

What factors should managers take into account when considering the position of the firm within a business network?

Before this question is answered, it is essential to recognise two key points. Firstly; businesses are primarily a means of making money. Secondly; the role of managers within businesses is to implement this goal of profit maximisation throughout the organisation. Ford et al describe a business network as ‘a special organizational form that relates companies to each other in a particular structure based on their relationship with others’ (The Business Marketing Course, 2001, p48). It is evident that a business network is a web of relationships, and it is the management’s role to determine which part of the network the business should be involved in, essentially, which part of the network will be most profitable and sustainable in the long run.

It is relatively easy to be able to recognise areas within a business network which are attractive, however before this should be done; managers need to recognise they are restricted within their company’s capabilities when looking at the network with a motive to change. It must be recognised it is not an easy option to change position in a network. Thus managers need to be aware they are restricted by the organisations internal skills, culture and past products produced. It is not usually possible to move to a completely different market sector, or areas in the business network. Change in positioning of networks and supply is difficult and sometimes costly when it doesn’t work out. For example the low price car manufacture Daewoo tried to enter the high priced sports car segment by developing an expensive sports car, however due to several factors including the restriction of the company’s brand name, the car wasn’t successfully launched. In effect Daewoo was constrained to what the company was. This case shows how, managers when considering the position of a firm within a business network, need to approach the task, sensibly and rationally, making all observations of the network within the constraints of the firm itself, and bound by the organisations capabilities.

Although observations of the business network should be done in light of the firm’s position, this does not mean companies are always necessarily restricted to their current position in the business network. Richard Branson’s company ‘Virgin’ has successfully entered various markets and has done so by identifying segments which he saw as potentially profitable. In a similar way managers need to gauge the current network position of the firm they are involved in, and if they decide they want to change the position, the need to ensure that the proposed position can be achieved.

To know whether or not a part of the supply chain is sustainable, several questions must be asked. These four questions, proposed by Lonsdale and Watson (Supply Chain Management Handouts, Network Positioning and Competitive Structure, 2003) can serve as a basis for the basic evaluation of a firms positioning decision. Firstly, managers need to assess if there is a *real demand* for what the firm is offering. This question is imperative because unless there is a demand for what the firm is offering, the position of the firm means nothing. It is useless to have a patented design; an effective monopoly on an ingenious revolutionary invention, if

actually no one wants to buy the product. Therefore there must always be demand for the product if the positioning of the firm is to be successful. Secondly, managers need to evaluate if what the firm is offering is *rare or unique*. If the firm is offering a product that many other firms are able to offer, i.e. the market is in perfect competition, then costs will be driven down to marginal costs, and supernormal profits will be competed away (Sloman, 2000). It is always within the interests of a firm to try and locate within an area of the business network that has high profits. If this is to be done successfully, managers must thirdly be sure that what the firm is able to offer is *difficult to copy*. Even if the firm were to innovate a new technology or idea, if this was done without the technology being protected by a patent or by other means, the development of the product would not have been taken advantage of to its full potential. Once the product had been launched, competitors would merely copy the idea or technology, without having incurred the R&D (research and development) costs. Finally, managers need to be sure that the firm is *capturing the value* from what the firm is offering, i.e. the value of the product is retained within the firm.

If firms are to succeed within the business network, then normally these four areas will have been achieved. It is helpful to try and apply these principles to a current example. The pharmaceutical industry has the highest rate of ROE (Return on Equity). By using the four principles introduced by Lonsdale and Watson, it is relatively simple to see why. What the pharmaceutical companies offer are new medicines or cures, which are unique to the companies because they typically have been researched and developed within the individual company, and thus patented by the company. So it can be seen that the pharmaceutical company have a product that is in demand (health care is always desired, particularly new developments), what the company offers is unique and the patent protects other pharmaceutical companies copying the formulae. If the medicine is developed within the firm then the complete value of the product will be captured within the firm. This explains why pharmaceutical companies do so well.

Although it is useful to be able to see how one industry is a success, this doesn't really help too much with how managers of firms should assess their position within the business network, because it's clear that not all companies can become pharmaceutical companies. However through looking at the example of the pharmaceutical industry, the whole issue of what has been termed 'economic rent' comes into play (Grant, 2002). If firms can try and seek to gain from an economic rent, by positioning within a network where economic rent is prevalent, this will be advantageous. There are two types of economic rent. In terms of the pharmaceutical companies, these fabricated rents, often termed 'entrepreneurial rents' are earned by research and development, because the idea developed is patented, the 'rents' occur between the period of innovation until the time the idea has been superseded or the patent expired. The other type of economic rent is known as natural rent, or 'scarcity rent', these are rents that are a result of valuable factors of production that are in limited supply. Economic rents are a way of sustaining profits, and managers of firms should view the business network aware of how beneficial these rates are, and thus attempt to gain from these rents by positioning within the network where the rents appear.

The advantage of being in a position in the business network where economic rents exist is that, that position in the network is usually sustainable. However, say for the example of the computing business network, Dell can't simply decide that Microsoft's position in the business network is more favourable than theirs, as they have 'entrepreneurial rents', and thus attempt to position where Microsoft are. For a company like Dell, this just wouldn't be possible, as they are restricted by their past, and constrained by their organisational capabilities. Thus, although it may often be seen by managers of firms to move to a more favourable position within the business network, this move will often not be possible. As this is the case, managers need to be able to assess the extent to which the current position of the firm in the business network is sustainable within the market structure they are operating within. Michael Porter in 1980, in his book 'Competitive Strategy: Techniques for Analyzing Industries and Competitors', developed a model to show how sustainable a firm's position was, by providing five forces which impact upon and shape industries and markets.

Porter proposed through his model that these five forces help determine the intensity of competition and so the profitability and the attractiveness of an industry can be assessed (Recklies, 2001). The model suggests that the intensity of competition is dependent upon; the bargaining power of customers, the bargaining power of suppliers, the threat of potential entrants, the threat of substitutes, and rivalry between competing firms (Porter, 1980). Porter's model can be a useful framework for managers of firms to use when considering the position of the firm within a business network, as each of the five forces contributes to and affects the firm's competitive position.

The bargaining power of customers determines how much impact the customers have on the producing industry. If customer pressure is high, then the customer can impose pressure on profit margins and on volumes of the product produced. This could happen under many circumstances, for example it is likely to happen when the supplying industry comprises of a large number of small firms, or when the customer buys large volumes of the product. For the case of managers assessing business networks, it is most preferable for firms when the customer bargaining power is not high; otherwise the likely result is that profit margins will be reduced.

The bargaining power of suppliers really consists of all sources of input that are required in order to provide the product. The most preferable position for a manager to seek is where the supplier is not powerful; so the supplier cannot exert a heavy influence on the firm. Ideally, managers will identify areas in the business network where the firm can easily switch between suppliers, where there are a high number of suppliers and where there are substitutes for the inputs required. If a firm is heavily dependent on a small number of suppliers, then the suppliers can exploit their position to the disadvantage of the firm. If managers of firms identify that their current position within the business network is one of being taken advantage of by suppliers they will have to attempt to limit the effect of this power, perhaps by

seeking alternative supply, or possibly by playing the power game (Cox, Sanderson, Watson, 2000).

The threat of new entrants to a market will depend upon the barriers to entry within the market. In order for managers to try and ensure their position within the business network is sustainable, they can try and make sure that barriers to entry exist. Managers should if possible view with importance strategies such as trying to encourage brand loyalty, or capitalising on economies of scale, or attempting to increase switching costs. If managers want to make their position within the business network sustainable in the long run, they need to adopt policies which will create barriers of entry and thus put off potential new entrants entering the market place in competition.

The threat of substitutes exists if there are alternative products in other industries with lower prices or better performance than that which the firm is producing. Rational consumers seek to get the most they can from the resources they have, hence, if there is a 'better deal' somewhere else, people will go elsewhere. Managers need to be aware that the firm is competing against other industries, and thus there is a need to price accordingly bearing in mind the competition throughout industries. There is no easy solution to create customers who will remain with the firm, however, creating a brand loyalty, developing close customer relationships and high switching costs, along with pricing appropriately are ways in which firms often try to retain customers.

Rivalry between competing firms refers to the intensity of competition between existing players in an industry. Firms strive for competitive advantage over their rivals, and this often results on pressure on profit margins. The most preferable situation for a manager to seek for the firm is where competition is disciplined, (not open collusion, but a mere understanding or informal compliance). When a firm is located within a network where competition is fierce and the product differential is cost, then eventually costs will just be lowered and lowered until some of the firms leave. Competition like this is not ideal, and isn't good for the firms objective of profit maximisation. Managers should want to ensure the firm is differentiated and if possible in an area where loyalty to their product is high.

A manager's objective should be to reduce the power of these five forces within their firms to ensure that their position within the business network is sustainable and as profitable as possible. If they are seeking to move to a different place within the business network, they need to be sure that the five competitive forces Porter mentioned will not have too greater impact upon the firm. If an alternative area of the business network seems to be attractive, and the goal of reaching into that area is realistic, then using together Porter's model along with the four basic points from Lonsdale and Watson, a balanced assessment of that decision can be made.

Above all however managers need to be aware that there is no solution or strategy that fits all problems or scenarios. So many managers want one solution that answers all their problems (Yong and Wilkinson, 1999). Managers when analysing

and evaluating the business network have to use their own knowledge of the firm, and then within those constraints seek to determine if their current position in the network is sustainable (if they are appropriately positioned against competition), and whether or not there are more preferential areas within the network that could be attainable by the firm.

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