the results are presented and discussed. Following this, the framework for KAM and RevM integration is proposed, and the theoretical and practical conclusions from the work are explained.

* Corresponding author.
E-mail addresses: Lorna.Wang@uwl.ac.uk (X.L. Wang), d.r.brennan@herts.ac.uk (R. Brennan).

http://dx.doi.org/10.1016/j.indmarman.2014.06.006

2. KAM and long-term buyer–seller relationships

The paradigm shift from transactional marketing to relationship marketing brought with it 'a new management philosophy', KAM, which is one of the most significant marketing trends to emerge recently (Abratt & Kelly, 2002:467). The popular use of the term 'key account' indicates that the customers are seen as an investment made by the supplier in its own future and in many cases this requires 'a short-term sacrifice for prospective long-term gains' (Cheverton, 1999:8). The management of a company's strategically important key accounts can therefore be crucial (McDonald, Rogers, & Woodburn, 2000; Millman & Wilson, 1995). Relationship marketing and customer relationship management (CRM) offer critical benefits and opportunities for long-term profit enhancement to both sellers and buyers (McDonald, Rogers, & Millman, 1998); the value of the customer and the benefits of maintaining and developing long-term relationships are important to companies' competitiveness (Fliedner & Vokurka, 1997). The links between customer retention, customer profitability and Customer Lifetime Value (LTV) have been widely acknowledged and these have increasingly encouraged companies to view the customer as a valuable asset – greater customer retention generates greater profits (Gupta & Lehmann, 2003; Kutner & Cripps, 1997). However, not all customers are profitable, and not all relationships are worth keeping. It is neither profitable nor feasible to develop a close relationship with every customer. Customer profitability studies suggest that a proportion of customers are unprofitable, possibly 60% or 70% (Hill & Harland, 1983; McCormick, McMahon, & Kuenne, 1996). Although these figures can be considered as acceptable for smaller customers who are cultivated in the expectation of eventual profits in the long run, several studies show that even large customers can be unprofitable (Cooper & Kaplan, 1991; Wilson, 1995).

In B2B marketing, partner selection is a key step in managing relationships (Powers & Reagan, 2007:1235). At this stage, the firm becomes aware of potential partners and subsequently selects those considered most appropriate for further development (Dwyer, Schurr, & Oh, 1987) according to the skills and capabilities that the partners have to help the firm meet its short- and long-term goals (Badaracco, 1991). Little information exists about how the selection stage is conducted in the services sector, and more specifically in the hospitality and tourism industries, where alternative suppliers are plentiful. So in this sector account managers must comprehensively assess the value of potential key clients to the selling company before selecting or developing a key relationship.

2.1. Key account value assessment

In the service sector the short-term revenue generated by customers is monitored by RevM practitioners, but understanding of long-term customer value to the organization is more limited (Rust, Lemon, & Zeithaml, 2001; Sheth & Sharma, 2001). CRM is used to identify and retain profitable customers (Buttle, 2004; Ryals et al., 2000). Customer Profitability Analysis (CPA) and LTV analysis are the two most commonly advocated tools for identifying profitable clients and assessing customer value. Regarding CPA, Zeithaml, Rust, and Lemon (2001:118) reason that 'as the relationships and service become increasingly pivotal in business, the profitability of customers is becoming more important than the profitability of products'. LTV is the discounted present value of expected future net cash flows over the lifetime of the customer relationship (Dwyer, 1989; Jenkinson, 1995). CPA and LTV can be seen as complementary measures of the value of a key account.

CPA and LTV analysis support the concept of KAM in organizations' long-term marketing strategies. However, apart from the criticism that few companies are actually assessing customer profitability or customer LTV (Clark, 1999), the question of whether CPA and LTV reveal the true or total value of a key account to the company remains. Ryals (2002:28) suggests that the total value of a customer should include other 'relationship benefits' such as referrals and reference benefits, learning and innovation benefits, as well as the economic value derived from CPA and customer LTV analysis. These relationship benefits may be non-quantifiable, but are nonetheless real. Conversely, if the relationship with a key account fails, the damage would also go beyond simple economic calculation. These non-economic but real benefits are an important argument for KAM.

2.2. RevM

RevM has attracted considerable attention in the operations management literature since the 1980s and it ranks as one of the most researched subjects in hospitality marketing (9.6%) since 2000 (Yoo, Lee, & Bai, 2011: 520). However, until recently the 'customer seems to have been relatively forgotten' in this stream of research (Wirtz et al., 2003:217), and the effect on customer relationships, particularly on KAM, remains relatively unknown. Some studies have suggested that customers may see RevM as opportunistic behavior and so contrary to relational norms (Choi & Mattila, 2006; Heo & Lee, 2011; Kimes & Wirtz, 2003; Mathies & Gudergan, 2007).

Mathies and Gudergan's (2007) study of the airline industry concluded that if companies simultaneously employ RevM and customer-centric marketing practices, conflict can arise that 'mainly lies in the incompatible nature' of CRM and RevM 'where available seats are withheld from award bookings and data collected about loyal customers is not used for personalized offers' (Mathies & Gudergan, 2007:332). Research into the hotel industry reveals that RevM has positively influenced the selling company's understanding of the relative importance of key accounts, but that conflicting priorities can arise when key account managers emphasize relationship development and revenue managers emphasize short-term revenue (Wang, 2012a). From the key accounts' perspective, RevM practices were found to have negative consequences, damaging trust and undermining long-term relationships and commitment (Wang & Bowie, 2009), possibly even leading to abrupt relationship termination. RevM practices can include opportunistic behavior such as unexpected contract rate increases, blocked room availability during high-demand days, imposed contractual restrictions and cheaper rates available at the same hotel but not publicized to a key account (Wang, 2012b). Despite the widely-held view that marketers and RevM practitioners should work side-by-side, integrating CRM and RevM for long-term success (Milla & Shoemaker, 2008:114; Wang, 2012a, 2012b; Wirtz et al., 2003), no comprehensive model has yet been developed of how exactly RevM and KAM could be integrated to assist long-term KAM decisions. This study seeks to fill this gap.

2.3. KAM and RevM: comparative analysis

Barrett (1986:22) defined KAM as "… targeting the major customers of the company … providing them with special treatment in the field of marketing, sales administration and service". The effectiveness of KAM programs has been an enduring topic of research interest (Abratt & Kelly, 2002; Colletti & Tubridy, 1987; Davies & Ryals, 2009; Millman & Wilson, 1996). While there is evidence that KAM can deliver performance gains (Homburg, Workman, & Jensen, 2002; Workman, Homburg, & Jensen, 2003), there is also evidence that the implementation of KAM programs is challenging and that the achievement of potential gains can be frustrated by implementation issues (Brehmer & Rehme, 2009; Piercy & Lane, 2006). KAM effectiveness was defined by Homburg et al. (2002:46) as: "the extent to which an organization achieves better relationship outcomes for its key accounts than for its average accounts". The present study investigates the proposition that, in B2B service companies that engage in both KAM and RevM, the achievement of KAM effectiveness can be substantially affected by the practice of RevM.