

UDC 33

## **The Concept of Global Commodity Chain in International Tourism and Upgrading of Eastern Europe Tourist Destinations (on the Example of the Greater Sochi)**

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**Abstract.** The contribution considers the use of «global commodity chain» concept in international tourism and the problem of East European Regions image enhance, unknown to Western Europe through the Greater Sochi case study.

**Keywords:** tourism; image; travel potential.

The promotion of a new tourist region on the global market at the present development stage is determined first of all by the knowledge of the international market functioning drives and ability to use this knowledge to achieve the target defined rather than by availability of tourist potential.

**Application of the global commodity chain in international tourism** The Potter value chain (1985) describes definition of cost of a certain stage of manufacture of certain goods (or services), starting from the raw material and proceeding through its processing and sale to the ultimate consumer up to aftersales service and recycling.

Premised on the concept of a value chain, the modern theory of global value chain gives clear view of the management and coordination of separate economic activities which are being increasingly contributed by players from the most diversified geographical regions under the conditions of the world market globalization.

The most developed concept has been suggested by Gereffi (1994, 1999) – the global commodity chain\*. It is based on the internal management of the value chain by means of lead firms. Gereffi distinguishes between **producer-driven commodity chain and buyer-driven commodity chain**<sup>†</sup>. In the first case the supervision and management of

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<sup>1</sup> global value chain, “chain of the value creation, in which companies from different countries participate”.

<sup>2</sup> global commodity chain, abbr., GCC econ., social “a commodity chain, consisting of companies from different countries”; the term was introduced by G. Gereffi for the purpose of studying social and institutional nature of such chains: distribution of power between this chain participants etc.

<sup>3</sup> producer-driven commodity chain econ., social “a commodity chain, in which the company, located in the beginning or in the middle of the chain and performing the most difficult operation (requiring the larger capital expenditures, hi-tech etc.) has the greatest influence”; the term was introduced by G. Gereffi

the commodity chain are performed by the manufacturers (in most cases by multinational corporations) as they have large capital and know-how volumes. The majority of bargains (transactions) occur within the enterprise (through affiliates), while the commercial relations with the external enterprises are rather limited, but long-term, on the basis of concretion/interrelation of the capital and the staff. Within the structure of the **buyer-driven commodity chain** the leading part is played by the wholesalers, who on the base of their market power and trademarks take over the control over the value chain. Product manufacturing in this case is labor- rather than capital-intensive, while the commercial relations are more flexible and easily interruptible since the interrelations in this very case are feebly expressed. The products being manufactured in most cases are standardized and can be manufactured without application of know-how. Such system provides an opportunity of entering the global market for the manufacturing entities from the developing countries. Gereffi predicts further loss of importance of the **producer-driven commodity chain** in favor of the **buyer-driven commodity chain**.

The listed above theses of the global commodity chain have been already considered in a number of works on the examples of industrial or agricultural production. In the international tourism the numerous services rendered in various areas by different subjects, are reduced to a single finished product – a tour.

However, it is required to take into consideration the fact that in the international tourism just few subjects, which enjoy the potential of the market power, control the management of process of the product manufacture, and the profit received is distributed unequally among its participants. Creation of a tourist offer is similar to the industrial manufacturing process and so it justifies the transfer of the concept of global commodity chain on tourism. We should also pay attention to the fact that in this field there have been virtually no research works until now.

One of the most elaborated works on the given subject is dedicated to the situation in Moroccan mountain tourism [1]. The results of this work show that the application of the global commodity chain is quite reasonable for description and explanation of the statuses, existing in this specific area, but insufficient to clarify the structure of the interrelations. The specific feature of a tourist service as the experience goods [2] determines the importance of such aspects as the market minimization, credence and control, and provides for necessity to implement the appropriate theoretical approaches such as the theory of transaction cost or the theory of contracts.

Concerning the parity of power in the Moroccan tourism it has been established that on the base of the monopoly of access to the consumer, the representatives of the European tour agencies possess sufficient power potential for the management of activity throughout the commodity/value chain [3]. The power potential appears in the absolutely opposite at first view trends observed recently, which have significant impact on the situation in the commodity chain. On the one hand, the number of the tourist entities which establish their own enterprises in Morocco is increasing and so they transform their external activity into the internal one. On the other hand, in the existing business relations the terms of trade are decreasing for the Moroccan participants, while the fluctuation of the business relations is simultaneously increasing.

For success of the tourist actors/subjects of any region the possibility of entering the global market within the limits of their business activity is crucial. In the simplified version there are two different possibilities of entering the market:

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buyer-driven commodity chain econ., social “a commodity chain in which the company, located at the end of the chain and selling the product to the consumer, has the greatest influence“; the term was introduced by G. Gereffi

1. In case of *direct* entering the market the transactions are made between a certain business entity and an ultimate consumer (in this very case – a tourist). Also, this is the case, when a transaction is being performed through a mediator, which acts without a profit, for example, a tourist union, community, society etc.

2. *Indirect* access is performed in case of inclusion of an actor into the global commodity chain, in which different entrepreneurs, often from different industries, are connected by a unified performance process. For the subjects from the developing countries this is often the only method to enter the market. There is an argument that within the educating process the improvement in the chain is achieved both for certain business indicators of a certain actor and for the business relations in the region in general.

The important criterion of this process is the analysis of the conditions, in which certain actors enter the global value chain, finding out the one who manages the activity of the actors and what consequences this management causes for them. Earlier works [4] have shown that the leading part in the management of activity of regional actors belongs to international tour operators. Ioannides says in this respect about the phenomenon of the Gatekeepers of tourism.

In this regard there appears an issue: to which extent the local actors can make use of introduction of the international standards and requirements for their independent entering the global value chain.

The consideration of the already developed institutional environment, in which economic transactions are being made, is also important in this regard. Businessmen and economic actors work in definite specific conditions rather than in an abstract "vacuum". According to the conclusions of Stark and Bruszt (1998) [5], in the Eastern European countries with transitive economy in the development of industrial forces the echo of the communist era is still strong enough. This concerns the interindustry communications, the manner of interaction, routine and organizational forms of business. Though after collapse of communism in the Eastern European countries the new forms of tourist offers have emerged, the tourism as such is not at all the phenomenon, which has emerged in the post-communist period, but is rather based on the past of its own. In this regard an issue of whether the tourism actors in their development follow the beaten track or the changes, happened thanks to the collapse of the Iron Curtain in economic and organizational space have led to drastic changes in the direction of their development. It is rather important to know whether the role and value of the tourist organizations and associations have changed during the post-communist period since earlier their importance in the conditions of the centralized governmental tourism management had been just insignificant.

### **Upgrading of the Eastern Europe tourist regions through efficient tourism management.**

Success of a tourist region on the global market is in many aspects defined by the actors of peripheral regions efficiency and ability of their own promotion and creation of a regional trademark (brand), which create a positive image of the region with a potential client as a crucial aspect in the choice of a holiday destination.

A specific feature in the selection of the tourist services (and, especially, same in the sector of a specialty travel) is the crucial role of the imaginative, spatial and emotional elements. The tourist's mental pictures and representations, which are pegged to a certain region, are largely more crucial than the reality (for example, the natural surroundings, the service offer or transport access (Bartha 2003)).

In case of a favorable opportunity it can lead to successful positioning on the market of those actors, who by means of respective marketing actions could create such regional trademark, which is positively perceived by potential clients. Otherwise the image of the region can alienate the tourists even under good objective conditions in the region. As it has already been noted, when speaking about the tourist services, first of all we shall

remember that to the larger extent these are goods of experience which can be preliminary valued only to a small extent. Only after the travel we may say with confidence whether the holiday has been a positive or rather a negative event. In the field of alternative forms of tourism the tourist services are not only the goods of experience, but also in many aspects a product of credence. In this case the crucial criteria are not just the standard ones, which the client directly experiences (accommodation, communication, good weather, guidance), but also the impact of the tourist services rendered on the region of stay is being evaluated; in most cases a tourist cannot know to which extent the eco-travel was actually environmentally friendly and sustainable, or whether it has had negative social influence on the local population. In this case a tourist shall rely on the tourist actor and trust its assurances.

So it becomes obvious that credence plays the major role in selection of the form and the place of holiday. Formation of a client's trust in classical tourism is essentially possible via positive experience, i.e. via the holiday, already enjoyed in this very place. However, if this is the case, for the client there is a considerable risk to waste time and money in vain, if the tourist service mismatches the expected level. In this respect the creation of appropriate structures, which check the quality of the offer and deliver the results of evaluation to the client and, therefore, reduce the risk of spoiled holidays deems necessary. Such structures can be Non-Governmental Organization, estimating or classifying the tourist services or furnishing financial insurance (for example: AITO, ATOL as well as regular tourist insurance) or the organizations, dealing with protection of the nature and sustainable development (WWF, Greenpeace). Declaring a national or natural park in the territory, its nomination to the UNESCO world heritage list also gives the region a chance to declare its quality as a holiday venue. The independent regional development is of great importance for formation of the region's positive image and the associated tourist reputation. Ideally, a potential client shall have positive associations when just mentioning the region's name,

Based on the above mentioned, the formation of positive image of the Eastern European regions, still unknown in the Western Europe, deems extremely difficult. Numerous researches of tourism development in the Eastern European countries have shown that weak demand for their tourist product is caused first of all by a general negative image of these countries. In the consciousness of a European consumer they are associated with corruption, state arbitrariness, contamination of environment, crime, bureaucracy, political instability etc. [6] To which extent and whether indeed these images correspond to the reality, appears not so important in selection of the travel's purpose; influence of the mental prototype of the area on the potential client is much more important. In other words, even under objectively favorable conditions, the crucial criterion for the area's attractiveness is a conceptual and emotional portrait in a tourist's mind. This assumption proves that the basic problem of the tourist destinations of the former communist countries is a problem of image. For many Russian regions solving this problem deems rather complicated.

Based on the context of the actual discussions in the "image geography", geographical spaces bear certain value judgment and are associated with a specific meaning, historical heritage and emotions for each given human being. Meanwhile, tourism creates for the geographical space a certain system of the relations, consisting of images, historical events, buildings, artifacts, landscape and people living there, allowing to "sell" the territory on the tourist market. WÖHLER (2003) says in this case about "commodification", in other words, "touristification" of geographical space. Crucial importance of certain notions and image (an emotional component) is especially true for a segment of active tourism in selection of the travel purpose. As researches have shown (to comment BARTHA 2003), notions and images, associated in the tourist's mind with certain region until now are more important

in tour purchase than the "available" factors – natural surroundings, service offer or transport network. Using this knowledge, actors of a certain tourist region may successfully and durably position themselves on the international market, provided that by means of appropriate marketing they have managed to create in potential clients a regional trademark image, filled with the positive content. In case of negative development, the image will play constraining role in the tourist development of the area despite its objective advantages.

Against this background the performance of Winter Olympic Games 2014 in Sochi deems a real examination of this Russian region's chances to enter the global market. For sustainable regional development it would mean attraction of tourist flows from abroad, allowing to generate steady demand for the accommodation facilities, constructed for the Olympic Games. This issue shall be thought over already today as the image of the region in the potential tourists in the West is starting to be formed right now. In other words, how can the Russian Black Sea coast occupy a firm place in the *Evoked set* of a western tourist, form a positive image and position itself as a brand?

The major component in development of a resort city is formation of its image which would possess the greatest attractiveness and competitiveness at the global level. So far the most competitive types of tourism in Sochi are as follows: family recreation with children; active recreation including sporting activities; entertaining recreation; beach recreation; health & leisure tourism; incentive tourism; congress tourism (including conferences, club meetings) and others. According to above stated we may highlight the following basic directions of the city positioning on the tourist services market:

- Recovery of the city image as a first class resort city;
- Formation of the city image as a unique health & leisure facility;
- Formation of Sochi image as a region of congenial investment climate [7];
- Development of ecologically "mild" alternative tourism on the base of Sochi national park landscapes.

The most important task is advertising of Sochi healthcare base as the city, possessing unique stocks of hydro-mineral resources (mineral waters and therapeutic muds), establishment of balneological and spa centers, including rehabilitation facilities.

Development of business tourism and formation of the image of Sochi as a region with congenial investment climate predetermines necessity of establishing fully equipped exhibition centers for performance of all kinds of exhibitions (industry-wide, specialized, international, all-Russian, regional and local). In the city there are no good exhibition venues, meeting the contemporary international standards; their establishment is actual and timely; it has great strategic outlook. This direction is closely connected with performance of international investment and economic forums, symposiums and other events, having significance for the world business elite, in Sochi. Certainly, its development will promote activation of the capital raising for the tourist market of Sochi and streamlining of its allocation, including for the purpose of reduction of the infrastructural restrictions, hindering a gain in the tourist stream.

The landscapes of the Sochi national park have in many ways preserved yet their primeval nature and they are not influenced by anthropogenic activity to such extent like, for example, the Alps, Middle Mountains, the Apennines and a number of other mountain areas of the "old" Europe. This gives grounds for possible development here of "mild", ecologically and socially friendly (versus classical) alternative kinds of tourism, getting increasingly popular in the European countries, that would allow to provide steady inflow of foreign visitors to the region, its sustainable development and entering the global tourist market.

However, another fact is obvious as well – the attractiveness of the area for alternative forms of tourism is connected with certain spatial images which the consumer

purposely receives via the respective image of the region. In this context the primeval character and virginity of the nature are the keywords, and namely preservation of these characteristics could give the territories around Sochi their individual attractiveness, lacked by the mountain landscapes of the Central Europe, overburdened with infrastructure.

Summing up the above, we may notice that in the modern conditions of rigid competitive struggle on the international tourist market the chances of independent promotion of new actors without their inclusion into the **buyer-driven commodity chain** deem close to zero. Furthermore, successful tourism development means, first of all, development of effective tourist management and marketing in the regions, pursuing the global tourist market entry. Their major purpose is formation of positive image of the region being promoted in potential consumers. As the Sochi example has shown, this work in the Eastern Europe regions should be performed, firstly, taking into consideration the historically developed conditions of the tourism development and, secondly, it is required to consider the current trends of the global tourist market.

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### Концепция «Global Commodity Chain» в международном туризме и Upgrading туристских дестинаций в Восточной Европе (на примере Большого Сочи)

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**Аннотация.** В статье рассматривается применение концепции «global commodity chain» в международном туризме. А также проблемы формирования положительного имиджа неизвестных в западной Европе восточноевропейских регионов на примере региона Большого Сочи.

**Ключевые слова:** туризм; имидж; туристский потенциал.