A Study of Key Account Management on Taiwanese Laptop Subcontractor

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ABSTRACT

The study adopts the single-case-study method and applies the model of Homburg et al. (2002) to investigate the key account management practices within Company W, a laptop computer ODM. The study reveals two significant findings. One finding is that four elements, activities, actors, resources, and formalization within the model, are mutually correlated, because this four kinds of positive relationships exist among them: 1. Formalization has positive effect to actors. 2. Formalization has positive effect to activities. 3. Actors have positive effect to activities. 4. Resources have positive effect to activities. Another finding is that Company W is charging forward in full singing to integrate the key component manufactures in the upper-stream of supply chain and there is a trend to approach strategic alliance. The outcomes from this study show that 1. The management excellently draws on cross-functional project organization to carry out project life cycle management. 2. The management encourages employee to sincerely serve customer via both customer focus and customer value creation.

Keywords: Key Account Management, Activities, Actors, Resources, Formalization, Project Life Cycle Management, Customer Focus, Customer Value Creation

INTRODUCTION

Over the years, manufactures of information electronics in Taiwan have been taking orders from major international brands and established close relationships with the top product developers in this niche market. From the process of cooperative production, manufacturers in Taiwan acquired substantial knowledge of products, design and development, and their employees became the main media of knowledge dissemination. Through active peer sharing and learning, as encouraged and stressed by the management, the organization eventually developed their distinctive capabilities (Sher et al., 2003; Jao, 1998). Today, such distinctive capabilities have been expanded from production and R&D into the realm of marketing. Therefore, if such capabilities are not identified by the members of the organization, or the management is unable to lead the organization to make radical changes, all attempts will result in failure (Nag et al., 2007). This is because such capabilities have been given by or learned from the clients and therefore they are considered rare resources (Barney, 1991). From the views of resource-based theory, such capabilities are significant resources of an enterprise and detrimental to the success of its business.

Among the literature discussing the above-mentioned “distinctive capabilities”, specifically theories and empirical studies on marketing capabilities, Chen (2005) explored the marketing capabilities of information technology manufacturers in Taiwan from the perspective of organizational learning and knowledge management. Other than this research, we have not found published studies on the marketing capabilities of the major laptop computer manufacturers in Taiwan. Currently, there are only four manufacturers of substantial scale in Taiwan, who sell to global customers. These global customers need the same products and services at the same prices, even though they spread out in different countries.
Emergence of such customers forced the manufacturers to follow into the pursuit of internationalization, and laptop computer manufacturers in Taiwan are confronted by the issue of how to effectively implement globalization strategies for optimal “fit” in the current business environment that leads the organization into the path of success, as suggested by Yip and Madsen (1996). Yip and Madsen’s research identified eight major drivers of industrial globalization: global customers, global channels, transferable marketing, lead countries, global economics of scale, high product development cost, fast changing technology, and competitors globalized. These eight major drivers bring the need to manage global customers. In their discussions, Yip and Madsen not only identified the eight more drivers of industrial globalization, as discussed above, they further stressed that effective key account management (KAM) is the key to successful global strategies. However, the content of the eight major drivers of industrial globalization poses a high threshold for implementation of KAM-based globalization strategies. Kempeners and Hart (1999) also pointed out the issues of implementing KAM. Only, the difficulties likely to arise when implementing KAM in the major laptop computer manufacturers in Taiwan have not been identified; therefore, this research set its first objective to explore the issues.

On the subject of marketing capabilities Webster (1992) and Day (1994) proposed solid theories discussing the content of KAM, but each focused on different aspects. Webster (1992) focused on the higher level elements, culture and strategies, while Day (1994) positioned his study on tactics and operations, that is, the specific procedures (e.g., establishing customer relations). However, the two researchers shared a common ground; both of them are market oriented. Interestingly, Hooley et al. (1999) absorbed part of both theories and developed the hierarchical model of marketing capabilities. This model stratified marketing capabilities into three levels. Level 1, capability of marketing culture, refers to the market orientation and the stance or attitude of an enterprise. Since this capability maneuvers a company’s stance in the market and the way a company responds to opportunities and threats (Narver and Slater, 1990), it is seen as a key resource that creates sustained competitive advantage. Hooley et al. (1999) also stressed the importance of establishing a culture since a distinctive culture puts a business in sustainable market operation. In general, businesses that place high value on the element of culture tend to place less emphasis on short-term profits. Level 2, the capability of strategic marketing, emphasizes competitive positioning. Webster (1992) interpreted this capability from the perspective of positioning decision-making, in particular, market differentiation and target market positioning. Level 3, the top layer of the pyramid, is identified as the capability of tactic marketing, which refers to the abilities to give high focus on the clearly laid-out marketing operations, tactics, and activities in support of the positioning set in level 2. In all, the three levels should form the foundation of marketing capabilities; only, Hooley et al. (1999) did not put the model into test of empirical study, and most empirical studies on KAM were based on models of US companies. One of the more recent studies conducted by Wengler et al. (2006) surveyed 91 manufacturers and service providers in Germany. This study was an inspiration to our empirical study of KAM implementation in the major laptop computer manufacturers of Taiwan, which forms the second objective of this research.

The hierarchical model of marketing capabilities proposed by Hooley et al. (1999) provides a highly valuable reference for the laptop computer manufacture industry in Taiwan in the process of building its marketing capabilities and developing customer-focused strategies for higher profits, especially in today’s market where tablet PCs and extremely low profit margins are testing the sustainability of this industry. Yip and Madsen (1996) illustrated successful implementation of KAM through a case study on HP. Over the years, the environment of this industry has undergone drastic changes and constant changing has become a continuous process in the industry. Plus, the cultural differences between companies in the east and west may highlight certain issues, and these issues are valuable phenomena worth further exploration, which forms the third objective of this research.
THEORETICAL BACKGROUND

The study of KAM emerged from the US retail industry in the late 1970's. Through the 1980’s thriving advocacy inspired active research in this field (Shapiro and Moriarty, 1984a,b; Stevenson, 1980,1981). One of the significant concepts, national account management, was proposed by Shapiro and Wyman (1981). This concept of national account management stresses on an organization’s response to the needs of the key customers and how an organization provides the best services to the most important customers through coordinating among the elements of costing, activities, and the goals of the marketing functions. Barrett (1986), on the other hand, focused on the special activities of the key customers and suggested that the accounts in the concept of national account management refer specifically to the largest and most important customers. Barrett also pointed out that special treatment, including marketing, management, and services, should be given to customers of this category. Millman and Wilson (1996) placed their focus on the integrity of KAM. They considered KAM as a set of tools utilized by the marketing company, which may be in the form of products and services and is tailor-made targeting on the specific needs of the key customers, in order to build up a customer base with high loyalty. Yip and Madsen (1996) proposed the concept of “special actor” and pointed out that, in key account management, an executive or a team should be appointed to collaborate all activities with a certain customer at all levels. Kempeners and Hart (1999) also identified 15 decisive factors in designing an account management organization and put the system into test through case studies with seven companies. From the case studies, they found that there are indeed certain issues in the design of this system. Ojasalo (2001) defined KAM as a method of relation-oriented marketing management, targeting on the key customers in the B2B market.

Homburg et al. (2002) consolidated the concepts and theories of KAM into four major dimensions after extensive review of related literature. The four dimensions are “activities”, “actors”, “resources”, and “formalization”. Workman et al. (2003) defined, “KAM is the performance of additional activities and/or designation of special personnel directed at an organization’s most important customers.” This definition reveals two key points: When special treatments are to be implemented (1) key customers are identified, and (2) the marketing company is ready to assign extra resources to customers of this category. The research of Workman et al. suggested that KAM is a practice of carrying out additional activities and assigning extra personnel to the most important customers of the organization. This same research further explored the relationship between the deciding factors and the effectiveness of KAM within a KAM organization. Results indicated that, other than “formalization” which appears to have negative effect and “use of team” which has no effect on the effectiveness of KAM, all other factors show positive effect. Listed in the order of strength from high to low, the factors include team esprit de corps, access to marketing and sales resources, activity intensity, activity proactiveness, and top management involvement. Result of this research pointed out that “top management involvement” is the most important factor among all factors verified to have positive effect. This factor not only has a direct effect on the success of KAM, but also plays a key role as a support in a KAM organization, in terms of information exchange. Another significant finding in research is that “use of team” does not influence the effectiveness of KAM; instead, team esprit de corps satisfies customers’ needs through cross-departmental activities and coordination. The research of Workman et al. concluded that “activities” and “resources” are more important than “actors” and “formalization”.

Georges and Eggert (2003) pointed out that, in order to create customer-perceived value, the role of the key account manager should be explored in depth. This is to verify whether this role in fact contributes to the creation of customer value, and if any, what is the basic drive behind the generated contribution? Expanded from this study, Georges and Eggert developed the framework of value creation.
under the structure of KAM and verified that the key account manager exerts positive influence to the customer perceived value in two ways: (1) “They improve their own organization’s capacity to deliver customer specific solution” and (2) “They orchestrate customer-related efforts within their own organization in order to increase the perceived level of coordination.” Georges and Eggert’s research not only identified the two major drivers that influence customer perceived values, namely offering adjustment and coordination, but also provided a model which helps the senior executives to measure the performance of the key account managers and, based on which, design appropriate reward plans. This is a major contribution of value creation to KAM. The construct of customer perceived value used in this research came from the definition of “customer value” set forth by Gale (1994). Gale’s (1994) definition “customer perceived value” is the market-perceived quality adjusted price of your product. Walter et al. (2001) expanded from this point of view and proposed the concept, “Business market can only be understood by applying the concept of value,” which became a famous quotation.

Holweg et al. (2005) analyzed information exchange along the supply chain from the perspective of how suppliers work with their customers through collaboration. The concept of two-way information exchange (incl. production capacity and long-term plans) fortifies and supplements the content of “customer linking”, as described in Day’s (1994) “outside-in process”. The concept of “customer linking”, proposed by Day (1994), is the ability to create and closely control customer relation, but its content was not described in depth. Thus, Holweg et al. (2005) proposed that, on the level of sufficient information, the planning process of linking customers to the suppliers is the keystone to the implementation of Collaborative Forecasting Planning and Replenishment (CPFR). This concept helps to explain that information exchange benefits both parties through information transparency and advanced planning.

Jones et al. (2005) pointed out that if the management intends to employ the tactic of “use of team” the five key team selling relationships should be identified first. They are namely, (1) member of the same team, (2) member of different team within the firm, (3) the selling team and the buying center, (4) the selling team and other group in the selling firm, and (5) the selling team and the firm’s strategy. Thorough understanding these five key relationships will lead to organization of the best team and proper utilization of the team to achieve KAM effectiveness (e.g., increase in sales and profits). The model of key driver of team selling success, proposed in the research of Jones et al. raised a new issue, which stream up the relationship driver, factors, and team-selling success. The framework is rather complete; only, empirical studies have not been implemented to test the model.

Wengler et al. (2006) revealed that 54% of the companies in Germany use KAM in the B2B market. This percentage is close to the implementation rate in the US. Statistics verified that the studied companies will continue to establish close links and strive for further integration of value chains. This empirical study verified the views of Anderson et al. (1994) and Morgan and Hunt (1994) and confirmed that there are certain conflicts in the implementation of KAM (Ruekert and Walker, 1987), as well as difficulties in communication. Results of this research suggested that, to ensure the success of KAM, the management should expect to become involved in high-intensity coordination which require high-level of dedication (Moon and Gupta, 1997). Wengler et al. also pointed out that KAM is a long and labor-intensive process, but it creates advantages in a highly competitive environment.

Ivens and Pardo (2007) drew a valuable conclusion in their empirical study. They concluded: even when suppliers have put in tremendous efforts in customer value creation to service the key account, customers will not feel more satisfied or trust the suppliers more because of these efforts. Although the assumptions of this research were not verified as expected, the conclusion encouraged later researchers to continually explore the antecedence of successful implementation of KAM.
The research of Keith and Eli (2009) focused on the enterprises’ ability to adapt to the environment, which achieved three major results. (1) The researchers put forward the proposition that adaptation at three different levels, strategic, operational, and personal, should have positive influence to the effect relationship. (2) The interaction between the three levels of adaptation and the six antecedents can be used to explore the boundaries of the Integrative Theoretical Model of Key Account Performance. (3) The above-mentioned model is formed from integration of the organization and personal models; therefore, it can be simultaneously applied to the organization and personal levels. Finally, this research also found that the three major categories of “fit” between suppliers and customers, namely strategic fit, operational fit and personal fit, form the effectiveness of the key account program.

Shi et al. (2010) studied the subject of coordination in KAM and identified two major elements: inter-country coordination (ICC) and inter-organization coordination (IOC). ICC can be further divided into different levels of activities engaged by cross-national manufacturers for inter-country coordination of marketing mix and supply chain management (SCM). IOC, on the other hand, refers to a cross-national manufacturer intentionally organizing joint activities at every level within the organization (e.g., senior executive, global account manager, local account manager and operational-level employee, and advocate interaction with customers’ windows of contact at the same level to establish direct channels for services to the key accounts. IOC emphasizes mobilization of employees of all levels at the supplier side (incl. within the cross-functional organizations) to provide the best services to the customers, and the intention lies in the expectation of customers’ willingness to place orders in the future. Such positive interactive relationship is also supported by empirical studies of relationship marketing (Buvik and John, 2000). However, there is a difference between these two coordination capabilities (ICC and IOC). ICC is limited to the coordination within the suppliers, and IOC is more exogenous; it involves coordination between the suppliers and global customers. This research also concluded that ICC and IOC are the basic drivers of global account management.

Gao and Shi (2011) found that goal congruency and conflict appeared in inverted U shaped effects to both ICC and IOC. A significant conclusion was drawn from this research; as long as customer dependency generates supplier trust to the customers, the suppliers will be willing to invest in ICC.

Hsieh and Chou (2011) consolidated the relevant research literature and proposed the three “processes” of KAM, which are special activities, actors, and resources. The three processes were further divided into several categories. For example, the process of “special activities” is divided into four categories: (1) product-related (e.g., product customization), (2) service-related (e.g., service customization), (3) price-related (e.g., discounts) and (4) cooperative activities (e.g., joint coordination, information sharing and taking-over business process). The process of “actors” involves vertical participation (apex initiatives) and horizontal intervention (e.g., cross-organizational response). The process of “resources” refers to asset and multifunctional efforts, including marketing-related resources (e.g., marketing, selling, logistic backup and production) and non-marketing-related resources (e.g., information technology, finance and accounting). The research Hsieh and Chou (2011) utilized the categories and details of activities and asserted that this system enables the companies studied to link their values to the expected values of each specific customer.

Bradford et al. (2012) identified the two types of teams closely related to the success of KAM, namely the fluid team and the dedicated team, as well as the resources needed by each of the teams. For example, successful implementation of the fluid-type customer management will require specific and instrumental resources, and one of the resources required for a fluid team that is both specific and instrumental is the information system because such system can be used to support systematic solicitation,
rational allocation of resources, current inventory management and instrumental evaluation of firm resources and provide the opportunities for allocation of the above-mentioned resources to the fluid team. To effectively control a fluid team, an information system should be used to support the organization. A fluid team, which is characterized by the ability to the spontaneous emergence of opportunities, must be able to flexibly assign and systematically manage resources, so that performance can be maximized and proper resources assigned to the unexpected opportunities.

Summarizing from the above literature review and objectives, this research sets it goal to conduct an empirical study based on the KAM model built from the configurational perspective of Homburg et al. (2002). The KAM model developed by Homburg et al. (2002) containing the four major elements, activities, actors, resources and formalization, is a more complete model available at the current time.

**RESEARCH METHODOLOGY**

**Subject Selection**

This research makes an attempt to study how KAM is implemented in Taiwan’s laptop computer manufacture industry. Therefore, case study is chosen as the main research methodology for the studies. Subjects were surveyed through in-depth interview for detailed views on the current status of KAM implementation. Issues encountered by the case subjects were analyzed based on relevant theories, and finally an attempt of forming a proposition was made to develop the conclusions and recommendations.

This research selected case subjects based on the principles of selection put forward by Eisenhardt (1989). Base on the principles, the main body of the subject was set first, which was the high-tech information technology laptop computer manufacture industry in Taiwan. This is a single industry, so the variability is relative lower, which presents an advantage to the external validity. This research selected suitable subjects for the interview based on the principles of theoretical sampling.

**Data Collection**

This research utilized two major methodologies, in-depth interview and data collection, in this case study. Collected data include primary and secondary data. In addition to the primary data collected from the in-depth interview, massive amount of secondary data was also collected, including the background and overview of the industry, website information of Company W, strategic movement, and key account management for in-depth investigation. The content of the interview was compiled into a verbatim transcript, and the essential details were further tracked through email and telephone. A database of the interviewed subject was constructed, in expectation to maximize data reliability (Yin, 2003). The interview was conducted during the period from February 4th to December 21st 2009, and data collection commenced in January of 2008 and ended at end of December 2012.

The completeness of data collection was tested based on the concept of theoretical saturation (Glaser and Strauss, 1967). Repeated and synchronized analysis of the case data and related theories was conducted to consolidate the content of case analysis.

**CASE DESCRIPTION**

Results of the empirical study are analyzed and discussed in the section below based on the four major elements of the model of Homburg et al. (2002).
Activities

Company W officially launched KAM in October 2005. The KAM system classified the company’s customers into three categories. The first category includes the world’s top 10 leading information technology brands. Customers in this category procure in high variety and high volume and sell their products to the end customers under their own brand names. Customers of this category were listed as key accounts in the KAM system of Company W. The second category includes companies procure for specific uses (e.g., products manufactured for specific industries). Customers in this category procure in low variety and low volume. The third category includes the potential customers in the process of establishing business relationships. The management of the laptop computer business unit (BU) at Company W indicated that they key accounts are specifically referred to the customers in the first category. This conforms to the criteria of “the largest and most important customers” described by Barrett (1986). How did Company W identify such customers? Analysis of this research found that Company W screened its key accounts through a survey on the major customer groups in each niche of the electronic industry reported in the Digital News, Digital Times, and Business Weekly. Company W first identified the top 10, determined the winners from the list, and then established contact for potential business relationships. For example, a few years ago, the winner was Company D, but the winner at the time of the interview was Company A. Company W also searched for the key accounts from the leaders in the relevant fields for potential cooperative ventures. For development of potential customers, the sales personnel identify customers of high-end products from the list of major brands or lock on the leaders with leading products (e.g., Apple) based on the two highest management principles: “creating new values for customers” and “focusing on product series”. After the companies are identified, the sales personnel take the initiative to visit the customers in person. In all, Company W positions itself as a manufacture of leading products, that is, products used by companies with leading values. Company W does not restrict itself to the orders of laptop computers; they manufacture all products with leading values because such products increase the value of Company W.

Company W also offers special activities to the key accounts that are different from the activities for the general customers (referring to the customers of the second category mentioned above). This research identified five categories of activities offered by Company W to its key accounts.

Product-related Activities

This research found that, for product-related activities, the management focused on the new values of products, which created new values for its customers, in order to achieve the goal of customer satisfaction. There are three sources of new values: (1) customers’ ideas, (2) Company W’s innovative products, and (3) new products developed from joint efforts. Regardless which model was used, Company W took the initiative in the process and achieved effective communication. Nonetheless, mode (2) above was still the main source of value creation. For example, the 3D animation products were innovative products developed internally.

For product activities involving design of the product exterior, each customer was communicated in a different way since each customer has specific requirements for the design and degree of fineness and requires product customization. One type of the customers (e.g. Customer A) work through face-to-face communication without the aid of a prototype and Company W was able to quickly grasp the customers’ ideas and produce a prototype in the first instance for confirmation. The other type of customers often came with a prototype. In the service of design, Company W has the ability to quickly grasp customers’ ideas and turn their ideas into products, and the speed of innovation can be paced to meet the customers’
needs. Overall, Company W was able to coordinate different speed of innovation for different customers and flexibly provide speedy and high-quality design services.

**Price-related Activities**
Since the laptop computer is a mature product, Company W adopted the low-price strategy when dealing with the key accounts. From the interview, we gathered the information that customers of Company W also procure key components; plus, laptop computer products have reached a certain level of maturity and product of each manufacturer bear high similarity. Therefore, Company W had to compromise on the price. Tsai (2005) identified the “continuous trend of low prices” in this industry. Analysis of this research indicates that although the price quotes are low, there is still room for price adjustments. For example, when there is a shortage of materials, the management raises the prices. For products with functions similar to the models manufactured by other companies, the prices are inevitably low, but for products with more functions than the models manufactured by the competitors, the prices go up.

**Global Logistic Activities**
Company W actively offers logistic services to its customers to save transportation costs for customers. However, different regions follow different laws and regulations, as well as varied shipping requirements. Company W laid out a set of standard operating procedures (SOP), which provide a set of precision calculation for the key points of shipping and loading of consolidated cargo shipments and a set of checklist for detailed verification of the tasks to be performed at each key points. Company W was able to demonstrate its efficiency in global logistic related activities. In other words, the Company was able to accurately, efficiently and economically achieve shipping to a level that the Company has won the trust of its customers and established long-term partnerships with its customers.

**Information Sharing Activities**
Company W operates by focusing on the direction of product development before discussing the details with the customers. For example, the company is currently promoting information sharing for environmental protection and energy-saving/carbon reduction works. The EU countries give special attention to the work of carbon reduction and Company W made its best effort to satisfy the needs, for examples, using led-free solder for the PCB to achieve carbon-reduced manufacture process and meet the highest led-content standard set by the RoHS instruction. Large-scale bilateral meetings are held bi-annually or annually for information sharing and regular information exchange is carried out through email, video conferencing, and the universal tracking system.

**Special Service Activities**
Company W has the culture of “customer focus” and positions itself as a business of service. During the interview, the top management of BU said that if a key account customer request Company W to set up a service station in the area of the customer’s market for reinforced customer service, Company W will set up a service station, as long as the Company’s financial capability permits it and the market is large enough. Since the competitors are less willing to do so, Company W’s active service has won the preference of its customers. The management also pointed out that the services to customers are operated in a proactive mode, where the sales personnel take the initiative to identify the needs for services. Company W also offers the service of 2-hour Repair, and the Q&A manual enables the service personnel to excel in the service of customer inquiries.
In summary, Company W was able to achieve high customer satisfaction rate in terms of activities. Key account, Company A, has rated Company W No.1 in its Score Card rating of suppliers (incl. costs, product development, services, quality, and shipping) for four consecutive years. During the interview, the management also expressed his high satisfaction for the effectiveness of KAM, which indicates that activities have influential effect to the effectiveness of KAM.

Actors

This empirical study analyzed the case subject through “top management involvement” and “use of team”.

Top Management Involvement

The top management of Company W reveals innovative product ideas to the customers through constant visits to the operations in the Europe, US, and Asian market, focusing on customers’ reaction to the product quality, as well as the opportunities of playing golf or chatting with the customers. This practice shows that Company W has achieved the concept of establishing social contacts with the key customers proposed by Millman and Wilson (1996).

From the interview on the subject of top management involvement, this research discovered an activity never mentioned in the earlier literature, that is, participation of customers’ customers. This activity was initiated by Company W. With consent from the customers, Company W invites distributors associated with the customers to visit the factories. The distributors expressed that this activity indeed helped them sell the products. This practice verified Millman and Wilson’s (1996) concept of creating customer value by focusing on the members of the supply chain, as well as achieving the highest management principle of creating new values for customers.

Use of Team

For use of team, Company W has a highly organized sales department in its laptop computer BU, which carries out communication with the key accounts on the “level-to-level” mode. For example, the senior management deals with the senior management from the key account customers. They may create opportunities of communication through golf games or visits. Product designers are in charge of communicating with the procurement engineers on the technical contents, such as which key components should be used. Interviewed personnel indicated that communication in such nature has become a frequent occurrence, which supports the view of Millman and Wilson (1996). The customers also station representatives at Company W on a long-term basis to handle and coordinate general product issues.

Overall, Company W has exhibited optimum performance in the areas of top management involvement and use of team.

Resources

Results of the empirical study relating to the subjects of esprit de corps and access to marketing and sales resources are further discussed in the section below.

Esprit de Corps

Company W exhibited its esprit de corps in a system of top-down implementation of the key performance index (KPI) on the balance score card. Therefore, all members of the team work towards the
same goal. Every member in the unit works very hard and is highly willing to work with each other. Esprit de corps is an attitude all members of the team should bring to work every day since successful production of a product, from manufacturing to shipping, can only be achieved through teamwork.

Access to Marketing and Sales Resources

In Company W, personnel of each department plan their services and resources based on the SOP and communicate with the associated units when changes are made. The sales department requests support of specialists from other departments. During the interview, all interviewed personnel mentioned that the Company developed its very own culture of “customer focus” since its founding in 2002. Therefore, all team members enjoy working with customers.

The above conversation revealed that the members have high-level esprit de corps, as well as proper access to marketing and sales resources. This practice supports the concept of KAM proposed by Homburg et al. (2002), which proposed that resources, regardless whether they are marketing and sales or non-marketing and sales resources, can be used to support KAM through esprit de corps.

Formalization

Company W is an ISO certified company; therefore, the Company places a certain level of values on formalization. Take product SOP for an example, Company W gets down to the last link of production by setting up an SOP for each product of each key account customer at the different stages of product life cycle, and this SOP is reviewed regularly at the end of each year. Substantial amendment is implemented when necessary because the management thinks that the production process of laptop computers is a highly complex one. Shipment is interrupted when a problem arise in any link of the production, from taking order to shipping, and formalization ensures that the personnel operate step-by-step based on the SOP along the process. Furthermore, Company W is a public company; that is to say that the Company is under the supervision of the competent authority. Therefore, the Company is required to plan the annual finance and budget, as well as disclosing the information of financial forecast on the Market Observation Post System (MOPS). This requirement provides an incentive for the Company to implement formalization. This research surveyed the public information disclosed by Company W and found that the Company has implemented a considerably complete system of formalization. The management also pointed out that formalization has been implemented under the principles of “discipline and flexibility”. For example, customers are pressing to meet the deadline for a trade show; therefore, members of the involved units make emergency adjustments to their assignments given by the management and work in full force to meet the customers’ needs in Win 8 software testing and shipment of samples.

Successful implementation of formalization relies on not only the principle of discipline as mentioned above, but also enforcement of SOP. To respond to the changes in customer demands, Company W maintains its flexibility through minor amendments to the SOP, and such minor amendments are implemented under the principles and rules of level-by-level authorization, which means an amendment only requires approval of the management one level above the level of implementation. This practice supports the concept of providing better services to the key account customers through high-flexibility problem-solving, proposed by Millman and Wilson (1996).

From the interview, we found that Company W has achieved high-degree formalization since the Company has implemented the system down to every product line. Each product has a dedicated SOP at every stage of the product life cycle, down to the details of product map. The product map is a draft of
product trend Company W planned for its key account customers. The R&D department takes the
initiative to discuss the product lines and product map with the sales department and jointly projects the
product trend in the following one to two years. This product map serves as a reference for the planning
of sales budget for the main product lines within the future one to two years. This practice fully
demonstrated Company W’s solid abilities as a major ODM company in the world. Company W also
crosschecks the accuracy of the Company’s sales budget by comparing the budget to the customers’
annual budget. This exhibits a key achievement in Company W’s implementation of formalization.

RESULTS AND DISCUSSION

Based on the content of the interview discussed above and verification of the supporting data,
results of the empirical study are analyzed and discussed in the section below. First of all, in the area of
activities, this research concludes that the phenomena of activities are formed from the two major
management policies: (1) Creating values for customers and (2) engaging in D-M-S positioning. To the
former, the management pointed out that the focus is placed on understanding customers’ product series,
that is, the Company first projects the shipment based on the annual budget of the key accounts, adds the
needs of the non-key account customers (e.g., industrial laptop computers), and then survey the market
movement to plan the production lines. To substantiate the policy of creating values for customers, the
management set up two R&D departments in the Company’s organization chart: one is the Value Creation
Center, and the other the engineering department. The former is formed by the elite designers in the
company, specializing in the development of new products and solving the problems forwarded by the
three major business groups (i.e. mobile products, businesses products, and digital consumer products).
Since this team is formed by the best of the best in the company, it is nicknamed the A-Team. The
A-Team presents new products every season, and the sales personnel of the associated business group
presents the new products to the potential customers through demonstration and presentations in the
process of soliciting orders. Another unit, the engineering department under each business group takes
charge to solve product issues within the group. Such division of labor is optimum for a global high-tech
company manufacturing multiple products. Establishment of these two departments supports Hambrick
and Mason’s (1984) view, “the organization is a reflection of its top managers.”

Another management policy of KAM is engaging in D-M-S (Design-Manufacturing-Service)
positioning. In the interview, the top management pointed out that the Company places high emphasis in
after-sale services. The Company claims that it is willing to set up a service station anywhere in the world,
as long as the Company’s finances permit and there is a need in the local market. Compared to other
companies who are mostly unwilling to invest in the unprofitable services under the pressure of low
profits from product sales, Company W owns the highest number of service stations in the world. This is
the strength of Company W and a major incentive attracting customer orders. Furthermore, Company W
has a complete service component logistic system and fast service procedures (e.g., the two-hour repair
service). The management optimized these resources and advantages, expanding the Company’s business
from D-M-S into service-oriented manufacture along the buying process of the key account customers.
This model not only cuts the cost for the customers from reduced participation in the service activities and
creates added-value for the customers, but also takes care of the three focuses of operation- growth,
profitability, and reduced risks. Finally, the management concluded with three advantages of setting up
service stations. The first is that through servicing products of the competitors, the Company gains the
intelligence on the advantages the competitors’ products and which components of the competitors’ products are better. The second is creating a positive image for the Company. The third is higher profit since services are more profitable than manufacture.

This research has two significant findings. The first is that the four major elements of KAM are closely linked. The second is that KAM reinforces integration of the upper-stream supply chain, as described in the section below.

**Four Major KAM Elements Are Closely Linked**

The relationships between the four KAM elements are organized into figure 1.

![Figure 1: KAM framework amended from the model of Homburg et al. (2002)](image)

The following section describes the hypotheses of this research based on the correlations between the four elements illustrated in figure 1.

**Correlation between Formalization and Actors**

For the correlation between formalization and top management involvement, this research did not see top management involvement explicitly stated in any of the formal documents (e.g., SOP). Therefore, this research made an assumption that formalization does not have positive correction with top management involvement. However, for use of team, the example of product shipping activities illustrates the relationship. From the interview, we came to know that customers of Company W’s customers spread across the world. Every government in the world has specific regulations governing product shipping. In response to the different regulations, Company W set up SOPs tailor-made for the local operations. When
the SOPs become fixed formats, the shipping personnel are able to ship products without mistakes based on the thoroughly comprehended system. During the interview, the management gave positive opinions about the SOP system and indicated that the SOPs have indeed been highly helpful to the implementation of shipping activities. Shipping activities are representations of use of team and evidence verified that formalization support use of team. Therefore, the following proposition is supported.

**Proposition 1:** The higher the level of formalization, the more effective use of team will be.

**Correlation between Formalization and Resources**

First of all, for the concept of formalization supporting esprit de corps, the executives pointed out that teamwork comes from the culture of “customer focus” and “humanistic management” developed in the Company for a long time, which helps to the manifestation of esprit de corps. For example, when the shipping department needs help from other departments first emergency shipping, personnel of other departments are more than willing to come forward and help with the urgent tasks.

On the subject of formalization to the access of marketing and sales resources, Homburg et al. (2002) defined, “access to marketing and sales resources as the extent to which a key account manager can obtain needed contribution to KAM from marketing and sales groups. This point can be illustrated by the Hungarian factory of Company W. The local regional sales manager ships every product to the key account customers by strict adherence to the global price and warranty given by headquarters, and the sales personnel is receptive to the carbon emission regulations imposed by the European customers. The regional manager also informed the production manager at the Hungarian factory about replacing the led sticks with tin paste for led-free manufacture. This policy won tremendous responses from the European customers and most of the process of system establishment was done through communication (e.g., face-to-face conversation or email), instead of formalized channels. From this example, we can deduce that formalization is not a significant in the process of obtaining marketing and sales resources.

**Correlation between Formalization and Activities**

During the interview, the middle and senior management explicitly pointed out that the management of the whole is carried out through processes. This research utilizes a global logistic activity to illustrate the influence of formalization to activities.

From the interview, we came to know that customers of Company W’s customers spread across the world, and each government has specific shipping regulations. To save shipping costs for the customers, Company W developed a range of container consolidation technologies and such technologies are written into the SOP as responding measures. Therefore, we made the proposition that formalization has positive effect on activities, which supports the following statement.

**Proposition 2:** The higher the level of formalization, the higher the effectiveness of activities is.

**Correlation between Actors and Activities**

First of all, the discussion starts from top management involvement. Activities carried out by the top management (e.g., playing golf with the senior management from the customers’ companies and visiting the sales in the world markets) are activities closely related to products and prices; therefore, these two categories of activities are closely related to top management involvement. This research also found that top management involvement is less related to three types of activities: global logistics, information sharing, and special services. All three types of activities are elements of the third-level capabilities, as described by Hooley et al. (1999).
This research also found that use of team has close relationship to the three major types of activities: product, information sharing, and special services. Take the activities of “product” for an example. This research found in the in-depth exploration of the relationship between these two factors that Company W’s cross-functional project management model handles approximately 30 projects per year. A project manager is assigned at the beginning of the project to monitor through the full process of the project and carry out coordination until the customer notifies the project manager ending of the project. Since key account customers of laptop computers have high demands for product quality, Company W developed the “Company W project life cycle”, as shown in figure 2, for optimum project management of specific products.

### Figure 2: Company W project life cycle

<table>
<thead>
<tr>
<th>Stage</th>
<th>Design Stage</th>
<th>Production Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cycle</td>
<td>RFQ</td>
<td>LAB</td>
</tr>
<tr>
<td>Key tasks</td>
<td>1. SPEC 2. Feasibility study for the design and cost</td>
<td>Approve prototype</td>
</tr>
<tr>
<td>Key tasks</td>
<td>1. At least 20 teams are involved in various testing (hardware, software, functions) 2. Send sample to the factory 3. Modify design</td>
<td>Small amount trial production; the goal is to meet the feasibility of mass production and shipping.</td>
</tr>
<tr>
<td>Production volume</td>
<td>100 units</td>
<td>300 units</td>
</tr>
<tr>
<td>Stage</td>
<td>Design</td>
<td>LAB</td>
</tr>
<tr>
<td>Detail tasks</td>
<td>1. Software compatibility 2. Hardware compatibility 3. Safety specifications (e.g., radiation control, compliance)</td>
<td>Customer decides whether the product has reached the level for shipment a. QC b. Manufacture efficiency c. Engineering testing 2. Approve design Modify</td>
</tr>
<tr>
<td>Stage</td>
<td>Design</td>
<td>LAB</td>
</tr>
<tr>
<td>Stage</td>
<td>Design</td>
<td>LAB</td>
</tr>
</tbody>
</table>

Source: compiled by this research

The two stages (eight smaller cycles) in figure 2 are briefly discussed in the following section: (1) RFQ (request for quotation) stage: Company W’s business involves mainly ODM; therefore, the Company usually plays the active to provide the specifications for the new products, as well as assessing the feasibility of the design and the per-unit cost of the product, in order to provide customers price quotes. (2) The design stage: This stage involves designing of the product details (incl. hardware, software, and safety specifications) and production of the prototype. (3) The LAB (laboratory) stage: This stage involves testing of the prototypes. At least 20 teams are involved in the testing of the product details (e.g., testing of software, hardware, and functions). Usually, 100 units of the product are manufactured for testing and a sample should be sent to the factory. (4) The ENG stage: This stage is the last step in the design stage, which involves testing the suitability of the actual production criteria; therefore, approximately 300 units are needed for full-scale factory test. (5) The PD (production) stage: This stage involves a small-scale trial production for around 500 units for second-time verification of the feasibility of large-scale mass production. (6) The Pre-MP (pre-mass production) stage. This is the trial production stage before mass production. The customer verifies the product and determines whether the product reaches the level of shipment. Approximately 250 units are manufactured in the trial run. (7) The MP (mass production) stage: This stage is the official commencement of mass production. The production volume usually runs from 1,000 to 2,000 units per day, which means complete products ready for shipment are produced. (8) The EOL (end of life) stage: This stage calls for closure of the project, which comes when the customer notifies the Company that no more orders will be placed for this product in the future.
In all, under the leadership of the project manager, the project team carries out the key tasks listed in figure 2 to ensure successful production of the specific products. This is the key to the success of KAM and supports the following proposition.

**Proposition 3:** The higher level of use of the team, the higher possibility product activities will be successful.

**Correlation between Resources and Activities**

Resources can be used to support activities. In the model of Homburg et al. (2002), resources contain two factors: esprit de corps and access to marketing and sales resources. These two factors support activities in the following relationships:

For esprit de corps in support of activities, product s require multiple software and hardware testing before shipment. Problems in any of the links will interrupt shipping; therefore, when there is a need, the department in trouble often requests the competent hands in the related department to come to rescue. Many personnel work on weekends and even into the late nights to help solve the problems. There is one example. A few days before the interview, the shipping department was rushing a shipment out, so the software testing personnel worked three weeks straight to test Microsoft Windows 7. Some of them did not get much sleep over the period of three weeks. Personnel of all units worked together to complete the project. The executives expressed that members of the Company are ready to exhibit their esprit de corps every day.

For the access of marketing and sales resources in support of activities, the regional sales from the Hungarian factory shipped products on time under the global price as requested by the customer. The sales personnel in Europe are highly receptive to the request of using tin paste solder for lead-free manufacturing and reduction of carbon emission. To satisfy the demands, the Hungarian factory asked the personnel to conduct multiple experiments and shared the results with the customers. The consolidated result of the above discussion supports the following proposition.

**Proposition 4:** The higher level participation of the actors in various activities, the higher the effectiveness of the activities will be.

**Reinforced Integration of the Upper-stream Supply Chain**

Another significant finding in this research is that Company W is charging forward in full swing to integrate the key component manufacturers in the upper-stream of the supply chain. To achieve the integration, the Company adopted two integration strategies: joint venture and independent factory. This finding has rarely been identified in the literature of KAM theories and empirical studies. This is probably due to the fact that there are no laptop computer manufacturers in the Europe and therefore, researchers in this region were unable to conduct empirical studies on this subject. During the interview, the top management of the BU pointed out that the Company has been actively laying out strategic alliance, targeting on the upper-stream suppliers in response to the trend of minimum profit and to ensure sufficient supply of the key components, as well as solving the problem of shortage of the upper-stream mechanic parts. Effectiveness strategic alliance is also expected to minimize risks and stabilize the sources of materials. In the recent years, Company W has formed Company S for optoelectronic products with upper-stream suppliers, which manufactures backlight modules. The management also indicated that the competitors have been making strategic layout in the upper-stream as far ahead as two or three years ago. Company W is aware that the company has had a late start, but such layout is still worth investing. During the interview, a key account customer came to seek for help for procurement of a key component. Company W referred the customer to a suitable supplier in time to solve the problem. Such network not
only increased customer values but also maintained a positive relation with the customer.

This research also found that the above joint venture supports the concept of “alliance for key complementary skill and product” stage identified in the Typical Partnership Objective along the Life Cycle of a Business by Doz and Hamel (1998). This diagram provides Company W a reference for cross-checking of the stages in the relationship and development of the alliance when forming strategic alliances with the upper-stream suppliers. It also helps Company W to make reasonable prediction of the income and accumulated cash flow likely to generate in the future. This prediction provides a background for screening of the best alliance decision and is highly beneficial to the implementation of KAM.

Overall, Company W’s integration with the upper-stream supply chain in any mode will reinforce the performance of KAM because of the reduced cost of materials or minimized risk of material shortage. To continuously create values for the customers, this research found that if the management adopts the broader view of market chain to replace the current model of value chain, the Company’s view for customer value creation will be broaden. This is based on the view of Ryans et al. (2008), who suggested that the technology-intensive business has less vertical integration than the more mature, less technology-intensive business. This book claims that this causes the high-tech business to have a longer market chain, and multiple organizations within the chain playing or potentially playing the key role that turns the materials into the solution needed by the end consumers. Base on which, this research found that the management expects to find more partners along the chain, especially when more opportunities for customer value creation exist at the consumer end. For example, the opportunity for integrated operation in the business of laptop computer recycle is urgently needed by the EU customers of the laptop computer manufacturers because the EU countries place high emphasis on recycling of the disposed products.

CONCLUSION AND SUGGESTIONS

Conclusion

This research illustrated in details how Company W implemented KAM through the model of Homburg et al. (2002) and proposed four propositions, as well as a KAM framework amended from the model of Homburg et al. (2002). The conclusion verifies that the amended model serves as a reference for the laptop computer ODM industry.

Suggestions

Suggestions to the Industry

Company W was able to carry a project through its life cycle through a project team and reinforce integration of the upper-stream component manufacturers. Company W maximized the four KAM elements and achieved KAM success. The success of Company W will benefit the competitors, and the company’s customer focus and esprit de corps serve as a valuable example for the other companies.

Suggestions to Academic Society

This research adopted the methodology of case study and explored implementation of the model of Homburg et al. (2002) in the laptop computer ODM industry in Taiwan through the study of major manufacturer in Taiwan. This research proposed four propositions for studies of the KAM theory and described the practicality of the KAM framework amended from the model of Homburg et al. (2002). Finally, this research proposes the following recommendations for reference of the researchers interested
in follow-up studies. (1) Analysis and comparison of multiple cases can be utilized. (2) The amended KAM model proposed in this research can be used to explore and compare its suitability for the different industries. (3) Cross-national comparison can be implemented to explore the differences and advantages, as well as providing a platform for mutual learning.

REFERENCES


