Articles

Market-oriented Logistics in Bulgarian Trade and Manufacturing Enterprises

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Summary:

Logistics activities are important for the success of a business organization. They are a continuation of many marketing processes, including analysis of markets, product development, communication and sales. Logistics must ensure that material flows in an efficient way across the supply chain, conforming to customer requirements at reduced costs. To this effect, it is essential that enterprises should have a high level of market-oriented logistics because this is the main way to achieve business goals. The article explores the level of market orientation of logistics in Bulgarian trade anmanufacturing enterprises and reveals the main tendency in the country. To achieve this goal, the research is focused on three main research categories - the relationship of the companies with their suppliers and customers, applied supply chain management practices, and packaging activities. All of the categories are explored in depth. The results and discussion are based on a theoretical overview and the analysis of quantitative data collected by a survey conducted in the 2014–2015 period. The main conclusions reveal that the market orientation of the logistics in Bulgarian enterprises as a whole is comparatively weak, and some differences between the sizes of enterprises could be found, notwithstanding that customer focus is put at the centre and considerable progress has been achieved.

Key words: logistics, supply chain management, market orientation

JEL Classification: M11, M19

1. Introduction

There are certain well-known means by which an organization can improve its competitiveness. First, it is necessary to analyse the market and to focus on customers' needs, and then to develop the parameters for the right product for them. These activities are common for the marketing department. After that, it is essential to ensure that the materials flow across the supply chain at a reduced cost, which is where logistics activities within the supply chain come into play. Logistics can be defined as the process of planning, implementing and controlling procedures for the efficient and effective transportation and storage of goods, including services, and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements (CSCMP, 2013). Logistics is related to marketing, because the firm's logistics system is responsible for the physical movement and storage of goods (Coyle, Bardi & Langley, 1992). Marketing and supply chain management integration is hence a partnership between those that define

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demand with those who fulfil it (Jüttner, Christopher & Baker, 2005). Marketing is the activity, the set of institutions and the processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large (AMA, 2013). Also, the ability to grow and expand market share depends on the ability to attract and hold the most successful customers, and the real key to customer-focused marketing lies in the organization using its logistical performance capabilities to enhance the success of those customers (Bowersox, Closs & Cooper, 2002). It is also noted that a greater market-oriented logistics function improves both logistics performance and organizational performance, revealing the importance of the role of non-marketing functions in creating and maintaining a market orientation (Fugate, 2006). These arguments define the goal of the research: to explore the level of market orientation of logistics in Bulgarian trade and manufacturing enterprises.

2. Logistics and marketing

Unfortunately this collaboration is not so easily realized in practice, because it involves a complex process of interaction between marketing and logistics functions, which are tightly linked across the business organization and are sometimes in competition. An integrated approach which provides appropriate conditions for the appearance of a positive synergistic effect is possible and expedient, both in the interactions of subsystems and in the interactions of elements within the scope of each subsystem (Praude & Šalkovska, 2010). Finding the right approach will give the company a competitive market position and a sustainable profit. This ideal combination does not always happen, because the problem is huge and the appropriate solution depends on too many factors: maybe that is the reason that there is no single formula for market success. Success can be described as passing a Rubicon that contains customers, markets, products, costs, sales targets, material flows, etc. The complexity is high and there are multiple solutions, and each one has its own strengths.

Let us look at market success. There are different types of product: for some of them (like Fast Moving Consumer Goods, or FMCG), it is necessary to deliver and store them at the point of sale before they are bought; others (like home appliances) are more expensive and usually have to be delivered and installed after they are paid for. For the first type of product, success lies in ensuring enough availability at a competitive price, and support of brands through advertising. It is no secret that a customer will switch between brands if there is not enough availability of the brand they want. This explains why some companies with products of average quality but better logistics are more successful than those with better products but less well developed distribution. In this case, the time and place utility is the key success factor. For the second type of product, the accent has to be on the after-sales service—delivery, installation, warranty, etc. These products are more complex to sell, the process of buying takes longer, and customers are more careful in their decisions. Also, price is not the strongest factor. In this case, the seller needs more after-sales logistics competencies to convince the buyer to choose them.

To further explain the link between marketing and logistics, we can add another aspect to the problem, which is the price of the product. In their research, Baumol and Ide (1956, cited in Syam & Bhatnagar, 2015) reveal that "when marketing researchers look at benefits and costs, they look at them from the perspective of consumers" and this is to be expected. During the marketing research, the company will define the parameters of a successful product and what attributes it should have. One of the parameters is how expensive the product will be: that is to say, the price level at which it will be bought by the target segment. The trouble with most cost-oriented approaches is that they make little attempt to take account of what the customer is ready to pay (McDonald, 1989). At this point, there is a possible conflict, because this final price is a challenge for the logistics system and it is not sure that such a price is feasible. It is normal that the customer will want to satisfy his needs at a lower price, and so it is clear that a product with a lower price will sell more units. It was pointed out 30 years ago that one of the competitive strategies is cost advantage (Porter, 1985). In this case, the minimum price limit has to be found and this point depends partly on the logistics and their capabilities. It is important during the development of the product to clearly define the customer price. If there is a gap between the desired and the possible price, then sales will not correspond to the expected levels. There is another point of collaboration within the supply chain that links marketing and logistics functions according to costs (Ma, Wang & Shang, 2013): the manufacturer needs to decide on the wholesale price and the level of quality, while the retailer needs to make a decision on the marketing effort level and the sales margin. The solution is based on a properly predefined relationship. This is important because of the possibility of conflicts across the supply chain caused by non-synchronized differences (Vodenicharova, 2015).

The presented evaluations are examples of the important of the market orientation of the logistics functions. In reality, is not so easy: organizations function in a dynamic environment and they are part of a bigger system—the supply chain—which starts with unprocessed raw materials and ends with the customer using the finished goods. The supply chain links many companies together (CSCMP, 2013). The existence of differences between logistics and supply chain management is well studied (e.g. Larson & Halldorsson, 2004). For our research, more important is that the marketing concept, market orientation, relationship marketing and SCM are not separate. Rather, they are inextricably intertwined (Min & Mentzer, 2000) and together they can be used to develop a competitive advantage. The logistics interface with market orientation can be found in different areas. The problem is studied by focusing on the importance of firm-wide integration, and it is also noted that external integration deserves examination (Daugherty et al., 2009). It is therefore important to study the relationships between companies in the supply chain: one of them is selling to the other, and customer service and satisfaction can be measured, with particular importance being placed on the final customer. A well designed facilitation process for establishing the appropriate level of partnership with other members of the supply chain network can have substantial benefits (Lambert, Knemeyer & Gardner, 2004). The second factor is related to the costs. It could be noted that supply chain management aims at finding optimal management solutions for cost reduction and enhancing end customers' satisfaction (Rakovska, 2009). This collaboration is important, because one of the most significant paradigm shifts in modern business management is that individual businesses no longer compete as solely autonomous entities, but rather within their supply chains (Lambert, 2008). It means that there is a change in the focus of the modern business from the separate organization to the supply chain of which it is a part. Supply chain management is more than an attempt to reduce costs: it is transforming the nature of competitiveness and is a way for the enterprises involved in the supply chain to be more than partners and to react as a single organization. This is common in modern marketing, which aims at maximization of the relationship instead of a single transaction (Kotler, 1994). The third area of focus is packaging. This does not only refer to the consumer pack (primary packaging), but also necessitates examination of the process across the distribution channel and packaging for the needs of the processes of distribution, transportation, warehousing, handling, etc. It is no secret that the distributor's needs are a factor in additional packaging.

The importance of the market orientation of logistics functions is also well-known in the context of the supply chain management. "Researchers have often suggested that the integration of interdependent functions improves performance. However, studies that empirically support this association are scarce—particularly in the marketing/ logistics area" (Ellinger, 2000). Later, Mentzer, Stank and Esper (2008) provided a framework that can be used by academic journals as a classification for segmenting the articles that they publish and research can be categorized based upon the scope (Figure 1).

In this platform, there are some alternatives for examination: 1) functional level, 2) within the organization, and 3) across the supply chain. This classification is used to focus the current research on external integration and relationships in the supply chain.

3. Methodology

The data for the research of the problems related to market orientation of logistics in Bulgarian enterprises was collected by conducting a survey. It covers only the main areas of collaboration inside the supply chain. The scope is manufacturing and trade enterprises that operate in the country. Using mainly Likert scale questions (1–5), the questionnaire covers the following areas: 1) relationships of the company with the suppliers and customers; 2) supply chain management practices; and 3) some basic moments in the packaging.

Some of the questions were compiled using the concepts presented in previous

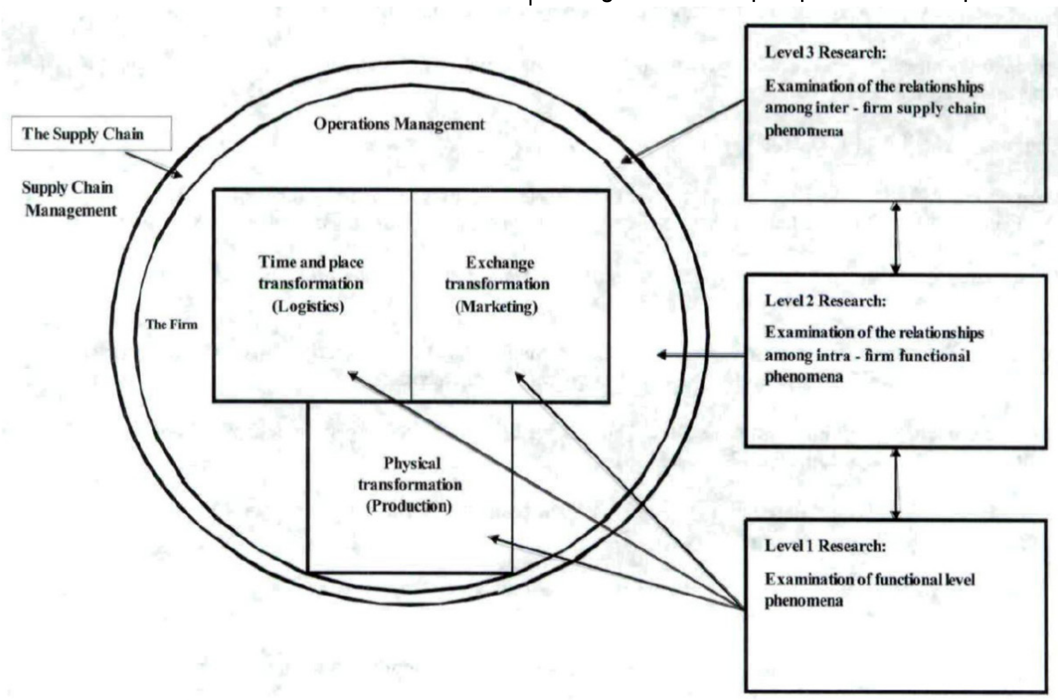

Fig. 1. A hierarchy of research focus
Source: Mentzer, Stank and Esper (2008)

researches. Rawwas and Iyer (2012) researched marketing skills and the logistics infrastructure of small and large wholesalers; Rakovska et al. (2014) connected with the development of logistics in Bulgarian enterprises, which comprises a part of continuing research for the past 13 years; and Dragomirov (2014) conducted a monographic research about information systems within logistics.

The company's relationships with its suppliers and customers may be presented by means of a number of assessments, which are categorized into three groups, namely, suppliers, organizations and customers. In fact, they include the organizations in the supply chain from the point of view of the studied organization. Such an approach was used by Rawwas and Iyer (2012), who used a questionnaire of approximately 30 statements to prove certain hypotheses, including that the performance of small and large wholesalers was positively associated with marketing skills factors. Notwithstanding that the number of questions and the expanded meaning put into them is high, it becomes possible to expound a summarized view of the status of interrelations between Bulgarian trade and manufacturing enterprises and their partners in the supply chain.

Applied supply chain management practices are important because they are related to the possibility of cost reductions and the ability to offer the product at the price desired by the customer. Logistics and supply chain management can provide a multitude of ways to increase efficiency and productivity and hence contributes significantly to reduced unit costs (Christopher, 2011). This is one of the main advantages of supply chain management. For measurement of the level of integration of the external supply chain, some of the variables noted by Rakovska (2011) are used: they are the content of the exchanged information and knowledge within the supply chain, shared purposes, received feedback, logistics technologies used, etc. The last area is connected with packaging processes and the relationship between organizations. In the study, the focus is on various basic aspects of the packaging, including collaboration with the other supply chain members.

The data for the survey were collected using the open source online research tool LimeSurvey,[1] after which different statistical analyses were carried out.

4. Results and discussion

The survey was sent to more than 500 enterprises and about 90 answers were received during the duration of the research from November 2014 to March 2015. The proportions of the respondents to the survey in terms of trade (wholesalers and retailers) and manufacturing are nearly equal. Their size could be described as 41.1% micro and small enterprises, 37% medium, and 21.9% large, according to the international rules for defining small and medium enterprises. The structure of the responses was as expected and it is similar to other researches of logistics in Bulgaria.

The most significant indicator of the market orientation of the logistics is the supplier/buyer relationships between companies in the supply chain. Within the supply chain, everyone is a customer of the next supplier along the chain, and a higher level of partnership presupposes a better functioning of the chain as a whole. Generally, the sample of organizations assess themselves as very flexible with reference to their customers. The average assessment is almost 4.50 and it shows that the focus of activities is concentrated on the customer. On the other hand, this is a sign that the marketing paradigm is widely accepted in these organizations, which in turn leads to the consequent integration of the support functions, including logistics. This is also

[1] LimeSurvey Project Team/Carsten Schmitz (2015). /LimeSurvey: An Open Source survey tool /LimeSurvey Project Hamburg, Germany. URL http://www.limesurvey.org .

shown in practice by the high assessments of stocking adequate levels of inventories (4.19), efficiently moving goods within the warehouse (4.21) and managing logistics processes effectively (3.92). The only negative high assessment is for the determination of the sales price on behalf of the seller (4.14) upon the condition that the customer negotiates the same. Definitively, the aims of the companies do not include transaction relationships, but long-term ones. This is also characteristic of the customers, who look to the future and require such relationships (4.19). Obviously, the customers value the efforts of their suppliers and support their mission, but they do not undertake more active efforts in this direction. One of the important activities for maintaining good relationships is the information exchange on demand forecasts, which is unsatisfactory for both the suppliers and the customers. As regards the organization suppliers, the highest marks are awarded for 'supporting us, whenever necessary' (3.89), their 'readiness to do everything to keep us as a customer' (4.02), their 'readiness to provide to us everything according to our unique needs' (4.06) and to 'provide us with powerful brands' (4.19). The results are presented in graphic form in Figure 2.

(1 – completely untrue; 5 – completely true)

As a whole, the environment may be defined as suitable for market-oriented partnership when performing logistics functions within the supply chain. Unfortunately, the optimum level for the above has not been achieved, but the foundations have been laid. The customer is placed in the centre of relationships and attempts are being made for the effective

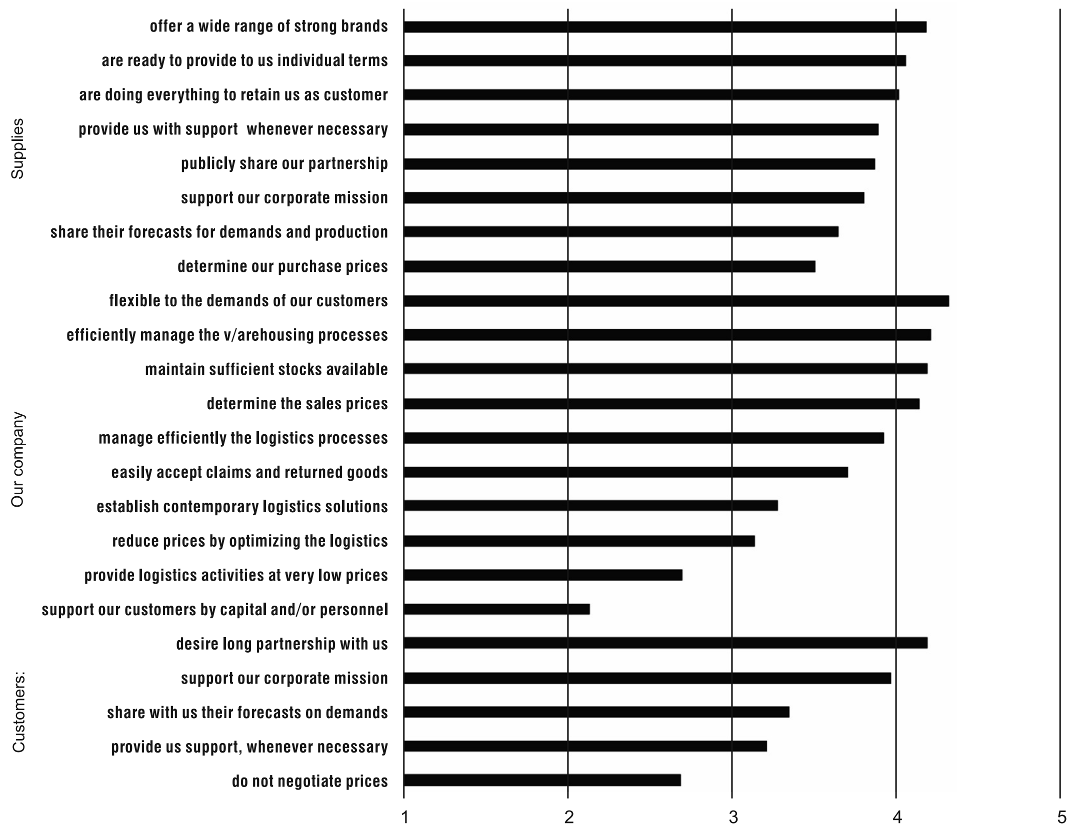

Fig. 2. Statements related to the organization's activities within the supply chain

satisfaction of his needs, which in any case are not fulfilled by providing to him products and services at low prices. That is certain because of the risk that is being studied in some researches—namely, that the experts/departments of logistics are mainly focused on internal measurement values instead of being focused on the needs of consumers (Šalkovska et al., 2014). This shows a probability of divergence of the objectives between the two functional units and is a potential possibility for more in-depth research of this issue.

Another point of interest in the study is the difference in the assessments of the enterprises depending on their size. Summarized results are shown in Table 1. As a whole, the widely accepted opinion that the smaller enterprises are in a more difficult position is confirmed. They have to be more flexible with their customers, while due to their smaller trade turnovers, their own suppliers are not reacting to their needs in the same way. Though a small margin, the assessment of flexibility drops from 4.36 for the small enterprises to 4.2 for the larger ones. Simultaneously, the suppliers show more readiness to provide support whenever necessary to the larger enterprises (4.27) than to the medium-sized ones (3.80) and the smaller ones (3.78). The situation is similar to the assessment of suppliers, who are 'ready to do everything to keep our company as a customer': 4.47 for the larger enterprises, 4.00 for the medium sized ones and 3.77 for the smaller enterprises.

(1 – completely untrue; 5 – completely true)

A part of the logistics process can be assessed by means of the levels of available stock and warehousing activities. In this case, a divergence is also observed in the replies of the enterprises, depending on their size. The data indicate that the larger the company, the more significantly the efficiency of the warehousing processes and the maintenance of adequate stocks grow. The replies of the larger companies are very specific, with the standard deviation in both assessments varying within the range of 0.35–0.54. Another important issue is the involvement of departments in communications with suppliers and customers. As a whole, there is a trend for proper distribution, which has been noted by various researches related to logistics during the last nine years in Bulgaria. In the large and mid-scale enterprises, the

Table 1. *Average marks awarded to the statements with reference to the organization*

	Large enterprise	**Medium sized enterprise**	**Small and micro enterprise**
Our company is flexible to the demands of our customers.	4.20	4.35	4.36
Our company efficiently manages the warehousing processes.	4.81	4.04	4.00
Our company maintains sufficient stocks available.	4.87	4.15	3.90
Our suppliers provide us with support, whenever necessary.	4.27	3.80	3.78
Our suppliers offer a wide range of strong brands, which is important for us.	3.94	4.48	4.11
Our suppliers are doing everything to retain us as a customer.	4.47	4.00	3.77

logistics departments are more focused on the suppliers while those responsible for marketing are focused on the customers, while this is not true for the small and micro enterprises.

The next parameter that is assessed is the possibility for cost reduction, which is represented by several sub-parameters. The first is the exchange of information in the supply chain, which can be characterized in various ways. In this case, it is represented by the differences in communications with suppliers and customers. The content of the information exchange in priority fields with customers and suppliers is presented in Table 2.

Table 2. *Contents of the communications with suppliers and customers (priority fields)*

Suppliers	Customers
• Exchange of information on delivery terms • Exchange of information on prices	• Exchange of information on prices • Exchange of information on delivery terms • Coordination of programmes for improving customer service

The various companies unanimously assess as a priority communications with their suppliers and customers in terms of exchange of information on terms of delivery and exchange of information on prices. As regards the third priority in communications with suppliers, no specific field could be defined. In communications with customers, programmes for improving customer service are highlighted, which again indicates the companies' aim of achieving market orientation. Unfortunately, the companies within the supply chain are generally more focused on short-term initiatives than on long-term ones. This is revealed by differences in the assessments on availability of common goals. In reply to the question related to the existence of common goals, the highest mark was awarded to shared operational goals with customers and suppliers: the marks exceed the critical neutral limit, but are inadequate. The average assessment of the availability of common operational goals with the customers is about 4.00 for the mid-sized and large enterprises and 3.68 for the small ones. The average assessment presents lower marks for the parameters used and the methodology for measuring activities by the enterprises (with customers, 2.73; with suppliers, 3.31), as well as for the existence of similar competitive weapons (with customers, 2.70; with suppliers, 2.71). Here, again, the larger enterprises are more focused on different supply chain initiatives than the small ones. The high marks were awarded for the existence of feedback in the supply chain. Notwithstanding whether we are talking about customers or suppliers, there is a high degree of information exchange on feedback in the presentations of every one of the parties. Both average marks are greater than 4.20 at low variation. This is an indication of the created good environment for implementing various marketing practices.

Another question ascertains the level of use of various information systems and technologies, which predetermines to a certain degree the organization's efficiency. As a whole, the use of various systems to aid business processes is a growing trend, both as regards suppliers and customers, as well as inside the organization (Figure 3). High marks were awarded to the use of shared IT resources on the internet (cloud computing), and to the use of web catalogues. This indicates, first, the innovations in the organizations and their efforts to seek working software solutions at an affordable price and, second, their willingness to develop their business in an internet environment. The organizations are definitively inclined to implement innovations,

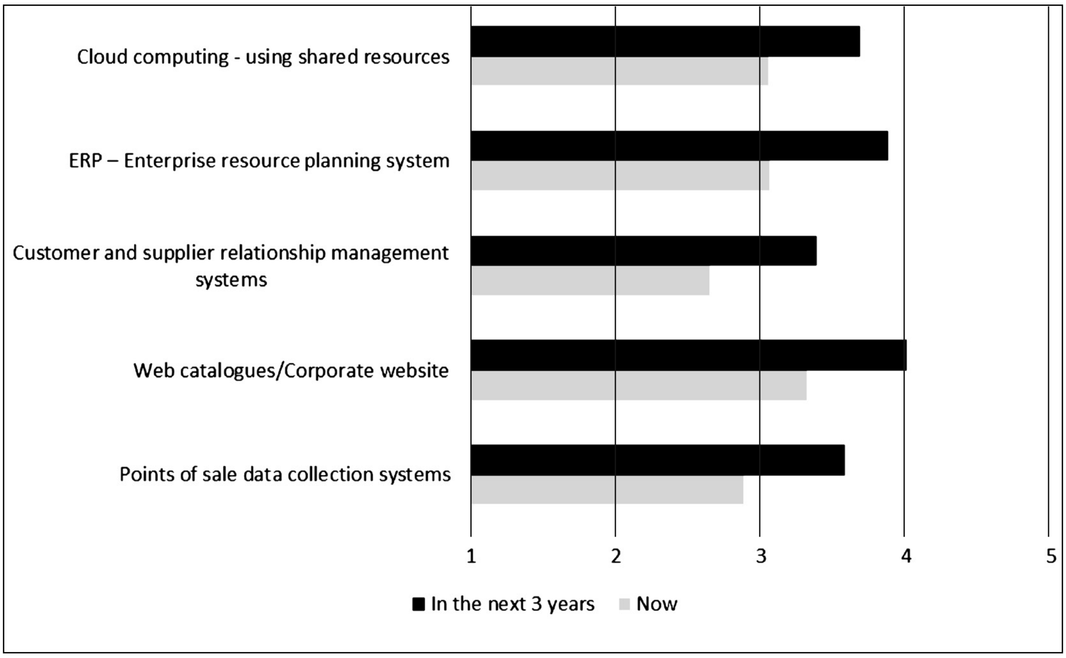

Fig. 3. *Average results in reply to the question: "What is the level of integration of the following systems and technologies in your organization?"*

as well as to use professional products jointly with other organizations, and to receive professional support at a good price.

The results expose a significant difference between the size of the enterprise and the level of usage of informational systems and technologies. In general, the smaller enterprises have a lower level of implementation than the larger, and the same is true for the intention to implement. Most of them are significant at $p<0.05$. The average assessment for the usage of ERP systems is 2.29 for the micro and small enterprises, 3.19 for the mid-sized and 4.27 for the large ones, while for the usage of cloud computing, average results are 2.50 for the micro and small enterprises, 3.10 for the mid-sized and 3.94 for the large ones. This confirms the previous statement that the information systems should be used as powerful tools for facilitating logistics management and thus increasing competitiveness, but their current state in Bulgarian firms is inadequate (Rakovska, 2014). The high values for future use of various systems and technologies within the supply chain presupposes better coordination of the individual organizations, including their individual logistics functions in relation to market needs in the field of customer service. It is well-known that interest in ERP systems is high, but there is an important momentum behind catalysts accelerating cloud ERP growth (Columbus, 2015) and this global trend will influence the Bulgarian practice.

An important common ground for the market orientation of logistics functions is packaging activity. The creation of packages which are simultaneously impressive and convenient for the purposes of distribution aims at this purpose. The problem is presented by several groups of questions: 1) the main aims of the packing; 2) interrelationships between the functional units; 3) communications between suppliers and customers. The summarized results are presented in Figure 4. The leading targets

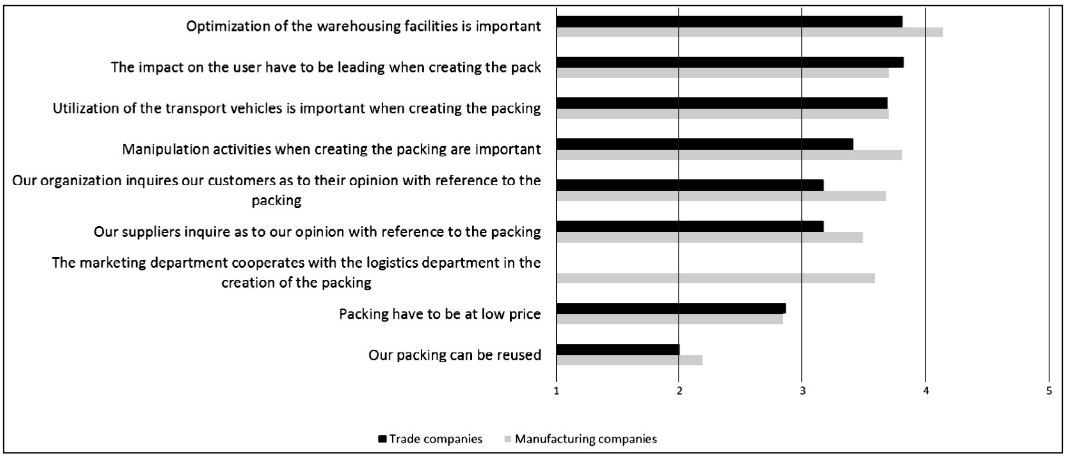

Fig. 4. "How true are the following statements for the packing process in your organization?"

of the organizations are primarily related to optimization of use of the warehousing facilities, with the need for creation of impressive packing and optimization of utilization of transport vehicles occupying only second place. As a matter of course, this classification is provisional to a certain degree, since the differences are negligible, varying around an average value of 3.50. A more significant fact is the awarding of high marks in relation to materials flow management—i.e. logistics—as compared to those related to marketing. In various ways, the organizations place the accent on logistics. This is due mainly to the weak involvement of the marketing department in the packing process, with only 13.7% of the organizations indicating that packing activities are within the scope of this department, while those indicating the involvement of the production department are more than 50%. In the small enterprises, this cooperation is especially weak (2.52), which is partially explained by a number of factors based on their financial capabilities. The interrelationships between the two departments at the processing organizations can be defined as inadequate for each organization which claims to have a marketing approach.

(1 – completely untrue; 5 – completely true)

Another significant moment in the process is the inquiries of the suppliers and customers as to their opinion on the packaging process. The current results indicate that this is rather neutral (being neither true nor untrue), and the trading enterprises in particular are not involved enough in the process of packaging. One of the reasons is the role of the organization in the supply chain; another is the weak cooperation between the departments. If the departments responsible for the marketing and the logistics do not cooperate sufficiently, there cannot be a synchronization between the packaging and its integration into the sales process. It is not surprising that the strength of the correlation between the marks awarded for "The marketing department cooperates with the logistics department in the creation of the packing" and "Our organization asks our customers' opinion with reference to the packing" amounts to barely 0.32 (significant at 0.01). In addition to the conclusions reached, it is possible also to point out the low marks awarded to the reuse of packs.

5. Conclusions and future works

The results indicated in the above article provide a basis for a number of significant conclusions on the interrelationships between marketing and logistics in Bulgarian trade and manufacturing enterprises.

- As a whole, the market orientation of logistics activity performance in Bulgarian companies is comparatively weak, notwithstanding the considerable progress achieved and the created prerequisites for the same. It is an important fact that orientation towards the customer is placed at the centre and this is supported by the participants in the supply chain. There is also a required minimum information exchange between the companies, as well as in the field of basic information systems and technologies. It is important to note here that the targets should be not only to improve the efficiency of the logistics processes, but also to achieve a better balance with the marketing policies, which are related to the customers. All of this is fundamental to the supply chain management. Unfortunately, this process can lead to conflict within the organization and therefore requires additional research within each organization.
- The low level of integration of information systems and technologies has to be noted. The principles of supply chain management cannot be implemented without building the necessary informational infrastructure. To ensure their future competiveness, companies have to invest more actively in this area.
- The small companies are in a more difficult position than other companies. They are being squeezed by suppliers and customers; for this reason, it is much more difficult for them to achieve a higher degree of cooperation and efficiency. They have to be more flexible and more customer oriented. Methods of survival are to be firmly in the market and to make use of technical innovations.
- The packaging processes are not being performed optimally. The participation of marketing departments must be increased, not only in the design of visible aspects of the pack, but also in the design of the packages for the wholesalers and the retailers. This will help to achieve a better integration with the customers and to improve the degree of satisfaction from the packing. In addition to the above, the secondary pack will become more and more important. Simultaneously, it will be necessary to elaborate on the possibilities for reuse of the packages and implementation of green practices.

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