NETWORK INFLUENCE ON INTERNATIONAL MARKETING STRATEGY,

INVESTMENT BEHAVIOUR AND EXPORT DEVELOPMENT :

A STUDY OF INDIAN INDUSTRIAL EXPORTS.

- S.Ramesh Padmanabhan.

It is generally recognized that the expansion of exports has positive effects on the state of a nation's economy. Developing countries are placing increasing emphasis on high value added industrial exports, targeted at developed country markets, in a bid to emulate the high visibility success of the Pacific rim economies.

Currently, a paradigm shift is occurring in the field of marketing. Comparative advantage deriving from lower factor costs is decreasing in importance. Firms from developed countries are focusing on building long term value enhancing business networks as a source of competitive advantage. This is best summed up by Philip Kotler (1991) as

> "...*Marketing started out as an analysis of how commodities are produced and distributed through an economic system. Subsequently we became interested in distribution channels themselves and then the functions marketers perform. What I think we are witnessing today is a movement away from a focus on exchange - in the narrow sense of transaction - towards a focus on building value laden relationships and marketing networks...*"

The network paradigm differs markedly from traditionally used models of marketing strategy, especially in the field of industrial marketing. Traditional models have emphasized the role of market structure in determining the competitiveness of firms. Centralized control over scarce resources, through vertical integration is postulated to reduce uncertainties, create synergies and economies of scale.

The network paradigm, while acknowledging the importance of market structure, holds that industrial markets are characterized by networks of stable, long term relationships between firms. These networks, comprising large sets of interconnected exchange relationships, handle not only the physical flow of goods but also act as conduits of marketing information and technology. Networks are thus postulated to generate the benefits of vertical integration without the associated costs.

Research on the domestic and export marketing activities of firms in five Western European countries has been the basis for the evolution of the network paradigm. The effect of such networks has been stronger in certain non-western cultural settings, such as the *"Keiretsu"* of Japan.

Almost all previous studies based on the network paradigm have focused on interaction between firms located in developed country markets. The current study focuses on Indian firms exporting industrial products to those country markets where networks have been shown to play a predominant role. The objective of such a focus is to determine the extent to which Indian exporters have established stable, long term relationships with their customers.

A three step methodology, comprising a pilot study, a large scale mail questionnaire survey and validation case studies, has been adopted.

In the pilot study, five firms were analyzed. Three were exporters of automobile components to the German, North American and British markets respectively. Two were exporters of industrial castings to the US and Japan. Schedule structured interviews with the Chief Executives and/or Export Managers, regarding their export activities were conducted. The pilot study indicated strong support for the applicability of the network paradigm in the context of Indian industrial exports to developed country markets.

Based on the review of related literature and the results of the pilot study, a model was formulated to explain the mechanism which generates stability of buyer-seller relationships in industrial product markets. This model postulates that

(a) The complex nature of industrial products necessitates a high density of information exchange between the buyer and seller firms;
(b) as a result of product complexity and the resultant information exchange, both the buyer and seller firms make adaptations in their products, production processes, quality control etc, in an effort to match the requirements and resources of the firms;
(c) such adaptations represent relationship specific investments. These relationship specific investments represent exit barriers to the current partners as well as entry barriers to new firms, thereby generating stability of relationships;

A mail questionnaire survey of Indian industrial exporters yielded responses from forty six firms from all over India. Multivariate analysis techniques, incorporating confirmatory factor analysis and structural equation modeling and employing special software was used to test the model described above, using data from the mail questionnaire survey.

The data supported the hypothesis that adaptations by firms are attributes of specific relationships and also that the density of information exchange has a causal effect on the extent to which such adaptations are made.

As a third step, case studies of two firms were conducted : One, exporting machine tools to the German market and the other exporting components to the British market. Data was collected through in-depth interviews with the Chief Executives and the Exports Managers.It was found that these firms were successful in establishing stable, long term relationships with their customers, in environments characterized by high technology and high degree of competition. Marketing strategies were influenced by the high degree of interdependence between the firms. Major investments, in each case, were relationship specific rather than "market driven", thus raising switching costs for both partners. The networks of the customers also generated export development benefits in the form of reduced entry barriers into developed country markets and acted as conduits of marketing information and production technology.

These case studies represent successful implementation of strategies based on the network paradigm. A window of opportunity is being created by rising costs in the Pacific rim economies. Indian exporters can exploit this strategic window, by leveraging their cost advantage as an entry mechanism and then establishing themselves in developed country markets by adopting strategies based on the network paradigm.

* * *