

**The connection of knowledge in a network distribution perspective.
MC Elettrici and Farmintesa.**

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Keywords: business- to- business services; relationship management; supply chain; S-D logic

Abstract

Recently Business to Business distribution has been undergoing a process of significant evolution.

Formerly distributors were considered as passive collectors of orders. Today distributors are more and more perceived by their customers as partners in purchases. This new role presupposes increasing investments in knowledge about the offering systems they intermediate in order to improve quality and reduce costs for the end-users, through the intermediation activities.

The interconnection of firms' activities generates, and is increased by, interconnected relationships that outline the network approach within the supply chain. The key role of relationship has been developing in the system evolution, from closed to open systems. In this context the evolution from "distribution channel" perspective to "network" cooperation in the downstream side of the supply chain has taken place. The distribution channel is responsible for serving customers with flow of all information concerning products and services. The expanding of customer requirements generates new channel opportunities also for B2B distributors, calling for an increasing customer orientation of the supply chain as a whole.

In this perspective, integration is an important process of evolution towards a logic of "supply chain networks", that actually means a transformation from loose cooperation to a higher level of internal fit (Ford et al. 1998). The next step that B2B distributors are facing is represented by the development of a service-centered supply chain management based on the network approach in order to increase the offering system value and the efficiency and the effectiveness of the chain.

The objective of this work is to investigate the strategic and organizational network perspective that characterizes this evolutionary process of B2B distribution, considering the interconnections with the new managerial approach based on value co-creation. The empirical section of the paper is based on the analysis of two cases: MC Elettrici and Farmintesa.

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1. Introduction

In a context characterised by change and complexity, B2B distributors within the supply chain can play a key role to increase offering value based on customer needs. From the beginning of the 90s significant changes have characterized *producer-distributor-customer* relationships. Within the evolution process of B2B distribution, distributors regarded as passive "collectors of orders" are becoming "partners in purchases". In this new role, distributors increase investment in knowledge about products and services they intermediate, and support their counterpart in the supply chain to share different resources and competences.

The new approach to market, in fact, is based on organized systems of "business partners". In this perspective the success of suppliers and trading partner depends on the success of the counterpart (Fiocca, Snehota, Tunisini, 2003), and the closed interaction producer-distributor strengthens the skills and facilitates the pursuit of firms' business goals (Anderson, Naurus, 1990). Relationships enable companies to cope with the need to develop and tailor offering to more specific requirements (Hakansson, Ford, 2002) and adopting a network approach the attention shifts on cooperation, complementarity and coordination (Easton, 1992).

In this context, distribution "channel" perspective evolves towards a "network" perspective especially in the downstream side of the supply chain, considering activity links developed by different actors in interconnected relationships. Thus integration becomes an important process of evolution in a perspective of "supply chain networks", that actually means a transformation towards a cooperative approach and the strengthening of internal fit. This process recognizes to value co-creation a key role in order to reach a competitive advantage.

The objective of this work is to investigate the network perspective that characterizes the new B2B distribution, focusing on activity links and their generation of "supply chain network" based on processes of value co-creation .

The paper is articulated into two parts. The first one, based on a literature review, depicts the evolutionary path towards a supply chain network in order to support a service-centered supply chain management; the second part is an empirical section based on the analysis of two case studies realized through semi-structured interview to different key informants of MC Elettrici and Farmintesa. Thereafter, the research findings and main conclusions are presented.

2. Activity links: from firm to network

Focusing on inter-firm relationships that characterize B2B distribution, cooperation becomes an instrument to reach a long term competitive position. The valorisation of relationship has been developing in the system evolution: from closed to open systems. In a closed system a firm do not depend on the environment in which it works. In open system, otherwise, internal organisation develops considering relationships with external environment in order to reach a competitive advantage through interconnection of activities.

The latest can be analysed in different evolutionary approaches (Internal, Interactive, Network) that are characterized by an increasing number of actors involved, and by a different intensity of the relationships developed. In each level of analysis we can find activities which require different knowledge, capabilities and competences characterized by an increasing complexity (from internal approach to network approach). In this perspective firms are focalized on their core competences and looking for competences of actors specialized in a service, or in more services (global service).

Internal approach

In the "internal approach" different technical, administrative or commercial activities are performed and coordinated within a company. This one can be defined as an organized grouping of persons and goods through coordinated operations that allow the meeting of different needs. Every company thus takes the form of a coordinated activity structure in order to reach its objectives. In this approach performance is determined within the individual companies, and depends on industries trends.

Interaction approach

In an “ecosystem approach” the company is a system made up by elements interconnected. The system is “dynamic”, as it is subject to changes and adjustments, and “open” as it is interconnected with external environment and external actors. The focus is generally on a two party relationship. Interaction supports resources sharing and “weak” joint actions. In the episode of relationships, product or service exchange (the core of the exchange), information exchange (considering technical, economic, or organizational questions), financial exchange, social exchange (considering that many aspects of the agreements between the buying and selling firms are not fully formalized) take place. The development of “interaction” between two companies may affect the way the two companies perform their activities and generate

Network approach

The development of long term relationships is based, and generate, the outlining of activity links characterized by high “intensity” and “specificity”. Particularly, activities can be analyzed in “vertical-hierarchical” perspective and “horizontal perspective”. In the first perspective activity links are generated by sequential and horizontal (parallel) interdependencies of activities. Parallel activities are linked, for example, when a buying company tries to influence suppliers delivering complementary products to adapt to each other (Gadde 2000). Linking activities influence the performance of firms that develop relationships. In a second perspective, activities can be complementary or similar. Activities are complementary when they represent different phases of production process. The complementarity is thus related to the sequential interdependence among activities. Increasing similarity among activities may improve economic efficiency if economies of scale prevail. Firms’ activities link a number of other activities in other companies, outlining the links interconnection. Links influence the performance of firms and are influenced by them. Activity linkage is influenced by firm’s evolution but, considering the evolution of activity linkage, this one requires a process of adaptation for firm’s activity structure. As the activity structures of two companies change over time, the interaction activities in a relationship may need to be modified and adjusted. The linking of activities reflects the need of coordination and will affect how and when the various activities are carried out. That, in turn, will have consequences for both the costs and the effectiveness of the activities. As both companies have other relationships in which activity links can be important, an activity link in a relationship “links other links” in the activity pattern.

The connections among relationships influence the process of learning, considering the transfer of knowledge embedded in products or processes and transfer knowledge in “pure form”. The more connections a relationship has, the greater are the possibilities to learn. (Hakansson, Havila, Pedersen 1999). In addition to this, actors involved in relationship play a key role in capability development and maintenance; the boundary between capabilities developed and nurtured in house and those deployed through external relationships becomes blurred (Gadde, Hakansson 2001). Capabilities explain what the interacting firms in a relationship can do for each other, the functions they will conduct and the width and importance of these functions (Ford, Hakansson, Johanson, 1986). Capabilities involve not only competence in designing and handling activities and controlling and utilizing resources for one’s own benefit, but must be considered bilaterally in relation to how activities and resources are linked to those of important counterparts (Hakansson, Snehota, 1995).

3. B2B Distribution: from channel to network perspective

In a network approach, B2B distribution involves different actors characterized by different function and interconnected among multiple relationships, considering the evolution of distribution functions.

In this context, a key role is undertaken by intermediaries that promote benefits for producers and B2b customer, coordinating multiple relationships.

A traditional intermediary offers a combination of resources acquired from various sources, realizing an own “product/service” in which the various suppliers’ products are components (Gadde, Snehota, 2001). Distributors can share the entrepreneurial risk and they can economise on the transaction and transfer costs. These conditions provide the opportunities for intermediary, considered as “distributor” (Gadde, Snehota, 2001), that can exploit the closeness to users. The distributor is dependent on individual manufacturers for developing exchange relationships with customers, but many of the middlemen as distributors continue to fulfil the assortment function and serve several, more or less differentiated manufacturers, considering that most distributors represent more than one manufacturer. The distributor who interacts directly with users stands in many cases better chance than the manufacturer to conceive a “superior offering”.

Traditionally, the perspective that characterizes distribution is focused on marketing channels and their flows (Roosenbloom, 1995), such as product flow, negotiation flow, ownership flow, information flow, and promotion flow. Through the distribution channel products and other resources can be transferred from producer to users.

In an evolutionary perspective, the “special character” (differentiation) of the product is successively developed in the various steps that together constitute the sequential chain of activities. In this view, the characteristics of a product change along the transvection as it undergoes transformations in form, place, and time (Hulthen, Gadde, 2007). A transvection refers to a single unit of action of the marketing system. This unit of action “is consummated when an end product is placed in the hands of the ultimate consumer, but the transvection comprises all prior action necessary to produce this final result, going all the way back to conglomerate resources” (Alderson 1965).

Each transformation thus changes the features of the product as it appears as a new transformation output. The transformation activities in a transvection must be "sorted" in a way that makes the transvection efficient in some respect. The efficiency of a single activity is mainly determined by the scale of the operations, as economies of scale increase with the increase of similar activities, that make use of the same resource element. In addition to this, when transformation activities are directed towards a specific counterpart, they are defined as closely complementary (Richardson 1972). This means that the product gets an identity, which is the case for customer adapted production and distribution solutions.

The organisation of a single transvection and its connections in crossing points requires co-ordination across the boundaries of several firms. This requires to move from firm perspective, to channel perspective, to chain perspective, to chain-network perspective.

In "channel separation" perspective (Bask & Vepsäläinen 1997) the selling channel is a chain of companies based on all the operations in sales activities and decisions. Channel is responsible for serving customers with flow of all information concerning products and services.

In an evolutionary perspective, that consider different actors involved in "vertical" flow, it has been outlining the breaking out of supply chain. The supply chain has been defined as "the network of organisations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate customer" (Christopher, 1992).

The "downstream" end of a supply chain network, involving manufacturers, dealers, and end-users (Yee, Platts, 2004), interests in supply chain management of "downstream" supply networks that are centred around functional and business process integration among various members of a network (Gadde and Hakansson, 1992). The classical "downstream" supply network is referred to processing and inventory centres that are linked by material transportation and storage and include an information sharing system (Robinson and Satterfield, 1998).

Furthermore the closeness or looseness of the cooperation between the firms consider the degree of integration within the relationships. The network is then seen as tighter or looser in its character. In this perspective, integration is an important change process in "supply chain networks" that actually means a transformation from loose cooperation to a higher level of internal fit (Ford et al, 1998).

Integration makes it possible to act collectively in the supply chain. The integration of a supply chain would involve information sharing, common standards, common culture, coordination of interdependent flows, joint planning, joint mission, joint product development and/or an increase in social contacts (Ludvigssen, 2000). As firms become more specialized, borders between the buying company and its suppliers tend to become blurred. Firms should consider not only the resources and activities they own, but also the resources, activities and actors they control throughout the network. Araújo et al. (1999) contend that "firm's competitive advantage resides not only within the frontiers of what it owns and controls, but also on the idiosyncratic interfaces that it develops with the firms, e.g. its suppliers".

In this framework, it has been outlined from the literature an evolution of value generation approach.

In a channel perspective, in an internal approach, value chain concept is based on value added in the firm's core activities (Porter, 1985). In addition to this, in supply chain perspective (as open system), value chains has been transformed into "value constellations" (Normann & Ramirez, 1994).

Furthermore considering that relationships exist and that there are at least two active parties in a relationship (Håkansson, 2002), value is based on co-creation process. Considering the layer used analysing business relationship (actors, resources, and activities), and focusing on activities layer, the value is generated by the links among different activities (Forsström, 2003). In a dyadic perspective the activities are referred to supplier and customer, in network perspective activities involved different actors that develop interconnected relationships.

The new strategic-organizational perspective requires a new approach in management that is based on value generated from service, service capacity, and service opportunity (Stabell, C. and Ø.D. Fjelstad, 1998).

4. The evolution towards a service-centred supply chain management (SCSCM)

Talk about supply network strategy implies the identification of the relevant issues that have to be considered in order to interpret the evolution that, in our work, especially refers to the downstream side of the supply chain.

The supply chain management has progressively stressed the centrality of the integration of a variety of functions and processes within and between organizations (Frankel et al. 2008; Mentzer et al. 2008). The objective is to provide new sources of competitive advantage, increase operating performance, offer greater value to consumers, and ultimately develop better managed organizations and interorganizational relationships (Trent 2004).

The exploration of this issue by researchers has significant potential for creating more efficient and effective supply chains (Cousins and Menguc 2006; Hult et al. 2006; Mitra and Singhal 2008; Paulraj et al. 2008).

In this perspective, the S-D Logic could represent an interesting point of view through which consider the implication, especially in the downstream side of the supply chain, that in some industries is the pivotal dimension that could allow the evolution of the supply chain as a whole. S-D logic, in fact, being coherent with tenets of supply chain management (Lambert and Garcia-Dastugue, 2006), provides a framework of interpretation of the drivers that represent the critical

issues that have to be deepened with regards to the behaviours of the actors belonging to the supply chain that allow the search of new territories of exploration.

Representing a shift in logic of exchange, this process-driven, service-centric logic provides a more solid foundation for a true transition from a traditional approach to the supply chain management, mainly focused on material flows, to a broader view of the integrated material and immaterial flows that allow the reinterpretation of the role of the actors of the supply chain and of their relationships. Service-dominant logic, at its core, represents, in fact, a shift in focus from the exchange of operand resources usually tangible, inert resources based on embedded value, to the centrality of operant resources, that is dynamic resources that act upon other resources to co-create value (Vargo, Lusch 2006).

However, many of the S-D logic propositions appear coherent with the B2B marketing literature and the IMP approach (Jacob, Ulaga 2007; Lindberg, Nordin 2007; Cova, Salle 2008). The emphasis on customer value and the collaborative process of value creation between the actors (the buyer-seller's perspective, Ulaga 2001), the co-production process inherent in the concept of customer integration (Frauendorf, Kahm, Kleinaltenkamp 2007); the progressive shift from value embedded in products to value creation in relationships (Ulaga, Eggert 2006) underline the synergies between the S-D logic and the B2B research. During the last decades, the evolution of B2B companies' offering strategies have been characterized by a different approach, more connected with service dimensions (Anderson, Narus 1999) and "customer centric perspective". This imposed companies to move downstream toward customers and to incorporate their offering in the customer's value chain (Mathieu 2001), creating an integrated solution of personalized services and products (Stremersch, Tellis 2002), consistent with the concept of SDL value co-creation.

The question is if and how this approach could contribute to the evolution of the Supply Chain Management discipline (Flint and Mentzer 2006). More specifically, Kohli (2006) stresses the opportunity to extend further the traditional concept of resource integration between firms in the supply chain through the service-dominant logic.

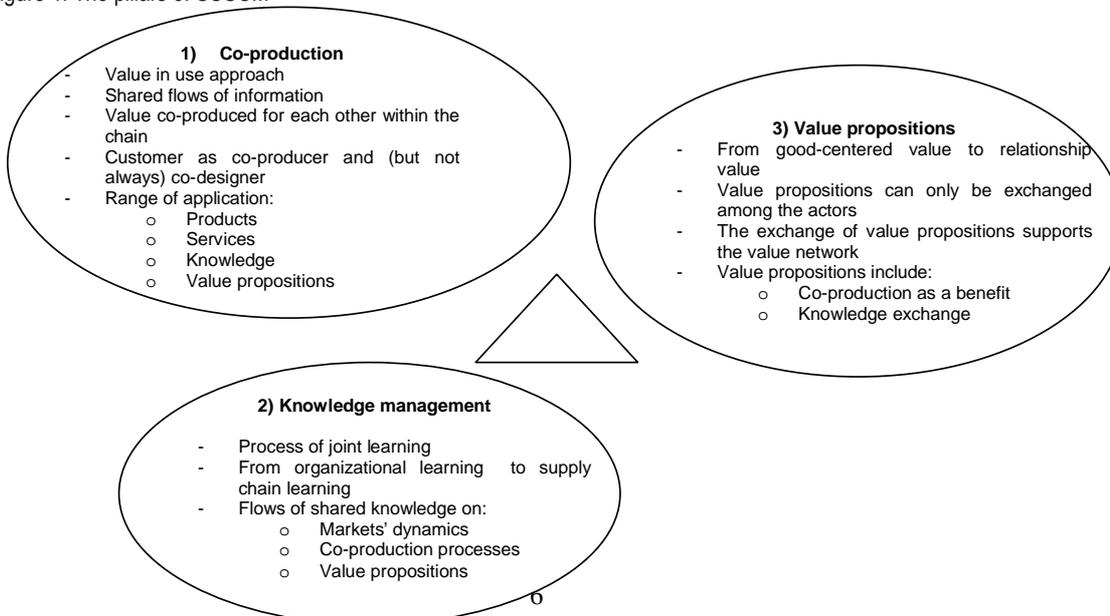
If the key role of supply chains is to support the customers' value creating processes with service offerings, either directly or through goods, the strategic mandate for an actor of the supply chain, independently from its position along the chain, is to find innovative ways to integrate the resources necessary for service provision (Ballantyne and Varey 2008). These resources may reside in the organization but also may be outsourced to other members of the value network.

Moreover, SDL can broaden the perspective to look at the B2B offering systems. We can overcome not only the product centric logic, but also the traditional view of the network as an organizational supply-side element (Windahl, Lakemond 2006; Cova, Salle, 2008): the value co-creation process forces to interpret the network as a result not only of interacting suppliers (matching a single customer's needs) but also of customers and their networks.

The concern, in a service-centred supply chain management (SCSCM), becomes the development and the integration of resources in order to create a real value network. Thus, the downstream side of a supply chain could be interpreted as a sub-part of the value network, aimed at spontaneously sensing and responding to the spatial and temporal structure of largely loosely coupled value proposing social and economic actors. The benefits resulting from an effective implementation of SCSCM strategies in this perspective derive from the integration of the three critical issues constantly present in SCM definitions (Stock et al., 2009): (1) add value; (2) create efficiencies; (3) increase customer satisfaction.

In order to pursue this objective, the pillars to work on in the SCSCM perspective could be represented by co-production, knowledge management and value propositions (Figure 1.)

Figure 1. The pillars of SCSCM



Source: Adapted from Flint and Mentzer (2006), p.140.

In the downstream side of the supply chain, these pillars assume a particular criticality since the value propositions that could be offer to final customers determine the effectiveness of the entire value network, especially when the producers are not able to manage the relationships with the retailers.

However, we have to consider that increased investment in relationship-specific assets, collaboration, inter-firm integration and knowledge sharing may not be desirable for all supply chain members.

The development of SCSCM, in fact, determines a number of challenges.

For example, not all exchange partners, especially the small retailers have the time, energy or motivation to form the type of co-productive relationship that this approach implies.

On the other hand is important to define the key actors and activities that have to be assessed in order to enhance the efficacy and the effectiveness of the SCSCM.

5. Methodology

As our objective was not to demonstrate a theoretical framework but rather to better understand a phenomenon (Dubois, Gadde 2002; Dubois, Arujo 2004), we developed a case study research. Two cases helped us to identify relevant aspects of the concerned phenomenon and to deeper understand the inter-company relations, behaviours and interactions occurring in the supply chain.

The case study method allowed data collection from the key managers of the two companies (Eisenhardt 1989; Yin 2003). These primary data were combined with secondary data gathered through companies websites and other internal documents.

The two cases selected relates to b2b distributors operating into two different industries, but both dramatically changing their offering systems according to the evolution of their markets and customers, exploiting new possibilities offered by a network organization

In the first case, the attention is focused on the process of rationalization of the whole supply chain of electrical equipment, overcoming the concept of traditional intermediation through the active construction of a complex system of relationships that can create benefits and increase the value of all the chain members, outlining MC Elettrici as "connector of knowledge." The same approach is adopted by Farmintesa, the second case that we have analyzed in the pharmaceutical distribution. Farmintesa as a buyer's group of pharmacies supports different actors of pharmacy chains. The objectives of consortium is to support the cooperation between pharmaceutical intermediate distribution companies and pharmaceutical industry provider, considering different area: marketing, logistic, IT, finance, control and administration.

The cases are elaborated through personal semi structured interviews realized with referents of two firms. The main aim of interview has been to investigate the evolution of firm's strategy focusing on activities management. The length of the interviews varied from 60 minutes to 120 minutes. The interviews included the following topics: the main steps of firm's evolution, business model, offer system, structure of activities, services providing, internal and external variables that influence firm's activities.

6. Case n.1 – MC ELETTRICI

MC Elettrici Highlights

MC Elettrici is a non-profit organization operating in the electrical retail industry in Italy: it's one of the first b2b distributors in terms of overall quantities intermediated and number of point of sales served. MC not only provides centralized purchasing on behalf of its almost 200 members, mainly SMEs, but also offers a wide range of services, from HR training to consulting (i.e. about POS restyling, marketing activities, debt collection, law consulting) that allows retailers to co-create new value that enriches their supply of products to the final market.

MC Elettrici Evolution

MC started its activities in 1999 with 67 member retailers. The original aim was to create scale economies for associated companies (i.e. rates and delivery conditions), by intermediating higher levels of aggregate demand to manufacturers and originating long-lasting relationships with the main producers. The consortium is composed of small and medium retailers that in the last two decades have been occupying a relatively weak position at the bottom of the electrical supply chain, on one side in comparison with the purchasing power played by larger competitors and the consequent imbalance in the

prices offered to customers; on the other side, also in relation with the increasing pressure played by manufacturers facing the reduction of their margins.

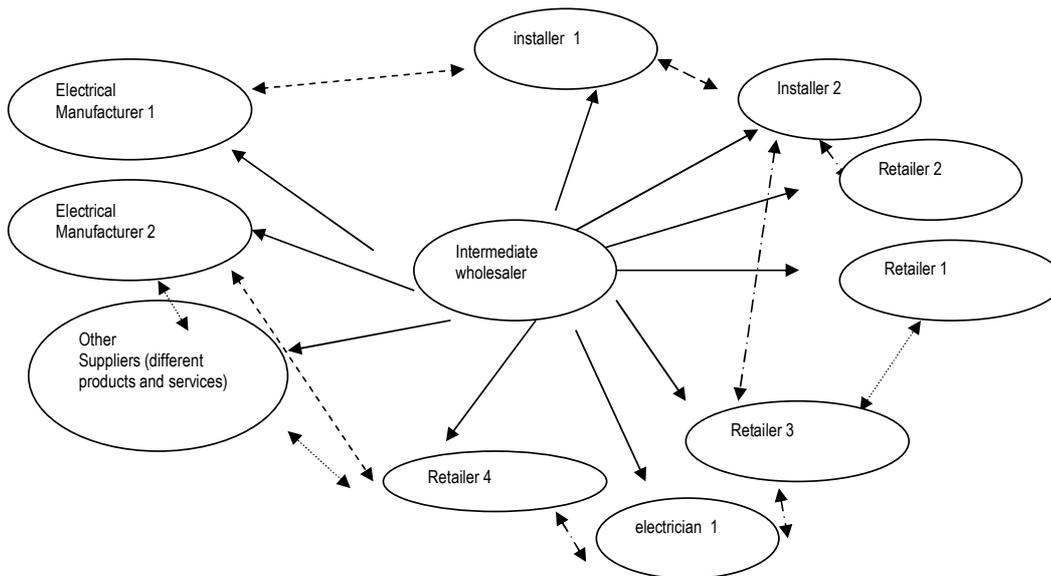
The evolution from firm to network

The MC Elettrici business model considers different kind of companies, activities, and different b2b users that are also related among them, through the marketplace. The network of competences and activities here facilitated improve the value created, enriching the supply of each actor, that can shape his own value proposition adding and revising different services and activities available, before interacting with his customers.

The main actors (figure 2) of electrical industry- chain, and their main activity, can be synthesized in:

- electrical manufacturers: production activity
- warehouse keeper: storage, management, order preparation and delivery of goods activities
- transport and logistics: transport and logistic activity
- wholesaler distributor: "handling system" activity
- retailers: sales to local professionals
- installers, electricians

Figure 2 The main actors of electrical industry-chain



MC Elettrici offering system: the co-creation process

The retailer member is very often represented by small operators, directly in charge of a store.

Even if the first and main service offered to him is the chance to "buy" from a centralised warehouse with competitive conditions and immediate availability, MC Elettrici formula is characterised by an integrated system of "soft" services that helps the customisation of standard products in personalised solutions and support the development of collaboration among different actors belonging to the electrical supply chain.

By building up a complex system of relationships, the business model adopted by MC not only gives the chance to rationalise the whole supply chain, giving advantages to all actors involved, but also guarantees the survival and independence to small retailers, otherwise destined to disappear.

However, the innovative peculiarity of this business model is not related to the efficiency and competitiveness it can assure to associated companies, but above all to the new logic underneath the project, the willingness to provide the tools to develop the expertise of SMEs: this is accomplished, first of all, through intensive training services for associated companies and their personnel. The mission is to train a professional force determined to "get in touch with the customers' needs and to solve their requests" by adding more personal and informed services than in large impersonal stores whose staff often lack in-depth knowledge of products and uses. The professional growth also goes with investments in store management training and in more sophisticated systems to control sales (ERP software, accounting, etc.)

Today the associated retailers can fill a virtual shopping trolley with products they need, by entering the MC website directly connected with a central warehouse, getting favourable conditions and prices but also a lot of different services

that can improve their work and their effectiveness in the way they meet the customers' needs. MC Elettrici intends to build a formal network of competences: the virtual marketplace was created to involve all electrical operators from manufacturer to distributor, to final installer. Thus, the marketplace is not only devoted to trading, but a plenty of related information/training advices are available. In this sense MC is gradually becoming a "Knowledge Connector", able to improve the final value the downstream supply chain can perceive and pass on to its own customers.

In particular, Mc provides:

- Services related to the core activity of electrical trading:
 - o distribution (logistics of the central warehouse, managing more than 20,000 references)
 - o selection of manufacturers, to establish favourable and long lasting business relationships
 - o definition of general levels of prices, purchasing and payment conditions
 - o central payment mechanism, guaranteeing both retailer and manufacturer
 - o online marketplace to trade also individual differentiated stock of electrical materials between single retailers and manufacturer
- Services for administration and store management
 - o IT applications for accounting and budgeting (i.e., ERP)
 - o Applications for supply management
 - o Clients evaluation and management
 - o Training to manage the mentioned tools
- Services for business management / marketing
 - o Training to improve the technical knowledge and commercial session together with new products
 - o Marketplace: to gather information by manufacturers, to share knowledge, to contact and maintain relationship with customers/suppliers, to redirect single customer for further information on products...
 - o Common brand project:
 - Decorations and set up: from corners to complete store restyling
 - Web tv (personalised contents selected by the retailers to support the installer when in the POS)
 - Category management tools

The result of the continuous process of co-creation of value with the retailers associated is represented by the recent launch of a common brand to be used for all stores: the objective is to reinforce the brand awareness in the final market, but also to support the identification for retailers in a group characterised by common quality and service orientation.

7. Case n. 2 - FARMINTESA

Farmintesa Highlights

The consortium of Farmintesa creates an integrated management of services to support members' evolution. Farmintesa consortium, that has been starting activity on management of purchases and supplies of pharmacies, has become active in other areas. These include the commercial and marketing area in which the consortium operates to supply members different services as market product information and organized local vocational training meeting. Within logistics area, Farmintesa supports member companies for assistance in the phases of new drugs and in providing an additional storage. Considering administrative and financial area, Farmintesa optimizes tools and timing of payment in order to make more effective and efficient flow of financial associates.

Farmintesa Evolution

Farmintesa was founded in 1997 as the first group of three distribution companies of interim- pharmacists, in order to differently respond to trends of European and Italian concentration. The mission of Farmintesa is identified in proactively safeguard the interest of associate providing services, becoming a privileged partner of producer, and combating the spread of monopolistic groups. Thanks to the organizational model, Farmintesa is able to bring added value to different actor of supply chain, raising awareness among pharmacists. The core activities of Farmintesa is in the distribution logistics of ethical drugs, OTC and parapharmaceutical area.

Farmintesa is among the founding members of SECOF, the first European and world group entirely owned by pharmacists. Pharmacies, according Farmintesa, in the coming years will develop high value added services. In this perspective only pharmacists "property" will have the strength to reach a competitive advantage.

Farmintesa provides value added service, to switch from trading based on price and quantity to the integrated management tools for trade and marketing, logistics, administrative and financial services.

Farmintesa offers the provision of market information related to company's products and competitors' offers. The sales force is used to promote products on pharmacy ethics in band C, SOP, OTC. There are also technical scientific meetings in the territory, with the presence of 70 pharmacists per event.

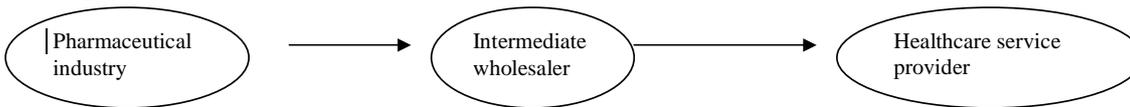
The evolution from firm to network

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- pharmaceutical industry: production activity
- warehousekeeper dealer: storage, management, order preparation and delivery of goods activities
- transport and logistics: transport and logistic activity
- intermediate wholesaler distributor: "handling system" activity
- pharmacies, para-pharmacies, hospitals, nursing homes: healthcare services activity

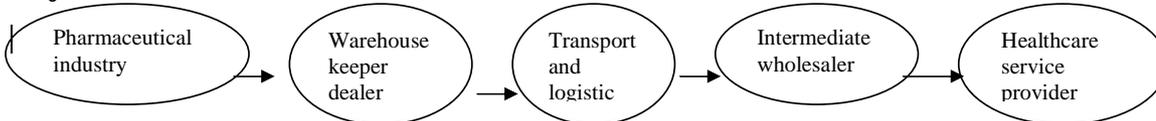
In the Traditional Pharma channel we can find (figure 3):

Figure 3 Traditional Pharma channel



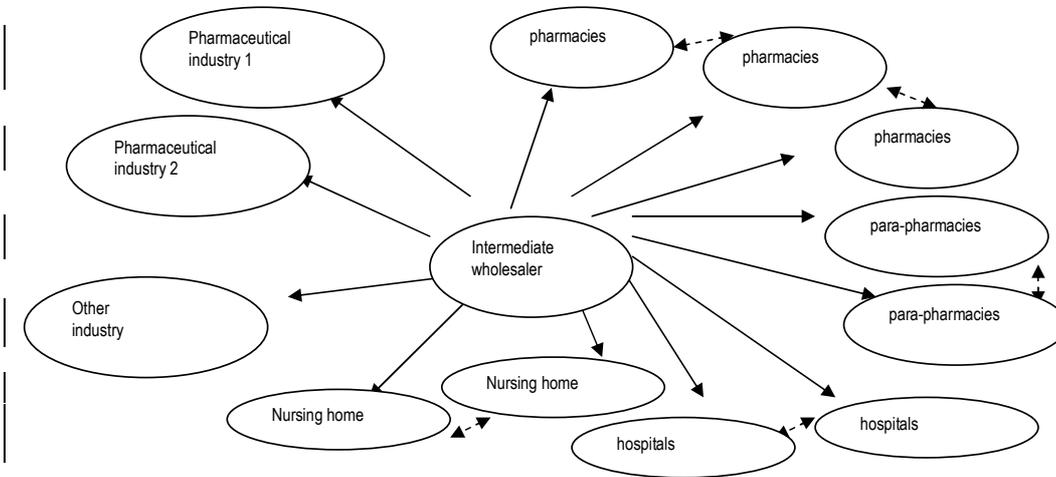
The Traditional Pharma Chain (figure 4) involves more actors:

Figure 4 Traditional Pharma Chain



The Farmintesa Network (figure 5) considers many firms, different b2b users that are also related among them.

Figure 5 Farmintesa Network



The main objective is to create an integration process of Pharma Supply Chain and support relationships among different actors.

The process evolution support an integrated logistics, also considering the automation flows that starts with automated conveyor systems using load unit containers or boxes, and has been evolved to distribution centers with orders arranged

by specialized operators (zone picking). The evolution also realizes automated picking and systems for conveying and sorting food for the delivery rounds. In addition to this, the evolution of chain is also influenced by legislative constraints and economic variables. Limitations and legislative constraints involve availability, minimum, maximum delivery time, standards of good distribution, pharmacy discounts set by law, discounts from suppliers established by law. The economic variables are referred to economic content margins, capital intensive for structural efficiency, services with high added value.

Farmintesa offering system: the co-creation process

Farmintesa, is a group of 12 pharmaceutical companies (localized in eight Italian regions), that assumes the task of promoting and safeguarding the interests of its members through a range of knowledge and services. Farmintesa is characterized by win-win agreements and business ethics. In an industry characterized by a high degree of competitiveness, in which competition takes place by chains, stores or mass market, Farmintesa differentiates its strategy. Unlike its competitors that realize merger operations in order to reach scale economies, Farmintesa operates in a consortium considering that the future of pharmacy is to provide services with high added value and that the critical success factor is to remain localized in its territory. Many companies of consortium are cooperatives created after the Second World War, strictly related to a local area. In this perspective Farmintesa is defined an "olonic-virtual" company, that take "in the center" anything that is not strategic in the territory.

Peculiarities of Farmintesa is the integrated management of different services and their customization. The main consortium objective is to support collaboration between pharmacies and firms in different areas as trade and marketing, information technology, logistics, finance, administration and control.

Farmintesa develops relationships with different actors, offering different services that enclose:

- distribution services (multi supplies, managing more than 35,000 references in stock, management drugs, homeopathy, natural products and veterinarians, delivery orders and circulars associations)
- services in the pharmacy point of sale (Pool pharmacy Intesa Pharmacy, Home Service, Sales Promotion);
- administrative and financial services (accounting for recipes, accounting pharmacies and check up the budget, ...);
- information services (Information Systems of Pharmacy);
- training services and maintenance (services of full immersion training, refresher technical science courses, travel arrangements for exhibitions and conferences ...).

Among the additional services to pharmacies, Farmintesa offers category management (for each pharmacy to redefine the exposition in the point of sale); farmintesa start up (tailored to optimize business performance overall); farmintesa ad hoc (personal advice for the repositioning of pharmacy management through a targeted approach of increasing sales); farmintesa check (analysis of prices charged by the Retail and made available in handouts for checking pricing policy).

In this context it has been outlined the horizontal network among peers. The Farmintesa Board is made up by pharmacists who have common needs. The model of property implies the presence of a "single head", high-speed processes and rapid top down logic. Its proximity to the pharmacist supports the development of a platform in which the key function reports directly to CEO.

All pharmacies are given the same opportunities, the same supports.

The services required are more personalized and linked to the areas related to the core pharmacy.

The core competences of the group are identified in distributing and managing stocks, supporting pharmacists with various services, involving pharmacists in projects of common interest.

Farmintesa is able to provide a capillary service, with many deliveries in a day, to all pharmacies in its area.

The collaboration between "peers" has supported the development of innovative projects, including the birth in July 2004 to Farmintesa Logistics Spa. This one is the second case of logistics platform in the world of pharmacy, in the European context. Companies can apply for services by FIL Spa, that directly buys from the pharmaceutical industry. The platform "in- out" allows the development of activities related to the loading of drugs lots, deadlines, "registration". The project is significant for the volumes, and other parameters such as quality and quantity. The platform will make use of new technologies such as radio frequency and integration of information flows in firms. Among the future plans, Farmintesa is working for the development of modern and sophisticated logistics.

Discussion and conclusions

The analysis realized outlines the evolution of B2B distribution and of its operators. B2B distribution is based on a system of interconnected actors performing the economic functions required to bring about exchange of goods or services.

More and more "channel" perspective evolves in "supply chain network" through the interconnection of linking activities, that influence the performance of firms and develop relationships. Complementary or similar activities, representing different phases of production process or sequential interdependence, and that are linked together, support the co-creation of value.

Investigating the “downstream” end of a supply network, as we have found analyzing the two case studies, the service-centred supply chain management adopting a relationship approach (figure 1) contributes to increase the offering system value.

Particularly, “co-production”(1) is realized through the development of relationships that allow resources sharing and competences combining. In both cases, companies supports information flow and physical flows from provider to retailers. They optimises also tools and timing of payment in order to make more effective and efficient financial flows.

MC Elettrici and Farmintesa, considered as logistics platforms, allow members and customers to realize a community and develop relationships between “peers”. The collaboration between “peers” has supported the development of innovative projects: in MC Elettrici a renewed partnership between manufacturers and retailers has taken place, with lots of new co-branding activities in the POS and new added value services available on the internet marketplace (technical information, “tv lab” to explain uses and installation of products, corners for suggestions and improvements,...). Also in Farmintesa, the collaboration has brought to the birth in July 2004 of a logistics platform. In this perspective the consortium of Farmintesa creates an integrated management of services to support members’ evolution.

Moreover, those innovative companies are characterised by an *augmented offer based on Products, Services, Knowledge, and Value propositions*. Farmintesa and MC Elettrici provide not only logistics services and other distribution services, but also services aiming at supporting the point of sales management, administrative and financial services, information services, training services. In a perspective of customization they both offer category management for each pharmacy/store to redefine the exposition in the point of sale and other services connected, such as “Farmintesa ad hoc”, a personal advice for the repositioning of pharmacy through a targeted approach of increasing sales.

The two companies support the process of “*knowledge management*” (2), increasing the evolution from organizational learning to “supply chain learning”, where every actor of the chain is involved in a process of continuous upgrading of his knowledge, thanks to the sharing of processes and products. Considering the horizontal network among peers, Farmintesa Board is made up by pharmacists who have common needs. The proximity to pharmacist supports the development of a platform in which the key functions report directly to CEO.

The “*value propositions*” (3) are based on evolution *from good-centred value to relationship value*. The exchange of value propositions, that include co-production and knowledge management, supports the value network.

The services required are more personalized and linked to the areas related to the core activities of the retailers/pharmacies: i.e., Farmintesa is able to provide a capillary service, with many deliveries in a day, to all pharmacies in its area.

Both MC Elettrici and Farmintesa vision is based on the willingness to enhance the future of retailers, to provide services with high added value. The critical success factor is to remain localized in their territory and to make the retailers/pharmacies “specialists” able to customise their offers through the multiple services co-created with the two wholesalers, while MC and Farmintesa provide the complete supply chain management.

In this way they support the increasing value for their customers considering the B2B distribution perspective. Evidently this process is based on the evolution from channel perspective to supply network approach, that involves different actors characterized by different resources and activities.

The system interpreting as a channel has involved new actors with new competences. The increasing demand of customization has required the evolution from channel to chain and to network, supporting resources sharing and competences combining. New services are required to B2B distribution operator that can integrate different services in order to provide an augmented and articulated solution. These operators, focalized on core activity, increase their offer through other activities, in a global provider perspective. This augmented complexity requires firms to develop other competences, as network competences, to manage different relationships developed with different actors.

In Farmintesa, and generally in pharmaceutical supply chain, we can outline a process of service-centred supply chain integration through which distributors realize an “intelligent” intermediation between producers and retailers. In this perspective the intermediation increases value of supply chain-network offering system.

Although one of the limitations of this study is the analysis of only two case studies, the findings nonetheless make an interesting contribution in the evolution of the B2B distribution towards a new role in service-centred supply chain management. The objective for subsequent studies is to extend the investigation to other cases in different industries in order to understand the boundaries of application of this interpretation model. More specifically, future studies could analyse the various perspectives of different network actors regarding their expectations and potential contributions to the co-production and co-creation of value proposition within the supply chain networks.

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