Managing Business Relationships and Positions in Industrial Networks

by

Brian K H Low
Lecturer, Department of Marketing
University of Western Sydney, Nepean
P O Box 10, Kingswood
NSW 2747 AUSTRALIA
Tel. No: (61-2) 678 - 5638
Fax. No: (61-2) 685 - 9612
Abstract:

This paper is about managing business relationships and positions in industrial networks. Entrenched business relationships between industrial buyers and sellers are epitomised by the positions occupied by these firms in the network. As structural metaphors, network positions described how firms relate to the other firms in the network. These positions capture the connections, complexity and dynamicity of these relationships. They are the achievement of an on-going historical process and are effective only if there are paired reciprocal relationships between the network partners, resulting in favourable access to the network resources and activities. Managing these positions means managing business relationships with a host of partners, developing strong relationships with some and not with others. All this requires a choice of partners and the development of appropriate resources and activities' ties, particularly in networks that are evolving, with considerable overlap.

Key Words - Business Relationships, Network Positions, Network Structures, Relationships Management Strategies, Positioning Process
Industrial Business Relationships And Network Positions:

This paper begins with a theoretical section about business relationships and positions in industrial networks. The process of network positioning and its theoretical and normative implications for industrial buyer-seller relationship is then discussed. These sections are intended to give a brief introduction to these concepts and follow this with a case study of an industrial buyer of telecommunications products and services. The telecommunications industry was chosen given the growing liberalisation of this industry in Australia and the increasing integration between computer and communication technologies. These developments have resulted in the redefinition of established industrial networks, the creation of new networks, with considerable overlapping membership.

In industrial network, each firm has a position directly dependent upon its relationships with counterparts, and indirectly dependent upon the counterparts' relationships with others in the network. A firm in a network therefore, have a number of exchange relationships with other firms. Time and commitments are necessary to build up business relationships and to shape the positions of the firm. Exchanges in the meantime are typically arms-length transactions. These transactions are but phases of a potentially evolutionary process, and whilst relationships may arise from a multiplication of isolated transactions, not every transaction has the potential to contribute to a relationship (Wehrli and Juttner 1994). Often a cost-benefit analysis is required before a decision to invest further in the development of a relationship is taken. The idealistic, utopian view of building a relationship therefore must be tempered with the harsh reality that one should under certain circumstances, actively and consciously play the market, seek out opportunities, and develop an opportunistic mentality. Deciding when to get out of an existing relationship and into a new one would, in many cases, minimise the substantial economic, political and emotional cost.
associated with building a relationship that sometimes is never destined to last. Firms must therefore not only invest in network positions by maintaining and investing in a number of strong, long-term business relationships with its partners, they must also develop new positions. Many of these new positions will involve short-term, opportunistic relationships with new potential partners. There is a need to build links and connections, often through a series of at first ad-hoc arms-length transactions, some of which lead to more stable relationships, and eventually a network position directly dependent upon its relationships with its partners and indirectly dependent upon its partners' relationships with others within the network. Firms therefore have a portfolio of business relationships connected to different actors within the networks, combining direct and indirect access to network resources.

Network positions are therefore interconnected, capturing the complexity and multiplicity of business relationships that exists between the firms. To an external observer, these positions do not exist since business relationships are based on business logic and interpersonal relations that exist amongst network members. In a matured industry, the relationships between members in the network are often stable, and network positions are embedded in the network. In many ways, this is a reflection of the many hours spent in experimenting with various connections and combinations of actors' activities and resources. The existing network structure and the positions occupied by these actors in the network is therefore a result of mutual cooperation and adaptation aimed at finding a "solution" to these combinations. In this context, the structure of the network and the positions in the network exhibit a remarkable degree of stability and continuity (Hakanson and Snehota 1994). Firm in the network finds no incentive to break established relationships. Ardnt (1979) has elegantly used the term "domesticated market" in describing how the competitive, open market is continuously being tamed, regulated, and increasingly transactions are occurring in a quasi "internal market" within the framework of long-term relationships.
In a changing and volatile industry, network structures are less stable. Unless these changes are accommodated for by members within the network, existing relationships between the firms will face tremendous strain. It involves challenging the status quo. It is through confrontations and adjustments in relations to other in the network that new or modified resources and activities are developed (Hakansson and Snehota 1994). There is a need and motive to find a suitable and workable solution, and failure to adjust will lead to dissatisfaction with the relationships and possible termination of the relationships. There is no economic and social justification in maintaining an existing network position in the presence of these changes. However, as noted by Easton (1992), it should not be thought that position changes are easy to achieve or even always possible. Firms may be in a preferred position and defend those positions by any means at their disposal. They may have desired positions that they may be seeking to achieve and which may be threatened by the proposed changes to the established network. Even for a highly structured network, Kinch (1994) has argued that this creates discontent by actors disfavoured by the way the network is handled. There is no alternative offered by the established firms for groups wanting a different solution. However, only in the presence of an alternative, will these firms consider leaving the network. Positions and business relationships amongst the firms are therefore not fixed in time, but are at any time the achievements of an ongoing-historical process (Henders 1992).

A firm's network position therefore describes out the actor's opportunities and limitations in establishing, maintaining and terminating business relationships. For instance, a firm that controls a unique resource required by other firms in the network will be able to strengthen its existing relationships and at the same time initiate new relationships with firms who need those resources. It does so by the power it wields in holding the position (Axelsson 1992). A position is a location of power to create and/or influence business relationships. However, the power to use this resource to strengthen its position seems to depend much on how the individual firm interprets the
value of that resource in terms of the other firms' need. This entails matching its resources and activities to the requirements of the other firms in the network. It is the position from the outside, from which the firm get its power through the performance of certain activities and making available certain resources. Position in this context, much like power is inherently a relational, relativistic concept (Axelsson 1992). Axelsson also suggested that the scope and extension of power, given the same positions within the resource areas, will vary over time. Pfeffer (1978) has termed it resource "criticalness" which in turn leads to Kutschker (1982) to introduce the concept of time-elasticity of power position. These concept measures how long the power position could be assumed to be valid. The significance of this argument lays claim to the fact that while position is not a dynamic concept, it is still possible to describe change, and thus dynamics, by describing a firm's position at the time t₀ and its position at the time t₁ (Henders 1992). As such, at a point in time, the firm's power position may diminish, when the resources and activities provided by the firm is no longer compatible with those sought by other firms in the network.

A crucial aspect of any firm's positioning strategy will be to form relationships to strengthen its position, in one or more network. Burt (1992) has argued that it is these relationships and it's accompanying social structure that renders competition imperfect by creating entrepreneurial opportunities for certain players and not for others. Social capital (as distinct from financial and human capital) in terms of the player's relationships with other players, both within and beyond the firm, makes it possible for a player to get a higher rate of return on investment (Burt 1992). This is possible because certain players are connected to certain others, trusting certain others, obligated to support certain others, dependent on exchange with certain others. What is needed is an understanding of the dynamics that captures what is provided by a certain position in the network, in a given context, and the way in which it could be arrived at. This requires the need to appreciate in greater details, how business relationships are initiated, maintained and developed. This paper is an attempt to do
that through a series of observations made in analysing the case study of an industrial buyer of telecommunication products and services. Invariably, the firm's action will depend on how it evaluates its position in the network, its link to the environment and what impact will changes in the environment have on its established and potential business relationships and network positions.

As previously alluded to, the two concepts - business relationships and network positions - are closely linked to the degree of network structuredness. If the network structure is tight, then attempts to initiate a business relationship by outsiders is difficult since they do not have a position and hence, do not have business relationships with members of the network. Existing relationships between firms in the network are so embedded that they have become domesticated. Business interdependencies between actors are heavy and strong social relationships often pose as high barriers for new firms. If on the other hand, the network structure is loose, then attempts to establish a position will be relatively easier since network positions are fluid and business interdependencies and relationships are relatively weak. In cases where an industrial network is confronted with major environmental changes, such as increased globalisation and industry deregulation, the existing network structure can be significantly loosened. This will have destabilising effects on the positions occupied by firms in the network.
The Study

This case study highlights some important features of a firm's positioning strategy in industrial networks that are evolving with a considerable degree of overlap. Changes in these networks, which covers sales of PABX systems, business equipment's (in particular, facsimile machines) and telecommunications products and services (namely, cellular mobile phones and airtime reselling), are caused by technological advancements, increased globalisation and the restructuring of the telecommunication industry. These changes affect not only the firm but other firms in the network and have cause reactions and counter-reactions. The firm has to consider and be able to evaluate its opportunities and limitations, dependencies and independencies in these different networks. For instance, where technological development is minimal (e.g., data transfer using the ten years old Group 3 facsimile technology), the firm's strategy might be one of maintaining its network position, hence, the consolidation of existing business relationships with its network partners. However, with data transfer increasingly being made through Local and Wide Area Network (LAN and WAN), a new industrial network is emerging - one with new players in the network, new applications and new end-user's market. There is a need to consider building bridges to this emerging industrial network. There would need to be a number of interim positions, characterised by a mixture of strong and weak ties. With the help of strong ties, the firm is able to influence and strengthened its perceived attractiveness whilst minimising its repulsiveness, in terms of the resources it has and the activities it can perform in the network. These ties will enable the development of a firmer, much more favourable position ahead of other competing firms. Strong ties however require a certain degree of outright commitments and investments that is not the case with weak ties. With weak ties, the company can cover very large areas without making large investments (Axelsson 1992). The firms can therefore act on emerging technology by initiating preliminary links and relationships. These relationships whilst weak, set the

* The identities of the firms in the case study have been disguised for reasons of confidentiality
framework for the development of much stronger, dependence relationships and the establishment of new network positions. These positions are likely to vary over time as more is known about the resources and activities needed to connect with other firms in the network. A firm can therefore gradually build up a position in the network, where every process is cumulative, some are more purposeful and deliberate than others. There is therefore an ongoing process of learning and unlearning to initiate new relationships, investing in some, and terminating others - all with the fundamental objective of establishing a preferred position in the evolving networks.

Of greater importance is how the firm interprets the environment to make sense of the types of relationships it wishes to establish (with who, why, and the types of resources sought). Decision makers will have bounded knowledge about these emerging networks. Cognitive structures will be constructed which in effect represents an interconnected set of understandings of these evolving networks, composed of implicit views of one’s own interests, concerns, and tasks - what Anderson et. al (1994) has termed the "network horizon." The network horizon can be expected to be dependent on the experience of the actor, drawn mainly from existing network, complemented with information from colleagues and general contacts from the evolving network. Andersen et. al (1994) has argued that the network horizon is the firm’s view of dealing with the reality except that such view is not set a priori but after the event. The process of network positioning will therefore be one of adjustment and adaptation, and the processes by which the firm goes about interpreting the changing environment and its impact on the networks are complex and often ambiguous. Significantly, this process recognises the need to take actions, often in the presence of minimal or incomplete information.
Business Relationships with Manufacturers of PABX Systems:

The focal firm, a dealer, started their telecommunication business in 1988 by providing after sales support for manufacturers of PABX systems. Recognising an opportunity to gain better returns from sales and distribution of PABX systems instead of just providing after sales service, they approached a manufacturer for exclusive distribution rights. Exclusivity was essential in a market with limited potential, hence affecting the returns on investment if there were more than one dealer. The initial appointment for the Tosha brand of PABX systems was followed up by two additional brands, namely Santo and Pansha, from two other manufacturers. This decision reflected the dealer’s need not to put undue reliance on one manufacturer alone but indicate his success and reputation in installing PABX systems. As the dealer principal puts it:

"I have got the credibility factor and the background to go to these people to appoint me as an exclusive dealer. They will look at me and say 'Yes, he has been in this business for a long time, he is the ideal person to give the dealership to, regardless of what the other criteria might be'".

Relationships between the dealer and the manufacturers are very strong, characterised by openness and frankness in business and personal communications. There were no attempts to appoint any additional dealers, neither has there been any effort on the part of the dealer to take on additional brands. There were a high degree of interdependency and trust between the dealer and the manufacturers. There were no incentives to break up a very complicated, but nevertheless, embedded relationship with these manufacturers (see Figure 1). Whilst some interstate dealers do sell into this market, often this was without the knowledge and approval of these manufacturers. For the most part, such actions have been tolerated and accommodated for by both the dealer
and the manufacturers, rationalising it as normal business practices that is indicative of
the industry.

The challenge facing the dealer now is with deregulation of the telecommunication
industry, significant opportunities exist to resell airtime sourced from the carriers. In
the wake of resale liberalisation, the dealer or any other resellers can offer an
unprecedented choice in service offerings for long distance and international carriage
of voice, data and facsimile traffic. Making use of the carrier networks and facilities,
the dealer can provide a total, repackaged service without competing with the carriers.
For instance, the sales and installation of PABX systems together with the reselling of
land line connections and airtime (as distinct from airtime reselling of cellular mobile
phones) makes good economic sense. However, the need for a critical mass coupled
with the necessary expertise and logistics involved in reselling airtime, has relegated
this project to a low priority issue. It was not, he admitted, easy:

"I cannot be a reseller. Reseller is only meant for the big boys. Therefore, I can only
be a sub-dealer. Seriously, I do not see me fitting into the scheme of things that the
carrier has."

(See Figure 1)

Firms capable of reselling airtime will be limited to a selected few. These firms, some
of which are based overseas, have substantial economies of scale and experience in
airtime reselling. These firms that were previously excluded from what have been a
protected and regulated industry, now have an opportunity to establish a position in a
network that is still very loose, ill-defined, and evolving. Some are cultivating a strong
relationship with the carriers; others are taking a more independent approach. Some
have made large investments in switching and support systems; other have spent little
or nothing on a separate infrastructure. Some are addressing the business market broadly; others are more specific.

In short, the regulatory environments whilst remaining consistent have also demonstrated a willingness to accommodate the variety of players keen to establish a position in the emerging network. These players’ resources and the activities they perform allow them to either operate independently or in collaboration with the carriers in the wake of industry liberalisation. New relationships have emerged with key players and end-users in the evolving network and these relationships will strengthen as they become locked. Paradoxically, the dealer’s entrenched position in the PABX network together with its network of relationships and links with its end-users has not resulted in any preferential treatment from nor favourable access to these airtime resellers and the carriers. Its current network positions in terms of the resources it holds and the activity they perform bears little relevance to the one that is emerging - one that combines the need to provide resources and conduct activities that encompasses systems sales and airtime reselling. Initial contacts have been initiated by the dealer, examining the possibility of reselling airtime indirectly through the major airtime resellers. There is in effect a realisation by the dealer that they must change and participate in these changes, often through a continuous learning process. There is a need to get a certain variation in the position it currently holds. The dealer is examining these emerging opportunities to improve its positions in relation to the airtime resellers to manoeuvre itself to a favourable position and then maintain it.
Business Relationships with Manufacturers of Cellular Mobile Phones (CMT) and Business Equipment Manufacturers (BE):

In the late 1980s', the dealer viewed sales of CMT as nothing more than an "add-on" to his core business of PABX systems sales. Active and direct involvement with manufacturers did not take place until 1992 when market adoption of CMT increased dramatically. Involvement was initially limited to the manufacturers, Mitno and Monec, since the dealer was not prepared to commit to the quantity needed by the manufacturers, Kiami and Necno, in order to get the "best buy" price. For brands sourced from Kiami and Necno, they were sourced indirectly from interstate dealers who had direct dealings with these manufacturers. The dealer therefore had a continuous, direct relationship with Mitno and Monec but an indirect, episodic relationship with Kiami and Necno through the interstate dealers (see Figure 2). In particular, a very strong relationship exists between the dealer and Mitno since some degree of exclusivity was offered. These relationship patterns between the various manufacturers and the dealer had emerged as a result of their doing business with each other. The dealers have some form of prescribed direct roles with Mitno and Monec and indirect roles with interstate dealers (but not with Kiami and Necno) which stipulate what they can and cannot do for each other. The focal relationship between the dealer and Mitno and Monec is more solid and reflected in the strong bondage and supports that exist between them. For instance, it is not unusual for the dealer to receive performance based incentives that are better than other dealers, beside the regular social visits by representatives of Mitno and Monec.

However, two major events significantly changed its network of business relationships. One was the deregulation of the telecommunication industry. There are now three carriers instead of one, and with each competing to sign up as many connections as possible, an aggressive price war resulted. These carriers who have
traditionally sold rebadged phones sourced from a few manufacturers (what is commonly referred to in the U.S. as private branding) demonstrated a marked willingness to increased their range of rebadged CMT and to sell them at a heavily subsidised price. Revenues were then concentrated mainly through network connections and call charges. Given this alternative, the dealer started buying CMT from these carriers (see Figure 2), making more margin than is otherwise possible if they were sourced from the manufacturers. When carriers offered incentives based on the number of connections made to their network, they directly shaped the dealer's relationships with the CMT manufacturers. The relationships with these CMT manufacturers were substantially weakened, reflected in a relationship atmosphere that is increasingly void of the high level of interactions and mutual adjustment that has characterised their interaction processes in the past. Whilst this decision was driven primarily by economic considerations, the blurring of what was once two distinct sources of revenue (from CMT sales and from rebates made through connection and call charges) also requires an urgent need to align themselves with one or more of the carriers. Furthermore, the dealer's impending involvement in airtime reselling for its PABX based systems and CMT also forced a reexamination of its business relationships with these manufacturers. It's CMT product-based position only was too narrow in focus, in a network that now combines product, service (airtime reselling) and technology (digital vs analogue based CMT transmission). There was therefore a need to reconsider its position in the current network and its business relationships beyond its current connections and linkages.

(See Figure 2)

The second event that changes its network of relationships was when the strong relationship it has with Mitno was subsequently put on hold when the latter appointed additional dealers. The brand's exclusivity appeal was subsequently lost. There was no incentive to maintain this old relationship. The history of relationships between
Mitno and the dealer was now compromised by the market reality that Australia has the second highest rate of adoption of CMT in the world (after the US). The CMT manufacturer, Mitno, faced competition not only from other manufacturers but also from the carriers who were rebadging other manufacturers' CMT but not theirs. Keen to become a dominant player in the industry, Mitno needed to significantly increase their sales volume. This outcome is not likely if CMT sales were limited to a selected few distributors or dealers, as is currently the case. From the manufacturer's perspective, there was a need to examine its relationships with all its distributors or dealers, initiating new relationships with other distribution alternatives, including possible sales through retailers and rebadging of their CMT through the carriers.

Concurrent with these developments in the CMT network, the dealer was also handling a limited range of business equipment (mainly facsimile machines, and to a limited extent, photocopiers and cordless phones). These were sourced from other manufacturers who were not involved in the sales and distribution of CMT. One of these business equipment manufacturers, Sansha, has given the dealer exclusivity in handling a range of facsimile machines. Sansha also had a rebadged CMT that was functionally identical but cosmetically different from that of Mitno. This cellular mobile phone that was sourced directly from Mitno by Sansha was given to the dealer on an exclusive basis. Quite unlike other CMT players in the market, Sansha's entry into the market was to gain marketing and sales experience prior to them launching their own CMT. Market share and volume were never important considerations in their involvement in the CMT market. Priority was instead placed on profitability. The dealer was therefore in an ideal position to make good margins without the added pressures of committing to a large buy quantity and competing with other dealers in selling this CMT. The dealer's business relationship with Sansha (see Figure 2) took on the character of strong ties with both parties adjusting to each other and creating joint sales and marketing programs after an initial series of episodic, arm-length transactions. The dealer and Sansha invested further in the relationships, in the form of
adaptation in the commercial and social spheres that strengthen their relationships between them, resulting in high switching costs due to the investment outlay in the relationships. The dealer principal described the development of its relationship with Sansha in the following way:

"Sansha has a very good company policy. They looked after me. When I was first appointed, I was pleasantly surprised when their dealer manager who is based here advised me that he could get the sack if I think he was not doing the right thing by me. I thought that was strange. Sansha has put me in a position of being the manager for their dealer manager. I thought they cannot do that, but they did. This is a company which looks after their dealer, which is their customers, and that is what I do to my customers. For this, I am very happy dealing with Sansha and with Sansha only."

Its relationship with Mitno that had already been substantially loosened over time was effectively terminated, when CMT were no longer sourced from them. In addition, with the growing contributions of business equipment sales to its overall business, it was only sensible to strengthen its relationships with Sansha and terminate its relationships with Mitno.

In short, the dealer's positions in the PABX, CMT and business equipment networks were characterised by an intricate and complicated network of relationships with a number of manufacturers. All these networks, whilst displaying a remarkable degree of stability and continuity in the past, are beginning to change in terms of how activities and resources that are linked in one network will now overlap into the others. To take advantage of the opportunities that are unfolding, the dealer will have to initiate and handle changes within relationships in these networks, often with others' firms who are involved in all these networks. This involves attempt to find new combinations, to invest in new resources and activities, and new partners. It involves a re-examination of a network position that has been very product specific to one that
encompasses different modes of communication service offerings based on voice, data and facsimile. It requires manoeuvring for a preferred network position in the presence of its already very favorable position in the PABX systems network, its somewhat fluid and volatile position in the CMT network, and its emerging position in the business equipment network. Specifically, in a PABX network that is very well structured, the dealer has very well defined roles in relations to the manufacturers that operate in this network. These roles were formed and developed from years of experience, resulting in very strong ties and bonds between the firm and other actors in the network. The CMT network was however fluid, where the roles were somewhat more volatile. In this network structure, some of the business relationships vary from strong, direct ones (Mitno and Monec) to weak, indirect ones (Kiami and Necno). Its relationship with Mitno was particularly strong but only if exclusivity was offered. The relationship with Sansha was relatively new but has grown in importance, especially since Sansha has offered to the dealer exclusivity to a CMT that is identical to that sourced from Mitno.

The dealer is participating in the changes that is happening in these evolving and overlapping networks. It is learning, albeit at a slow pace, since uncertainty still surrounds how these networks will evolve. In this context, learning is a continuous process and learning can never be routinised (Hakansson and Snehota 1994). It is also difficult to determine with any certainty the directions and likely outcomes of the the firm's attempt to link its resources and activities to other firms in the network. Whilst actions have been taken, often this has been from its position of strength, making use of the resources and capabilities it has developed in the past. Strategically, the firm realises a need to attain, establish and maintain a favourable position in these evolving networks. What is not certain is what this position is, in terms of the types of connection, of what resources, the types of activities and with which actors. In the meantime, the dealer has a complex network of business relationships, combining...
some transactions based relationships with some short-term opportunistic ones, and some with a view to developing them into long-term relationships.
Business Relationships with CMT Carriers and Airtime Resellers:

With industry deregulation, there has been a constant reassessment of its relationships with the two major carriers instead of all three. The reason is simple. Before deregulation, all CMT connections have to be made through Telecom Australia since they were the only available. These include both analogue and digital CMT connections although the rate of adoption for the latter was severely hampered because digital CMT was more costly, with poor transmission quality and limited area coverage. Whilst there was general discontent by the dealer with the carrier, there was no other alternative carrier available. The relationship with this carrier was not a matter of choice but of necessity. Telecom Australia also had a monopoly on all IDD (International Direct Dial) calls.

When Optus came into this network in 1992, it offered analogue and digital CMT connections as well as STD connections (but not IDD connections). However, since Optus analogue networks were leased from Telecom Australia and given the government announcement that all analogue lines will be phased out by the year 2000, Optus marketing push concentrated mainly on digital CMT. The carrier invested heavily on digital-based network cells. For the dealer, Optus offers the commitment to increase the rate of market adoption of digital CMT, and with it, the necessary incentives to connect to Optus digital network. Against this is the need to balance the firm's loyalty towards Telecom Australia and this carrier's stranglehold on IDD calls - the latter with far reaching implications on airtime reselling when packaged with sales of it's PABX systems. This dilemma is perhaps best typified by this comment from the dealer in his constant assessment of its relationships with these two main carriers (the third carrier, Vodac, was not an option since its focus was only on digital -based CMT):
"I must admit that when Optus approached me, I said "no thanks." I am committed to Telecom Australia. The second time they came to me, I thought that I should seriously consider becoming an Optus dealer. I, however, discussed this with Telecom Australia first. I didn't want to loose Telecom Australia because of their strength, and Optus was a 'small fry' then. Telecom Australia legally could not stop me handling Optus's CMT and I becoming an Optus dealer was fine so long as I did not become a "100%" Optus dealer. This arrangement was fine with Telecom Australia.

The drawback to this arrangement was that incentives forthcoming from these two carriers were less favourable compared to those who were supposedly "100%" committed to either one of the carrier. This however has not stopped some of the nation's biggest dealers from getting these incentives although they were not fully committed to either one of the carriers. These dealers, with their nation wide outlets control a unique resource that is sought by these carriers - that of distributions. These dealers are therefore capable of influencing their relationships with the carriers with the power it wields in holding the position it has in the network. In this context, it is worth noting the criticalness of these resources at a time when intensive distribution is urgently sought by the carriers as the rate of market adoption increases significantly.

Attempts by the dealer have however been made to establish contacts with these resellers. These involve attempts to realign themselves with the requirements of the new network that requires initiating and developing some preliminary contacts with these resellers (see Figure 3). The carrier themselves have not approached the dealer since the dealer does not have the critical mass, the financial and the logistic capability to handle airtime reselling. Its position and the relationships it has with Telecom Australia in the existing network have not helped them in accessing the carrier's resources (ie. Airtime). Its network position that was an outcome of activities and relationships undertaken in the past has clearly constrained its opportunities. Its resources are not desired by the carrier and the resellers in the emerging network.
There is therefore no paired reciprocation in that there is no role expected from the dealer at this point in time. The resellers and the carriers in this network that places priority on resources and activities that are needed in reselling airtime (besides cellular mobile phones) define the norms governing exchange. There is no obligation on the part of either the resellers or Telecom Australia to support the dealer. Here, competition between the carriers (who is the seller) and the potential buyer (the carriers have a choice between the resellers and the firm) involves negotiation between alternative relations, not within a relationship. In other words, the carriers will firstly decide which firm in the network best fits the roles they are seeking, then initiate and develop relationships with these firms. Any one partner in any existing relationship is therefore dispensable, readily replaced by another who best fits the role required by the seller. For the dealer, the question is how the long-term relationships it has with Telecom Australia can be used and combined with more short-term or task-oriented relationships to establish a position in these evolving networks. In view of the uncertainty and ambiguity surrounding the changes taking place and the ability of the dealer to handle these changes, it is one perspective the dealer have to come to grips with. Several alternatives have been followed by the dealer, including actively maintaining very strong, definitive relationships with Telecom Australia, somewhat broad relationships with Optus and no relationships with Vodac (see Figure 3). The dealer, in many respects is finding a way to handle the various resources and activities offered by these carriers, some of which are proprietary in nature (Telecom’s monopoly of international IDD) whilst others are a matter of priority (Optus’s emphasis on digital CMT) - but all of which are essential for the dealer to establish a position in the new, evolving networks. The dealer, operating in these networks, must be extremely adaptive and flexible, requiring excellent skills in analysing and managing the learning and unlearning process as events unfold. As the dealer’s principal describes it:
"One of the things that I have always resisted in doing, in this business is to say that this is the "track" that I had to take because you can get committed to it and you can miss a turn when it comes to the junction. As such, I never think more than 12 months ahead. I know what I want to do next month and the next month after that. That is as far as I want to look ahead. No one knows what these people (i.e., the carriers and the resellers) are going to do then."

(See Figure 3)
Business Relationships with End-Users:

One of the major problems facing the dealer was to build up a reputation in the new emerging network without compromising the one gained in the existing network. This implies manoeuvring for network positions that involves the development of exchange relationships with numerous customers' individuals and groups. Some of these relationships will be strengthened and others will be loosened. To determine the appropriate relationship management strategies, we will need to examine the buying behaviour of these customers in the range of products handled by the firm.

With PABX systems sales, there has been a high degree of customer loyalty. Sales of PABX systems were then targeted at small businesses requiring no more than 10 connections. There was therefore a high degree of interpersonal contact since the buyer and the user was often the same person. This market was relatively easy to service with high contribution margins made from sales of the system and after sales support. There was also high incidence of referrals from PABX systems manufacturers. Its network position has therefore allowed him access to information from the manufacturers on customers that he otherwise would not have access to. It has given the dealer the opportunity to domesticate the small PABX markets and to negotiate relationships between the manufacturers and the customers, with him in a dominating role.

Increasingly customers, in particular corporate ones, are placing emphasis on the costs of telecommunication. This requires the ability not only to provide consultancy service that comes with each system sale, but significantly, the need to configure a system that also takes into account the connection and calls charges. For the dealer, this means involvement in airtime reselling and the need to acquire knowledge on the trade-offs between leased or public access, the integration of voice and data
communication, etc. In short, the dealer now has to provide systems sales that include land line connections, airtime reselling, data and voice integration. Paradoxically, these decision makers are those who are not necessarily familiar with PABX systems and its accompanying communications options other than a preoccupation to control communication costs. The user of the system and the decision maker is not the same person. The lack of communication between them further diminishes the potential to develop any relationships that could be initiated by the dealer. There was an absence of interpersonal contact that previously characterised sales of small PABX systems. In addition, the dealer now has to deal not only with manufacturers of PABX systems but also airtime resellers, carriers and providers of telecommunication consulting services. The dealer at the very least, must have a working knowledge on how to bring these parties together, to provide a communication solution that once fell exclusively into its domain of control and influence.

With increasing market adoption of CMT, the dealer from which the phone could be purchased was never an important consideration for the customers. When once customers had a preference for known and trusted brands and were prepared to pay a premium price for them, pricing has now become the main determining attribute. Dealers advertise mainly on price although wider discrepancy exists between a highly and a less featured one, between an analogue and a digital CMT, with the latter costing significantly more. However, within these product classes, pricing is the main differentiating factor. The dealer therefore carries all the major brands as well as brands that were essentially price-pointed (at $200, at $300, at $400 etc). He also stocks brands not only from the manufacturers but also from the two main carriers with their range of rebadged brands. This was necessary not only in terms of the normally better buy price they get on these rebadged products, but because of customers' insistence that they want Telecom Australia rebadged phones connected to Telecom Australia network and vice versa with Optus phones. The dealer in this network and in the minds of the customer is a faceless cog, the transaction easily
replaceable by another dealer carrying a price pointed CMT, analogue or digital based, sourced from the manufacturers or the carriers.

When the dealer took on the sales and distribution for the exclusive brands of facsimile machines from Sansha, they knew that this needed to be complemented by other ranges of business equipment not available from Sansha. The growth in the small office, home office (SOHO) market, the declining prices of these machines and the subsequent proliferation of low-end models meant that these machines were aiming more for the retail market. Unless multiple brands are made available, the dealer is not likely to achieve a great deal of success in sales of business equipment. Whilst customers are aware of the fact that he is the sole Sansha representative, they are also aware that he has access to other types and brands of business equipments not sourced from Sansha. Pricing again is an important purchase attribute in the sales of these products followed by product reliability and after sales service support. On the latter two purchase attributes, the firm has been pushing Sansha's facsimile machines whenever their opinions are sought by the customers. Otherwise, the business equipment market operates very much on a cash - and - carry basis. Customer's loyalty to the manufacturer of the business equipment and to the dealers from which they are purchased is minimal.
Concluding Remarks And Marketing Issues:

The case study presented here demonstrates the strategic choices that are available to a firm in terms of handling changes within relationships and the management of its network position. The decisions will depend on how it evaluates its position in these networks and its link to the environment. It involves an examination of its existing network position(s) and the need to develop new ones. Since these positions are embedded within the network structure and are connected to each other in a series of dependence relationships, it requires manoeuvring for network position. This involves an examination of business and interpersonal relationships with a range of specific partners. It requires maintaining and strengthening some relationships, loosening some of the relationships, putting on-hold others, and terminating some. Often, there is a need for a constant cost-benefit analysis before a decision to invest further into the development of a relationship is taken. Since firms have bounded rationality, they will construct network horizons, which define how deep or shallow they view their network of business relationships. This network horizon can be expected to be dependent on the experience of the actor. In this complicated and loose configuration of collections of individuals and firms that constitute a network, the firm will constantly be looking for opportunities to improve its position not only in relation to existing counterparts but also creating new positions with new counterparts. The strategy is one aimed at creating an identity that is meant to capture the perceived attractiveness (or repulsiveness) of a firm as an exchange partner due to its unique set of connected relations with other firms, links to its activities, and ties with their resources. Managing and balancing these positions and the network of relationships within it is the new reality in industrial networks that are evolving, often overlapping.
Significantly, they must take into account the following observations:

1. Established business relationships and positions in a network do not necessarily result in favourable access to resources and activities in a new network with totally incompatible structural characteristics, and hence, different resource and activity requirements. For instance, the network position and business relationships the dealer has with Telecom in the CMT network have not helped them in accessing the carrier's resources (i.e. Airtime reselling) since the resources and activities needed in reselling airtime are not compatible with those performed by the dealer in the CMT network.

2. Network positions and business relationships therefore exist cognitively between firms in a network. They are seen to be effective only if they result in favourable access to the resources owned by firms in the network.

3. A crucial aspect of any network positioning strategy will be to form dyads in order to strengthen a firm's inter-organisation power. The firm does this through a constant evaluation of existing relationships and the development of strong and weak relationships.

4. With a stable network, the firm can define and plan in advance the type and nature of the relationships it wishes to have with other actors in the network. This often is not possible in an evolving, changing network, especially when information relating to the types of resources, the performance of what activities, and connections to which actors are not known.

In these evolving overlapping networks, the strategic problem facing the firm is to identify, attain and maintain a favorable position over time (see Figure 4). Whilst it is virtually impossible to get a complete picture of how these networks will evolve,
actions will still have to be undertaken. Some of these will require a certain degree of commitment and investment in a position. These actions, aimed at establishing a favorable position in the new networks will be manifested in the nature and type of relationships the firm has, how it is situated in these networks, and with respect to whom it has direct and indirect relationships. Some of these relationships will be of a long-term nature whilst many are often more short-term with a high degree of flexibility built in. The company will need to position itself so that it has a capacity to act and adapts to these evolving networks. The position it currently has will affect the success of its relationship management strategies and its ability to manoeuvre for a favourable, future position. All this requires interpretation of what is happening in the network, what various companies in the network stand for, and how these companies will act and impact on the firm’s current and future position in the network.

(See Figure 4)
References:


Nadel (1957), The Theory of Social Structure, Glencoe, Ill: The Free Press


Figure 1

Legend:

- Very strong, frequent direct relationships

Dimensions of Business Relationships and Network Positions

The PABX Network
The Business Equipment and CMT Networks

Dimensions of Business Relationships and Network Positions

Legend:
- **very strong, frequent direct relationships**
- **strong, frequent direct relationships**
- **occasional, transactions-based relationships**

Figure 2
Figure 3

The Airtime Services and CMT Networks

Dimensions of Business Relationships and Network Positions

Legend:
- Very strong, frequent direct relationships
- Strong, frequent direct relationships
- Occasional, transactions-based relationships
- Occasional, transactions-based relationships

Networks:
- Airtime Services
- CMT

Connections:
- MIIT
- INAO
- MONO
- MONEC
- PAC
- PACIN
- KAI
- KAIU
- MON
- YGUAL
- X
- X

Networks:
- CMT
- Airtime Services

Figure 3
The Dynamics of Business Relationships and Network

Legend:

- **very strong, frequent direct relationships**
- **strong, frequent direct relationships**
- **occasional, transaction-based relationships**

Positions in Evolving Networks