

THE ROLE AND THE IMPORTANCE OF BUSINESS RELATIONS AND INFORMAL NETWORK IN THE OPERATION OF SME*

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For the members of small and medium entrepreneurs one of the possible break out points is the integration in a dominant branch of industry. Such a carrier relation results in a special business situation influence into the general business or marketing strategy of small and medium enterprises. This new and specific situation has also great impact on those input business information which re-evaluates the potential role of the business relations.

B2B markets, SME, business relations, marketing and value

In My Dissertation, I Would Like To Present The Opportunity And Importance Of Forming Long – Term And Stable Business Relations Among Those Hungarian Small –And Medium Size Companies (Small And Medium Enterprises, Features Of Marketing Activities Determining – Determined By The Relations – In Operation Of Small - And Medium Size Companies.

In our days, the effective realization of the central – east – european small- and medium - size companies' business and marketing strategies, which is happening in an economical environment, changed in bases and rather complex. These tendencies generating changes – among others – the joining of the mentioned geographical region to the European Union, the effect of the fulfilling globalization and the trend of the geared technological development.[5.]

So this complex environment can be considered recent, put the regions' contractors in front of new challenges that require the position - specific reinterpretation and innovative application of business and marketing approach.

In company's sphere, the appearance of network economy was one significant transformation of the last decade. In our days, we can regard a wide sphere of company cooperations, from strategic associations to transporter networks. Different – sized companies take part in these relations, but particularly the forming and maintaining of successful and profitable cooperations is the matter of life and death for small- and medium – size companies.

The vertical networks made up of one (or some) corporate enterprise (as integrator) and the Collectively Joined Companies (CJC) organized around this. In this case the most typical appearance form is the so – called transporter networks, in which the main stress is put on product – flow. In case of such „seller – customer networks”, companies’ activities are built upon each other, realizing with this the advantages coming from both measure profitability and elasticity.

In my dissertation I mean under the „small - size company” concept – according to the law of XXXIV., year 2004 – those companies in which the whole number of employee is less than 50 person, its annual net income is equivalent in forint with at most 7 million euro, or its balance – final sum is equivalent in forint with at most 5 million euro.

1. FORMATION AND SIGNIFICATION OF BUSINESS RELATIONS

The business relation, in every case, means relation between two organizations, which formed for that the participants do things collectively and in contact with each other. As a result of this, they do and establish such things that they couldn’t do alone. [8.] It is typical that the business relations can assume experienced repeating character in course of time. Interaction between two active parties characterize business relations. The development of relation depends on the sources and acts of seller and customer. [8.] Interactivity means that the participants mutually consider each other in order to reach in this relation their own planned goals. [8.] Business relations mean for companies the relation with their environment. The purchase of necessary sources happens through business relations formed with transporters and the income originated from sales of the company realizes in business relations formed with customers. So business relations have an important role – in both way – in conforming company’ profitability and efficiency, and influence especially the functional, market and through these also the financial performance of the company.

Collectively Joined Companies (CJC) functioning in vertical networks and in business relations, can realize the following advantages resulting from the membership

It provides possibilities to (indirectly) join to national markets.

- The Collectively Joined Companies have partners from the beginning, who urge their development.
- Benchmarking – like learning processes can be presented.
- We can see multiplicative effects.

- The success of transporting companies motivate the other Collectively Joined Companies to develop and become a transporter.
- Financial intermediaries also finance more gladly Collectively Joined Companies who have relations with corporate enterprises.

It is therefore clear that entering the organizational market and successful work there does offer development potential to SMEs. The position of suppliers may even be a dynamizing factor of the sector, as a result of which the small- and medium-sized enterprises may become an important source of the increase of domestic GDP. It is to be noted, however, that these advantages and positive consequences are at present only potentials, rather than realities, for the SMEs. In order to make these potentials become a reality, a sustainable system of business connections is to be created. In this system of connections certain corporate competencies such as market-orientation, customer satisfaction, and the importance of strategic development, are given an absolute priority, supposedly because of the pressure from the side of the customers. These competences, although they are absolutely relevant to the competitiveness of the companies, are usually among the weak – or non-existing – points of SMEs. A range of serious research programmes indicate that the strong side of Hungarian small- and medium-sized enterprises is production, whereas strategic approach and long-term planning are not among their most prominent characteristic features. Similarly, they are not very strong in reacting to changes in their business environment [2.]

It is also to be mentioned that an important, even determining feature of organizational markets is technology. In making the Hungarian companies wishing to become suppliers of the organizational markets able to meet the requirements in quality, and in making them capable of continual technical development, the large companies as buyers may help a lot, as they require responsible corporate attitude and instigate an increase in performance. Later, a successful and mutually beneficial business relation may even develop into a symbiotic connection.

Symbiotic marketing comes into being between individual companies or parts of companies that mutually exploit the potentials of growth offered by the synergy.[1.] A symbiotic marketing strategy, successfully applied, supports the basic abilities of the partner companies, generates the expansion of choice, increases the selection of sizes, utilizes the synergic connection between the products and bridges the gap of meagre resources [12.]

In my opinion the companies that intend to become suppliers must possess certain corporate potentials that enable them to connect to the network of suppliers and to meet the requirements of belonging to such a system. In other words, it is crucial to see how a

company is able to meet the requirements of establishing new business connections, of maintaining and operating these connections, and how it is able to exploit its margin in competitiveness that are potentially available to it.

Such competences may include those that help the company in entering into new business connections, the ability of organizational learning as the skill necessary for launching and maintaining innovation. All this knowledge may come from other market organizations, or from the integration of utilizable experience or know-how of other market actors. Another important competence is that of the readiness for specialization. Specialization, in turn, enables the development of key competences that competitors are unable to easily imitate, so such competences reduce the replaceability of the company concerned. In this way, the company becomes a potentially more important supplier for the customer. Further important competences may include the culture of cooperation, as well as the readiness to start new connections, flexibility, and the readiness to offer services tailored to the needs of the customer.

2. BUSINESS CONNECTIONS AND CREATING NEW VALUES

The processes of creating value include the conversion of the company's resources into products for the consumer [3.]. Creating value is one of the key terms of present-day business literature and practice. The chain of values [9.], the proprietary value [10.], the customer value [7.], are notions that determine business philosophy today. The difficulty – narrow cross-section – in the process of establishing and maintaining a business relations is the necessity for both partners to produce value indirectly to themselves and directly to the partner at the same time. Generating value as an organizing principle in the mission, and a pattern of activity in the practice, of the company, is therefore looked upon as a summary of several successful corporate competences. Within these competences, the marketing activities should be shaped and developed with the new value always in the focus.

3. THE CONNECTION BETWEEN GENERATING VALUE AND MARKETING

The application of marketing as a modern business philosophy and way of thinking, together with its means and methodology, lays the foundations of, and assists, value generating processes a the company.

The definition of corporate competence according to Narver and Slater (1990) – includes that market-orientation is a "coordinated utilization of interfunctional resources in order to produce higher customer value" [6.] A close look at this definition makes the value generating function of marketing unmistakably clear. Getting acquainted with the preferences of the customers, producing goods meeting the preferences and making these goods available to the customer are the cornerstones of business marketing [8.]

Inter-organizational marketing, as a highly complex branch of general marketing, is not separable from the system of notions related to business relations. One of the most important characteristics of inter-organizational marketing is that the customer of the supplier, or of the company that intends to be a supplier, is an entire economic system, a large organization. This absolute characteristic feature induces special consequences at several fields (e. g. purchasing attitude, customer satisfaction, planning marketing activities) and also creates a special context for the adaption and implementation of marketing philosophy.

Therefore, the enterprise must realise its value creating strategic objectives in this specific medium, which is widely different from the consumer market, and establish the customer company's satisfaction through the specific realisation of the marketing activities. This activity will be of a different and specific type even for the reason because the standard directions potentially usable at the consumer market can be applied to a smaller extent.

4. THE MARKETING ACTIVITIES

4.1 The Product Function

A characteristic feature of these organisational relations is that each customer demand can be considered as specific, unique, as a consequence of which the product rather appears as a variable depending upon the customer's demands than as a predetermined product range. [13.] Since the 1980s, a typical product procurement strategy also influencing the production has appeared as "reverse marketing".

Accordingly, the till then traditional customer monitoring attitude has been replaced by a more proactive, more initiative approach, on the basis of which the customer has the required goods produced in accordance with exact quantitative and qualitative parameters. The accelerated technological development and the special and high expectations of customer companies generate the highlighting of the R&D activity. The enterprises that are able to fulfil the requirements can ensure their position as suppliers and are offered a potential

opportunity for the specialisation, for the manufacturing of innovative products having the highest added value possible. This is important also because the escalating innovation pressure generally shortens the life cycle of the products.

At present, there are only few SMEs possessing any own-developed and well-marketable innovative products. However, being suppliers may orient them towards getting to know and applying high-technology trends.

4.2 The Price Function

As it has already been mentioned above, the supplier company (also) must withdraw its revenues and profit through the price paid by the presumably satisfied customer, which at the same time increases the company's value. This means that the formation of the price activity is a question of strategic importance to the supplier company since, among others, it turns out here to what extent it can be considered of value creating type for the business relation.

The substance of the EVC (Economic Value to the Customer) price formation model also used at the consumer markets is that the price must be formed according to the observed customer value. [4.] In this event the value means the balance between the utility offered by the product to the customer (in our case the proportion in which the supplied product is involved in the formation of the final utility of the final product) and the amount of money paid for it. [11.]

The model takes into consideration the integration of the added value offered to the customer into the price, and places the actual price between a minimum and a maximum point. The condition and potential opportunity for applying the method is that it can be applied well if it is not used in the case of mass production and mass sales but in the event of a price agreement with a customer or a closed clientele.

4.3 The sales channel

It can be observed that getting into supplier networks requires the fulfilment of very strict conditions. Certification by known quality assurance systems is a basic requirement here as well, and companies aspiring for the supplier status also must adapt themselves to the production system of large companies with their supplying systems.

In most cases this can be solved by adapting and applying the JIT system and the electronic order entering and customer relations systems. The relevant incurring costs, "learning" to use

the systems and exactly apply them mean another challenge for SMEs since the success of production greatly depends upon the accuracy of suppliers.

4.4 The promotion activity

The basis and communicable elements for the promotion activity of SMEs acting as suppliers can be specified by the effective realisation of other activities. The effective, long-term and qualified serving of a good-famed customer company laying high expectations can provide prestige value and a distinguishing feature. Naturally, one must take advantage of the opportunities resting in such an image transfer; however, the significance of the communication activity pursued at the organisational markets cannot be overestimated as certain surveys state that this factor affects the customer companies' decision about the selection of partners and purchases to a smaller extent.

Summing up, it can be concluded that for small and medium enterprises gaining access to the organisational market and establishing a business relationship has a potential opportunity, whose utilisation offers the enterprise measurable and sustainable competitive edges. Nevertheless, such utilisation of opportunities cannot be realised without some "access", which needs several company competences, too. Among these, commitment to establishing and maintaining business relationship, entrepreneurial attitude leaning to strategy preparation, flexibility, innovation skill and the priority of mutual value creation can be mentioned in the first place.

Obviously, the supplier position is not the only possible alternative for the actors of the Hungarian SMEs but the economic and social tendencies of today clearly indicate the relevance of this alternative. As a criticism, we should mention that the capacities of SMEs operating as suppliers can be occupied by the professional satisfaction of the customer company's orders to such an extent that it is unable to effectively compete in other market segments.

However, the supplier's role may result in such developments of the attitude, competence for the supplier companies in possession of which they can act competitively and effectively in other economic relations as well.

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