# UNDERSTANDING THE IMPACT OF NETWORK MARKETING ON ORGANISATIONAL CHANGES IN IT FIRMS

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## ABSTRACT

*Suppliers and users of IT products and services interact vigorously so that behaviours of both the sellers and users undergo changes. The buyer-users actively search for the suppliers who can provide the right service to solve their needs and problems. This trend has effected changes, not only in the marketing philosophy, but also in the organisational structures of IT companies. The present study explores some of the pertinent change processes observed in practice and analysed their marketing implications.*

## INTRODUCTION

The Information Technology (IT) industry is a fast growing business. It has made a lot of difference in the ways products and services are marketed, how businesses are transacted and on company organisation and performance in industrialised markets of North America, UK, Japan and Italy, to name but few. It is an emerging business sector in the developing markets of sub-Sahara Africa, as in Ghana, Kenya, Tanzania and Nigeria.

By observing recent developments occurring in the IT business and IT related activities in Tanzania and visual presentations of CNN and Sky News, the impressions gained are overwhelming. A recent visit to the UK during September - November, 1995, and the survey of selected literature on the subject led to the conclusions that first in IT industries, the orthodox marketing theory which perceives the buyer-user of products and services as being passive cannot be sustained. Secondly the nature of the IT products, their rapid improvement and changing marketing strategies of the same require the suppliers to interact with the buyer-users for a considerable length of time. Thirdly, that the kind of interactive processes that go on between suppliers and users of IT products influence considerably organisational changes, at least in the supplier firm.

### The Focus and Issues of Interest

The market mechanisms of developing economies are seller oriented. The trend is towards increased privatisation. The issues are what observed changes do different marketing philosophies have on IT firms organisational structure? What marketing implications do these observations have, in theory and practice, on organisational arrangements between IT firms and between them and franchisees in developing markets? The underlying premise is that by adopting network marketing concept an IT firm or franchisee can improve performance and manage change.

### Database and Methodology

In order to better understand the issues it is important to explore the specific developments occurring in the IT industry from two positions: the supply of scientific and technological products and the nature of demand facing this sector. This is discussed in the next sections. With this as the background the prevailing marketing philosophies (orthodox and network concepts) are explored. It is noted that the network concept of marketing is a better framework for studying changes occurring in IT seller organisations. This is predicated upon the contention that the dynamics of buyer-seller interactions characterising IT markets occurs as a network of actors co-operating over a relatively long time where actors adapt to each others demands at the right place, time and price. What is observed in practice is analysed. The marketing implications are then reviewed. The paper ends with a summary and conclusions.

The database for this study includes references to articles, books, monographs and working papers cited in the reference and personal experiences, observations and consultations with experts in the IT business during September - November 1995. All data were digested and analysed in terms of the focus issues explained earlier.

## THE SCENARIO FOR THE DISCUSSION

The Information Technology (IT) industry is a fast growing business. It has made untold achievements in industrialised markets of Europe. North America and Japan. It is an emerging business sector in developing economies, like Tanzania, Zambia and Ghana. The growth pattern may be explored in terms of the supply of scientific and technological products and the nature of demand facing suppliers. On the scientific-technological side, rapid innovation in the hardware technology has significantly enabled manufacturers to reduce the size of the computers, to increase substantially their processing capacity and to reduce their prices. Regarding the software technology, the diffusion of open systems concepts has made the hardware product more standardised. The traditional large hardware products for its profits and, especially, in reducing the size or increasing their power. A large proportion of the profits have increasingly become dependent on the offering of innovative use of existing hardware. The new generation of computers have become too powerful for the use for which they are employed. Most of them are used as word processors and for office routine works. It is necessary to bridge the gap existing between their application potential and the degree to which it is realised in use. In rational behaviour pattern it is understood that value derives from scarcity. In the computer business, however, scarcity, according to Rapport and Halevi (1991), resides in the gap existing between the power (what computers are capable of doing) and utility (what computers can be made to do). It is logical apparently for manufacturers and or sellers to recover their profits through application upsizing, when their profits are decreasing because of technological downsizing.

On the demand side, it should be noted that most of the buyers in developed market economies are often industrial organisations. They buy the systems (solutions) as a support for their manufacturing activities. They are therefore particularly interested in the characteristics of the solutions themselves and in their technological development so that they may sometimes make experiments on them and even suggest innovations in their design or in their use. They may even wish to participate in the realisation of the system per se. It follows from this perception that buyers are not interested in the technology as such but in the intelligence that it incorporates and which can be used to improve their activities. In their understanding IT is simply an infrastructure which supports their growth and organisational efficiency in relation to new emerging forms of decentralised management, which requires intelligent connections among different working centres. As a result of organisational development and potentials given by the initiatives of sellers, buyers have acquired greater awareness and deeper consciousness of all that is associated with the supply of IT. They do not anymore express an induced demand for hardware, but they have gone so far even as to specify an independent demand for applications and services.

Comparing the supply side and the demand side, the scenario for the discussion relates to a choice between using orthodox or unorthodox marketing philosophy in managing buyer and seller interactions in markets. Before looking into issues associated with this choice, it is necessary to review existing marketing philosophy-both orthodox and unorthodox.

## REVIEW OF ORTHODOX MARKETING PHILOSOPHY

The orthodox school of marketing believe that the market is formed by a great number of anonymous buyers who are grouped into relatively homogeneous segments for the seller firms to serve. Buyers do not, as it were, have any specific identities. They are regarded as active participants in the seller-buyer dyad only in the act of discriminating between different kinds of sellers and deciding whether or not to buy the product. There is an ample evidence in the marketing literature for the review.

According to Lambin (1991) the buying process is a problem solving process whereby the buyer does not have the resources and the capabilities to interfere and to condition the nature of the supply. The seller is the active operator and his marketing management concerns revolve around finding the best ways and means of manipulating the marketing mix variables (the 4 Ps) in order to obtain a positive buying action by the customer. The protagonists of strategic marketing management (Valdani, 1986; Kotler, 1986) have models which emphasise the sellers' ability to analyse, understand and even predict customers' needs in order to structure the marketing management models and to plan its maintenance and development. Underlying these models of strategic marketing management are organisational theories which argue that organisations can act as positive agents of change by manipulating and managing their environments (Pfeffer and Salancik, 1986). Strategic marketing management takes into consideration that markets are not static and that customer needs and wants change continuously over time. It focuses on the processes and the means by which marketing managers anticipate and even generate needs and wants of targeted customers. By this thinking buyers are still regarded as inactive, homogeneous and predictable.

By this brief analysis it has been explained that orthodox marketing philosophy emphasises the active role of the seller, buyers are rather stimulated to react in several unrelated transactions that take place. In this respect the management problem of the sales manager is to manage these transactions by manipulating marketing mix variables in order to stimulate reactions in a way that maximises sales and revenue.

In real life, however, marketing is not all that simple as postulated in the orthodox philosophy. Managers are known to deal with a large number of customers on an individual basis, and buyers are often active searchers of suppliers and sellers. They make countless demands in their dealings with suppliers on quantity and quality of products, and, sometimes, participate in specifying the products (Hakansson, 1980). Several recent studies in industrial markets (Axelsson and Easton, 1992; Ford, 1990; Grabher, 1993; Hansson and Snehota, 1989, Hakansson and Johansson; 1993) have shown that such markets are characterised by long-term and stable relationships between the sellers and the buyers and that both participants are active in originating and developing the business relationship. In durable product markets, therefore, buyers and sellers involve themselves in long-term business relationships, which reflect several different interaction processes with varied exchange content (technological, information social, etc.) and mutual adaptation of products, service and production routines (Johansson, Hallen and Seyed Mohamed, N. 1991). Such dynamic trends characterising market behaviour cannot be disregarded both in theory and practices.

## NETWORK APPROACH TO MARKETING

One of the contemporary unorthodox marketing philosophies is the network model developed at the Department of Business Administration of the University of Uppsala, Sweden, during the second half of the 1980s. It has become popular in the studies of industrial marketing issues. Briefly stated, the main principle of the model holds that both the seller and the buyer actively involve themselves in developing and maintaining long-term interactions or exchange relationships (Johansson, 1989) which in fact describe the market that has evolved. Markets are considered as the networks of connected interaction relationships instead of an atomistic system of transactions between buyers and sellers. The sellers' effectiveness and performance depend on their capacity to effectively handle interaction relationships with buyers. That they are able to perform in such specific exchange relationships reflects the position they have acquired in the entire network of relationships with buyers (Hakansson, 1980; Mattson, 1985; Johansson, 1989, Hakansson and Snehota, 1989; Johansson and Mattsson, 1992).

Against the backdrop of accepted marketing management doctrines the main distinguishing features of the two models are:

(a) **Conceptual:** The concept of who the actors, buyers and sellers, really are and the respective roles each of them, individually or as a group, plays, makes a lot of difference in the evolution of behavioural patterns in the market and how these may be effectively organised. The orthodox marketing model perceives the seller and the buyer as individuals with different positions in the market. The seller seems to have an overriding power over the behaviour of the buyer, by optimising the marketing mix variables in order to obtain a positive response from a "passive" customer. This is regarded as a problem of competitive strategy. The network model challenges this view, individual buyers are real and have predictable behaviour. They continuously interact with sellers in mutually beneficial ways. According to two exponents of the model, Johansson and Mattsson, (1992), the actors-sellers and buyers-perform those activities which serve to establish, maintain, develop and sometimes break relationships, to determine the exchange conditions and to handle the actual exchange; market research, advertising campaigns, sales calls; adjustments of products to specific customers' needs are marketing activities that might be needed to develop propositions to customers.

(b) **Managerial focus:** The marketing programme is designed to control the market from the sellers' point of view. Changes in approaches to handling "marketing" problems are caused mainly by competition and management seeks to maximise returns to the use of marketing resources. In the network model management concentrates on developing co-operative strategy in finding solutions to customer needs and wants. The customers are seen to be part of the problem as well as its solutions.

(c) **Organisational impact:** Orthodox concept relies heavily on centralised structures of organisation of work processes and in dealing with target markets. Management processes based on the network concept allows for diversity in handling various interactions from different contact points within the organisation and outside it. Changes in the structure of organisations tend to be widespread in organisations managed with network concept than those operating with orthodox concept of marketing.

## DISCUSSION OF OBSERVED MARKETING PRACTICES

The prevalence of individual active buyers in the market reflects the dynamic processes taking place in IT supplier and or seller organisations in Tanzania, Kenya and the UK. The material presented in this section dwells on personal observations and information gleaned from the literature, as cited in the references.

There is a growing acquisition of competence and qualifications by the internal commercial units and front-line salespersons in the supplier and marketing organisations. (The distinction between supplier and marketer is intentional: suppliers refer to IT manufacturers and producers located in developed markets. The marketing organisations are those located in developed markets such as the UK and Italy. In developing markets as Tanzania and Kenya where

IT products-hardware and software - are marketed the marketing organisations are regarded as franchisee). This trend has developed two major consequences. The first one is that it has enabled some of the personnel working with the marketing organisations to develop some of the software. The second point to note is that there have been changes in the organisational structures and therefore in the methods of administering commercialised units. Instead of establishing own production units or sales outlets in the markets in Tanzania and Kenya the suppliers have resorted to new forms of internationalising their operations: agency, supplier or manufacturers' representatives and franchising techniques are used. These methods allow for the decentralisation of responsibilities for competent internal sales units of supplier organisations and or salespersons/ franchisees to develop and manage interaction relationships with specific buyers or group of buyers. The supplier organisations have also realised the potentials in managing interactive processes with individual active buyers. This realisation has impacted on organisational changes and strategic restructuring of marketing operations of IT firms. The most common forms of reorganisations caused by the firms adopting network approach to marketing are discussed below.

1. **Supplier-Buyer Marketing Organisation** In the seventies and most part of the eighties supplier organisations like IBM and other IT product manufacturers organise their marketing operations strictly on geographic basis both at home and abroad. For European firms, General Managers, and for US firms, Area Directors or Managers were appointed to control and direct the sales of hardware products. Each Area Director of IBM, for example, directed geographical branches with sales representatives specialised according to the type of product but not according to the type of customer application problems.

2. **Sector-based Organisation:** In the later part of the eighties the management of IBM realised that, interacting with individual active buyers had a greater potential for improving market performance, decided to restructure their marketing operations from geographic-oriented to an industry/buyer oriented one. The industrial sectors and individual active buyers were grouped into homogeneous markets according to their application needs and problems. Further to this example, the Italian IBM appointed four General Managers who were to develop and manage interaction relationships with the financial, manufacturing, public administration and scientific-technological sectors of the economy. Each General manager was made responsible for studying and understanding the market sector, develop plans to maximise revenue and to handle relationships with other internal operational units of the firm. To emphasise the critical importance of interaction management to IBM, Commercial Operation Directors were also appointed for each market sector to specifically manage the interaction relationships with active buyers. (Tunisini, 1993).

3. **Account-based Organisation:** By this form of organisation buyers are grouped according to some factors or criteria which appear critical at a given point in time. Presently, the critical factors used include

   (a) **size of the buyer** - when a customer is too large to be grouped with others, for example, Tanzania Electricity Supplies Corporation, University of Dar es Salaam or National Insurance Corporation, a single Sales Manager or (Key Account) is designated to manage the supplier-buyer relationship

   (b) a single Sales manager may also be appointed to be responsible for such customer relationship that is considered particularly important or relevant for IT firm.

(c) **belongingness to a geographic location** - for reasons of cost, effectiveness and or convenience different responsibilities for all accounts of a given area may be delegated to a Sales Manager who may be residing in that area, to manage the relationships.

4. **Franchising** - (the use of independent active intermediaries) The marketing organisation of IT firms are also characterised by the use of franchisees both in home countries and particularly in overseas markets. The franchisees "mediate" between the IT firm and the market. In Tanzania and Kenya the franchisees have acquired increased relevance and importance because they provide a better market coverage for standardised and relatively simple hardware, such as PCs' They also possess other relevant qualities-singularly deep knowledge and connections with local and niche realities and specific application needs of local buyers. For these qualities franchisees, like International Computers Ltd. in Dar es Salaam, Tanzania, do not simply represent an alternative distribution channel for IT firms, but also a very important channel to maintain and develop long-term interaction relationships with the buyers. The importance of the franchisee as a complementary channel to IT firm sales force has compelled them, IBM, Facit, etc., to organise the management of their franchisees under "agent", "dealer", or franchisee managers. They are responsible for the support, encouragement and handling of interaction relationships with specific group of agents or dealers according to the homogeneity of the customer application needs they satisfy or geographic area in which they operate.

It is important to note that each manager who is given some responsibilities has adequate authority to make decisions on how and where to invest so as to effectively develop and manage business relationships that have emerged. Furthermore the changes in organisational patterns have arisen as a result of adopting new marketing philosophy.

## MARKETING MANAGEMENT IMPLICATIONS

The brief discussion of the marketing philosophies (orthodox and unorthodox) shows that marketing managers could benefit more from networking. The analysis of network concept in relation to the marketing of IT products has revealed sufficient knowledge that could have far reaching implications for theory and practice.

For theoretical purposes it is noted that the effectiveness of any business enterprise depends on its capacity to develop and handle dynamic exchange relationships with buyers and, more generally, with its markets. The business enterprise must grow and maintain its advantage over its competitors not only in keeping account of the behaviour and the distinctive capabilities of the actors of its "system of values", but also implementing the dynamics that take place in these actors by interacting with them. This may require using new instruments and by managing a set of interaction relationships with the autonomous and innovative actors, including buyers, who form part of the firm's value system. The need to manage diverse relationships with dynamic and active actors, all reinforcing each other, is correlated to the need to have an internal organisational structure that permits the best management of the interactions. The organisational changes and restructuring which have been introduced in the IT industry tend to reinforce the firm's operational units and personnel who really manage the interaction relationships. They are the response to the objective of collecting and developing major opportunities emerging from the dynamic interaction with the external actors (customers).

They represent the conditions for the development of relevant interactions as well as for the development of interaction strategy. It follows, according to Benassi (1990), that the structure of the marketing organisation represents an essential premise for the development of marketing strategy. As such the organisational changes taking place within the IT firm and transforming it from hierarchical to multi-centre organisation reflect this theoretical position.

In practice the theory has fostered growth in intrapreneurship. It has made it necessary for large firms to develop new organisational structures comprising operational units which tend to operate on their own either as Strategic Business Units (SBUs) or as franchisees. These have high degree of autonomy and decision making power. They develop and manage long lasting relationships with their present and potential customers as a strategy for better performance. The SBUs become a sort of customer-intermediaries for top management. In this new role the SBUs have their own characteristics and competence evolution relative to the business they are engaged in and to the kinds of relationships they manage. At the same time they are integrated in the parent firm and they are evaluated by top management according to the profits generated and customer satisfaction delivered. They are intermediate between the parent-producer firm and the market, in some sense. Franchisees in Tanzania and Kenya, for example, maintain active relationship with their overseas franchisers and local customers. They do not only market the PCs and softwares but also train users and individuals to appreciate the capability of PCs and the relevance of soft-wares to individual needs and problems.

## SUMMARY AND CONCLUSION

An attempt has been made in this paper to discuss network approach in contrast to the traditional concept of marketing management. The paper then follows with the analysis of organisational changes that have taken place in firms of manufacturing and or supplying IT products based on observations from the literature and business practice. The findings may be described as provocative and therefore require further empirical study. Otherwise it is noted that the trend in marketing organisations today is toward decentralisation of large firms into small independently operated Strategic

Business Units which are more entrepreneurial in concept and practice. They develop their business along lines where they have distinctive competence, manage niche relationships that maximise the returns to resource use. At the same time they are accountable to the top management of the parent company. This phenomenon has both theoretical and practical implications for business establishment, growth and development in economically weak countries, where large unprofitable state owned enterprises abound. Net work marketing strategy fosters entrepreneurial activities within organisations and turns them around for better performance and growth. Examples cited in the paper attest to this opinion and conclusion.

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