A framework for key account management and revenue management integration

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A framework for key account management and revenue management integration

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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.

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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.

Weatherford and Bodily (1992:833) defined *perishable asset revenue management* as "… the optimal revenue management of perishable assets through price segmentation", while more recently Upchurch, Ellis, and Seo (2002:67) defined RevM as "… the process of allocating the right type of capacity to the right kind of customer at the right price in order to maximize revenue or yield". RevM is a profit-maximizing pricing technique that is applied in capacity-constrained service industries (Padhi & Aggarwal, 2011); originating from the airline industry (Bitran & Caldentey, 2003), RevM has been widely applied in industries such as hotels, hospitality, car rental, railways and cruise lines (Padhi & Aggarwal, 2011). The industry conditions under which RevM is a suitable pricing approach are fixed capacity and perishable inventory within a market that can be segmented, within which demand fluctuates (peaks and troughs), and advance selling occurs (Chiang, Chen, & Xu, 2007). As McGill and Van Ryzin (1999) point out, this amounts to a valuation problem that while simple in principle, is very complex in practice because of the large number of variables involved, interactions between those variables, and the huge amount of information that is required. In practice, because "the practical complexities of revenue management are daunting" (McGill & Van Ryzin, 1999:235), RevM is handled as a complex, technical optimization (revenue maximization) problem in operations research, that is managed using computer modeling. For example, Upchurch et al. (2002) provide a detailed explanation of the *Holiday Inn Room Optimizer*, a computerized system for RevM implemented by Holiday Inn (a brand of the Intercontinental Hotels Group). One of the principal functions of a RevM system in the hotel industry is to adjust room rates as demand fluctuates. A common outcome will be that different customers pay different prices for essentially the same service; early bookers may pay more or less than late bookers depending on whether the RevM system predicts high or low capacity utilization.

In summary, then, KAM involves identifying a company's most important B2B customers and offering them special treatment, with the goal of building trust and relationship capital in order to protect and grow long-term revenue and profits (Millman & Wilson, 1996). RevM involves the management of prices and capacity with the goal of maximizing revenue (Upchurch et al., 2002). The critical differences between KAM and RevM can be summarized along six dimensions: sector, timescale, unit of analysis, industry type, basis for customer differentiation, and management approach. KAM is applied only in the B2B sector and is a long-term strategy conducted at the level of the individual customer relationship; it is equally relevant in all types of industry, differentiates between customers on the basis of their long-term relationship value, and is implemented through in-depth personal contact supported by electronic communication and the CRM system. RevM is applied in both B2B and B2C sectors and is a short-term strategy conducted at the level of the market segment; it is only relevant under the specific industry conditions described above, differentiates between customers on the basis of their price sensitivity, and is largely implemented through an optimization modeling approach. This comparison suggests that there is a prima facie case for expecting contradictions to occur between KAM and RevM in fixed capacity service industries with fluctuating demand, where a KAM strategy seeks to build long-term relational capital with key customers on the basis of above average service, while RevM seeks to maximize profit by manipulating price to take advantage of short-term fluctuations in demand. In the hotel industry, one obvious manifestation of this would occur if a customer with KAM status was given a specially discounted corporate room rate, but subsequently observed that a lower rate was available for the same room type at the same hotel at the same time, because the RevM system had predicted low capacity utilization and recommended rate discounting.

3. Research design

A qualitative approach was used to investigate the organizational attitudes, philosophies and practices, with which this study is concerned (Creswell, 1994). Such an approach allows the acquisition of in-depth information and minimizes the distance between the researcher and those being researched, while contributing to an understanding of the complexity of organizational problems, by revealing the nature of organizations involving the activity interactions between management, employees and customers (Easterby-Smith, Thorpe, & Lowe, 2002). A case study method is adopted not merely as a method but also a research strategy (Yin, 1994). The case study organization is a fast-growing 4* and 4* deluxe international hotel group (henceforth referred to as W Hotels). Literature suggests that the benefits of RevM are likely to be substantial at this type of company. W Hotels was selected following an exploratory study of five premium hotel groups. The exploratory study had revealed that W Hotels practiced both KAM and RevM. The qualitative fieldwork was carried out at the Head Office (HO), the centralized Sales and Marketing units and at four hotels (H1, H2, H3 and H4). The essence of this case study is that it tries to illuminate a decision or a set of decisions: why they were taken, how they were implemented, and with what result(s) (Schramm, 1971).

Fig. 1 shows the research framework that was devised on the basis of the literature review, and guided by initial consultation meetings with five expert academics and industry practitioners. The empirical study: first, examines the company's RevM and KAM policy and practices as established by the Head Office (HO), and their applications in and implications for the hotel units; second, evaluates the effectiveness of implementation and operational implications in the individual hotels; and, third, seeks the opinions of key account customers on how RevM has affected their relationships with the hotels. Multiple data-collection methods were adopted to enhance validity and reliability (Yin, 1994; Denzin, 2000). First, data were collected through document studies that included company policy, hotel standard practices, training manuals, minutes of meetings, company internal memos, management reports, and clients' contracts and emails/letters of complaint from key accounts. Second, data came from non-participant observation, by shadowing six participants (including revenue managers and account managers), and attending relevant management meetings. Third, 27 individual in-depth interviews were conducted with eight property-based Revenue or General Managers, ten KAM decision-makers, and nine representatives from the key account companies. The same set of semi-structured interview questions was used with all participants in order to compare the different parties' opinions and to triangulate perspectives (Yin, 1994). The three key interview questions were:

1. *Who are the top three key accounts (or suppliers) for your company and how do you identify them?*
2. *What information did/do you use to select and assess the value of these key accounts (or key suppliers)?*

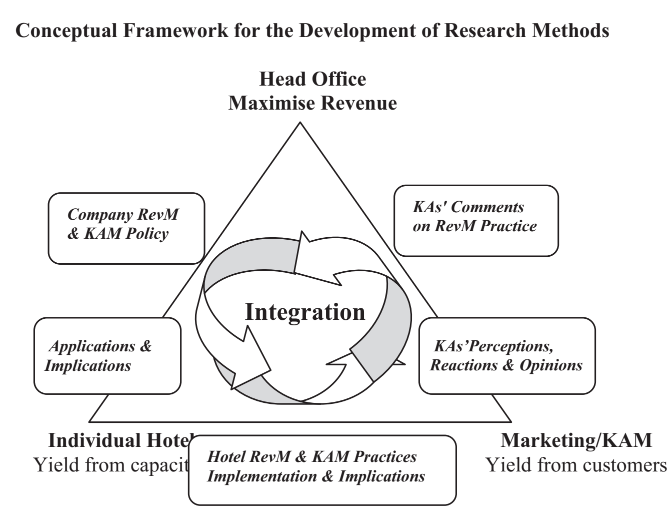

Fig. 1. Research framework.

3. *How has RevM contributed to or affected the relationship with these key accounts (or key suppliers)?*

The first two questions intended to corroborate facts gathered through document studies and observation and the third question sought the individual's perception and opinions. Face-to-face interviews were carried out within the company and later at nine key accounts in three main market segments (corporate, leisure, and airlines). The corporate segment includes large international and national corporations as well as business travel agents who have contracts with hotels that guarantee a certain number of room nights in return for a negotiated discounted corporate rate. The leisure market refers to major tour operators and travel agents whose customers travel primarily for leisure purposes. The airline market refers to the airline companies that have an annual contractual agreement with hotels to provide staff accommodation while stationed in a particular city; this is a highly committed and favorable segment for hotels because of a steady business stream every day throughout the year. In order to gain objective answers while taking research ethics into consideration, the case study company's name was not disclosed when interviewing the key accounts; equally, interviewees' names were not revealed to W Hotels. All interviews were recorded and then transcribed for later analysis.

Strict analytical procedures and protocols were followed (Kahneman & Tversky, 1973; Miles & Huberman, 1994; Yin, 1994). Template analysis (which starts with a few defined codes and uses the template in a highly flexible way to produce an interpretation of the texts) was employed because it combines a deductive and an inductive approach (King, 1998). It positions itself in the middle ground between content analysis (Weber, 1985), where codes are predetermined and the distribution of codes is analyzed statistically, and grounded theory (Glaser & Strauss, 1967), where there is no a priori definition of codes. Hence, this predominantly theory-driven analysis technique was preferred by the researchers who are not inimical to the assumptions of grounded theory, but who felt that template analysis frees them from procedures that 'must' be followed (Strauss & Corbin, 1990), and at the same time opens a more flexible route to analysis to allow themes, patterns and concepts to emerge from the data collected from all sources.

4. Findings

4.1. RevM effects on KAM and key account value assessment

Compared with well-developed and disseminated RevM standard practices, relatively little KAM-related information was found in the analysis of documents. Neither the Head Office nor the centralized Sales and Marketing offices had any specific guidelines about KAM. The only trace of KAM was found in a few training session handouts prepared by external consultants. The company's former regional Sales and Marketing Director confirmed that there was no KAM documentation, and explained that the company was 'deficient in KAM practice development due to the senior management's inattentiveness'. However, the current Director of Corporate Sales and Marketing explained this 'inattentiveness' towards KAM practice, saying that this was because of 'the shortage of human and financial resources … the company had other priorities such as restructure and sales centralization'. Consequently, although there is evidence of an intention to pursue a KAM strategy, the implementation of KAM seems to be weak.

Documentary evidence and observational findings from the Sales and Marketing units show that W Hotels had attempted to implement KAM. For instance, in order to manage the corporate accounts more effectively and in a regulated manner, corporate sales attempted to clarify formerly ambiguous account management concepts. In a number of meeting memos, a key account was defined as 'an account negotiated in the UK, which includes one hotel with existing business at a minimum of 150 room nights'. Hence, booking a minimum number of room nights is the primary determinant factor in awarding key account status. This was seen as a progressive step towards KAM standardization by the management team, to better identify and assess key account value across the company. Such a finding is partially in line with the selection criteria for key accounts suggested by Campbell and Cunningham (1983) and McDonald, Millman, and Rogers (1996), which used sales volume as one of the determining factors. However, no documentary evidence was found that W Hotels includes other strategic criteria—such as the use of strategic resources, the company's share of the customer's purchases, and the profitability of the customer (Campbell & Cunningham, 1983), status-related or financial considerations (McDonald et al., 1996)—to determine the importance of a key account at the policy level. Thus, KAM at W Hotels is primarily focusing on annual 'room nights' volume and it is difficult to say whether the selected key accounts are of genuine strategic value.

A lack of serious efforts to assess KA value thoroughly is also evident. Findings derived from interviews show that the value of the key account was assessed based on a set of criteria which differed between revenue managers and account managers. The evaluative criteria included quantifiable production figures (business volume or room nights; room revenue and total revenue generated) and qualitative factors (visit profile; suitability in market mix strategy; global contribution to the company) which would affect the business performance. There was a fundamental difference observed in the approach that revenue managers and account managers took when deciding on their top three key accounts. The revenue managers automatically selected 'valuable accounts for the property', whereas each account manager would be selecting three accounts out of 'her/his own accounts cluster' allocated across the company.

4.2. Revenue managers' views

When selecting the top three KAs, all revenue managers confidently listed three account names without delay, but there were notable differences in how they rationalized their choice. Conforming to their earlier KA selection criteria, revenue and volume of the business (room nights) appeared to be the most common quantified factors used by revenue managers to assess the value of KAs. However, in H3 and H4 hotels where revenue managers played a proactive role in overall hotel operations, other qualitative assessment criteria were also used such as the suitability of the property's long-term market mix strategy as presented in Table 1.

The revenue manager for H4 listed three airlines as its top three KAs for the property and explained the reasons for this choice as time-bounded, emphasizing that the answer would have been different if the same question was asked last year or next year. To fill a large quantity of perishable room stock (more than 800 bedrooms) on a day-to-day basis in H4 was an admitted challenge for its revenue manager. Thus she treasured these airline contracts because they provided a stable and secure 'yielding base' throughout the year, regardless of any external economic changes.

The revenue manager for H3 selected three key accounts according to market segments—the top airline, corporate and leisure accounts. She rationalized her choice by emphasizing the importance of these clients' visit profile (time of stay) and the volume of the business they provided, which was just 'what the hotel needs—in line with our market mix strategy'. In other words, each client played a significant role in each of the market segments to which they belong. They complemented each other in terms of rate, business pattern and visit profile in matching the hotel's overall market mix strategy in order to achieve its annual budget and revenue sustainability.

4.3. Account managers' views

Account managers on the other hand could not easily identify the three most important key accounts. Account managers' motives for preference were consistently drawn from KA selection criteria but

Table 1
Revenue managers' criteria in assessing the value of a KA.

Hotel	Ranking three top KAs and reasons for choice
H1	'they are VO, MOT and D office; We identify them by size and production. Production in terms of room nights and revenue.'
H2	'top three accounts for us would be X Embassy, X Navy and ABC corporation…mostly because of the revenue they bring and the volume of the business.'
H3	'if I have to choose three, then it would be 'SIA' for airlines; 'GLT' for the corporate market and 'PANRM' for leisure…simply because they are the ones we rely on to generate revenue and to fill our rooms…and they give us the right balance of the business we needed.'
H4	'for now I would have to say is 'MA'; 'JA' and 'SA', I mean for last year it would have been 'SAA', but MA is now replace them…because these are the aircrew contracts. We have about 7 or 8 different aircrew contracts, these 3 key ones represent a substantial %, may be 220 rooms a night, so its a good 25% [of hotel's room capacity].'

each market segment had its own associated variable criteria when valuing KA (see Table 2).

4.3.1. Airline market

Both H3 and H4 hotel revenue managers valued their airline businesses highly because they provided a 'secured yielding base' on a daily basis. For this reason, although there were only a few airline clients in comparison with corporate/leisure segments, the dedicated Director of Airline Sales regarded almost every airline client as a 'valuable key account'. The value of each airline account was primarily, if not solely, prioritized by the 'revenue' contribution. Financial records showed that the top key account identified by H4 revenue manager in this segment generates more than £2 million revenue each year. The Director of Airline Sales, therefore, confidently reinforced the significance of the value of airline key clients among all other clients. He referred to his clients as 'million pound businesses', when he explained the evaluation process in this market segment:

> 'Revenue is the first thing we look at, apart from that it's also because these accounts 'suit the need of (our) business; because they are cost effective; 365 days business gives you two years' stability with little pressure on operational departments…and the payment is guaranteed – the time of payment is indicated in the contract, otherwise clients could face the risk of rejection for accommodation for their daily arrivals.'

Complementing the above statement, the H4 revenue manager who had chosen three airlines as the property's key clients pointed out that the evaluation process in the airline market is relatively straightforward, but the evaluation should comprehensively cover all aspects. For instance, the account managers often forget that even when they have gained a 'two year contract' from airline clients, the contract conditions allow either party to terminate the contract at any time as long as they provide 90 days advanced notice. In other words, although certain airline contracts appear to be valuable for long-term business stability, the value of the client can be enhanced or decreased depending on individual contract details.

4.3.2. Corporate market

Consistent with findings from the earlier KA identification stage, for corporate account managers, the volume of the business was regarded as more important than the revenue contribution when valuing the KA. During the interview, one of the informants explicitly stated: 'Key accounts for me, are the people producing the most room nights for our London products (hotels)'. This view was commonly shared with all five corporate account managers, as well as the Global Sales Director. There was no hesitation; the account managers explained their choice of the three particular key accounts as—'they are top volume', and 'it's mainly based on volume of the business and revenue they generate.'

After volume, 'account potential' was another factor found to be important when valuing key accounts. There were two types of 'potential' considered by the account managers. One referred to the growth potential in business volume, and the other referred to the development opportunity for the account to become a 'global account', which would also provide W Hotels the opportunity to gain the privileged status as one of the account's key or preferred suppliers cross-region. To emphasize the importance of account potential, one account manager expressed his concern about the department's heavy reliance on the past and present contributions of key accounts when assessing their value. He said:

> '…if it [KA] generates a lot of revenue but you can't do anything with it. There is one booker generated a lot of revenue; what do you do, is that a KA? Should you be targeted on that because you've already got it and you can't do (develop further) any more?'

4.3.3. Leisure market

The value of leisure key clients was assessed slightly differently in comparison with airline and corporate clients. The primary factors

Table 2
Account managers' criteria in assessing the value of a KA.

	Main factors	Associate variable factors
Airlines	- Revenue - Suitability to the business (i.e. No. of rooms required) - Length of the contract	- Operational issues (arrival/departure time) - Airline profile – reputation; crew behavior; - Cost effective - Payment methods
Corporate sales	- Volume of the business - Account potential - Room rate and revenue - Business pattern	- Global contribution to the company; - Staying profile (time of stay); - Account history/loyalty; - Fair share in account's business; - Regarded as a preferred or recommended hotel (listed on client's hotel program).
Leisure/tour operators	- Rate & volume - Business seasonality - Allocation needed - Block allocation usage - Ancillary revenue	- Geographical coverage - No. of room-allocations required for weekdays and weekend - Allocation release time

were similar (rate and volume); according to the Leisure Sales Manager, the room rates for leisure clients 'are just under airlines', consequently also lower than the corporate segment. When the senior sales manager, who had worked for W Hotels for 26 years, was asked how key clients within this particular market were identified and valued, he replied:

> "I look at the statistics produced from hotels—including rates and volume; look at allocation usage, then consider increasing or decreasing it; however even though they're big accounts to us, and we often work with the same people (from KA travel managers), we have the relationship there but we work professionally when it comes to negotiation—'I can do XYZ, what can do you for me?'"

Positioned between the airline and corporate market, the number of key clients in the leisure segment is greater than in the airline market but fewer than in the corporate market. According to the Director of Leisure Sales, W Hotels had been relying on not more than six key leisure business providers in the past 10 years. From a sales perspective, the main influencing factors in determining the value of these leisure clients is reflected in the following answers provided by the Director of Leisure Sales:

> 'TB [client account] is one of the biggest leisure accounts in [the] UK and its contribution for next year is expected to be more than 1.5 million. It covers all continents except [the] Middle East, and I contract all our UK hotels, they have allocation in all of our London hotels. For example during summer high season, they would have 100 rooms on Friday; 100 on Saturday; 70 on Sunday and 50 rooms Monday–Thursday, and they would normally use 75% of their allocations.'

4.4. Key accounts' views

Interview findings from nine key accounts (from three market segments), summarized in Table 3, provide insight into what key accounts perceived to be important when choosing a key supplier.

These findings from KAs suggest that there was a discrepancy in the perceived relationship value and key account/supplier status between W Hotels and its self-identified top three KAs in each market. Although the hotel managers believed they had a collaborative relationship with the key clients interviewed, two out of nine KAs did not even consider W Hotels as one of their three key suppliers. However, asked whether or not they have a relationship with W Hotels, the clients did acknowledge the relationship with the company, but at a 'basic [business relationship] level'. Regardless of the relationship with a hotel or a hotel company, all the key clients concurred that they looked at the 'product' offered as a package, to assess the potential costs and benefits before establishing a key relationship. Once the relationship was established, relationship stability and other associated benefits would become additional factors affecting the development or termination of the relationship. Some of the most frequently mentioned associated benefits include early check-in or late check-out for the airlines, last room availability for corporate clients, and increase of allocated rooms during high season for leisure clients. These associated benefits in turn became some of the selection criteria that the clients used to choose a key supplier with whom they could develop a relationship.

Location, rate and service were found to be important factors in the initial assessment process for the suitability of a hotel to become a preferred service supplier. The leisure market was relatively less concerned with location and more concerned with price, because the price paid contributed directly to the price of the packaged product offered to end-customers. Each market segment had a range of other factors associated with the main three factors in evaluating suppliers; Table 3 illustrates this.

A competitive rate was deemed vital by all three market segments, but that did not simply mean that the lowest rate was the overriding factor since clients also valued other benefits. Some interviewees explicitly commented that the value associated with the price, and whether or not the product suited the clients' needs, were more important. For example, in the case of the airlines, clients tended to prefer to have a product package which also offered discounts on the hotel's other services, such as a 50% reduction on the telephone bills. Equally, the leisure market clients said they would be prepared to 'pay a bit more if the hotel

Table 3
The main and associate factors for key accounts to determine a key relationship.

	Main factors	Associate factors	
Airline	Location	City center location	
		Easy access to public transport and local commodities	
		Easy access to airport	
	Rate	Hotel rating and image	
		Discounts on other hotel services (e.g. phone bills)	
		Contract conditions (e.g. length of the contract)	
		Head-office influences (e.g. policy or/and budget changes)	
	Service	Hotel facilities (e.g. gym and Sky TV channel on own country)	
		Experience in serving the crew market	
		Service efficiency (e.g. express check-in/out)	
		Security	
Corporate	Location	Near the company office	
		Business driven (where most of the volume go)	
	Rate	Price does = volume.	
		Contract condition	Minimum discount of 20% rate
			Last room availability (LRA)
			Favorable cancelation policy (4 pm on the day of arrival rather than 2 pm normal cancelation)
	Services	Functional room with efficient services (express check-in/out)	
		Personal recognition	
		Corporate recognition	
Leisure	Rate	Competitive rate	Compare with other hotels
			Compare with the rate offered to other companies
		Contract condition	Room allocation numbers
			Allocation release time
	Service	'Continue level of service that they've always offered'.	
		'Security is very keen.'	

could be more flexible with their room allocations, especially during high seasons.'

Diverse client preferences were also observed in terms of contract conditions, particularly in the corporate and the leisure markets. Interviewees from both markets said that certain specific contract conditions would affect their decision-making. For the corporate market, the 'last room availability' practice was found to be crucial, whereas for the leisure market, the number of rooms allocated under the contract rate, and the release time for these allocated rooms were considered to be important.

All the KAs interviewed acknowledged the importance of having key account status; several of them pointed out that RevM practice had jeopardized, or could jeopardize, their relationship with the hotel company if the value of the relationship and their KA status were ignored. Clearly, some clients felt that RevM could adversely affect the business relationship because of 'short-term thinking' on the part of the hotel, contradicting the long-term relationship needs. One client commented on the RevM tactics:

> 'Things like distressed stock and reduced pricing, that's short-term issue resolution, it doesn't help developing long-term relationship, and so therefore, it's very short-term thinking…'

5. Discussion

It is noteworthy that neither the revenue managers nor the account managers selected key accounts by *profit*, and such a crucial factor for business success was neither mentioned nor listed in the sub-variable factors for key account selection. This is inconsistent with the KAM and CRM literature, which emphasizes profitable relationships and profitable customers (Buttle, 2004: 39; Campbell & Cunningham, 1983; Sheth & Sharma, 2001). One explanation could be that both revenue managers and KAMs have little awareness of company profit drivers and limited knowledge of cost behavior—particularly since these managers' performances were predominantly measured by sales volume, or revenue achieved, not profit.

The findings show that once the potential KA was identified, the relationship would then be developed according to the client's value. This is in line with the suggestions made in the literature that the first, basic stage of relationship development is to choose or select those valuable customers with which the company would like to develop a relationship (Sheth & Sharma, 2001). However, evidently the company lacked standardized key account evaluation guidelines and put little effort into assessing the KA value thoroughly. This corroborates findings from previous studies that there is lack of accountability and measurement of customer value in marketing (Rust et al., 2001; Sheth & Sharma, 2001).

Marketing literature suggests CPA and customer LTV as the two main methods used to assess customer values (Buttle, 2004; Noone & Griffin, 1999; Payne & Frow, 1999; Zeithaml et al., 2001). Ryals and Payne (2001) suggest that customer LTV analysis is more appropriate than CPA because CPA is solely profit-based, and thus constrains the development of relationships in the long term. They argue that the total value of a customer should include the value drawn from CPA and LTV, as well as the benefits drawn from the relationship, such as 'reference and referral' benefits. Therefore, the computation formula for the customer value (CV) would be:

$$\text{CV1} = f(\text{CPA}, \text{LTV}, \text{relational benefits})$$

However, the findings from W Hotels show that a different formula to calculate key account value was used. For the individual hotels, customer value is mainly based on the economic revenue contribution of the clients and their 'just-in-time' value, which refers to ensuring the provision of the right kind of business for the property in time of need such as low-demand seasons. Operations management literature refers to the latter as 'opportunity cost', which constrains client relationships (Buttle, 2004). The KA value formula for the property-based revenue managers therefore, was:

$$\text{CV2} = f(\text{revenue}, \text{time of stay})$$

This could also be calculated as:

$$\text{CV2} = f(\text{volume}, \text{rate}, \text{time of stay})$$

which explains why account managers emphasized business volume.

There was little evidence to show that W Hotels had conducted any CPA or LTV analysis. Instead, the revenue managers and the account managers each had their own list of criteria and priorities to evaluate the value of a client and key accounts. The research findings show that in accordance with the managers' KA identification process, the value of a KA was primarily, or perhaps only, assessed by the client's revenue generation ability (by revenue managers) and business volume (by account managers). The only time that the 'cost of the service' was mentioned was during the interview with the Airline Sales Director, who revealed his thoughts about profit implications. This might be because the costs involved in accommodating airline crew business are relatively transparent in comparison with the corporate and the leisure market segments.

Such findings correspond to the interview findings with the company's key clients. Five out of the nine key account representatives interviewed did not even consider W Hotels as their key accommodation supplier. Furthermore, they displayed little willingness to develop a relationship with any particular hotel company, which again contradicts the literature's description of a key relationship, based upon an equal footing (McDonald et al., 2000). Following on from this analysis, one could assume that W Hotels' revenue-driven KAM approach was perhaps more justifiable, since the company knew little about the value of its clients, and the key accounts showed little interest in a committed relationship.

In short, it was clear that neither revenue managers nor account managers considered the client's profitability and LTV when assessing KA value. The meaning of key account at W Hotels drifted away from the suggestions in the literature because the profit value and the relational value (Ryals, 2002) of the key account had not been examined. The question which inevitably arises from the above discussion is, 'what is the profitability of these so-called key clients?' If the hotel were to use CPA and/or LTV to assess the value of each account, would the three identified key clients still be regarded as key, and ranked as the top three key clients?

The impact that RevM has had upon the key relationship selection stage and key account value assessment is significant because it reveals the disguised revenue value of a client after assessing the revenue contribution and deducting the 'opportunity cost'. This in turn would provide the managers with additional information and allow them to establish an account's contract rate and condition decisions. Considering the nature of the hotel industry (Kimes, 1989) and consequent reasons why RevM has been widely adopted, these revenue value- or sales volume-driven KA value assessments imply the deep impact that the RevM concept has had on the KA selection and valuing process, which could be computed as:

$$\text{KAV} = f(\text{CPA}, \text{LTV}, \text{relationship value}, \text{just-in-time value})$$

5.1. A framework for KAM and RevM integration — towards sustainable profit yield

Fig. 2 depicts the relationship between profit yield management, RevM and KAM in the context of the capacity-constrained service

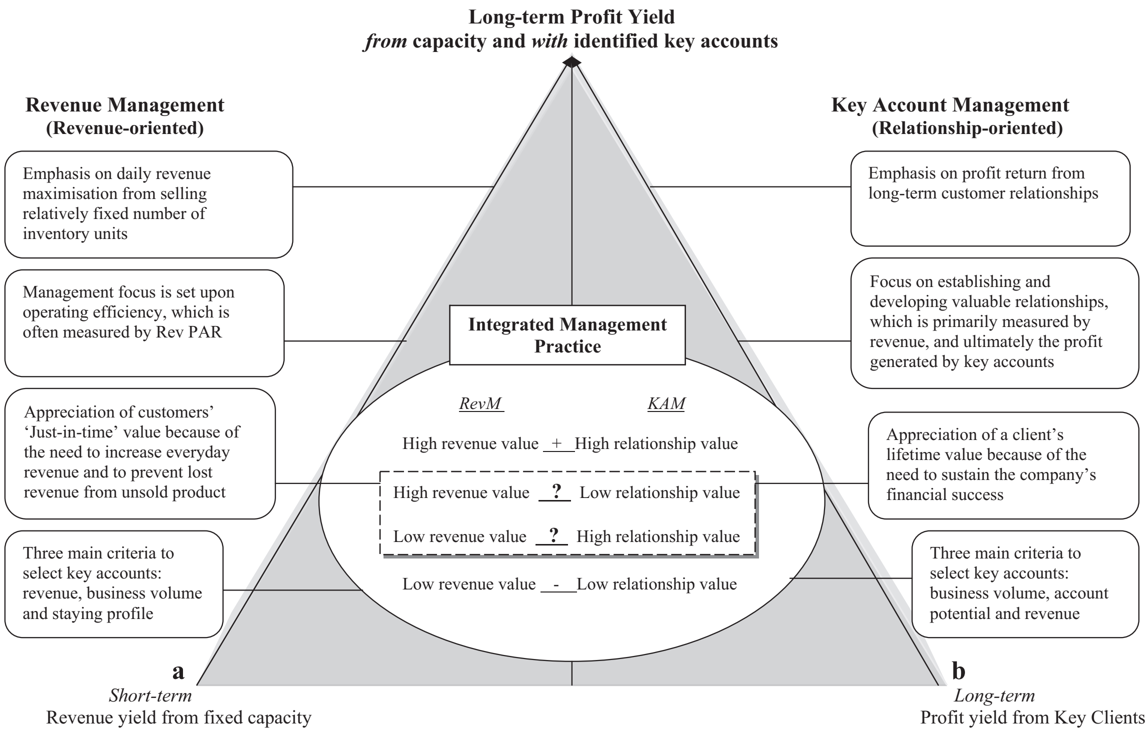

Fig. 2. Towards sustainable profit yield — A framework for revenue management and key account management integration.

industry. From an operations management perspective, the RevM approach (*line a*) concentrates on the current revenue return from the company's fixed asset, namely 'capacity', to achieve higher revenue yield to meet the revenue maximization goal. This approach is in contrast with the relational approach (*line b*) from a CRM perspective, which aims to improve long-term profit yield from another form of business asset, namely 'key accounts'.

The two sides (revenue management and key account management) of the diagram reflect the research findings, which demonstrate that company managers had separate agendas and, therefore, different management priorities. The four boxes on each side of the diagram contrast the differences in management interests between revenue-driven revenue managers and relationship-driven account managers. On the left hand, the RevM practitioners attempt to maximize daily revenue return from the selling company's relatively fixed capacity; thus revenue per available room (RevPAR) in this case has been used as one of the key indicators to measure operating efficiency that leads to RevM success. As a result, when selecting and assessing the value of a customer, revenue managers were more likely to appreciate key clients' just-in-time value, as this is crucial for preventing lost revenue caused by unsold perishable products. In a B2B relationship context, this means considering the guests' visit profile of a particular account as one of the three determinant criteria for selecting a key account. On the other (right hand) side of the diagram, however, the KAM practitioners embraced the relational approach to gain financial advantage from established and developed relationships in the long term. The financial advantages from this approach initially are revenue-based, but also likely to increase profit as costs decrease when customers commit themselves to the company for a long period of time. Consequently, LTV is perceived as essential to achieve KAM success, although evidence showed that the customers' lifetime value was only appreciated to a limited extent by the case study company. Nevertheless, account potential was still regarded by account managers as one of the three main criteria to select a key account.

Fig. 2 also shows, in the light of the long-term strategic goal of the company, that both capacity and key accounts should be considered as valuable business assets, which form a company's sustainable yielding base. The middle circle incorporates both RevM and CRM needs in order to reveal the real value of a key account. This combined approach would classify the accounts into four categories in the dotted box:

1. True KA—High revenue value and high relationship value (+)
2. Potential KA—High revenue value but low relationship value (?)
3. Account with potential—Low revenue value but high relationship value (?)
4. Account—Low revenue value and low relationship value (−)

Clearly, both revenue managers and account managers appreciate the first, 'True KA' group (+), quite rightly as key accounts. If KAM is effectively implemented in W Hotels, the fourth group (−) of accounts is very unlikely to be considered as KAs because their revenue and relationship values are both low. They should simply be regarded as an 'account' who has a transactional relationship with the company, in time of need, and may not be interested in developing a lifelong relationship with the hotel due to contractual restrictions and the availability of alternatively suppliers. The second and third (?) groups are, in comparison, more complicated yet crucial for firms that practice both RevM and KAM. This is because without combined effort from both sides (RevM and KAM), the true value of these accounts to the company would be ambiguous and the potential of the accounts in these two categories may never be fully realized from KAM perspective. An integrated account management practice would enable company managers to clarify the situation by including 'guest staying profile' and 'account potential' as added decision-making factors to illuminate the importance of the account to the company.

Overall, the integrated management approach presented in Fig. 2 suggests that RevM could positively contribute to the KAM decision-making process and could be used as a framework for companies in the service industry to better understand the relationship between RevM and KAM. However, since the research findings show that costs were seldom assessed in W Hotels due to the perishable nature of hotel products/services and revenue performance-related reward system, in the context of this case study, the yield result in the *line b* approach means solely revenue yield. Nevertheless, it is reasonable to assume that if the relational approach to KAM is implemented and followed rigorously, which means the profit value and the lifetime value of each key client were analyzed, then *line b* would provide more comprehensive information about a client's value based on profit yield and estimated lifetime value. The information derived from *line b*, therefore, would facilitate the KAM decision-making process so that it is profit-yield-driven; yet it is also recognized that the costs involved in serving each account that occur in managing long-term yield require further research for RevM and KAM to work effectively.

6. Managerial and theoretical implications

The findings of this study should enhance the understanding of the effects of RevM on KAM and pave the way for a more holistic and strategic approach to KAM in B2B service industries (Frow, Payne, Wilkinson, & Young, 2011). It is understandable that the revenue managers were skeptical about an account's potential returns, and hence often objected to the foregoing revenue maximization opportunities for uncertain future returns from relationship development. The revenue managers regarded 'account potential' and 'lifetime value' as 'rather vague' or an 'empty promise', offering no guarantee of future revenue. Therefore, they would rather hold on to the current opportunities to avoid future disappointments. It is clear that RevM needs to be distinguished from profit-yield management to better reflect the true meaning of each term. It is appropriate that the former is revenue-driven, whereas the latter would be a final outcome after the combined CPA and LTV analysis has been validated in the light of RevM.

The findings also imply that the implementation of customer-centered and relational-driven KAM may encounter particular difficulties in those service industry sectors characterized by high fixed costs, low variable costs and perishable inventory. The research findings suggest that a combined transactional and relational marketing approach should be taken to facilitate the company's needs of revenue optimization and to sustain the relationship stability for further development. Furthermore, in order to avoid the inevitable confusion that often occurs among account managers and different management units, a more comprehensive KAM program needs to be developed and implemented, which should explicitly explain how to identify and assess the accounts' value in order to effectively manage and develop a key account relationship proactively. The proposed framework highlights that a profit-yield-driven management approach can be achieved after incorporating both the revenue value and the relationship value of the key accounts into the KAM decision-making process. Also, instead of maximizing revenue, the outcome of this research suggests that optimizing profit yield from capacity and co-creating value with key clients is the way forward for service firms that are aiming for long-lasting financial success, and corporate policies and performance measurements must therefore be able to accommodate the long-term orientation of KAM.

6.1. Limitations and directions for future research

As in any research, this study has several limitations. First, there is a limitation by industry sector. An international hotel company was chosen as the framework for the study; thus comparability with other service sectors is open to question and it is recognized that the 'generalizability' of the proposed framework is restricted by the particular context in which this research was undertaken. Second, there is a recognized limitation by scope of the study and research sample size. Third, although this study has benefited from a sampling approach that offers enhanced access to the company's sensitive data that may be difficult to gain otherwise, the choice of the case study company could be seen as a limitation since RevM practice is evidently more effectively implemented than KAM in this case. Fourth, the researcher's presence in the research situation is a limitation as it may introduce bias.

A number of areas for future study can be identified to extend the boundaries of this research. First, and by analogy with research into differences between the perspectives of sales and marketing departments, underlying the different practices of KAM and RevM may be differences in their 'thought-worlds' (Homburg & Jensen, 2007). Straightforward managerial approaches to the harmonization of KAM and RevM may be less effective if such thought-world differences remain unacknowledged. Second, greater attention needs to be directed to understanding how service organizations can address some of the negative effects of RevM on KAM and thus pave the way for a more sustainable customer-centric operations management approach. Third, future studies would benefit from broadening the methodological toolkit by adopting a mixed-method approach to better understand the complex issues surrounding buyer–seller relationships and the decision-making process. Fourth, cross-cultural research across several countries would be valuable to examine the impact of any contextual and cultural factors on KAM and RevM. Finally, the perceptions of fairness by both parties in the type of relationship investigated here are largely uninvestigated. To what extent do fairness perceptions affect key relationships? How can operations management decisions be communicated more effectively to key accounts to reduce potential damage and enhance their perception of value? The answer to these questions could enhance understanding of key account relationship dynamics and also assist marketers to take a more holistic approach to KAM.

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