RESHAPING THE INTERFACE BETWEEN MARKETING AND OPERATIONS IN GLOBALIZING FURNITURE SUPPLY CHAINS

Work-in-progress paper

Abstract

Over the past few decades, international fragmentation of production and offshore outsourcing have remarkably altered the organization of Western industries. Particularly in low-tech, manufacturing sectors, the fast spread of global production network has forced managers to reconsider the configuration of their supply chains, including the alignment between marketing and operations. Although marketing and operations interface (MOI) is crucial in supply chain management, the understanding of globalization's effects on this process remains uncertain and unclear. By focusing on the furniture industry in USA and Italy, this paper uses a multiple case study to address the evolution of MOI in globalizing supply chains. Findings suggest that the relationship between marketing and operations in supply chains is contingent on dynamics of internationalization. Acknowledging the exploratory nature of this study, this article also indicates room further improvement and research development.

Keywords: Marketing and operations interface (MOI); Global supply chains; Offshore outsourcing; International development

INTRODUCTION

Quickened paces of global competition are forcing established companies to review their business model in a systemic fashion. Increased international fragmentation of production (Arndt & Kierzkowsi, 2001) and the rise of global supply chains (Gereffi & Lee, 2012) has fueled the 'break up' of vertically integrated structures in favor of geographically dispersed production networks. Although relocation of operations to low-wage nations enables organizations to reduce overhead, focus on high-value functions and expand their boundaries globally, the coordination of globalized supply chains also entails various complexities for firms (Mudambi & Venzin, 2010). To successfully compete in today's global scenario, managers are in fact required to face strategic decisions regarding the optimal level of disaggregation of the firm's supply chain and the geographical and organizational allocation of discrete steps of value creation (Contractors, Kumar, Kundu & Pedersen, 2010). As a result, firms are called to reconsider the interface between distinct supply chain functions and achieve a right level of integration. In particular, the globalization of supply chains has raised the need for a finer analysis of the interface between marketing and operations. Although the importance of the alignment between these functions has been widely addressed by the existing literature (i.e. Ho & Tang, 2004; Narasimhan, & Kim, 2002; Porter, 1985; Shapiro, 1977), the study of globalization's effects on marketing-operations interface (MOI) has received little attention thus far. Acknowledging this research gap, we aim to address the following research question:

How is marketing-operations interface being affected by the internationalization of supply chain?

Departing from this inquiry, we propose and discuss a multiple case study. Precisely, the scope of this study is to investigate how furniture manufacturers in USA and Italy are managing globalizing supply chains and the way current supply chain configurations are affecting the interface between marketing and operations. Our work builds on ten in-depth case studies of established manufacturing firms, whose respective supply chain has been lately confronted by dynamics of international competition. In the development of the multiple case study, we devoted specific attention to the role played by furniture manufacturers in reconfiguring the organization of their supply chains and reshaping the interface between marketing and operations.

In the next section we provide a literature review, focuses particularly on two main streams of research: marketing-operations interface (MOI) and international fragmentation of production and global value chains (GVCs). In the case study section, we discuss the evolution of furniture supply chains in the global economy and analyze the effects induced by internationalization processes on MOI. The paper concludes with the presentation of preliminary findings and suggestions for further research development.

THEORETICAL BACKGROUND

Managing operations and marketing in supply chains

As supply chain management has grown as a discipline, researchers and practitioners' emphasis has increasingly focused on managing business processes across extended —global— supply chains with the objective of providing value for the entire supply chain (Lambert, Cooper

& Pagh, 1998). Confronted by relentless forces of global competition, established companies need to continuously improve the efficiency of their supply chain. In order to get this goals, marketing department can use various mechanisms to create a unique value for customers and deliver their expectations in an efficient manner. Yet the accomplishment of marketing objectives might involve a number of challenges for the operations department, which is often asked to meet these expectations by increasing the efficiency of the delivery process and reducing cost of operations (Nath, Nachiappan & Ramanathan, 2010; Ortega & Villaverde, 2008; Tan, Kannan & Narasimhan 2007). Although the importance of managing the interface between marketing and operations is widely acknowledged in extant literature (e.g. Narasimhan & Kim, 2002), the coordination of the two functions remains problematic due to their differing roles, orientations and reward systems within the organization. While the alignment of marketing and operations allows the firms to achieve and sustain a superior competitive advantage, the mismatch between these two functions leads to productions inefficiency and poor customer service, (T.H. Ho, C.S. Tang, 2004). The importance of this functional integration and its associated benefits has been widely addressed by the marketing, logistics and operations literature for many years (Ellinger, 2000; Kahn & Mentzer, 1998; Russo & Cardinali, 2012). In precise terms, the functional integration across the two domains refers to how operations and marketing communicate and coordinate their activities in order to align them towards common goals (Bharadwaj, Bharadwaj & Bendoly, 2007).

The relevance of synchronizing marketing and operations is even greater if we extend the level of analysis from organizations *per se* to their supply chains. In this regard, Christopher (2011) argues that real competition should not be considered as a 'company against company' affair but rather as a competition between distinct supply chains. Especially in today's economy, where numerous supply chains span across different geographical contexts, the analysis of the evolution of marketing and operations interface (MOI) in dynamic environments appears to be a fundamental issue. Yet, while we claim the importance of deepening the understating of this phenomenon, we also acknowledge the little attention that extant MOI literature has dedicated to this specific topic. Recognizing this research gap, we stress the need for integrating this field of study with a perspective addressing the complexity that globalization has lately brought with it.

International fragmentation of production and changing patterns of industrial organizations

Mature industries in developed countries have been undergoing profound changes over the past few of decades. Gereffi (2005) describes these changes as the new features of modern world trade that are significant to the analysis of changing patterns of industrial organization. Notable these are: the increase of intra-industry trade in intermediate inputs; the ability of producers to "slice up the value chain"; the rise of numerous global production networks. One of the most significant features of the globalization of consolidated models of industrial production is the international fragmentation of production, a phenomenon that has allowed Western organizations to outsource operations and low profitable functions to low-cost foreign suppliers. Particularly in mature, low-tech industries, in which competition is increasingly driven by price, the global reorganization of operations has represented a necessary strategy for numerous established firms (Buciuni, Coro' & Micelli, 2012). Indeed, offshore outsourcing enables mature companies to reduce production costs, direct resources toward high-value functions and reach new foreign markets. International fragmentation of production has encouraged the 'break up' of value chains in a variety of discrete functions, often geographically dispersed and undertaken by independent providers (Contractors et al., 2010). This has fostered the rise of dispersed production networks, in which Western companies typically play the role of lead firms and undertake the organization and coordination of global commodity chains (Gereffi, 1994). As a result, globalizing patterns of industrial organization force managers to 'raise the sights' above the traditional boundaries of the organization and focus on the whole set of agents that participate in the global process of value creation (Kaplinski and Morris, 2001).

In recent years, the analysis of changing models of industrial organization in the global economy and has been significantly advanced by studies pertaining to the global value chain (GVC) theory (i.e. Daviron & Ponte, 2005; Gibbon & Ponte, 2005; Lee & Gereffi, 2012; Rothstein, 2005). Precisely, the GVCs theory aims to address the complexity of globalizing industries by investigating the distribution of roles, commitments and gains along global production networks (Gereffi, Humphrey & Sturgeon, 2005). However, although we acknowledge the importance of this growing discipline in supporting studies addressing industrial organization and global development, we still have little evidence of GVC-based studies that focus on firm-level issues and dynamics.

METHODOLOGY

Given the research question leading this paper, we considered a qualitative case study the most appropriate methodology to develop this research. In-depth case studies were conducted with ten leading furniture firms located in USA – North Carolina – and in Italy – Northeast. A few points of interest directed our attention to these industries. First, North Carolina and Northeast Italy represent two of the most important regions of furniture production in the world. Both located in Western countries, these industries have been notably affected by the recent economic downturn and are currently coping with a crucial process of global opening. The case study firms were selected on the basis of a purposeful sampling (Patton, 1990), whose goal is to select cases that can shed light on the research question. Selected firms had to meet a set of *a priori* criteria, which were defined in the case study protocol. Specifically, selected firms had to: 1) operate in the same industry, notably the furniture industry-2) be firms which were originally set up as furniture manufacturers and can currently be classified as producers of final goods, whose brand is recognized in the final market; and 3) be involved in a value chain, the organization of which has recently been affected by the dynamics of international competition (e.g. offshore outsourcing; exploration of new foreign markets). This led to the identification of 15 to 20 firms in each context, half of which agreed to participate as case study firms in this research. However, i terminated our investigation at ten, for reasons of theoretical saturation. The number of cases selected was consistent with Eisenhardt's indication (1989), who suggests focusing on four to ten cases. Following Yin's (1994) recommendation, we collected data from a plurality of data sources, including 30 in-depth personal interviews, site visits, written reports and questionnaires. This approach enables researchers to obtain data triangulation and achieve an appropriate level of internal validity. The first interview at each firm was with either the President or the CEO and was conducted in a largely open-ended way. This enables the interviewee to discuss broadly the main features of the firm and provides the researcher with an invaluable overview of the recent evolution and the current organization of the firm's value chain. The first interview was followed by additional interviews with other knowledgeable managers identified by the President/CEO. This process of data collection was consistent with the ‘snowball’ method (Patton, 2002) and continued until data saturation was reached. Second and third interviews typically involved the Vice President (VP) of Operations or the VP of Supply Chain and the VP of International Sales. Interviews with these informants enabled the researchers to collect information pertaining to the whole set of activities involved in a product-specific value chain, from design and product development, to manufacturing and distribution.

FINDINGS

The multiple case studies discussed in this paper aims to examine how the internationalization of the furniture industry has affected the interface between operations and marketing activities in supply chains. The empirical study is centered on the analysis of ten manufacturing companies, five located in USA and five in Italy (all the names used in the paper are pseudonyms). Since furniture manufacturers are often engaged in two distinct market segments—namely upholstered furniture goods and case goods—and because these segments are marked by different dynamics, we assumed it was appropriate to detect each firm’s primary activity and direct our analysis to its related supply chain. Primary activity in this case refers to the activity through which the firm generates the largest part of its turnover.

Managing operations and marketing in furniture global supply chains. Evidence from North Carolina

Table 1: Case studies at a glance (North Carolina, USA)

Case context	**Klamath**	**Thomas**	**Elm**	**Catawba**	**Bern**
Primary Activities	Upholstery (80%) Case goods (20%)	Case goods (60%) Upholstery (40%)	Upholstery (80%) Case goods (20%)	Case goods (55%) Upholstery (45%)	Case goods (55%) Upholstery (45%)
Employees (Domestic) 2011	1700	600	75	900	850
Turnover (2011)	500 Million (USD)	250 Million (USD)	15 Million (USD)	250 Million (USD)	300 Million (USD)
Export (%)	15%	10%	5%	10%	10%
Marketing channels	Domestic and global multi-brand retailers	Domestic multi-brand retailers; domestic own stores; domestic franchise stores	Domestic multi-brand retailers; domestic own stores;	Domestic and global multi-brand retailers	Domestic multi-brand retailers
Suppliers	Domestic specialized vendors; Global OEMs	Global OEMs	Domestic and global specialized vendors	Domestic and global specialized vendors; Global OEMs	Global OEMs

Over the past two decades, numerous American furniture manufacturers have been engaged in a strategic process of global opening. Furniture supply chains have been largely internationalized, thus altering consolidated patterns of industrial organization. Supply chains internationalization mainly involved 'upstream' functions—i.e. sourcing and operations—where competitive pressures led local firms to reduce overheads. Although offshore outsourcing was practically conducted by furniture manufacturers, the implementation of this strategy was often driven by rising pressures from domestic retailers. Examples are given by Thomas and Bern, two historical players that have relocated the bulk of their operations offshore to match new requirements coming from domestic commercial partners. This phenomenon was confirmed by Bern's Vice-president of supply chain:

"We started outsourcing the production of low-end collections, which basically consist of standardized goods. We did that to satisfy our customers, who were constantly pushing for cheaper prices as they were struggling to keep their business alive. Once we realized it worked out, we proceed by relocating the rest of our operations overseas".

As a result of this strategy, Thomas and Bern decided to outsource the production of commodity case goods to Asian original equipment manufacturers (OEMs), primarily located in China, the Philippines, Indonesia and Vietnam. The general absence of product customization in the domestic case goods market allows Asian OEMs to match buyers' technical requirements in a straightforward manner. This enables the industrial production of large amounts of undifferentiated goods, which are imported and kept in stock by US furniture firms. Increased imports and sizable inventories forced Thomas and Bern to strengthen in-bound logistic and the distribution function, which eventually become the firms' new core business.

Although this supply value strategy has been widely implemented in the American case good industry, findings reveal the existence of alternative patterns of supply chain organization. For example, Catawba, one of the most renowned furniture brands in America, has kept the bulk of its case goods production in North Carolina. Even though the firm has substituted some of its domestic suppliers with global providers, a good deal of the assembly process is still performed in local plants. Similarly to Thomas and Bern, strategies pertaining to the coordination of sourcing and production activities were induced by marketing dynamics. Indeed, Catawba's decision to maintain control of production processes was primarily motivated by the high level of customization that characterizes its final products. In this regard, Catawba's Vice-president of operations argues:

"A few years ago global competition forced us to decide whether to keep manufacturing here or to follow the main trend and move it overseas. We thought we could leverage our operational expertise and target a more sophisticated market niche, where customization is rewarded. This means that we had to implement a 'make-to-order' production logic, which requires a direct control over the entire production process'.

Although Catawba managed to maintain the manufacture of customized goods locally, the production of low-end products was relocated overseas. This strategy allowed Catawba to keep competing in the low domestic segment, which represents an important source of profits for the firm. Increased imports, along with the implementation of a make-to-order logic, imposed the firm to enhance its distribution system. This resulted in the reduction of the lead-time, which in turn allowed Catawba to offer a better service to its final customers and accomplish a quicker product turnover.

Similarly to Catawba's domestic production system, product customization plays a central role in the organization of upholstery supply chains. In fact, although part of upholstery operations has been outsourced offshore, the relatively customization marking this type of furniture has limited the relocation of domestic operations abroad. Consistent with this trend, Klamath, the biggest furniture maker in North Carolina and the fourth in America, has decided to maintain direct control over operations. Indeed, the company still produces most of its upholstery through 12 local plants, which overall employ approximately 1700 workers. While Klamath has offshored the production of leather upholstery to China, the whole fabric portfolio is still made in North Carolina. This was corroborated by Klamath's CEO argument:

"Outsourcing strategy is very much related to the level of customization that features a specific product. For example, our full-leather upholstery is standardized, and this enabled us to move the whole production to China. On contrary, customers that buy fabric-upholstery expect you to offer a certain degree of customization. This imposes you to maintain operations in America".

Besides product customization, a relevant factor affecting Klamath's strategy is the short lead-time that characterizes the US upholstery market. Indeed, by controlling the whole production process—whether through in-house production or tight relationships with domestic suppliers— Klamath is able to serve its customers with a broad variety of products within a lead-time of 4 weeks. Furthermore, the efficiency marking Klamath's supply chain significantly supported the expansion of the firm in the global market. This is confirmed by the growth in exports Klamath has achieved in recent years.

Short lead-time and product customization are also strategic for Elm, a firm that is arguably the top luxury brand in the entire North Carolina furniture industry. Accounting only a few competitors in the whole US market, Elm's positioning in the final market is intertwined with its capability to offer tailor-made products, often made in single pieces. In-house operational expertise allows Elm to work with upscale American designers, through which the firm reaches the luxury market niche. This allowed the company to differentiate its products from made-in-Asia furniture goods, thus escaping price-driven dynamics that characterize the majority of the domestic market. Although in recent years the firm has significantly enhanced its internal production system, Elm's capability to create and sustain product differentiation is not limited to manufacturing processes. Rather, it stems from the tight interdependence between design, operations and marketing activities. This is process is explained by Elm's Vice-president of operations:

"The strategy to compete in the domestic luxury market entails the synchronization between several activities in the value chain. Designers play a crucial role in the supply chain, since they represent those players that initiate and conclude the whole process of value creation, from product design to sales. Elm lies in the middle and has to provide designers the flexibility and manufacturing expertise to translate innovative ideas into real samples".

Table 2: Case studies at a glance (Northeast Italy)

Case context	**ONE**	**Lacus**	**Magister**	**Saints**	**Carter**
Primary Activities	Hotel furniture (80%) Components (20%)	Case goods (60%) Upholstery (30%) Cabinets (10%)	Case goods (100%)	Case goods (70%) Upholstery (30%)	Case goods (100%)
Employees (domestic) 2011	60	170	45	250	180
Turnover (2011)	11 Millions (Euro)	30 Million (Euro)	25 Million (Euro)	40 Million (Euro)	35 Million (Euro)
Export (%)	45%	35%	90%	40%	65%
Marketing channels	Global hotel contractors	Domestic and global multi-brand retailers; Domestic and global Lacus franchising stores	Domestic and global multi-brand retailers; Domestic and global 'Magister corners'	Domestic and global multi-brand retailers	Domestic and global multi-brand retailers
Suppliers	Local specialized vendors	Local specialized vendors	Local specialized vendors; local OEMs	Local specialized vendors	Local specialized vendors

Marked by a lower level of intra-sample variability, furniture makers in Northeast Italy have maintained a direct control of production processes over the past years. Indeed, not only there is little evidence of offshore outsourcing, but in three cases firms have also invested in enhancing local operations. This, along with an increased supply chain's efficiency, was found to be strategic in supporting local firms' international growth. However, in spite of a general homogeneity, case study analysis also reveals some significant differences within the Italian sample.

The linkage between control of local operations and global development was central in all the firms we analyzed. For example, One, a former supplier specializing in the production of furniture components, has been able to penetrate the international hotel contract market through the upgrading of its manufacturing capabilities. This strategy allowed the company to develop its own line of products and enter the global upscale hotel market with a broad range of customized furniture goods. To achieve this, One established tight relationships with twenty specialized local manufacturers, which participate in One's supply chain by integrating its product portfolio with a variety of custom-made goods. Similarly to One, tight partnerships with local suppliers lie at the foundation of Carter's supply chain organization. Based in the western part of the Veneto Region, this company is distinguished by having a number of its key suppliers located within its organizational boundaries. Controlled through captive relationships, these highly specialized vendors allow Carter to have direct control over a highly flexible production system. Through this value chain organization, Carter is able to provide its final customers—the majority of which are international—with a broad variety of tailor-made case goods, which in many cases can be produced in single units. The strong interdependency linking local operations and international marketing is confirmed by Carter's CEO:

"Among our strengths, there's certainly the fact that some of our key-suppliers are located within our organization. This gives the company the possibility to constantly access to a variety of specialized capabilities, which are exclusively dedicated to our customers' needs. The customization we offer to our global clients often stems form the expertise of these 'boutique workshops'".

The upgrading of the assembly function was also central in the organization of Saints' supply chain. Like the rest of the Italian firms analyzed, Saints has largely internationalized its value chain 'downstream', while production activities have been kept local. Over the past decade, Saints has directed the majority of its resources towards the enhancement of its internal operations. This process, which included investments in both tangible assets—i.e. new equipment—and intangible assets—i.e. human resources—has enabled the firm to shorten its lead-time and thus become more efficient. Since all Saints' goods are made to order, the efficiency of the value chain represents a strategic source of competitive advantage for the company. Over the past five years, product customization and an efficient supply chain enabled Saints to remarkably expand its global presence. As a result, export growth from 15% to 30% of total turnover.

In addition to identifying enhanced production processes, case study findings reveal that two Italian furniture makers have also invested in strenghtening marketing activities. Similarly to Elm, Lacus and Maestro have in fact improved the coordination of their supply chain by integrating design, operations and marketing functions. Maestro and Lacus, represent two of the most renowned brands in the world of Italian furniture and their design quality is widely acknowledged in both the domestic and the global market. Although design has long been at the core of Maestro's business model, the company has made further investment in this area over the past decade: the internal design center has been enhanced and partnerships with cutting-edge international designers have been developed. At the same time the company has reinforced its presence downstream, primarily through the creation of dedicated Maestro spaces within global multi-brand stores. This strategy, whose aim was to reinforce the brand's visibility worldwide, didn't compromise Maestro's control over operations. Rather, given the innovative design featuring its products, the firm decided to strengthen its relationships with a handful of local specialized suppliers. Close control over a flexible production system allows Maestro to foster the process of design development, hence enhancing product differentiation and consolidating its presence in the global marketplace. The integration of design, operations and marketing was further discussed by Maestro's founder and current owner:

"Although we internally produce only the 20% of the products we sold, we keep close control over the entire production process. Maestro only works with local vendors, which play a strategic role in the development of our final products. Their capabilities allow us to offer both internal and international designers a 'creative playground', which underlie the whole process of innovation development".

Like Maestro, Lacus has significantly increased its competitiveness by investing in both marketing and operations. Production activities have been improved through investments in equipment and machinery, while intangible functions were enhanced through the establishment of an internal design team and the implementation of an effective marketing strategy. This strategy included the set up of a franchising retail network—which consists of 31 stores in a dozen of countries—and the development of a new approach to displaying furniture goods in the final market—namely the 'Lacus Apartment'. Together these changes have allowed the company to double its revenue over the past ten years and foster its presence in the global marketplace. Lacus' recent growth has been acknowledge by its current President:

"Lacus is arguably one of the fast-growing firms in the Italian furniture industry. A good deal of our recent success comes from international activities, as our recent expansion in the global retail system confirms. Yet, investments weren't limited to marketing activities, but they also involved design, operations and distribution. Overall, we aimed to improve the efficiency of our production system and increase the variety of our final offer. This is the value we strive to provide and communicate to our final customers".

CONCLUSIONS

Findings emerging from empirical analysis reveal that the furniture manufacturers in USA and in Italy have been following different trajectories of global opening. While on the one hand, American producers have largely offshored the production of commodity furniture goods, on the other, Italian companies have kept the bulk of operations locally. The multiple case study shows that decisions pertaining to operations management are very much intertwined with dynamics marking 'downstream' activities. For example, we found that offshore outsourcing strategies in North Carolina were significantly influenced by pressures from price-driven domestic retailers. However, although in contrast with this main trend, we also claim that furniture production in USA still exists. In particular, we discovered that companies pursuing product customization and short lead-time find it strategic to keep control over operations. This phenomenon, which resembles the typical Italian supply chain organization, emphasizes the role played by marketing dynamics in directing decisions regarding manufacturing activities, including the coordination of key suppliers. This latter issue was found to be fundamental in the global development experienced by Italian companies in recent years. Together with in-house operational capabilities, furniture manufacturers leverage on the expertise of specialized local suppliers to improve existing furniture goods and develop product innovation. This in turn supported Italian firms' global development, as the recent growth in exports confirms. Thus, we claim that the internationalization of Italian companies' marketing activities was strategically sustained by domestic manufacturing capabilities. In spite of significant divergences, findings also reveal some important convergences between the two samples. Precisely, we found that, regardless of firms' strategies and positioning in the final market, globalization of supply chains has lead furniture makers to enhance logistics and distribution. This phenomenon was observed both in supply chains that internationalized operations, as well as in those featured by domestic production and sizable exports. While in the former, an enhanced distribution system is particularly important in supporting in-bound logistic, in the latter the upgrading of distribution allows firms to reduce lead-time, thus increasing services to global customers.

Overall, we claim that relationship between marketing and operations is significantly contingent on dynamics of supply chains' global opening. This implies that the alignment between these crucial functions must be conducted in accordance with the dynamics that characterize the evolution of supply chains in the international scenario. By arguing so, we strive to advance the understanding of a topic that has received little attention by both the GVC theory and the literature pertaining to marketing and operations interface.

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