

IMPLEMENTATION OF MARKETING CONCEPTS INTO SUPPLY CHAIN MANAGEMENT

Ó Krykavskyy E. V., Pokhylchenko E. A., 2014

Abstract. The integration of strategic marketing approaches, particularly, in the sales unit of the supply chain, into other functional areas such as logistics and finance, in order to minimize target conflicts and achieve competitive advantages is substantiated in the article. The use of marketing – logistics approach to supply chain management is actualized. A critical review of modern marketing concepts is presented. The necessity of integrating the concept of Supply Chain Management, on the one hand, with the concept of Customer Relationship Management, which will facilitate interconnection of financial, marketing and logistics purposes and will help to move away from the traditional dilemma “elasticity contra efficiency”, and, on the other hand, with the concept of Supplier relationship management, which will control the entire supply cycle from the strategic planning to the end user sale is substantiated. The effect of such integration on the key processes and the management effectiveness indicators of the total supply chain is identified.

Keywords: supply chain, integration of logistics, finance and marketing, relationship marketing, experience marketing, CSR, CRM, SCM.

Problem statement. The radical changes taking place in the crisis and post-crisis periods in many economies of the world provide possibilities to verify certain paradigms, hypotheses, concepts, principles, and other components of the economic science theory. This particularly applies to the marketing theory, since there is some controversy (disputable issues) concerning the following: interpretation of marketing as not only the operational and tactical but also as a strategic function; the hierarchy of relationships between marketing functions and other functions of traditional and “advanced” businesses (supply chain); substitution of value created by marketing and other functions of the company; holistic nature (integrity), consequence (sequence, logic), compatibility (consistency) and complementarity of marketing in conditions of applying integrated

supply chain solutions. This controversy is not unreasonable as there are examples of viability of businesses and some global organizations despite the double decline in production as it happens in Tychy, Poland Republic (Fiat Auto Poland): more than 600,000 cars produced in 2009 and less than 300,000 cars in 2013. Is it elasticity for efficiency trade-off or trade-up?

Another equally important aspect of the controversy is the recognition of the trend to increase the share of the value created outside organizations (by suppliers) as a positive paradigm, not taking into account the growing mass withdrawal, for example, of cars from the market in order to eliminate defects (constructional, technological). Of course, as cars are directly associated with the safety of people, the costs of eliminating defects are not much discussed, but the effectiveness of such type of the reverse supply chain is significantly lower than that of the direct supply chain.

One more theoretical problem that needs to be verified to avoid controversy is a need for justification of the so called “middle ground” between specialization (effort division) and integration (“joint efforts”), between freedom and dependence in decision-making, between confrontation and cooperation, between trust and control, between internal and external outcomes (effects) etc.

However, by axiomatically accepting the progressive trends in the formation and development of the product supply chains as positive, we have to recognize the existence of a range of problems in the theory and practice of marketing in their environment, particularly, in the lower part of the supply chain – that of distribution.

Analysis of the recent research and publications enables us to state that:

1. Strategic aspects of marketing are the subject of research of many foreign and Ukrainian

scientists. In general, a number of scientists – F. Kotler, P. Garkavenko, P. Drucker, P. Doyle define marketing strategies as the most important factor for the enterprise long-term development, considering that the strategy of distribution channels is a priority that will further determine the stability and efficiency of the enterprise [1, 2, 3, 4]. Thus, P. Doyle notes that the “strategy of marketing channels is the most important factor determining long-term prospects of the company.” P. Drucker believes that in the 21st century the major changes should be expected not in the production or consumption of goods, but in the distribution channels. However, in the works of these scholars the focus is made on the process of formation of marketing strategies without regard of their integration into the overall strategy of the company or, for example, into its financial or logistic strategy. To some extent neglected are also the aspects connected with solving conflicts between the goals of marketing and the goals of the enterprise as a whole, or the goals of the enterprise’s other business areas, such as finance, production, and logistics, in particular.

2. Recently there have been observed an active generation and dissemination of new ideas and concepts in the theory and practice of marketing such as “relationship marketing”, “expertise marketing”, and “value marketing”. However, there is a lack of research on linking these concepts to supply chain management and their role in the marketing strategy.

So, in the theory and practice of marketing there are still many issues to be researched concerning application of these concepts in the supply chain management.

Research objectives. 1. To investigate and justify the need of integration of strategic marketing approaches, particularly in the sales unit of the supply chain, with those of other functional areas: logistics and finances. 2. To investigate and justify the use of the partnership marketing technology in establishing effective cooperation and high coherence between all links of the supply chain.

Research materials. Transforming logistics thinking into system categories and expanding the limits of logistic cooperation led to the evolution of

the concept of logistics into the supply chain management concept. The supply chain is based on the integration of the production enterprise activities with its suppliers, distributors, logisticians, and consumers. In other words, legally independent organizations work together to achieve common goals such as economies of scale, profits increase, strategic risk limitation, competitive advantage, customer service improvement. The benefits accompanying such integration also are: production operation time reduction, labor division improvement, possibility of choosing a convenient form of cooperation and so on. Building the effective supply chains and thus achieving the potential benefits of such a business model are guaranteed by cooperation in the fields of logistics, marketing, information technology, and finance. This cooperation helps to jointly overcome time, space, assortment, quantity and other barriers on the way of moving goods from the raw materials sources to the end users, to avoid the processes and procedures that have no value, reduce response time to changes in the market demand. However, it’s not easy to achieve such cooperation and high coherence of all links in the chain. The experience of the global automotive companies, including the aforementioned Fiat Auto Poland, shows that it is possible to achieve very high levels of cost control in production, to minimize time, and the amount of reserves due to high level of specialization and the use of modern logistics tools, but it is extremely difficult to achieve the same results in sales of products. Usually, it is in the field of distribution that the achieved positive effect of “the total cost savings” in production is “dispersed”. A possible way to solve this problem is to intensify research, especially in “non-material”, or non-production sphere of supply chain, namely, in the field of relations where strategic marketing approaches acquire key importance, particularly, in the sales unit of the supply chain, and their integration with other functional areas such as logistics and finances.

Let us assume as a paradigm that the formation of the company’s marketing strategy or the supply chain should be, firstly, completely dependent on the current general strategy and / or on the strategy of strategic business units; secondly, in strict consequence to implementation of the stages of the strategic management process,

in which strategy formulation is only one of the stages, preceded by the strategic analysis, followed by the implementation of strategies and evaluation and control of the strategy implementation; thirdly, in the dynamic compatibility with the accepted mission, goals and strategic decisions (plans, programs, objectives etc.) [5].

Under the strategy of sales activities, in our opinion, one should understand the process of long-term planning and organization of marketing activities that allows to successfully implement the task of choosing a distribution channel, its length and breadth, and to mutually agree needs of consumers with financial capabilities of the enterprise [5].

The strategy of sales activities should identify [6, p. 27–28]:

- types of intermediaries and their role in the final levels of the supply chain;
- level of the sales selectivity;
- possibility of wholesale and retail trade;
- need for after-sales services;
- optimal structure of the distribution methods and channels;
- structure of the price for the end-user (consumer);
- direction of marketing communication [5].

The processes of integrating marketing, logistics and finance that form the interaction of the three management concepts become extremely important for building effective supply chains. The interaction of marketing as the market-oriented management concept and logistics as the stream-oriented management concept, makes it possible to raise the material and information utility and value of the product assessed by customers or clients; and their joint interaction with the concept of profitability, forms the basis for maintaining the benefits of exchange and for ensuring expanded reproduction at all levels of the supply chain [5].

So, the optimal strategy for sales activities should be based on the interaction of marketing, logistics and finance to minimize conflicts of goals that arise between these functions in practice. The main goals of the sales system should be:

- in terms of finances – to increase profitability and the profit ratio of the enterprise as a whole and its individual products on the basis of mutually beneficial exchange (using DuPont

model). In particular, on the basis of a simple model of supply chain “supplier – producer – consumer” in which there is one producer that serves a number of users (for example, a manufacturer of cars and trucks), one can talk about several dimensions of the chain in terms of producer (Fig.1). That is, on one hand, there is a supply chain, for instance, of trucks, production of which is served by one part of assets and this supply chain generates certain amount of profit; on the other hand, there is a supply chain of cars, production of which is served by the other part of assets and this supply chain generates the other amount of profit.

This conditional division of the supply chain of automobiles by consumer categories makes relevant the calculation of the return on equity of every of the supply chains to identify and control the factors that cause change of this indicator leading to the desired financial condition of the corresponding chain. Then, the modified three-factor Dupont model for the supply chain looks like this:

$$\begin{aligned} ROE_{SC} &= (NP_{SC} / EC_{SC}) \cdot (As_{SC} / As_{SC}) \cdot (A_{SC} / A_{SC}) \cdot \\ &\quad \cdot (A_{SC} / A_{SC}) \cdot (A_{SC_n} / A_{SC_n}) = \\ &\quad (NP_{SC} / As_{SC}) \cdot (As_{SC} / A_{SC}) \cdot \\ &\quad \cdot (1 / (A_{SC_n} / A_{SC})) \cdot (A_{SC_n} / AC_{SC}) = \\ &= \frac{R_{sales\ SC} \cdot Amm.A_{SC} \cdot Fin.leverage_{SC}}{Share\ of\ assets\ of\ n-th\ SC\ in\ total\ assets\ of\ SC}, \end{aligned}$$

where ROE_{SC} – return on equity of the total supply chain; NP_{SC} – net profit of the total supply chain; As_{SC} – amount of sales of the total supply chain; A_{SC} – average annual value of assets of the total supply chain; A_{SC_n} – average annual value of assets of the n-th supply chain that is part of the total supply chain; EC_{SC} – equity capital of the total supply chain. Using the modified model one can effectively manage the return on equity of the total supply chain through the targeted impact on its components.

→ in terms of marketing – maximum satisfaction of customers’ needs due to the optimal assortment, setting prices and development of the effective communication policy;

→ in terms of logistics – customer service based on the physical distribution of goods in strictly specified time and place [5].

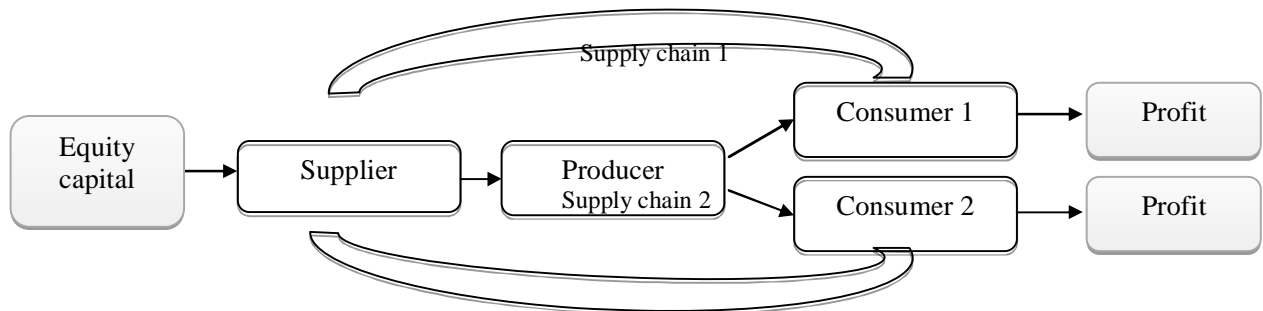


Fig. 1. Two dimensions of the supply chain in terms of the modified Dupont model

Source: developed by the authors

<i>Searching customers, studying customers needs and forming the marketing mix</i>	<i>Preparing negotiations, discussing conditions of implementation, signing the contract</i>	<i>Implementation of the contract and delivery of goods to final consumers at a specified time</i>
⇓	⇓	⇓
Collaboration of marketing and logistics structures	Collaboration of marketing and financial structures	Collaboration of marketing, logistics and financial structures

Fig. 2. Collaboration of marketing, logistics and financial units of an enterprise [5]

Only with the optimal combination and mutual coordination of all the defined goals it becomes possible to minimize conflicts of interests of functional areas and departments of the enterprises participating in supply chains, and to achieve competitive advantage. The conflicts of interests between employees of marketing, logistics and finance departments are common to many enterprises. Often managers are aware of their occurrence, but consider them natural and unavoidable, caused by the peculiarities of every of these functional areas. The reasons of ineffective cooperation seem so obvious that they rarely become the subject of deeper research. In this way managers neglect negative consequences caused by the lack of interaction and nobody assesses them. At the same time, it appears that the impact of the ineffective cooperation between marketing and finance departments on the situation of the enterprise is essential, and many managers simply do not realize the extent of the problem because the deterioration of the financial results or the competitive position of the enterprise is rarely associated with poor cooperation of different functional departments. In practice, the enterprise management is often not aware of the fact that conflicts between functional units can be correlated with costs increase and revenues fall, deterioration

of relationships with customers, decrease of trust to the company. Therefore, mutual participation and cooperation of financial, marketing and logistics structures in sales activities is extremely important. This applies both to the decisions made at the highest levels of management and to the control of implementation and efficiency of current measures. Remembering the importance of the above-said cooperation, in general, sales can be presented in the following way (Fig. 2) [5].

Another way of achieving effective collaboration and high coherence of all links in the supply chain is the use of a different conceptual marketing platform, namely, partnership marketing, and, in particular, such ideas as “experience marketing”, “marketing of value” and their connection to supply chain management.

The concept of partnership marketing is particularly useful in the context of increasing volatility of economic conditions and competition when it becomes important to shift from fighting with competitors to building partnerships, especially with customers through personalized channels of promotion, assortment, prices and discount systems, delivery methods, and keeping loyal customers database as well as ongoing work on attracting new customers. As to supply chains, partnership

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marketing concerns building partnerships not only with consumers but also with all participants of the supply chain. In this aspect it is advisable to distinguish three types of relationships:

1. Direct relationships between participants along the supply chain: with suppliers, customers and intermediaries.

2. Internal organizational relationships between employees, shareholders, company managers who are members of the supply chain.

3. Indirect “external” relations between the supply chain and the subjects of external environment (financial, banking institutions, governmental institutions, media, public organizations etc.).

The first type of relationships (also known as the relationships in the supply levels) requires the closest attention.

Beginning with 90s of the 21st century, on the background of increasing differentiation of markets, intensified competition, spread of new technology there has been observed certain evolution of views on the content of SCM (Table 1). In particular, while operational “physical” aspect of the supply chain is slightly weakened, attention is concentrated on creating the added value for the end users and this draws special attention to building relationships with them. Therefore, marketing and logistics supply chain management based on three elements: customer

satisfaction, integrated logistic and marketing activity, and financial goals becomes more than ever important.

In terms of building relationships with customers in supply chains a priority attention is also paid to the use of tools of CRM (Customer Relationship Management), CSR (Corporate Social Responsibility), CCR (Customer-centric retailing), as well as to the Experiential marketing and Value-based Marketing. Let us examine them in detail.

CRM or Customer Relationship Management defines the customer as the center of the entire business philosophy, and the major activities include measures to support effective marketing, sales and customer service. Support of these business objectives includes the collection, storage and analysis of information about customers, suppliers, partners, and the internal processes of the company. At the technological level a CRM system is a set of applications, features and tools related by the single business logic and integrated into the single corporate information environment of the company. Automation of the appropriate business processes of marketing, sales and service enables the company to make the most effective offer to the “right” customer at the “right” time through the distribution channel that is most convenient for the customer.

Table 1

Differentiation of conceptual views on Supply Chain Management [7]

Features	Conceptual view			
	logistic	integrated	synchronizational	relational
Goal	Relationship between service quality and costs	Increase of value	Increase of value	Increase of relationships value and the value for the customer
Area of participants	From sources of raw materials to retail sales place	From sources of raw materials to retail sales place	From sources of raw materials to the end user	All participants are involved in creation of value
Area of flows	Flow of goods and information	Flow of goods, information and money	Flow of goods, information and money	Flow of goods and money together with a two-way flow of information
Area of cooperation	Localization, transportation, warehousing, inventory management, service quality, packaging	From demand forecasting to implementation of orders	Unlimited, from market and clients research to after-sale service	From market research, value for client / relationship through sales to increasing the value of companies

As in the previous concept, the main focus in **CCR or Customer-centric retailing** is made on customer needs but it concerns only retail sales. So, four degrees of participation in the creation of customer-centric retailing can be identified. Firstly, creating a clients' database (the initial phase – retailers are beginning to recognize the importance of general information and to use it in the sales process and in the creation of tender). Secondly, organizing the transfer and use of information about clients based on the developed criteria (type of channel, form of payment for goods etc.), demographic factors and approaches to selling. Thirdly, using information about clients as an important indicator of future sales and its integrating into further retailer activities. Fourthly, fully integrating the information about the client into the retail sales strategy. Based on this approach, decisions are made in accordance with the terms of distribution channels, brands, assortment policy. Therefore, changes are observed in the attitude to customers (on the basis of behavior models singled out in the segmentation process), methods of making decisions about the assortment (based on quantitative data about customers and their behavior patterns), method of pricing (based on a basket of needs specific to particular segments) form of promotion management, specific approach to management (goals regarding customer needs satisfaction are paramount along the supply chain, continuous re-evaluation of the customer behavior patterns is made).

Another aspect of building effective collaboration in supply chains may be application of the concept of Corporate Social Responsibility, or CSR, interpreted as: 1) business philosophy based on building stable, transparent relationships with all stakeholders, resulting in gaining the competitive advantage for companies; 2) effective management strategy at the enterprise increasing its competitiveness due to creating reputation and developing favorable conditions for socio-economic development; 3) a concept due to which companies voluntarily apply social and environmental protection measures in their strategies, activities and relations with stakeholders [8].

According to the CSR concept, an enterprise is viewed as an organization that serves the interests of a wide range of stakeholders, in whom the enterprise is interested as in its partners working with the company, creating social and

economic environments. They are not only clients, but also investors, employees, suppliers, media, public administration and local public. According to the Global Compact which was announced by the UN General Secretary Kofi Annan at the World Summit in Davos (amended in 2004), the Company shall be governed by the relevant principles in the following areas:

1. Human rights;
2. Working conditions;
3. Environmental protection;
4. Avoiding corruption.

An example of a company that has implemented CSR standards is Danone in Poland. To maintain sustainable and relatively fast contact with milk suppliers the company created a website where, after registration, they can find relevant information about the quality of milk, invoices and payments. Besides, the site provides news related to the milk market, including legislation, information on the feeding of cattle and good practices in this area. The service providing necessary information facilitates the daily work of both suppliers and the company that can quickly convey important messages to particular suppliers concerning the product quality. According to the company, in 2009 the program was used by more than half of the suppliers. Another activity of the company was the program "Share a meal" aimed to fight child malnutrition in Poland, it further continuing as an information campaign on Facebook. The interest was so huge that the purpose for which the campaign was intended was reached in 4 weeks.

The main benefits that can be achieved through the implementation of CSR include, among others, improving of company's image and increasing its innovativeness. Thus, the study conducted in 2009 among the Polish companies which introduced the CSR standards, showed a correlation with the value of their intangible assets, brands. So, first prize for the value of the brand and the second for implementing CSR standards was granted to oil company Orlen [8].

The most closely associated with CSR modern marketing concept, which is gaining increasing popularity among businesses is "Value based Marketing", the purpose of which is to build long-term customer loyalty by continuously increasing the value they receive as a result of marketing offers of the company [9]. F. Kotler

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stresses that such marketing activities as occasional promotion events, small changes in packaging or pompous advertising can increase sales in the short term, but add less value than the real improvement in the product quality, utility and convenience could have done. This concept takes into account not only customer demands but also the demands of other entities with which the company interacts, making it particularly attractive for use in the supply chain management. The characteristics features that differentiate it from partnership marketing is a wide range of goals that go beyond just keeping customer loyal and maintaining a certain market share and are related with such categories as cost management and social responsibility. Besides, if the nature of marketing events of partnership marketing has strategic direction and is based on collaboration with clients (1x1), here everything is based on liability directed to all entities with which the company interacts. An example of a company that realizes in practice the concept of Value based Marketing is Danone in Poland [9].

Trying to establish the closest possible relationships with clients, more and more companies rely on one more marketing tool – “experiential marketing “ (synonyms: marketing of impressions, empirical marketing), based on the direct involvement of clients in the process of creating a product or service that makes it possible to increase their satisfaction. As a result of the processes taking place in the modern economy and markets as well as development of the global information society, the use of new communication technologies, exchange of knowledge and creation of new solutions, consumer behavior is changing:

there arises the need and desire to participate actively in forming the offer. Involving customers in the early stages of creating innovations, for example in the form of seminars, companies have more chances in the market as they become more aware of the needs and ideas of their consumers.

The empirical marketing is a way to attract the attention of consumers to a particular product that allows them to “feel” the product, using as many senses as possible. Due to innovative approaches used to attract customers’ attention and direct “plunging” into the world of a product (trademark, brand), customers: firstly, better remember information about the product (trademark, brand) thanks to the received impressions; secondly, begin to identify the product (TM, brand) with the pleasant emotions which they received during the event; thirdly, better perceive what manufacturer offers unobtrusively (there arises a feeling of one’s own choice); fourthly, due to the emotional involvement the received positive effect lasts longer; fifthly, the positive emotions received cause full product (trademark, brand) loyalty, and, as a result, companies achieve their business goals.

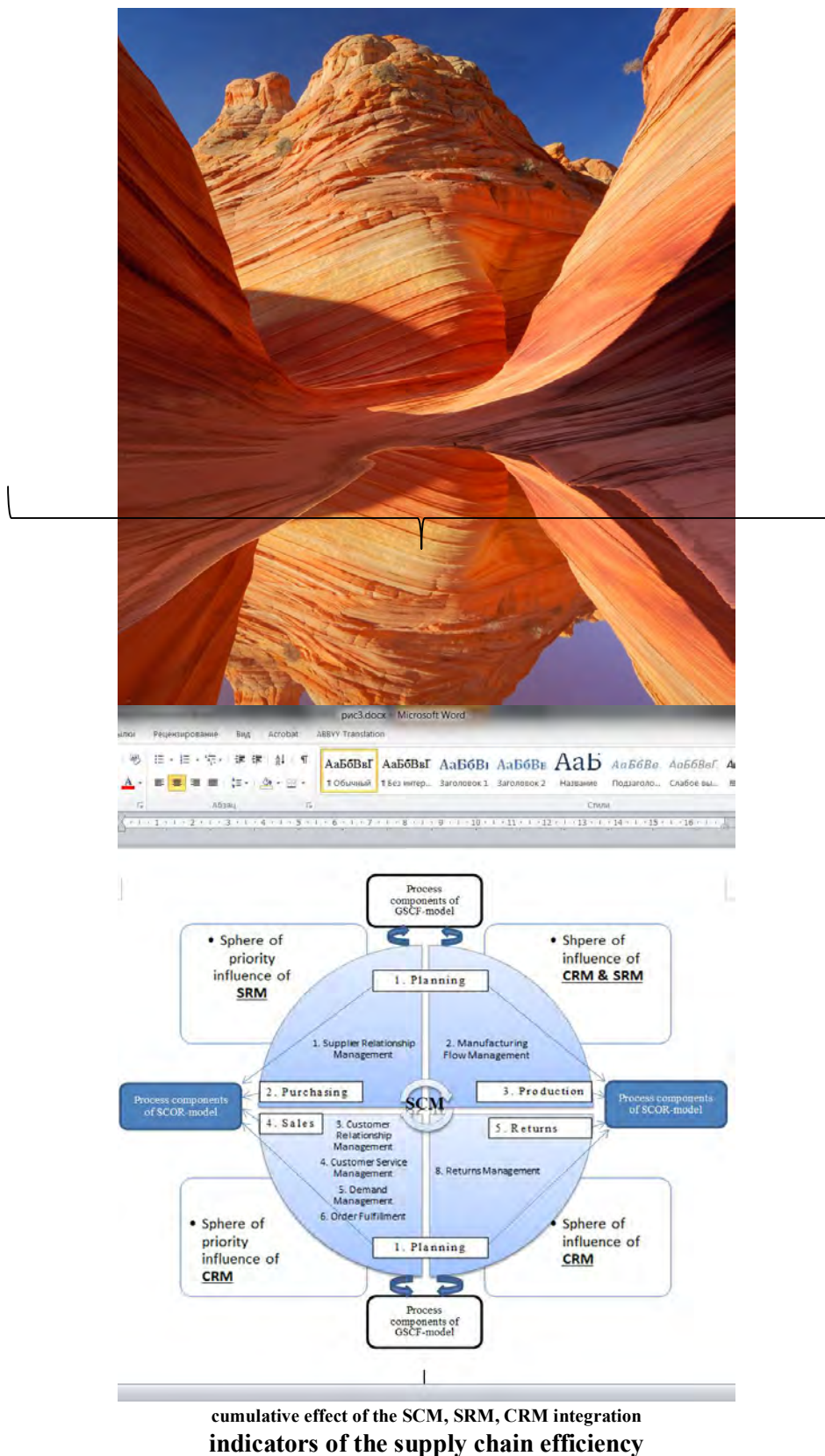
Thus, there is a wide range of techniques and methods that allow developing effective contacts in the supply chain, including its direct relationship with consumers. However, in our opinion, not each of the concepts analyzed above can be successfully implemented into the concept of supply chain in the context of possible ways of achieving desired integration of three functional areas: marketing, logistics and finance as a prerequisite of overcoming / minimizing target conflicts (Table 2).

Table 2

Differentiation of modern marketing concepts and theories

Concepts / technologies	Direction	Main benefits
Partnership marketing concept	strategic	social, marketing
Customer Relationship Management concept (CRM)	strategic	economic, social, marketing
Customer-centric retailing (CCR)	operational	marketing
Corporate Social Responsibility (CSR)	strategic	economic, social
Value-based marketing concept	operational / partly strategic	economic, social, marketing
Experiential marketing technology	operational	social, marketing

Source: developed by the authors



I. Indicators of customer service level (sphere of achieving logistics and marketing objectives)
II. Internal efficiency indicators (sphere of achieving the financial objectives)
III. Indicators of elasticity to demand (sphere of achieving marketing objectives)
IV. Product development indicators (sphere of achieving logistics and marketing objectives)

Fig. 3. Spheres of influence of SRM, CRM concepts in the process context of the supply chain management

Sharing the opinion of the authors [7], we think that the most consonant with the idea of integrating marketing, logistics and finance in the supply chain management and the formation of its optimal strategy of sales activities, on one hand, and with the very Supply Chain Management concept, on the other hand, is the concept of CRM. Similar to CRM, the central place in the supply chain management is given to final consumers, and the content of the entire supply chain activities is to provide them with a unique proposal which meets their requirements, needs and desires in the utmost way. The relationship between CRM and SCM is demonstrated, on one hand, in the fact that in the customer relationship management there is used the information obtained in the process of creating supply chain advantages in the area of supplying customers with particular goods, and, on the other hand, the effective planning and building a logistics system in the context of supply chain management is possible only on the basis of information about consumers behavior. We believe that the integration of SCM and CRM will help to strengthen competitive advantages of supply chains due to, for example, product innovations, leadership in the field of technologies, better quality products, service differentiation, lower prices and operating costs reduction, which will be reflected in the relationship of financial, marketing, and logistic goals and will help to move away from the traditional dilemma “elasticity contra efficiency.”

Such attention to the final level of the supply chain, as it has been already stressed above, is reasonable. However, it does not diminish the significance of building partnership relations with other supply chain participants, including suppliers as its primary link. We believe that in the context of marketing and logistics supply chain management equally relevant is the integration “upward” (with consumers) as well as “downward” (with suppliers), particularly, on the basis of the SRM concept, management of relationship with suppliers. In terms of SCM, particularly in American practice, the following definition of SRM is widespread: SPM is a coordinated program of action developed together by consumers and suppliers to improve the overall performance and to reduce the total cost of supply

chains. By combining the capabilities for analysis, evaluation and ranking of suppliers, consolidation of needs in purchasing goods and services, building strategies and forecasting efficiency of interaction with suppliers through the traditional and electronic channels, integration of SCM and SRM will help to identify the best partners – suppliers who best meet to the utmost the requirements of both the chain and its customers.

Thus, conceptually, an integration of SRM, SCM and CRM will allow to control the entire supply cycle: from strategic planning to realization to final consumers. The effect of such integration on the key processes and indexes of the total supply chain management effectiveness are present in Fig. 3. Let us note that two main models that allow to identify the processes in the supply chain, and therefore realize the possibility of its process management are SCOR model and GSCF model [10, pp.230–232], but the whole range of indicators for measuring the efficiency of the supply chain can be represented in terms of the following four groups: indicators of customer service level, internal efficiency indicators, indicators of elasticity to demand, product development indicators [11, pp. 137–170].

Conclusions and perspectives for further research. The Supply Chain Management is a complicated process. Those benefits that arise due to specialization in the production sphere are leveled, “dispersed” in other areas, particularly in sales.

Taking into account the increase in the share of value created outside the organization, contemporary strategic marketing approaches to solving the above problems deserve special attention. It means avoiding contradiction “specialization contra integration” and substituting it by a combination of “specialization and integration”. To achieve benefits from such a combination it is necessary to stress the strategic aspect of marketing and its integration with logistics and finances. This integration will help to minimize conflicts of interest of these functional areas and thus achieve competitive advantages. On the other hand, the growing concentration on creating the added value for the end user makes relevant paying more attention to the issues of establishing effective cooperation with him. In this aspect, the use of a different conceptual marketing

platform, namely, partnership marketing, as well as the concept of Customer Relationship Management (CRM), which, in our opinion, is the most consonant with both the idea of integrating marketing, logistics and finance in the supply chain management, and the very concept of Supply Chain Management (SCM) is perspective.

So, a modern platform for building efficient supply chains oriented toward the utmost satisfaction and loyalty of customers should be based on mutual complementarity of marketing and logistics concepts .

Perspectives for further research are seen in deepening the study of the applied aspects of implementing the marketing and logistics approach to supply chain management and specification of the impact of such integration on the key processes and indicators of the total supply chain management efficiency.

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