

HOW TO FACE DOWNTURN BY CHANGING SALES ORGANISATION; AN ITALIAN CASE STUDY

Work in progress paper

Keywords: construction industry, business relationship, sales management

SHORT ABSTRACT

The aim of this paper is to analyze, in a complex context like the construction industry and in uncertain economic times like the current ones, how a company named Santarelli Group (Santarelli) has changed its sales organization and processes to face effectively the economic downturn and what are the main effects on the customer and intermediaries relationships.

Santarelli is an Italian enterprise, currently employing about 100 employees, and it represents a leader in the civil and public building sector. Santarelli acts as general contractor, designer, builder and buyer as well as handling the sale and management of properties for residential and commercial use. Additionally in 2000 Santarelli expanded its business scope by creating a company, named Inergia, operating in the field of renewable energy in Italy.

The crisis in the industry led to a strong competition among actors and as a consequence, there have been difficulties for the contractors to foresee the economic returns of their projects. In order to face the economic downturn, Santarelli created its own sale office and sales force and attempted to develop good and lasting relationships with the autonomous real estate agencies. In this paper we focus on the interactions among actors of the construction industry including the conflicts that emerged and the way that these conflicts were handled by the actors.

From a theoretical perspective, the industrial network approach is used in order to trace the changes implemented by Santarelli in its sales organization and to focus on the development of an important business relationship between the company and one of its real estate agents.

We will use a single case study approach (Yin, 1989) to identify the complexity of this process. Case studies can be very useful when investigating a specific phenomenon (Easton, 1995) and are a means of understanding change processes better, as they allow heterogeneous factors to be examined (Halinen and Törnroos, 2005).

This paper contributes to the IMP field in two different ways. First it provides an insightful case study within the construction industry; and secondly it further develops theoretical aspects within the IMP tradition addressing sales management issues.

INTRODUCTION

When an economic downturn shows its negative effects it is strongly evident for a firm to react by focusing more on the customer's shifting needs (Andersson and Mattsson, 2009). As a consequence changes in sales organization and processes may assist companies to cope effectively with the economic downturn. In fact, during a downturn period it is possible to individuate specific conditions under which companies begin a re-organization of their sales processes shifting from an external structure (i.e. intermediaries or agencies) to the development of an internal structure.

We will consider changes in the organizational structure and managerial practices affecting a company as it become more complex when integrate activities and processes carried out in the network of agencies; we will also consider the changes in business relationships when a company tries to reorganize its sales activities and the possible effects on its network position.

This topic is important at least for three reasons: Firstly, it refers to the construction industry which plays an important role in the Italian and European Economy. Secondly, it allows us to focus on sales force management and re-organization of sales processes issues. Thirdly, in the IMP tradition few studies have investigated changes in the sales organization. Regarding the latter aspect little attention is being devoted to study the interplay between inter and intra organizational processes in respect to specific areas such as sales (Dubois and Wynstra, 2005) and few studies have investigated the impact that a downturn can have on the sales management and internal processes (Pagano and Tunisini, 2009).

When a network of external agents or intermediaries dissolves because of, for example, changes caused by external factors such as the changes in the general economic conditions, there are effects on the business network in which the company is involved (Håkansson and Snehota, 1995). The changes in the company's sales organization and processes mean that new activities and different resources have to be involved in the organization. In other words: How can the company manage the insourcing of an external function previously driven by a network of intermediaries?

This paper analyzes the case of Santarelli a SME Italian company operating in the construction industry which has decided to change its sales organization due to the economic downturn shifting from an "external" sales network composed by agencies to its own organization. It is interesting to note that this choice was adopted by Santarelli mainly in one geographic area (Rome) where the turnover of the group is very high and where a lot of investments are planned for the next years.

The paper is organized as follows. In the next section we will discuss the theoretical framework of the study and then the research methodology will be outlined before to describe the Santarelli case study. The remainder of the paper is devoted to the discussion of the empirical results.

THEORETICAL FRAMEWORK

The literature addressing the changing role of the sales function into the organizations is rather limited (Storbacka et al., 2009). Little attention is devoted to the interplay between inter- and intra-organizational issues especially addressing the sales management areas.

Moreover, the recent downturn has had direct effects on the organization of the sales function and also on the relationships with customers, suppliers, partners, ecc.

Therefore, the focus of this paper is on the changes of the sales function in companies due to the economic downturn and their effects on the relationships with intermediaries. We have chosen to deal with it within the context of a network perspective following the IMP tradition (Håkansson, 1982). Before we examine the issue of the relationships between customers and suppliers in a network context, we provide some insights into the sales management function in a downturn context.

The sales management function in a downturn context

Traditionally in the industrial context the sales function is associated with account management and solution development (Storbacka, 2009): during the years the role of this function has changed (Wotruba, 1996). More attention is given to managing customer relationships and developing customer intelligence. As such sales is shifting towards increasing customer productivity (Leigh and Marshall, 2001), sales function has taken a relationship management role (Fiocca et al, 2009; Guenzi, 2003; Weitz and Bradford, 1999) and firms are reorganizing sales activities in order to become more responsive to customer needs (George et al., 1994).

Obviously due to the economic crisis, each company is going to be more focused on the role of its sales management, particularly because customer relationships are the most important relationships of any business (Ford et al., 2003).

Quelch (2008), for example, advises that firms during a downturn should better focus on customer research, adjust product portfolio and support good distributors.

Thus, how to manage customer relationships and how to better integrate the sales function with the other functions of the company represent interesting issues during a downturn period.

Managing relationships in a network context during the downturn

According to Ford et al. (2003), managing a portfolio of customers involves strategic issues, for example a supplier has to develop its operations and its offerings considering that customer's requirements can change quickly. In this paper we examine changes in customer relationships and their effects on the network when a company sets up a different structure to manage its clients. According to Håkansson and Snehota (1995) changes in a business network can be caused by exogenous factors such as, for example, changes in the general economic conditions. It is true that this kind of changes will affect the relationships developed by a company and will have an impact on its network.

Considering the IMP group tradition about changes in industrial network, it can be argued that changes obviously lead companies to make adaptations and it is important to understand how a company could handle changes for its own advantages (Håkansson and Snehota, 1995, pp 270). Since exogenous factors (like a downturn) will not influence all the actors in a same way, some of these can change their positions in the network due to the presence of a change in the network.

According to Turnbull et al. (1986), the firm's position in a network depends on its relationship portfolio and by combining its existing relationships in new ways, or building new relationships, a company can systematically change its position in the network or create a new position (Ford et al., 2003): the changes in a business network can positively or negatively affect the position of the company in the network.

In this respect, literature on business marketing and industrial marketing is very useful for interpreting changes. In fact, changes in business relationships (considering for example the dismantling of existent relationships or the building of new relationships) may have an impact on both on inter- and intra-organizational processes (Håkansson and Snehota, 1995).

In this study we use the industrial network approach (Håkansson and Snehota, 1995) for understanding better the changes in business network when a company tries to shift its sales organization by dismantling a network of agencies. This approach provides a useful method for the analysis of industry dynamics starting with the identification of actors, resources, and activities as the basic concepts of industrial networks; these concepts are related to one another in the network's overall structure and as Håkansson and Snehota (1995) suggest a relationship is characterized by certain activity links, resource ties and actor bonds that arise between the business organizations that are part of the relationship. The three layers of buyer-seller relationships are interdependent:

“activity links may limit or facilitate resource adaptations; resource ties may limit or favour the possibility of activity co-ordination and actor bonds may open up the possibility of developing activity links and resource ties” (Håkansson et al., 2009 p. 34).

Interesting questions arise: How can a downturn affect the organization of the sales management function? What are the consequences and the effects of the dismantling of a business network on the sales management function? Are there any particular “compromises” between a focal company and its intermediaries, as a consequence of the downturn, that affect the network position of the company?

METHODOLOGY

Our paper is based on a single longitudinal case study carried out in the Italian company Santarelli by using an abductive approach (Dubois and Gadde, 2002). We developed a longitudinal case study in order to understand the unfolding of a complex phenomenon (Dubois and Araujo, 2004) collecting data from various informants (Eisenhardt, 1989). Furthermore, in the study of industrial networks, case studies are a widely employed method (see, e.g., Easton, 1995; Dubois and Gadde, 2002; Dubois and Araujo, 2004), as it can offer an in-depth view of the complex mechanisms behind the phenomena in focus. One way to use the abductive approach is by means of ‘systematic combining.’ According to Dubois and Gadde (2002), ‘*Systematic combining is a process where theoretical framework, empirical fieldwork, and case analysis evolve simultaneously, and is particular useful for development of new theories.*’ Consequently, we decide to use this approach for its strong learning potential.

The data were collected during 2010 and 2011, employing face-to-face interviews and telephone interviews lasting between 30 minutes and 1 hour. These interviews were tape-recorded and transcribed. We interviewed the sales director, the sales manager of Santarelli and one key account manager employed in one of the real estate agencies of Santarelli.

Besides the formal interviews, we also conducted several informal conversations and had email exchanges when necessary. Data were also collected from an internal report, brochures, and Santarelli websites.

The interviews focused on the following central themes: (1) The effects of the downturn on the construction industry in general and for Santarelli in particular; (2) the key business relationships between Santarelli and its real estate agencies; and (3) the resources, actors, and activities involved in the network.

THE SANTARELLI CASE STUDY

Santarelli’s portrait

Santarelli Costruzioni S.p.A. (Santarelli) is a SME operating in the field of construction industry located in Marche central region of Italy. In 1960, Pietro Santarelli transformed the artisan work of his father into a real enterprise setting up the firm “Pietro Santarelli Costruzioni” and after a continuous expansion it was renamed Santarelli Costruzioni S.p.A. In 1995 Pietro’s sons joined the company after graduating from the university, holding managerial positions.

During the 70’s and the 80’s the company was growing fast gaining attractive orders from the civil and public sector. At the end of the 80’s the company began to extend its business apart from Rome and the Marche region and at other parts of Italy.

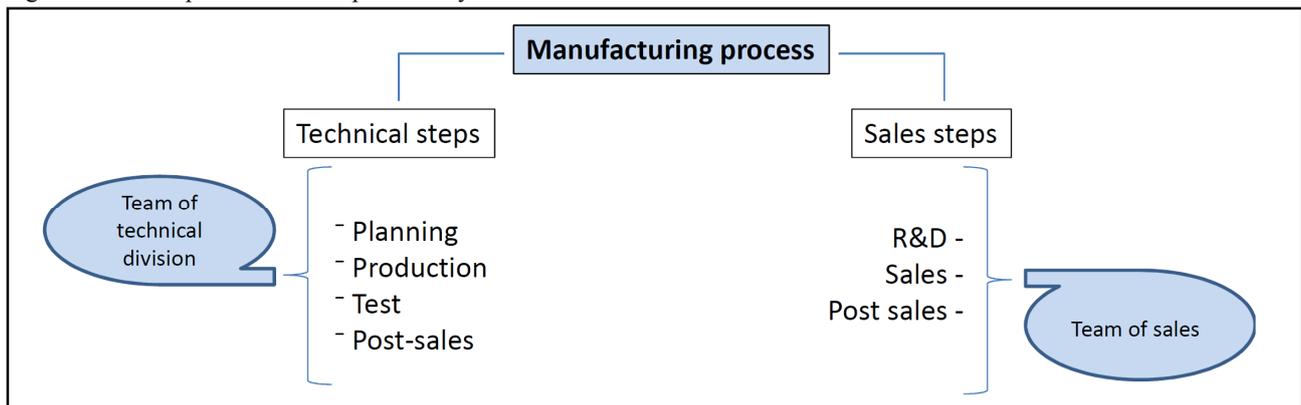
Today Santarelli is a holding company of 15 SBUs employing more than 1000 people in several field of activities spanning from real estate to energy and tourist sectors. Santarelli acts as a general contractor, designer, builder and buyer and it deals with the sale and management of properties for residential, managerial, commercial and tourist-hotel use.

In this case, we will focus on the Santarelli’s activities in the building industry which represents the core business of the group. There are three different sectors in which Santarelli operates :

- Non-residential building
- Residential building
- Public housing

50% of the company’s turnover comes from buildings sold in the Rome area while the remaining 50% comes from buildings sold in central Italy, in regions such as Marche, Umbria and Toscana. To shed light on this we describe the different phases under which the organization operates. The philosophy of Santarelli is to outsource the most important parts of the building processes in order to reduce the company involvement in activities not considered as value-driven. The project (we mean the aim to realize, for example, a civil building in a certain area) starts with R&D activities carried out by the sales and technical directors of Santarelli with the aim to validate its economic feasibility. Once this project is accepted by Santarelli’s top management, the operation cycle begins with two different phases, as shown in Figure 1:

Figure 1: a short portrait of the operation cycle in Santarelli



Source: our elaboration

In the next section, we will present and explain the organization of the sales activities and we will try to underline the main aspects of a business relationship developed between Santarelli and one of its customer.

The sales organization of Santarelli: the effect of the crisis in changing the sales organization

The sales team of Santarelli constantly endeavors to search for new clients in cooperation with other companies such as its real estate agencies.

Since a new building developed by Santarelli is proposed to the customers by referring to the real estate agencies, the role of the latter is to propose and sell to the customers apartments built by Santarelli. Thus, the purpose of Santarelli’s sales team is to find and select the most promising real estate agencies while emphasis is also placed on the training of these agencies. So clearly, the business relationships between Santarelli and its agencies are very tight but they are not lasting for very long: they usually dissolve when the final customer buys the apartment or building. The duration of the relationships with the agencies ranges from 4 to 8 years, depending on the complexity of the project.

Different types of agencies were traced during the study. There are agencies that operate using the Santarelli's brand and autonomous agencies using their own homes. There are also agencies consisting of different and autonomous entities using their own brands but operating directly under the supervision of the Santarelli's sales office. For example, one major agency is located in the city of Ancona (Marche region), which operated under the brand Santarelli, had three different companies operating with their own brand.

The business relationships with the agencies constituted a major asset for Santarelli in order to promote its products to the market to the final customer. Meetings were planned routinely for ordinary sales activities or were set up for addressing specific commercial projects of strategic importance. In some cases, the management of the relationships with key agencies gained high relevance and Santarelli took advantage of such resource to improve its offerings and its relationships with its final customers which also play a key role as they provided input in new product development processes. In some cases however, the relationships with the agencies had been complex and conflictual and created tensions and problems. One of the main causes of conflicts, according to the sales director of Santarelli, was the terms of payment agreed between the agency and the final customer.

Santarelli exerted a strong influence on agencies and sometimes Santarelli's management had to manage internal conflicts among the agencies involved in the process. Santarelli's sales team spent a lot of time in order to coordinate activities and to begin the sales "projects". For instance, there was a great need to teach the agencies on how to handle the flows of information.

The competition started to become very strong in the building sector from 2008, when the economic recession appeared in the western world.

The economic recession and the changing needs of the final customers forced Santarelli to change the way that it approached the market. To start with, it started to improve the value of its products (eg. apartments with higher level of comfort incorporating high technology), as well as the delivery of its products and the after sales service. The emphasis on the technological profile of its products was the result of an increase in R&D investment which also led to quick implementation of customer requests. The customer orientation approach adopted by Santarelli was exemplified in the fact that it also offered consulting in financial issues faced by its clients.

Moreover, Santarelli in its attempt to improve the quality of customer service had to upgrade its sales organisation. This means that it started to organise its selling activities without the involvement of external agencies. Specifically, in Rome, which accounted for a large percentage of its business, Santarelli established its own sales organisation which reflects a new way of selling its products. A Sales Director was appointed assisted by area and regional sales managers and internal sales force to plan and implement sales strategies for the area in which construction sites are opened. In order to improve the planning and coordination of selling activities, a CRM system was adopted. In this context, customers are interacting directly with the internal sales force, which provide support in terms of technical solutions, delivery and service. In addition, the new sales organisation is supported by the marketing office which is responsible for market analysis, communication campaigns and participation in trade fairs and exhibitions. This office using the CRM system is also involved in customer portfolio and customer satisfaction analyses.

According to the sales personnel of Santarelli, the major new challenge of the new organisation is the proper management of the processes concerning the searching for new customers and the establishment of good relationships with the existing and new customers. In this context, when a new customer is contacted, the sales personnel will be supported by a team of civil engineers and architects who will take a leading position in activities concerning the technical dimensions of the product offered. In fact, in the new sales organisation technical people are also fully committed to propose technological solutions and to help sales personnel in showing technical competencies when dealing with sales projects.

Given the fact that customer service is of paramount importance in the market that the company operates, particular emphasis was placed and on this issue. Previously customer service activities were supposed to be carried out by the real estate agencies which were much more concerned with the selling of a building or apartment rather than the after sales service activities and consequently the results on this front were not satisfactory. In the new sales organisation the customer service activities will be the responsibility of people with the proper background and able to handle complex tasks requested by customers.

Thus, Santarelli attempted to enhance its brand recognition not only through a better product offering but also a sales organization involving the presence of its own sales force in various geographical regions in order to improve the level of interaction with the final customers during the whole selling process.

Discussion

Referring to the Santarelli case study it is clear that the downturn creates changes in the way that the company manages both customers and intermediaries. In particular, changes in the product needs and requirements of customers, due to the downturn, have led Santarelli to pursue a different sales strategy and organizations for improving its relationships with customers. Basically, due to economic recession, the company attempted to internalize competencies and processes carried out previously by its real estate agencies.

A network of agencies was dissolved and Santarelli attempted to develop resources and competencies in order to carry out the selling activities required in order to manage customer relationships.

The “knowhow” acquired by Santarelli in its efforts to manage its intermediaries helped the company in its new endeavor to deal directly with the final customers. The tight relationships that existed between Santarelli and its agencies, had not allowed the company to have a clear picture of the needs of the final customer and consequently, the first tasks for the company in reorganizing its selling activities were to identify final customer needs and to examine ways for serving them better. However, the business relationships with its intermediaries, had a deep impact in transferring organizational resources in terms of market monitoring and sales skills. But this approach did not lead Santarelli to develop more intense relationships with agencies who were in charge of finding new customers. On the contrary the strategic change involved the development of sales and marketing competencies internally, mainly because of the conflicts that existed between Santarelli and its intermediaries. Thus, we can say that in its evolution Santarelli did not follow a typical process of setting up new relationships or maintaining the existing ones in the business network.

Our case study, in which we examine the effect of a downturn on the setting up of a sales management organization in the construction industry, provided some preliminary insights on the nature of change and on the interplay between inter -and intra- organizational processes. We observed for instance the attempt of Santarelli to use the relationships developed with its real estate agencies in the surrounding business network to learn more on how to organize better the sales management function. Indeed, the evolving of the business relationships with the agencies has been important in order to generate the required changes in the sales organization due to the economic downturn.

A limitation of this case study is the lack of any empirical analysis on the interaction with the agencies, in the sense that more data are needed from the agencies about the atmosphere of the relationships atmosphere and their dissolution.

Managerial implications

Although the paper is a work in progress, it has nevertheless some managerial implications. Given that customer relationships are the most important relationships of any business (Ford, 2003), companies may consider changing their sales organization in order to meet better the changing customer needs during an economic downturn. In doing so, they should, as our case study has shown, draw lessons from the “network” context which provides important input for decision making, when a re-organization of sales activities and processes becomes necessary.

REFERENCES

- Andersson, P. Mattsson, L.G. (2009). Temporality of resource adjustments in business networks during severe economic recession. *Industrial Marketing Management*, 39, 917-924.
- Dubois, A. Araujo, L. (2004). Research methods in industrial marketing studies, in Håkansson, H., Harrison, D. and Waluszewski, A. (eds.), *Rethinking marketing: developing a new understanding of markets*, Chichester: John Wiley and Sons Inc.,.
- Dubois, A. and Gadde, L.-E., (2002). Systematic Combining: An Abductive Approach to Case Research. *Journal of Business Research*, 55, 553-560.
- Dubois, A. Wynstra, F. (2005). Organizing the purchasing function as an interface between internal and external networks. *Annual IMP Conference*, Rotterdam.
- Easton, G. (1995). Methodology and industrial networks, in Möller, K. Wilson, D.T., *Business marketing: an interaction and network perspective*, Norwell (MA): Kluwer Academic Publishing.
- Eisenhardt, K.M. (1989). Building Theories from Case Study Research. *Academy of Management. The academy of Management Review*, 14(4), 532-550.
- Fiocca, R. Snehota, I. Tunisini, A. (2009). *Marketing business to business*. Milano: McGraw-Hill.
- Ford, D. Gadde, L.-E. Håkansson, H. Snehota, I. (2003). *Managing Business Relationships*. Chichester: Wiley.
- George, M. Freeling, A. and Court, D. Reinventing the marketing organization. *McKinsey Quarterly*, 4, 43-62.
- Grewal, R. Tansuhaj, P. (2001). Building Organizational Capabilities for Managing Economic Crisis: The role of Market Orientation and Strategic Flexibility. *Journal of Marketing*, 65, 67-80.
- Guenzi, P. (2003). Antecedents and Consequences of a Firm's Selling Orientation. *European Journal of Marketing*, 37(5-6), 706-729.
- Håkansson H., & Snehota I. (ed. 1995), *Developing Relationships in Business Networks*, Routledge: London
- Leigh, T.W. and Marshall, G.W. (2001). Research priorities in sales strategy and performance. *Journal of Personal Selling and Sales Management*, 21(2), 83-93.
- Pagano, A. Tunisini, A (2009). Partnering as a resource: business relationships and changes in SMEs' international sales organization and processes. *Annual IMP Conference*, Euromed Marseille.
- Quelch, J. (2008). Marketing your way through a recession. *The financial times of London*. Reprint in HBS Working knowledge.
- Storbacka, K. Ryals, L. & Davies, I.A. Nenonen, S. (2009). The changing role of sales: viewing sales as a strategic, cross-functional process. *European Journal of Marketing*, 43(7-8), 890-906.

Turnbull P.W., Valla J.P. (1986), "Strategies for international industrial marketing", Croom-Helm, London

Weitz, J.E. Bradford, K.D. (1999). Personal selling and sales management: a relationship marketing perspective. *Journal of the Academy of Marketing Science*, 27(2), 241-254.

Wotruba, T.R. (1996). The transformation of industrial selling: causes and consequences. *Industrial Marketing Management*, 25, 327-338.

Zoltners, A.A. Prabhakant, S. Lorimer, S. E. (2006) Match Your Sales Force Structure to Your Business Life Cycle. *Harvard Business Review*, 84 (7-8).