

**UNDERSTANDING CHANGE IN INDUSTRY AND BUSINESS MODELS  
– ON THE CHANGING ROLE OF ADVERTISING AGENCIES**

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**ABSTRACT**

Advertising agencies experience fast changing markets, challenging their existing business model and forcing them to change in order to stay competitive. Through the scenario method and a single case study, this article explores and illustrates the changes that are taking place in the advertising industry. It is demonstrated that while a firm to some extent, on its own, can transform its business model in some areas, the perception of the firm by business partners is crucial for the ability of the firm to change in other areas. The aim is to improve the understanding of how industry changes affect a firm's business model and what the challenges in adjusting the business model are?

## INTRODUCTION

In response to changes in the industry firms often have to transform their business model, which can be a major challenge. Business model transformation often requires the development of offerings and a network repositioning (Håkansson et al. 2009). Comprehensive changes are currently seen in the advertising industry. Therefore it is interesting to investigate these changes and how firms adjust their business model accordingly. Other factors than environment may facilitate changes in a business model; however, in this article we primarily focus on the link between industry changes and changes in business models.

Why is it so challenging for firms to respond to industry changes by transforming their business models and moving beyond the space of sustaining an existing business model? Part of the answer lies in the fact that transformation of a new business model requires development of new skills and routines within the organisation and at times a rejection of the thinking that has led to success with the current business model (Kohen et al. 2011). The firm can no longer build on its existing skills, competences, mind-sets, culture (Anderson & Tushman, 1990) and routines (Leonard-Barton, 1992).

Even though a firm may initiate development internally, this cannot be done in isolation from the environment (Håkansson & Snehota 1989, 1995). Firms have a variety of relationships with other actors that are to be maintained, developed or terminated (Dwyer, Paul, Schurr, & Oh 1987, Havila & Wilkinson 2002, Tähtinen & Halinen 2002, Rickne 2006, Powell et al. 1996). Firms are restricted in their attempts to transform or create a new business model as they hold a certain position in the network (Mattson, 1989). Often a change in the network in which a firm is embedded will be required to develop a new business model. At a micro level this means changes in existing relationships, development of new relationships and termination of some of the existing relationships at a certain point of time. As the firm is embedded in a network, it may be resource and time consuming to make changes as it is difficult to establish, change and disrupt relationships (Håkansson & Snehota, 1998, Clarke & Freytag 2011). As value is often co-produced in interaction with other business partners, the possibilities and limits of the firm depend on interaction with other actors of the firm and with actors from other firms (Clarke and Freytag 2011).

Changes are also hindered by path dependency both in companies and in industry networks. Path dependency may restrict the development and implementation of new business models (Håkansson & Waluszewski 2002). The solutions are “locked” by historical events (Arthur 2002), and the company may be restricted from selecting new solutions because of choices previously made and competences already established. Resources may be useful in many ways and activity links may be created based on the common knowledge at hand (Dosi 1988). This knowledge offers the opportunity to exploit and to create value, however, at the same time it restricts the possibility of the firm to change. In other words path dependencies exist both in procedures, resource combinations and actors, but also in the manner in which these are perceived by the actors (Håkansson & Waluszewski 2007).

The above described difficulties in transforming a firm’s business model assume that a firm can identify a relevant new business model, which may not always be the case. While disruption is often focused on new disruptive business models, this article seeks to understand the changes and partly disruption in the advertising agency, seen from industry level to understand the changes taking place and seen from an established firm’s perspective, as it is

researched how a firm responds to these changes and other challenges encountered. Our understanding of the factors influencing the firm and industry can to some extent be said to follow along the lines of Rindova & Formburn (1999), who distinguish between resources and activities at one level and actor's interpretation of these at another level, seeing these both from the inside and the outside of a focal firm. The aim of this paper is to explore the challenges facing advertising agencies based on current business models, and how the current theories on business models may be used to address these challenges!

The fulcrum of this article is formed by the following research questions:

- How do industry changes affect the business model of a firm?
- What are the challenges in adjusting the business model?

As industries differ we limit our analysis to the advertising industry. In the following we will start by looking at the industry level of the advertising industry and continue by discussing how a firm can respond by changing its business model. This is a "funnel" strategy (See as an example Mahoney and Snyder, 1999) in which we begin at the broad industry level and the relevant forces transforming the industry and narrow at the end of the funnel, where we investigate the effects and challenges for the individual firm. Thus we work from the wider and less definite to the more specific. The advantage of this is to see the overall development and how the responses relate in a systematic way and relate the industry changes to the responses in the firm business model development. The article addresses the tension between industry and business level.

## **INDUSTRIAL CHANGE AND BUSINESS MODELS**

Industrial changes are not uncommon. Macroeconomic up and down turns, introduction of new technologies and development of new business models drive industrial changes (Lee 2011). The changes challenge the manner in which existing firms address the market through their business model. Different patterns of game changing situations in industries have been identified. Firms may react by recombination of resources and changes in existing relationships (Gadde, 2004). Such changes may lead to new offerings or offerings for new customer groups. In other words changes are created by existing means, i.e. technologies and relationships (Håkansson & Waluszewski 2007). Still the rules of the game within the industry may change through an industry glide. Changes as such are derived not only by technologies but are created by recombination of the existing resources or by giving new meanings of products and services (Verganti, 2009).

Recombination of resources and different use of relationships may potentially shake the whole industry, changing the way in which firms work with and react to customers, suppliers and competitors (Demil, 2010). Another source for industry change is disruptive innovation that helps create a new value or market and may later disrupt an existing market or value network and untimely take over an existing technology or market (Christensen, 1997). Disruptive technologies do not necessarily lead to disruption of a market but can lead to enlarging and broadening markets and provide new functionalities (Utterback and Akee, 2005).

Firms experiencing rapid industry changes often focus on fighting incremental battles in their markets and fail to see or underestimate the challenges that arise from industry changes until

they are severely threatening the firm, instead of seeing the changes as opportunities to create new business models (Markides, 2008). The literature has shown that it is difficult for established firms to transform their business model as the market changes or is disrupted (Christensen 1997, Markides 2008, Kohen et al. 2011). Many examples are found of established and dominating firms that have lost their positions, while other firms succeeded with new business models that have disrupted or changed the industry game. Markides (2008) found that not only does business-model innovation seldom originate from an established firm, but often it originates from newcomers in the industry.

Firms need to address changes in market conditions. At one level a firm needs to understand and monitor according to the change in the market. At another level a firm needs to act in response to the on-going market changes. A comprehensive framework which has emerged within the business literature is business models. Business models are said to be a way of clarifying the nexus between the focal firm and its environment and therefore is a strong device to understand how firms respond to changes (Markides, 2008, Håkansson et al. 2009).

A number of different understandings of business models have emerged. A very general definition is offered by Magretta (2002): "A system, how the pieces of business fit together" (Magretta 2002, p. 436). This definition points out that business models and their parts should fit together. A more detailed definition of the elements of the firm and how they are linked together is proposed by Osterwalder and Pigneur: "A business model is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm" (Osterwalder et al. 2005, p.5). This definition helps to clear how a business model works as it introduces objects as well as concepts and their relationship. Furthermore, it points out that it is considered important to express the business model explicitly. Callon et al. (2007) as well as Callon and Muniesa (2005) see business models as a fruitful "market device" helping to understand how firms can relate to markets.

Generally, the definition of a business model includes four main issues: Links to the surroundings, links within the firm, aims towards the surroundings, and aims of the firm (Clarke and Freytag 2011). Business models therefore offer an understanding of the core of an advertising agency, its pieces and how these work together and can be changed into a new business model. *Osterwalder & Pigneur (2010) state that business model innovation is about creating value not only for the company but also for the customers and the society and transforming industry landscapes by replacing outdated business models.*

Different advertising agencies will experience the challenges of a more and more globalized market in different ways. Even though the tasks, organisation and aims of the agencies differ, they will eventually feel the pressure from the market and have to adapt to it, to make smooth coordination and effective use of resources. Within strategy a number of attempts have been made to grasp the generic core of a firm. One framework of the individual firm that allows the discussion of the content and combination of elements comprises business models.

Business models have been discussed as conceptualization of the central elements of the firm. Different descriptions of how firms are said to work have been outlined (Morris et al. 2005, Osterwalder & Pigneur 2009, Doganova and Eyquem-Renault 2009, Johnson et al. 2008). A well-known concept is developed by Osterwalder & Pigneur (2009) which offers a powerful visual tool (Eppler and Hoffman, 2011) containing 9 elements: network partners, key resources, key activities, cost structure, value proposition, distribution channels, client relationships, revenue flows, and client segments. As the actual business model described by

these 9 elements can be quite different, the patterns and their emergence will differ. The process is situational driven by external and internal factors such as new market or technological opportunities, supplier and client linkages, and internal weaknesses, strengths, and aims. The design process of the business model is explained as a three step approach: 1) researching and understanding, 2) designing business model prototypes and 3) implementing business model design. The approach demonstrates a managerial design approach having a focal firm as the fix point.

The approach of the Osterwalder & Pigneur model and other business models (Margretta, 2002, Morris et al. 2005...) hold two major limitations:

1. Organisational re-design is seen as a minor challenge. For example path dependencies and culture are only to a limited degree taken into account
2. The approach is one-sided. Firms are seldom interdependent, but are often embedded in a network in which changes have to take place not only in one firm, but in a number of firms.

In connection to the re-design of a business model Markides (2008) pinpointed that organizational behaviour is determined by a number of factors. Culture and values to a high degree influence what is seen as legitimate behaviour. Structures and processes give the platform acting and interacting. The skills, mind-sets and attitudes of management and employees form the basis of the repertoire of the activities performed. Measures and incentives stipulate the directions taken. A change of these factors is not only a matter of turning a button, but previous choices will influence how resource and time consuming the changes are (Håkansson & Waluszewski 2002).

Usage of resources and linking of activities are rarely undertaken in isolation from other firms (Håkansson & Snehota, 1989, 1995). The value of resources lies in combining them with other resources and in linking activities with other activities. Resource ties and activity links are seldom determined as one-sided. Even in monopolies and monopsony buyers and sellers usually can decide not to buy or supply. Having a number of relationships on the buying and selling side offers possibilities for mobilization of resources but also restricts the possibilities to act. Change of the individual firm's business model becomes a matter of the overall possibility of the network to change.

### **Challenges in advertising agencies**

The advertising industry is currently facing many changes that seem to have caused advertising agencies to start transforming their business models. Since the turn of the century, Danish advertising agencies like advertising agencies in many other countries felt the pressure from a more globalized economy and a changed media market (Ford et al 2011; Kalliny and Ghanem, 2009). The agencies face a fast moving environment, in which new expectations from clients demand not only awareness but also the ability to comply. Advertising agencies in market economies like Denmark have become a part of a fierce globalized market in which closeness to and understanding of the client is not enough anymore.

As a result of the IT evolution during the last two decades it has become easy to spread the typical tasks of an advertising agency. At the generic level advertising agencies perform

various activities: brand strategies, creative processes, production and media buying (Devinney and Dowling, 1999). In these activities creativity and innovation seems to play an important role (Malefy and Morais, 2010). More recently business development and consulting services seem to play an increasing role in advertising agencies' portfolio of activity. These activities can be offered by a single entity (advertising agency) or perhaps more commonly be spread over number of actors in a network, and in globalized markets these actors may be located all around the world (Sheth and Sharma 1997). Therefore, the advertising agencies must raise the question of which role they should seek to have in the future? (Kalliny and Ghanem, 2009).

As the fundamental understanding of the role of advertising agencies is challenged, questions are raised as to the direction in which the advertising agency is heading as an organizing entity, what is the future role of an advertising agency, what services should an advertising agency offer its clients and how well will the agency manage to change its business model. Advertising agencies experience the challenges of more globalized market in different ways. Even though the tasks, organisation and aims of the agencies differ, they will eventually feel the pressure from the market and have to adapt to it, to make smooth coordination and effective use of resources.

Advertising agencies are faced by a number of issues from a globalized market and the emerging of new digitalized services, putting pressure on their business model. A question is therefore how a business model can be changed accordingly. To get an understanding of how an advertising agency may learn about its present business model and find ways in which to develop it, a research project between the researchers of this article and a small advertising agency was defined.

In the following we will describe the method applied in the research. Subsequently the main challenges of the advertising agency are discussed. The challenges are identified through a scenario process with some of the key players from Danish advertising agencies. In order to understand how advertising agencies are challenged by the transformation of business models and other related challenges, a single case study is conducted and described. This is followed by a discussion of the case study from a theoretical and managerial perspective and finally a conclusion is made.

## **METHODOLOGY**

To highlight the challenges facing the advertising industry we have used two different methodologies. First we have identified the challenges of the industry through a scenario technique. Following this we used a case study to look at the way in which an individual firm is affected by the overall changes of the industry and how the firm responded to the changes.

Scenario techniques are often used to get an overall understanding of developments and trends. In this particular instance we need to understand how and why an industry is changing.

There is no generally accepted definition of what an industry is (De Wit & Meyer, 2008). As we focus on industry changes and implications for business model development, we build on Kay (1993) who defines an industry as a group of firms with supply side similarities. Firms are in the same industry when they offer similar products or services based on similar

resources or activities. However, we see this definition as too narrow as actors will apply different understandings of what is offered and what the resources and activities are and how they are applied (Welch & Wilkinson, 2002). Actors create sense through interpretations of resources and activities, but also create rules and recipes for making use of the resources and carrying out activities (Rindova & Fomburn 1999). The actors' understanding of the industry is constituted through interaction among actors within the firm and actors from outside the firm (Håkansson et al. 1982). An industry is defined by actors who hold similar views of what constitutes a group of firms that offers similar products or services based on similar resources and activities. In other words, being in an industry it is not only about understanding what is perceived as similarities on the supply side, but the demand side is just as important to understand what makes out an industry. Firms are as Wilkinson (2008) point out embedded in a number of relationships which builds on being chosen for interaction by others and the choice of interacting with others.

Scenarios are often applied when uncertainty exists, but the future is not fundamentally different from the present situation. This may not always be case. In particular the point has been made that markets are disrupted through business model developments (Anderson & Narus, 2004, Markides, 2008). In our application of a scenario technique we have therefore only looked for the important drivers of change and not developed different possible scenarios. In order to understand how these overall drivers affect the individual firm we have undertaken an in-depth case study.

Case study research is mostly used when contextual knowledge and learning about competences and procedures and how they may be changed is central (Yin, 2003). We have used a single study approach. Choice of the case is central in such a set-up. Various approaches to selected cases have been promoted (Miles and Hubermann 1988). As the population of firms – 856 – in this instance is well-known, a main issue is what we want to generate about advertising agencies business model development? As the body of knowledge about business models is still limited, the aim of the study is explorative. Even though we have knowledge about the advertising industry in respect to size and customers, little is known about the way in which an industry affects a firm's business model and how the firm reacts by changing its business model.

Our aim was therefore to pick a typical advertising agency to highlight how the firm reacts to the overall changes in the industry through its business model. To be able to pick a typical advertising agency we have had contacts to researchers within the area, looked at web pages, read articles about the industry. Still the choice of the particular case firm turned out somewhat randomly. As one of the authors of this article gave a speech for practitioners about business models, the management from the case firm (Touch IT) became interested in participating in the study. As the Touch IT qualified by being a typical Danish advertising agency, the case choice was made. The case firm was typical in respect to size, with focus on a particular industry and mainly with customers from the region. Three interviews have been carried out with the two owners of Touch IT as well as interviews with three of the employees with the aim to get an in-depth understanding of the firm (Eisenhardt, 1989). Documents, web pages and PowerPoint presentations from the advertising agency were used to frame and understand the challenges of the advertising agency. Also two of the customers of the advertising agency were interviewed. In each customer firm 2 interviews were made. The case description has been validated by the respondents.

## **The changes in the advertising industry based on scenarios**

Individual industries vary in many respects, but across all industries changes take place over time. These changes will often be different in scope and impact (Fine, 1998). A method often used to image possible futures are scenario techniques (Schoemaker, 1995, Miller & Waller, 2003, Mendonca et al. 2009). A large number of techniques have been developed over the years, but the generic idea is to define scope and knowledge gap, to look for basic trends, identify major uncertainties and stakeholders, to build up different scenarios based on a valid model and to validate the scenarios. An important part from scenarios is the learning part. Scenarios are no descriptions of the future, but a learning vehicle. Scenario planning gives the possibility to practice in advance without fully knowing what is going to happen in the future. Such scenario planning can be seen as a device to learn and anticipate by and to base adaptations on (Ringland, et al. 1999).

As previously mentioned, the Danish advertising industry is under pressure and the industry may be disrupted. A major challenge for the industry and the single firm within the industry is to learn about the on-going changes, to see possible developments and to adjust or re-define itself accordingly. As indicated in the above methodology section we have only focused on identifying the drivers of change and not develop particular scenarios as our aim is to learn about how the single firms sees these challenges. In other words we have given the firm the possibility to add, withdraw and put weight to the different drivers of change. By this we have not pre-purposed certain drivers of future importance for the firm.

In connection to the research project referred to in this paper, a number of key players from Danish advertising agencies have been discussing the overall tendencies that are important for the industry to which they belong. The process was as follows: First, all advertising agencies in Denmark were invited to participate in the research project named: Innovation Network Market, Communication and Consumption. Participation was free of charge. Firms only invest their time while they are participating.

Secondly, the advertising agencies responding positively to the initial invitation were invited to a seminar concerning the challenges and future of the advertising agencies. 51 of the 842<sup>1</sup> advertising agencies in Denmark decided to participate in the initial meeting. Thirdly, at the seminar three different presentations of the challenges of the industry were discussed. The presentations were made by two Danish specialists and an internationally well-known specialist in the industry. Fourthly, based on the three different presentations, the generic issues were put together. The generic issues were presented and validated at a small seminar, in which participated two former managers from the Danish advertising school and two marketing researchers who have not been involved in generating the generic issues.

The process used is close to that of Kirchgeorg et al. (2010) for developing scenarios for trade fairs. The process of identifying challenges for advertising agencies resulted in the following eight issues: 1: Earning has been under pressure in many agencies as the clients have felt shocks from the world economy. 2: Advertising agencies are gradually changing their service portfolio and more often define themselves as communication, branding or just consultancy agencies. 3: The number of communication channels is growing and provides more opportunities for reaching clients, but also raises complexity. 4: Traditional media, for

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<sup>1</sup> The number refers to number of members in the Danish association of advertising agencies.

example newspapers and printed magazines, are challenged by a number of new possibilities available on the internet. 5: As clients are limited by tight budgets, documented effects and accomplishing goals have become ultimate requirements from clients. 6: Advertising is not seen as something limited to the end process, but to be included in the whole production process. 7: The clients want to be close to the formation of opinion and to take part in the development of the storyline. 8: Clients, and the customers of clients, expect that communication is about being present in the “public room” at all times!

**Table 1: Issues that Challenge the Understanding of the Role of Advertising Agencies**

Challenges	
1: Earnings	Turnover and earning follows macroeconomic trends
2: Industry	Industry glide – from advertising to communication agencies
3: Channels	More channels than ever – higher complexity
4: Media	Traditional media are challenged by new media
5: Measures	Goals and effects are dominating the thinking
6: Communication	Advertising is not the end activity but a part of an integrated process
7: Creativity	It is not the creative idea that starts the process but the needs of the client
8: Outreach	From campaigns to being present in the public room at all time

The above 8 drivers cover more or less all the drivers which have been found during the scenario process, although the phrasing of the drivers was different from actor to actor. The description is made relatively broad by us to cover all the different inputs we got. These challenges come very close to those identified in literature as the challenges for advertising agencies (Kalliny and Ghanem, 2009; Ford et al. 2011). The IT evolution is a cornerstone behind the changes and what caused more globalized markets to work. At the same time the IT evolution fosters new devices or media for communication! This again is changing the market in which advertising agencies act. At the same time the changes allow actors to changes roles or new actors to enter the market. In other words the whole industry seems to be under transformation and may even be seen as more or less disrupted!

For the individual advertising agency the above issues raise a number of challenges in connection to their existing business model. How should the individual firm respond by adapting its value proposition, its relations to suppliers and customers, resources and activities, and cost- and earnings model? As the challenges are many and the impact will differ from firm to firm, we will illustrate the challenges in the industry through a case example.

### **CASE STUDY TOUCH IT**

TOUCH IT is a fairly young small Danish advertising agency with nearly 20 employees, with growth ambitions and a good record of achieving its aims. The firm’s clients are mainly within the food industry. The agency is as most of the Danish advertising agencies currently recovering well from the financial crisis during which it had to cut down on its staff, but it is now hiring again. Prior to the start-up, both of the owners worked within the advertising industry with some focus firms from the food industry as clients. From the very start, firms

within the food industry formed the majority of the customers. The ambition of the company is to grow into new segments as well as to focus increasingly on business development along the traditional activities. In order to implement the strategy two new business developers and the managing director are constantly working with acquiring new orders from present clients, and are at the same time also concerned with obtaining new business opportunities within related businesses to the food industry, for example machine, ingredient and packing producers. A major challenge in this process is to sort out the different business opportunities. As an overall segmentation is made based on industry (food and related industries), an important task is to separate the different business opportunities that are identified. Business opportunities or client tasks are usually treated differently depending on the size of the task and whether the task is pre-defined by the client or not.

Overall TOUCH IT defines its tasks in four groups:

- Strategy development (communication strategy, workshops for strategy development)
- Concept development (new development of graphical design)
- Design (campaigns, creative graphic development)
- Ad hoc (advertisements, graphical layout)

During the first years of the firm, ad hoc, design and partly concept development made out the core activities of the firm. In recent years concept development has played a more dominating role in the services offered by the firm, and strategy development has been defined as an offer.

TOUCH IT was affected by and reacted to the changes of the environment in various ways. The challenges lead to an attempt to transform the business model which required the ability of managers and employees to form and take more advantage of teams. Project management has become more vital as an organising concept of the firm, enabling it to customize solutions for the client when the task is not pre-defined. Both concept development and strategy development require all the skills, competences and synergies that are available and can be generated in the firm. Because of the small size of the firm, knowledge sharing and empowering among the two owners and all employees is seen as central part of the success of TOUCH IT. Consequently, all projects are discussed at a weekly meeting. Though, still more than this is needed to be able to handle more “heavy” clients in the future.

The firm is aware of the tendency that clients expect a wider competency in advising and consulting services; not only within the field of advertising, in which the knowledge of new media is required, but management consultancy skills are also requested for offering strategy development. To be able to deal with this development the firm had to recruit new employees with business development competences and to form teams that can supplement each other in the process of producing creative and new business solutions for clients. As a result of this change TOUCH IT developed different approaches towards their clients. TOUCH IT now interacts with the clients at an earlier stage of the client process and holds contact at a more regular basis. Another issue is that one of the business developers has experiences from dealing with other industries than the food industry. The aim is to strengthen the ability to reach new segments.

TOUCH IT uses suppliers to an increasing extent rather than doing all tasks by itself, and the role of the firm seems to be moving from being a producer to also being an organiser of the task. Different competences are needed in the firm, resources must be used differently and

activities must be changed to fit to the new role as an organiser. The changed role also requires relationships with partners to be established or changed. In addition, new channels and media and the need for new competences created a need for forming new partnerships. TOUCH IT finds this a difficult undertaking, as the firm is uncertain as to how the partnership will function; the competences are not pre-defined and it is unclear how well the partner can keep up with the development in the market. This is a difficult undertaking as task and competence are not easy to pre-define. How well TOUCH IT manages to change the business model depends not only on the agency itself but also on the relationships it has formed with clients and suppliers. Some clients, who have been customers for a longer period, have had an effect on the way in which TOUCH IT developed, but also represent limits to the firm's ability to develop and change in the future, as certain competences are required and expectations are established. In the attempt to develop a new business model it became apparent that knowledge about other industries was important and that TOUCH IT was seen as a competent concept developer within the food industry, but moving to other industries and offering strategy development was challenging.

## DISCUSSION

In the above we have discussed business models and the development in connection to a particular advertising agency. The advertising agency faced the challenges we identified through the scenario process in different manners. The macro trends are in several ways affecting Touch IT as both fluctuations in demand and a pressure from cheap international advertising firms put pressure on the earnings (see Table 2). As mentioned above, Touch it tries to become less dependent on the food industry, but Touch IT fails as both management and employees at Touch IT and potential customers are reluctant to acknowledge Touch IT as having the competences to deal with segments. The management at Touch IT decided after only 7-8 months to give up on moving into new segments, which seems to be a very fast decision as acquiring new competences, knowledge and to be perceived differently takes time. Touch IT has only little experience in using suppliers for new media but is aiming to improve this situation. A restriction seems although to be a lack of competence to integrate suppliers that can contribute with new media (see 3 and 4 in Table 2).

**Table 2: TOUCH IT, challenges and responses**

Challenges	Reactions to the challenges
1: Earnings	The firm is adjusting its number of employees due to the macro economic trends and to international competition
2: Industry	The firm tries to target new customer groups and to offer strategy development, but does not have success with this
3: Channels	Struggling to identify the right partners
4: Media	Only sporadic attempts to use new media due to lack of competence
5: Measures	Aims of the customers are central for the success of TOUCH IT – measures are in some instances difficult to achieve (i.e. strategy development)
6: Communication	Good at executing communication as an integrated process
7: Creativity	Good at understanding the customers wants, but perceived to have certain design expression by the customers
8: Outreach	Understands the need for integrated communication, but is only capable

of delivering some of the means/media.
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Touch IT is experienced in designing (campaigns, creative graphic development) and taking care of ad hoc tasks (advertisements, graphical layout). The firm is also experienced in concept development and strategy development, but these tasks are more difficult to measure. Being an advertising agency has turned out to be a problem for Touch IT, as customers mostly see them as being providers of communication and not so much as provider of strategy input. Customers seem to be very restricted by their previous experience and perception of the advertising agency. Touch IT has more or less grown from the food industry; owners as well as some of the employees have experience from the food industry that forms a good basis and understanding of “the language” in the industry. This makes it possible to address and to make concepts and campaigns for the food industry in a qualified manner. However, at the same time Touch IT is seen as being bound in its understanding and design expression by its roots in the food industry (7 in Table 2). At a general level it appears that Touch IT holds good experience with use of traditional media, but only to a limited extent embraced new media and obtained an understanding of what it means to be “online all the time”!

The case demonstrates some very interesting aspects of adjusting a business model in a changing industry. First, the firm is aware of the changes in the industry and is trying to adjust. The firm is trying to restructure itself by becoming more project driven and by hiring employees with experience from a different industry and with different competences. Second, Touch IT seeks to get better and closer relationships with suppliers and customers through networking. The aim is to adjust the business model so that a changing environment and new segments can be targeted or met through a different offering.

The lack of success in adjusting the business model can be traced back to the following five issues;

- Touch IT cannot match new suppliers with new competences
- Touch IT is not capable of addressing new customers in new segments
- Touch IT is not perceived as competent in addressing new industries
- Touch IT does not take the time to start up customers in new industries
- Touch IT is perceived as an advertising agency and not as a provider of strategic services

A number of theoretical issues have emerged from the discussion. First, advertising agencies depend on their past. At present Touch IT have certain competences and skills that fit their clients within the food industry. If new industries are to be addressed, new competences and skills are required, not only through hiring new employees, but also through re-learning in the firm. According to the business model understanding provided by for example Osterwalder & Pigneur (2009), the change of a business model seems to be a process that can be pre-determined and is controlled by the management of the firm. Change of a business model takes time, and it is difficult to foresee the result (Håkansson & Walusweski, 2002).

Second, key partners (suppliers) as well as customers are seen as central in the process of taking advantage of or changing the business model. The business model is seen to be co-produced by the focal firm and its external relationships (Håkansson et al. 2009). However, the focus on the relationships business model understanding provided by Osterwalde and Pigneur (2009) and others is one-sided. It deals with the way in which the focal firm can take advantage of the surroundings, but the issue of double choice is not addressed (Wilkinson et

al. 2005). Suppliers as well as customers make choices and these will affect the focal firm's possibility to make use of and to develop the business model.

Third, from the case it also appears that the understandings or schemas of the actors are heavily influenced by the possibility to change position in the industry. When a firm tries to change the understanding of itself, it also have to work with the other actors in the surroundings understanding of the firm. I.e. suppliers and customers hold certain schemas which determine the understandings of a certain firm's competences and abilities.

## CONCLUSION

The advertising industry is under transformation. This poses a number of challenges for the firms in the industry. It will be more or less clear what the developments are and how it will have an impact on the individual firm. For the single firm a number of challenges emerge. Transformations are not only about taking in new business offerings and build up the ability to handle new tasks. It also deals with the question how other firms, i.e. customers, perceive the firm. Firms may want to change, but because of other firms this may be difficult, as other firms will have formed certain expectations based on the firm's previous records. It is also evident that changes take time and that a certain business model is not just changed.

In the particular case study path dependencies and co-evolution were key issues in the understanding of business model adjustments. If business model research should be further developed it seems that this string of research needs to look differently on the period of time needed for changes and how firms cooperate with each other. Business model theory must therefore be better to understand the fundamental nature of the firm and that structures, processes, culture, competences and legitimacy are not just something which can be designed within a short period of time, but must be understood by their nature and changed accordingly. As a firm is not acting on its own but is embedded in a number of relationships, a firm's development does not rest only on the firm itself, but depends on other firms.

The changes in the advertising industry pose a number of managerial challenges for Touch It which overall can be said to highlight some of the overall managerial challenges of being in a changing industry. First, firms' competences are evaluated by others based on their earlier and current achievements. If a firm wants to take in new types of customers demonstrating relevant competences becomes a key point for being taken serious at all. Second, planning in advance of how to demonstrate competences to handle new customer types is very problematic. As needs and wants of the new customer type is not well-known knowledge of the needs and wants will first emerge out of the interaction process with the customer and the problem of not being seen as competent in such a process is evident. Third, accessing new customer types also means creation of new relationships. Building new relationships is about learning, understanding and creation of bonds which are necessary for activity links to be made and resource ties to be formed. As the advertising industry game is changing this is not only challenging for the advertising firm, but also challenging for the customer. One factor is that the advertising agency is trying to position itself in a changing industry another factor is that the customer may not be sure what kind of service it wants from an advertising firm now and in the future.

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