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HOPPING DETERRENCE – DOES IT HINDER OR AUGMENT THE KAM PERFORMANCE

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ABSTRACT

In contemporary businesses, the adoption of key account management [KAM] programs by B2B firms for managing their strategically important customers is at its peak. The KAM relationships are long term mutually beneficial strategic business associations, which bestow competitive edge for both supplier firm and its key customer(s). 'Hopping Deterrence' which here is referred as, 'Switching Costs' encapsulate emotional, physical and financial costs that cause hurdles for customers while changing the supplier firms. This empirical work tries to answer the question – "Is customer switching costs advantageous or dis-advantageous for key customers as well as supplier firms?". This study also tries to determine the antecedents of switching costs which enable the KAM managers to sustain and derive positive outcomes out of relationships with key customers.

KEYWORDS: *B2b, Kam, Switching Costs, Emotional Costs, Physical Costs, Financial Costs.*

INTRODUCTION

Corporations nowadays are increasingly adopting key account management (KAM) for ensuring long-term reciprocal business associations with their strategically important customers (Sengupta, Sanjit, Robert, & Micheal , 1997). These key customers are also referred as national accounts, global accounts and strategic customers. The crux of KAM is developing and sustaining long-term mutually beneficial business relationships with these keyaccounts. key account managers (KAMs) are much more than mere sales managers, they are viewed as valued partners by the key accounts, as they bring in their rich expertise, researchand analysis knowledge to aid key accounts in finding solutions to operationalization and strategic hindrances. In return the key customers indulge in bilk buying of goods and services for a prolonged period of time. This task often involves boundary spanning roles which are suited for only the sales professionals with best knowledge, attitude, skills, experience and expertise.

Many extant writings have explored the influencing role of KAM managers in managing key accounts (Weilbaker, Dan, & William, 1997); many explorations described the advantages of adopting KAM programs, followed by numerous explorations unveiling the qualities, knowledge, skills, attitudes, experience and expertise to be possessed by KAM managers; and also the ideal environmental aspects which enable the success of such KAM programs. The review of extant writings on sales management, makes it clear that there is lack of integration amidst sales management and relationship marketing literature (Biong, Harald, & Fred , 1996)

(Lambe, C, & Robert, 1997); such integration is deemed to be essential as the KAM relationships are long-term strategic associations between supplier firms and key customers bestowing edge over the competitors for both the parties.

The prevailing writings on relationship marketing unveiled numerous models, contexts and empirical studies that have potential to guide KAM managers in effective and effective management of business associations with key accounts (Dwyer, Paul, & Sejo OH, 1987) (Morgan, Robert, & Shelby, 1994) (Webster & Fredrick, 1992). It can be observed from extant writings that, relationship marketing literature focuses on both vertical and horizontal supplier firm-key account relationships (Bucklin, Louis, & Sanjit, 1993); on the other hand, KAM relationships focus on vertical relationships. The switching costs are considered as vital part of vertical supplier firm – key account relationships, which is the prime focus of this study.

Theoretical Framework and Research Conjectures

(Jackson & Barbara, 1985) in their study on industrial marketing relationships, introduced the concept of switching costs. In their study they explained that switching costs had three dimensions viz, emotional, physical and financial costs, which customers encounter while changing their supplier firms. (Weiss, Allen, & Erin, 1992) in their study stated that, customers encounter set-up costs and take-down costs in the process of changing/switching their supplier firms.

(Dwyer, Paul, & Sejo OH, 1987) define the cost of getting a better substitute supplier who have potential to render performance equal to or better than the current supplier firm is termed as *Set-Up Costs*. Whereas, *Take-Down Cost* is defined as, the distinctive relationship specific investments made by customers that have no value outside the relationship with current supplier and have to be written-off.

The ultimate benefit of switching costs can be determined from the dis-interest exhibited by customers to continue relationship with current supplier.

This study has two prime queries –

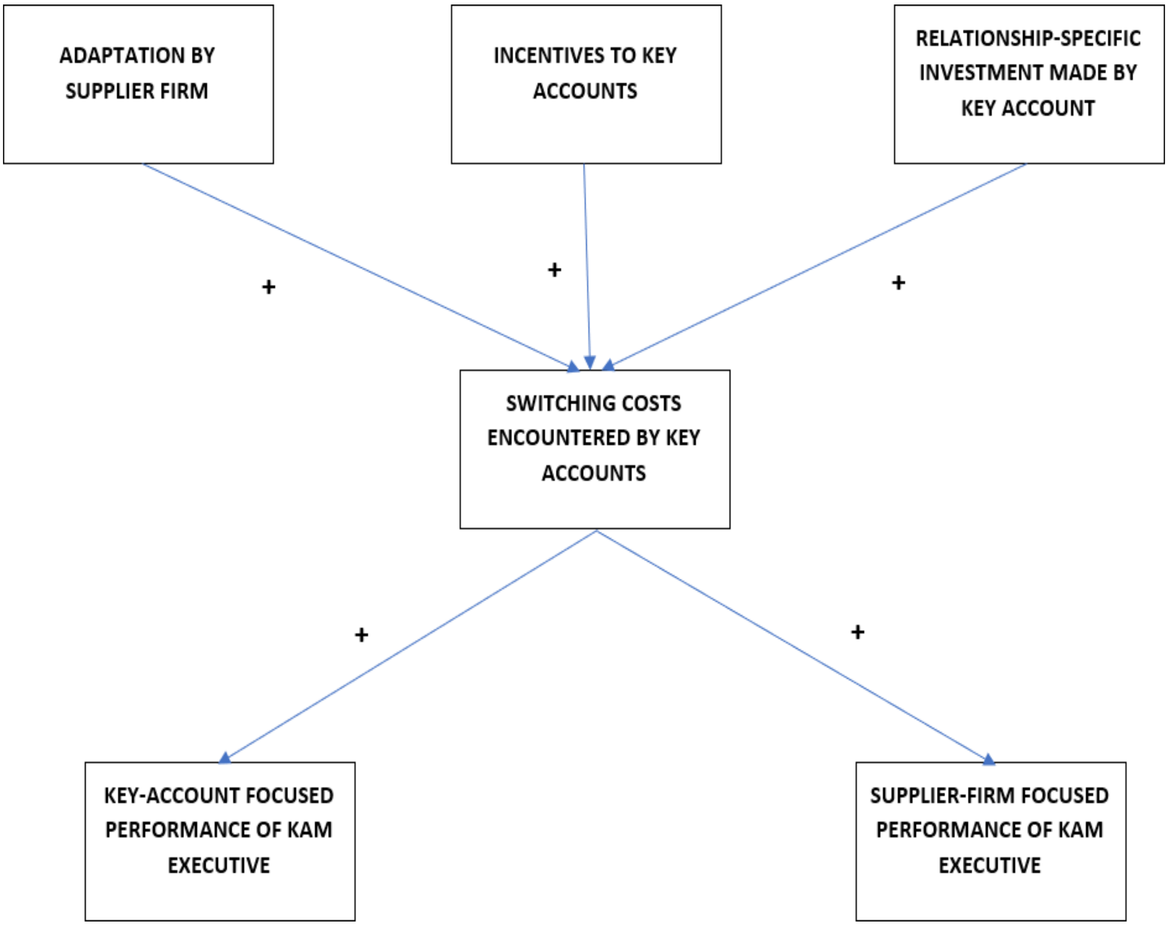
a) *'Whether customer switching costs are advantageous or dis-advantageous for both key customers and supplier firms';*

b) *What are the factors responsible for switching costs?'*

Which may enable KAM managers to influence the outcomes of KAM relationships.

Based on these two research queries, a conceptual model has been developed considering the constructs of switching costs from prevailing writings.

Fig.1: Conceptualized Model



Precursors of Switching Costs:

The extant writings have substantial amount of explorations relating to interfirm adaptation (Dwyer, Paul, & Sejo OH, 1987) (Johanson, Jan, Lars, & Nazeem, 1991). In B2B markets, supplier firms look for adaptation in goods, services, policies, procedures, systems and organization to meet the changes in its own environment or in its key customer's environment. Supplier firm adaptation has interdependent mutual gains for supplier firm as well as key account. Key customers prefer flexible supplier firms; the more effective the supplier firm is in its adaptation, the more will be the switching costs for key accounts in relation to other potential suppliers; ability of supplier firm adaptation will have its effect on key customer switching costs. Keeping this notion in mind, the following conjecture ispostulated:

***H1**: The higher adaptation exhibited by supplier firm, leads to higher switching costs for key accounts.*

The common notion of implementing KAM programs is – concentration of firm's resources on high potential large buyers yields substantial payoffs to the supplier firms (Sengupta, Sanjit, Robert , & Micheal , 1997). *'Push Money'* is one form of incentive offered to key accounts, which is considered as high consumption element in promotional expenditure. For instance, when launching new products/services with retail customers, supplier firms may offer slotting allowances for placing orders for new products, special allowances for in-store merchandise display (Greenwald & John, 1996). Another kind of incentive which aims to develop *'Loyalty/Pull Effect'* among the ultimate consumers of the key accounts, by indulging in collaborative advertising and promotional strategies, co-branding strategies etc. for instance, power tools manufacturing company Black & Decker used both push and pull strategies to introduce their DeWalt line of power tools through high potential key retail outlets like Home Depot, IKEA etc, (Black & Decker Corp. (B): Operation Sudden Impact, 1996). Offering such incentives by supplier firms to key accounts have the potential to create switching costs in relation to other potential suppliers; keeping this in mind, the second conjecture is postulated as follows:

H2*: The higher incentives offered by supplier firm, leads to higher switching costs for key accounts.*

Investments for Maintaining Relationships:

When a supplier firm invests in assets, systems and processes with an objective of sustaining and growing reciprocal business associations with a specific key account – it is termed as relationship-specific investments (Heide, Jan, & George, 1988). When the relationship with a specific key account is ended, the recovery value of these assets, systems and processes outside the relationship is substantially low – hence the value of these relationship-specific investments is lost. For example, in order to avail the services of a particular ocean shipping services of a carrier, the customer has to invest in containers and material handling equipment customized to ship and dock facilities of a particular carrier. Later, if the customer considers changing the supplier, the customer firm has to relinquish the investment already made and go for further investment on containers and equipment of new carrier. It is a common practice in B2B firms, wherein, a supplier firms ask key accounts to invest in tailored hardware and software for realizing the electronic data interchange and so on (O'Callaghan, Ramon, Patrick, & Benn, 1992). Such assets which cannot be reused for other activities resultin switching costs (Heide, Jan, & George, 1988). Keeping this in mind the following conjectureis postulated:

H3*: The higher relationship-specific investments made by key accounts, leads to higher switching costs faced by them.*

According to (Jackson & Barbara, 1985) the switching costs would be high when the product is high on technical complexity and high on post sales services requirement. The technical complexity of the product is not considered for postulating a conjecture, instead it is considered only as control variable affecting switching costs.

Significances of Switching Costs:

(Morgan, Robert, & Shelby, 1994) (Biong, Harald, & Fred, 1996) in their study opined that, existence of switching costs results in higher dependence of key customers on their supplier firms. This leads to a dichotomy – is this dependence favorable or unfavorable for the KAM relationship? The extant writings on sales management as well as channel theory reveal that, traditional form of customer relationships (arm's length relationships) is favorable for supplier firms, as they can gain more from this dependence of key accounts on supplier firms(Gaski & John, 1984). In view of KAM relationships, key account managers cannot be myopic; hence relationship marketing theory forms the base. Because, when the business associations

between supplier firms and key accounts pass the test of time, mutual experience is gained and both parties exhibit substantial mutual trust (Dwyer, Paul, & Sejo OH, 1987).

As a corollary, both parties augment their investments in products/services, processes and specific team of executives looking after that particular sales relationship. Over a period of time, key customers indulge in gradual increase in their relationship-specific investments and eventually end up in increasing their switching costs and dependence on supplier firms

(Anderson & James, 1991).

When key accounts foresee higher switching-costs associated with a sales relationship with supplier firm(s), they tend to continue their relationship with a particular supplier firm for a prolonged period of time (Dwyer, Paul, & Sejo OH, 1987). In other words, the existence of substantial switching costs makes the key accounts to view sales relationship with supplier firm as important commitment to be adhered on a continuous basis.

In their exploration (Morgan, Robert, & Shelby, 1994) identified statistically significant positive relationship amidst 'relationship-termination cost' and the 'commitment towards continuation of relationship'; further, a statistically significant negative relationship between 'commitment' and 'tendency to terminate relationship'; whereas, statistically significant positive relationship between 'dependence on supplier firm' and 'cooperation'. Hence, switching costs must lead to favorable relationship-oriented outcomes for both parties. The sustenance of KAM relationships is based on positive relationship outcomes for supplier firms and key customers.

The supplier firms often look for realizing economic goals like, market share, sales volume and profit margin etc. on the other hand, key customers often look for meeting their own business objectives and derive maximum benefit/satisfaction from products/services provided by supplier firms. As a corollary, two dimensions of KAM performance are identified

a) Key-customer focused KAM performance

b) Supplier-firm focused KAM performance.

Key-customer focused KAM performance refers to outcomes of KAM relationships benefiting key accounts like, meeting key customer objectives, continuation of relationship, cooperation with supplier firms and satisfaction. On the other hand, supplier-firm focused KAM performance refers to outcomes of KAM relationships benefiting supplier firms.

Considering the relevance of relationship amidst switching costs and KAM performances, the following conjectures are postulated:

H4: The higher switching costs encountered by key customers, lead to higher key-account focused performance of a KAM executive.

H5: the higher switching costs encountered by a key account, leads to higher supplier-firm focused performance of a KAM executive.

In order to verify the last two hypotheses (H4 & H5) a control variable called 'size of supplier firm' is included that has the potential to influence KAM performance.

Gathering Needed Information:

Review of literature lead to identification of relevant constructs; considering them a survey questionnaire was developed with Likert scales of multiple items as per the requirement. Items from extant writings coupled with researcher's own questions were used for developing the constructs of the conceptual framework.

Respondents included KAM executives/managers of supplier firms from diverse industries operating in India (manufacturing and service industries). Respondents had a median age of 45 years, with requisite educational qualification (68% had management degree with sales and marketing specializations; 32% had technical degree with experience in sales and marketing). Respondents had worked for substantial duration with their current firm, median 14 years, 12 years in sales and marketing and of those at least 4 years as KAM executives managing high potential large buyers.

545 survey questionnaires were circulated via google form link sent through email. Out of which 176 questionnaires were responses were found to be useful with completed responses. Every respondent shared information pertaining to the key account they were managing. If the KAM executive managed 3 or more key accounts, they were requested to share information on the key account with whom they spent highest amount of time, efforts and resources. If they managed only two key accounts, they were requested to share information about the key account with whom they spent largest amount of time and resources. If they handled only one key account they shared the information pertaining to that key account. This process was adopted to reduce the account choice bias. Every multiple item variable was subjected to reliability analysis. Items scoring less than standard Cronbach's Alpha score of 0.6 were dropped to augment the reliability of the scales (see Table-1). Exploratory factor analysis was performed on all 18 items of table-1 and recorded clean loading on underlying 8 factors. This confirms the convergent and discriminant validity of the measures. The means, standard deviations and correlations for all the 8 variables are given in (Table-2).

TABLE-1: RELIABILITY STATISTICS OF VARIABLES		
CONSTRUCT	ITEM	CRONBACH'S ALPHA
Adaptation by supplier firm	In the course of relationship with this key account: a) we have changed according to changing key account and market conditions. b) our KAM executives were not accommodating the changing expectations of their roles and responsibilities. c) Our firm Allocated adequate efforts, time and resources to mitigate the unforeseen circumstances.	0.68
Incentives to key accounts	Our firm: a) financial incentives are offered to key accounts to aid them to achieve their bottom lines. b) financial incentives are offered to key account's ultimate consumers, to augment their loyal customer base.	0.65
Relation-specific investment made by key account	The key account has invested in systems, processes and procedures customized to fit relationship requirements with our firm (relationship-specific investments)	N/A
Complexity of the product offering by supplier firm	The product/service offered by our firm is of high technical complexity	N/A
Switching costs encountered by key accounts	The key accounts: a) Would find it hard to replace us as its supplier. b) Would find low or no switching costs in ending their business association with us.	0.66
Key-account focused performance of KAM executive	As KAM executive, I Have: a) helped key accounts to achieve their bottom lines b) have not rendered expected satisfaction to key accounts c) ensured further improvement in business association with us d) developed a long run mutually beneficial business relationship with key accounts e) developed a business relationship with key account that has a potential to last longer than my tenure with them.	0.82
Supplier-firm focused performance of KAM executive	For your firms last operating year: a) what is the percentage of purchases made by this particular key account? b) what is the percentage of annual profit objectives you achieved by selling to this key account? c) what is the percentage of annual sales volume you sold to this key account?	0.77
Size of the supplier firm	How many employees work in your organization?	N/A

TABLE-2: MEANS, STANDARD DEVIATIONS AND CORRELATIONS								
	Adaptation by supplier firm	Incentives to key accounts	Relation-specific investment made by key account	Complexity of the product offering by supplier firm	Switching costs encountered by key accounts	Key-account focused performance of KAM executive	Supplier-firm focused performance of KAM executive	Size of the supplier firm
Adaptation by supplier firm	3.66 (0.76)	0.19^{a}	0.19^{a}	0.17^{a}	0.27^{a}	0.33^{a}	0.16	0.75
Incentives to key accounts		3.15 (1.06)	0.12	0.14	0.20^{a}	0.09	0.06	0.12
Relation-specific investment made by key account			2.69 (1.26)	0.27^{a}	0.33^{a}	0.29^{a}	0.15^{a}	0.19^{a}
Complexity of the product offering by supplier firm				3.36 (1.27)	0.21^{a}	0.06	0.11	-0.06
Switching costs encountered by key accounts					3.20 (1.06)	0.22^{a}	0.24^{a}	0.09
Key-account focused performance of KAM executive						4.19 (0.60)	0.25^{a}	0.19^{a}
Supplier-firm focused performance of KAM executive							59.65 (30.01)	0.25^{a}
Size of the supplier firm								41586 (140016)
In diagonal cells, numbers outside parentheses are means and numbers inside parentheses are standard deviations. •significant correlations at P=0.05								

Outcomes:

For testing the conceptualized model (Fig.1) and corresponding hypotheses path analysis of ordinary least squares regression was used. The outcomes are given in Table-3. In column-2 of Table-3 it can be observed that, 'switching costs encountered by key accounts' is regressed against the three influencing variables viz, 'adaptation by supplier firm', 'incentives to key accounts', 'relationship specific investment made by key accounts' and the identified control variable named 'complexity of product offering by supplier firm'. Outcomes reveal that, 'adaptation by supplier firm' and 'relationship specific investment made by key account' have significant positive association with 'switching costs encountered by key accounts' (H1 & H3). Whereas, 'incentives to key accounts' recorded less significant positive association with 'switching costs encountered by key accounts' (H2). Astonishingly, the 'complexity of product offering by supplier firm' has recorded no relation with 'switching costs encountered by key accounts'. it can be observed in column-3 of Table-3, 'Key-account focused performance of KAM executive' is regressed against 'switching costs encountered by key accounts' and 'size of the supplier firm'. Affirmatively, it can be observed that, 'switching costs encountered by key accounts' recorded significant positive association with 'key-account focused performance of KAM executive' (H4). Similarly, 'switching costs encountered by key accounts' recorded significant positive association with 'supplier-firm focused performance of KAM executive' (H5) (See column-4 of Table-3). 'size of the supplier firm' recorded significant positive association with both 'key-account focused performance of KAM executives' as well as 'supplier-firm focused performance of KAM executive' (See Table-3). The total variance explained of dependent variables presented in Table-3 is moderate; by this it is evident that variables having potential to influence 'switching costs encountered by key accounts' and 'KAM performance'.

Conversation of Outcomes:

This empirical work emphasized the significance of 'switching costs encountered by key accounts' in effective management of KAM relationships. 'switching costs encountered by key accounts' showed considerable positive impact on both kinds of KAM performances, I,e., realization of supplier firm objectives like – increased account market share, sales volume and profit margin etc. along with the realization of key account based objectives and satisfaction; this paves path for win-win situation for both key accounts and supplier firms from KAM relationships. This brings in new dimension, contradicting with traditional notion that,

'Switching costs encountered by key accounts' were considered favorable for supplier firms

and unfavorable for key accounts.

How this win-win situation can be realized?

From the outcomes it can be noted that, 'switching costs encountered by key accounts' is strongly influenced by 'relationship specific investments made by key account'. If we considerthis as the single most variable affecting the switching costs, then, it would lead to over dependency of key account on supplier firm and also makes the relationship skewed and derive skewed outcomes from KAM relationships.

The results make it very clear that 'relationship specific investments made by key account' isnot the only force influencing 'switching costs encountered by key accounts'. there exists a variable called 'adaptation by supplier firm' which balances the dependence factor. This indicates that, supplier firm is continuously evolving its processes, procedures, systems and organization to meet the changing expectations of key accounts. that is, supplier firms are nomore opportunistic or exploitative. This reinforces key account to continue its relationship with supplier firm with augmented level of commitment with further subliminal increase in switching costs. This balancing factor creates the win-win situation in KAM relationships. Thisbalancing factor can be called as interdependence or mutual dependence which has been studied earlier by (Gundlach, Gregory, & Ernest, 1994) (Kumar, Nirmalya, Lisa, & Jan, 1995) in the context of channels of distribution; surprisingly, the outcomes of the above mentioned studies are consistent with the outcomes of this study.

Surprisingly there was no significant impact of 'Push' and 'Pull' incentives offered to key accounts on 'switching costs encountered by key accounts'. It was found that, key accounts were more interested in dealing with supplier firms with ability to adapt to changing conditions and enable them to face market changes with ease. Interestingly they were not interested in running behind short term financial gains (incentives), rather key accounts were more skewed towards adaptable supplier firms. Adaptation necessitates considerable amount of investment by supplier firms, but it is often viewed as better use of resources than directly offering incentives to key accounts. The money invested on adaptation, has potential to ensure sustenance of long-term mutually beneficial relationships with key accounts than money invested on offering incentives to key accounts.

Wrap-Up:

On evaluation of various factors influencing the 'switching costs encountered by key accounts' this study unveiled that KAM process calls for substantial cross functional integration of various departments of the supplier firm, that is, it is collective responsibility of entire supplier firm rather an individual KAM executive/manager. Being flexible or ability to adapt to changing market conditions calls for garnering and allocating resources from all over the organization to solve unforeseen problems emerging on daily basis. KAM process has the potential to determine the expressed and unexpressed needs of the key accounts, which enables the supplier firm to meet those needs and deliver superior value to key accounts and ensure sustenance of long-term business association with them. Eventually, it can be stated that top management commitment is the pedestal, upon which the success of KAM programsis based. Top management must determine the resource requirements and allocate them for ensuring high degree adaptation to changing conditions and/or offering incentives to key accounts, which ultimately results in creating, sustaining and growing the long-term mutuallybeneficial business relationships with key accounts followed by competitive advantage in market place.

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