

**Jockeying for a position in a business network in motion:
Cases from advertising industry**

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Abstract

In this paper we examine how businesses in the advertising industry cope with the pervading changes occurring in the industry. In particular we explore how, in coping with the changes, the agencies adapt the existing and develop new relationships in their proximity business network and we discuss the consequences the need to cope with changing relationships has for the agencies' business models. The study shows: firstly, that despite the profound changes in media technologies there is substantial continuity in the business networks of the industry and that the impact on the single individual businesses is different dependent on the 'network position' of the company. Secondly, the study suggests that in explaining the change, strengthening the network position and the relative economic and market performance at single business level, the critical factors are relational investments rather than the technology and related skills. Thirdly, business models are interdependent and the model of a certain business is conditioned by business models of those it relates to in its focal business network, which is to the suppliers, customers and other partners. Business model development is therefore emerging from interaction between partners rather than outcome of unilateral efforts.

Key-words: business models, networks, media, business relationships, technology

1. Introduction

Although advertising agencies and the related businesses in the industry (PR agencies, media agencies, design and graphics production) have all the features that characterize business networks, the advertising industry has seldom attracted attention in the IMP research. In this paper we examine how businesses in the advertising industry cope with the profound changes in the industry induced by the growing use of digital technologies and new media. The aim of this study is to explore how businesses adapt and develop their business relationships in order to cope with the motion in the business network and to examine the consequences that the need to cope with change in the industry has for agencies' business models. Within the last two decades business models has gained a growing interest as a "market device" (Callon et al., 2007) for analysing innovation and change in firms and networks. We provide a network based perspective on business models that we see as expedient for understanding how firms can change their business model and we demonstrate how business models can be made useful instead of being "torn between usefulness and uselessness" (Doganova & Eyquem-Renault, 2009, p. 1559).

The study is based on secondary material and interviews with key informant in the industry in Italy and Denmark. Drawing on the experience of four focal businesses and related actors (two in each country) we try to construct a "coherent story" (Pratt, 2009) about how the incumbent and new entrant businesses are struggling to adapt their existing relationships to the changes in technology and in the business landscape – the former, and strive to develop new relationships in order to acquire a position in the emergent business network exploiting the motion in the business network – the latter. As result of different reactions to changes the advertising industry appears particularly heterogeneous. Some established traditional agencies try to convert to web agencies and, without the necessary competences, are slowly fading out; others have in different ways acquired the new competencies and continue to prosper. Numerous, small and newly established web agencies do not have the necessary connections and credibility to work independently and, as a consequence, stay fairly small, fail or are taken over to become a branch of an established agency.

The study shows that despite the considerable changes in media technologies there is substantial continuity in the business networks of the industry and that the impact on the single individual businesses is differentiated dependent on its 'network position'. Furthermore, our study suggests that the critical factor in explaining the change, strengthening the network position and the relative

economic and market performance at single business level, is relational investments rather than the technology and related skills. We conclude discussing the implication of our findings for explaining the continuous motion in business networks and for the conceptualization of business models. In particular we argue that constraints and possibilities for business model development are dependent on the network position of the agency. Implications for future research are also outlined.

2. Theoretical background

Strategic management literature has always been addressing the issue of changes in market imposing the need to change companies' practices to survive and also to take advantage of new opportunities (Markides, 2008). It is then argued that maintaining and developing effective business model is an essential task for management and management research should support management in this task (Casadesus-Masanell & Ricart, 2011; Zott et al., 2011; Magretta, 2002). In the growing literature on business models there seems to be an underlying assumption that it is up to the company itself to be able to change its business model (Osterwalder & Pigneur, 2009; Morris et al., 2005; Magretta, 2002). Consequently much of the past research on business models has been aiming at providing better ground for more effective business model design (Coombes & Nicholson, 2013; Casadesus-Masanell & Ricart, 2010) and takes the stance that management should take the responsibility for conceiving and constructing the actual business model of the company.

In some of the business model design literature, however, there is a growing awareness that it is not as simple as it seems (Hacklin & Wallnöfer, 2012; Doganova & Eyquem-Renault, 2009; Chesbrough, 2007). It is observed that the positions that companies acquire in a market differ and are always unique (Bohnsack et al., 2014). Companies have different positions due to the activities they perform, the resources they bring and combine with others. Some companies will be closely connected in a certain network setup while others will be more closely coupled. It is observed that business models are unique because business model design is not a one way 'push' thing, but something that needs to be iterated with, to enact the model that works (Mason & Spring, 2011). For companies operating in B2B businesses in particular, the business network will both provide possibilities and hinder a company from changing and developing its business model. Business model adaption or innovation is not just matter of re-design from a focal firms point of view, but embodies a number of actors in a certain network.

The interplay between the business network (always in motion) and the evolution of business model at the single company level is not researched well in the network literature, nor in the business model literature. We have the impression, based on episodic empirical observations, that the iterations veer back to the status quo due to a kind of ‘inertia’ in the network and the individual company, and that this is the case even when companies try to ‘work with new business models’. Yet, changing conditions in the (network) context of a company make the reproduction of past business model from a different context, impossible. Under the circumstance only further development of the business model is a viable solution. Because the relevant business network of a company appears thus to be both a source of change and limitation to change of a firm’s business model we need to understand better what keeps companies stuck in the old business model and how new models can be formed. Becoming aware of limitations and possibilities for development is a starting point for managing the evolution of the business model of the company. Becoming aware of what the barriers and possibilities are in and outside the company may not always make it possible to re-move these but it can help to move around these.

Our aim is to explore how businesses adapt and develop their business relationships in order to cope with the motion in the business network and to examine the consequences that the need to cope with change in the context has for companies’ business models. The purpose of our study is to learn about factors that enable and inhibit the business model development but also how change in business models contributes to the motion in the business network and its transformation.

3. Methodological issues

Investigating empirically the interplay between the motion in business network and the evolution of business model at the single company level entails choosing a certain the empirical context and approach. In this study we have chosen to focus on one industry with specific business network which is the advertising industry and to adopt a multiple case study approach. In this paper we examine how businesses cope with the pervading changes in the industry due to the growing use of digital technologies and new media that has had profound impact on the industry over, in particular, the last decade. Our study aims at exploring how business models change with the coming of new and evolving of the incumbent actors in the network.

3.1 The choice of the advertising industry

The advertising industry is interesting for at least two reasons. Firstly, the advertising industry is a 'pure' B2B that has been identified rather early as a market where continuous and close business relationships emerge (Twedt, 1964). Advertising and the related businesses in the industry (PR agencies, media agencies, design and graphics production) have features that characterize a closely connected business networks. The second reason for our interest in the industry is that it has been undergoing substantial changes within the last decade both in terms of media technologies in use and the structure of the industry. The industry appears thus to offer the opportunity to examine the effects of change in networks and relationships on the business models of the single companies in an environment where change is needed in order to survive and prosper.

The advertising industry is going through changes propelled by the global recession, social and digital technologies. The widespread use of new digital media (apps, wikis, blogs, social networks, online video, and many others) has changed communication patterns fundamentally within the last decade. In most countries in continental Europe the digital media spend is growing and has reached 25-30% of the total media spend. Traditional media (TV, radio, newspapers, and magazines) has been challenged in their role as the dominant player in spreading news and advertising by the digital media. New media development is technology enabled and driven foremost by advertisers, in particular the large global corporations. New technology platforms for communication emerge continuously which challenges many established firm's as it is difficult to decide what media to apply and to orchestrate the content of the new media. Contents of new media are created by the use of the individual actor and information spreads much faster than with many old media types. Seen from a channel perspective old media were much more controllable by publishers and firms than the new media because considerable amount of communication on the Internet emerges in a bottom-up approach by the users of the Internet.

New media (twitter, facebook, aps, bloggs and others) has become central means of communication challenging the old media's dominance. Understanding how the new media works and the ability to integrate these in companies' communication efforts has become essential. Since the new media communication seems to build on a much more interactive logic than the traditional media, this has turned out not to be an easy undertaking for many existing agencies. These new logics of communication pose a number of challenges both for companies in communicating with their

customers and for advertising agencies providing services to their customers. New media's impact on the advertising industry holds various aspects. Understanding the nature of new media compared to the old media is pivotal for understanding how a position in an emergent business network can be maintained and acquired. Contents of communication campaigns or single advertisements have often been created in a dialogue between advertising agency and customer with the aim to deliver a certain message for a particular audience. The target audience has never "just received the message", but always constructed or attached a particular meaning to a message, but in the traditional media setting the audience had limited possibilities to argue and discuss a certain message. This has changed radically with the new media possibilities and the receiver of information has also become also a creator of information as different target audiences (and other actors) can any time discuss the content of any messages and campaigns. Advertising becomes much more a situation of a dialogue based on even access to the crowd where no one is in control of the communication process (Levine, Locke, Searle & Weinberger, 1999). The digital communication technologies have also enhanced the possibilities of mediated communication between businesses facilitating communication and integration. This different logic of the communication process appears essential for the advertising agency to grasp. Changes in communication patterns bring up the question what role different actors have in recombining a network and various actors in the industry, such as the agencies and the related businesses (PR agencies, media agencies, design and graphics production) are all struggling to cope with the changes due to growing use of digital technologies and new media.

3.2 The choice of the cases and the interview guide

The study is based on secondary material and interviews with key informants in the advertising industry in Denmark and Italy. We try to construct a "coherent story" (Pratt, 2009) about how incumbents and new entrants cope with existing and new business relationships in a context in motion like the advertising industry. We draw on the experience of four focal businesses and related actors; two in each country. The four focal businesses have been identified among the businesses we had previously contacts with in the industry for the facility of access and because we deem these to have significant 'revelatory' potential (Coviello & Joseph, 2012). The cases chosen illustrate two situations: Firstly, how incumbent businesses in the business network are struggling to adapt to the changes in technology and in the business landscape and how this affects their key business relationships. Secondly, how new entrants in the business network strive to acquire a position in the

changing business network exploiting the possibilities offered by the new digital media technologies.

The format of the cases reflects the questions we investigated through open-ended interviews with informants in the four businesses:

1. How does the company perceive and interpret the change in the industry?
2. How did the company change (growth, customers / suppliers; profitability, competences) over the last 3-5 years?
3. What does it mean in terms of customer and supplier relationships? (What happens to the existing / new relationships?)
4. What were the main reasons for the changes?
5. What are the main consequences of the changes?

Material from the interviews have been complemented with data from secondary sources (industry reports and press articles). The names of the companies are disguised in order to protect the anonymity of the companies and their business partners.

4. The advertising industry in Italy and Denmark

There are differences in the advertising market in the two countries but the recent changes and their impact appear similar. A few figures from Aegis Media Global Advertising Expenditure Report (Aegis Media, 2013) can help to illustrate the extent of change and the trends in the industry in both countries. There has been a significant decrease in the overall media spending between 2008 and 2013. In both countries the total media spending decreased by about 15 - 20% in the above period and by about 10% in the last two years. TV, Press and Digital media today account for 85-90% of the overall media spending in both countries. While TV media spend share of the total appears about the same, changing slightly between 2009 and 2013 from 52% to 51% in Italy and actually growing from 18% to 23% in Denmark, the major change in the same years has been the dramatic fall in the share of Press media (Newspapers and periodicals) spending from 25% to 16% in Italy and from 55% to 35% in Denmark. At the same time the Digital media spending has grown from 10% to 23% in Italy and from 19% to 34% in Denmark which in practice means that the spend on digital media doubled in the last 3-4 years! The gross figures above only hint the deep-going changes as there have been other significant changes in the content and form of media

communication even within the above categories; there have been significant changes also in advertising formats and technologies. To add to the impression of business context in motion there have been also notable changes in the top advertisers as new client sectors kept emerging and others withered away even if more systematic data on that is not available. However, increase or decrease in advertising spending of a certain client sector (e.g. transport, banking etc.) on a year on year basis in order of 15-20% is not exceptional.

4.1 Two Danish cases

The following two cases highlight how two Danish advertising agencies are struggling to cope with changes that transform in the advertising industry.

4.1.1 Create

Create is a large Danish advertising bureau started in the early 1980s. It started with and still has a strong focus on development of graphical identity. The bureau was a spin-off from a firm in another industry. The current staff is around 80. Their prime customers are retailers and in particular their first large customer (Convenience) have influenced the bureau's development. Often new offers and competences have been developed based on request from Convenience ex in graphical materials and films. The agency has focused on creating communication that has a measurable effect on the customers' sales, on the strategic sparring with the customer and is flexible in relation to customer needs. The flexibility is reflected in that, in busy periods, the agency acts as the customer's internal marketing department's extended arm. This positioning is partly consistent with the long-standing relationship with retailers and the requirements that apply in the retail industry. Relationship with the retailer Convenience is a core reason why the company has a customer base containing a row of large retailers and has acquired an important competence in graphical materials. The development of new offerings has often been a result of a need at Convenience, and Create has adjusted their offerings and recruited new employees based on these. Currently, in order to stay competitive a large part of the production is outsourced to a Ukrainian company that Create owns. Today Create can deliver graphical communication, advertising films, digital communication and strategic planning. For them communication must have a clear measurable impact. Generally they consider that one of their strengths is building long-lasting and close relationships with both customers and suppliers, which also ensures that you have the ability to be flexible in situations where the customer is under pressure in their daily operation. The bureau has in the last ten years built a strong

competence in research into consumer trends. This research results are used in services deliver directly to customers, some are published and some of results are also presented at public seminars directed to existing customers and potential new customers.

Management believes that the financial crisis has strained the industry in terms of price and customer loyalty, and there are more competitors, such agencies are often an investment without the expected returns and customers use the situation to get lower prices. Other agency types in form of media agencies are a big threat as they have direct contacts with the major advertisers, and can easily offer a creative angle on top of their traditional media analysis and planning. Furthermore the agencies sees digitalisation of the media as a threat to the core business and something they have to address.

Create is characterised by an emergent development strategy as customer requests has led to new products. The management is aware that their dependencies of analogical graphic production is not sustainable in the long run, however they do not want to leave this market while it still is attractive, but instead rely on a slow downgrading as the market becomes smaller, and simultaneously attempt to strengthen their position on the strategic and digital side, so that they are prepared when the digital media takes over. They are facing a challenge in terms of finding new sources of revenue. An important question is what types of services that could be described as 'daily operations' future and what kind of production system in the agency this will require. In order to strengthen their digital competences Create acquired digital bureau Bits as an exception from their traditional organic growth strategy. The acquisition ensures that Create can follow and lead the customer onto a digital platform and further ensure that the analytical process is not lost in the transfer to a digital supplier. Create still stands with a corporate culture that is rooted in the classic graphic arts and a challenge is how to combine the two traditions, so that the digital media is not viewed through an analogue optics The strong graphic analogue culture appear sometime to act as a barrier that makes them too focused on aesthetics rather than functionality. Even though they have acquired Bits create is not perceived among customers as strong in online media. It is likely that Create will in the future need other skills and employees. The challenge they see is how to preserve the strengths of their experiences from their retail background, and at the same time be open to the possibilities upcoming in the new markets.

Create estimate that contacts with new clients come primarily through networking and personal relationships. Otherwise, they try to recruit new customers by leveraging its research competence primarily through their consumer studies where they send 'packets' with insights to selected companies within the industry. The bureau has within the last year acquired new large retailers in their customer portfolio and the bureau is still growing.

4.1.2 SPOT

SPOT is a small Danish advertising agency that has existed for more than 10 years and has 15 employees. The company has growth ambitions and has so far done well achieving its aims. Most of the customers until now have been in the food industry. The agency is still feeling the effects of the economic crisis in 2009 even though the situation has stabilized. The trend towards more online solutions has been experienced by SPOT. Starting to provide online solutions has also been an integrated part of the development and growth attempts of SPOT. To gain more growth in turnover and earnings and not to be to depend on only one industry the advertising agency has been looking for new possibilities. Therefore they found it interesting and have the particular ambition to access new customer-types outside the food industry. In order to implement the strategy two new business developers and managing director has continuously been aiming to acquire new types of customers.

A major challenge has been to sort out what effort it takes to build new relationships with different types of customers and more precisely to identify what needs the new customers have. The advertising agency states that it has learned that it is essential to know what the customer wants and if it is not clear it creates tension in the relationship later on. SPOT has found it difficult to deal with customers who are especially interested in new media. SPOT has so far not build up the ability to deal with new media in-house, but works together with a partner company who has the competences. Although, many resources has been invested in the attempt to deal with new customer types who requires new media solutions, SPOT is meeting difficulties in working with this kind of customer. Especially, SPOT has found it hard to cope with the role as connector and developer of solutions that included new media in collaboration with the partner company and the new customer types at the same time.

Also the overall efforts to work with customers with new types of needs outside the food industry have been found difficult. Both the attempt in general to get new customer types into the portfolio

and to provide solutions which include new media have not been really successful. One on side the customers in other industries seems quit reluctant to build relationships with a new advertising agency which they don't know and which has limited experience in their industry. One the other side it has been difficult to work closely together with the partner company to provide new solutions. Two issues seem in particular to be at stake here. First, that SPOT has found it difficult to collaborate closely with a business partner on which they rely for the digital competences. To do this SPOT has to be open and be able to integrate with the partner company, something that has been difficult for SPOT to do. Second, SPOT has found it difficult to understand the logics and processes behind the use of new media. Overall the attempts to change the business model by attempting to access new customer types and more emphasis on new media has not provided the wanted growth in turnover and earnings and lowering the dependence on one industry. The time spend on new customer types by the two new business developers and managing director has to a large extent not created the wanted results and also taken time away from existing customers.

4.2 The Italian cases

The two Italian cases illustrate in an even more extreme form how the large incumbent and a very fresh newcomer interpret and address the changing industry context.

4.2.1 C&L

C&L is today a rather small company with only 6 employees and has only been operating as an independent company in Milan since the beginning of 2013. However, the two founders expect the company to double the turnover and size in 2014 and imagine also considerable growth in the years to come. While C&L is an independent legal entity only since the beginning of 2013 its origins go back to 2010 when two young Master graduates started working as an independent unit within a mid-sized traditional advertising agency AdAg with staff of 30 operating in central Italy. Working mainly with mid-sized traditional industrial and commercial businesses with rather limited communication and advertising budgets, AdAg contracted the two future founders in order to be able to offer their traditional customers some basic "digital competences". AdAg agreed that what would later become the C&L could started as a team (the two founders plus a couple of employees and occasional free-lance as sub-suppliers) offering consulting services on digital communication solutions to some of the AdAg clients.

Despite the initial enthusiasm, the “digital communication” team in the AdAg did not work well and various problems and tensions led to that at the beginning of 2013 the two founders negotiated with AdAg a management buy-out. In the perspective of the C&L one of the problems was that the AdAg customers were mainly requiring assistance in planning and executing traditional off-line campaigns and the on-line solutions have been perceived as interesting, but only as an add-on in a more traditional marketing communication campaigns. Another problem was that when the proposed on-line solutions were successfully accepted by some of the clients it generated some resentment among the AdAg people because it meant re-allocating the customer spend from the traditional on-line to the new off-line solutions and the on-line solutions have thus been perceived as cannibalizing the existing revenues for AdAg. Apart from contracting the C&L for the on-line solutions AdAg had no interest to make significant investments to develop a new position in the digital on-line business. In view of the two future C&L founders the situation has not been satisfactory as they both future were not particularly interested in becoming perceived as suppliers of on-line solutions but rather developed a conviction, not shared with the AdAg, that the main need among potential customers was more about how to design their communication strategies using and integrating both traditional and new media and solutions.

This view of the need for a new approach to market communication strategies integrating the whole mix of traditional and emerging media led to the MBO at the beginning of 2013 and the foundation of the C&L. After becoming independent the C&L clearly worked to develop a profile of “contemporary communication strategy consulting”. While competent on digital media, the new venture has consciously tried to avoid being linked to and dependent on some of the digital competences requested, because of the conviction (and evidence) that many of these (web-design, blogging etc.) have a somewhat short-life cycle. Rather than offering specific competences for on-line solutions the C&L tends to present itself as general communication consultants who, when needed, would enlist a pool of other competencies available in the industry on various communication technologies, including the on-line media.

The strategic orientation of C&L is based on founders’ conviction that most business clients today understand that there is some potential in the new media but have only limited understanding of the potential deployment of different solutions. At the same time the clients have often acquired and have in-house some of the basic digital communication competences (e.g. blogging, web-design,

etc.). C&L founders also believe that several larger client companies find it difficult to work with the large traditional advertising or media agencies as these offer limited capacity to develop mixed communication approaches working together with customers because their specialized competences and limited capacity to understand the business of the customers.

The strategic orientation of C&L reflects their perception of potential clients in the industry falling in three categories: The first are customers who are competent and knowledgeable about the market communication process and requirements. These know what they want (or believe to know) and are willing to shop among the service suppliers to satisfy the need of specific competences (design, web-design, graphics, media-planning etc.). These customers tend to have the competence to develop the communication strategies and campaigns and in this category of customers it is often the Marketing defining what services to buy and the suitable suppliers. They tend to enlist suppliers for specific campaigns and thus with time-limited mandates. Large, fast moving branded consumer goods companies are prime customers of this kind even if they are not the only ones. The second category of potential customers are companies that are less confident in their capabilities to manage market communication strategically, with new and old media alike. Many mid-sized industrial and commercial businesses belong to this category. These vary in their perception of need to strengthen marketing communication, but some clearly see the potential. The main influencer and actual buyer of advertising consultancy and services tends to be the general management, often top management and owners, assisted by various internal functions that can be sales, marketing or else. The third customer category, which is growing significantly, are companies that perceive the potential of digital communication solutions in various parts of their business, not only in market communication but also internally and are looking for competent parties who can engage in “co-development” of various communication solutions. The buying in these companies is mainly done by the general management but is typically initiated, guided and assisted by functions like IT, HR or Finance.

One year on to the operations the C&L is working mainly on clients of the second, and to some extent of the third type. Today, three major customers of C&L represent about 90% of the turn-over and with these the C&L works on a longer term basis making use of other “partners” to deliver the services requested from time to time. The later range from free-lance to mid-sized agencies offering various on- and off-line services. When working with a major customers a considerable pool of

these is used as co-suppliers (in alternative to using sub-suppliers) and acting as more general contractor. Such a way of operating is facilitated by the high-density of various minor advertising businesses in the Milan area. The remaining part of the turn-over is about two dozens of relatively small, time-limited projects, typically assisting and supporting market communication campaigns. C&L consider these as spear-head for future major customer contracts. The founders see the acquisition cycle as relatively long and gradual process (6 – 12 months) but are confident to have no less than 30 sales leads with high probability of landing a substantial contract. Some of these are with foreign companies and the ambition of the company is to work internationally. On the whole the C&L is confident that their business model is effective for the context as they meet it.

4.2.2 Medag - Redefining media

Medag, is the Italian branch of global independent media planning & buying specialist and a market-leader in digital and non-traditional media solutions, employing has more than 6,700 people in 70 countries worldwide. Medag played a big role in shaping the industry when established 1968 and today is the Europe's largest media agency network, a position held for more than 15 years. The company's declared mission is "to redefine the value of media" as, "today, advances in digital technology and changing consumer behaviour have created an era of unprecedented complexity and opportunity for clients. Media is now an ecosystem that includes bought, owned and earned communications". In this context Medag declares to "understand how media can drive business value" and is "redefining the role of a media agency". Several Global consumer goods companies are among Medag's clients.

The CEO of Medag Italy has a clear picture of what have been the changes in the industry over the last 20 years and of the reasons of Medag's relative success. When he joined the company in the 90s he saw the advertising industry in Italy dominated by advertising agencies that provided a full service offering to the clients, from creativity to the simple activity of buying media spot. The attention was mainly on the creativity, while the media buying and planning was a secondary matter for both client companies and agencies. He likes to repeat that "I remember meetings where the big players from the agency and the client spent more than an hour talking about creativity and then leaving the table when the discussion about \$15-20 million in buying media started". In such a context media centres, like Medag, found an untapped market to rely on as agencies were overlooking that type of activities. Indeed until 2003/4 the industry has been signed by the

emergence of media centres and the down-slide of traditional advertising agencies. The position of the large traditional (and global) advertising agencies have been eroded as their “creative” core was challenged by numerous less cumbersome and more nimble minor players who would work on project base for the client companies.

The media infrastructure was relatively stable dominated by TV and Press. While the initial focus of media agencies like Medag was on buying and re-selling media space, as the media planning became more complex these started to offer more and more sophisticated services of optimization of media planning and media strategy and could show the clients good economic results of such a focus on media planning when investing the available budget in the different media: TV, press, radio, billboards or cinema. The media industry until about 2005/7 was characterized by a struggle within the industry for who would become the dominant player as the media agencies advanced and the traditional advertising agencies were retrenching. The scenario radically changed after 2007 with the change in media infrastructure and consumption and gradual emergence of a more dynamic system of media. Throughout the 90s the TV was dominated by two groups - Rai and Mediaset and that made the buying and planning a relatively unproblematic activity. With new players coming in and new media emerging, while for 15 years 90% of the audience in Italy was divided between these two groups, suddenly, this 90% decreased to slightly more than 50%. The new media consumption patterns have been changing dramatically in more specific segments. For instance in 2013 the relative media spend for TV in the group of the 20-35 years old has gone down to 35% and for children to no more than 10%. Interestingly, television continues to have a major role (50-60% in Italy and in Medag), with an increased number of users and of minutes watched, but the rules of the game changed to the extent that not all the players were able to manage the shift. Television, that was considered, together with the press, as the most easy to understand and to manage, started to be considered as a cryptic object. The reason for the change does not come from the disaffection for TV among the public but rather to a shift of consumption of the new digital channels (Sky, discovery, etc.).

The uncertainty created by the profound changes in the TV was amplified by the arrival of the online digital media. The digital market grew up rapidly representing today nearly 16-17% of the investment for Medag (14% Italy). The new media represented a true “shock for both the offering and the consumers’ side”. Medag found that various consumer segments have changed radically

their habit of using means of communication; so for instance the target moms+children is 85% on digital media, young (below 25) use videos instead of being loyal to certain channels/programs, 50 years old target reading newspapers on tablets instead of papers, etc. The system in place is complex and interrelated and imposed, in view of Medag, the need to perform in an “ecosystem” where to combine various elements into coherent communication actions. That represents a serious challenge to all the players in the industry including the clients.

Medag appears to be aware of the challenge and is conscious that, as it happened to advertising agencies, in five years their own business could become the “dead dinosaurs”. The company is making more than 80% of the turn-over with twenty largest customers. While more than half of Medag customers have been with the company for more than four years it is noteworthy that nearly half of the customers are new to the company and have been acquired during the last four years and the other half have been with the company for more than 5 years. That’s why they are continuously looking back and forth. There are clear difficulties of being a player coming from the offline. On the one hand the challenge is to acquire digital online competences, and strive to recruit people coming from the digital world but also to train them as strategic player as “in the companies always more often you negotiate with the number one”. The core of Medag activity until now has been competence on “to whom to communicate and how to communicate” considering “the content of communication coming out almost as a consequence”. But the situation is different when it comes to the digital:

“While creativity is still a traditional activity in the offline world (and here companies often rely on freelances), the creativity in the digital context is different as it can also be at zero-dispersion if you have the instruments that allow you to monitor and understand the response (think for instance to certain arguments discussed online that are typical of moms such as reddening caused by diapers).. here you have clear indications of who is the user and therefore you can do ad hoc creative initiatives and you can also check the effect of your activity and change it in 24 hours... between creativity and digital there is no boundary”

On the other hand the challenge is thus to manage to be perceived as a competent partner for both the media planning and creativity in the on-line. Medag has invested considerably in acquiring the digital competences (taking over some minor players). They appear convinced that the new resources should come from the digital field, digital planner and digital strategists for instance, as they can be successively trained to acquire other necessary competencies, while in the other way around it would be more challenging. Not all customers seem to be convinced that the traditional

companies like Medag are up to the task and place the “on-line creativity” to other emergent players in the industry. In the surrounding network several of their major clients develop considerable competencies of the digital media and tend to be able to “buy on-line creativity” from very specialized players while others are only happy to “outsource the communication strategy” of their marketing to “full-service” agencies like the Medag.

5. Discussion

All the four case show evidence of substantial and rapid changes in the advertising industry and combined effects of the evolution in media technology and in the business networks of the industry. All the main industry actors, various agencies and like, their customers but also the suppliers acknowledge the profound change in the context and are, more or less actively, coping with consequences the changes have for their key business relationships. While the perceptions among the operators (all four agencies in our study) differ, their understanding of what is going on seems to converge, but there are notable differences in how they actually handle and intend to handle the changes. Both the way to interpret the changes going on and the ideas regarding how to cope with the changing context is influenced by the past development (history) of the four companies and the actual position they have acquired within the business network both in relation to customers and various suppliers and consequently on the competences and resources they have developed and mobilize through other partners. That of course is most pronounced in case of the incumbents like Create and Medag. In particular Create has developed a certain position that has retail clients as main customers and has acquired and controls the key resources and competences necessary to serve the specific needs of these. But, also for the relative new-comers SPOT and the C&L their intentions in the market and attempts to cope with the changing context reflect the experience and position acquired. However, all the four businesses tend to have their own interpretations and ideas about the ways to cope with the changes in the industry.

In all four cases the perceived urgency to react seems to be related to the pressure from customers. Impression is clearly that the change in business networks of the four companies is always customer-led. Media customers are generally aware of the challenges of adaption to the new media and are themselves struggling with reaching their customers, and many of these feel uncertain about how the opportunities and threats that the diffusion of new media among their customers open. The absolute new-comer C&L seems to be sensing some pull on the customer side as much as the long-

time incumbents like Create and Medag and perceives as equally urgent to address customer concerns. The incumbents in particular have based their business on some of the feature of the traditional media – as media planning in the case of Medag or including the production of communication material in the case of Create. They are now struggling to adapt to changes in technology and have somewhat different ideas about how to exploit the new possibilities. Not surprisingly they tend to attribute more importance to the changing new media technology. The newcomers, in particular C&L but also Spot, apparently are more concerned with the change in the business networks and specifically the shifting behaviour of the potential customers. They are clearly aware of the new opportunities opening in the market. The perception and interpretation of what is going on in the four companies reflect the concern with how changes are going to affect they earned in the business.

The four companies vary a lot in terms of ways to react to the perceived changes in the business network and media technology. The incumbents, Medag and Create are concerned with their existing customer and try in various ways to adapt and to extend the content of the current offerings to embrace also the emerging digital media. However this path too seems not an easy one. They tend to address in particular the issue of pacing the substitution of the media competences and are aware of the dilemma of cannibalization of the previous and new service offering. While both Create and Medag invest to acquire the ‘new media competencies’ they appear to struggle with integrating these into more global communication solutions. Both companies had to address the problem of credibility of their “digital media competence” with the traditional customers as their perceived identity and image was rooted in the specific competences on the traditional media.

It is probably not surprising that the relative newcomers feel less the burden of past strategies and accumulated resources and know-how; their customer base is less significant and consistent. Both Spot and C&L appear primarily concerned with developing new customer relationships and reckon that the changing industry opens various possibilities. Both, but in particular C&L, appear convinced that there are good opportunities to offer services of communication consultancy and assistance to communication strategy in all its (traditional and less traditional) components. SPOT tends to broaden its customer base out of the traditional clients in the food industry to other clients, but, despite systematic effort and considerable investment, the task turns out to be more difficult than expected. The new-comers face the need to invest in relationship development. It is very

evident in the Spot case where the need to invest is made explicit and the management action is rather systematic. Consequently both SPOT and C&L tend to avoid being perceived by the potential clients as only new media competent and their main offering appears to be supporting clients in developing integrated communication strategy that blends the old and the new. It is made rather explicit in the C&L case, where founders consciously avoid being associated with any of the emergent new digital solutions in the conviction that several such businesses in the industry only had rather short life-cycle (e.g. web-design, social media handling etc.).

For both the new-comers and incumbents the interpretations and strategic intentions translate into a need to acquire, control and mobilize certain resources through a set of ‘partners’ who permit to mobilize competences and resources required to put the strategies in place. As result of differing interpretations and reactions to changes, the advertising industry appears highly differentiated and heterogeneous. Some of the established traditional agencies that tried to convert to web agencies without the necessary competences are slowly fading out; others have in different ways acquired the new competencies and continue to prosper. Numerous, small and newly established web agencies do not have the necessary connections and credibility to work independently and, as a consequence, stay fairly small, fail or are taken over to become a branch of an established agency. What can be seen is a myriad of different, more or less effective and economically viable business models that co-exist and keep evolving in the industry.

6. Conclusions

Our study illustrates the efforts of the single businesses to maintain and develop a position within the network as the network is changing. The study shows how the business network keeps emerging out of the interaction processes among the businesses as these strive to develop and maintain their positions, acting on partial knowledge and dependent on others’ reactions (Ford et al., 2010). The technological change (in our cases from traditional to digital online media technology) has radically transformed the features of the advertising business network but, contrary to what one could expect, in a non-linear way. Those that seem to cope best with the changes are not those who focus strictly on the new technology (in our case those riding the “digital” media) but those who have interpreted the change with a balanced approach embracing the new media connecting and integrating it into the existing. For both incumbents and newcomers there are opportunities to find a place in the new advertising business. Technology is a major variable in changing the network it does not appear to

determine the position of a business in the network, rather, what determines the single business position is developing a commercial use of the technologies among the related businesses. The network is always in motion as new opportunities are uncovered and keep emerging, but at the same time there is also a remarkable continuity and ‘path-dependence’ in how the network and business models evolve. The single individual positions are always result of the past interactions (even for the newcomers) and the position is always specific and unique for every business despite apparent similarities among some of the businesses. As a consequence the network is a set of unique positions and relationships without any conceivable state of equilibrium.

The position acquired by a single business in the network implies a particular horizon that affects the perceptions and interpretations of possibilities and liabilities that the business faces. The specific position within the network also determines the resources and competences available within companies and those that can be mobilized through the set of customers, suppliers and other parties that the business is related to. Position that a single business acquires in the business network is a valuable asset but also a liability as it inhibits certain development paths and enables others. The network positions of the businesses are interdependent and acting under uncertainty and inertia in pursuit of contrasting development paths explains the emerging opportunities and keeps the network ‘in motion’.

For the single business coping with change in the business network always involves change in the key business relationships both with regard to the content of the single relationships and with regard to the portfolio of relationships. Relationships that at one-point in time have been beneficial for development within the network can become a straightjacket that burdens the further development of the business in a network in motion. Technology and related skills are important but the actual market performance of the single business is determined by development of effective business relationships and related relational investments (La Rocca & Snehota, 2014).

When developing effective business relationships businesses are never in full control and always act on limited and partial knowledge. Since relationship development cannot be ‘designed’, it always involves a certain amount of experimenting. It is never enough for the individual business to acquire new resources and competences and to try to build new activity patterns providing solutions to customers. All the different actors – suppliers, producers and customers – learn gradually about

new possibilities and develop their approaches all along (Hacklin & Wallnöfer, 2012). Developing a relationship requires recognition, concessions and consent of the counterpart which makes it dependent on counterparts' perceptions of the 'usefulness' of the relationship. Relationships are not result of one side's intentional action. Business relationship development largely depends on how others perceive and make sense of a business and its activity and consequently how identity and image of a business is established and managed. Given the unavoidable uncertainties in relationship development 'narratives' among the actors in business network tend to play an important role. Reputation and references are important to partners in new relationship and existing relationships. The newcomers need to enter, or rather to be admitted, to the pre-existing network with its inertia and resistance to change but also the incumbents face the problem with the acquired identity and image when coping with developing and adapting the existing business relationships. In every business relationship two different and often rather contrasting views of the context and effective solutions are confronted and connected and mutually condition the future development.

As companies' positions in business networks are unique and determinant of resource control and position, also business models of the companies are, and must always be unique, idiosyncratic, products of the past and interdependent. Connectivity of business relationships and interdependences among businesses need to be understood because of the impact these have on the business models of companies in business networks. In developing a business model the key business relationships play a pivotal role because in such a context business models are unique outcomes of tinkering and experimenting with solutions that permit development of effective business relationships rather than result of purposeful design. Indeed purposeful business model design is an illusion and ability to act without full knowledge in interaction with business partners is crucial.

What a business can do and cannot do is contingent on its position in the business network and the related business model. Possibilities to develop and change the business models in a certain direction are based on the current model. Business models are interdependent and the model of a certain business is conditioned by business models of those it relates to in its focal business network, which is to those of the suppliers, customers and other partners. Because change in business model implies change in image and identity which can be problematic, fully unilateral development is impossible. There is a liability of the incumbents who often have distinct and strong

identity and image among their business partners; while the new entrants have to experiment even more, they have the advantage of not bearing the “burden” of a strong established image and identity. In a context in motion a fluid and weak identity and image can be an advantage.

There is no ground to assume that a business model is per se more effective and yielding better performance than any other. Very similar models can lead to widely different outcomes and effective economic and developmental performance is often result of widely different business models. In the same way as network positions are interdependent so are the business models interdependent and the actual connectivity is critical in the continuous development and maintenance of a business model and related outcomes. What matters in a context in motion is the development process rather than its structural features of the business model. Process variables like resilience, interaction capability and ability to orchestrate a narrative, commitment to learning and mindful experimenting appear to be central in effective business model management and should be explored in a future research on the topic of business model management in business networks.

While businesses cope with the motion and changes in the business network and adjust their business relationships in order to prosper and survive they are contributing, singularly and collectively, to produce change and keep the network in motion. Relationship investments and interaction capabilities of businesses, rather than a certain enabling technology and related skills appear thus the critical factor of economic and market performance not only at a single business level but also for the dynamics of business networks. Given the centrality of coping in and with business relationships, we need to learn more about how actors make sense out of network positions and business models and keep interacting with other actors (Sosna et al., 2010). Useful business model development should therefore build on an understanding on the connectives of firms and how changes in business models take place in interaction with other firms in the network.

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