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**The Role of Network Marketing in Non-&Forprofit Sectors**

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**ABSTRACT**

Business relationship is an important phenomena of business world. Managers have to recognize the significance of business relationships. Business relationships are both opportunities and problems. And as the business environment becomes more and more competitive, companies are forced to push themselves to a very edge of their capabilities. Ultimately the success of the companies relies on their human resources and business and marketing strategies which can help them to show up in global market. Network marketing has become an increasingly used practice in order to enhance small and medium sized companies' performance. But what about nonprofit sector? Are there any possibilities to help the for- and non profit sectors' cooperation using the network marketing practice?

**Keywords:** business relationships, network marketing, nonprofit sector

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## ABSTRACT

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## INTRODUCTION

Marketing is the science of market behaviour. Or to be more precise the scope of marketing is the behaviour of different market actors, as individuals and organizations, suppliers and buyers, middlemen, and market regulating authorities. Transactions between or among partners are the basic research unites of marketing. Recurrence of transactions creates market dynamics. Market relationships are constructed by repeating transactions (Mandják, 2005).

Business market means a series of interactive relationships among mutually dependent and embedded economic and social actors exchanging resources and linking activities. Direct and indirect relationships between the actors create and develop business networks. The main goal of inter organizational exchange is to assure the necessary resources for the organizations proper value creation process.

The purpose of my PhD research is to provide a better understanding of how network marketing can be used as a marketing strategy and tool to develop business relationships between for- and nonprofit sector. To reach this purpose I investigate the objectives of nonprofit organisations and network marketing nowadays. I also examine the relations between theory, and empirical work in the development of the interaction and industrial network approaches. This paper presents a short description of different marketing schools' contribution to understand network marketing and business relationships.

In the future the main task of my PhD work is to present how the effects of network marketing in the cooperation of these two sectors can be measured.

## CONTEMPORARY MARKETING PRACTICE AND NETWORK MARKETING

Relationship marketing is focused on customer retention over the longer-term and emphasizes product benefits with high service, high customer contact, and high customer commitment. More recently, Coviello, Brodie, Munro (1997, 2001) and Coviello, Brodie, Danaher and Johnston (2002) argue that marketing is more complex than a simple dichotomy. As summarized in Tables 1 and 2, Coviello et al. (1997) use a series of dimensions to distinguish four types of marketing practice: Transaction, Database, Interaction, and Network Marketing.

In this framework, *Transaction Marketing* involves a firm attracting and satisfying potential buyers by managing the elements in the marketing mix. This approach involves creating discrete economic transactions that are generally treated in isolation, at arms length, and in the context of a formal, impersonal process. Following from this, buyers in the market are passive in the relationship. The seller actively manages the exchange, and manages communication “to” buyers in the mass market. At a managerial level, managers focus on marketing a product/brand to an identified group of customers. Marketing activities are usually relegated to functional marketing areas, and managers focus on developing internal capabilities related to the marketing mix. Coordination with other functions in the firm is limited, and the planning horizon for this type of marketing is generally short-term.

*Database Marketing* is a tool or technique used by businesses to develop and manage long-term relationships between the company and its targeted customers. In this type of marketing, the focus is still on the market transaction, but now involves both economic and information exchange. The marketer relies on information technology (possibly in the form of a database or the Internet) to form a type of relationship, thus allowing firms to compete in a manner different from mass marketing. More specifically, the intent is to retain customers over time. Communication patterns are generally driven and managed by the seller and are, therefore, asymmetrical (similar to Transaction Marketing). Marketing is still “to” the customer, rather than “with” the customer. Relationships per se are not close and are facilitated and personalized through the use of technology. They do not generally involve on-going interpersonal communication and interaction between individuals, and exchange is discrete, albeit over time. Managerial investment for Database Marketing is in the tool/technique and in supporting technology and information. That is, it is an internal and controllable marketing asset to

**TABLE 1** Types of Marketing Classified by Managerial Dimensions

	Relational Perspective		
	Transactional Perspective Type: Transaction Marketing	Database Marketing Type: Database Marketing	Interaction Marketing Type: Interaction Marketing
Managerial Intent	Customer Attraction (to satisfy the customer at a profit)	Customer Retention (to satisfy the customer, increase profit, and attain other objectives such as increased loyalty, decreased customer risk, etc)	Interaction (to establish, develop, and facilitate a cooperative relationship for mutual benefit)
Managerial Focus	Product or Brand	Product/Brand and Customers (in a targeted market)	Relationships Between Individuals  Connected Relationships Between Firms (in a network)
Managerial Investment	Internal Marketing Assets (focusing on product/service, price, distribution, promotion capabilities)	Internal Marketing Assets (emphasizing communication, information, and technology capabilities)	External Market Assets (focusing on establishing and developing a relationship with another individual)
Managerial Level	Functional Marketers (eg Sales Manager, Product Development Manager)	Specialist Marketers (eg Customer Service Manager, Loyalty Manager)	General Manager
Time Frame	Short-term	Longer-term	Short or Long-term

**Source:** Coviello et al. 1997

**TABLE 2** Types of Marketing Classified by Relational Exchange Dimensions

	Relational Perspective		
	Transactional Perspective Type: Transaction Marketing	Database Marketing Type: Database Marketing	Interaction Marketing Type: Interaction Marketing
Focus (Purpose)	Economic Transaction	Information and Economic Transaction	Interactive Relationships Between a Buyer and Seller
Parties Involved	A Firm and Buyers in the General Market	A Firm and Buyers in a Specific Target Market	Individual Sellers and Buyers (a dyad)
Communication Pattern	Firm "to" Market	Firm "to" Individual	Individuals "with" Individuals (across organizations)
Type of Contact	Arms-length, Impersonal	Personalized (yet distant)	Face-to-face, Impersonal (close, based on commitment, trust, and cooperation)
Duration	Discrete (yet perhaps over time)	Discrete and over time	Continuous (ongoing and mutually adaptive, may be short or long term)
Formality	Formal	Formal (yet personalized via technology)	Formal and Informal (ie at both a business and social level)
Balance of Power	Active Seller—Passive Buyer	Active Seller—Less Passive Buyers	Seller and Buyer Mutually Active and Adaptive (interdependent and reciprocal)
			Connected Relationships Between Firms
			Sellers, Buyers, and other Firms
			Firms "with" Firms (involving individuals)
			Impersonal—Impersonal (ranging from distant to close)
			Continuous (stable yet dynamic, may be short or long term)
			Formal and Informal (ie at both a business and social level)
			All Firms Active and Adaptive

*Source:* Coviello et al. 1997

managed by specialist marketers. In this type of marketing, the managerial focus widens to include both the product/brand and specifically targeted customers.

Although Database Marketing involves a certain form of relationship that is personalized yet distant, **Interaction Marketing** implies face-to-face interaction within relationships. Marketing occurs at the individual level based on social processes and personal interactions. Relationships are established between individuals in the context of their organization and can occur in both a formal and informal manner, with the parties being mutually active and adaptive. At a managerial level, Interaction Marketing is truly “with” the customer, as both parties in the dyad invest resources to develop a mutually beneficial and interpersonal relationship. Interaction Marketing is not the responsibility of a specialist marketer per se (as in Database Marketing), nor is the practitioner necessarily in the position of seller. Rather, Interaction Marketing can involve a number of individuals across functions and levels in the firm, and may encompass both buying and selling activities.

**Network Marketing** occurs across organizations, where firms commit resources to develop a position in a network of relationships. This is generally accomplished through business and social transactions overtime, as a result of developing and maintaining individual, interaction-based relationships. Thus, Network Marketing encompasses relationships at both the individual and firm level. The relationships are part of a larger net, and, therefore, they can range from close (interpersonal) to distant (impersonal) and have varying levels of power and dependence, as well as degrees of communication. Network Marketing may be conducted at a general management level or by ‘part-time’ marketers from other functional areas in the organization, or even outside the organization. Relationships may be with customers, distributors, suppliers, competitors, and so on.

Overall, the value of the Coviello et al. (1997) framework is that it extends our view of marketing to a broader level. In doing so, it captures both the transactional (Transaction Marketing) and relational perspectives (Database, Interaction, and Network Marketing). Thus it encompasses both traditional and non-traditional paradigms of marketing thought and provides a more relevant base from which to compare small and large firm practices. That is, given that the view of marketing historically used to assess small firm practices is both limited and dated, it is important to compare small and large firm practices in a more comprehensive and modern light.

Using this framework as a conceptual base, it might be suggested that the requisites for effectively carrying out the different types of marketing vary and will pose different challenges to firms of different size. For example, larger firms may be more likely to have the capacity to practice Transaction Marketing given their scope of operations and markets served. They may also be more likely to engage in Database Marketing given their relative resource base and infrastructure, both of which are likely to be necessary to support the information and technology requirements of this type of marketing.

In contrast, smaller firms might be expected to be more relational in their approach to the market, emphasizing Interaction and Network Marketing. For example, if smaller firms are closer to their customer base (Carson et al. 1995), company personnel at all levels have the potential to be involved with customers on an individual, face-to-face level. Combined with the small firm’s resource constraints, flexibility, and opportunistic approach (Hisrich 1992), this might lead the small firm to rely on personal contact networks to develop the business and obtain information/feedback. Beyond personal contacts, small firms have also been found to make active use of inter-organizational relationships to facilitate growth (Coviello and Munro 1995). This includes outsourcing key marketing activities traditionally held within the organization (for example, customer contact, promotion, and distribution).

The network approach of markets has been the core philosophy of the IMP Group. An outstanding work in this field has been published by Araujo and Easton (1996), by Iacobucci (1996) and by Turnbull et al. (1996).

## ALLIANCES AND COOPERATIVE RELATIONSHIPS

The other theoretical area for my future research involves strategic alliances and cooperative relationships. Hence in this section, I briefly review alliance literature and discuss different forms of organizational relationships.

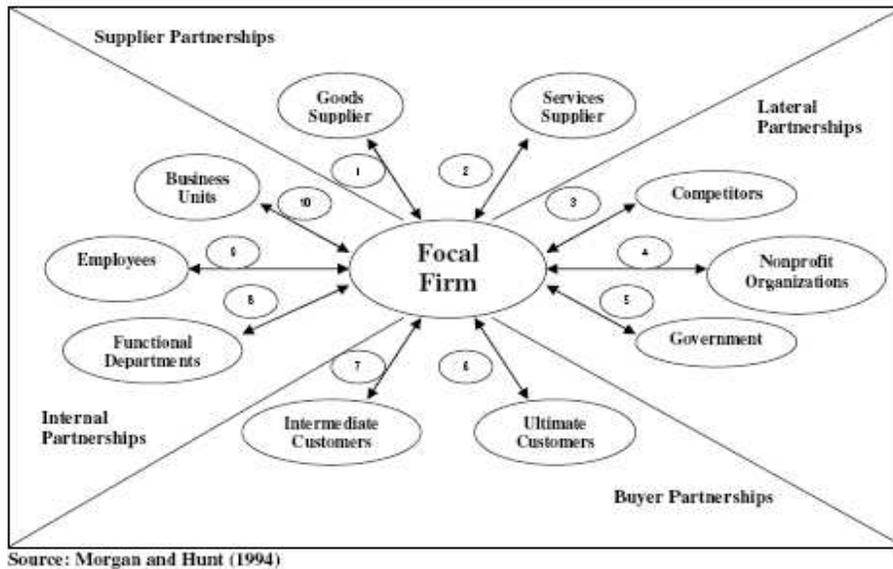
According to Dwer, Schurr and Oh (1987), marketing, defined as building satisfying exchanges, rests on the establishment of relationships. In marketing discipline the study of the main aspects and nuances interorganizational and interorganizational relationships has a long and very rich tradition. For instance, as Gupta, Raj and Wilemon (1986) and Ruekert and Walker (1987) found in their study that the determinants of and deterrents to cooperation between marketing and other functional areas within the organization (e.g., research and development) have been studied extensively in reference to marketing research, innovation, and new product development. Findings of Buzzel and Gale (1987) and Wells (1984) suggest similarly that the antecedents and outcomes of cooperation among the strategic business units of a diversified multibusiness firm have been researched by marketing scholars. Arndt in 1979 has pointed out that there is a tendency of firms engaged in business-to-business marketing to develop long-lasting relationships with their key customers and key suppliers rather than focusing on discrete exchanges and has termed this phenomenon „domesticated markets”. Furthermore Adler (1966) focused on interorganizational relationships between firms other than those linked by the traditional marketer-marketing intermediary relationships and termed this phenomenon „symbiotic marketing”. Findings of Varadarajan and Menon (1988) focused on and have suggested that other manifestations of interorganizational relationships examined in the marketing literature include cause-related marketing (cooperation between a for-profit firm and a not-for-profit institution) and joint sale promotion (cooperation between firms within the confines of the sales promotion component of the marketing mix) according to Varadarajan’s (1986) study.

In line with this tradition, marketing scholars have demonstrated a growing attendance in the study of an even broader line of intra- and interorganizational relationships. Confirming the former observation and based on the conceptualization of Morgan and Hunt (1994), there are ten distinct forms of inter and intra- organizational relationships pertaining to the study of relationship marketing. These ten forms of relationships can be further grouped into four types of partnerships:

1. **SUPPLIER PARTNERSHIPS** with (1) goods suppliers and (2) service suppliers;
2. **BUYER PARTNERSHIPS** with (6) ultimate customers and (7) intermediate customers;
3. **INTERNAL PARTNERSHIPS** with (8) functional departments, (9) employees, and (10) business units; **and last but not least**

4. **LATERAL PARTNERSHIPS** with (3) competitors, (4) nonprofit organizations, and (5) government.

The Relational Exchanges in Relationship Marketing:



Building on the conceptualization of Morgan and Hunt (1994), strategic alliances represent one form of lateral partnership between competitors. Figure 1.1, taken from Morgan and Hunt (1994), illustrates the relational exchanges in relationship marketing. The supplier and buyer partnerships (1, 2, 6 and 7) indicate vertical relationships between a focal firm and its suppliers and/or buyers. While internal partnerships (8, 9, and 10) deal with horizontal relationships within an organization, lateral partnerships (3, 4- which is the focus of this study and 5) are more concerned with the focal firm's relationships with external parties such as competitors, nonprofit organizations, and government. It is the cooperative relationships between the focal firm and its competitors (3).

On the other hand, Caesar (1986) in his study pointed that the business enhances its public image by being associated with a "worthy cause" and increases its sales in the process. The nonprofit organization receives the cash benefits of the donations, along with the increased public awareness, courtesy of the marketing capabilities of the business.

## RESEARCH METHODS

Dubois and Araujo in their study pointed out in 2004 that case research as one method, has been successfully employed in industrial marketing studies. Their starting point was that a methodology, such as case research, should be seen as a tool that gets appropriated and

transformed within the context of a research paradigm. They listed some facts and conclusion why case research method is suitable to examine the interaction between theory, research methods and empirical work in the development of the interaction and industrial network approaches. In my future work I would certainly take case study into consideration as a possible research method.

## **FUTURE RESEARCH DIRECTIONS**

There are many research directions to be followed with the aim to investigate the network marketing's effects in cooperation of the above mentioned sectors. One of the first task is to study the non-profit sector's specialities in the network approach.

Afterwards the possible future directions of my research are the followings:

- the non-profit sector's break points in the field of relationships – sponsorships context, such as Olkkonen-Tuominen in their studies in 2004 and 2005,
- a case study about successful organisations in the cultural sphere regarding cultural sponsorship,
- network value profile as the marketing orientation of cultural organisations, e.g. museums, galleries,
- cross-border/international relationships between two or more cultural institutions and their inter-organisational relationships, e.g. relationships between a Hungarian and a Slovak museum and for-profit sector,
- different configurations of relationships in cultural-sponsorship relationships in Hungary and Slovakia.

I would like to find the answers for some of these possible research questions:

- How the effects of network marketing in cooperation of these two sectors can be measured?
- Why do firms enter into strategic alliances with the nonprofit organizations? What are the motivating factors?
- In what alternative forms do/can these types of strategic alliances exist?
- What kind of environmental, industrial, and organizational factors affect the prosperity of firms to enter into alliances with nonprofit sector?

- Under what conditions can strategic for- and nonprofit alliances enable cooperating firms to achieve a competitive positional advantage in the market place?
- What factors influence the role of marketing in strategic for- and nonprofit alliances?
- What are the costs that a firm might incur as a partner in a strategic for- and nonprofit alliance? What are the research questions that merit investigation? (according to Varadarajan and Cunningham, 2000)
- What governance mechanisms are appropriate for business relationship between for- and nonprofit sector, and can we develop “best in practice” benchmarks that can be used as role models for similar types of business relationships?
- What is the evolution of this type of business relationship/alliance? Is there a life-cycle (birth-death) theory of this relationships? (according to Sheth and Parvatiyar, 2000)

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