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Grigorova V., PhD, Chief Assistant Professor of the Department of Marketing, D. A. Tsenov Academy of Economics, Svishnov, Bulgaria

INTERFIRM INTEGRATION AS A KEY FACTOR FOR THE EMERGENCE OF GLOBAL DISTRIBUTION NETWORKS

The challenges of modern economic environment stimulate the emergence and development of business alliances, some of which go beyond national markets and enter the global business space in the form of networks. In the sphere of distribution, global distribution networks are formed, which carry out business activities through partners from different countries, achieving common strategic goals and each of them benefiting. Based on the derived core features and principles of how distribution networks operate, this article presents the author's own definition of their global dimension. Besides, viewing integration processes in economy as a key factor for the formation of such interfirm networks, the article systematizes the historical stages of their distribution development. An emphasis is also placed on the various forms of manifestation of these networks and the synergistic effects for the participating partners. By clarifying the specifics of global distribution networks, the paper highlights their importance as an emanation of the modern development of integration processes in global distribution.

Keywords: distribution, distribution networks, integration, global distribution networks.
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Григорова В.П.

МЕЖФИРМЕННАЯ ИНТЕГРАЦИЯ КАК КЛЮЧЕВОЙ ФАКТОР ВОЗНИКНОВЕНИЯ ГЛОБАЛЬНЫХ РАСПРЕДЕЛИТЕЛЬНЫХ СЕТЕЙ

Вызовы современной экономической среды стимулируют возникновение и развитие объединений фирм, часть которых в виде сетей выходят за рамки национальных рынков и входят в глобальное бизнес пространство. В сфере распределения формируются глобальные распределительные сети, которые совершают хозяйственную деятельность через партнёров из различных стран, достигая общие цели и получая выгоды.

Основываясь на полученных базовых особенностях и принципах действия распределительной сети, в настоящей работе представлено определение их глобального измерения. Кроме того, учитывая интеграционные процессы в экономике как ключевой фактор в формировании таких межфирменных сетей, систематизирована история их развития в распределении. Особое внимание также уделяется различным формам проявления этих сетей и синергетическим эффектам для участвующих партнёров. Проясняя особенности глобальных распределительных сетей, их важность подчёркивается как эманация современного развития интеграционных процессов в глобальном распределении.

Ключевые слова: распределение, распределительные сети, интеграция, глобальные распределительные сети

Григорова В.П.

МІЖФІРМОВА ІНТЕГРАЦІЯ ЯК КЛЮЧОВИЙ ФАКТОР ВИНІКНЕННЯ ГЛОБАЛЬНИХ РОЗПОДІЛЬЧИХ МЕРЕЖ

Анотація: Виклики сучасного економічного середовища стимулюють виникнення і розвиток об'єднань фірм, частина яких у вигляді мереж виходять за рамки

національних ринків і входять в глобальне бізнес простір. У сфері розподілу формуються глобальні розподільні мережі, які здійснюють господарську діяльність через партнерів з різних країн, досягаючи спільні цілі і отримуючи вигоди.

Грунтуючись на отриманих базових особливостях та принципах дії розподільної мережі, в даній роботі представлено визначення їх глобального виміру. Крім того, з огляду на інтеграційні процеси в економіці як ключового фактору у формуванні таких міжфірмових мереж, систематизована історія їх розвитку в розподілі. Особлива увага також приділяється різним формам прояву цих мереж і синергетическим ефектів для партнерів, що в них беруть участь. Прояснюючи особливості глобальних розподільних мереж, їх важливість підкреслюється як еманация сучасного розвитку інтеграційних процесів в глобальному розподілі.

Ключові слова: розподіл, розподільні мережі, інтеграція, глобальні розподільні мережі

1. Specifics of the global distribution networks

The science of networks in economy views the distribution network as a type of marketing network created by business organizations – participants in distribution channels that carry out joint activities united by a common strategy or goal (Grigороva, 2017, pp. 67-68).

According to the generally accepted definition, inter-firm networks are “market formations created in different ways and often comprehensively, with varying degrees of closedness, varying structures of the strong relations within them and varying degrees of formality and informality” (Hudson, 2001). On this basis, distribution networks are built and work according to certain compulsory principles that apply to networks as a whole: trust; lack of hierarchy; freedom in relationships; volunteering; equality; independence; time division; teamwork; sharing risk, resources and conditions for distribution; presence of a focal firm; common goals; cooperation; synergy; dependence of each partner on the actions of the others.

From a functional point of view, such networks are built by integrated organizations whose purpose is to carry out distribution processes related to transportation, supply and realization of industrial and consumer goods (services). In terms of structure, they are atomistic, formed by ‘electrons’ – business organizations attached through cohesion to a ‘core’ – a focal firm. The relations between these elements represent channels in which information, investment, knowledge and personnel involved in the distribution process flow bidirectionally. Building mutual trust and acquiring shared value by all partners are the key factors for their development.

During the global economic crisis, the process of formation of distribution networks has intensified along with the spatial polarization of the ‘offeror-user’ relationships and the desire of distribution organizations to reposition in line with customization. The process of forming Global Distribution Networks (GDNs) from internationally integrated distribution organizations operating under international logistics standards is accelerated.

The essence of the **global distribution network** can be defined as *a market structure built by hierarchically integrated organizations of different countries, diverse in scale and activity, sharing market-oriented philosophy and activity, located on one or more levels along the value chain, of which one can dominate, maintaining dual relationships with one another and achieving a common distribution strategic goal*. Its dual relationships are generated by import and export processes and are expressed in two-way transactions within the national economies and the world economy. Such networks develop their product portfolio as a set of distribution and logistics services delivering finished or intermediate products so as to maximally satisfy

the demand of consumers in individual regions or the world market as a whole along with the strategic potential of these products.

GDNs are formal according to their nature; strategically or incidentally 'ad-hoc'; functionally organized; fragmentary, complete or networked; according to size: small, medium, large and hyper networks; according to topology: linear, circular, star-shaped, grid, hybrid; according to their life cycle: emerging, growing, stagnant, dying; branch and non-branch (mixed); according to the structural change: renovating, existing and new; of high or low openness for new members.

The GDN's strategic goals can be diverse: reducing operating costs; restructuring supply; optimizing distribution and service flows, transport routes, transport fleet; improving the servicing of global and regional markets; entering new markets; changing the network structure and/or strategy; increasing the added value for network participants, etc. GDNs can apply different regional strategies depending on the national specifics of the individual countries. On the one hand, they stem from the process of company integration in distribution and, on the other hand, they are introduced in new national markets with established competition or in new global network structures with various strategic goals. This means that such networks have a dual role in terms of competition – they arise as a means of combating it but at the same time they stimulate it. In general, GDNs are an emanation of the modern development of the integration processes in the global economy.

2. Development of integration in distribution and GDN

Modern integration, understood as a pooling of resources and activities of organizations, is essentially a process of restructuring through brand integration, sales channels and communication concepts (Lozanov, 2008, pp. 46-47). As a result, synergy effects arise when companies with unrealized potential and inefficient management enter into a successful management network and achieve cost reductions, profit growth and other unforeseen benefits. Distribution networks achieve the so-called trade synergy understood as a synergistic effect of several key activities (Genova & Kotsev, 2011, p. 8):

developing and maintaining a common distribution channel (common network) with shared management;

equipping and using a common warehouse;

'related' sales of the full assortment of the product line;

joint marketing activities.

The main benefits for the partners of this synergy are extracting added value, moving and supplying the right products at the right place and at the right time, production and managerial experience.

The integration process in distribution leads to the formation of vertical and horizontal network structures. Of the vertical ones the most common are clusters, subcontracting, franchising and holdings. They are based on system relationships between organizations (resources, experience, distribution channels), their geographical proximity (when they are regional), lifecycle, low operating costs, and access to partners' technologies and know-how along the value chain. Of the horizontal distribution networks the following are popular: clusters, strategic alliances, joint ventures.

Historically, the development of the integration of distribution organizations has gone through several stages (adapted after Spekman, 1996, p. 8):

- **Buying centres**. They were formed in the 1970s in companies with B2C relationships. The Purchasing Manager, as a member of such a centre, makes decisions to buy together with other employees that he/she has formal and informal relationships with. These relationships are

understood as a related influence within the buyer company and between it and the seller, and the transaction contract does not necessarily require cooperation. This issue is addressed by authors such as Sheth (Sheth, 1973), Webster and Wind (Webster & Wind, 1972) and others, who develop models of organizational behaviour when making a decision to buy. Stern and Sheer prove that in marketing channels, marketing resources can be more efficiently targeted at members of the buying centre, and the relationships between marketers and buyers are strengthened (Stern & Sheer, 1991).

- **Selling centres.** In the 1980s, the interest was directed towards the 'seller-buyer' dyadic relationships, which, affecting some other participants too, formed a network (in the automotive and aerospace industries, where very diverse companies at different levels in the production process created a network of sub-relationships of suppliers). Spekman and Johnston (Spekman & Johnston, 1986) defend the principle of equality of selling and buying centres (in 'just-in-time' systems and in B2B trade).

- **Distribution partnerships.** A flexible organizational form, originated in the 1990s, connecting seller and buyer with strong collaboration relationships. These relationships and the degree of closeness are the subject of analysis by authors such as Sriram, Krapfel, Spekman (Sriram, Krapfel & Spekman, 1992) and others. The related results of trade partnerships, such as satisfaction, profit and low costs are dealt with by Mohr and Spekman (Mohr & Spekman, 1994). There is also a growing interest in **distribution alliances** that eliminate the differences between firms and effectively manage relationships as a whole set (Spekman, 1996, p. 12). These are studied by a number of authors – Iacobucci, Hopkins (Iacobucci & Hopkins, 1992), Anderson, Hakanson, Johanson (Anderson, Hakanson & Johanson, 1994), etc.

- **Distribution networks.** At the beginning of the 21st century, networks were the focus as new organizational forms with constellations of firms bound through many relationships, great trust among the participants and challenges to management. Larson proves that they are a necessity for small start-ups (Larson, 1992). The degree of centralization, connectedness, and other indicators that describe the network structure are studied. Borch and Arthur argue that networks consist of fine, delicate relationships that are hidden behind the material aspects of exchange relationships (Borch & Arthur, 1995). Over the same period, the theories of **global distribution networks**, global supply chains, outsourcing, global selling chains, industrial clusters, buying and selling chains, trade unions, subcontractors, transnational corporations and multinational companies were launched. Authors like Bizzi and Langley (Bizzi & Langley, 2012), Berliner, Regan Greenleaf, Lake, Levi, Noveck (Berliner, Regan Greenleaf, Lake, Levi & Noveck, 2015) studied these issues. The goal of the merged companies in GDNs is to achieve positive synergistic effects for both the whole network and individual partners. This requires flexible management of the relationships between the participants, standardization of transport, logistics and other joint distribution activities, focus on key clients for the network, achieving economies of size and scale. The effectiveness of GDNs depends on national trade policies, the presence of protectionist market measures, the speed of logistics, technical standards, import tariffs and quotas, export subsidies, currency and capital flow policies, the macroeconomic environment and other barriers.

In the international space, integration is manifested in various **forms** of GDN. Such are the *subcontracting chains of suppliers* in the American post-war clothes manufacturing business. They combine sub-suppliers at three levels: (1) a core of well-trained suppliers with higher prices and a diverse user base; (2) training providers working for the leading firm and meeting its quality, flexibility and cost; (3) peripheral suppliers (Palpacuer, 2000). The eastern *keiretsu* and *chaebol*, bringing together retailers and transnational corporations on a family basis, are of this type. They represent a group of enterprises with institutionalized relationships

and unified control that operate irrespective of the industry, concentrated around a bank and incorporated into a trading company, with interacting managers, joint resources and strategies, collective actions and strong social relationships (Achrol & Kotler, 1999, 155). A successful modern form is the *international distribution outsourcing*, driven by using outsourced competences in distribution, transferring certain risks, financial savings, improving productivity and/or quality, and freeing company resources for its core activities. GDNs in tourism like large global aviation distribution systems such as Galileo International (American and European airlines), Abacus (Asian Airlines), Worldspan (Delta airlines, TWA and Abacus), Amadeus (Air France, Iberia, SAS, Lufthansa) and Sabre (American Airlines). GDNs are usually formed by multinational companies that, as a focal company, dominate through formal relations with regional and foreign distributors.

All in all, there is a process of switching from local to global distribution networks in the integration of global distributors, facilitated by the process of liberalizing trade regimes and removing trade barriers, for example within the EU. The two main criteria that encourage GDNs to enter national economies are their global strategies and the size of national markets.

Conclusion

Under the conditions of increasingly globalized markets, business organizations in the distribution sector are faced with the striving for high efficiency and achieving competitiveness at a global level. Distributors who carry out international activities in the global networks can achieve good competitive positions in the long run. Therefore, the challenge facing the national economies, including the Bulgarian one, is to develop regulatory mechanisms which are to facilitate the process of entering and operation of the large foreign capital. Conditions for attracting GDNs have to be created, which will operate on our territory, as well as for retaining them and for developing programmes that will stimulate the incorporation of Bulgarian business organizations into such networks. This will not only lead to a growth of the Bulgarian economy but also to a growth of its role as a distribution and logistics centre with high development potential at a global level.

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